



Uneasy Friends and Convenient Enemies: Sino-Japanese Competition and Coordination in Cold War Asia, 1950–1972

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April 11th, 2023

PhD Dissertation

**Uneasy Friends and Convenient Enemies: Sino-Japanese
Competition and Coordination in Cold War Asia, 1950–1972**

Presented by

Bohao Wu

to

the Department of History

in partial fulfillment of the requirements

for the degree of

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Uneasy Friends and Convenient Enemies: Sino-Japanese Competition and Coordination in Cold War Asia, 1950–1972

Abstract

The two decades between the founding of the People’s Republic of China and its diplomatic normalization with Japan presented unique challenges and opportunities to countries throughout the region. On the one hand, Beijing and Tokyo’s commitment to economic collaboration – both with each other and with countries in Southeast Asia – provided dynamism for economic regionalization in postwar Asia, enabling technology transfer, joint ventures, and international trade across borders. On the other hand, Cold War realities also prompted competition for economic leadership between China, Japan, and the United States, each implementing its political agenda and economic blueprint for the region. As a result, this period witnessed complicated patterns in both Sino-Japanese and U.S.-Japan relations, featuring both uneasy friendships and ambiguous competition from the 1950s to the 1970s.

Uneasy Friends and Convenient Enemies examines these relations and offer a review of factors contributing to the making of them through the lens of economic diplomacy. This dissertation argues that the question of economic regionalization played a crucial role in the Asian policies of China, Japan, and the United States. For Japan, the pursuit of economic

regionalization and Japan's leadership position was constantly on the minds of Japanese leaders in both the business world and the political establishment. Japan's political establishment joined forces with business elites to conduct diplomatic maneuvers to incorporate China and Southeast Asia into Japan's agenda to form an economic bloc with Tokyo at its center. Similarly, Beijing's need to break the embargo and diplomatic isolation prompted China to mobilize its diplomats and traders and seek connections with the rest of Asia through trade with Japan and economic aid to Southeast Asia. As a result, the Sino-Japanese relationship was complicated by a dilemma for Japanese decision-makers regarding their hope for Beijing's participation in the Japan-led economic regionalization and their concern for China's challenge to Japan's potential leadership – both political and economic – in Asia. The two countries' competitions in Indonesia, Burma, and Cambodia spoke to both sides' skepticism about the other's regional agenda, causing constant interruptions to the cooperation between the two countries.

Similarly, Sino-Japanese interactions related to Southeast Asia also contributed to Washington's Asian policies and U.S.-Japan relations. This dissertation argues that the United States was unenthusiastic in facilitating multilateral economic cooperation in the region, whether from its ally, Japan, from countries in the region, or its ideological adversaries in Beijing and Moscow. Tokyo, in turn, became frustrated by Washington's reluctance to support its economic collaboration projects and created bilateral economic assistance projects with regimes that were disapproved of by the Americans. In this way, the relationship between Japan and the United States at that time resembled an uneasy friendship in which frequent disagreements prevented the

two countries from forming meaningful cooperation to facilitate economic liberalization in Cold War Asia.

This dissertation also explores how economic initiatives – traders, economic organizations, enterprises, and industrialists – contributed to such diplomacy during the Cold War. These organizations acted as governments’ proxies and fulfilled contracts negotiated by economic technocrats; they also took the initiative to survey potential collaboration opportunities, propose blueprints for industrial projects, and participate in intragovernmental trade talks. Entrepreneurs’ involvement in the governments’ geopolitical power play enabled them to influence policy-making processes. In some cases, entrepreneurs even took the initiative to protect their interests and pressured governments to act on their terms. This dissertation shows that when Beijing needed assistance for economic expansion, overseas Chinese merchants bargained and secured preferential terms for trade. Some Chinese merchants even used their relationship with Beijing to help their economic standing and boost their leadership in the local community. In the case of Japan, industrialists not only took the liberty of putting their agenda for economic cooperation forward to the government but also exerted pressure on the government to accept their proposals.

Highlighting the various roles that entrepreneurs played in economic diplomacy at that time, this dissertation also suggests a new perspective on Cold War power dynamics. *Uneasy Friends and Convenient Enemies* contends that it is possible to build an alternate narrative of the Cold War focused on how the division between ideological camps also generated the need to unite the

fragmented region and establish meaningful connections that served the interests of both sides.

Therefore, it is possible to view the Cold War as an epoch of opportunities to forge unlikely friendships through shared ideals for economic prosperity and regional solidarity.

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This dissertation explores an interesting chapter of our modern history: officials, entrepreneurs, and technicians attempted to navigate the narrow space between ideological barriers and sought economic cooperation even when the geopolitical confrontation took the highest priority. These efforts nevertheless showed how people's pursuit of prosperity and development could remain resilient even at times of utmost turbulence. Moreover, I began to pursue this story at another time of great uncertainty in the new century: the outbreak of COVID-19 in January 2020 not only led to surmounting losses to human lives across the world but also generated agony and hatred, tearing communities apart. In the three years spent completing this manuscript, I have witnessed how physical separation quickly demolished our treasured feelings – care, empathy, and trust – that were once taken for granted, and how difficult it became for many to reconcile with what was lost to pandemics, wars, and natural disasters. While some scars will never fully heal, I hope this dissertation may help us regain confidence in people's will and courage to search for better alternatives for our societies.

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Bohao Wu

Tokyo, Japan
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献给我的家人与朋友，愿他们能够见证一个更加平等和友爱的时代。

Introduction: China, Japan, and the Making of Economic Landscape in Postwar Asia

From 1949 to 1972, Japan and the People's Republic of China (PRC) had no formal diplomatic relations. Although the two countries managed to develop and maintain some trade connections, they had to establish these carefully in the presence of Japan's hegemon, the United States, which pursued a policy of containment toward communist countries in Asia. Nevertheless, Japan and the PRC forged meaningful connections over the decades that they stood on opposite sides of the Cold War. These connections were as important in daily life as they were in diplomacy: Chinese farmers in people's communes (*ren min gong she*) were familiar with Japanese characters on bags of imported fertilizer, whereas vinylon fabrics dyed blue – manufactured in factories imported from Japan – filled urban residents' wardrobes in Shanghai and Beijing. These exchanges contributed to the deepening economic connections between the two countries, and Japan quietly became China's largest trade partner in 1965, when escalation in the Indochina Peninsula marked the high tide of the global Cold War between ideological camps.

These endeavors were related to China's and Japan's bilateral relations and inextricably linked to both nations' agendas in Southeast Asia. Throughout the Cold War, Beijing and Tokyo became increasingly involved in making Southeast Asia's political and economic landscapes intermediates for geopolitical rivalries, sponsors for regional cooperation projects, and the beneficiaries of aid and technological know-how sent to regional governments and industrialists. The roles China and Japan played in Cold War Asia also influenced bilateral relations between the two countries:

Chinese and Japanese decision-makers saw other parties as competitors for influence in regional affairs and potential collaborators in their own Asian policies. To date, scholars have failed to situate postwar Sino-Japanese history in this wider context. This dissertation aims to change our understanding of the postwar history of China-Japan relations by examining and highlighting the significance of these links.

One of the pivotal moments in making these links took place at an unlikely venue: the Bandung Conference in 1955. Compared to the creation of third-world solidarity, a less studied yet equally important moment at Bandung was the secret meeting between Zhou Enlai and Japanese delegate Takasaki Tatsunosuke, the chief of Japan's Economic Planning Agency (EPA) and Prime Minister Hatoyama's consul. During their meetings, Takasaki and Zhou discussed potential economic cooperation between the two countries and their respective ideas about such an Initiative involving the rest of Asia. China and Japan were no strangers to backchanneling between themselves, even before Bandung. But the Zhou-Takasaki meeting became a watershed moment in the two countries' bids for Southeast Asia and their conceptions of the other party's place within their own strategies. In the two decades after the Bandung Conference, participants at Bandung – Zhou, his assistant Liao Chengzhi, and Takasaki – worked with and diverged from each other in their respective pursuits of Asian regionalization.

During this process, the diplomatic efforts of China and Japan in Asia repeatedly transformed how the two countries perceived their bilateral relationship in the postwar context. After the meeting between Zhou and Takasaki, the two countries made many efforts to deepen economic

ties. In 1957, for example, they signed two agreements that allowed China to export raw materials in exchange for industrial products. Although Sino-Japanese trade was interrupted between 1958 and 1959 due to Japan's diplomatic commitment to the Republic of China (ROC) on Taiwan, leadership in both countries managed to promptly restore trade. Under the 1962 trade memorandum negotiated between Liao and Takasaki, Japan's trade with China enjoyed steady growth throughout most of the 1960s, even amid political radicalization during the Cultural Revolution.

In hindsight, geopolitical developments since the end of World War II in 1945 set the stage for China and Japan's return to realpolitik engagement at Bandung. For Japan, the period of American occupation – from August 1945 to April 1952, when the Treaty of San Francisco came into effect – as well as the continuous American presence in its domestic affairs gave momentum to an empathetic view of anti-colonial struggles among Japanese elites from both the left and the right. In addition, with Japan's economic recovery well underway in the mid-1950s, the Japanese government under the Hatoyama Cabinet was eager to reestablish Japan's position in international communities. Hatoyama's wish to affirm Japan's place as “the window between East and West” (*Tōzai no mado*) received support from multiple high-ranking bureaucrats from the prewar period. These old guard members who had maintained important positions in the postwar Japanese government included the “Manchurian group” bureaucrats – who had worked in Japanese-controlled Manchuria in the interwar years – and wartime protagonists for the “Greater East Asia Co-Prosperity Sphere.” An important representative of this group was the above-noted Takasaki,

Japan's delegate at Bandung, who had been a technocrat in Manchuria and was a vocal advocate for an inter-Asian coalition. Japan's revived interest in pan-Asianism received stimulus from both postwar contingency and prewar legacy: pan-Asian advocates from imperial decades – led by Takasaki and Okazaki Kaheita – treated Bandung as a gateway for Japan's return to Asia and an opportunity to build anew from their prewar blueprints.

Despite ideological differences with their Japanese counterparts, the PRC delegates at Bandung had a similar agenda, partly due to the country's interest in economic recovery and its revived interest in establishing connections with the large population of overseas Chinese in Southeast Asia. Admittedly, the Korean War in 1951 made clear that China was committed to its communist ally in struggles against imperialist intervention. However, when the war concluded in 1953, the need for economic recovery through foreign trade forced Chinese leadership to take a less radical approach in the international arena. European delegates at the Geneva Peace Conference in 1954 and Afro-Asian leaders at Bandung were surprised to find that China embraced pragmatic, economic-centered diplomacy. In Bandung, Zhou approached delegates from Indonesia, Ceylon, and Cambodia with proposals for economic cooperation between decolonizing nations and promised that China would not promote communist takeovers abroad. China's efforts at de-escalation paved the way for foreign business opportunities; both countries in the Asia region and European economies began to seek to circumvent the US-led embargo against China. In addition, Liao made it clear to overseas Chinese delegates that the government would grant special treatment to their relatives in China and offer protection should they invest in the economic buildup in their

homelands. These activities prompted many overseas Chinese to expand their business with the mainland and help their governments seek economic aid from Beijing.

Admittedly, Beijing and Tokyo's ambitions for Southeast Asia created not only opportunities for economic collaboration but also competition, which eventually jeopardized the progress toward reconciliation. China's expanding economic influence through overseas Chinese in Southeast Asia prompted anxiety among Japanese entrepreneurs, who had previously played essential roles in facilitating the development of Sino-Japanese economic relations. Eventually, the friction evolved into a confrontation in 1958; consequently, at the turn of the 1960s, China and Japan reduced bilateral economic ties to a minimum and began seeking to undermine each other in regional affairs. To some extent, such dynamism complicated all Sino-Japanese relations before diplomatic normalization in 1972.

The conundrum of confrontation and collaboration between Beijing and Tokyo continued to haunt Sino-Japanese relations in the 1960s. Similar to the previous decade, the early 1960s witnessed efforts to rebuild Sino-Japanese economic relations, but these gave way to confrontation in the latter half of the 1960s. Under Liao and Takasaki, the two veterans at Bandung, Japanese industrialists developed numerous "personal proposals" (*shi'an*) for the government, advocating that Japan should actively incorporate China into its economic sphere. Interestingly, Japanese entrepreneurs' proposals for Sino-Japanese economic cooperation resembled their agenda in Southeast Asia, which became the primary destination for Japanese investment, export, and aid projects throughout the 1960s. However, Japan's efforts to expand its economic influence in the

region coincided with China's attempt to break diplomatic isolation, leading to a race to provide aid in Southeast Asia. From 1960 to 1967, Beijing and Tokyo fought to provide more attractive terms in their aid proposals to Burma, Cambodia, and Indonesia.

Additionally, both countries' divergence from their ideological allies further complicated Sino-Japanese relations. The Sino-Soviet split in 1960 and the subsequent withdrawal of Soviet economic aid forced China to seek alternate sources of technological, market, and diplomatic support. The departure from Moscow prompted Beijing to restructure its economic relations with the world by forming economic ties in Western Europe, Japan, and Southeast Asia between 1960 and 1966. At the same time, Tokyo also faced challenges in managing its relations with allies. Britain and France met Japan's expanding economic influence in Southeast Asia with little enthusiasm, as both sought to maintain influence in their former sphere. During this period, Tokyo pursued an economic agenda in Southeast Asia that contradicted the interests of its Western European allies. Japan, by supporting Sukarno's Indonesia instead of Malaysia, opposed its allies in the Indonesia-Malaysia conflict. In addition to its divergence from Western Europe, Japan disagreed with the United States' strategies for Southeast Asia. While the two countries shared an interest in expanding economic aid to the region to prevent communist takeovers, Washington and Tokyo had difficulty finding consensus on the terms and destinations for such efforts. In the first half of the 1960s, Washington's ideological stubbornness, specifically its provision of aid to some neutralist countries, frustrated Tokyo. At the same time, the United States disapproved of Tokyo's attempt to expand economic ties with China, Burma, and Indonesia, which pursued policies against

America's interests in the region. As a result, the friction between Japan and its Western allies contributed to Tokyo's decision to pursue a more independent Asian policy. It also facilitated Sino-Japanese cooperation in their bilateral economic relations and on their agenda for countries in Southeast Asia, including Ne Win's Burma and Sukarno's Indonesia.

However, the appearance of a certain level of friendship between China and Japan in Southeast Asia took a sharp turn in 1966 due to political changes in both countries and the escalation of geopolitical conflict in the region. In the case of China, American intervention in Indochina created both pragmatic and ideological pressure for Beijing to support its revolutionary allies in the region. In addition, the coup against Sukarno in 1965, which ended Sino-Indonesian cooperation, also played an important role in Beijing's revolutionary turn. The loss of its most prominent non-communist ally in the region, as well as the purge of both ethnic Chinese and Indonesian communists under Suharto, was perceived as a significant setback in Beijing, which switched from seeking peaceful coexistence to supporting armed uprisings in the region. China's turn to political radicalism severed the economic ties it had built over the years – with Japan, Burma, Singapore, and Indonesia – and these countries in turn adopted a much more skeptical view of China under the Cultural Revolution.

Japan also embraced a turn in its regional policies in 1965 and 1966. The end of the Ikeda administration – which had maintained a rather friendly attitude toward Beijing and diverged with Washington – and the failure of pro-China politicians to win party leadership in 1965 signaled Japan's subsequent diplomatic reorientation. Under Sato Eisaku, Tokyo sought closer coordination

with the United States and stepped up its investment in Suharto's Indonesia. In addition, the Sato Cabinet supported the United States' intervention in Vietnam. From 1966 to 1970, Tokyo pursued a developmentalist, anti-communist diplomacy and supported the creation of the Association of Southeast Asian Nations (ASEAN), which was then a coalition of anti-communist countries in the region. In return, Japan received US support in leading the Inter-Governmental Group on Indonesia (IGGI), an organization of Indonesia's debtor countries that excluded the PRC, even though China had also been a significant debtor since Sukarno's time. As a result, the late 1960s witnessed receding enthusiasm in Beijing and Tokyo for bilateral cooperation and pan-Asian regionalization.

Nevertheless, new developments in the 1970s facilitated a turnabout in Sino-Japanese relations. Nixon's Vietnamization policy fomented uncertainty in the region, prompting China and Japan to attempt to fill the power vacuum created by American withdrawal. In Japan's case, the country's rise as a global economic powerhouse by the 1970s prompted decision-makers in both the government and the business world to establish Japan as the region's economic hegemon and an arbitrator in the coordination of regional affairs. Maintaining the ambition to establish Japan as an "economic and political power" (*keizai seiji taikoku*), Japanese leadership did not hesitate to reduce coordination with Washington and seek more independent approaches with China and Southeast Asia. Similarly, the American retreat from the Indochina Peninsula put Beijing in a more advantageous position to seek formal diplomatic recognition. As a result, China returned to a flexible, economic-centered approach toward countries in Southeast Asia and toward Japan. Beijing's efforts eventually paid off: the economic diplomacy China quietly embraced at the turn

of the 1970s was welcomed by corporate Japan, which championed Japan's diplomatic reorientation toward China and even advocated Sino-Japanese cooperation in facilitating economic regionalization in Southeast Asia. In this way, Japanese entrepreneurs became the most active supporters of Sino-Japanese normalization, which came to fruition in 1972 under the Tanaka administration.

To understand the ebb and flow of relations between China and Japan, it is necessary to recognize that that developments in Southeast Asia had played, in an indirect manner, essential roles in Beijing and Tokyo's respective diplomatic decision-making processes. The leadership in both countries not only formed their evaluation of the other party based on its activities in the region but also actively devised strategies to compete – and, in a less obvious manner, coordinate – for influence in Southeast Asia. However, current scholarship mainly explains the economic relations between China and Japan from the perspectives of their domestic agenda, namely, Japan's insistence on an export-oriented, neo-mercantilist economy and China's pursuit of an industrialized, self-reliant economy. In the study of the two countries' strategies for Asia, scholars have paid inadequate attention to the role that interactions between China and Japan played in forming their policies toward Southeast Asia. In addition, very few scholars have examined the role of business initiatives in the creation of economic diplomacy at this time, and even fewer have made connections between the Sino-Japanese rapprochement and the growing interactions, both confrontation and cooperation, between the two countries in the late 1950s and 1960s. In response, this dissertation will highlight the importance of regional politics in shaping Sino-Japanese

relations in the three decades before normalization. In this manuscript, I argue that the development of and setbacks in Sino-Japanese economic connections were intrinsically associated with the two countries' competition and coordination in Asia, and this history should be examined through the lens of economic initiatives.

Historiographical Review

As noted above, current scholarship on Sino-Japanese diplomacy in the postwar period pays little attention to the interconnections between Sino-Japanese bilateral interactions and the diplomacy of the two nations in the rest of Asia. Existing literature in Anglophone scholarship primarily examines postwar Sino-Japanese relations in the context of the Cold War confrontation. It depicts the Sino-Japanese rapprochement in the 1960s as a practical adaptation – rather than a challenge – to Cold War geopolitics. This argument emphasizes the role economic incentives played in determining Japan's postwar China policy, contending that Japan's primary aim was to reap economic benefits through trade and, at the same time, pacify the United States regarding security considerations. Chalmers Johnson, for example, defines Japan's diplomacy with China as “a clever, covert adaptation by Japan to the Cold War and a good example of Japan's essentially neo-mercantilist foreign policy.”¹ Warren I. Cohen, concurring with Johnson's evaluation of Japan's diplomatic success, notes that Japan prioritized economic interests in its relationship with China,

¹ Chalmers Johnson, “The Patterns of Japanese Relations with China, 1952–1982,” *Pacific Affairs* 59, no. 3 (1986): 405.

and forced the United States and the ROC to acquiesce to its plan through careful diplomatic coordination with Britain and West Germany.² While these two analyses of factors influencing Japan's China policy are sound, they mostly focus on Japan's domestic politics and diplomatic pressure from Japan's allies, giving little attention to Asian components in the making of the Sino-Japanese relationship. As a result, Japan's economic ties with Southeast Asia and Tokyo's efforts to navigate political and economic uncertainties in Asia have been studied as a separate story from which China is largely absent.

Japan's initiatives also receive inadequate attention in the current evaluation of Japan's role in Washington's strategy for Southeast Asia. Existing literature tends to treat Japan as a "collaborator regime" for the United States and examines Tokyo's activism in light of its association with the "liberal world order" that Washington aimed to create in the region. Bruce Cumings and John Ikenberry champion this line of inquiry. The latter describes the United States as a "reluctant and open hegemony" that allowed Japan to participate willingly in a US-centered world system. As Ikenberry puts it, "the American postwar order was an open or penetrated hegemony, an extended system that blurred domestic and international politics as it created an elaborate transnational and trans-governmental political system with the United States at its center."³ Similarly, Bruce Cumings emphasizes Japan's constant affixation to America in the

² See Warren I. Cohen, "China in Japanese-American Relations" in *The United States and Japan in the Postwar World*, eds. Akira Iriye and Warren I. Cohen (Lexington: University Press of Kentucky, 1989), 36–60.

³ John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order*

world order that the hegemon created in the postwar period. As Cumings describes, “Japan still prefers the United States as the hegemon, providing the single world that guarantees the larger structure within which Japan exists and competes....In other words, the United States should look after the whole, and let Japan look after the parts.”⁴ Under such circumstances, Japan’s position should be understood as that of a collaborator regime; it supplied economic efficiency for the international economic order in exchange for the security provided by Washington.⁵ Cumings’s conclusion has found support among Japanese scholars, including Kan Hideki, Hiwatari Yumi, and Hatano Sumio, who attribute Japan’s economic expansion in Southeast Asia to Washington’s support for Japanese participation in the Colombo Plan and other regional economic initiatives.⁶

To be sure, a few scholars have looked into Asian components in Japan’s decision-making process and highlighted Tokyo’s initiatives in regional diplomacy in Asia. Some research draws attention to the early Sino-Japanese rapprochement at Bandung in 1955. Kweku Ampiah’s

after Major Wars (Princeton: Princeton University Press, 2009), 203.

⁴ Bruce Cumings, “Japan’s Position in the World System,” in *Postwar Japan as History* (Berkeley: University of California Press, 1993), 61.

⁵ *Ibid.*, 54.

⁶ For Kan, Hiwatari, and Hatano’s research, see Sumio Hatano, “The Colombo Plan and Japan: Focusing on the 1960 Tokyo Meeting,” in *The Transformation of the International Order of Asia*, eds. Shigeru Akita, Gerold Krozewski, and Shoichi Watanabe (Florence: Routledge, 2015); Hideki Suga, *Reisenki amerika no ajia seisaku: jiyū shugiteki kokusai chitsujo no hen’yō to nichibei kyōryoku* [U.S. Asian Policy during the Cold War: The Transformation of the “Liberal International Order” and “U.S.-Japan Cooperation”] (Kyōto: Kōyōshobō, 2019); Yumi Hiwatari, *Postwar Politics and Japan-US Relations* (Tokyo: Tōkyō daigaku shuppankai, 1990).

monograph, *The Political and Moral Imperatives of The Bandung Conference of 1955*, devotes a chapter to Japan's politico-economic incentives at Bandung and associates the Zhou-Takasaki talk at Bandung with Japan's "ambition to retrieve its leadership role in Asia" at this time.⁷ Another scholarly insight into the early rapprochement between China and Japan is provided by Itoh Mayumi, who traces Takasaki's continuous engagement with China throughout the 1950s and 1960s. In *Pioneers of Sino-Japanese Relations: Liao and Takasaki*, Itoh attributes Sino-Japanese interactions in the 1960s to Takasaki's early approach to Zhou in 1955, contending that Takasaki's diplomatic breakthrough at Bandung played a crucial role in mobilizing pro-engagement forces in Japan.⁸

However, Itoh and Ampiah have not, or at least not adequately, addressed the complexity of Sino-Japanese relations and the two countries' diplomacy in Asia after Bandung. For Ampiah, Japan's diplomatic efforts in Southeast Asia represented the return of its prewar agenda, which was primarily advanced by taking advantage of America's hegemonic presence.⁹ Admittedly, Ampiah is right to note the continuity embedded in Japan's revived interest in pan-Asianism, yet he makes little reference to the contingencies of the postwar period, and his study does not

⁷ Kweku Ampiah, *The Political and Moral Imperatives of the Bandung Conference of 1955: The Reactions of the US, UK, and Japan*. (Folkestone: Global Oriental, 2007), 212.

⁸ See Mayumi Itoh, *Pioneers of Sino-Japanese Relations: Liao and Takasaki* (New York: Palgrave Macmillan, 2012).

⁹ Ampiah, *The Political and Moral Imperatives of the Bandung Conference of 1955*, 213–214.

satisfactorily explore China's return to the Asian theater as an important regional power and the various diplomatic agendas – both aligning and competing – that China and Japan developed after 1955. On the other hand, Itoh's study focuses primarily on the facilitating role Takasaki – along with his supporters from industries and the Ministry of Trade and Industry (MITI) – played in Sino-Japanese interactions and pays little attention to the competition between China and Japan in the post-1955 period. While it is true that Takasaki was relatively unwavering in terms of Sino-Japanese cooperation, such a narrative risks providing a teleological understanding of the bilateral relationship between China and Japan, in which competition was equally as significant as cooperation during this period, if not more so.

Itoh's narrative echoes Chinese scholarship, which also focuses on improvements in the bilateral relationship between China and Japan in this period. One school of inquiry, adopted by Shen Haitao and Gao Lan, understands Sino-Japanese interactions in the 1960s as a form of “private diplomacy” (*minjian waijiao*) that eventually laid a foundation for diplomatic normalization in 1972.¹⁰ Another line of inquiry is suggested by Yang Kuisong, who defines China's approach as a strategic adaption of Mao's Three-World Theory, which treated Japan as a potential ally from the “second world” that would sympathize with China's opposition to American and Soviet imperialism.¹¹ Although these studies recognize some external factors – namely the

¹⁰ See Haitao Shen, “Zhan hou Zhong Ri guan xi zhong de min jian jiao liu: te zheng, zuo yong yu ke ti” [Non-Governmental Exchange in the Postwar Sino-Japanese Relations: the Characteristics, Roles and Themes], *Xiandai Riben Jingji*, no. 1 (2003): 40–44.

¹¹ See Kuisong Yang, “Zhong Mei he jie guo cheng zhong de Zhong fang bian zou – “sange

USSR and US – in shaping Sino-Japanese interactions, they pay little attention to regional politics in Asia. In addition, treating the decade of Sino-Japanese interactions leading up to normalization as a teleological whole is problematic, as it hardly explains the diplomatic reversals between China and Japan in this period. China’s hesitation towards Japan’s demand to renew the Sino-Japanese trade agreement in 1967 and the increased number of disputes in annual negotiations do not fit within the existing explanatory frameworks. Although some scholars on Sino-Indonesia relations have attempted to highlight Sino-Japanese disagreements after the creation of the IGGI and elaborate on how these affected the bilateral relationship, more scholarship has attempted to attribute these reversals to radical politics during the Cultural Revolution.¹² Nevertheless, international factors could help explain China’s changing diplomatic stance toward Japan in the late 1960s.

Japanese scholarship on postwar diplomacy also largely downplays the roles of Japan and China in transforming postwar Asia. The study of Japan’s revived interest in Southeast Asia was helmed by scholars such as Miyagi Taizō, Iriye Akira, Kibata Yōichi, and Watanabe Akio, each providing a different evaluation of Japan’s return to Asian politics in the postwar period. However,

shijie” lilun ti chu bei jing tan xi” [The Chinese Variable in the Sino-US Reconciliation - An Exploration of the Background of the “Three Worlds Theory], *Lengzhan guojishi yanjiu*, no. 1 (2007): 1–24.

¹² For examples of Chinese scholarship on Sino-Japanese confrontation in Cold War Indonesia, see Chaowu Dai, ed., *Yazhou Leng Zhan Shi Yan Jiu* [A History of Cold War in Asia] (Shanghai: Dong Fang Chu Ban Zhong Xin, 2016), 124–165.

as Miyagi concisely summarizes, while this scholarship notes Japan's revived interest in Southeast Asia and pan-Asianism at Bandung, it has not studied the role China played in the formation of Japan's considerations for Asia. Instead, the existing studies of Japan's postwar diplomacy are largely US-centered and explain Japan's diplomacy as a form of adaption and coordination with the United States' policy toward Asia.¹³ Even Miyagi's work, which explains Japan's reemergent interest in Southeast Asia after Bandung, neglects to elaborate on the significance of regional politics – and with it, the agency of Southeast Asian countries – in this process. While his book *Bandung Conference and Japan's Return to Asia (Bandon Kaigi to Nihon No Ajia Fukki)* attributes “the transition from decolonization to development” (*datsu shokuminchi-ka kara 16aihatsu e*) in Southeast Asia to Japan's resurgent interest in the region after 1955, he does not address how the multilateral interactions between China, Japan, the United States, Britain, and countries in the region co-orchestrated this process.¹⁴ Discussion regarding Sino-Japanese interactions related to competition and coordination in Asian regionalization, as well as how pan-Asianism was perceived and practiced by regional leaders, hardly exists in the current literature.

Admittedly, scholarship developed in the last decade has challenged this US-centered

¹³ Taizō Miyagi, *Bandon Kaigi to Nihon No Ajia Fukki: Amerika to Ajia No Hazama De* [The Bandung Conference and Japan's Return to Asia: In Between America and Asia] (Tokyo: Sōshisha, 2001). For examples of Japanese scholarship on Japan's postwar diplomacy, see Akio Watanabe, ed., *Sengo Nihon No Taigai Seisaku: Kokusai Kankei No Hen'yō to Nihon No Yakuwari* [Japan's Foreign Policy in the Postwar: Transformation of International Relations and Japan's Role in it] (Tokyo: Yūhikaku, 1985).

¹⁴ Taizō Miyagi, *Bandon Kaigi to Nihon No Ajia Fukki: Amerika to Ajia No Hazama De*, 10.

narrative of Japan's postwar diplomacy and China's economic diplomacy in the postwar period, shedding new light on the early Sino-Japanese rapprochement.¹⁵ Kanda Yutaka's monograph *Transformation of Cold War Structure and Japan's Diplomacy toward China* (*Reisen kōzō no hen'yō to Nihon no taichū gaikō*), and Amy King's *China-Japan Relations after World War Two: Empire, Industry, and War, 1949-1971*, exemplify such a trend. According to Kanda, the Hatoyama and Ikeda Cabinets adopted a form of "resistance" (*teiko*) toward the US-led containment policy in Asia. Both prime ministers envisioned "US-Japan-China coordination" (*bei-nichi-chū kyōchō*) as a possible alternative to Cold War Asia and had made active efforts to realize it in the early 1960s.¹⁶ However, the pro-China stance promoted by Hatoyama and Ikeda ended when Sato Eisaku took power; he returned to the containment policy and pursued "Japan-US-USSR cooperation" (*nichi-bei-so rengō*) in Asia.¹⁷ By explaining the differing visions that Japanese leaders developed for Asia, Kanda's work indeed gives more agency to Japan than do earlier works. However, the analytical framework of Kanda's monograph is still primarily built on

¹⁵ The one book that addresses regional politics is Kurasawa Aiko's study of Japan-Indonesian relations in the postwar period. However, Kurasawa's book is still primarily concerned with continuity and Japan's wartime legacy in creating Indonesia's postwar society, and it pays little attention to postwar contingencies and the country's large Chinese population. See Aiko Kurasawa, *Sengo Nihon=Indoneshia Kankeishi* [A History of Japan-Indonesian Relations in the Postwar Period] (Tokyo: Sōshisha, 2011).

¹⁶ See Yutaka Kanda, *Reisen Kōzō No Hen'yō to Nihon No Taichū Gaikō: Futatsu No Chitsujokan, 1960–1972* [The Transformation of the Cold War Structure and Japan's Diplomacy toward China: Two Views of Order, 1960-1972] (Tokyo: Iwanami Shoten, 2012), 77–82.

¹⁷ *Ibid.*, 163–227.

interactions between the major powers in the Cold War and gives little space to regional politics in Asia. Japan's role in creating ASEAN as an anti-communist/anti-Chinese coalition and China's competitive stance towards expansion in Southeast Asia were equally important to the creation of postwar Sino-Japanese diplomacy.

King's book, on the other hand, set to break the traditional dualistic explanation for Chinese diplomacy through her study of economic diplomacy between Tokyo and Beijing. According to her, to explain Chinese diplomacy as results of "pragmatism" and "ideology" – the two most common frameworks in the study of China during the Cold War – falls under the pretense that there was a fine boundary between the two, since the contingency in geopolitical situations demanded countries to adopt practical behaviors even when pursuing ideological goals.¹⁸ In lieu, King's study examines the set of ideas Chinese leadership formed regarding Japan in the postwar period, especially its rise as a flourishing industry in Asia, and how it informed Beijing's economic diplomacy with Tokyo. Looking at the interactions between the Chinese leadership and Japanese visitors to China, King argues that the ideas formed from these interactions were essential in China's Japan policy, particularly its goal of expanding economic ties with Japan.

However, while King's study sets to breakdown the pragmatism-ideology binary by presenting economic stories previously absent in the study of Sino-Japanese relations, her work

¹⁸ Amy King, *China-Japan Relations after World War II: Empire, Industry and War, 1949-1971* (Cambridge: Cambridge University Press, 2016), 13-14.

gives little credit to some initiatives, namely the coalition between entrepreneurs and political establishment in Japan. King believes that the predominant influence from Japanese visitors on Chinese leadership came from “left-wing Japanese politicians, and representatives from Japan’s SMEs [i.e., Small-Medium Enterprises], who offered a partial view of Japan’s political–economy and alliance relationship with the United States.”¹⁹ However, this argument risks overlooking the role a group of top Japanese decision-makers played in China. Many pro-China figures in Japan had set foot in both business and political worlds, and they were neither left-wing nor representatives of small businesses. For instance, Takasaki Tatsunosuke, Fujiyama Aiichiro, and Matsumura Kenzo served as cabinet ministers in the postwar period and occupied leadership positions – the latter two even had their factions – in the ruling Liberal-Democratic Party. On the corporate side, the proponents for China trade – Inayama Yoshihiro (Yawata Steel), Nagano Shigeo (New Japan Steel), Okazaki Kaheita (All Nippon Airlines), and Kawai Yoshinari (Komatsu Ltd.) – not only came from mega-companies but also served as leaders of the Japanese Business Federation (the Keidanren) that represent major Japanese businesses.²⁰ Admittedly, the fact that many diplomatic documents were not available at the time of her writing – for instance, a large

¹⁹ Ibid., 217.

²⁰ Among the three major organizations representing Japanese economic bodies, the Japan Chamber of Commerce and Industry (JCCI) represents small and medium-sized businesses, the Japan Federation of Business (JBF) represents big corporates. While Nagano was the president of both JBF and JCCI, the other two figures – Inayama and Kawai – only occupied positions in the JBF.

sum of Matsumura-related documents were released after 2020 – contributed to the insignificance of these businessmen and politicians in King’s study. Nevertheless, since this group from the Japanese establishment held vital influence in Japan’s diplomacy with China, the rest of Asia, and the United States, an inquiry into these people’s activities will yield more insights into the factors in the making of Sino-Japanese relations.

This dissertation picks up where the current scholarship leaves off, first by complicating the framework King proposes and examining the bifurcated relations between diplomatic and commercial interests. Throughout the two decades, the commercial interests pursued by entrepreneurs diverged from and converged with governments’ diplomatic goals, shaping the interactions between the state and corporate world. In this manuscript, the experience of Japanese industrialists investing in Southeast Asia and overseas Chinese participation in China’s commercial activities in the region shows that merchants actively served the state’s diplomacy when their goals coincided. In the concurring cases, governmental officials did not hesitate to tell merchants where the national interests were and mobilize entrepreneurs into their service. Sometimes, technocrats and politicians even directly intervened to adjust business projects to serve diplomatic goals better. However, entrepreneurs were not merely vehicles serving governments’ geopolitical strategy. They sometimes took the initiative to navigate uncharted waters through informal diplomacy that ran against the formal diplomatic stance of their governments. Some of these activities – from top Japanese entrepreneurs – even shifted the states’ policies to directions of their liking. Japanese entrepreneurs’ successful rebellion against Yoshida and Sato’s China

policy, as well as their call for Sino-Japanese cooperation in the Asian economic regionalization, showed that the corporate side maintained a significant level of agency and was able to find ways to pursue simultaneously commercial interest and diplomatic goals. This study is set to explore the changing dynamism between commerce and diplomacy by situating it in the highly volatile geopolitical situation of Cold War Asia from the 1950s to the 1970s.

The selection of cases in this manuscript also reflects this point. While this study examines the whole of Southeast Asia and analyzes the outcomes of Japan and China's respective policies for the region, I mainly focus on developments in a few countries, namely Indonesia, Burma, and Cambodia. This choice is informed by the fact that these countries not only loomed large in the Sino-Japanese competition in Southeast Asia but also became focal points in the tension between Washington and Tokyo from the 1950s to the 1970s. Sukarno's Indonesia and Ne Win's Burma were especially prominent in these dynamics. Both countries received significant economic support from China and Japan, which hoped to outbid the other in their offers. Moreover, both countries agitated the United States through their disruptive roles in Washington's Asian policy. Until the mid-1960s, both Indonesia and Burma pursued neutralist diplomacy that directly ran against United States' containment policy against China, and developed critical economic relations with both communist and Western blocs. In addition, Washington also found Jakarta and Rangoon's reluctance – and the former's declining relations with American allies in the territorial dispute against British-backed Malaysia and Australia – to engage in American aggression in Indochina Peninsula problematic. For a decade, Washington and Tokyo engaged in a prolonged

debate on Japan's approaches to these countries, while Japan remained committed to supporting these regimes despite opposition from the United States. Until 1966, China and Japan's position in these countries converged despite their ongoing competition for economic influence.

Both countries' diplomatic turnabouts in the latter half of the 1960s shed light on the interconnections between Sino-Japanese relations and their respective relations with countries in Asia. In 1967, Sino-Burmese relations suffered after ethnic conflicts between the Chinese and Burmese escalated, and Suharto's coup overthrowing Sukarno in 1965 led to the purge and expulsion of Chinese population in Indonesia. In both cases, the once-prospering economic collaboration between China and the two countries ended, and both regimes turned to Japan for additional economic assistance. In this way, both the rise and the fall of Sino-Japanese competition in these two countries exemplify that China and Japan's diplomacy with each other and with Southeast Asia were intrinsically linked to geopolitical developments across Asia.

In this manuscript, I pursue this line of inquiry throughout the three decades in the postwar period. By juxtaposing early Sino-Japanese rapprochement in the 1950s and 1960s with the two countries' respective policies toward Southeast Asia, I provide an alternate lens through which to understand the developments that shaped China, Japan, and Asia as an interrelated whole in the postwar period. I will examine Sino-Japanese trade negotiations and the decision-making processes – regarding both economic interests and ideological commitments to Asian solidarity – behind policies that promoted trade with Southeast Asian countries. In addition, I will explore how regional politics – in Vietnam, Indonesia, Burma, and Cambodia – that began in the mid-1960s

prompted changes in Japan and China's diplomatic stances in the region and alterations to both countries' approaches to Sino-Japanese relations. In doing so, I hope to shed new light on how Chinese and Japanese diplomacy in postwar Asia – their pursuit of economic influence in Southeast Asia, their competition for economic leadership through foreign aid, and their efforts to manage and navigate conflicts of interests with ideological allies – played vital roles in transforming the bilateral relationship between Beijing and Tokyo.

Chapter Outline

The dissertation is divided chronically into three parts. Part I, “‘Peaceful Coexistence, or Peace Offense?’ Sino-Japanese Competition and the Making of Economic Landscape in Southeast Asia, 1950–1959,” investigates the founding moments of Beijing and Tokyo's diplomatic efforts in decolonizing Asia. The three chapters of this section focus primarily on China and Japan's economic diplomacy – through both government and private channels – in Asia in the 1950s. They show how both countries' need for economic revitalization – China's need to bypass the US-led embargo and Japan's desperate need for a secure supply of raw materials for its industries – prompted them to forge meaningful connections with each other. Nevertheless, their competition for economic influence in Southeast Asia eventually played an essential role in driving China and Japan toward competition rather than coordination.

After an overview of Part I, Chapter I continues the inquiry by elaborating on Beijing's economic diplomacy in Southeast Asia. During this period, the PRC built and maintained a complex trading network in Southeast Asia by mobilizing overseas Chinese merchants,

compradors in entrepôts, and foreign traders who sought Chinese markets and raw materials. During this process, Chinese technocrats in the Ministry of Foreign Affairs (MOFA, wai jiao bu) and the Ministry of Foreign Trade (MOFT, dui wai mao yi bu) adopted a flexible set of approaches for procuring help from their non-communist collaborators. This chapter also investigates tension and conflict within this system: the debate between professionalism and “redness,” the suspicion of the capitalist market economy, and the tension between commercial interests and revolutionary schemes in Southeast Asia. These factors later contributed to the Sino-Japanese conflict of the late 1950s.

Chapter II examines how Japan navigated the postwar decade and attempted to expand the country’s economic influence in Asia. In addition to the endeavors of Japanese industrialists and technocrats, Japan’s return to the Asian economic theatre was partially due to multiple international initiatives. In particular, this chapter shows that the power dynamics between Washington, London, and Beijing shaped Japan’s trade policies. Before 1955, Japan was caught between Britain, which desired to protect its interest in its colonial sphere, and the United States, which sought intervention in regional affairs to contain communist expansion. As a result, Japan received significant support from Washington and the Supreme Command of Allied Powers (SCAP) under American domination, which helped Tokyo overcome British opposition to the country’s economic expansion in Southeast Asia.

Similarly, China’s rise as a vital geopolitical force after the Geneva Conference in 1954 and the United States’ concern for Japan’s neutralist tendencies amid Beijing’s “peace offense” were

essential in shaping Tokyo's Asian policies. This chapter also explains how pro-engagement industrialists and anti-Yoshida politicians in Japan used the "China Question" to facilitate political change in Japan. Weaving these factors together, this chapter demonstrates that Japan's trade policy was shaped not only by domestic interest groups but also by regional powers, including Britain, China, and the United States.

Chapter III, therefore, traces the development of Sino-Japanese relations in the late 1950s and explains how the two countries' conflicting interests in Southeast Asia ended the brief period of economic collaboration. This chapter covers the strategies that the Hatoyama, Ishibashi, and Kishi administrations adopted toward economic diplomacy in Asia. It also traces how Sino-Japanese cooperation in commerce and their competition for markets in Southeast Asia ran in parallel at this time. The increasingly intense competition in Southeast Asia for commercial interests and diplomatic prestige, as well as the two countries' distinctive perspectives on regional development since the Bandung Conference, prompted decision-makers in both countries to see the other as competitors rather than collaborators. As a result, the high tide of Sino-Japanese economic collaboration occurred in 1958 – through the fourth trade agreement and *the Sino-Japanese Steel-Iron Barter Agreement* – accompanied by an abrupt turn to full-fledged trade competition in Southeast Asia. From 1958 to 1960, China engaged in a trade war with Japan to undercut the latter's commercial interest in Southeast Asia, while Japan championed a coordinated effort in the region to check China's expanding economic influence.

Part II: "The Black Sheep of Their Camps": China's Foreign Trade Reorientation and Japan's

Pursuit of Economic Leadership in Asia, 1960–1965,” which includes chapters IV and V, examines the motives behind the reopening of Sino-Japanese economic cooperation in the early 1960s. This section explains how new developments in Asian geopolitics in the early 1960s – the Sino-Soviet split and Japan’s pursuit of independent diplomacy amid frictions with the United States – prompted Beijing and Tokyo to adopt various new strategies in their economic diplomacy with each other and the rest of Asia. This situation owed credit to a group of structural factors in China and Japan, firstly from the two countries’ own needs for economic development. China’s turn to economic pragmatism in the aftermath of the Great Leap Forward and its westward reorientation due to the Sino-Soviet split made Japan and Southeast Asia increasingly important trade partners for Beijing. Economic incentives were also found in Japan, which was struggling to obtain raw material supplies after losing its traditional source in mainland Asia. In this way, both sides had reason to develop an economic association with each other and, simultaneously, with Southeast Asia, leading to the coexistence of collaboration and competition within their economic relations.

Chapter IV addresses this point by focusing on the recommencement of Sino-Japanese economic cooperation and analyzing Japanese economic proposals that juxtaposed China with Southeast Asia. Both Beijing and Tokyo set aside ideological conflict for pragmatic economic interests, thus paving the way for a reconciliatory turn in bilateral relations in the early 1960s. For China, the Sino-Soviet split in 1960 and the subsequent decline in economic relations between China and the socialist camp forced leadership to look beyond the socialist world for trade

opportunities, foreign revenue, and sources of technology. At the same time, Japanese decision-makers feared the loss of the Chinese market and resources to European countries. In addition, this chapter attributes the Japanese pursuit of Sino-Japanese economic cooperation to their strategy for economic regionalization. It explains how their plans for China resonated with their ideas for establishing Japan's economic leadership in Asia. By citing Matsumura Kenzō's plan for a Japanese-led agricultural coalition in Asia, Inayama Yoshihiro's proposal for the supply of mining technology to China and Southeast Asia, and Takasaki Tatsunosuke's hope to create a pan-Asian economic platform, this chapter speaks to Japanese decision-makers' attempts to integrate China in a Japan-led economic order for Asia.

Chapter V, on the other hand, shows how Beijing and Tokyo competed for economic leadership in Asia and navigated the turbulent realities of Southeast Asia in the early 1960s. These developments include the coup of Burma in 1962, the Malaya-Indonesian confrontation from 1963 to 1966, Sukarno's turn to the Soviet Bloc, and Suharto's coup in 1965. During this time, bilateral relations between China and Japan were contingent on their respective policies toward Southeast Asia. Japan's goal to establish economic leadership prompted the country to adopt a more supportive stance toward neutralist countries, including Burma and Indonesia. This contrasted with the geopolitical agenda for Southeast Asia supported by Washington, which viewed Sukarno's Indonesia and Ne Win's Burma as pro-China regimes that threatened the geopolitical order it envisioned in Asia. While decision-makers in Beijing identified Japan as the main competitor for its economic interests in the region, they also saw Japan as an indispensable source of technology

and trade opportunities and as a country with a similar interest in maintaining stability in Indonesia and Burma. Consequently, Tokyo found itself caught between its goal of establishing economic leadership in Asia and the bloc's aim to keep Chinese influence in check. The two countries faced similar challenges in extending aid to Ne Win's Burma and Sukarno's Indonesia before 1965.

Part III, “‘The Asia that is Red’: The Interludes in Sino-Japanese Collaboration in Southeast Asia, 1965–1972,” examines the intervals in Sino-Japanese economic coordination in the wake of escalation in Vietnam and on the eve of Sino-Japanese normalization. This part identifies 1965 as a watershed year in Sino-Japanese dynamics in Southeast Asia, during which China and Japan began to develop contrasting agendas for the region and ended a decade of cooperation. That year, the collapse of Sukarno's government in Indonesia produced different responses from Beijing and Tokyo. Under the Sato Cabinet, Japan followed the United States' anti-communist agenda and supported Suharto's regime. In response to this impediment to its regional expansion, China supported communist uprisings and alienated, if not entirely abandoned, cooperation-centered diplomacy in Southeast Asia. The transitions between cooperation and confrontation between Beijing and Tokyo reflect how both countries navigated the changing dynamics of regional politics.

Chapter VI traces the first half of this story by highlighting Beijing's turn to more radical revolutionary tactics – both domestic and international – after the intensification of the Vietnam War. On the other hand, Tokyo also adopted a less flexible position in Southeast Asia, initially due to its need to protect economic interests in the region, then under direct US intervention. This chapter also discusses how the situation in Southeast Asia impacted Sino-Japanese cooperation.

The expiration of the LT Trade Agreement in 1967 led to a prolonged negotiation for renewal, which was turbulent throughout.

Chapter VII, finally, traces how this process was reversed by Nixon's Vietnamization policy. This chapter shows how Beijing and Tokyo both adopted more pragmatic policies at the turn of the 1970s: The former dropped some support for revolutions in the region and expressed a willingness to approach the West. The latter, due to China's victory in the United Nations, trade tensions with Washington, and the pro-China faction within the LDP and its opposition to Japan's role in the Vietnam war, also adopted a more lenient attitude toward Beijing. Tanaka's triumph in 1972 paved the way for Sino-Japanese rapprochement, leading to normalization in the same year.

**Part I : “Peaceful Coexistence, or Peace Offense?” Sino-Japanese
Competition and the Making of Economic Landscape in Southeast Asia, 1950–
1959**

Alongside the fierce confrontation between the Communist and Western Blocs on the Korean and Indochina Peninsulas, Cold War Asia during the 1950s also witnessed fierce competition in the economic realm. Beijing, Moscow, Washington, London, and Tokyo all sought to expand their economic grasp on the contested regions by sponsoring various economic programs. Southeast Asia, which engaged in decolonization and state-building processes in the post–World War II era, became the primary target for these Cold War powers’ economic initiatives. From the Colombo Plan – a British-initiated economic cooperative platform for Commonwealth countries in the region – to Japan’s proposals for the Asia Development Fund and Payment Union, various economic plans were developed to solicit support from regional governments and incorporate local businesses into an economic sphere. These efforts, along with China’s attempts to circumvent a trade embargo and expand economic associations with countries in the region, attest to the intense competition for economic influence in Cold War Asia and the pivotal role that Southeast Asia played in this process.

Focusing on the commencement of the economic Cold War in Southeast Asia in the 1950s, the three chapters of this section examine economic diplomacy – through both government and private channels – in Southeast Asia in the 1950s. In so doing, they bring to light the significance of insufficiently recognized aspects of this era’s multi-sided economic and diplomatic history. In

particular, I explore how Japan and China, in a complex environment of sometimes conflicting British and American economic and political interests, forged meaningful connections to Southeast Asia and shaped the economic landscape of this region. During this period, the PRC was able to build and maintain a complex trading network in Southeast Asia by mobilizing overseas Chinese merchants, European compradors, and party cadres, while Japan pursued economic leadership in the region through diplomatic maneuvers that involved both governmental and informal initiatives. As this section shows, Japan's solicitation of corporations in its economic diplomacy has had a lasting impact on the corporate-government relationship in Japan.

In addition, the three chapters in this section will also shed light on initiatives by countries in the region which were prompted by Sino-Japanese competition. Due to both shared and conflicting goals in Southeast Asia, Beijing and Tokyo engaged in competition and actively sought help from regional actors to advance their state-building agendas, which provided opportunities for local governments. By breaking down the often-intricate bargaining processes and negotiations of governments, their front companies, and compradors during this period, this section attests to the multilateral, transnational nature of economic life in Asia under the shadow of the Cold War.

Admittedly, existing scholarship has paid some attention to this aspect of the Cold War and has explored how the geopolitical confrontation facilitated the founding of such economic programs. Such scholarship is exemplified by the monographs of Jeremy Friedman and Gregg Brazinsky. The former, in his book *Shadow Cold War: The Sino-Soviet Competition for the Third World*, examines the competition for leadership between the PRC and USSR, the two socialist

giants, through economic and technical assistance to Third World countries.¹ The latter, in contrast, offers an analysis of Sino-American competition for prestige, which was also conducted in economic terms.² On the other hand, Japanese scholarship provides apt coverage of Japan's economic initiatives in Asia during the Cold War and evaluates the level of independence that Japan exhibited while developing its strategy in Asia. By examining Japan's coordination with different countries, these scholars establish that Japan had developed its own political and economic agenda for the region and was partially successful in achieving its goals through diplomatic maneuvers. As Kibata Yoichi and Kanda Yutaka argue, some of Tokyo's achievements were acquired through bilateral or multilateral coordination with major powers, including the United States, Britain, and the PRC.³ Other scholars, including Tomaru Junko and Miyagi Taizo, attest to Japan's success in bilateral interactions with countries including Indonesia, Malaya, and Thailand.⁴

¹ Jeremy Scott Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World* (Chapel Hill: University of North Carolina Press, 2015).

² Gregg Brazinsky, *Winning the Third World: Sino-American Rivalry During the Cold War* (Chapel Hill: The University of North Carolina Press, 2017).

³ Yōichi Kibata, *Teikoku no tasogare: reisenka no Igrisu to Ajia* (Tōkyō: Tōkyō Daigaku Shuppankai, 1996); Yutaka Kanda, *Japan's Cold War Policy and China: Two Perceptions of Order, 1960–1972* (Milton: Taylor and Francis, 2019).

⁴ Taizō Miyagi, *Japan's Quest for Stability in Southeast Asia: Navigating the Turning Points in Postwar Asia* (London: Taylor & Francis Group, 2018); Junko Tomaru, *The Postwar Rapprochement of Malaya and Japan, 1945–61: The Roles of Britain and Japan in South-East Asia* (New York: St. Martin's Press in association with St Antony's College, Oxford, 2000).

While a broad and in-depth discussion of the various economic initiatives at play in Cold War Asia already exists, little scholarship has included non-governmental agencies in the scope of analysis, leaving a significant part of economic life unaddressed. The economic assistance programs examined by Friedman and Brazinsky were largely government-sponsored programs achieved directly through intragovernmental negotiations and financed by their corresponding countries' national treasuries. This is also true for Japanese scholarship, which has primarily focused on governmental branches, including Japan's Ministry of Foreign Affairs (MOFA) and the Ministry of Trade and Industry (MITI). According to these prior works, Japan's cooperation with Southeast Asia was largely conducted via international regional organizations, such as the Colombo Plan and the United Nations Economic Commission for Asia and the Far East (ECAFE); they do not highlight the participation of Japanese corporations.

More recent scholarship has picked up where previous studies left off. Jason Kelly, in *Market Maoists: The Communist Origins of China's Capitalist Ascent*, sheds light on the intricate foreign trade relations that the PRC formed through semi-official and private channels. By looking into the activism of professional traders in the PRC's Ministry of Foreign Trade (MOFT) and state-owned companies, Kelly reveals the non-governmental face of China's commercial interactions with the capitalist world. "Advertisements, catalogs, ship manifests," Kelly argues, "and other commercial documents located outside state archives offer crucial insights into the commercial

interactions that linked Mao's China to the capitalist world.”⁵ To some extent, Kelly's study provides a gateway to a new line of inquiry: in addition to the intra-governmental interactions that occupied the central place of state activism, commercial interactions in the private sector were equally important in understanding the covert transformation China underwent at this time. The transnational trade between PRC professionals and their counterparts in the West, Kelly suggests, had become a process of knowledge production for Chinese technocrats and prepared the country for its eventual opening-up in the 1970s.

Nevertheless, despite providing valuable insight into the transnational trading network with which China during the Cold War, a limitation of Kelly's monograph is that it remains a China-centered story. It focuses largely on the activism of PRC traders and their trade partners overseas, which blurs the multilateral process of bargaining and competing involved in international trade at this time. What happened to individual merchants in the line of foreign trade who had to navigate through the uncertainties that geopolitical tension had created? How did the compradors, trade organizations, and unions take advantage of the situation and aggrandize themselves in the meantime? Chinese and Japanese traders during this period often competed for influence on local agents and compradors, who would sell their products through a local network of contacts. As a result, these local intermediaries would use the competition to their advantage and procure

⁵ Jason M. Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent* (Cambridge, Massachusetts: Harvard University Press, 2021), 9.

contracts with favorable credit and commission rate terms. Neglecting to investigate how the competition between Chinese, Japanese, American, and British merchants evolved and how they incorporated support from their governments in their commercial endeavors risks oversimplifying the complex trading network that came in effect in Asia and helps to propagate a misleading picture in which global powers simply made the rules to their advantage.

The overseas Chinese communities in Southeast Asia were at the center of this regional trading network. Dispersed across all of Southeast Asia, the eleven million overseas Chinese bore demographical and economic significance in their countries of residence.⁶ Previous studies, including those by Hamashita Takeshi, have shown that this group managed to connect the various regions of Southeast Asia via their own trading networks based on clan associations (*tong xiang hui*) and trade guild halls (*tong ye huey guan*) and that these communities maintained important connections to China's economy through overseas remittances.⁷ Due to the capital and trading

⁶ The overseas Chinese population in Southeast Asia in the 1950s is debatable. According to US statistics, the population of overseas Chinese in Southeast Asia (excluding Hong Kong) reached 10,139,883 by 1957. PRC statistics hold that the Chinese population in the "South Sea Area" (Nanyang di qu) was 11,737,733. See "US Policies and Current Actions Toward Overseas Chinese of the Governments in Southeast Asia," September 6, 1956, US Declassified Documents Online (hereafter cited as USDDO), GALE, accessed March 29, 2021, <https://link.gale.com/apps/doc/CK2349005672/USDD?u=camb55135&sid=USDD&xid=bf5321e4&pg=1>. For Chinese estimations, see *Hua qiao wen ti yan jiu hui. Ya Fei di qu hua qiao qing kuang jie shao* [Introduction to Conditions of Overseas Chinese in Asia and Africa] (Guangzhou: Hua qiao wen ti yan jiu hui, 1955), 6–7.

⁷ For discussion regarding overseas Chinese communities' economic roles in Asia, see Takeshi Hamashita, *Kakyō, Kajin to Chūkamō: imin, kōeki, sōkin nettowāku no kōzō to tenkai* [Overseas Chinese and the Chinese Network: Structure and Development of Migration-Trade-Remittance Networks] (Tōkyō: Iwanami Shoten, 2013); Rajeswary Ampalavanar Brown, *Chinese Business*

networks they maintained, overseas Chinese communities became the targets of governments seeking to exploit the commercial network in this period, as well as victims of nationalization agendas and anti-Chinese purges in their countries of residence. Therefore, an examination of the multiple layers of connections formed by overseas Chinese communities – to the governments of their countries of residence, to the PRC/ROC, and to American and Japanese merchants – in Cold War Asia offers insight into how the economic Cold War played out in Southeast Asia on the government, private, and even individual levels.

Enterprise in Asia. (London: Routledge, 1995).

Chapter I: Entrepreneurs, Compradors, and Cadres: The Making of Beijing's Regional Trading Network, 1950–1959

While the PRC, as a state, was relatively new to its Asian neighbors in the 1950s, the trading network Chinese communists maintained had existed in the region for decades. Even before the outbreak of the Sino-Japanese War, Chinese communists had long been procuring food, munitions, and pharmaceutical goods through party channels in the “South Sea region” (Nanyang) and had funneled supplies through entrepôts, including Shanghai, Guangzhou, and Hong Kong. This endeavor was further accelerated by the escalation of the Sino-Japanese conflict in 1937. On December 27th, the central committee of the Communist Party of China (CPC) decided to set up an agency in Hong Kong to gather intelligence and receive donated materials for the war against Japan. Sir Archibald Kerr, the British ambassador to China, was informed personally by Zhou Enlai of this decision and acquiesced to the CPC agency in Hong Kong.¹ While the agency's official name was “the Representative of the Eighth Route Army” (*Balu-jun ban shi chu*) in Hong Kong, it was originally registered under the name of “Yuehua Company” and received instructions from Liao Chengzhi, who was in charge of overseeing the CPC's work with overseas Chinese and Japan.

To ensure that the collected war funds could be legally used to purchase supplies and

¹ Guan Lian, “Hui yi Ba lu jun zhu Xiang gang ban shi chu” [Memories of the Eighth Route Army Office in Hong Kong], *Guangdong dang shi zi liao* 18 (1991): 30.

equipment in Hong Kong, Liao chose to register his organization as a commercial body. This task was charged to Liao's subordinate, Qin Bangli, who became the first manager of Liow & Company.² While the company went underground after the fall of Hong Kong in World War II, and Liao himself was arrested by the Nationalist government in 1942, Liow & Company survived both wars against Japan and the civil war. It was reorganized to become the China Resources Company (CRC) – also known as the Huarun Company – in 1948.

After 1949, the CRC, along with the contacts it had developed over the years, was charged with supplying the newborn republic in both the domestic economic build-up and the war in Korea. However, this task was rendered difficult by the gradually escalating embargo led by the United States as the Korean War broke out. The China Committee, or the CHINCOM, prevented China from importing what were considered “strategic goods” and barred the Western Bloc’s vessels from entering Chinese ports. This effectively blocked China’s traditional maritime trade routes connecting Shanghai, Guangzhou, and Tianjin to ports in Europe and America. Consequently, Beijing had to seek alternate approaches and rely on entrepôts to conduct intermediary trade for the needed goods.

During this period, PRC traders received help from overseas Chinese merchants and local compradors in Hong Kong and elsewhere, who were curious about the potential business

² Xuexian Wu, ed., *Hong se hua run* [The Red Chinese Resources Company] (Beijing: Zhong hua shu ju, 2010), 5.

opportunity represented by the new socialist nation. Some of these overseas connections came from the “old connections” (*Lao guan xi*) that private trading companies – most of which were nationalized during the First Five-Year Plan – established before the founding of the PRC. Prior to 1949, these trading companies had spent decades building international connections. Some were mainland branches of mother companies in Hong Kong, while others were connected to foreign companies through cross shareholding arrangements.³ In addition, the armistice that ended the Korean War in 1953 had a psychological effect on overseas Chinese, who increasingly viewed the PRC as more likely to protect their interests in local societies than was its counterpart in Taiwan. The CRC was well aware of this situation. In a report to the MOFT, CRC staff wrote: “We have established connections with more than twenty organizations....In addition to our work, the recent optimistic development in the international theatre and the increasing prestige our state enjoys have provided an advantage for our cause.”⁴

Ironically, Beijing’s attraction to overseas Chinese merchants was furthered by the rise of

³ For instance, the Dahua Import-Export Company (Custom Certificate No. 361) in Shanghai is associated with Dahua Company (Hong Kong), Hongyun Company (Hong Kong), and Huamao Company in Makassar. According to the report from the Customs Office in Shanghai, its major collaborators include another six trading companies in Hong Kong, seven in Singapore, and several others in Terengganu (Malaya), Surabaya (Indonesia), and Cebu (the Philippines). For a list of Chinese trading companies in Shanghai and their overseas connections, see Zhong hua ren min gong he guo shang hai hai guan, “Zhong hua ren min gong he guo hai guan guan yu shang hai si yin jin chu kou shang (hua shang) guo wai guan xi dui zhao biao” [The People’s Republic of China Customs: Information Table for Overseas Connections of Private Importers and Exporters (Chinese Businessmen) in Shanghai], January 1955, B6-2-117, Shanghai Municipal Archives (hereafter cited as SMA), Shanghai.

⁴ Xuexian Wu, *Hong se hua run*, 253.

economic nationalism in Southeast Asia in the 1950s. The decolonization movement in the region, which Beijing openly embraced, led to mixed consequences for overseas Chinese merchants who were at the center of regional economic landscape. Before the end of World War II, this group managed to run a transnational commercial network in Southeast Asia based on clan associations (tong xiang hui) and trade guilds (tong ye huey guan) and maintained important connections to China's economy through overseas remittances.⁵ Since Chinese merchants mainly kept this trading network together through traits such as “connections” (guanxi) and “credit” (xinyong), which are unfamiliar to people outside the circle, it contributed to Chinese monopoly in economic activities in Southeast Asia.⁶ In addition to their advantageous position in controlling the trade between mainland China and their countries of residence, overseas Chinese merchants in Southeast Asia also became industrialists and entrepreneurs, and loomed large in sectors such as rice-grinding, paper, rubber, and retailing businesses.⁷

⁵ For introduction to the trade network Chinese merchants maintained in Southeast Asia, see Takeshi Hamashita, *Kakyō, Kajin to Chūkamō: imin, kōeki, sōkin nettowāku no kōzō to tenkai* [Overseas Chinese and the Chinese Network: Structure and Development of Migration-Trade-Remittance Networks] (Tokyo: Iwanami Shoten, 2013); and Rajeswary Ampalavanar Brown, *Chinese Business Enterprise in Asia*. (London: Routledge, 1995).

⁶ See Rupert Hodder, *Overseas Chinese and Trade Between the Philippines and China: The Intertwining of Family, Social, and Business Interests in Promoting Trade* (Lewiston: Edwin Mellen Press, 2006). For an example of Chinese monopoly in the tea trade, see Jason Lim, *Linking an Asian Transregional Commerce in Tea: Overseas Chinese Merchants in the Fujian-Singapore Trade, 1920-1960* (Boston: Brill, 2010).

⁷ Guangzhou shi jing ji yan jiu yuan, *Hua qiao jian shi yu hua ren jing ji* [A Brief History of Overseas Chinese and Their Economy] (Beijing: Zhong guo jing ji chu ban she, 1999), 72-96.

The collapse of colonial rule effectively eliminated these privileges for Chinese merchants. Prompted by economic nationalism, the newly independent national governments – Indonesia, the Philippines, Burma, and Malaya, in particular – were determined to end the economic dominance of Chinese communities and strengthen the economic power of indigenous populations. As the State Department of the United States noted, such actions often included, in certain industries, the exclusion of Chinese-owned companies (i.e., companies registered under Chinese nationals) and the establishment of special taxes against Chinese capital holders with the intention to force them out, as well as the forced nationalization of industries in which Chinese companies had an advantage or had achieved a monopoly.⁸ In Indonesia, the government passed laws and presidential decrees in 1950, 1954, and 1959 to restrict Chinese activities in import, retail, rice-grinding, and financial sectors, leading to the unemployment of more than fifty thousand members of Chinese communities.⁹ The Philippine government, too, strengthened jurisdiction measures from 1954 to 1957 to “Philippinize” retailing and banking businesses that had traditionally been

⁸ “The Overseas Chinese and US Policy,” August 7, 1956, USDDO, GALE, accessed March 29, 2021, <https://link.gale.com/apps/doc/CK2349001356/USDD?u=camb55135&sid=USDD&xid=0a9c0f77&pg=1>.

⁹ For the Presidential Directive passed in 1959 to ban foreigner-owned retail businesses, see Department of Information, Republic of Indonesia. “U.P./E/124: Presidential Directive No. 10 of the Year 1959 Concerning the Ban on Alien Small and Retail Trade Outside Capitals or First Rank and Second Rank Regions and Residencies,” 1959, FC 1821/14, FO 371/158438, The National Archives of the UK (hereafter cited as TNA), London. For the consequences of the nativization policy on the Chinese population in Indonesia, see Hua qiao zhi bian zuan wei yuan hui, *Yin ni hua qiao zhi* [A Chronical of Overseas Chinese in Indonesia] (Taipei: hua qiao zhi bian zuan wei yuan hui, 1961), 93.

dominated by Chinese merchants; it achieved this by ceasing to recognize the licenses held by Chinese nationals. According to statistics provided by the Committee of Overseas Chinese Affairs (ROC), this decision, along with the national government's decision to provide subsidized merchandise to Filipino merchants, led to a significant disruption in Chinese economic activities in the country.¹⁰

These actions, in turn, drove overseas Chinese toward Beijing, which was facilitating overseas Chinese investments in the mainland. Further, due to nativization policies, Chinese merchants reduced their investment in their countries of residence. In the Philippines, the average annual capital investment from Chinese nationals dropped from ₱410 million between 1949 and 1955 to ₱260 million between 1955 and 1960.¹¹ Consequently, the ratio of Chinese investment to native investment also decreased, from 20 percent in 1953 to 15 percent in 1956.¹² Liao, who had become the head of the Overseas Chinese Affairs Commission (OCAC, *Hua qiao shi wu wei yuan hui*), noted the quickly deteriorating situations for overseas Chinese communities. In January 1953, Liao made a report at a meeting for the South China Bureau of the Communist Party of China (CPC) that emphasized the necessity of “utilizing overseas Chinese investment” for domestic production. “We must make it clear to the overseas Chinese that imperialists would target them and their

¹⁰ Qiao wu wei yuan hui di san chu, *Hua qiao jing ji nian bao* [Annual Report of Overseas Chinese Economy] (Taipei: Qiao wu wei yuan hui di san chu, 1957), 106–144.

¹¹ Guoqing Li, *Kakyō shihon no seisei to hatten* (Tōkyō: Bunshindō, 1980), 93, 110.

¹² Qiao wu wei yua hui di san chu, *Hua qiao jing ji nian bao*, 105.

businesses should the conflict intensifies,” Liao argued before his colleagues. “Therefore, it would be better, in our view, for them to transfer money back home, where their motherland welcomes them.”¹³

The Central Committee agreed to Liao’s proposal. On March 3, 1955, Liao published an article in the *People’s Daily*, assuring readers that the Chinese government would “welcome and cooperate with Chinese entrepreneurs who choose to invest in agriculture and industry in China.”¹⁴ In the economic plan adopted by the Chinese vice-premier, Chen Yi, during a state department meeting in April 1955, the Chinese government decided to “actively facilitate the inward flow of investment from overseas Chinese” by providing a set of benefits that included governmental sponsorship, monetary reward, and a tax reduction for investors.¹⁵ These decisions were also channeled abroad via pro-PRC newspapers in Hong Kong, Indonesia, and Malaya.

Beijing’s strategy was a success: according to the estimation of the Japanese Ministry of Foreign Affairs, the Overseas Chinese Investment Company (Hua qiao tou zi gong si) solicited

¹³ Chengzhi Liao, “Zai hua nan fen ju di yi ci hua qiao gong zuo hui yi shang de zong jie bao gao,” in *Liao Chengzhi wen ji*, ed. Chengzhi Liao (Beijing: Ren min chu ban she, 1993), 205–206.

¹⁴ Chengzhi Liao, “Guan che qiao wu zheng ce, jian jue bao hu qiao hui” [Implement Overseas Chinese Affairs Policy, Resolutely Protect Overseas Chinese Remittances], *People’s Daily*, March 3, 1955.

¹⁵ Ajia-kyoku dainika, “Chūkyō no tonan’ a shokoku e no Kyōsan katsudō” [Communist Activities in Southeast Asian Countries by the Chinese Communist Party], September 1956, Chūgoku no taigai seisaku kankei zasshū dai 1 ken, A’ .2.1.0.C(C)1, Diplomatic Archives of the Ministry of Foreign Affairs, Japan (hereafter cited as DAMOFAJ), Tokyo, 272.

sufficient investment to construct textile, sugar, and electricity plants in Guangdong and Fujian.¹⁶ The flow of overseas Chinese capital to China also improved Beijing's foreign trade situation. From 1953 to 1957, the remittance to China from overseas Chinese reached 696,793 million USD, whereas the PRC's foreign trade deficit was 1.32 billion USD during the same period.¹⁷ The significance of overseas remittances was indispensable in Beijing's decision to maintain an overall welcoming attitude toward overseas Chinese investment and remittances in the 1950s.

In addition to the push provided by the nativization policies of countries in the region, the economic ties between overseas Chinese and the mainland also benefitted from various pull factors, including China's increasing political prestige in the international arena. The Bandung Conference in 1955 was a crucial moment that drove overseas Chinese merchants in Beijing's direction, as Zhou Enlai achieved significant diplomatic progress with Southeast Asian countries. According to his report to the CPC Central Committee, the delegation was able to strike an agreement with some Southeast Asian countries, especially Indonesia and Burma, on trade and economic cooperation:

To cooperate with the activities at the Conference, we engaged in activities outside the Conference during the Conference period....Indonesia has agreed to send a trade delegation to discuss a new trade agreement, and we have fully consulted with Indonesia's Ministry of Economic Affairs and Economic Federation (a private business organization) on the possibility of promoting bilateral trade....Burma has expressed willingness to purchase more Chinese goods, has confirmed its plans to buy textile machinery, and has expressed hopes of starting negotiations for the rice-for-goods deal for 1955. The efforts

¹⁶ Ibid., 279.

¹⁷ Jinzhi Lin, "Qiao hui dui Zhong guo jing ji fa zhan yu qiao xiang jian she de zuo yong" [The Role of Overseas Chinese Remittances in China's Economic Development and the Construction of Qiaoxiang], *Nanyang wen ti yan jiu*, no. 2 (1992): 21–34.

to get in touch outside the Conference have enhanced mutual understanding and will facilitate future contact.¹⁸

Zhou's diplomatic success at Bandung facilitated China's trade expansion in Southeast Asia in two ways. First, it helped create direct contracts between Southeast Asian states and China. These agreements were soon propagandized in domestic newspapers and pro-PRC media in Hong Kong, Singapore, and Kuala Lumpur. China's successful creation of economic deals with Southeast Asian countries was especially exciting for the overseas merchant communities, whose economic status had been under attack since the early 1950s by the nativization policies pursued in their countries of residence.¹⁹ For Chinese merchants overseas, a possible way to protect their economic interests was to act as intermediaries between their motherland and their countries of residence. As a result, many Chinese merchants reached out to PRC representatives after 1955. As

¹⁸ "Zhou Enlai's Report to the CCP Central Committee and Mao Zedong Regarding the Economic Cooperation Issue," April 30, 1955, *Zhonghua renmin gongheguo wajiao dang'an xuanbian. Di er ji. Zhongguo daibiaotuan chuxi 1955 nian Ya Fei huiyi* [Selected Diplomatic Archival Documents of the People's Republic of China, Vol. 2: The Chinese Delegation at the 1955 Asia-Africa Conference], ed. *Zhonghua renmin gongheguo wajiaobu dang'anguan*, (Beijing: Shijie zhishi chubanshe, 2007) trans. 7Brands, History and Public Policy Program Digital Archive, WCDA, 90–93, <http://digitalarchive.wilsoncenter.org/document/121751>.

¹⁹ The nativization policies in Southeast Asia primarily targeted overseas Chinese communities due to their superior economic status in local societies. These policies often included the exclusion of Chinese-owned companies (i.e., companies registered under Chinese nationals) in certain businesses, the forced nationalization of industries in which Chinese companies had an advantage or had achieved a monopoly, and special taxes against Chinese capital holders to force them out from certain businesses. See *Hua qiao wen ti yan jiu hui, Ya Fei di qu hua qiao qing kuang jie shao* (Guangzhou: Hua qiao wen ti yan jiu hui, March 1955); "The Overseas Chinese and US Policy," August 7, 1956, USDDO, accessed March 29, 2021, <https://link.gale.com/apps/doc/CK2349001356/USDD?u=camb55135&sid=USDD&xid=0a9c0f77&pg=1>.

CRC traders reported, “the encouraging development in overseas markets was largely attributed to the patriotism demonstrated by overseas Chinese communities after the Afro-Asian Conference. Overseas merchants have less fear of placing orders for Chinese products.”²⁰

In addition to a zeal for purchasing Chinese goods, it was common for overseas Chinese merchants to view Beijing’s trade deals as a solution for their losses under nativization policies. For them, trading with China could help protect their economic interests by allowing them to act as intermediaries between China and their countries of residence, which were seeking to expand trade with China. In the case of Indonesia, the 1956 Trade Agreement not only provided more opportunities for bilateral trade but also included a clause stating that Indonesia could conduct “transit trade” with China by re-selling cargo purchased from the Western Bloc to the Chinese in exchange for a commission fee.²¹ This was especially helpful for Chinese import/export trading companies, which could make good use of their expertise in China trade. In practice, these merchants would hire Indonesian nationals as representatives of their companies to avoid restrictions on import-export licensure while keeping actual control of commercial activities.²² The Indonesian government tolerated such activities, allowing a growing number of Chinese merchants to reach out to PRC representatives after 1955.

²⁰ CRC Department of References, “Guan yu ban nian lai Xianggang, Dongnanya shi chang de bao gao,” in *Hong se hua run*, ed. Xuexian Wu (Beijing: Zhong hua shu ju, 2010), 252.

²¹ Qiao wu wei yuan hui di san chu, *Hua qiao jing ji nian bao*, 236–237.

²² *Ibid.*, 195–196.

Beijing did not hesitate to use its attraction to the overseas Chinese to its advantage, and it solicited overseas merchants with generous terms. The overseas branch of the Bank of China (BOC) played a crucial role in this endeavor. According to CIA intelligence, besides consulates and “clandestine party channels,” BOC branches in Southeast Asia often handled overseas Chinese in local societies.²³ The branches that Beijing controlled were spread across Southeast Asia in major trade ports, including in Hong Kong, Singapore, Kuala Lumpur, Penang, Surabaya, Rangoon, and Chittagong.²⁴ In addition to managing overseas remittance to the mainland, one of the most important functions of BOC branches in Southeast Asia was to convince local traders to act as agents for Chinese goods in the local markets. According to the CIA’s report, BOC branches would “make low-interest loans to those who favor Communist causes or are willing to follow the Communist line, and they use defaulted loans as a means of political blackmail.”²⁵ Such an observation is substantiated by both Japanese and British Consulates in Southeast Asia, who reported that the BOC had provided very competitive loans to local Chinese traders and had helped them obtain a letter of credit via front agencies in Hong Kong.²⁶ The financial resources Beijing

²³ Office of Intelligence Research, Department of State, “Intelligence Report No. 7219: Effect of Recent Chinese Communist Socialization Measures on Overseas Chinese Opinion and Remittances” (FC1823/24, FO 371/121005, TNA, April 26, 1956), 4.

²⁴ Central Intelligence Agency, “National Intelligence Estimates 13-2-57: Communist China’s Power Potential Asia,” December 3, 1957, accessed March 15, 2022, <https://www.cia.gov/readingroom/document/cia-rdp61-00549r000100010014-9>

²⁵ *Ibid.*, 9.

²⁶ For examples on the details regarding the BOC’s activities engaging overseas Chinese, see

offered to overseas markets opened gates for various Chinese products, not only its traditional export of raw materials but also its manufactured goods. In April 1956, Japanese merchants in Hong Kong observed that “ships for Southeast Asia were loaded with China’s traditional exports, light industry products, and cotton textiles. Unexpectedly, many Chinese pieces of machinery and steel products are also transported via Hong Kong.”²⁷ For PRC leadership, the growing demand for Chinese manufacturing goods overseas was a clear sign of the progress achieved by a rapidly industrializing China. However, the success of the BOC in establishing an economic association with overseas Chinese was disturbing and perceived as a threat by local governments, which consequently sought to curb the influence of the BOC on local Chinese merchants through administrative measures. As Chapter III will show, the sense of unease among local governments prompted calls for the closure of BOC branches in many regions in Southeast Asia, eventually leading to the shutdown of all BOC branches in Malaya in 1959.

In addition to these efforts by overseas branches of the BOC, the MOFT also directly engaged

Gaimushō Ajia-kyoku dai ni ka, “Tōnan’ajia shokoku ni taisuru Chūkyō no ugoki (zaigai kōkan no hōkoku yōshi)” [Communist China’s Activities in Southeast Asian Countries (Summary of Reports from Embassies Overseas)], November 1955, Chūkyō no taigai seisaku kankei zasshū tai Ajia kankei chōsho, shiryō, A’.2.1.0.C (C) 1-1-1, DAMOFAJ; Joint Intelligence Bureau, Colonial Office, “Chinese Exports to South East Asia: Memorandum by the Joint Intelligence Bureau With Appendix by the Colonial Office” October 15, 1958, FC 1121/15, FO 371/133394, TNA, 4; Richard Whittington, “Increase in the Volume of Imports into Thailand of Certain Goods Manufactured in Communist China,” August 7, 1958, FC11340/3, FO 371/133402, TNA.

²⁷ Toyomasa Suzuki, “Saikin no Honkon jijō” [Recent Situations in Hong Kong], *Kaiun: Sōgō butsuryū jōhō kokorozashi* 343, no. 3 (April 1956): 39.

with overseas merchants and rewarded those who took the initiative to promote Chinese products. An excellent example of the MOFT's mode of action was seen in 1957, when the Shaw Brothers Company (formerly known as the Tianyi Film Company) attempted to organize a trade fair for Chinese products in the Great World Park in Singapore. After receiving the CRC's report on the fair, the MOFT quickly (on July 10th) instructed its subordinate branches to offer lucrative terms to the seventeen companies partaking in the fair, including a 10–20 percent discount on any purchase of Chinese goods and reduced advertisement expenses.²⁸ The MOFT also extended its promotion campaign to elsewhere in Southeast Asia: In Hong Kong, special funding was given to Chinese representatives to start a column in the *Ta Kung Pao* – the largest pro-Beijing newspaper in Hong Kong – to introduce Chinese merchandise.²⁹ In Indonesia, the pro-PRC media, those controlled by overseas Chinese and those influenced by the Communist Party of Indonesia (PKI), were also rewarded for promoting Chinese products.³⁰ Through the multilateral efforts of PRC

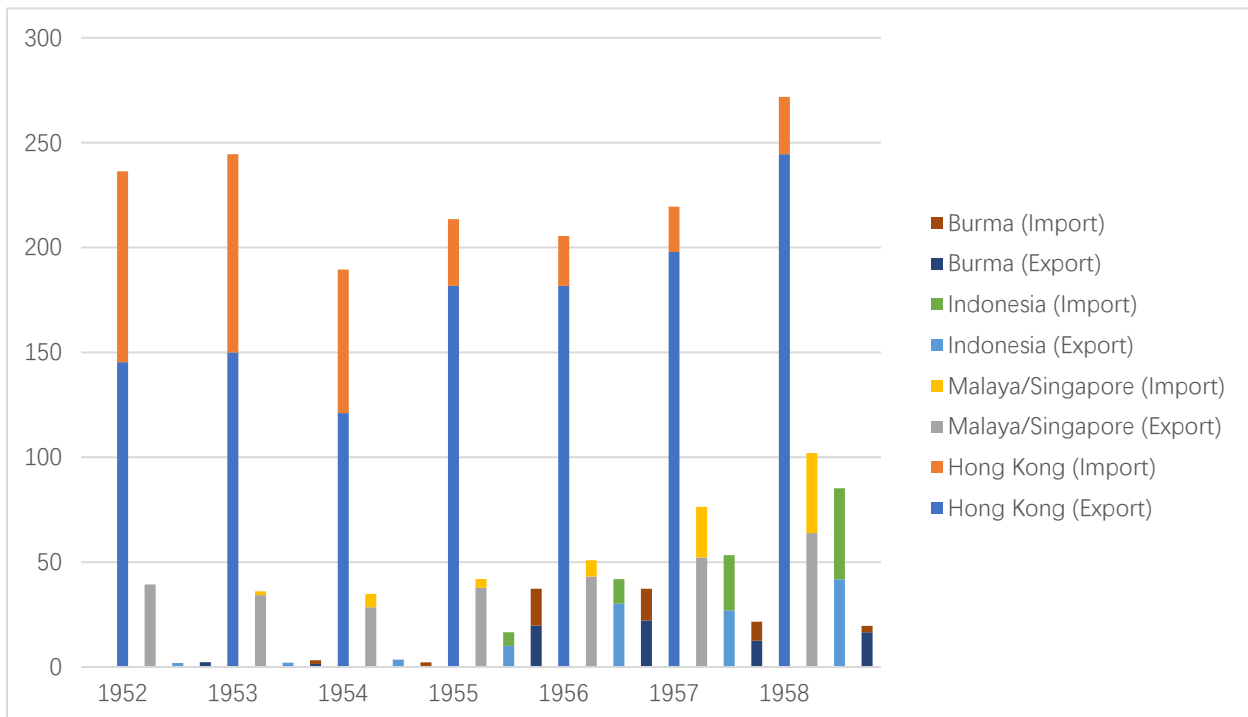
²⁸ Dui wai mao yi bu, “Guan yu Xin jia po qiao shang yao qiu wo zhi chi can jia da shi jie zhan lan hui wen ti” [On the Issue of Singaporean businessmen Demanding Our support on Their Participation in the Tua Seh Kai Exhibition], July 10, 1957, B230-2-298-16, SMA,

²⁹ “Guan yu Xiang gang da gong bao zeng pi ‘Zhong guo chu kou shang pin jie shao zhuan lan’ ji bian yin Guang zhou jiao yu hui xuan chuan hua ce de tong zhi” [Notice on the Hong Kong *Ta Kung Pao* to add “China's export commodities introduction column” and the Issue of Printing the Guangzhou Trade Fair Pamphlet], June 19, 1958, B230-2-463-67, SMA.

³⁰ Among the pro-PRC media in Indonesia, the most influential included the *Ta Kung Sheung Pao* in Surabaya, *Seng Hwo Pao*, and *Harian Xin Bao Indonesia* in Jakarta. For a list of pro-PRC Chinese newspapers in Indonesia, see Hua qiao wen ti yan jiu hui, *Ya Fei di qu hua qiao qing kuang jie shao*, 54.

traders in Hong Kong, overseas Chinese merchants across Southeast Asia, and the MOFT branches in Chinese port cities, China significantly buttressed its export to Southeast Asia between 1953 and 1957. As Figure 1.1 shows, Beijing was able to achieve a steady increase in its exports to Southeast Asia during this period, not only through Hong Kong but also directly with countries in this region, including Indonesia, Burma, and Malaya.

Figure 1.1. PRC Trade with Selected Southeast Asian Countries, 1952-1958. (Unit: One Million US Dollars).



Source: Data from Akatani Gen'ichi. "Kyōsan-ken shokoku no tei kaihatsu shokoku ni taisuru keizai shinshutsu" [The Economic Expansion of Communist Countries into Underdeveloped Countries], *Gaimushō chōsa geppō* 2, (May 1960): 135-136

In addition to economic technocrats in the MOFT, Beijing also relied on various overseas front

companies that it owned to communicate with overseas Chinese entrepreneurs. The most important was the CRC in Hong Kong. After the CPC's victory in 1949, the CRC served as the main – and after 1954, the only – agency managing PRC export activities through the window of Hong Kong.³¹ Due to its unique position, the CRC served as an essential node for trade and intelligence between Beijing and overseas Chinese in Southeast Asia. CRC representatives would approach Chinese merchants from Southeast Asia, vouch for their application for bank credit in Hong Kong, and mediate between overseas buyers and Chinese manufacturers. The role the CRC played was noted in a report by the Japanese Asia Association (*Ajia kyokai*), the semi-official research institute set up by the Japanese Ministry of Foreign Affairs (MOFA). As its 1957 report entails, China's trade network in Southeast Asia was built upon a web of connections between mainland producers and Chinese merchants overseas, and Hong Kong occupied a central position in this network:

Although, since August [1956] cargo ships [to Thailand] can be sent directly from mainland China, negotiations for such trade still happen in Hong Kong. Most of these trades are handled by Chinese ethnics living in Thailand, and most have relatives or corporate staff stationed in Hong Kong. Their representatives in Hong Kong trade through local intermediary compradors or directly with CPC-owned export companies.³²

In exchange for the benefits and convenience of imported Chinese goods, overseas merchants

³¹ In 1954, the CRC became the sole proxy for commodities exported from the mainland to Hong Kong. Through coordination with Beijing, the CRC signed agreements with export companies of each province, who would delegate the CRC the power to negotiate terms on their behalf. See Xuexian Wu and Hua Run You Xian Gong Si, "Hong Se Hua Run," *Bian Wei Hui*. *Hong Se Hua Run*. (Beijing: Zhonghua Shuju, 2010), 232–237.

³² *Ajia kyōkai, Tōnan'ajia oyobi Nihon no taikyōsan-ken bōeki no jittai* [Actual Situations of Japan's Trade with the Communist Bloc and Southeast Asia] (Tokyo: Ajia kyōkai, 1957), 15.

became important economic intelligence sources for Beijing. Information related to markets and prices that was gained from the interaction between CRC representatives and these merchants was then sent back to officials in the China National Sundries Export Company (CNSEC) and MOFT to help China's negotiation position with merchants from Western Europe and the Commonwealth circle. When British representatives from Jardine Matheson & Co., Ltd visited Beijing in October 1957 to negotiate the export of raw cotton to China, they were surprised that their Chinese counterparts were well informed of the market situation. As they later reported to British officials in Hong Kong, Chinese negotiators had tactfully employed their knowledge about the market and forced them to give up significant profit in the final contract.³³ Such advantages were inseparable from the network Beijing built and maintained through the mobilization of overseas Chinese merchants.

However, overseas Chinese merchants' economic associations with the mainland were not all smooth. The influx of Chinese goods also prompted complaints about the quality of mainland products among customers and importers. Merchants found that Chinese goods, especially light industry products, were of variable quality and not designed for local conditions. In 1956 and 1957, the CRC Import Office transferred filed complaints to the MOFT and the corresponding manufacturers.³⁴ These reports were often published in *The Foreign Trade (Dui wai mao yi)*, a

³³ Economic Survey Section, Hong Kong, "Confidential No.063/57/A.56, To P.C.F Dalton Esq., Far Eastern Department, Foreign Office," October 14, 1957, FC1122/22, FO 371/127322, TNA.

³⁴ For an example of complaints filed by overseas merchants against Chinese products, see Hua run gong si jin kou bu, "Fa wang Zhong guo yi qi jin kou gong si fan ying Tai qiao shang dui

journal circulating internally across MOFT branches and state-owned trading companies. The flaws in Chinese products were pronounced when compared to Japanese products, which came into Southeast Asian markets in large quantities. According to the CRC's report on the prospects for Chinese products in Southeast Asian markets in February 1956, Japanese products were the main obstacle to increasing market shares in the region, not only because of Japan's easier access to loans and credit but also because of "the often-superior qualities of Japanese products...their bleached cloth whiter, cotton thread thicker, and glass is less likely to crack."³⁵ The report states that Chinese products must be improved significantly to get the upper hand in the market.

The often-unsatisfactory quality of PRC-manufactured goods was not the only concern hampering Chinese exports. Uncertainty regarding transportation was another concern for businessmen importing from China. To the disappointment of Beijing's customers, goods from China seldom arrived on time, creating a considerable risk for trading companies with tight monetary reserves. According to the ROC Consulate in Bangkok, the chaotic supply situation and low-quality merchandise created many difficulties for overseas merchants dealing with imports from China. The chaotic supply situation in 1956 led to the bankruptcy of six trading companies, including the May-long (Meilong) Company, which specialized in importing Chinese sewing

shou ying ji yi jian" [To China Instrument Import Company: Thai-Chinese Merchants' Opinions on Radio], May 4, 1957, B230-2-447-25, SMA.

³⁵ Hua run gong si, "Guan yu Ri huo zai dong nan ya shi chang yu wo jing zheng deng qing kuang bao qing can kao" [Report for Reference: the Situation of Japanese Products Competing with Our Products in the Southeast Asian market], February 2, 1956, B6-2-378-12, SMA.

machines.³⁶

Both Chinese traders in Hong Kong and the MOFT leadership admitted to the chaos Chinese exports caused in overseas merchants' circles. In a report to the MOFT from the CRC in February 1956, these Chinese traders in Hong Kong concluded that "the most fundamental problem is to actively improve the quality of products, packaging, and sizes, and to cater to the needs of customers from different places."³⁷ In an internal meeting for the directors of provincial foreign trade bureaus in 1957, Ye Jizhuang admitted to the "severe flaw in our work," stating that customers had filed many complaints about the quality of Chinese goods and that there was a constant interruption in the supply for overseas markets.³⁸ Such awareness prompted some Chinese traders and bureaucrats to promote "optimization" in managing foreign trade, which later became a source of tension between seasoned traders in trading companies and those coming directly from other party branches.

³⁶ Shin'ichi Shibusawa, "Chūkyō no Tai-koku shintō no jittai ni kansuru Chūgoku taishikan-in-dan hōkoku no ken" [Report on Conversation with an Embassy Official of the Republic of China on the Actual Situation of Communist China's Infiltration in Thailand], January 8, 1957, A'.2.2.0.C(C)/TH1, DAMOFAJ, 307.

³⁷ Hua run gong si, "Guan yu Ri huo zai dong nan ya shi chang yu wo jing zheng deng qing kuang bao qing can kao," February 2, 1956 B6-2-378-12, SMA.

³⁸ Jizhuang Ye, "Ye Zhuang bu zhang zai wai mao ju zhang hui yi shang de zong jie jiang hua [ji lu gao]" [Minister Ye Jizhuang's Concluding Remarks at the National Meeting of Directors of Foreign Trade Bureaus (Transcriptive Records)], December 14, 1957, Repr. Zhongguo Shehui Kexue Yuan eds. 1958-1965 Zhonghua Renmin Gonghe Guo jing ji dang an zi liao xuan bian (hereafter cited as JJDAXB). (Beijing: Zhongguo cai jing jing ji chu ban she, 2011), 4-5.

The ongoing embargo imposed on China also exacerbated Beijing's transportation situation. As ships were forbidden from entering Chinese ports should they plan to carry or if they had already carried American aid materials, PRC traders found themselves lacking the means to haul merchandise back to China, even if they managed to reach deals with foreign sellers.³⁹ According to estimates submitted by the US Council on Foreign Economic Policy (CFEP) in 1956, such measures successfully raised shipping costs for Beijing and caused "significant delays in the delivery of industrial goods and consequent difficulties in procurement and planning."⁴⁰ The CIA estimated the loss affiliated with the PRC's transportation difficulties and the premium price it paid for otherwise normal imports to be two hundred million US dollars annually, half of China's budget for capital goods imports.⁴¹ Though PRC traders managed to partially circumvent the embargo by utilizing ships from Sweden, Finland, and Soviet Bloc countries, the transportation capacity was far from enough for China's booming manufacturing industries during the First Five-

³⁹ Dui wai mao yi bu yun shu ju, "Guan yu zai ji po di guo zhu yi [jin yun] dou zheng zhong wan cheng dui wai mao yi zu chuan ren wu de jing yan" [On the Experience of Successfully Completing the Task of Shipping Chartering in the Struggle to Break the Imperialist 'Embargo'], in the Ministry of Foreign Trade. *Dui wai mao yi xian jin jing yan* (Beijing: Zhong hua ren min gong he guo dui wai mao yi bu, August 1956), 258–259.

⁴⁰ US Council on Foreign Economic Policy, "CFEP 501/8: Multilateral Trade Controls against Communist China: US Position Supporting No Reduction," January 11, 1956, CFEP 501/8, CFEP Records, Dwight D. Eisenhower Presidential Library (hereafter cited as EPL), Kansas.

⁴¹ Central Intelligence Agency, "National Intelligence Estimate Number 100-55: Controls on Trade with Communist China," January 11, 1955, USDDO, accessed 1 Apr. 2021, link.gale.com/apps/doc/CK2349684702/USDD?u=camb55135&sid=USDD&xid=3134e3f7&pg=1.

Year Plan.

However, the embargo also led to an unexpected outcome: it brought some overseas Chinese merchants closer to Beijing. The limits put on Western ships entering Chinese ports reduced supply in the shipping market, thus creating an opportunity for those overseas Chinese shippers who were able to provide Beijing with the transportation capacity it so desperately needed. In November 1956, the Overseas Chinese Affairs Committee (OCAC) in Guangdong Province reached out to Wufu (Wofu), Shunchang, and Jieshun (Jebhun) – three major shipping companies owned by overseas Chinese – and agreed to provide preferential terms for shipping service between Chinese and Southeast Asian ports. The MOFT agreed to prioritize these shipping companies when the need for transportation emerged and to offer more lucrative contracts.⁴² The Ministry of Transportation later recognized this arrangement. In a directory provided to its subordinate bureaus, the Ministry of Transportation reminded provincial directors of the importance of Chinese shippers in carrying out export to Southeast Asia:

Among the many Chinese-owned shipping companies, the five largest are Wufu, Shunchang, Jieshun, Nanyang, and Da’nan. They owned 44 ships, most of which regularly sailed between Southeast Asian countries....Since we have yet to establish our transportation fleet, this force must not be ignored. We must make full use of shipping capacities owned by overseas Chinese to fulfill our need for trade with Southeast Asia.⁴³

The preferential terms also provided the MOFT with a way to intervene and even partake in the

⁴² Ibid., 2–3.

⁴³ Zhong hua ren min gong he guo jiao tong bu, “Guan yu hua qiao chuan bo wen ti de yi jian” [Opinions on Shipping Vehicles Owned by Overseas Chinese], February 5, 1957, B170-2-507, SMA, 1.

actual management of these companies. In their meeting with the OCAC, the three companies agreed to reduce competition by consulting with each other before instituting any significant changes in contracts with Beijing. They would also consult the People's Navigation Company (PENAVICO), China's state-owned company for international shipping, to distribute trade routes and cargos among themselves.⁴⁴ In addition, to ensure that these shipping companies would not suffer losses from not being able to contract American goods after shipping to Beijing, a form of "lease-out" clause was often included in the contracts, stating that the shipping companies would receive additional compensation for allowing PENAVICO repurpose contracted ships used on China lines to carry out Beijing's transportation missions elsewhere.⁴⁵ Such arrangements arguably empowered Chinese administrators' influence in the community of overseas Chinese merchants.

In addition to direct bargaining, another way that PRC traders could sway Chinese shippers was through the CPC's influence in the labor unions in Hong Kong, especially the Hong Kong Seamen's Union. According to a British intelligence report submitted to the British Foreign Office in December 1956, the Seamen's Union, heavily influenced by the CPC, was the single largest union in the colony, with a recorded membership of 19,720. The intelligence also stated that

⁴⁴ Ibid., 2.

⁴⁵ The Ministry of Transportation adopted this practice in 1953, when the United States barred ships that either would carry or had carried American goods from entering Chinese ports. See Dui wai mao yi bu yun shu ju, "Guan yu zai ji po di guo zhu yi [jin yun] dou zheng zhong wan cheng dui wai mao yi zu chuan ren wu de jing yan," 258.

Beijing possessed considerable influence in the Federation of Trade Unions, with affiliated unions “in the most [sic] of the essential services” in Hong Kong.⁴⁶ These unions were largely responsive to the CPC’s mobilization; for instance, in 1958, the Seamen’s Union answered the call to boycott Japanese products and refused to serve on cargo ships owned by Japanese shipping companies. Since overseas Chinese shipping companies often recruited a significant number of their crew and navigators in Hong Kong, they could not ignore the CPC’s influence in these trade unions and had to seek its support for business operations.

Indeed, potential commercial interests were another motivation for Chinese shipping companies to ally themselves with Beijing. These Chinese merchants had seen the potential in Beijing’s attempt to expand influence among overseas Chinese merchants and used it to boost their economic status in the local merchants’ circles where they operated. In practice, the PENAVICO had given these shipping companies an almost complete monopoly in their preferred areas by making them the so-called “designated shipping companies” for exporting to or importing from the mainland. For instance, Chen Zhenjing’s Wufu Shipping Company became the designated shipping provider for cargo between China and Thailand.⁴⁷ This made the Chinese shippers’

⁴⁶ Local Intelligence Committee (L.I.C), Hong Kong, “L. I. C. (H.K.) 3/56: The Vulnerability of Hong Kong to Non-Military Aggression,” December 1956, ISD 105/68/02, CO 10357/78, HKGRS No. 183-1, Hong Kong Government Records Service (hereafter cited as HKGRS), Hong Kong.

⁴⁷ Shin’ichi Shibusawa, “Tai-koku no Taichu rimenkōsaku ni kansuru ken” [On Thailand’s Backchanneling Work with Communist China], January 10, 1956, A’.2.2.0.C(C)/TH1, DAMOFAJ, 311.

businesses lucrative since they can maximize the value of their cargo ships from monopoly. As Japanese shipping companies observed in 1958, PRC trading companies had become skilled in “regulating” (*tōsei*) the activism of their Chinese peers and other Chinese merchants and were able to manipulate them to advance Beijing’s economic interest.⁴⁸

In exchange for monopolistic status, these companies would sometimes collaborate with local Chinese merchants and help PRC traders acquire goods in spite of the US-imposed embargo. According to a report sent by Shibusawa Shin’ichi, the Japanese ambassador in Thailand, a prominent Chinese merchant in Thailand named Wang Muneng had brokered a deal with General Phao Siyanon regarding the export of tobacco leaf imported from the United States. Moreover, it was the Wufu Company that helped transport those 1.6 million kilograms of tobacco to Chinese ports, even though the United States had banned the export of US aid goods to China.⁴⁹ Such channels for banned goods to China existed in nearly all countries in the region and were hard to trace after reaching entrepôts and being relabeled under different registrations.

Beijing also attempted to win Chinese merchants’ support by encouraging Southeast Asian manufacturers to use Chinese equipment, often by offering technical assistance to both governments and individual entrepreneurs. Since 1954, Liao had been advocating for overseas

⁴⁸ “Tozetsu jōtai to natte iru nitchū bōeki to kaiun” [Sino-Japanese Trade and Shipping at the Time of Dereliction (Roundtable Discussion)], *Kaiun: Sōgō butsuryū jōhō kokorozashi* 374, no. 11 (November 1958): 20.

⁴⁹ *Ibid.*, 311–312

Chinese merchants to invest in manufacturing industries and become industrial entrepreneurs. In his opinion, the “commercial capital” (*Shang ye zi ben*) owned by overseas Chinese would cause friction with the national capital owned by locals, and the only way to alleviate hostility from the locals would be to retreat from commercial activities and engage in industrial production.

Liao’s argument received support from Zhou Enlai. In his report to the 8th National Congress of the Chinese Communist Party in 1956, Liao made his arguments clear:

Admittedly, as the colonial economy in these [Southeast Asian] countries collapses, and the national capital develops, there will be a conflict between the overseas Chinese capital and the national capital....Nevertheless, this conflict is reconcilable when we encourage Chinese capital to work together with the national capital and develop enterprises that contribute to people’s livelihood there....Overseas Chinese in Southeast Asia should work with our policy. If overseas Chinese capital can invest in local industries in a gradual, steady, and organized manner, it will not only reduce the negative influence of Chinese commercial capital in their respective national economies but also become a positive factor and make local economies prosper....We are ready to encourage overseas Chinese to unite and work in this direction.⁵⁰

While Liao admitted in the same report that such work had encountered “imperialists’ sabotage,” he maintained an optimistic tone and argued that overseas Chinese would understand and cooperate.⁵¹ With Zhou’s support, Liao further developed his theory and proposed that the PRC should support overseas Chinese in their “transition to manufacturing” by incorporating their products into China’s national economy. “If necessary, we should include their factories in the domestic economic plan. Moreover, to compete with imperialists, we should connect [their

⁵⁰ Chengzhi Liao, “Zai Zhong Guo Gong Chan Dang di ba ci quan guo dai biao da hui shang de fa yan” [Speech at the Eighth National Congress of the Communist Party of China], in *Liao Chengzhi wen ji*, ed. Chengzhi Liao (Beijing: Ren min chu ban she, 1990), 307–308.

⁵¹ *Ibid.*, 308.

manufacturing business] to our production and consumption chain and solve difficulties through one supporting the other.”⁵²

Liao’s theory was accepted by the CPC Central Committee (CCCPC) and practiced on both political and commercial fronts by Chinese representatives overseas. From 1956 to 1959, China attempted to convince Chinese entrepreneurs overseas to purchase Chinese equipment in their factories, thus incorporating them into the PRC’s production and supply chains. For instance, Yu Huazhen, an Indonesian-Chinese entrepreneur, signed a contract with the Shanghai Bureau of Textile Industry in 1956. The contract included a deal for Yu’s Yuanhe (Yuen-Ho) Company to purchase forty-six weaving and steaming machines for his shirt factory in Surabaya, and it stipulated that he would invite Chinese technicians over to set up the machines according to the factory design Shanghai offered.⁵³ However, Yu’s company could not pay the agreed fees and travel expenses for the four technicians sent from Shanghai. This led to some internal disappointment, but to “not force the impossible on others, and to prevent bringing [negative] influence on our overseas relations,” the China National Machinery Import Corporation (CMC)

⁵² Chengzhi Liao, “Zai Zhong guo Gong Chan Dang ba jie san zhong quan hui shang de fa yan” [Speech at the Third Plenary Session of the Eighth Central Committee of the Communist Party of China], in *Liao Chengzhi wen ji*, ed. Chengzhi Liao (Beijing: Ren min chu ban she, 1990), 320.

⁵³ China Export and Import Companies, Shanghai Branch, “Qing pai chu guo ji shu ren yuan you,” [The Appeal to Send Technical Personnel Abroad], February 11, 1957, SMA, B230-2-243-1.

eventually covered the expenses by spending precious foreign exchange reserves.⁵⁴

A similar situation occurred to Chinese technicians sent to Rangoon, Burma, in 1958 to set up a soap factory. When the two technicians complained to the Chinese Consulate that the pension paid by the local Chinese company was less than the agreed-upon amount, they were instructed to address the issue internally and not to bring the complaint to their employer.⁵⁵ As these two cases illustrate, tension remained between overseas Chinese entrepreneurs and PRC trading companies, even when they attempted to work together. As Liao explained, the overseas merchants capable of investing in industry were considered to be “big capitalists in overseas Chinese communities.” Most overseas Chinese merchants continued to engage in commercial activities—rather than invest in industry—due to a lack of capital and opportunities. The situation would improve, Liao argued, when large-scale industrialization took place in the national economies of these societies and CPC traders would no longer need to rely on big capitalists.⁵⁶ However, Liao’s optimism met opposition from within the ranks of CPC. From 1957 to 1959, Chinese foreign trade representatives faced criticism for their lack of “revolutionary spirit” and overemphasis on

⁵⁴ China National Transportation Machinery Import Company, “Wei pai ji gong qu Yin ni an zhuang zhen zhi ji shi,” [On Sending Technicians to Indonesia to Install Knitting Machines], September 7, 1957, B230-2-243-25, SMA.

⁵⁵ Chinese Embassy in Myanmar, Commercial Counselors’ Office, “Fu Mian ji shu ren yuan de dai yu wen ti” [On the Treatment of Technicians Going to Myanmar], July 2, 1958, SMA, B230-2-266-127.

⁵⁶ Liao, “Zai Zhon guo Gong Chan Dang ba jie san zhong quan hui shang de fa yan,” 319.

economic rather than political considerations. The call for them to be “both red and professional” (*you hong you zhuan*) further complicated their relationships with overseas Chinese merchants, who were then considered “capitalist elements” in the official ideology.

The “Red-and-Professional” Debate and China’s Foreign Trade on the Eve of the Great Leap Forward, 1957–1959

Naturally, the maintenance of the complex trading network between China and Southeast Asia would require a significant level of professionalism on the part of traders, who mostly came from non-communist backgrounds. Since 1949, the MOFT and its subordinate bureaus had faced a staff shortage caused by a lack of professional traders within the party. Consequently, to keep such a complex system running, CPC decision-makers had to rely on retaining professional traders – namely those formerly in the Nationalist government and the private trading companies – for their knowledge and experience. These employees mostly came from major port cities, including Shanghai, Guangzhou, Tianjin, and Qingdao, and they occupied administrative positions in customs, local foreign trade bureaus, and various trading companies taken by the CPC after 1949.⁵⁷

While these so-called “retained workers” (*liu yong ren yuan*) could maintain China’s international trade by providing the knowledge it required, their understanding of international trade differed

⁵⁷ Although Dalian was also a major port city for foreign trade, it had a much smaller percentage of retained workers than the other four cities listed above. This is attributed to the Soviet occupation after 1945 and the CPC’s de facto rule of the city during the Chinese Civil War. See Bohao Wu, “Keep Your Friends Close, and Enemies Closer: City Administration and Power Struggles in Occupied Dalian, 1945–1949,” *The Journal of Cold War Studies* (forthcoming).

from that of cadre traders from the party organization. This led to internal disagreements within the PRC trading companies between those advocating for the normalization of international trade and hardliners emphasizing the need for trade to serve revolutionary ends.

The reliance on retained workers and former Nationalist bureaucrats became even more pronounced after the First Five-Year Plan in 1953, as retail and foreign trade businesses were nationalized in this process and formerly private employees were brought into state-owned companies. According to a report by the Finance and Trade Department of the Central Committee of the Chinese Communist Party, by 1958, 56 percent of the employees in foreign trading companies in Shanghai, Tianjin, Guangzhou, and Qingdao were retainers, and staff of “capitalist origin” constituted another 10 percent. In addition, 15 percent of the managerial staff were deemed politically unreliable.⁵⁸ Communist cadres and new recruits only constituted a small percentage of these companies and were excluded from offices that directly controlled trade affairs.⁵⁹

The lack of politically reliable bureaucrats in the department raised concerns within the MOFT leadership that, without enough cadres in essential positions, retained technocrats would simply carry out the work by following their previous experience rather than directions from the party. In

⁵⁸ The categories for politically unreliable persons, as defined by this report, include anti-revolutionaries, rightists, bad elements (*huai fen zi*), espionage-suspicion, those who had made severe political mistakes, and those with complicated connections overseas.

⁵⁹ “Zhong yang pi zhuan zhong yang cai mao gong zuo bu Guan yu zheng dun he jia qiang kou an dui wai mao yi gan bu de bao gao” [The Report of the Central Ministry of Finance and Trade on the Rectification and Strengthening of foreign Trade Cadres at Port Cities, Commented and Forwarded by the Central Committee], October 30, 1959, JJDAXB, 57-59.

May 1958, the Party Unit (dang zu) in the MOFT called for a meeting of senior party members within the Ministry, and they reached a consensus that there was an urgent need to raise the “political awareness” of bureaucrats within the department. “The leadership of Party in the department must be ‘seventy-percent politics, thirty-percent business,’” the Party Unit resolution states, “and leadership at bureau-level and company-level must spend at least 50 percent of their time discussing political matters...In all works, we must use the political principle to inform the actual business, and the political calculation must be placed before economic calculation.”⁶⁰

Rather paradoxically, the meeting also emphasized the economic incentives related to conducting foreign trade. To serve the need for industrial development, it was decided that China “must actively promote the production of goods designated for export, conserve domestic consumption, and procure enough goods for export use.”⁶¹ Naturally, the emphasis on both political and economic considerations caused much confusion for retained workers in the department, as technocrats and traders faced a form of “double-burden” in their works. As a result, when the demand for foreign trade to generate more revenue for the Great Leap Forward Movement became more pressing in mid-1958, traders in the MOFT had to adopt more pragmatic

⁶⁰ Dui wai mao yi bu, “Dui wai mao yi bu dang zu guan yu dang zu hui yi tao lun jin hou dui wai mao yi fa zhan qu shi, ren wu, fang zhen zheng ce he zhong cao cuo shi de bao gao” [Report from the Party Group of the Ministry of Foreign Trade: On the Party Group’s Meeting to Discuss the Trends, Objectives, Guidelines, Policies and Measures in Foreign Trade], May 11, 1958, File No. Z9-855-4, Zhong gong Zhong yang ban gong ting, Zhong gong Zhong yang wen jianhui ji, Beijing.

⁶¹ Ibid.

approaches and knowingly act against political principles to meet their quotas.

However, the CPC leadership put this practice to an abrupt stop. In August 1958, the CCCPC openly expressed concerns about what it believed to be the “capitalist tendency of unregulated competition” in foreign trade and blamed it for damaging China’s political prestige in the international theatre:

There was some confusion in our foreign trade in the last few months. In trade with capitalist countries, some institutes at the port cities ran against the rule and competed against each other for market and clients. To compete, they lowered the export price, raised the import price, and invited foreign traders to China without discretion. Some places even signed contracts with foreign clients privately...The nature of this problem is the capitalist tendency towards unregulated competition. This has cost us financially and afflicted an unfavorable influence on us politically.⁶²

In the same resolution, the CCCPC demanded that technocrats in the MOFT be “both red and professional,” and that they “raise political awareness...and enforce the state’s foreign policy most strictly.”⁶³ This effectively acted as a warning sign for PRC traders in the MOFT and its subordinate company branches. In both domestic and international affairs, traders who advocated for the normalization of trade practices would find little support from leadership and were forced to conduct trade on political rather than economic principles.

In addition to the “Red-Or-Professional” dilemma, another challenge for PRC traders was the demand for differential policies for different countries. In a meeting for the provincial bureau heads

⁶² Zhong guo gong chan dang zhong yang wei yuan hui, “Zhong gong zhong yang guan yu dui wai mao yi bi xu tong yi de jue ding” [On the Decision of Unifying Conducts in Foreign Trade, from the Central Committee of the Communist Party of China], August 1958, JJDAXB, 42.

⁶³ Ibid., 43.

of foreign trade on July 19, 1958, Ye Jizhuang instructed his subordinates to follow different sets of principles for given countries and informed them that it was necessary to “keep the trade fair and mutually beneficial, and when necessary, offer advantageous terms” when dealing with nationalist states.⁶⁴ This approach ought to differ, Ye explained, from that of Western capitalist states and “should be conducted only when it is economically and politically advantageous for our state.”⁶⁵ According to this principle, Chinese products should only compete with products from certain states and avoid competition with others, even when both products appeared in the same market.

In practice, this principle was hard to maintain. Many “friendly nationalist countries,” as deemed by the CPC leadership, were major competitors for China’s exports in regional and international markets. This was obvious regarding cotton textiles, China’s most lucrative item for export in the 1950s. Starting in the latter half of that decade, countries including India, Pakistan, Syria, and Egypt became competitive manufacturers of cotton products and began to supply the Southeast Asian markets. Consequently, beginning in 1956, China engaged in fierce competition with India to export cotton cloth to Southeast Asian and East African markets. When T.H. Booth, a representative of the United Africa Company, visited Shanghai Textiles Export Corporation to

⁶⁴ Jizhuang Ye, “Ye Jizhuang bu zhang zai quan guo dui wai mao yi ju zhang hui yi shang de jie lun” [Minister Ye Jizhuang’s Conclusion at the National Meeting of Directors of Foreign Trade Bureaus], July 19, 1958, JJDAXB 20–21.

⁶⁵ *Ibid.*, 20.

negotiate a contract for gray cloth for Southeast Asian and East African markets, he told the Chinese delegate that due to production cost and the supply of raw cotton, Chinese products had lost a significant percentage of market share to Indian counterparts for clothes below 20 yarn counts, and China only maintained advantages in gray and bleached shirting in these markets.⁶⁶ The Shanghai Textile Company then suggested in its report to treat competition from India more seriously and arrange a technicians' group to keep Chinese products competitive against their Indian counterparts.⁶⁷ This targeted competition with Indian products was a commercial success. By 1958, PRC traders had managed to expand the market share of Chinese cotton cloth in Southeast Asian markets – Malaya, Hong Kong, and Singapore, in particular – at the expense of Indian products.⁶⁸

However, instead of receiving commendation, the competition with Indian products was criticized as a sign of “the still weak political awareness” in foreign trade management. In the Shanghai Textile Company annual report, competition with Indian cotton products was regarded as a failure to show support for the country’s decolonization struggle to reclaim Goa, and the

⁶⁶ Zhong guo za pin chu kou gong si, Shanghai fang zhi pin chu kou gong si, “Guan yu jie dai san ge wai guo shang ren tan pan mian bu jiao yi de bao gao” [Report on the Reception and Negotiation with Three Foreign Merchants regarding Cotton Cloth Trade], June 24, 1957, B6-2-340-11, SMA.

⁶⁷ Ibid.

⁶⁸ Shanghai fang zhi pin chu kou gong si, “1958-nian sha bu dui zi chu kou zong jie ji 1959-nian jing yin fang an” [Summary of Cotton Fiber and Cloth Exports to Capitalist Countries in 1958 and Business Plan for 1959], December 10, 1958, B134-6-58-1, SMA, 4.

corporation blamed itself for the undifferentiated competition with Japanese products, which inflicted damage on friendly nationalist countries, including India.⁶⁹ It is necessary, the report suggests, “to avoid running into Indian products and to take care of the export of nationalist countries” in the 1959 plan.⁷⁰ In this sense, the cotton cloth trade provides insight into the tension between the revolutionary principle and the pragmatic practices of front-line traders. While it remained relatively suppressed due to the economic difficulties of the Great Leap Forward, this tension remained. It would resurface in the mid-1960s, when the intensified political situation – both domestic and international – challenged the policy for economic recovery in the aftermath of the Great Leap Forward Movement.

Conclusion

Despite the tension between political gains and economic incentives in conducting foreign trade, PRC traders still managed to establish and maintain a complex, functional trading network in Southeast Asia. With the help of overseas Chinese merchants, local compradors, and international traders, the PRC in the 1950s was able to maintain a significant export to Southeast Asia and, in some cases, used the influence and prestige generated in this process to achieve its political goals in the region.

⁶⁹ Ibid., 19.

⁷⁰ Ibid., 16.

In addition, Beijing's attempt to expand economic influence in Southeast Asia not only created an economic alternative for China to its reliance on the socialist bloc. It also prompted mixed responses from regional governments and economic initiatives, leading to an overhaul to the economic order in Asia. In Burma, Indonesia, Malaya, and Philippines, nativization policies effectively ended the economic dominance overseas Chinese merchants enjoyed in specific industries and local trades, driving them to act as Beijing's proxies in their countries of residence. In this process, the trading network Southeast Asia and mainland China, which had been maintained by private initiatives comprising of compradors at entrepots, western trading companies, and local Chinese vendors in the prewar period, face increasing intervention from the political world necessitated by governments' pursuit of economic nationalism and geopolitical agendas in the Cold War. For Beijing, the diplomatic successes in Geneva and Bandung had enhanced its economic attraction to overseas Chinese, while the economic ties forged also helped it exert influence in the region, and strengthen its diplomatic position. For local governments, the ties between overseas Chinese and mainland China not only endangered their efforts to aggrandize indigenous economic power, but also fostered skepticism towards Beijing's economic dominance in the region. In the late 1950s, China's ambition for Southeast Asia was challenged by the coalition between Tokyo, Washington, and Taipei, which worked with some local governments to sever ties between Beijing and Chinese merchants, causing diplomatic upheavals in the late 1950s.

Interestingly, overseas Chinese merchants nevertheless navigated these turbulent waters and even managed to profit from the situation. The overseas Chinese took the initiative to deal with

the governments, and even pressured governments to act on their terms. As Beijing needed their assistance for economic expansion in Southeast Asia, these merchants were able to bargain and secure preferential terms for trade. As this chapter has shown, some Chinese merchants even used their relations with the government in Beijing to advance their economic interests and buttress their status in the local communities. In this way, overseas Chinese were more than just puppets in governments' powerplay but knowledgeable players in the economic cold war.

Chapter II: Under Washington’s Shadow: External Factors in the Shift of Japan’s Economic Initiative in Southeast Asia: 1950–1955

Beijing was not the only party that expanded its economic influence in Southeast Asia in the 1950s. With support from Washington, Japan was orchestrating a return to the region as it gradually recovered from postwar devastations. As the confrontation between Moscow and Washington intensified in late 1948 and became increasingly global, the American technocrats in Japan became more motivated to facilitate the country’s recovery. George Kennan, the leading strategist for the containment policy, favored Japan’s speedy recovery, as he considered the country the frontline of containment against the Communist Bloc and hoped to prevent it from developing a “neutralist” agenda.¹ This goal required both political and economic input. Since Japan could not – and should not, according to Washington – rely on its traditional economic ties to mainland China, it had to exploit the economic potential of Southeast Asia as both a market and a source of raw materials.² As Kennan envisioned, facilitating Japan’s economic recovery would, in turn, help the United States ease its financial commitment to Japan and let Tokyo play an auxiliary role in its

¹ For the various policy considerations developed under the “Kennan Restoration” and Washington’s plan to revive Japan’s economic association with Southeast Asia, see Bruce Cumings, “Japan’s Position in the World System,” in *Postwar Japan as History*, ed. Andrew Gordon (Berkeley: University of California Press, 1993), 34–63.

² Hideki Suga, “Amerika no reisen seisaku to 1950-nendai Ajia ni okeru chiiki kyōryoku no mosaku,” in *Koronbo puran: Sengo Ajia kokusai chitsujo no keisei* [The Colombo Plan and the International Order in Asia after World War II], ed. Shoichi Watanabe (Tokyo: Hōseidaigaku shuppan-kyoku, 2014), 226.

containment strategy against the Communist Bloc.

However, Washington's blueprint faced various challenges, especially within the region. Since hostility toward Japan – both from European colonial authorities and from locals who remembered Japan's wartime atrocities – remained deeply rooted in the region, Washington wondered whether its support for Japan's return to a position of influence should be discreet. In the same policy paper, the United States National Security Council (USNSC) recommended that due to the momentum gained in the decolonization movement and the increasing nationalist nature of new regimes in the region, Washington should offer only indirect support for Japan's economic expansion in Southeast Asia: The United States “should not appear as a sponsor or advocate of Japan as against any of the other free nations. The United States should resist any design by Japan to serve as a broker between the United States and Asia or to restrict the United States' position in Asia.”³ However, as Chapter III will show, Washington's dilemma became even more complicated after 1954, when the rapid expansion of Chinese influence in the region in the wake of the Geneva Peace Talk and Bandung Conference necessitated more active responses from Washington, while Japan's increasing interest in developing an independent diplomatic agenda in the region prompted skepticism toward the Washington-Tokyo coalition.

Nevertheless, the indirect support that the United States offered in the early 1950s shaped the landscape of Japan's trade with Southeast Asia. During this period, Japanese products were made

³ Ibid.

competitive through raw materials and dollar credits offered by the US government, which led to the rapid expansion of Japan's market share in Southeast Asia during the early 1950s. This pattern is best exemplified by cotton textile products, a significant Japanese export to the region. According to a report by the Japanese Spinners Association (JSA, Nihon bōseki kyōkai), from 1946 to March 1950, Japan imported approximately 580.5 billion metric tons of raw cotton from abroad, of which 473 billion tons, or 81.4 percent, came from the United States.⁴ The cheap raw cotton from the United States not only enabled Japan to provide inexpensive cotton textiles in the international market but also further reduced import costs by forcing exporters of raw material to lower their prices to match American offers.⁵

Indeed, Washington's support for Japan's commercial expansion into Southeast Asia was not well received by some of its allies, especially Britain. For both the British government and the country's industrialists, the danger of a Washington-Tokyo coalition was not only in the economic

⁴ Nihon bōseki kyōkai. "Nihon menbōseki-gyō no genjō ni tsuite" [The Current State of the Japanese Cotton Spinning Industry], *Nihon bōseki geppō* 41 (June, 1950): 22.

⁵ However, the fact that Japan could reduce raw material prices through American supply hurt local economies in Southeast and South Asia, exacerbating their already tight foreign reserve situation. For instance, Pakistan was forced to sell its raw cotton at a reduced price to Japan in 1952 due to American competition. This became a propaganda tool for Chinese traders in the region, who noted this pattern and attributed the worsening trade balance of Southeast Asian countries regarding tin, raw cotton, rice, and rubber to the dumping practices of "Japanese and American imperialists." See Treasury Chambers, British, "Sterling Area Payment Relation with Japan," July 7, 1952, FJ 1122/39, FO 371/99434, TNA, 6; China Council for the Promotion of International Trade (CCPIT), *Guo ji jing ji guan xi zi liao di 7 hao: jin yun wen ti* [Information on International Economic Relations No. 7: Embargo Issues] (Beijing: Zhong guo guo ji mao yi cu jin wei yuan hui ya jiu shi, 1957), 28–33.

advantages Japanese industries gained from SCAP and Washington but also in the uncertainties caused by the fact that London would not be consulted on Tokyo-Washington's decisions, even when they were directly related to British interests in the region. In July 1951, SCAP sent a joint economic mission to Southeast Asia. Both US and Japanese officials were charged with preparing policy recommendations that would assist Japan in exploiting the market and raw materials in Southeast Asia.⁶ However, the British diplomatic post in Japan was not officially notified of the decision or the details of this trip before its departure.⁷ Since the trip would include British Overseas Territories, SCAP's decision not to consult the British beforehand enraged them. In response, Alexander Grantham, the governor of Hong Kong, asked permission to deny entrance to Japanese personnel on the mission to Hong Kong. "Here, the present time is not opportune for such a Mission because of widespread concern in trading circles over probable Japanese competition in the near future," Grantham wrote. "Such competition must tend to further deterioration of the already serious unemployment problem, and Communist press may well take this up on the arrival of the Mission."⁸ Eventually, Grantham's suggestion prevailed, and the SCAP officers had to enter Hong Kong without the Japanese members.

⁶ United Kingdom Liaison Mission in Japan, "Telegram No. 811: Economic Mission to South East Asia," July 6, 1951, HKRS No.163, D-S No.1-1430, HKGRS.

⁷ United Kingdom Liaison Mission in Japan, "Telegram No. 236 'E' (EA 1/125/51)," July 10, 1951, FJ1127/2, FO 371/92642, TNA.

⁸ Alexander Grantham, "Telegram 199, From Governor, Hong Kong, To Con. Gen. Singapore. 213," July 20, 1951, HKRS No.163, D-S No.1-1430, HKGRS.

This diplomatic incident in 1951 offers a glance at the economic tension between Britain and Japan – backed by the United States – in Southeast Asia in the immediate postwar decade. The economic challenge from Japan significantly impacted both corporate and governmental sectors in the United Kingdom. British industrialists struggled against fierce competition from Japanese products in the Commonwealth market, primarily due to the credit and cheap raw materials their Japanese counterparts could receive from the United States.⁹ Technocrats in the Treasury and the Board of Trade, on the other hand, warned that the trade deficit caused by increasing Japanese exports to the Sterling area could deplete British resources that would need to be used to maintain the value of its currency.¹⁰ The impact was especially grave for the reviving cotton spinning industry in the United Kingdom. According to a report submitted by the Board of Trade to Parliament in 1950, cotton cloth from Japan was not only the most-imported commodity in British colonies but also had become a significant import for the British Isles, as the textile industry needed Japanese gray clothes due to an insufficient supply of domestic products.¹¹ What was more

⁹ The British side attributed its trade deficit with Japan to American aid and credit sales, which enabled Japan to import freely manufactured goods from the United States instead of the Sterling area. This rendered the Sterling area a cheap source of raw materials and a market of manufactured goods for Japan. See The Economist Newspaper Limited, “Foreign Report: Too Much Japanese Sterling,” May 8, 1952, FJ 1122/38, FO 371/99434, TNA, 212.

¹⁰ Treasury Chambers, United Kingdom, “Review of the Sterling Area Payment Agreement with Japan,” January 23, 1952, FJ 1122/8, FO 371/99434, TNA.

¹¹ Board of Trade, Parliamentary Branch, “Japanese Threat to the Cotton Industry,” April 6, 1950, FJ 1331/20, FO 371/83898, TNA, 147. For a more detailed introduction to the British struggle to maintain sterling value and Japan’s role in it, see Noriko Yokoi, *Japan’s Postwar Economic Recovery and Anglo-Japanese Relations, 1948-62* (London: Routledge Curzon, 2003),

worrying for British industrialists, the report continues, was that should the British stop importing gray cloth from Japan for processing, the supply for colonial markets would be insufficient, and the colonies in Southeast Asia would “otherwise have to obtain the finished cloth by direct shipment from Japan.”¹² In other words, the British industry had developed a dependency on Japanese products that it could not easily replace.

Admittedly, the British industrialists attempted to address the situation by reaching out to their American counterparts for help. To reconcile with Japan, Raymond Streat, President of the British Cotton Board, led a joint delegation of representatives from the British and US cotton industries to visit Tokyo in April 1950. The goal of the visit, according to the British, was to limit the competition to a controllable level through “(a) the division of markets, (b) agreement to confine production to certain types, and (c) agreement to sell Japanese goods at no more than a given percentage below the price of comparable [sic] the United Kingdom/United States types.”¹³ However, compared to the concerned and fervent British delegates, the American members of the mission and the economic bureaucrats at SCAP showed little interest in pressing the British agenda. Streat complained secretly to Dening about “the hesitancy of the United States delegation to take any definite action” and thought British interests would be better served if they ceased “working

83–88.

¹² Ibid., 146.

¹³ Frank Stanley Tomlinson, “Anglo-American Cotton Textile Mission to Japan,” April 28, 1950, FJ1331/25, FO 371/83898, TNA, 162.

so closely with United States' interests."¹⁴ With the Americans and British at odds, Japanese cotton industrialists took a strong stance in the negotiation: the Japanese cotton spinners rejected any form of restriction and the demand to divide the markets, citing Japan's right to export cotton products as "Japanese citizens' right to survive."¹⁵ The weeklong conference did not reach any concrete agreement, and the only result the British delegation received was a call for "mutual understanding" in the joint communique. The British delegation later expressed frustration in a secret memorandum sent out to the Board of Trade, in which British delegates identified the primary external factor for Japan's inevitable expansion in Southeast Asia as Washington's backing, which was based on its geopolitical interest:

Defence against communism is of course an over-riding consideration in American policy. This might lead to encouragement of Japanese production to supply the needs of certain nations amongst whom want and poverty might otherwise foster communism... The Japanese Cotton Industry, moreover, is a customer for American raw cotton...so that it is doubly certain that America will not agree to severe restrictions for the protection of Britain's textile export trade being imposed in the Peace Treaty with Japan or by any other legal instrument.¹⁶

The unyielding stance on the part of Japanese industrialists and the indifferent, if not entirely pro-Japan, attitude demonstrated by the American side significantly disappointed hardliners in the British government, namely those on the Board of Trade. Arthur Percival, the president of the

¹⁴ Esler Denning, "PA 43/13/50, From Esler Denning to Hervey Rhodes," May 17, 1950, FJ 1331/30, FO 371/83898, TNA, 39.

¹⁵ Nihon bōseki kyōkai, "Nihon menbōseki-gyō no genjō ni tsuite," *Nihon bōseki geppō* 41 (1950): 26.

¹⁶ Cotton Board, "CB 8332a: Confidential Memorandum on Policy Implications for the UK Cotton Industry," May 1950, J1331/33, FO 371/83898, TNA, 94–95.

Board of Trade, was particularly vocal about the Japanese threat to Britain's commercial interest: "The road is quite clear for Japan to knock Lancashire and several other people out of the world's markets. Our 'policy' is to leave industry. But industry does not apparently see any virtue in peering into the future."¹⁷ The Board of Trade concluded that it was not in the British interest to encourage – or even acknowledge – any form of Japanese expansion in Southeast Asia. Percival's stance was shared by many in the Foreign Ministry and the Colonial Office, which held relatively confrontational attitudes toward Japan's economic expansion.

That British frustration did not go unnoticed in Tokyo. Japanese economic technocrats and politicians were aware of London's doubt about their incursion in its sphere of influence, and they were also aware of the disappointment felt by Southeast Asian countries regarding the deteriorating trade balance caused by Japanese exports. These reactions prompted Ogata Taketora, a senior member of the Liberal Party and a close political ally of Yoshida, to visit Southeast Asia in April 1952 to improve understanding with British authorities and countries in the region.¹⁸ However, the visit was hardly successful. When Ogata arrived in Malaya in May, he was invited by Malcolm

¹⁷ Arthur Percival, "Japanese Trade in South East Asia," October 12, 1951, FJ 1127/16, FO 371/92642, TNA.

¹⁸ Even though Ogata did not hold any office in the government, he was given the title of "Counselor" to the MOFA, giving his visit a form of official connotation. He was regarded by the British side as an influential figure in the LDP and a potential successor for Yoshida. Ogata later became the vice-prime minister in the Yoshida Cabinet in 1954. See Esler Dening, "Telegram No. 31 (Saving): Japanese Mission to Southeast Asia," May 30, 1952, FJ 1022/11, FO 371/99400, TNA, 49.

MacDonald, the British high commissioner in Southeast Asia, to his residence in Bukit Serene for a personal meeting. Though the meeting was mainly conducted in a friendly atmosphere, McDonald still expressed, in a rather euphemistic way, British concern for Japan's ambitions for the region:

There were obstacles at present to the full acceptance of Japanese cooperation. The activities of the Japanese during the war had earned them feelings in this part of the world for which hatred was not too strong a term....Therefore the approach of the Japanese government would have to be a very tactful one and a very gradual one....It was a question of working out carefully the right methods and choosing the right moments, without forcing the pace unduly.¹⁹

MacDonald's skepticism echoed the indifferent attitudes Indians and Burmese demonstrated toward Ogata: neither showed interest in his friendly gesture. As a report from the British Embassy in Rangoon demonstrated, Ogata was not received enthusiastically, and the Burmese seemed "to be in no hurry to advance their relations with Japan beyond the present point."²⁰ Nevertheless, under Prime Minister Yoshida, the Japanese government was committed to its economic ambitions in Southeast Asia. In November 1952, Yoshida unequivocally proclaimed before the National Diet that Japan's trade with Southeast Asia was a priority.²¹ In the same speech, he also called on other nations to "give our country positive cooperation in the common effort to expand and develop [the]

¹⁹ Malcolm McDonald, "Ref: 15121/17/52, Visit of Mr. Ogata," June 6, 1952, FJ 1022/13, FO 371/99400, TNA, 83.

²⁰ "Telegram 1068/16, from Chancery, Rangoon," July 2, 1952, FJ 1022/21, FO 371/99400, TNA, 116.

²¹ Sayuri Shimizu, *Creating People of Plenty: The United States and Japan's Economic Alternatives, 1950-1960* (Kent: Kent State University Press, 2001), 82.

world economy in accordance with the principles of reciprocity and co-existence.”²² While Yoshida did not give examples of how Japan suffered from the lack of “reciprocity,” his disappointment with the lack of understanding and reception of Japan’s economic ambition was clear in his speech.

This point was also embraced by Japanese economic technocrats, who identified the British presence in Southeast Asia as the main obstacle to Japan’s economic agenda in the region. The Japanese MOFA, in an internal report on the situation in Southeast Asia, defined Japan as a “competing country” (*kyōsō-koku*) for Britain in the region. “In economy, the Commonwealth form a bloc in which Britain takes the lead. Britain is mostly sensitive to competing countries – especially Japan and West Germany – in Southeast Asia.”²³ In the same report, the lack of progress in Japan’s economic relationship with Southeast Asia was attributed to British influence: “the political problems [in Southeast Asian countries] remained to be solved for trade expansion,” the MOFA report states, and “were the results of their relationships with Britain, which remained influential in the region.”²⁴ The methods of advancing Japanese interests in Southeast Asia amid opposition from former suzerain countries, therefore, became a subject of consideration for policy-

²² “Prime Minister’s Administrative Speech,” November 24, 1952, FJ 1022/32, FO 371/99400, TNA, 167.

²³ Gaimushō Ajia-kyoku daiyonka, *Tōnan’ajia kokusai jōsei no bunseki* [Analysis of International Situation in Southeast Asia], March 1953, A’4.1.0.1, DAMOFAJ, 32.

²⁴ *Ibid.*, 38.

making circles in Japan.

The ongoing friction between London and Tokyo over the latter's excursion into the former's sphere of influence prompted British decision-makers to curb Japan's economic impact on British interests in Southeast Asia. From 1950 to 1954, Japan's petition to join various regional economic platforms faced a strong boycott from Britain and its allies in the Commonwealth circle. In 1951, by coordinating with Australia, Canada, and Southeast Asian countries, including Ceylon and Malaya, London was able to postpone "any consideration of Japanese membership in the Colombo Plan."²⁵ A similar situation occurred to Japan's GATT membership application, which a sterling veto bloc had repeatedly blocked since 1948.²⁶ This drew a stark contrast to the efforts of West Germany, another country defeated in World War II, which was granted full membership in 1951.²⁷ Both setbacks caused significant disappointment in Tokyo, and they forced Japan to seek diplomatic aid from Washington to bypass the British boycott.

Ironically, China's rising influence in the region in the mid-1950s and Japan's tendency to

²⁵ Anthony Eden, "Future Japanese Relations with Asia Particular Reference to China and Southeast Asia," November 16, 1951, FJ 1127/17, FO 371/92642, TNA, 91.

²⁶ For Japan's struggle with GATT membership amidst opposition from the Commonwealth countries, which were trying to protect the Imperial Preference system, see Sayuri Shimizu, *Creating People of Plenty: The United States and Japan's Economic Alternatives, 1950-1960* (Kent: Kent State University Press, 2001), 29–39.

²⁷ For a comparison between West Germany and Japan regarding their respective admissions to the GATT, see Tatsuo Akaneya, "Senryō-ka nichidoku ni taisuru saikeikoku taigū kyōyo mondai" [Most Favored Nation (MFN) Treatment for Japan and Germany During the Occupation Period], *Kokusai Seiji*, no. 6 (1995): 163–179.

develop closer relations with Beijing helped Japan's diplomacy with London. As described in the following sections, the fear of Japan's potential inclination toward neutralism prompted a group of diplomats in Washington and London to adopt a more lenient – and for the American side, more supportive – stance toward Japan's economic expansion in Southeast Asia. In addition, Tokyo and London also found a shared interest in expanding their trade with Beijing, facilitating competition and collaboration in the two countries' trade with China. In this way, the “China Question” played an essential role in changing Japan's diplomatic stance with London and Washington and paved the way for Tokyo's ambition to seek economic leadership in Southeast Asia.

The Rise of the China Question in Japan's Quest for Southeast Asia, 1951–1954

In addition to increasingly fierce competition with Britain for Southeast Asian markets, Japanese businesses and the government developed economic agendas in the early 1950s. Washington's goal to substitute China with Southeast Asia as Japan's leading trade partner neither prevented Japanese industrialists from demanding more engagement in the Chinese market nor dissuaded some Japanese politicians, who wanted to enhance Japan's prestige in the postwar world, from taking advantage of the pro-engagement argument to advance their political agenda. Additionally, the ongoing competition for Asian markets between Japan and Western European countries forced Washington to devote even more resources to holding its European allies and its Asian “protectorate” together after 1952. The challenge presented to Washington was to prevent the country from becoming truly independent in the Asian theatre of the global Cold War.

Such an initiative gained momentum in late 1951, when Japan concluded negotiations for the

Treaty of San Francisco, which was to become effective in 1952. The conclusion of the treaty talks led to a jubilant atmosphere in both business and political circles in Japan. The fact that Japan could become, at least nominally, an independent country gave momentum to various imaginings about the place Japan should occupy in the postwar world. For over six years, Japan had been controlled by the SCAP in its trade, finance, and commercial policies and had been forced to follow American directives in diplomacy. To policymakers and businessmen, Japan was finally free to imagine what newly gained independence had to offer.

However, Japanese entrepreneurs found it unsettling that Washington prevented Japan from seeking profit in the Chinese market, while their European competitors, namely Britain, France, and West Germany, were able to do so. In April 1952, the British signed a business contract with Beijing at the International Economic Conference in Moscow.²⁸ The agreement allowed British merchants to export ten million pounds of goods to the PRC before the end of 1952, including textiles, industrial chemicals, and metals.²⁹ This deal raised much concern at MITI, which then

²⁸ The International Economic Conference in Moscow (Oskovskoe Ekonomicheskoe Soveshchanie) in 1952 hosted trade delegations from both the Soviet Bloc and Western Europe. Although there was no official Japanese delegation, three Japanese Diet members were present. For an introduction and analysis of the decision-making process behind the Conference, see Mikhail Arkad'yevich Lipkin, "Moskovskoye ekonomicheskoye soveshchaniye 1952 g.: takticheskiy manevr ili novaya strategicheskaya liniya SSSR?" *Vestnik Rossiyskogo universiteta družby narodov. Seriya: Istoriya Rossii* 2, (2010): 52–64.

²⁹ "Text of Statement Made in the House of Commons on April 22, 1952 by the Secretary for Overseas Trade," April 22, 1952, E' 3. 6. 0 B (1)/CA, DAMOFAJ, 2–3.

made inquiries to the British side.³⁰ Although the Board of Trade assured the Japanese government by providing explanatory documentation, the deal upset Japanese entrepreneurs, who were forced to remain idle while their British counterparts made progress in China. In April 1953, a year after the deal was signed, the *Asahi News* reported that total British exports to China had been multiplied by the deal, and the industries now demanded the government take similar actions: “the government should, at an accelerated pace, negotiate with the United States to loosen the restriction, even if for a few types of merchandise.”³¹ Japanese businesses were even further disappointed when Beijing and London exchanged commercial delegations in 1954, as the trips resulted in contracts for Chinese import of British industrial equipment and export of industrial raw materials, which Japan required for production.

Japanese businesses, in response to widespread anxiety regarding European – and British, in particular – progress in the Chinese market, directed their disappointment at the Yoshida Cabinet, which insisted on maintaining close coordination with Washington in its approach to Beijing. Consequently, a call for more autonomous diplomacy gained momentum in both the business world and the government. Opposing Prime Minister Yoshida’s doctrine of close coordination with Washington, the proponents of autonomous diplomacy – some industrialists and

³⁰ “Telegram 1121/64/52, from NS. Robert to Mr. Takio Oda,” May 8, 1952, E’ 3.1.1.5-1, DAMOFAJ, 1.

³¹ “Gekizō suru tai Chūkyō bōeki Igrisu wa sakunen no jū nana-bai senzen no yushutsu-gaku ni oitsuku” [Dramatic Increase in Trade with China: UK Catching Up with Prewar Exports, 17 Times Higher than Last Year], *Asahi Shimbun*, April 23, 1953.

entrepreneurs, anti-Yoshida members from Hatoyama's faction in the ruling Liberal Party and leftists from both the Japanese Socialist Party (JSP) and the Japanese Communist Party (JCP) – demanded the government revise its agenda with Japanese interests in mind instead of following the American blueprint.³²

The motivations behind this coalition were mixed. On the corporate side, the smaller businesses – many of which had relied on the Chinese market in the prewar period – were plagued by the fluctuating prices of raw materials from Southeast Asia, while big companies – trading companies in association with former zaibatsus, such as Mitsubishi and Mitsui – hoped to import Chinese raw materials in exchange for the consumer goods they produced.³³ Observers in Washington noted increasing concern about the supply of raw materials among Japanese manufacturers. In 1952, the USNSC stated in its policy paper for Japan that the country's diplomatic stance hinged on Japanese manufacturers' access to raw materials. It was considered necessary, therefore, that Washington “prevent Japan from becoming dependent on China and other Communist-dominated areas for essential food and raw material supplies through stimulation of Japan's trade with other free nations and through the implementation of programs designed to develop sources of supply for Japan among the free nations.”³⁴ However, Washington made little

³² See Soeya Yoshihide, *Japan's Economic Diplomacy with China, 1945–1978* (Oxford: Clarendon Press, 1998), 2–8.

³³ Feng Li, “Bōeki sokushin dantai no tanjō to sengo nitchūkankei no hajimari,” *Gendai chūgoku kenkyū* 30 (2012): 44.

³⁴ “Statement of Policy Proposed by the National Security Council on United States Objectives

progress in providing an actual remedy to this situation until 1954, when governmental programs – including the aid program involving Japanese manufacturers under Public Law 480 – were rolled out to oppose the communist camp’s economic influence in Southeast Asia.

Convinced that reopening China trade would resolve their difficulties, Japanese companies formed trade-promotion groups to advance their agenda. These groups include the China-Japan Trade Promotion Association (Chūnichi Bōeki Sokushin-kai, CJTPA) for smaller businesses and the China-Japan Trade Association (Chūnichi Bōeki Kyōkai, CJTA) for large corporations. From 1949 to 1952, more than twenty semi-official and private organizations promoting Sino-Japanese trade were established with corporate participation.³⁵ The passion for trade with China among Japanese merchants left a deep impression on British diplomats in Tokyo. Denning concluded in his telegram that Japan’s trade with China was inevitable, even if Washington tried to stop it: “When the treaty comes into force, I think she will do so to the extent she can. If the United States will not allow her to do it overtly, she will try to do so covertly.”³⁶

In addition to corporate Japan, Yoshida faced a challenge from within the Diet

and Courses of Action with Respect to Japan,” August 7, 1952; Repr. *Foreign Relations of the United States* (hereby after as FRUS), 1952–1954, *China and Japan*, Vol. XIV, Part 2, eds. David W. Mabon; Harriet D. Schwar, (Washington: Government Printing Office, 1985), 1304–1305.

³⁵ For a list of trade promotion organizations in Japan, see Enmin Li, *Zhong Ri min jian jing ji wai jiao* [Sino-Japanese Private Economic Diplomacy, 1945-1972] (Beijing: Ren min chu ban she, 1997), 123–125.

³⁶ Esler Denning, “Telegram No. 168, Japan-China Trade,” February 4, 1952, FC 11323/12, FO 371/99315, TNA, 50–51.

and the bureaucracy. The Treaty of San Francisco allowed former war criminals, who had been banned from holding public office, to return to politics. As a result, supporters of Hatoyama Ichirō, the former president of the Liberal Party who had been forced to concede his position to Yoshida due to opposition from SCAP, now demanded Yoshida step down so that Hatoyama might return. Yoshida's refusal to give up power led to a division within the ruling party, forcing him to dissolve the Diet three times between 1952 and 1954.³⁷ The left-wing – namely the JSP and JCP – also joined the anti-Yoshida chorus and cooperated with the anti-Yoshida members of the LP to press on the China trade issue. This coalition is best exemplified by the Caucus of Congressmen for the Promotion of Sino-Japanese Trade (Nitchū Bōeki Sokushin Giin Renmei, CCPSJT), which was founded in 1952. Headed by Ikeda Masanosuke (LP) and Hoashi Kei (JSP), the Caucus included dozens of members from nearly all political parties in the Diet.³⁸ In 1953, the Caucus passed two resolutions in the Diet demanding the government facilitate trade with China and forced the government to grant visas for a group visit to China during the PRC's National Day.³⁹ Such

³⁷ See John Dower, *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878–1954* (Cambridge: Harvard University Press, 1979).

³⁸ For a list of congress members in the Caucus, see Masaru Hatano, Akiko Imori and Rei Shimizu, eds., *Nitchūyūkō giin renmei kankei shiryō: Hoashi kei Nakao Kazuo bunsho - shiryō-hen* [Sino-Japanese Friendship League of Congressmen: Hoba Adachi - Kazuo Nakao Documents (Materials)] (Tokyo: Gendai shiryō shuppan, 2002), 19–25.

³⁹ Jianqun Xie, Liande Lin, Xunzhen Liao, and Yangchun Fang, *Mao cu chun qiu: Zhong guo guo ji mao yi cu jin wei yuan hui shi (1952–1994)* [Spring and Autumn of Trade Promotion: History of China Council for the Promotion of International Trade (1952-1994)] (Beijing: Zhong guo guo ji mao yi cu jin wei yuan hui, 1995), 68–70.

political pressure eventually played an critical role in facilitating Yoshida's attempt to salvage his regime in 1954, when he visited London and Washington to seek understanding from both countries on the reopening of Sino-Japanese trade.

The political rivalry between Yoshida loyalists and anti-Yoshida factions in the Liberal Party also influenced the bureaucratic system, particularly in the MITI and MOFA. The Yoshida loyalists in the MITI were led by Nagayama Tokio and Shirasu Jirō, who headed the department during the Yoshida Cabinet.⁴⁰ Referred to as the “foreign policy faction” (*Gaikō-ha*), these technocrats insisted on maintaining Yoshida's doctrine by strengthening Japan's economic position through international trade and benefitting from the procurement surge from the United States in the Korean War. In contrast, another faction within the MITI was largely comprised of the old guard from the Imperial period. Under Kishi Nobusuke and Shīna Etsusaburō, who had been active leaders in Japan's wartime economy, these “controlled-economy faction” (*Tōsei-ha*) technocrats emphasized restoring Japanese industrial capacity through direct government intervention, especially by coordinating with the business world and removing what they viewed as excessive internal competition.⁴¹ They prioritized and advocated securing a cheap supply of raw materials for Japanese industries. However, in the eyes of Yoshida loyalists, such arguments

⁴⁰ For a detailed introduction to technocrats' factions and their political association, see Seichō Matsumoto, *Gendai kanryōron* (Tōkyō: Bungei Shunjū Shinsha, 1963).

⁴¹ See Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982).

were signs of “economic nationalism” that ran directly contrary to Yoshida’s doctrine and would negatively impact Japan’s diplomacy with its allies in the Free World.⁴² Therefore, when Kishi joined Hatoyama in the anti-Yoshida chorus, some bureaucrats in Kishi’s faction also began to work against Yoshida’s blueprint.⁴³ As I will show in the next section, these bureaucrats worked closely with Japanese businessmen to facilitate Sino-Japanese trade through the entrepot of Hong Kong.

The pressure from the Diet, the anti-Yoshida factions in the bureaucracy, and the corporate sector all weighed heavily on the Yoshida Cabinet, which now feared losing support on all domestic fronts. When McDonald visited Tokyo in July 1952, Yoshida’s nephew told him that the prime minister had been under great pressure over the last few months due to “a strong desire in Japan to trade with China and criticism of the Government for its failure to encourage such trade.”⁴⁴ This pressure was also channeled openly through business organizations. The Japanese Chamber of Commerce and Industry (JCCI, *Nihon shōkō kaigisho*) and the subordinate Osaka Chamber of Commerce and Industry (OCCI, *Ōsaka Shōkō Kaigisho*), the representative body of

⁴² Yasuko Kōno, “Yoshida gaikō to kokunai seiji — Tsūsanshō setchi kara denryoku shakkan dōnyū made,” *Nihon seiji gakkai nenpō* 42 (March 1992): 29–52.

⁴³ For Kishi’s recollection of his decision to join Hatoyama in the anti-Yoshida coalition, see Nobusuke Kishi and Yoshihisa Hara, *Kishi Nobusuke shōgen-roku* (Tokyo: Mainichi Shinbunsha, 1981), 75–86.

⁴⁴ Esler Denning, “Japanese Policy in the Far East. Conversation between Her Majesty’s Ambassador, Mr. McDonald, and the Japanese Prime Minister,” July 15, 1952, FJ 1633/24, FO 371/99506, TNA, 149.

Japanese industrialists in the manufacturing-intensive areas of West Japan, led the criticism against the Yoshida Cabinet's policy. Fujiyama Aiichirō, the head of the JCCI who later became the head of the Ministry of Foreign Affairs when Kishi rose to power, criticized the Yoshida government in a speech for its failed policy of “importing from the dollar circle and exporting to the sterling circle” and demanded the government adopt “systematic, structural treatment” to address this problem.⁴⁵

Compared to the JCCI, the OCCI was even more audacious in expressing dissatisfaction toward the Yoshida regime: it not only frequently published articles advocating the necessity of trade with China in its monthly gazette but also demanded that the Yoshida government “seriously review the possibility of normal trade with China instead of disregarding it.”⁴⁶ The preference of Japanese entrepreneurs was quite clear: even though the OCCI was publicly calling for political stabilization and “an end to the current rivalry in the ruling party,” its arguments largely echoed those of the anti-Yoshida faction, which demanded changes in industrial and trade policies. When the Yoshida government failed to deliver what they asked for, the industry and bureaucrats went rogue and took the liberty of acting on their own and broker trade deals with Beijing.

⁴⁵ Aiichirō Fujiyama, “Jiritsu keizai no kumon o kataru” [Speaking to the Difficulties in Achieving an Independent Economy], *Chamber* 26 (March 1952): 5–6.

⁴⁶ “Honjo iken tōmen no keizai kiki o ikaga ni kokufuku suru ka shin seiken e no yōbō” [Opinion from the Chamber: Requests for the New Administration on How to Overcome the Current Economic Crisis], *Chamber* 41 (June 1953): 23.

The Making of Anglo-Sino-Japanese Trilateral Trade, and London's Softening Attitude to Japan in Southeast Asia, 1952-1954

Beijing was aware of Japanese corporations' desire to return to the Chinese market and actively encouraged it. This action was not only political but also economic: envisioning ambitious industrialization projects, especially after the First Five-Year Plan starting in 1953, the PRC had much need for inputs of industrial equipment and other capital goods from Japan. However, the US-led embargo had created many challenges in China's foreign trade, rendering its procurement of "strategic materials" for industry and military difficult.

While using Hong Kong as an entrepôt and making connections with overseas Chinese, Beijing also sought to establish direct connections with Western Bloc countries – Japan and Britain in particular – as a strategy to break Washington's embargo coalition from within. The efforts were carried out through both private and official channels. In January 1952, Grantham reported that a Chinese company representative approached the Imperial Chemical Industries (ICI) office in Hong Kong, asking whether it would be interested in "facilitating trade between China and Japan." The Chinese side demanded that the ICI finance the exchange of Chinese coal and salt for Japanese fertilizers and chemicals and that it potentially even act as a form of "general agency" for Sino-Japanese trade via Hong Kong.⁴⁷ Beijing's desire for British financial services in its trade with

⁴⁷ Alexander Grantham, "Telegram No. 26, Japan China Trade," January 9, 1952, FC 11323/2, FO 371/99315, TNA, 19.

Japan arose from its exclusion from the international financial system at the time. In the absence of any currency exchange agreement between China and Japan, Beijing could not use credit in the US dollar in its international trade and was forced to instead rely on credit agencies that used the sterling pound – many of which continued to operate in the mainland in the 1950s – in Hong Kong for financial services.

While the ICI was inclined to accept the Chinese proposal, its report to the British government eventually provoked a heated discussion between different government branches: while the Colonial Office, Treasury, and Board of Trade all supported the deal, the British Embassies in Tokyo and Washington raised a strong objection, citing potential repercussions from the United States. Eventually, the British government reached a compromise: while the ICI was advised not to act as a general agency for Sino-Japanese trade, the government would still allow it to participate in actual deals signed between China and Japan and would withhold the information about such deals from Washington.⁴⁸ Despite the absence of full-fledged support, the British authority's position in favor of mediating Sino-Japanese trade in Hong Kong was channeled to the Chinese and Japanese delegates, who did not hesitate to use Hong Kong as an operation base for their trade attempts.

Sharing their British counterparts' concern regarding objection from Washington, Japanese

⁴⁸ For the positions of each department and the ICI, see Hubert John Collar, "HD/91/HK, China/Japan Trade," January 8, 1952, FC 11323/9, FO 371/99315, TNA, 42–43; Esler Denning, "Telegram No. 168, Japan China Trade," February 4, 1952, FC 11323/12, FO 371/99315, TNA, 50.

bureaucrats took a less explicit approach by giving consent to Japanese businesses to act in the government's absence. The most successful example of this agency in action was the trilateral coal-for-steel trade between China, Hong Kong, and Japan that occurred from 1952 to 1958. At the center of this trade was Keimei Trading Co., Ltd., a front trading company with close connections to MITI and the Japanese industrial complex. Formerly known as the Kailan Coal Exchange Company, the company was disbanded by SCAP during the Zaibatsu-busting in the immediate postwar period.⁴⁹ The Company was reestablished in July 1946 per stock-holding agreements between the five industrial giants – the Nippon Steel Corporation, the Nihon Kokan Corporation (NKK), the Tokyo Gas Corporation, the Osaka Gas Corporation, and Mitsubishi Chemical Corporation.⁵⁰ In addition to its connection to the corporate world, the company also had a close relationship with the Japanese bureaucracy: the company's first president, Suginami Shōji, had been a bureaucrat in the Ministry of Commerce and Industry (Shōkō-Shō, MCI), which was the prewar predecessor of MITI.⁵¹ As there was significant continuity between the MCI and MITI in terms of personnel and leadership, it is not surprising that when the company attempted

⁴⁹ “Keimei kōeki,” *Shakaijin* 43 (November 1952): 59.

⁵⁰ Bunjirō Horiuchi and Isao Mochidzuki, *Kairan tankō no 80-nen* [Eighty Years of the Kailan Coal Mines] (Tokyo: Keimei kōeki, 1960), 125–126.

⁵¹ *Ibid.*, 126. For Suginami's affiliation to the MCI, see “Joi saika-sho Shōwa jū kyū-nen joi maki hyaku shi teiki joi” [The Decision on Honorary Positions, the Year of 1944, Volume 104, Termed Positions], File No. Jo-02121100, National Archives of Japan Digital Archive (hereafter cited as NAJDA), accessed October 13, 2022, <https://www.digital.archives.go.jp/file/3095453.html>.

to broker deals with Beijing, it was granted significant latitude and even direct guidance from Japan's economic command.

Kagawa Shunichirō, who succeeded Suginami as the head of Keimei Trading Co., Ltd. in 1952, was fully aware of this advantage. As a former spy in the war and a seasoned comprador in pre-PRC China, Kagawa was no stranger to covert activities related to the mainland.⁵² In January 1952, he traveled to Hong Kong and secretly approached British authorities and Chinese representatives. The British granted Kagawa convenient financing in Hong Kong and the Chinese representatives agreed to arrange a trip to Beijing after he secured appropriate merchandise.⁵³ Through a half-year-long negotiation in Beijing, Hong Kong, and Tokyo, Kagawa eventually managed to strike a deal worth seven million pounds annually. The first shipment exchanged Chinese coal for mining machinery, textile machinery, and spindles in 1953.⁵⁴ The deal also contained a secret supplement clause stating that additional coal would be added to the contract when Japan provided galvanized steel plate – the kind of strategic material on the embargo list –

⁵² Kagawa Shunichirō, according to the Chinese side, was a comprador and a spy for Japan during the war. Some of his intelligence reports – primarily social and economic investigations regarding Chinese trading ports – are archived and accessible at the National Diet Library. When Kagawa visited Hong Kong, he was accompanied by a board member of the company, Mochizuki Isao, who succeeded him in his position in 1955 and continued to trade with China for coal in the 1950s and 1960s. See Xie, Lin, Liao, and Fang, *Mao cu chun qiu*, 66.

⁵³ Alexander Grantham, “Telegram No. 77: Japan China Trade,” January 24, 1952, FC 11323/6, FO 371/99315, TNA, 63.

⁵⁴ Alexander Grantham, “Telegram No. 1069: Japan China Trade,” December 2, 1952, FC 11323/33, FO 371/99315, TNA, 117.

to China.⁵⁵ In addition to the barter exchange, the Keimei Company also imported, from 1953 to 1954, roughly sixty thousand tons of coal through sterling settlement in Hong Kong via Sanyo Corporate's brokerage.⁵⁶

The success of Kagawa's trip is largely attributed to the company's close ties to the Japanese industrial complex and economic technocrats. The first round of negotiation with Chinese representatives in January 1952 did not produce much progress, since Kagawa could not provide the merchandise on the embargo list that the Chinese side required.⁵⁷ When he returned to Japan, MITI officials and the industrial giants behind Keimei Trading Company leveraged their network in corporate Japan and solicited support from the Nisshin Cotton Spinning Co., Ltd, which provided the textile machinery to conclude the deal.⁵⁸ The economic bureaucrats also played an essential part in Kagawa's success: the Japanese cargo ship carrying out Kagawa's contract was the first Japanese ship to arrive in a Chinese port since the Korean War. The indispensable role of the corporate-government network in Kagawa's success starkly contrasted with the failed attempts

⁵⁵ This clause was eventually fulfilled in 1955, when the Japanese MITI and MOFA corresponded with the United States on temporarily removing galvanized steel from the embargo list for this deal. Eventually, Washington permitted Japan to export twelve thousand tons of galvanized steel to China. For the details of this deal, see Horiuchi and Mochidzuki, *Kairan tankō no 80-nen*, 132.

⁵⁶ *Ibid.*, 13–136.

⁵⁷ Alexander Grantham, "Telegram No. 137: Japanese Business Delegation," February 13, 1952, FC 11323/17, FO 371/99315, TNA, 77.

⁵⁸ Horiuchi and Mochidzuki, *Kairan tankō no 80-nen*, 131.

by Japanese merchants to broker deals with China during this period.⁵⁹ Until October 1953, only 150 thousand British pounds of merchandise were traded between China and Japan.⁶⁰

Kagawa's success and the attempts made by Japanese merchants took place in the larger context of Beijing's signaling to Japanese merchants in 1952 and 1953. In addition to covert negotiations, the PRC made its willingness to cooperate with Japan – those who did not align with Yoshida's pro-American stance, in particular – clear via formal channels. The first breakthrough was made at the International Economic Conference in Moscow in April 1952. When the Chinese delegation was invited to give a speech, Nan Hanchen, the chair of the China Council for the Promotion of International Trade (CCPIT) and head of the Chinese delegation, spoke publicly about the bright future of Sino-Japanese commercial cooperation:

Japanese industry needs cheap and high-quality coal, salt, soybeans, oil ingredients, and other products from China, and China needs Japanese machinery, [industrial] materials, and other industrial products. However, since Japan was prevented [by the United States] from developing normal trade relations, it could not buy the cheaper coal from China, but instead must buy the more expensive coal from America. This phenomenon is unfair and unreasonable. We believe that the Japanese people, with their sense of national pride and sincere hope for peace, would not tolerate such arbitrary control for long. The Chinese want to see Japan develop a peaceful economy and normal trade relations with China.⁶¹

⁵⁹ Japanese merchants' visits to China often involved transit in Hong Kong. Both the British and the Chinese recorded their negotiation trips. See Xie, Lin, Liao, and Fang, *Mao cu chun qiu*, 55–76.

⁶⁰ Li, *Zhong Ri min jian jing ji wai jiao*, 156.

⁶¹ Hanchen Nan, "Nan Hanchen zai Guo ji Jing ji Hui yi shang de bao gao" [Hanchen Nan's presentation at the International Economic Conference], in *Zhan hou Zhong Ri guan xi wen xian ji 1945–1972 shang juan*, Vol. 1, ed. Heng Tian (Beijing: Zhongguo she hui ke xue chu ban she, 1996), 121.

China's message led to a swift response from the Japanese participants at the Moscow Conference. Three House of Councilor members – Koura Tomi, Hoashi Kei, and Miyakoshi Kisuke – were at the conference despite the Yoshida government's opposition. Without authorization from Tokyo, the three councilors traveled to Beijing from Moscow at China's invitation and signed the First Sino-Japanese Non-Government Trade Agreement (Di yi ci Zhong Ri min jian mao yi xie ding; Daikkai Nitchū minkan bōeki kyōtei) on June 1.



Picture 2.1. “Nan Hanchen, the head of Chinese Delegation, at the International Economic Conference in Moscow.” In: “1952 nian Mosike guo ji jing ji hui yi Zhong guo dai biao tuan tuan zhang Nan Hanchen” [1952 International Economic Conference in Moscow. Nan Hanchen, Head of the Chinese Delegation], *Ren min hua bao* (May, 1952): i.

The signing ceremony and joint press conference afterward were widely covered by the media in China, Japan, and Hong Kong.⁶² Although the agreement bore no official recognition, it was applauded as a diplomatic success for China and a silver lining for Japan's trade debacle. When Hoashi's group returned to Japan on July 1, 1952 to conduct a reporting tour, they were well received in Tokyo, Osaka, Kobe, and Nagoya.⁶³ In Nagoya, the congress members were welcomed by an audience of forty thousand at the Osu Stadium, including approximately seven thousand left-wing demonstrators, cheering for their success. The welcoming gathering on July 7 eventually evolved into a protest before the local US base to condemn US imperialism, leading to a police crackdown that wounded ninety-five.⁶⁴

⁶² For an English translation of the trade agreement, see Lionel Lamb, "Telegram No. 128, Sino-Japanese Trade Agreement," June 6, 1952, FC 11323/28, FO 371/99315, TNA, 100–104.

⁶³ Xie, Lin, Liao, and Fang, *Mao cu chun qiu*, 53–54.

⁶⁴ The crackdown on demonstration in Ōsu, Nagoya-City, on July 7 was later referred to as the Ōsu Incident (Ōsu jiken). The Supreme Court eventually deemed the protest a criminal activity in 1974. For media coverage of the incident, see "Kaenbin to tanjū ōshū Nagoya de demo-tai mata abareru," *Asahi Shimbun*, July 8, 1952.



Picture 2.2. “Protestors at Osu, Nagoya-Prefecture.” In: Nagoya-shi sōmu-kyoku chōsa-ka. *Nagoyashi Keisatsu-shi* (Nagoya: Nagoya-shi sōmu-kyoku), 1960.

Hoashi’s visit in 1952 and the increasing demand for access to the Chinese market from Japanese businesses alarmed the policymakers of Japan’s Cold War allies, who were concerned that China’s “peace offense” would alienate Japan from them. The danger was exacerbated by the economic friction between Japan and Western Europe in Southeast Asia, which remained unresolved. Lionel Lamb, the British chargé d’affaires in China, warned that Beijing’s diplomatic gesture would work as bait if “impediments be encouraged to the export of Japanese goods to other markets, or to the import of essential raw materials from other sources abroad, as the result of restrictive regulations in foreign countries against Japanese goods, or of less advantageous terms

of trade than those advertised by Chinese Communist propaganda.”⁶⁵ Lamb’s warning echoed that of a group of British diplomats who saw potential in Japan’s economic power to contribute to Britain’s grasp on its colonies in Southeast Asia. Malcolm MacDonald and Esler Denning, the British ambassador in Tokyo, championed this line of argument. Contrary to hardliners in the Board of Trade and the Foreign Ministry, MacDonald had long held a friendly attitude toward Japanese involvement in the region. In October 1951, MacDonald wired London that Britain should encourage Japan’s economic linkage to Southeast Asia, and he dismissed worries about the Japanese threat to British commercial interest as an “unsubstantial bogey” due to Japan’s growing cost of production.⁶⁶ MacDonald contended that Britain had much to gain from a prospering Japan that would help Britain sustain Southeast Asia with its cheap consumer goods.

Naturally, MacDonald’s argument provoked strong objections, not only in the Board of Trade but also in the Foreign Ministry, which feared that Japan’s expansion would endanger the British position in Asia. According to Charles Johnston, the Counsellor for Asian Departments in the Foreign Office, the Office found MacDonald’s argument for the benefits of preventing Japan’s trade with China not only unrealistic but also inconsistent with London’s current policy for China.⁶⁷ Eden also wrote personally to MacDonald on November 16, stating that the Japanese

⁶⁵ Lionel Lamb, “Telegram No. 139, Attitude of the Central People’s Government Towards Japan,” June 17, 1952, FJ 1022/20, FO 371/99400, TNA, 109–110.

⁶⁶ Malcolm Macdonald, “Future Japanese Relations with Asia, Particular Reference to China and Southeast Asia,” October 3, 1951, FJ 1127/14, FO 371/92642, TNA, 47.

⁶⁷ Charles Hepburn Johnston, “Minutes, Japan’s Economic Relations with S. E. Asia,”

threat to British economic interests in Southeast Asia should not be underestimated. Not only did the Japanese engineering industry “threaten our trade in the long term,” but it was also possible that the Japanese government would use the sterling it accumulated through trade with Southeast Asia to buttress its buying position for raw materials produced in the region, threatening London’s control over its Asian colonies.⁶⁸ Nevertheless, MacDonald and a group of British governors and commissioners in Asian colonies retained this position on Japan during his appointment as high commissioner.⁶⁹

However, the possibility of Japan disassociating from the West and the looming danger of China’s “peace offense” gave new momentum to MacDonald, Denning, and the like-minded in the British establishment to advocate for a more tolerant attitude toward Japan’s economic role in Southeast Asia. When MacDonald visited Japan to meet Yoshida and Foreign Minister Okazaki in July 1952, both governments held rather pessimistic and even condescending attitudes toward the

November 6, 1951, FJ 1127/17, FO 371/92642, TNA, 73.

⁶⁸ Anthony Eden, “Future Japanese Relations with Asia Particular Reference to China and Southeast Asia,” November 16, 1951, FJ 1127/17, FO 371/92642, TNA, 90–91.

⁶⁹ MacDonald’s position influenced a group of British colonial officials in Asia who would come to his residence at Bukit Serene for an annual conference at which they would review Southeast Asian policies. See John Weste, “Facing the Unavoidable – Great Britain, the Sterling Area and Japan: Economic and Trading Relations 1950–60,” in *The History of Anglo-Japanese Relations 1600-2000: Volume IV: Economic and Business Relations*, eds. Janet Hunter and Shinya Sugiyama (London: Palgrave Macmillan, 2002), 310. For an example of conclusions reached at the Bukit Serene Conference, see Malcolm MacDonald, “No. 193 (Saving): Bukit Serene Conference: Japan,” November 28, 1951, FJ 1127/18, FO 371/92642, TNA, 102–103.

visit. The Colonial Office suggested that the visit should be understood as a chance to convey British concerns about Japan's ambition in Southeast Asia. "The Japanese need lessons in international collaboration....On whether or not defeat has taught the Japanese that they are as other men are, and thus made them amenable to collaboration with others may depend on the whole future of the Far East."⁷⁰ This was also a fear in parts of the Japanese government, which were gravely concerned that McDonald's visit was inspired by instruction from London to warn against Japanese activism in Southeast Asia, as McDonald had done with Yoshida's envoy in Singapore earlier that year.⁷¹ However, McDonald demonstrated a friendly attitude during his meetings with the Japanese leadership. When he met the group of Japanese business leaders – most of whom were industrialists whose corporations were deeply involved in Southeast Asia – he maintained a conciliatory tone toward their request for British understanding of Japan's economic activity in the region, calling the trade "not only important but as vital" to both places.⁷² McDonald even

⁷⁰ John A. Pilcher, "Confidential: Proposed Visit by the Commissioner-General for the United Kingdom in South East Asia to Japan," May 14, 1952, FJ 1633/2, FO 371/99506, TNA, 18.

⁷¹ Japan's worry about McDonald's visit is evident in the memorandum that the MOFA prepared for Yoshida before he met with McDonald: the Anglo-Japanese relationship in Southeast Asia was defined as one of "contradicting and competing...it should be recognized that there was a conflict of interest between the two countries in this region." See "Sōri, Makudonarudo kaiken no sai no sankō shiryō" [Reference Materials for Prime Minister's Meeting with MacDonal], June 27, 1952, in "Igirisu yōjin honpō hōmon kankei Makudonarudo Tōnan'ajia sō benmukan kankei," A'.1.6.4.5-6, DAMOFAJ, 5–6.

⁷² Okazaki and Yoshida prepared the list of business leaders, which included the presidents of several of the largest Japanese manufacturers – Nippon Yusen (shipbuilding), Nippon Kayaku (heavy chemicals), and Tokyo Shibaura Denki (Electronics) – and the Japan Development Bank. It is worth noting that Takasaki Tatsunosuke was also present at the meeting – he was the counselor to the Oriental Canning Company (Toyo Seikan). The British side held little

welcomed Japan's activities in Southeast Asia at the press conference.⁷³

Nevertheless, McDonald's meeting with Yoshida suggested that Britain and Japan diverged over China in important ways. The Yoshida government's strategy for McDonald's visit was to divert British attention to the communist threat in Asia, promoting it as a shared interest between Britain and Japan and downplaying the economic challenge Japan posed in the region.⁷⁴ However, Yoshida's proposal did not, at least immediately, receive a positive response from the British. When Okazaki suggested in a phone meeting with McDonald that Japan and Britain could work together in Southeast Asia in light of Beijing's advance in the region, McDonald simply skipped Okazaki's proposal and turned to other matters. Britain's reluctance to accept Yoshida's idea about strengthening a coalition against China was again exhibited in Denning and McDonald's formal meeting with Yoshida and Okazaki on July 10, 1952. When Yoshida suggested that he could enlist

importance to his company, but they considered him essential due to his association with the Manchu Network. For the British record of the meeting, see "Summary of Conversations between Mr. MacDonald and a group of Japanese industrialists," July 3, 1952, FJ 1633/22, FO 371/99506, TNA, 137–139; for Japanese documentation of the meeting, see Gaimushō Ōbeikyoku dai san-ka, "Makudonarudo sō benmukan ni kaiken suru jitsugyōka" [Industrialists to Meet the High Commissioner McDonald], July 1, 1952, "Igirisu yōjin honpō hōmon kankei Makudonarudo Tōnan'ajia sō benmukan kankei," E'1'1'6'4, DAMOFAJ.

⁷³ "McDonald Sees Increased Trade: UK Commissioner-General for S.E. Asia Stresses Economic Tie-up," *Japan Times*, July 9, 1952.

⁷⁴ The communist threat was listed as a priority in the talking paper that the MOFA prepared for Okazaki's meeting with McDonald. See "Gaishō Makudonarudo kaidan sankō shiryō" [Reference Materials for Foreign Minister's Meeting with McDonald], June 29, 1952, A'.1.6.4.5-6, "Igirisu yōjin honpō hōmon kankei Makudonarudo Tōnan'ajia sō benmukan kankei," DAMOFAJ, 10–17.

British help to form a coalition between London, Washington, and Tokyo to address the challenge posed by the PRC, both Dening and McDonald warned that Japan must come to a practical realization about China and not underestimate its capacity to maintain its position.⁷⁵

Despite the doubt that McDonald and Dening demonstrated toward Yoshida's proposal for an anti-PRC coalition, the idea of cooperating with Japan to counter communist expansion in Southeast Asia did have some effect on McDonald, who was concerned by the increasing threat of communist uprisings in British territories. This prompted him to suggest a friendlier alternative to the current British position on Japan in the region. In his telegram to Eden on July 26, McDonald argued that a prospering Japan would not only keep the only industrial nation in Asia from turning communist but would also help stabilize British colonies by providing cheap consumer goods.⁷⁶ He felt that Britain, therefore, must change its diplomatic estimation of Japan, since "the importance of retaining Japan and the Japanese on our side against the Communists is so great, that one of the main aims of our foreign policy should be to reestablish as far as possible friendly and trustful relations with Japan."⁷⁷

Admittedly, McDonald's proposal received some positive response from the British

⁷⁵ Esler Dening, "Japanese Policy in the Far East: Conversation between Her Majesty's Ambassador, Mr. McDonald, and the Japanese Prime Minister," July 10, 1952, FJ 1633/24, FO 371/99506, TNA, 149–150.

⁷⁶ Malcolm MacDonald, "Note on Japan," July 26, 1952, FJ 1633/25G, FO 371/99506, TNA, 170.

⁷⁷ *Ibid.*, 166.

government, though in most cases it was rather bitterly accepted as an unavoidable evil. When McDonald's telegram reached London, the Foreign Office expressed support for his suggestion to tolerate Japan's increasing activism in Southeast Asia, as without US support to "hit them with a big stick," Britain could only maintain "a lukewarm, suspicious, and wary friendship, but there seems no alternative."⁷⁸ Eventually, the Churchill Cabinet adopted the Foreign Office's suggestion – with reservation by the Board of Trade – and ceased actively barring Japan's petition to join regional economic cooperation organizations. This paved the way for Japan's entrance into the Colombo Plan in 1954 and facilitated its negotiations for war reparations with countries in Southeast Asia.⁷⁹ Ironically, the British concession did not achieve what McDonald had hoped for: instead of tempting Japan away from developing a trade relationship with China, the diplomatic successes Japan achieved in 1954 boosted confidence among its leadership, who thereafter set out to explore more autonomous diplomacy, even if it meant disappointing some of Japan's Western allies.

Washington's Consideration and Japan's Advance in Southeast Asia, 1954–1955

While London was reluctant to accept Japan's increasing role in Southeast Asia, decision-makers in Washington demonstrated a more welcoming attitude toward Japan projecting its economic

⁷⁸ John A. Pilcher, "Minutes: Mr. McDonald's Impressions of Japan," August 25, 1952, FJ 1633/25/G (1498/83/52G), FO 371/99506, TNA, 158–159.

⁷⁹ Noriko Yokoi, *Japan's Postwar Economic Recovery and Anglo-Japanese Relations, 1948–62* (London: Routledge Curzon, 2003), 98.

power in the region. This was directly connected with Tokyo's dangerous tendency – in politics and the economy – to try to reestablish trade relations with Beijing and with Japan's economic frictions with Washington's allies in Europe. The intelligence report for the Department of State observed that Japan's relations with European nations had been “declining in importance” since the early 1950s due to “the intensification of commercial competition for markets in Southeast Asia, India, and Communist China.”⁸⁰ The declining relationship between Japan and its European allies was alarming for Washington, which feared that the diplomatic isolation Japan faced would render the country vulnerable to the “peace offensive” from the Soviet Bloc and, consequently, pivot Japan toward an increasingly neutralist position in the Cold War.⁸¹

This fear for the declining relationship between Japan and the West, along with the fear of a potential Asian Bloc unfriendly to non-regional powers, was widely shared among decision-makers in the Department of State and other agencies in Washington.⁸² Japanese diplomats

⁸⁰ Department of State, Office of Intelligence Research, “Intelligence Report No. 7331: The Recent and Prospective Foreign Relations of Japan (1956–61),” September 12, 1956, USDDO, 8, Accessed September 21, 2020 <https://link.gale.com/apps/doc/CK2349408070/USDD?u=camb55135&sid=USDD&xid=d01fed20>.

⁸¹ These concerns were circulated internally in the Department of State and intelligence communities. See *ibid.*, 9-10.

⁸² Arguably, the fear of non-friendly Asian solidarity had occupied US diplomats' minds since the late 1940s and prompted Washington's pursuit of a regional pact that came to fruition as the SEATO and Manila Pact. See Matthew Jones, “A ‘Segregated’ Asia? Race, the Bandung Conference, and Pan-Asianist Fears in American Thought and Policy, 1954–1955,” *Diplomatic History* 29, no. 5 (2005): 841–868.

stationed in America noted Washington's anxiety toward Japan's potential neutralist tendencies. In August 1954, Iguchi Sadao, the Japanese ambassador in Washington, informed his colleagues in Tokyo that Japan now occupied a central place in Washington's Asian policy due to its fear of Japan's disassociation from the West. "The United States considers that the main objective for the communist offensive in Asia was the region's only industrialized country, Japan," Iguchi writes. "As a result, when Washington makes its policy for Asia and Indochina, it will always contemplate how it will affect Japan, and put her at the center of consideration."⁸³ During this period, telegrams from Japanese Consulates in the United States to Tokyo often included American media coverage of Washington's struggle to balance Japan's need for overseas trade with its tendency toward diplomatic neutralism.⁸⁴

⁸³ Sadao Iguchi, "Beikoku yori mita sekai jōsei handan ni kansuru ken" [Regarding Global Situation from Observation in the United States], August 4, 1954, Beikoku no taigai seisaku kankei zasshū tai Ajia kankei dai 1-kan, A'.2.1.0.U1-2-001, DAMOFAJ, 387.

⁸⁴ For a collection of newspaper and journal articles collected from Japanese diplomatic institutes in 1954 and 1955, see Honpō tai Chūkyō bōeki kankei shibun ronchō, E' 2. 5. 2. 2-2, DAMOFAJ.



Picture 2.3. “An Ounce of Prevention or the Pound of Cure,” June 28, 1955, *Louisville Courier Journal*. In: “Nitchū bōeki ni kansuru ruivu~iyu kūrie-shi shasetsu hōkoku no ken” [Report of the Louisville-Courier’s Column on Trade between Japan and China], June 29, 1955, E’ 6.3.1.4-1, DAMOFAJ.

The fear of communist progress in Southeast Asia also prompted Washington to devote more resources to assisting Japan, including using its diplomatic influence to facilitate Japan’s membership in regional economic platforms. The most noticeable of these efforts was Washington’s move to help Japan join the Colombo Plan, which Britain had successfully vetoed for over five years. In August 1954, Dulles instructed US Embassies in Canberra, Wellington, and London to seek diplomatic means to make Japan lean further toward the West; it was crucial, according to Dulles, to include the country in the Colombo Plan.⁸⁵

⁸⁵ John Foster Dulles, “Dulles to US Embassy, Tokyo, cable 446” (CDF, Box 5525, August 30, 1954). Cited in Hideki Suga, “Amerika no reisen seisaku to sen kyu hyaku go jū-nendai Ajia ni okeru chiiki kyōryoku no mosaku” [U.S. Cold War Policy and the Search for Regional Cooperation in Asia in the 1950s], in *Koronbo puran sengo Ajia kokusai chitsujo no keisei*, ed.

Washington's diplomatic effort succeeded in Australia, which had exhibited among the most determined opposition to Japan's participation in the Colombo Plan. According to a telegram sent by Stephen L. Holmes, the British high commissioner in Canberra, the Australian Cabinet Committee had shifted to adopt a more pro-Japan stance, although anti-Japanese sentiment was still prevalent in both Parliament and society. As a consequence of US intervention, the Casey government became inclined to favor "the adoption of a policy which would be designed to prevent Japan from falling under the influence of Communist China" and agreed to sponsor Japan's membership in the Colombo Plan at the Ottawa Conference in 1954.⁸⁶ Canberra's attitude contrasted sharply with its earlier stance at the New Delhi Conference in September 1953, when the Australian delegation demonstrated strong opposition to Japan's petition to join the Colombo Plan.⁸⁷ As a result, Japan was admitted as a member state of the Colombo Plan at the Conference in Ottawa in 1954, enabling it to influence Commonwealth nations in Southeast Asia through financial assistance and technological support.

The admission to the Colombo Plan, which was considered a diplomatic success in Japan,

Sho'ichi Watanabe (Tokyo: Hōseidaigaku shuppan-kyoku, 2014), 231.

⁸⁶ Stephen L. Holmes, "No. 93 Secret: Policy Towards Japan. United Kingdom High Commissioner in Australia to Captain Crookshank," October 6, 1954, CRO Ref.: FE 12/206/2, No. 32, *Correspondence Respecting Commonwealth Relations Volume V, January–December 1954*, Group DO, Class 201, Piece 5, TNA, 72.

⁸⁷ Gaimushō Ajia-kyoku daiikka, "Wagakuni no Koronbo keikaku kanyū mondai" [On Japan's Membership in the Colombo Plan], September 24, 1954, Koronbo puran kankei Nihon no kanyū kankei, E'4.1.0.12-2, DAMOFAJ, 58.

further bolstered Tokyo's confidence in seeking war reparation deals with Southeast Asian countries.⁸⁸ In addition, the United States supported Japan's initiative, and the British concession encouraged Japanese leaders in both business and politics to imagine an expansion of the country's role in the region. Bolstered by these events, Kurushima Hidesaburō, the president of the Dowa Mining Company and a Japan Business Federation board member (JBF, Nippon Keizai-dantai Rengōkai), traveled to Burma in January 1955 to meet U Nu, who had returned from a visit to China the month before. Kurushima told the prime minister that it was Japan that had built the Manchuria that U Nu saw during his visit, and if given a chance, Japan could help build in Burma "just as it did thirty, forty years ago in Manchuria."⁸⁹ Upon returning to Japan, Kurushima continued promoting his idea, writing that exporting Japanese technology to Burma would "wake up the sleeping resources there."⁹⁰ Beginning in 1955, Kurushima used his influence in the JBF to persuade his colleagues of the necessity of providing technology to Burma to develop its natural resources.

Kurushima's plan resembled that of like-minded people in the political realm. In 1954, Takasaki Tatsunosuke and Kishi Nobusuke – the former became the head of the Economic

⁸⁸ Esler Denning, "Japan: Fortnightly Summary. Period September 27–October 10, 1954," October 13, 1954, Macmillan Cabinet Papers, 1957-1963, PREM 11/3852, TNA, 75.

⁸⁹ Hidesaburō Kurushima, "Biruma wa Nihon no kaihatsu no te o machinozonde iru," *Jitsugyō no Nihon* 58 (3) (February, 1955): 43.

⁹⁰ *Ibid.*, 45.

Planning Agency (EPA) in 1955 and served as the minister of the MITI in the latter's government in 1957 – held a conversation regarding the future of the Asian economy. In hindsight, the conversation foretold some of the policies they would adopt after rising to power. In the eyes of Kishi and Takasaki, the resilience of European influence in Southeast Asia, especially in economics, was notable. The political independence that Southeast Asian countries gained after the war was merely “superfluous,” according to Takasaki, and the locals met little success in dismantling their economic dependence on the former colonial powers.⁹¹ Addressing this problem, both Kishi and Takasaki agreed that Japan should adopt an aid-centered policy in Southeast Asia. Instead of commercial practices based on the principle of “give-and-take,” both Japanese corporations and the state apparatus should adopt the strategy of “give-and-give” in their interactions with Southeast Asian counterparts, focusing on providing employment opportunities for locals and incorporating them into the Japanese manufacturing process.⁹² This “coexistence and co-prosperity” (*kyōsonkyōei*), the two politicians believed, should be the central theme of Japan's relationship with Southeast Asian countries in the decades to come.

Unsurprisingly, both the ideas put forward by Kurushima, Takasaki, and Kishi and their use of the term “*kyōsonkyōei*” strike a grotesque resemblance to Japan's wartime goal for the “Greater

⁹¹ Nobusuke Kishi and Tatsunosuke Takasaki, “‘Taidan’ Ajia no keizai kaihatsu to nashonarizumu Takasaki Tatsunosuke Kishi Nobusuke,” *Ajia mondai* 3, (1), no. 12 (January, 1954): 27.

⁹² *Ibid.*, 24–25.

East Asian Co-Prosperty Sphere.” This resemblance was further strengthened by the fact that both politicians had held important positions in Japan’s empire in the 1940s: both Takasaki and Kishi belonged to the “Manchu Network” (Manshū jinmyaku), a group of technocrats that controlled the decision-making process of Manchukuo, Japan’s puppet state in northeastern China. In the immediate postwar period, many members of the Manchu Network were branded war criminals and purged from public positions. After that decision was rescinded due to Washington’s shift of Occupation policy to a focus on containing communism in the late 1940s, these former technocrats and politicians were able to restore their power and influence in both business and government.⁹³ But despite its resemblance to Japan’s wartime ambition, the argument for *kyōsonkyōei* was applauded across the political spectrum. The sympathy for decolonization movements and the revival of pan-Asianism in the left-wing intelligentsia gave momentum to a sense of hostility toward European colonial powers.⁹⁴

⁹³ The “reverse course” (*gyaku-kōsū*) that took place in 1947 under the SCAP repealed many of the punitive measures against wartime Japanese leadership, including the parole and release of former war criminals, and allowed some to take leadership positions. The policies continued in the 1950s, when Washington continued to “expedite the parole of those Japanese war criminals subject to US control.” For reverse course, see Nick Kapur, *Japan at the Crossroads: Conflict and Compromise after Anpo* (Cambridge, MA: Harvard University Press, 2018), 8–9. See also National Security Council, “US Policy towards Japan,” April 9, 1955, FRUS, 1955–1957, Japan, Volume XXIII, Part 1, Document 28.

⁹⁴ Pan-Asianism as a genre of thought enjoyed a form of revival in the postwar period among Japanese intelligentsia and politicians, and this trend was further boosted by Japan’s participation in the Bandung Conference in 1955. For the postwar revival of pan-Asianism in Japan, see Eiji Oguma, “The postwar intellectuals’ view of ‘Asia,’” in *Pan-Asianism in Modern Japanese History: Colonialism, Regionalism and Borders*, eds. Sven Saaler and Victor Koschmann (London: Routledge, 2007): 200–211, and Kristine Dennehy, “Overcoming colonialism at Bandung, 1955,” in *Pan-Asianism in Modern Japanese History: Colonialism, Regionalism and*

In addition to the declining relations between Japan and the Western Bloc, another factor facilitating Washington's support for Japan lay in the progress the Eastern Bloc – the PRC, in particular – was able to make in 1953 and 1954. France's disastrous defeat at Diem Bien Phu forced Washington to adjust its strategy in Indochina and Southeast Asia in general. For the decision-making circle in Washington, Ho Chi Minh's triumph in the First Indochina War and the subsequent diplomatic success at the Geneva Conference in 1954 had greatly buttressed the diplomatic prestige of China, allowing it to solicit more collaborators among overseas Chinese in Southeast Asia and develop technological cooperation and trade relations with countries in this region. While Washington was planning to counter China's growing political prestige in the region, it also had to address Beijing's economic influence; Japan, the only industrial country in the region, was considered a suitable counterweight for a rapidly industrializing China.

China's "peace offense" was central to Washington's decision to adjust its view of Japan's role in the region. The fact that China could advance its economic relationships with Indonesia, Malaya, Cambodia, and Burma, just months after the Geneva Conference, substantiated Washington's concern about losing the area to communist influence. In light of communist advances, the Eisenhower administration initiated a series of aid programs for the region. These included the concessional sales of aid materials under Public Law 480 (PL 480), which was approved by Congress in 1954. The PL 480 program aimed to utilize US agricultural surplus to

Borders, eds. Sven Saaler and Victor Koschmann (London: Routledge, 2007): 213-225.

stabilize pro-American regimes across the globe. While the majority of the aid given under PL 480 was initially limited to food, the platform soon expanded to comprise other agricultural products that the United States had available, including sugar, raw cotton, and other ingredients for industrial production.

In addition to the aided countries, Japanese industries benefitted largely from this program. In the case of cotton cloth, Japan's primary export in the 1950s, the program contributed to Japanese manufacturers through direct concessional sales and by its position as the intermediate processor for US aid. Concessional cotton sales to Japan supplied Japanese spinners with cheap cotton payable in yen. In 1956 and 1957, Japan purchased seventy-nine-million-dollar worth of subsidized raw cotton from the United States, in addition to its normal trade.⁹⁵ This was largely made possible through the loans provided by the Export-Import Bank of the United States alongside commercial banks.⁹⁶ In 1956 alone, the Export-Import Bank provided sixty million dollars of short-term cotton credit to Japan to facilitate the latter's importation of US cotton.⁹⁷

⁹⁵ Economic Research Service, United States Department of Agriculture, "US Agricultural Exports Under Public Law 480" (Washington DC: Foreign Demand and Competition Division, Economic Research Service, October 1974), 138.

⁹⁶ *Ibid.*, 9. It is worth noting that cotton was the most important commodity among the PL 480 programs in which the Export-Import Bank of the United States participated. According to this report, 88 percent of the credit extended by the Bank for the PL 480 programs was for cotton. The Bank was not the only credit lender in these transactions; commercial banks were often encouraged to also offer loans to foreign purchasers of US cotton.

⁹⁷ Department of State, "Outline Plan of Operations with Respect to a Proposed US Economic Assistance Program for Southeast Asia," November 22, 1955, USDDO, accessed April 12, 2021, <https://link.gale.com/apps/doc/CK2349490558/>

The Japanese cotton industry also benefitted from PL 480 aid by processing US agricultural products for Southeast Asian countries. In a proposal for setting up aid to Indonesia, the State Department suggested a barter trade of twenty to thirty million dollars of cotton textile to Indonesia and charged Japan to “take over the processing of the cotton into textiles,” for which it would be compensated in either cotton or cash.⁹⁸ Notably, these proposals were explicitly created to counter China’s economic influence in the region. As the proposal states:

...recently Communist China is quite active trying to sell its cotton textile abroad, partly due to its own growing surplus of cotton products after the domestic consumption, but mainly due to economic and political benefits derived from such sales [,] either in the way of any raw materials exchanged or any foothold gained abroad.⁹⁹

In addition to facilitating Japan’s role as a provider of cheap consumer goods, the United States also intended to expand Japan’s economic role in Southeast Asia beyond that of a quartermaster. The US hoped it would function as the economic hub for the area and align Southeast Asian countries by providing prospects for development. In a policy paper published in January 1955, the USNSC recommended that the United States help Japan mobilize its domestic resources, including private capital, for international investment: the United States should “consider the appropriate extension of public credit, the improvement of conditions within Japan for private

USDD?u=camb55135&sid=USDD&xid=0ebd658a&pg=1.

⁹⁸ Department of State, “Guidelines for the Export of Japanese Cotton Textiles Under US Public Law (PL) 480,” September 6, 1955, USDDO, accessed April 12, 2021, <https://link.gale.com/apps/doc/CK2349599400/USDD?u=camb55135&sid=USDD&xid=dd741680&pg=1>.

⁹⁹ Ibid.

capital, the use of technical assistance, the use of local currency proceeds of agricultural surpluses and the widening of opportunities for the investment of Japanese capital.¹⁰⁰ Reflecting on China's diplomatic success at Bandung, in December 1955 the OCB published a progress report that underlined the lack of incentives for Japan to mobilize its domestic capital for foreign investment:

Although Japan has the highest investment rate in Asia, insufficient effort has been made by it to direct capital resources into the development of foreign markets and sources of supply....Most, if not all the capital required for these purposes is latently available internally or from private foreign sources. External assistance may be necessary to supplement these resources or to assist in mobilizing them.¹⁰¹

To address the lack of interest from Japanese enterprises in investing in the region, the OCB instructed the ICA to suggest that Japan adopt "an investment guaranty program to cover the special risk of private Japanese investment in the area."¹⁰² The technological transfer to Japan under the Productivity Program was also reappropriated to facilitate overseas investment by Japanese industrialists, as Japanese manufacturers might need to dispose of their outdated machinery after receiving new equipment. Though not all programs proposed in the OCB paper

¹⁰⁰ United States National Security Council, "NSC 5506: Future US Economic Assistance to Asia," January 24, 1955, FRUS, 1955–1957, EAST ASIAN SECURITY; CAMBODIA; LAOS, VOLUME XXI, Document 7, pp. 16-22.

¹⁰¹ Operation Coordination Board, "Outline Plan of Operations with Respect to Future US Economic Assistance for Asia," December 7, 1955, USDDO, 14, accessed April 12, 2021, <https://link.gale.com/apps/doc/CK2349490558/USDD?u=camb55135&sid=USDD&xid=0ebd658a&pg=1>.

¹⁰² *Ibid.*, 16

were realized, these suggestions speak to an increasingly strong awareness of the need for Washington to boost Japan's economic influence in the region.

While welcoming the opportunities Washington offered, the political situation at home did not allow the Yoshida government to conform to Washington's plan. Due to continuous political rivalry, the Yoshida Cabinet starting in mid-1954 found itself in a much more fragile political position. Combined with a sense of optimism that Japanese traders developed from their initial successes in Sino-Japanese trade, the government had to adopt a much softer, if not entirely reversed, stance on trade with China. This was where Tokyo and Washington diverged. For Yoshida, it was essential to seek American understanding and explain why Japan had been forced to drop its previous hardline position without alienating the United States.

When Yoshida visited London in October 1954, he repeatedly suggested to Churchill and Eden that the UK and Japan work together to "bring China back to the free world" through expanding its trade with the West, a suggestion he also mentioned in his meeting with Dulles in November.¹⁰³ Although Eden did not wish to join Yoshida in raising the issue in Washington, he instructed the British delegation in Washington to convey London's wish for the United States to relax trade restrictions against China.¹⁰⁴ However, the American stance on the embargo against

¹⁰³ Anthony Eden, "Conversation Between the Secretary of State and the Japanese Prime Minister at the Foreign Office on October 27, 1954," October 27, 1954, FJ 1631/87, PREM 11/3852, TNA, 66.

¹⁰⁴ Anthony Eden, "Addressed to Washington Telegram No. 5419 of October 29," October 29, 1954, PREM 11/3852, TNA, 65.

China remained firm. When Yoshida arrived in Washington, he found his ideas for China trade dismissed by Dulles and Eisenhower. The former even intervened to force the Japanese delegation to delete any similar message from its draft for the joint communique, as well as anything that could be interpreted as a sign of relaxing the embargo.¹⁰⁵ The failure to secure US support for Sino-Japanese trade was disappointing for many in Yoshida's mission, as well as arguably for Yoshida himself, as his efforts at coordination in London had proven futile.¹⁰⁶ Soon after returning from the United States, Yoshida stepped down from his position as prime minister and was replaced by his rival, Hatoyama Ichirō, who was ready to press the pro-China agenda even further, regardless of Washington's disappointment.

Conclusion

This chapter has laid out a set of international factors – from London, Beijing, and Washington – that shaped Japanese decision-makers' policies toward the country's economic orientation in the decade after the World War II. U.S backing for Japan's economic expansion in Britain's colonial

¹⁰⁵ Sayuri Shimizu, *Creating People of Plenty: The United States and Japan's Economic Alternatives, 1950–1960* (Kent: Kent State University Press, 2001), 74–75.

¹⁰⁶ It is debatable whether Yoshida took down the China-related clauses in the joint communique that the Japanese team drafted. According to John Dower, he did eventually take down the clause, demonstrating his “ultimate obsequiousness on the China issue.” This contrasts with Shimizu's argument, which holds that it was more of a forced result of American pressure and that Yoshida took it as a personal humiliation. See John Dower, *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878–1954* (Cambridge: Harvard University Press, 1979), 487.

sphere prompted resentment in Britain, which then struggled to preserve economic influence through diplomacy in the Commonwealth and economic connections with China. This endeavor, in turn, stimulated the pro-engagement camp – in both political establishment and the business world – in Japan, which then pursued economic ties with China, sometimes even in collaboration with Britain. While Yoshida failed to create a united front with Britain on China trade in 1954 due to strong opposition from Washington, the country still managed to circumvent the American embargo against China and maintained a working trade relation with Beijing. In this way, Japan's economic diplomacy in the immediate postwar period was to navigate the turbulent power relations in Asia while staging the country's return to position of economic power in the region.

Japan's dilemma in the convoluted regional power dynamics persisted during Hatoyama's term, as the new Prime Minister did not solve the "China Question" that had confronted the Yoshida administration. While the US position was convenient for Japan's economic ambitions in Southeast Asia, Washington maintained a hardline position on expanding any form of Sino-Japanese trade. As Chapter III will elaborate, the division on China policy would continue to create a conundrum in Japan's diplomatic stance in the latter half of the 1950s. In addition, as this chapter demonstrates, the rise of Chinese influence in the region was critical to London's and Washington's adoption of a more positive stance on Japanese expansion in Southeast Asia, as they considered Japan to be a potential counterweight for China in the region. Japan's diplomatic turn in the late 1950s attested to such an evaluation. It did not take long for both the Japanese business world and the government to discover that China was not only a problematic friend to maintain in

bilateral trade but also a dangerous competitor in the economic realm in Southeast Asia. After Kishi succeeded Hatoyama as the prime minister, Beijing and Tokyo engaged in a competition for commercial interests and economic influence in Southeast Asia in 1958. The moments of prospering bilateral trade, which many had enthusiastically pursued under the Yoshida administration, were brief, and ill-fated.

Chapter III: From Engagement to Competition: The Dilemma of Sino-Japanese Relations in Southeast Asia, 1955–1959

Hatoyama Ichirō's emergence as the new prime minister in late 1954 brought much optimism to the corporate sector and the Diet. As he had been featured as a blunt critic of Yoshida's pro-US stance, the business sphere had much hope that Hatoyama would overhaul Japan's economic and trade policy. According to the *Diamond Economic Journal's* poll in November 1954, 182 of the 236 respondents from "major companies and economic associations" were disappointed with Yoshida and believed he should step down. When faced with the question of Yoshida's successor, seventy respondents voted for Hatoyama, whereas Ogata Taketora, the new president of the LP, won seventy-three votes.¹ However, a key factor in Hatoyama's victory was his ability to secure support from both right-wing socialists and Kishi's faction. Fujiyama Aiichirō, the head of the JCCI who later became the foreign minister in the Kishi administration, wrote in support of Hatoyama that the "marginal difference" in the poll was "merely because of concern for Mr. Hatoyama's health."² Japanese socialists, who were the most active advocates for engagement with China, also chose to support Hatoyama, unifying both the right-wing and the left-wing of the party. Consequently, Hatoyama beat Ogata and won the position of prime minister in December

¹ "Zaikai wa Yoshida gen naikaku o shiji shinai" [The Business Community does not Support the Current Yoshida Cabinet], *Diamond: Economic Journal* 42, no. 48 (December 1954): 38–40.

² *Ibid.*, 40.

1954.

Hatoyama did not disappoint his supporters, at least in the first months of his reign. In his first address to the Diet in January 1955, Hatoyama pledged to bring completely independent diplomacy to the country. “I believe the most important objective of our country is to gain complete independence as soon as possible,” Hatoyama stated. “To attain it, the government will initiate an autonomous, proactive, and peaceful diplomacy to ensure peace in the world based on the wide-ranging support from our citizens.”³ In his second speech three months later, Hatoyama further articulated his diplomatic roadmap, including his decision to sign a peace treaty with the Soviet Union and “make all efforts to advance trade relations with communist China.”⁴ This ambition was also reflected in Hatoyama’s cabinet arrangement. Takasaki Tatsunosuke and Ishibashi Tanzan, the two most active advocates for economic engagement with China, were appointed as the heads of MITI and EPA, respectively, to helm Japan’s trade policies. Takasaki was especially influential: Hatoyama considered him his most important economic advisor because of his fraternization with industrialists in the corporate world and with economic technocrats before the war.⁵ Therefore, in February, when Takasaki included “the efforts to expand trade with China and

³ Ichirō Hatoyama, “Shisei hōshin enzetsu. Dai 21-kai (jōkai)” [State Policy Address, the 21st Diet Session (Regular Session)], January 22, 1955, DSTN, accessed April 15, 2022, <https://worldjpn.grips.ac.jp/documents/texts/pm/19550122.SWJ.html>

⁴ Ichirō Hatoyama, “Shisei hōshin enzetsu. Dai 22-kai (tokubetsu kai)” [State Policy Address, the 21st Diet Session (Special Session)], April 25, 1955, DSTN, accessed April 15, 2022, <https://worldjpn.grips.ac.jp/documents/texts/pm/19550425.SWJ.html>

⁵ Takasaki had been involved in the most intimate circle – along with Kōno Ichirō, Ishibashi

[the] Soviet Union” in his “six-year-plan for Japan’s self-reliant economy,” it sent a clear message to Hatoyama’s supporters that the government was ready to move Sino-Japanese trade forward.⁶

Certainly, Hatoyama’s proclamation of independent diplomacy led to varying responses from Japan’s allies in the Western Bloc. Dulles, who had rejected Yoshida’s petition to relax the embargo against China, was alarmed by Hatoyama’s decision to negotiate with the Communists without prior coordination with Washington. On January 10, Dulles instructed the US Embassy in Japan to convey Washington’s position on proposed rapprochement with China, warning that “to make any move now toward Communist China would fly in face international opinion...Japan’s establishment of relations with Communist China could have a dangerous effect on [the] rest [of] Asia and its will [to] resist Communist expansion.”⁷ In addition to the political consequences, the State Department was also anxious about the possible expansion of Sino-Japanese trade: it “is dangerous for Japan to develop reliance [on] Communist China as [a] source [of] raw materials,” as it primes the country to adopt neutrality.⁸ Admittedly, Hatoyama made some efforts to appease

Tanzan, and Mitsujirō Ishii – with Hatoyama and acted as his personal economic counsel. Hatoyama considered him “an able hand in the cabinet, whose economic theory offered much inspiration to me personally.” See Ichirō Hatoyama, *Hatoyama ichirō kaiko-roku* [Ichirō Hatoyama’s Memoir] (Tokyo: Bungeishunjū shin sha, 1957).

⁶ Tatsunosuke Takasaki, “Nipponkeizai jiritsu no tame ni” [For Japan's Economic Independence], *Keizai ōrai* 7 (February 1955): 45.

⁷ “Telegram From the Department of State to the Embassy in Japan,” January 10, 1955, FRUS 1955–1957, Japan, Vol. XXIII, Part 1, Document 4, 5–6.

⁸ *Ibid.*, 6.

Washington. When Ambassador Iguchi visited the State Department and met Dulles on January 28, he explained that the government was compelled to make some progress on trade with the USSR and China due to “increasing pressure from Osaka businessmen for trade with the latter.” Iguchi assured Dulles that, in any event, “Japan would not violate the COCOM (Coordinating Committee for Multilateral Export Controls) regulations.”⁹ Despite this assurance from Iguchi, Washington remained suspicious of Hatoyama’s intentions and rejected Shigemitsu’s proposed visit to Washington in March.¹⁰

The Southeast Asian countries, for different reasons, were also not enthusiastic about Hatoyama’s agenda for Japan. In April 1954, the five “Colombo Plan” countries in Asia – India, Indonesia, Ceylon, Burma, and Pakistan – organized a prime ministers’ summit, despite opposition from the United States and Britain.¹¹ In the joint communique published after the conference, the five prime ministers supported Indonesia’s proposal to host a conference for African-Asian nations. At the second Conference at Bogor, which was held on December 29, just after Hatoyama became

⁹ “Memorandum of a Conversation, Department of State, Washington, January 28, 1955,” January 28, 1955, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 9, 13.

¹⁰ John Moore Allison, “Telegram from the Embassy in Japan to the Department of State,” April 26, 1955, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 11, 69–70.

¹¹ The United States’ reasoning for opposing the Conference was the lack of anti-communist agenda in the proposed sessions and the rejection of including SEATO as a matter of discussion. Britain also adhered to Washington’s position. The United States was especially disappointed after the joint communique supported that China should be accepted as a formal party in the Geneva Conference. See “Koronbo kaigi no seika junēbu e atsuryoku tōzai no chōsei e Eitakumi ni riyō,” *Yomiuri Shimbun*, May 5, 1954.

the prime minister, the five countries agreed to extend an invitation to “all countries in Asia and Africa, which have independent governments,” including China and Japan.¹² However, according to intelligence gathered by the Japanese Embassy in India, the decision to invite Japan and China did not pass unopposed. While Nehru insisted that all countries should be invited to attend, Indonesia and Burma opposed Japan’s participation, while Pakistan, Thailand, and the Philippines contested China’s.¹³ Similarly, Nehru’s decision to invite Japan to a conference in Simla to discuss American aid to Asia triggered opposition among countries in the region. As the Japanese Embassies reported, Ceylon, Cambodia, Thailand, and Pakistan all expressed doubts about the necessity of receiving US aid from “a third country.” Ceylon eventually withdrew from the meeting, citing its skepticism about “the necessity for the countries concerned to work out a joint pattern of aid.”¹⁴ The gamut of reactions from the region’s countries to Japan’s pursuit of an active role in Southeast Asia were surely a challenge to Hatoyama’s diplomatic ambitions.

¹² “Joint Communique by the Prime Ministers of Burma, Ceylon, India, Indonesia, and Pakistan,” December 29, 1954, Tōnan’ajia go-kakoku shushō kaigi kankei ikken (Koronbo kaigi, bogōru kaigi), B’ 6’ 1’ 0’ 32, DAMOFAJ.

¹³ Kijiro Miyake, “Dainikai Koronbo kaigi ni kansuru jōhō shūshū no ken” [On Intelligence Gathering for the Second Colombo Conference], December 21, 1955, Tōnan’ajia go-kakoku shushō kaigi kankei ikken (Koronbo kaigi, bogōru kaigi), B’ 6’ 1’ 0’ 32, DAMOFAJ.

¹⁴ Delegation of Ceylon, “To the Minister for Foreign Affairs, Japan,” April 21, 1955, Beikoku no tōnan’ajia keizai enjo ukeire kaigi kankei ikken (Shimura kaigi) dai 1-kan, B’.6.3.0.16, DAMOFAJ. For more information on the attitudes of Pakistan, Australia, Thailand, and Cambodia, see the telegrams from Japanese Embassies in corresponding countries in the reply to Telegram No. 87 from the same MOFA collection as the Ceylon telegram.

Nevertheless, when news of the invitation reached Japan, it was applauded – by business leaders and leftists in the Diet – as a positive sign of Japan’s “return to Asia.”¹⁵ Hatoyama also perceived the invitation as a propitious moment to push forward his diplomatic agenda and to draw a marked contrast to his predecessor. Unlike Yoshida, who had doubts about Japan pursuing leadership in the developing world, Hatoyama hoped that the first Afro-Asian Conference would offer a breakthrough for Japan’s pursuit of leadership status – both political and economic – in the developing world.

However, Hatoyama’s ambitions faced opposition, both domestically and abroad. The supporters of Yoshida’s doctrine of pro-American diplomacy remained strong in the MOFA, which was under the leadership of Yoshida’s long-term political ally, the Vice-Prime Minister and Foreign Minister Shigemitsu Mamoru. Contrary to Hatoyama’s enthusiasm, Shigemitsu demonstrated a much more reserved attitude toward sending a Japanese delegation to Bandung, insisting that Japan should first consult its allies – and America in particular – before accepting the invitation.¹⁶ In addition, Shigemitsu proposed that he be appointed head of the delegation if Japan

¹⁵ Taizō Miyagi, “‘Nashonarizumu no jidai’ no Ajia to Nihon – 1950 nendai -” in *Sengo Nihon no Ajia gaikō*, ed. Taizō Miyagi (Kyōto: Mineruba Shobō, 2015), 89–90.

¹⁶ In the original draft of the telegram that Shigemitsu sent to Iguchi, the former asked the latter to schedule a meeting with the American side and inform Washington that should Japan decide to participate, “it will take measures to keep close communication with the US government during this process.” Although the sentence is deleted from the actual telegram, Shigemitsu’s concern for Washington’s response was apparent. See Mamoru Shigemitsu, “Ajia’ Afurika kaigi e no Nihon sankā mondai ni kansuru ken” [On the Issue of Japan’s Participation in the Asian-African Conference], January 4, 1955, *Ajia Afurika kaigi e no Nihon no sankā mondai*, *Ajia Afurika kaigi*

decided to participate.¹⁷ Hatoyama, however, shunned Shigemitsu's suggestion and appointed Takasaki, his most trusted economic counselor, as the head of the Japanese delegation to Bandung. Shigemitsu managed, however, to include three members from the Foreign Ministry in the delegation under Takasaki, who would report to him personally.¹⁸

Shigemitsu's fear of Washington's disappointment was well founded. The United States had been opposing the Conference, citing the fear that it would be dominated by communists and their sympathizers.¹⁹ In January 1955, Dulles told Iguchi that America was concerned that this Conference would provide momentum to the doctrine of "Asia for Asians" that "intended to break the ties of Asian countries with the US."²⁰ When Dulles found out that Hatoyama had decided to send a Japanese delegation, he intervened and asked Japan to send a pro-US figure to Bandung. If Japan decided to go, Dulles suggested, it was necessary that "the Japanese delegation would

kankei ikken Nihon no taido dai 1-kan, B'.6.1.0.24-1, DAMOFAJ, 12–14.

¹⁷ See "Memorandum of a Conversation, Department of State, Washington, January 28, 1955," January 28, 1955, FRUS 1955–1957, Japan, Vol. XXIII, Part 1, Document 9, 13.

¹⁸ The three Foreign Office representatives were Tani Masayuki, Kase Toshikazu, and Asami Kōichirō. See "A. A kaigi nipponseifu daihyō-dan no kettei ni tsuite" [On the Selection of Japanese Government's Delegation to the A.A Conference], April 7, 1955, Ajia Afurika kaigi kankei ikken Nihon no taido jinji, senden, tokuhain, shomu kankei, B'.6.1.0.24-1-4, DAMOFAJ, 37–38.

¹⁹ Kurt Radtke, *China's Relations with Japan, 1945–83* (Manchester: Manchester University Press, 1990), 106–107.

²⁰ "Memorandum of a Conversation, Department of State, Washington, January 28, 1955," January 28, 1955, FRUS 1955–1957, Japan, Vol. XXIII, Part 1, Document 9, 14.

include people who understand that this is one world and that to exclude US influence and ties from any continental area can only result in dominance by the Soviet Union.”²¹ In this way, Hatoyama’s decision to send Takasaki instead of Shigemitsu was a clear sign that he had little intention of advancing Washington’s political agenda; rather, he hoped to prioritize Japan’s economic interests at Bandung and Simla.

Hatoyama’s “China Dilemma” and Japan’s Setbacks at Bandung and Simla, 1956–1957

What exactly did Hatoyama and Takasaki want to achieve in these two meetings? At the center of their proposal was the ambition to situate Japan at the center of a set of economic and financial arrangements that incorporated most countries in Southeast Asia and, potentially, China. This point was made clear by Takasaki himself in 1954 during an interview with Kishi. Both agreed that Japan’s interest was best served by pursuing “coexistence and co-prosperity” and directing the development of Southeast Asian industry as they had done in Manchukuo.²² The directory role Japan would assume, as envisioned by Takasaki, would grow from extending trade relations with and technological assistance to the region.

However, Takasaki also believed that his plan would require financial resources exceeding Japan’s capacity and thus would require sponsorship from the United States. Before departing for

²¹ Ibid., 14.

²² Nobusuke Kishi and Tatsunosuke Takasaki, “‘Taidan’ Ajia no keizai kaihatsu to nashonarizumu Takasaki Tatsunosuke Kishi Nobusuke,” *Ajia mondai* 3, (1), no. 12 (January 1954): 29.

Bandung, Takasaki wrote a personal letter to the White House that explained his economic proposal and asked for Washington's support. In this letter, Takasaki suggests that Washington should consider, to deepen Japan's trade association with the region's countries, using its aid to Asian countries to establish a payment union. "Among the Asian nations, it is Japan who suffers most seriously for lack of such multilateral means of settlement...it is to be noted here that the wider application of a multilateral settlement pattern is one way to answer the cries for freer trade."²³ This proposal was also conveyed to Harold Stassen, Eisenhower's director of the Mutual Security Administration, who was visiting Tokyo at the time.²⁴ However, Takasaki's proposal met with little enthusiasm in Washington. The Eisenhower administration was not only disappointed by the uncertainties caused by Hatoyama's search for independent policy but also considered Japan's wish for the United States to sponsor a regional development platform costly. As suggested by the USNSC policy paper adopted one month earlier, Eisenhower believed that any US financial contribution to Asia should be "in realistic and reasonable amounts." Participation by the United States in "the creation of any new multilateral banking or credit institution within this region" was

²³ Tatsunosuke Takasaki, "Some Proposals for the Economic Cooperation with the Southeast Asian Countries," March 9, 1955, USDDO, accessed September 21, 2020, <https://link.gale.com/apps/doc/CK2349227128/USDD?u=camb55135&sid=USDD&xid=efc521b6>.

²⁴ Sumio Hatano, "The Colombo Plan and Japan: Focusing on the 1960 Tokyo Meeting," in *The Transformation of the International Order of Asia*, Vol. 97, eds. Shigeru Akita, Gerold Krozewski, and Shoichi Watanabe (Florence: Routledge, 2015), 133.

also rejected.²⁵ Hatoyama stepped down in 1957, but Eisenhower remained reluctant to create any regional payment organization with Washington's financing for the remainder of his administration.²⁶

Even without support from Washington, Takasaki remained committed to promoting this idea at Bandung. In the proposal submitted by the Japanese delegation, Takasaki actively promoted the idea of regional cooperation, including a proposal for the Asian Payment Union, which would use the US dollar as the reserve currency, and a regional trade organization to help “stabilize raw material prices.”²⁷ Takasaki's proposal was widely opposed. In addition to India and Ceylon, which demanded the use of the Sterling pound in the proposed Payment Union, Beijing also demonstrated little interest in either proposal. In a telegram sent by the MOFT to the Chinese delegation in Bandung on April 20, it was agreed that it was not in the CPC's interest to agree to any form of Payment Union, as China could not afford to contribute capital to the organization and

²⁵ “National Security Council Report” (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5506 Series. Secret, In *Foreign Relations of the United States, 1955–1957, East Asian security; Cambodia; Laos*, Vol. XXI, Document 7, January 24, 1955), 16–22.

²⁶ The Eisenhower administration maintained this position even after Kishi became the prime minister in 1957. During the meeting between Eisenhower and Kishi on June 19, 1957, the former informed the latter that Washington could not sponsor his proposal for a regional development funding, as “our money is not unlimited.” See “Memorandum of a Conversation, White House, Washington, June 19, 1957, 11:30 a.m.,” June 19, 1957, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 183, 373–374.

²⁷ The Delegation of Japan, “Keizai kyōryoku ni kansuru teian” [Proposals for Economic Cooperation], April 27, 1955, Ajia Afurika kaigi kankei Ikken kakkoku no teian-shū, B'.6.1.0.24-3, DAMOFAJ.

“it is difficult to prevent the realization of British and American domination by the British Pound and the American Dollar via servile countries.”²⁸ Due to these objections, the final joint communique of the Conference did not include the proposal for the Payment Union and only briefly mentioned the importance of deepening mutual assistance between Afro-Asian nations regarding technology and trade.

The disagreement between China and Japan over the Payment Union provides insight into the two vastly different outlooks on Asia that the countries brought with them to Bandung. In China’s proposal, Zhou emphasized the importance of Afro-Asian nations in achieving economic self-reliance through bilateral and intra-regional cooperation. According to Zhou’s report to the Central Committee after the Bandung Conference, while he admitted that the “general delegates were not confident about self-reliance and regional cooperation, thinking that it was impossible to resolve the shortage of funds and technologies,” the Chinese delegation went ahead with the proposal of an autarkic development mode for Afro-Asian countries based on China’s own successful experience:

We proposed that all nations engage in cooperation based on building a peaceful, independent, and autonomous economy and stated that regional economic cooperation would be promising and that some technologies and experiences obtained by Asian and African people were more suitable for Asian and African nations, given their actuality, and were worth exchanging. Moreover, we announced our willingness to provide some

²⁸ “Cable from the Chinese Foreign Commerce Department, ‘Views on the Supplementary Section of the Plan to Participate in Trade Activities of the Asian-African Conference,’” April 20, 1955, trans. Jeffrey Wang, PRC FMA 207-00063-11, 22-23, History and Public Policy Program Digital Archive, WCDA, accessed January 7, 2022, <http://digitalarchive.wilsoncenter.org/document/114675>.

industrial equipment and experts, and exchange technologies and training experts within our power, attracting the attention of many delegates.²⁹

Ironically, while Zhou enthusiastically promoted China's mode of self-reliant industrialization, China's achievements owed credit to the import of technology from both socialist countries and West Europe.³⁰ Beijing's import substitution strategy had led to a deficit in its external trade and generated a large amount of foreign debt. In this regard, the Chinese delegation's promotion of the Chinese model may be interpreted as a self-fulfilling prophecy aimed at promoting China's own economic benefit: should Afro-Asian nations import the "suitable" technologies, they would naturally turn to the PRC, the country that had achieved success through this model in the first place.

In contrast, Japan favored setting up a central command tower for regional cooperation to receive help and technology from "developed industries." The technology transfers, Takasaki suggested, would benefit from established platforms, such as ECAFE and new regional consulting bodies on technology.³¹ Japan's position also included an alternative to China's emphasis on

²⁹ "Zhou Enlai's Report to the CCP Central Committee and Mao Zedong Regarding the Economic Cooperation Issue," April 30, 1955, *Zhonghua renmin gongheguo waijiao dang'an xuanbian. Di er ji. Zhongguo daibiaotuan chuxi 1955 nian Ya Fei huiyi* [Selected Diplomatic Archival Documents of the People's Republic of China, Vol. 2: The Chinese Delegation at the 1955 Asia-Africa Conference], ed. Zhonghua renmin gongheguo waijiaobu dang'anguan, (Beijing: Shijie zhishi chubanshe, 2007) trans. 7Brands, WCDA, 90–93. <http://digitalarchive.wilsoncenter.org/document/121751>.

³⁰ See James T. H. Tsao, *China's Development Strategies and Foreign Trade* (Lexington: Lexington Books, 1987), 156, 160, 166.

³¹ "Ajia Afurika kaigi kankei Ikken Nihon no taido hōkoku-sho, hakusho kankei" [Documents Related to the Asia-African Conference: Reports on Japan's Official Attitude and the White

developing heavy industries. Instead, Afro-Asian nations should build “small industries, cottage industries [*kanai kōgyō*], and those fit for local resources.”³² However, Takasaki’s proposal received mixed responses from the delegations. While some – India, Burma, and the Philippines – demonstrated interest in receiving aid from developed countries, other delegations remained unconvinced. The fear of the return of imperialist control through technology assistance prevented them from accepting Japan’s proposal at face value.³³

Hatoyama’s and Takasaki’s ambitions took another hit at the Simla Conference when delegates from the Colombo countries in Asia – most of whom had been at Bandung – demonstrated little interest in Japan’s proposal for regional coordination of economic aid. According to US reports, the delegations were skeptical of Japan’s preoccupation with developing intra-regional trade and multinational projects, fearing that Tokyo could be “attempting to reestablish its prewar economic predominant position under a new guise.”³⁴ This fear was similar to the sense of unease toward Japan’s economic expansion in the region that McDonald had reminded Yoshida of in 1952. The US Embassy attributed the general reluctance for regional

book], B’ .6.1.0.24-1-3, DAMOFAJ.

³² Ibid.

³³ See Sumio Hatano and Susumu Satō, *Gendai Nihon no Tōnan Ajia seisaku: 1950–2005* [Modern Japan’s Asian Policies, 1950-2005] (Tōkyō: Waseda Daigaku Shuppanbu, 2007), 37–38.

³⁴ “Telegram From the Embassy in India to the Department of State,” May 24, 1955, FRUS, 1955–1957, East Asian Security; Cambodia; Laos, Vol. XXI, Document 55.

cooperation to the fear by “smaller countries” of Japanese or Indian dominance in the proposed economic agenda:

All delegations with sole exception of [the Japanese expressed desire [to] give priority now in use of foreign aid to national rather than regional development (i.e., existing pattern) but [there was] some fear on the part [of] smaller nations that Japan and India might use [the] regional approach [to] build up their own prestige and economic position at [the] expense [of] smaller countries.³⁵

The frustration on the Japanese side was evident. Okita Saburo, a member of the Japanese delegation, complained that Asian regionalization was merely “a slogan” because a lack of “mutual trust” plagued countries in Southeast Asia.³⁶ The failure to secure support for regionalization at either Bandung or Simla was also a disappointment to corporate Japan. Matsunaga Yasuzaemon, a leading entrepreneur in the power industry with a deep connection to other industrial sectors, openly urged the Hatoyama administration to drop its unrealistic pursuit of regional cooperation and switch to bilateral programs.³⁷ To some extent, Matsunaga’s doubt may reflect the disappointment in the manufacturing sector – especially industries suffering from overproducing such as steel, fertilizer, and cotton-spinning – which was an important source of support for the Hatoyama regime.

³⁵ Ibid., 107.

³⁶ Saburo Okita, *Ajia ni okeru Keizai tougou no kkanousei to jouken* [Possibilities and Conditions for Economic Integration in Asia] (Tokyo: Ajia Keizai Kenkyusho, 1962), 244.

³⁷ Hayato Hasegawa, “Kishi naikaku-ki no naisei gaikō rosen no rekishi-teki saikentō ‘fukushi kokka,’ ‘keizai gaikō’ to iu shiten kara” [A Historical Reexamination of the Domestic and Foreign Policy of the Kishi Cabinet: From the Perspectives of “Welfare State” and “Economic Diplomacy”], (PhD diss., No. JD070014, Hitotsubashi University, 2020), 153–154.

Unlike their Japanese counterparts, US decision-makers were much less disappointed with the results of the two conferences. For Washington, the setbacks Japan encountered at Bandung and Simla provided an opportunity for diplomatic intervention to enhance Japan's dependence on the United States and dissuade it from further engagement with China. Ambassador Allison wrote in August 1955 that the setbacks may have humbled Hatoyama and his advisors, forcing them to make a conciliatory turn toward the United States:

Hatoyama personally and those around him have belatedly begun to realize that the US cannot be taken for granted, that Japan is perhaps not so important to US as Japanese had come to believe. There are small, but perhaps not entirely transitory, signs of greater Japanese cooperation...Communist China Trade Mission has been given pretty much of cold shoulder by responsible government and business circles and Murata (head of the Association to Promote Trade with China) is complaining bitterly, according to informed sources, about the reversal of the Japanese Government position on China trade.³⁸

The reason for the change in attitude in the Hatoyama administration, Allison believes, was the diplomatic pressure Washington applied to Japan through tough talks on security arrangements. However, in hindsight, Allison's observation may underestimate Tokyo's determination to achieve its diplomatic ambitions. When Shigemitsu visited Washington in August 1955, the Japanese side remained committed – in an innocuous manner – to its economic agenda in Asia. In order for Japan to remain in the “free world,” the Japanese side proclaimed that it needed not only political independence but also a “self-sustaining economy,” which required giving attention to “the great potentialities of Japanese-American cooperation with regard to the economic development of

³⁸ John Moore Allison, “Telegram from the Embassy in Japan to the Department of State,” April 26, 1955, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 11, 69–70.

Southeast Asia” and “a favorable consideration” to the relaxation of the embargo against China.³⁹

Shigemitsu also made the Japanese argument clear in his second talk with Dulles: US direct aid to Southeast Asia, should it be bilateral, must not hinder Japan’s normal trade with the region.

In response, Dulles employed the “carrot-and-the-stick” strategy during Shigemitsu’s visit. While Dulles was unequivocal in declining Shigemitsu’s request to relax the embargo list against China, he assured Japan that their “normal trade interests in Southeast Asia” would not be impaired by US aid to the region.⁴⁰ In his meeting with Shigemitsu and Kishi on August 29, Dulles even suggested that the United States wished Japan to play a more proactive role in Asia in the United States’ absence: “It would be normal if Japan were exerting a greater influence and the United States were exerting less influence in Asia. The United States does not desire to act as a sort of balance-of-power in Asia. Japan should do this, and the United States would be happier in this event.”⁴¹ Both Kishi and Shigemitsu welcomed the idea and agreed to bring the proposal to Hatoyama.

However, while Hatoyama’s ambition for a Japan-led regionalization faced opposition from

³⁹ “General Statement,” August 29, 1955, Shigemitsu gaimu daijin hōbei kankei Ikken kaidan shiryō (eibun). A’ 1. 5. 2. 3-4, DAMOFAJ, 9.

⁴⁰ “Shigemitsu daijin, kokumu chōkan kaidan memo (daisankai)” [Memorandum of Conversation between Minister Shigemitsu and the State Secretary (the Third Meeting)], August 31, 1955, “Shigemitsu gaimu daijin hōbei kankei Ikken Shigemitsu daresu kaidan,” A’1.5.2.3-5, DAMOFAJ, 77.

⁴¹ “Memorandum of a Conversation, Department of State, Washington, August 29, 1955,” August 29, 1955, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 44, 94–95.

both China and countries in the region, Washington's strategy to dissuade Japan from pursuing economic engagement with China did not go as planned. This was partly related to pressure from the leftists in the Diet. The prospect of returning to pro-Washington diplomacy under Yoshida disappointed JSP/JCP members in the Diet, who criticized Hatoyama for his failure to deliver the progress he promised and threatened to call for a vote of no-confidence.⁴² While this was not realized, the threat reminded Hatoyama that he could not afford to repeat Yoshida's mistake and alienate himself from his left-wing supporters.

Another source of pressure came from the corporate sector. The interest in expanding economic ties between Tokyo and Beijing was robust in the steel and fertilizer manufacturers eager to address their overproduction. Corporate Japan remained interested in procuring industrial raw materials – coal, raw cotton, and iron ore, in particular – from China to satisfy its needs. As Hungarian officials informed Beijing, Japanese merchants and industrialists approached the Hungarian delegation in Tokyo at the ECAFE annual meeting in October 1956 and asked them to broker and facilitate Sino-Japanese trade. “Japanese merchants would not mind paying in either pound sterling or US dollar,” the Chinese side was informed, “as long as they can access iron ores from China.”⁴³

⁴² “Telegram From the Embassy in Japan to the Department of State,” December 15, 1955, FRUS, 1955–1957, United Nations and General International Matters, Vol. XI, Document 220, 452.

⁴³ “Xiong can zan lai fang qing kuang de hui bao” [Report on Hungarian Counselor's Visit], November 30, 1956, File No. 113-00284-01, Bureau of Archives of the Ministry of Foreign

In contrast to its predecessor, the Hatoyama administration took the initiative to help – with a vaguely encouraging attitude – Japanese businesses expand their trade with China. During Shigemitsu’s visit to Washington in August 1955, the MITI delegate Yukawa negotiated with the US side for special permission to export galvanized steel to China, which was exchanged for additional coal from the Chinese side.⁴⁴ The Hatoyama administration also facilitated the exchange of trade delegations. In July 1956, thirty-seven Japanese merchants visited Beijing and signed a four-million-pound trade deal with China. In October and December, Japanese representatives were again invited to set up exhibitions in Beijing and Shanghai to promote Japanese merchandise.⁴⁵ Washington, which had noticed the increase in economic negotiations and travel between China and Japan, complained that the Hatoyama government had offered too many conveniences to Beijing in the exchange of trade commissioners and had “tested (without violating) the limits of US patience on this score.”⁴⁶ In any case, these exchanges helped boost

Affairs of the People's Republic of China (hereafter cited as BAMOFAPRC), Beijing.

⁴⁴ Yukawa Morio, the head of the Economic Bureau in the MITI, was part of the Japanese delegation to Washington in August 1955. He raised the issue of galvanized steel during Dulles’ meeting with Shigemitsu on August 31 and secured Washington’s permission in subsequent talks. See “Shigemitsu daijin, kokumu chōkan kaidan memo (daisankai),” August 31, 1955, Shigemitsu gaimu daijin hōbei kankei Ikken Shigemitsu daresu kaidan,” A’ 1. 5. 2. 3-5, DAMOFAJ, 77. See also Horiuchi and Mochidzuki, *Kairan tankō no 80-nen* [Eighty Years of the Kailan Coal Mines] (Tokyo: Keimei kōeki, 1960), 132.

⁴⁵ Jianqun Xie, Liande Lin, Xunzhen Liao, and Yangchun Fang., *Mao cu chun qiu: Zhong guo guo ji mao yi cu jin wei yuan hui shi (1952–1994)* [Spring and Autumn of Trade Promotion: History of China Council for the Promotion of International Trade (1952-1994)] (Beijing: Zhong guo guo ji mao yi cu jin wei yuan hui, 1995), 90–92.

⁴⁶ Office of Intelligence Research, Division of Research for Far East, “Intelligence Report No.

trade between the two countries: in 1955, the volume of Sino-Japanese trade reached 109.3 million U.S. dollars, registering an 82.6% increase compared to the previous year. The year 1956 saw the trade volume increase by another 38.1% to reach 150.8 million dollars.⁴⁷ As a result, the Sino-Japanese trade experienced the most rapid increase in in the 1950s during the first two years of the Hatoyama administration.⁴⁸

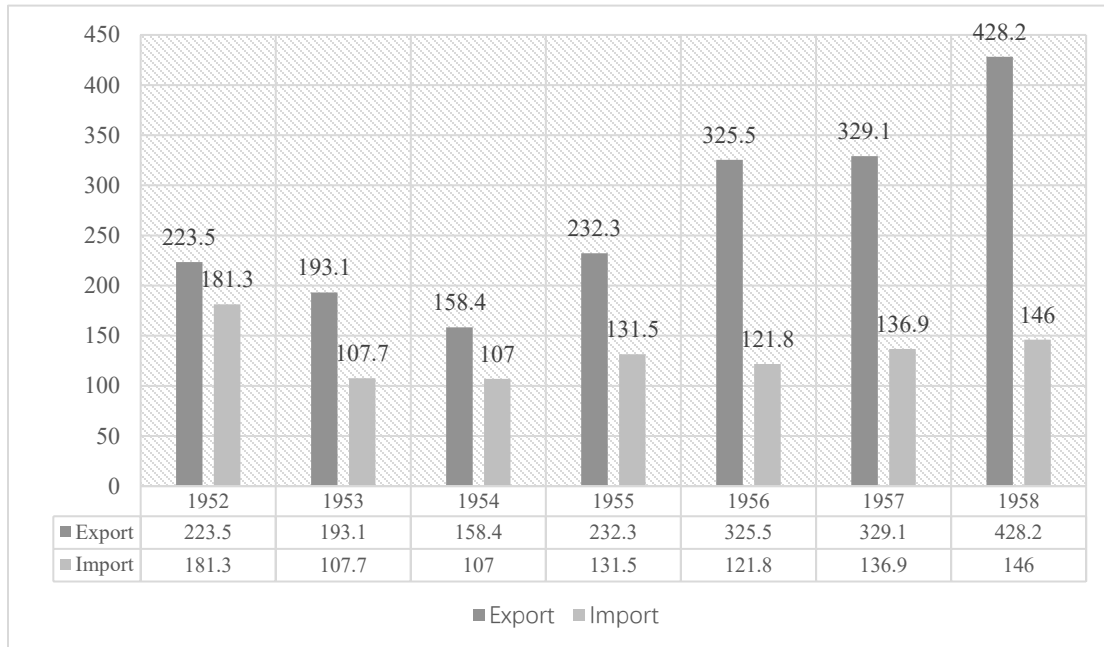
However, a looming danger for Hatoyama's and Takasaki's strategy to expand Japan's economic engagement with the Southeast Asian region and China was Beijing's ambition to increase exports to Southeast Asia. Figure 3.1 shows that China's exports to the region increased in the latter half of the 1950s. This was especially conspicuous during Hatoyama's prime ministership. As Japan's estimation shows, Chinese exports to developing Asia nearly doubled between their lowest point in 1954 and 1956.

7331: The Recent and Prospective Foreign Relations of Japan (1956–61),” September 12, 1956, USDDO, accessed September 21, 2020, <https://link.gale.com/apps/doc/CK2349408070/USDD?u=camb55135&sid=USDD&xid=d01fed20>.

⁴⁷ “Nitchū bōeki-gaku no suii (tsūkan jisseki),” accessed May 5, 2023, <https://www.mofa.go.jp/mofaj/area/china/boeki.html>

⁴⁸ Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)* [Sino-Japanese Private Economic Diplomacy, 1945-1972] (Beijing: Ren min chu ban she, 1997), 189.

Figure 3.1. PRC Trade with Developing Countries in Asia, 1952-1958. (Unit: One Million US Dollars).



Source: Data from Akatani Gen'ichi. "Kyōsan-ken shokoku no tei kaihatsu shokoku ni taisuru keizai shinshutsu" [The Economic Expansion of Communist Countries into Underdeveloped Countries], *Gaimushō chōsa geppō* 2, (May 1960): 132.

For some Japanese industrialists, China was more of a threat than a potential trade partner due to its rapidly growing industrial capacity. Fujiyama expressed this concern in an interview in 1955. Should Japan be able to develop markets in Southeast Asia and the Near East, Fujiyama argued, it would not need to rely on Chinese and Soviet markets.⁴⁹ Therefore, Japan must compete with the PRC in the Southeast Asian markets by exporting cheap and adequate quality goods.⁵⁰ The textile

⁴⁹ Aiichirō Fujiyama, "Fujiyama aiichirō-shi to no taidan" [Conversation with Fujiyama Aiichirō], *Tairiku mondai* 4, no. 9 (September 1955): 16.

⁵⁰ *Ibid.*, 14.

industry was especially susceptible to the threat of Chinese exports. In July 1956, the All-Japan Cotton Spinners' Association (AJCSA, *Nihon bōseki kyōkai*) called attention to increasing Chinese cotton export to Southeast Asia. “Should China continue with its current trade policy, we must realize that it could not, as many had hoped, become a market for our export, but also [will] become a competitor for our country’s cotton products.”⁵¹ Since 1956, Japanese cotton spinners had been paying close attention to the development of the Chinese cotton industry and had sent investigation groups to Southeast Asia to gather intelligence on Chinese activities.⁵² The challenge from Chinese cotton to Japanese export products posted a stark contrast to the situation in the prewar period, during which China satisfied Japan’s need for raw cotton and served as the primary destination of cotton products for its manufacturers.⁵³ In this way, the shifting economic landscape in China had had transformed the economic dynamics between the two countries and

⁵¹ “Men-seihin yushutsu-koku ni natta Chūgoku,” *Nihon bōseki geppō* 114, (June 1956): 1.

⁵² “Tōnan’ajia ichibachōsa hōkoku-sho (gaiyō) -- Chūkyō menseihin shinshutsu jōkyō o chūshin to shite” [Southeast Asia Market Research Report (Summary)--Centering on the Situation of Cotton Products in Southeast Asia from Communist China], *Nihon bōseki geppō* 144, (December 1958): 2–23.

⁵³ In the first half of the twentieth century, the mainland China area – Manchuria and North China – was Japan’s most reliable source for raw cotton imports. During this time, Japanese cotton manufacturers achieved great success in the Chinese market through cheap products from Japan and their control over local cotton factories in Shanghai, Qingdao, and Tianjin, the centers of the cotton-weaving businesses in China. In 1938, roughly 42 percent of raw cotton was imported from mainland China and Taiwan, whereas 61 percent of cotton products were sold to the two markets. See Ellen Israel Rosen, *Making Sweatshops: The Globalization of the US Apparel Industry* (Berkeley: University of California Press, 2002), 28; See also Zhengping Chen and Long Denggao, *Zhongguo jin dai jing ji shi jiao cheng* [An Introduction to Modern Chinese Economic History] (Beijing: Qing hua da xue chu ban she, 2002), 212.

gradually contributed to Japan's declining enthusiasm toward trade with China.

Admittedly, China's rapid industrialization was a boon for some Japanese industrialists. Despite intense competition in the Southeast Asian market, some Japanese industrialists developed a new interest in China due to the country's appetite for industrial equipment, chemicals, and fertilizers. In contrast to the increasingly hostile attitude toward Chinese manufacturers in the textile industry, the chemical industries – and fertilizer industry in particular – remained intrigued by expanding trade with China. This was mainly related to China's importance regarding purchasing and supplying raw materials for Japanese chemical production. Throughout the 1950s, the Changlu salt fields in Tianjin remained the most important supplier of industrial salt for Japan's chemistry industries, which Mexico only replaced after trade with China was cut off in 1958.⁵⁴ On the other hand, fertilizers had been one of the most important exports to China since the first civil trade agreement in 1953, in which fertilizers were exchanged for iron ore, coal, and soybeans. During the Hatoyama administration, Japanese export of sulfur-based fertilizer to China increased from 41,000 tons in 1954 to 77,000 tons in 1956.⁵⁵ Consequently, fertilizers emerged as the most important trade item in Japanese exports to China, constituting more than 20 percent of the bilateral trade volume.⁵⁶ Naturally, the promising developments in fertilizer export prompted Japanese

⁵⁴ Li, *Zhong Ri min jian jing ji wai jiao*, 235.

⁵⁵ Toshio Oshikawa, *Sengo Nitchū bōeki to sono shūhen — taiken-teki nitchū kōryū* [Sino-Japanese Trade in the Postwar and Its Surroundings: Sino-Japanese Interactions as Experience] (Tokyo: Tosho shuppan 1997), 556.

⁵⁶ Daizhao Lin, *Zhan hou Zhong Ri guan xi shi* [A History of Sino-Japanese Relations in the

producers to seek further engagements with China in both commercial and technological capacities.

The ammonium sulfate industry best exemplifies this attempt. The Japanese Corporate for the Export of Ammonium Sulfate (JCEAS, Nihon ryūan yushutsu kabushikigaisha), a government-regulated company that specialized in exporting sulfur-based fertilizer, played an essential role in this endeavor. In 1954, the government made the company the sole exporter of sulfate-based fertilizer in Japan.⁵⁷ Like Keimei Trading Company, the JCEAS also had deep connections to the Japanese industrial complex – especially the Nissan Group and the Sumitomo Group – due to cross shareholding arrangements.⁵⁸ In November 1957, its president, Satake Jiro, sought the Foreign Ministry’s permission to send a delegation to Southeast Asia to “investigate the market...and directly engage local governments for negotiation if necessary.” In the proposal, Satake included Hong Kong as his last stop, making it clear that he wanted the delegation “to assess [the city’s]

Postwar Period] (Beijing: Beijing da xue chu ban she, 1992), 95.

⁵⁷ In 1954, the Japanese government passed a law regulating the export of sulfur-based fertilizer due to concern regarding the fluctuating prices of fertilizers in the domestic market, making the JCEAS the only licensed body in such trade. For information regarding the JCEAS and its association with the Japanese government, see Teruhiko Iwatake, “Keizai jiritsu hōsaku ni kansuru chōsa no ken, setsumeī” [Explanation of the Survey on Measures to Achieve Economic Self-Sufficiency], September 15, 1955, accessed May 3, 2022, Dai 22-kai kokkai Sangiin shōkō iinkai heikai-go dai 1-gō, Kokkai kaigi-roku kensaku shisutemu (hereafter cited as KKKS), <https://kokkai.ndl.go.jp/txt/102214461X00119550915>.

⁵⁸ The company’s board members included those from the Nissan and Sumitomo groups, which maintained effective control of the company via stock-holding arrangements. See Nissan kagaku kōgyō (kabu) shashi hensan iinkai, *Yasotoshi-shi* [Eighty Years of Company History] (Tokyo: Nissan Kagaku kōgyō, 1969), Appendix Nenpyō.

position as both an entrepôt for fertilizer trade and the entry point for the Chinese market.”⁵⁹ Interest in the Chinese market also prompted Japanese sulfur ammonium producers to invite the Chinese delegation for technological cooperation. In 1957, the Japan Sulfur Ammonium Industries Association (JSAIA, Nihon ryūan kōgyō kyōkai) extended an invitation to the Chinese for potential delegations. From November 1957 to February 1958, fourteen Chinese chemists visited Japan and conducted broad consultation with Japanese industrialists for cooperation on the purchase of Japanese technologies and the exchange of technicians.⁶⁰ The eagerness demonstrated by the Chinese delegation further boosted a sense of optimism in the JSAIA, which then published an article celebrating the promising outlook of Sino-Japanese cooperation in its association journal.⁶¹ The relentless efforts on the part of Japanese manufacturers eventually paid off: the market share of Japanese fertilizers in China’s import from the non-communist circle increased from 21.0 percent in 1956 to 33.2 percent in 1958, making it the second largest source of fertilizer for Beijing in the non-socialist world.⁶² Nevertheless, neither the Chinese delegation nor the

⁵⁹ Jirō Takake, “Gaimushō keizai kyokuchō ushiba nobuhiko-dono e” [For Mr. Ushiba Nobuhiko, the Director of Economic Bureau, Ministry of Foreign Affairs], November 25, 1954, Honpō keizai shisetsu, shisatsu-dan Ajia oyobi Chūkintō chiiki haken kankei, E’ 2.1.0.5, DAMOFAJ.

⁶⁰ “Nitchu gijutsu kōryū no genjō to mondaiten” [Current Status and Issues of Sino-Japanese Technical Exchange], *Kokusai bōeki* 129, (February 1958).

⁶¹ Shigeyoshi Takami, “Nitchū bōeki no kadai to kongo no mitōshi” [Challenges and Future Prospects for Trade between Japan and China], *Ryūan kyōkai geppō* 86 (April, 1958): 1–4.

⁶² Gaimushō keizai-kyoku tōzai tsūshō-ka, “1956 – ’60-Nenkan ni okeru Chūkyō no Seiō shokoku shuyō sanpin yunyū-hin kōsei” [Composition of Communist China’s Major Imports

Japanese industrialists expected that in May 1958, a month after the article was published, Sino-Japanese relations would run into a dead end and bilateral interactions, including trade and the exchange of personnel, would be utterly cut off.

Hatoyama also did not foresee the quick turnabout in Sino-Japanese relations. In December 1956, he decided to step down after returning from the Soviet Union due to worsening health conditions. Ishibashi Tanzan, the minister of the MITI and a pronounced Sinophile, defeated Kishi in the party's election and emerged as Hatoyama's successor. However, Ishibashi's administration was short-lived: the stroke he had in January 1957 forced him to transfer power to Kishi, who became the acting prime minister. Eventually, the Kishi administration saw the friction between China and Japan develop into an all-out confrontation in Southeast Asia and a complete shutdown of Sino-Japanese economic cooperation.

The Commencement of the Kishi Administration and Its Confrontational Turn, 1957–1958

When Kishi succeeded Ishibashi as prime minister in early 1957, he did not immediately overthrow his predecessors' China policies. On the contrary, he was widely perceived as a pro-engagement figure. In 1956, Kishi was the head sponsor for two resolutions in the Diet that advocated governmental actions to promote Sino-Japanese trade.⁶³ As a result, pro-engagement merchants

from Western Europe During the Period of 1956-1960], October 18, 1963, Chūkyō boeki, 2013-3128, DAMOFAJ.

⁶³ The first resolution, which was passed in the Diet on March 30, called for the relaxation of the embargo against China. The second resolution, which Kishi sponsored, was passed on December 12. Kishi and Asanuma Inejirō, the president of the JSP, demanded the government take concrete

and congressmen remained optimistic at the commencement of Kishi's Cabinet. They urged the new prime minister to take further actions facilitating economic cooperation – and for JCP and JSP members in the Diet, diplomatic normalization – between China and Japan.

Kishi's ambiguous attitude toward China was also evident in the formation of his cabinet. To the surprise of many, Kishi appointed Fujiyama Aiichirō, a non-career politician from the corporate sphere, as his foreign minister. According to Fujiyama's estimation, Kishi's decision was related to Aiichirō's expertise in economic affairs and lack of political affiliation. This would help Kishi address the internal dispute in the Foreign Ministry between the Yoshida Faction which held an anti-PRC stance, and the Anti-Yoshida Faction, which often held a pro-China position. As Fujiyama puts it in his memoir, "It was important to have an unbiased character to appease the tension [in the ministry]. In addition, the focus of future diplomacy is on economics, and thus requires a minister that understands economics and has an international vision."⁶⁴ On the other hand, Kishi's memoir suggests that the choice was made in direct response to the China dilemma. "In the diplomacy for Asia," Kishi asked Fujiyama before he made the appointment, "would you be able to [help] take care of the issues with Communist China?"⁶⁵ Fujiyama's affiliation with

actions toward intra-governmental trade agreements between China and Japan. See Pinghua Sun, Xiangqian Xiao, and Xiaoxian Wang, eds., *Zhan hou Zhong Ri guan xi wen xian ji, 1945–1970* (Beijing: Zhong guo she hui ke xue chu ban she, 1996), 270, 299.

⁶⁴ Aiichirō Fujiyama, *Seiji waga michi* [Politics as My Career] (Tokyo: Asahi shinbunsha, 1976), 6.

⁶⁵ Nobusuke Kishi, Kazuo Yatsugi, and Takashi Itō, *Kishinobusuke no kaiso* (Tokyo:

China may also have benefited from his attendance at the Bandung Conference as the president of the JCCI, during which he met Zhou in person.⁶⁶ Both Fujiyama's appointment as the foreign minister and the relatively dovish statement by Kishi in 1957 were perceived optimistically by business leaders, who considered these actions to be proof of Kishi's intention to carry out the Hatoyama-Ishibashi legacy regarding economic cooperation with China.

Nevertheless, Kishi was left with the same "China Question" that his predecessors had faced. The developments in Sino-Japanese relations during the Hatoyama administration (1955 to 1957) provided new momentum for both the pro-engagement camp and its pro-containment counterpart. From 1956 to 1957, China and Japan were able to meet the 77.67 percent quota prescribed in the *Third Sino-Japanese Non-Government Trade Agreement (Di san ci Zhong Ri min jian mao yi xie ding; Daisankai Nitchū minkan bōeki kyōtei)*, contrasting with the low fulfillment rate in the first two agreements.⁶⁷ The success of the third civil trade agreement prompted Japanese traders – who rallied behind JSP congressmen and pro-China members of trade promotion organizations – to demand negotiation for the fourth civil trade agreement. The Osaka-centered industrialists again championed this movement. In January 1957, Osaka merchants and traders established the

Bungeishunjū-sha, 1981), 185; Fujiyama, *Seiji waga michi*, 6.

⁶⁶ Pinghua Sun and Kazuhiro Morisue, *Wu shi nian cang sang: Sun Pinghua fang tan lu* [Fifty Years of Changes: An Interview with Sun Pinghua] (Beijing: Jin ri Zhong guo chu ban she, 2000), 156.

⁶⁷ Li, *Zhong Ri min jian jing ji wai jiao*, 189.

Committee of the Trade Promotion in the Osaka Prefectural Council (Ōsakafu-kai bōeki sokushin iinkai), a semi-official trade organization to “promote Asian trade in the context of overall East-West trade, in light of the special place Osaka occupied as an industrial headquarter.”⁶⁸ Writing extensively in support of Sino-Japanese trade, the committee repeatedly urged the Ishibashi administration – and the Kishi administration afterwards – to create a favorable environment to facilitate the negotiation for the Fourth Sino-Japanese Non-Government Trade Agreement (*Di si ci Zhong Ri min jian mao yi xie ding; dai-yonkai Minkan bōeki kyōtei*).

However, 1957 also witnessed increasing trade competition between China and Japan in Southeast Asia, especially regarding textile and consumer goods. Beijing’s economic expansion in the region was partly attributed to its increasing appeal to overseas Chinese in Southeast Asia after the Bandung Conference. As the AJCSA reported in June, China’s cotton textile export continued to gain strength from the overseas Chinese “who maintain strong control in the region’s commerce” and would “undeniably become our country’s prime competition in the region.”⁶⁹ In the wake of the Bandung Conference, overseas Chinese merchants in Singapore, Malaya, Indonesia, and Hong Kong all organized trade delegations to China. The Chinese General Chamber

⁶⁸ Ōsakafu-kai jimukyoku chōsa-ka, “Ōsakafu-kai bōeki sokushin iinkai kitei” [Osaka Prefectural Trade Promotion Committee Regulations], in *Ōsakafu-kai bōssoku shiryō*, Vol.1 (Osaka: Ōsakafu-kai jimukyoku chōsa-ka, 1957), 1.

⁶⁹ Nihon bōseki kyōkai chōsa-bu, “Kyōsan-ken shokoku menpu yushutsu no shinshutsu ni kansuru tōkei-teki ichikōsatsu” [A Statistical Study on the Expansion of Cotton Cloth Exports to Communist Countries], *Nihon bōseki geppō* 127 (June 1957): 72.

of Commerce (CGCC) locations across Southeast Asia, most of which maintained close relations with Beijing, played essential roles in organizing such trade delegations.⁷⁰ These visits boosted China's influence and prestige in the region. Gao Dequan, the president of the Chinese Chamber of Commerce in Malaya, published a report on his visit to China in *Sin Chew Daily* emphasizing the importance of Sino-Malaya trade. "Since our country's economy depends on the export of rubber, we must make progress in this surging market...we believe that China sincerely wants to expand trade and further friendship with us."⁷¹ Gao's report and the visits were widely covered by pro-China newspapers in the region, with reports praising the hospitality of their Chinese counterparts and demonstrating optimism from a trade perspective.

China's increasing attraction in the region became a source of anxiety in Washington and Tokyo. In 1957, the OCB compiled a report on Beijing's rising prestige among overseas Chinese. In its guideline for US policies toward overseas Chinese in Southeast Asia, it was recognized that

⁷⁰ Two examples of visits organized in this manner were those from Indonesia and Malaya-Singapore in 1956. In October, Chinese merchants in Indonesia were invited to participate in the import-export exhibition held in Guangzhou. The registration was delegated to Jakarta's Chinese Trade Union of Clothes (bus hang gong hui). The other visit took place in September and was led by Gao Dequan, the head of the Chinese Chamber of Commerce in Singapore. See "Yin ni shang jia shou yao fu Hui can guan Zhong guo chu kou shang pin zhan lan hui tai gu zha hua lun chua gong si yuan you dai piao jia Ye cheng ba shi hang gong hui fu ze deng ji" [Indonesian Businessmen Invited to Guangzhou to Visit the China Export Commodities Fair, Swire Jaffa Shipping Company is Willing to Give Preferential Fares, the Jakarta Cloth Merchants Association is Responsible for Registration], *Nanyang Siang Pau*, October 26, 1956; "Xing zhou gong shang ye mao yi kao cha tuan fang wen Zhong Ri bao gao shu (yi)" [Report on the Visit to China and Japan by the Singaporean Delegation of Industry, Commerce, and Trade (Part 1)], *Sinchew Daily*, November 29, 1956.

⁷¹ Ibid.

the overseas Chinese communities were a pivotal piece in Beijing's strategy for economic expansion in the region. "The existing demand among overseas Chinese for consumer goods is being stimulated and used to lure Chinese merchants into commercial and financial commitments to Communist organizations," the OCB guideline states. "The overseas Chinese are both a target and a medium for Peiping's trade offensive."⁷² Tokyo echoed Washington's fear; however, for Kishi, the concern was that Beijing's influence on overseas Chinese in Southeast Asia might pose a strong challenge to his plan for Japan's economic development and leadership status in the Asian theatre. To make related policies, Kishi asked Ambassadors Horiuchi Kensuke and Shimizu Tōzō to conduct surveys in Southeast Asia and write a report on the commercial associations formed between local Chinese communities in the region and Beijing.⁷³ Arguably, the two ambassadors' reports contributed to Kishi's change of attitude. According to Shimizu and Horiuchi, overseas Chinese had not yet developed solid political allegiance to Beijing and could still be swayed by commercial interests and political pressure.⁷⁴ Such a belief may have informed Kishi's decision to conduct a tour to the region for potential diplomatic coordination.

⁷² Operation Coordinating Board. "OCB Guidelines for United States' Programs Affecting Overseas Chinese in Southeast Asia," December 11, 1957, OCB Files, Lot 62, D 430, Box 28, the National Archive College Park (hereafter as NACP), College Park, 15.

⁷³ Hayato Hasegawa, "Kishi naikaku-ki no naisei gaikō rosen no rekishi-teki saikentō 'fukushi kokka,' 'keizai gaikō' to iu shiten kara," (PhD diss., No. JD070014, Hitotsubashi University, 2020), 252.

⁷⁴ *Ibid.*, 252.

Addressing Beijing's increasing influence, Kishi conducted a series of formal and informal visits to Southeast Asia and the United States almost immediately after assuming office in February 1957. During his tour to Southeast Asia, Kishi spoke to leaders in the region, asking them to direct their economic needs to "the free world" rather than to the communists. Kishi managed to achieve the most success in countries with mounting skepticism toward the growing share of Chinese products in their national markets. In his talk with Tunku Rahman, the prime minister of Malaya, Kishi pledged to Rahman that he "admires the resolute attitude Malaya demonstrated in the fight against communists" and that he would fully support Malaya's economic development. At the same time, the latter agreed to strengthen "the economic ties between Malaya and Japan."⁷⁵ In contrast, the British officials in Singapore were ambiguous about Kishi's proposal. Robert Scott, the British high commissioner in Southeast Asia, refused Kishi's notion that Singapore should join the "fight against Chinese communists to ensure the prosperity of Asia," citing that Singapore's position as a free entrepôt would not benefit from restricting Chinese commercial activities.⁷⁶ The differing responses by the British colonial authorities and the Malayan national government speak, to some extent, to the nationalistic tendencies of the newly independent states in Southeast Asia,

⁷⁵ "Kishi sōri daijin to sã robãto Sukotto Igrisu Tōnan'ajia sō benmukan to no kaidan-roku" [Meeting Transcript: Between Prime Minister Kishi and Sir Robert Scott, British High Commissioner to Southeast Asia], December 1, 1957, Kishi sōri Tōnan'ajia shokoku, ōsutoraria, nyū jirando hōmon kankei hōmon-koku shunō to no kaidan kiroku, A'.1.5.1.5-3, DAMOFAJ, 134–137.

⁷⁶ Ibid., 134–137.

which held an overall skeptical view of Chinese communities in their countries and the association between those overseas communities and the government in Beijing.

To Kishi, the regional governments' suspicions of China and local Chinese communities provided a gateway for intervention. When Kishi met Eisenhower in June 1957, the former made the case that his visits to Southeast Asia had shown the danger of "communist infiltration" in these countries. To mitigate the threat, Kishi pledged that Japan was willing provide the region with "capital and technical know-how."⁷⁷ While Eisenhower maintained his position on not committing US financial resources to regional organizations and did not accept Kishi's proposal to establish the Asian Development Fund in subsequent talks, he completely agreed with Kishi's estimation of the threat of communist expansion in Southeast Asia. Kishi's visits in 1957 reflected his strategy to build multilateral diplomatic coordination to protect Japan's interests in Southeast Asia, which inevitably led to competition with Beijing.

From Competition in Southeast Asia to the End of Sino-Japanese Trade: The Confrontational Turn for China and Japan, 1958–1959

While the prime minister's determination to check the growth of Chinese influence in Southeast Asia was already clear to many in the decision-making circle, corporate Japan and pro-engagement members of the Diet were kept out of the loop. Instead, these two groups remained committed to

⁷⁷ Department of State, "Memorandum of a Conversation, White House, Washington, June 19, 1957, 11:30 a.m.," June 19, 1957, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 183, 373–374.

advancing the civil trade agreement between the two countries. In February 1958, with the intermediation of Keimei Trading Company, the four major Japanese steel-manufacturing companies – Yawata, Fuji, Kawasaki, and the NKK – sent a joint delegation to Beijing, which reached a five-year trade agreement with the Chinese. The *Sino-Japanese Steel-Iron Barter Agreement (Nichu Tekkō Kyōtei)* prescribed that, from 1958 to 1963, China could export a hundred-million-pound worth of coal and iron ore in exchange for Japanese steel products.⁷⁸ A month later, delegates led by Congressmen Ikeda and Hoashi visited Beijing and signed the *Fourth Sino-Japanese Non-Government Trade Agreement* with the Chinese. Both agreements were welcomed as signs of a more stable trade partnership between China and Japan in the business world.

However, the progress in Sino-Japanese relations that was achieved in early 1958 was almost immediately overshadowed by confrontation. Since April, Kishi's adoption of a more confrontational stance toward Chinese influence in Southeast Asia had been signaled by his ministers to both domestic and international audiences. Foreign Minister Fujiyama stated in the journal of the Japan Institute of International Affairs (*Nihon gaisei gakkai*) that Japan's policy in Southeast Asia was to prevent the region's countries from falling victim to the "new types of imperialism." He also claimed that "there is no alternative but to follow the international,

⁷⁸ For the details of this agreement, see Bunjirō Horiuchi and Isao Mochidzuki, *Kairan tankō no 80-nen*, 252–254.

democratic way if we are to preserve the freedom and peace in this region.”⁷⁹ Admittedly, some cabinet ministers and senior party members remained skeptical of the government’s decision. This was especially true for Takasaki, who remained an open advocate for Sino-Japanese reconciliation after becoming Kishi’s minister of the MITI in May. Earlier that year, Takasaki had openly expressed that Japan should develop “its own stance on China” rather than simply adopting Washington’s position. It is impossible for Japan, Takasaki warned, to “only care for its own prosperity, and even if it succeeded, it would merely become the ‘orphan of Asia.’”⁸⁰ In addition to Takasaki, Murata and Ikeda, the two senior LDP members that partook in previous negotiations for trade agreements with China, also warned against any actions that might endanger the progress made thus far between Beijing and Tokyo.

Unfortunately, these voices were rendered futile by the Nagasaki National Flag Incident (Nagasaki kokki jiken), which put the two countries on the track to an inevitable collision. On May 2, a right-wing activist stormed the PRC trade delegation in Nagasaki and tore down the Chinese national flag. However, the authorities only asked the offender to pay a small penalty, and did not charge him with “the crime of causing damage to a foreign national flag” (gaikoku kokushō sonkai-zai). The Kishi Cabinet then defended this decision by stating that the Chinese national flag was

⁷⁹ Aiiichirō Fujiyama, “Tōnan’ajia to Nihon” [Southeast Asia and Japan], *Kikan gaisei* 9, (April 1958): 8.

⁸⁰ Tatsunosuke Takasaki, “Ajia no han’ei to Nihon no unmei” [Asian Mutual Prosperity and Japan's Destiny], *Chūō kōron* 73, (1), no. 835 (January 1958): 109.

not protected under this clause, reaffirming its non-recognition of the official status of the PRC – due to Japan’s diplomatic ties to the ROC as the official Chinese government. In retaliation, China staged heavy criticism against the Kishi administration, and suspended all trade between the two countries in May 1958.⁸¹ According to Soviet diplomat Antonov’s conversation with Zhang Wentian, Beijing wanted to curtail the trade to deal a “significant blow” to Japan and potentially help Kishi’s political adversaries in the Diet prevent the prime minister from gaining two-thirds of the seats in the general election in May.⁸² However, despite achieving its goal, Beijing’s countermeasure was costly: it nearly wiped out the existing commercial relations between the two countries. In 1959, Sino-Japanese trade – which constituted 89.7% of Japan’s trade with the entire communist world at its peak in 1956 – was reduced to zero.⁸³ Although the Chinese side later

⁸¹ Noritake Yoshioka, “Chūkyō, Kanbojia no yūkō kankei ni kansuru ken” [On the Friendly Relations between Communist China and Cambodia], December 24, 1958, Chūkyō kanbojia-kan gaikō kankei zasshū, A’ .2.2.0.C(C)/CM1, DAMOFAJ, 30–31.

⁸² “Memorandum of Conversation with Deputy Minister of Foreign Affairs of the PRC Zhang Wentian,” May 9, 1958, Center for the Storage of Contemporary Documentation (TsKhSD), Moscow, f. 5, op. 49, d. 136, ll. 77-81 (R. 8893); trans. from Russian by David Wolff. CWIHP Working Paper No. 30, History and Public Policy Program Digital Archive, WCDA, <http://digitalarchive.wilsoncenter.org/document/118745>.

⁸³ This is calculated based on records from Japan Customs. See “Dai 4 - 46-hyō OEEC shokoku oyobi Nihon no taikyōsan-ken bōeki no suii” in Keizai kikakuchō, *Shōwa 34-nen nenji sekai keizai hōkoku sekai keizai no gensei* [1959 Annual World Economic Report: The Current Situation of the World Economy] (Tokyo: Keizai kikakuchō, 1959), accessed May 5, 2023, <https://www5.cao.go.jp/keizai3/sekaikeizaiwp/wp-we59/wp-we59bun-4-46h-1.html>; “Nitchū bōeki-gaku no suii (tsūkan jisseki),” accessed May 5, 2023, <https://www.mofa.go.jp/mofaj/area/china/boeki.html>

permitted a group of “friendly trading companies” (*yūkō shousha*) to trade in the PRC, the damage could not be reversed.

The incident also became a rallying call for an all-out confrontation between China and Japan. In addition to an exchange of accusations, both countries launched propaganda campaigns targeting their opponents’ commercial activities in Southeast Asia. On the 21st anniversary of the Marco Polo Bridge Incident, Beijing called for a boycott of Japanese goods. As US diplomats observed, this campaign was designed to target Chinese merchant communities to maximize damage to the Japanese.⁸⁴ At the meeting of the All-China Federation of Returned Overseas Chinese (ACFROC, *Zhonghua quan guo gui guo hua qiao lian he hui*) on July 5, the Federation asked “the millions of our people living abroad” to develop “a spirit of patriotism and make a concerted effort to boycott Japanese goods.”⁸⁵ British intelligence reported that Beijing strategically employed the narratives of Japanese war crimes against the Chinese and reminded overseas Chinese that the current Japanese prime minister, Kishi, was a war criminal himself.⁸⁶

⁸⁴ “Opening Statement by Assistant Secretary of State, the Honorable Walter S. Robertson, Before the Sub-Committee on Disarmament of the Senate Foreign Relations Committee, Monday, February 23 1959,” February 23, 1959, *Chūkyō no taigai seisaku kankei zasshū tai Ajia kankei chōsho, shiryō, A*. 2.1.0. C(c)1-1, DAMOFAJ, 61.

⁸⁵ “Boycott of Japanese Goods by Chinese, Enclosed Mainland China Media Press Review. July 21,” July 29, 1958, FC 11323/1, FO 371/133399, TNA.

⁸⁶ *Ibid.*

These arguments were simultaneously promoted by China's official media, the *People's Daily*, and by *Ta Kong Pao*, its news outlet in Hong Kong.

On the other hand, Tokyo launched a propaganda campaign that attributed Chinese economic successes to unfair practices in Southeast Asia and the manipulation of local Chinese. On July 17, 1958, Sato Eisaku, the minister of finance, openly denounced the PRC's trade practices in Southeast Asia, defining China's activities as "a trade war." Sato claimed that China's economic penetration was "due in part to pirating of Japanese designs" and had been carried out through "utilizing pro-Peiping Chinese merchants and financial organs abroad. Such activities were conspicuous in Thailand, Indonesia, and Malaya."⁸⁷ Japan also solicited help from the Kuomintang (KMT) authority, which was struggling to keep its influence in Southeast Asia amid competition with Chinese Communists.⁸⁸ In 1958, Tokyo and Taipei sought to form a coordinated movement against Beijing's influence. In addition to using the latter's channels for the defamation campaign, the two also reached an agreement in July that allowed Japanese merchants to promote their exports among the organizations of overseas Chinese loyal to the KMT.⁸⁹ Taipei received

⁸⁷ "Red China Intensifies Trade War in Asia: Sato," *The Japan Times*, July 17, 1958.

⁸⁸ Joint Intelligence Committee, Far East. "No. Q. 1822/7/57G, The Influence of Kuomintang Among Overseas Chinese in Southeast Asia and Potential Usefulness of the KMT as an Adjunct to the Campaign Against Communist Subversion," March 20, 1956, FC 1821/11G, FO 371/127427, TNA.

⁸⁹ Wenlong Wang, "Ri ben tou guo Zhong guo guo min dang wang luo zai dong nan ya kuo zhang mao yi de chang shi 1950-1961" [Japan's Attempts to Expand Trade in Southeast Asia through the Kuomintang Network (1950-1961)] in *Kōeki zaidanhōjin kōryū kyōkai ferōshippu*

economic aid and trade benefits from Tokyo in exchange for its cooperation.

In response, Chinese decision-makers extended their countermeasures to include actions in the commercial sectors, including a price war that specifically targeted Japanese products. This strategy was originally developed by CRC traders in Hong Kong and carried out secretly by Chinese trading agencies before Kishi came to power. In February 1956, the Hong Kong branch of the CRC wrote the Ministry of Foreign Trade to suggest that the government should adopt “a set of combined strategies against Japanese merchandise in Southeast Asia” and “compete with Japanese products wherever they arrive.” These strategies included a “resolute competition to drive out Japanese products in the markets of British colonies in Malaya, North Borneo, and Hong Kong, which was the destination of 40 percent of Japanese export [in the region].”⁹⁰ This forced Japanese merchants to provide better quality goods at lower prices, significantly decreasing their profit.⁹¹

The price war, as well as mobilization to boycott Japanese products, was partially effective. While the boycott campaign did not cause significant disruption to Japanese exports in Thailand,

jigyō seika hōkoku-sho (November 2012), 8–9.

⁹⁰ Hua run gong si. “Guan yu Ri huo zai dong nan ya shi chang yu wo jing zheng deng qing kuang bao qing can kao” [Report for Reference: the Situation of Japanese Products Competing with Our Products in the Southeast Asian market], February 2, 1956, B6-2-378-12, SMA.

⁹¹ “Ri ben mian bei ping zhi gai jin ding jia xue di jing zheng xiao chang” [Japanese Quilts, Quality Improved, Pricing Decreased, Competition Reduced], *Sin Chew Daily*, August 19, 1958; See also “Ri ben zhi zao mian zhi pin reng neng yu Zhong guo jing zheng Ri ben shang hang dai biao ru shi xuan cheng” [Japan’s Cotton Fabrics Can Still Compete with Chinese Products, Claimed a Representative From the Japanese Trading Company], *Sin Chew Daily*, August 14, 1958.

Indonesia, the Philippines, or South Vietnam, it did achieve some success in Burma, Cambodia, Malaya, and Singapore, where memories of Japanese wartime atrocities against the Chinese remained vivid.⁹² Chinese exports also benefitted from the price adjustments. In 1958, the Shanghai Cotton Export Company reported that it had made important progress in Hong Kong and Thailand, driving Japanese bleached cloth out of the market in those places.⁹³ The Joint Intelligence Bureau of Britain in Hong Kong reported that Chinese export was “making conspicuous headway in at least some territories where there are large Chinese communities and no governmental objection to it.”⁹⁴ Similar patterns were observed in Singapore and Malaya. Beginning in late 1957, Chinese merchants in Singapore, who had traditionally imported Japanese and Hong Kong products, switched to Chinese products instead.⁹⁵ According to observations in *Nanyang Siang Pau*, approximately 15 to 25 percent of Japanese cotton products in the Singapore and Malayan markets were replaced by Chinese counterparts in the first two quarters of 1958.⁹⁶

⁹² The British Foreign Office had asked the embassies to report on local Chinese responses to Beijing’s call for the boycott. For embassies’ reports, see “Commercial Relations Between China and Japan,” FO 371/133399, TNA.

⁹³ “1958 nian sha bu dui zi chu kou zong jie ji 1959 nian jin ying fang an,” December 10, 1958, B134-6-58-1, SMA. 7–8.

⁹⁴ Joint Intelligence Bureau, Colonial Office, “Chinese Exports to South East Asia: Memorandum by the Joint Intelligence Bureau With Appendix by the Colonial Office,” October 15, 1958, FC 1121/15, FO 371/13394, TNA.

⁹⁵ “Zhong guo mian zhi wu pin ji za huo dong nan ya xiao chang ji ji zhan kai” [China’s Cotton Goods and Groceries are Actively Marketed in Southeast Asia], *Sin Chew Daily*, February 3, 1958.

⁹⁶ “Jia ge li dian shi he gou mai li Zhong guo zhen zhi pin xiao ma zeng jin tu shang xiang qi ta

However, Kishi's cause benefitted from Southeast Asian countries' growing fears of Beijing's influence on the Chinese populations in the region. Some countries came to Japan's aid by tightening restrictions on China's exports and activities in the region. Beginning in December 1957, Singapore, Thailand, and Malaya adopted policies to restrict the import of Chinese products – textiles and other consumer goods, mainly – for anti-dumping reasons.⁹⁷ Cotton textile was the most contended type of cargo between China and Japan in the region, so the restrictions by Singapore and Malaya put China at a highly disadvantageous position in the trade competition.⁹⁸ In addition, Malaya's decision to shut down local BOC branches in early 1959 also caused marked disruption to Chinese efforts, as this hamstrung their ability to solicit help from the overseas Chinese. When Malaya gained independence in August 1957, Lee Hau Shik, a KMT party member who was made a colonel in the Nationalist Army during the war, was appointed its first minister of finance. Lee took the BOC branches in Malaya as a threat to Malaya's financial independence

ge shu chu qu ding gou e jian tui” [Low Prices Suitable for Purchasing Power, China Knitwear Sales Increase in Malaya, and Merchants Reduced Orders from Other Sources of Import], *Nanyang Siang Pau*, July 28, 1958.

⁹⁷ Ajia-kyoku Chūgoku-ka, “Chūkyō mondai (Chūkyō no genjō to taigai seisaku)” [Issues about Communist China: Current Situation and Foreign Policy of the Chinese Communist Party], May 6, 1959, Honpō no taigai seisakuchōsa kenkyū kankei zasshū tai Ajia seisaku kankei Chūgoku no bu dai 1-ken, A'.1.1.0.1-1-1, DAMOFAJ, 319.

⁹⁸ While Kuala Lumpur defended its position by defining Chinese export as “dumping with political purposes,” it received criticism from pro-China newspapers, which pointed out that Japanese textiles had also flooded the local market. See “Chūkyō no maraya oyobi shingapūru mukeru yushutsu kinshi ni kansuru ken” [On the Prohibition of Exports to Malaya and Singapore by the Chinese Communist Party], November 26, 1957, Chūkyō taigai keizai kankei bōeki kankei bōeki seisaku, E' 3. 5. 2. 5-1-1, DAMOFAJ.

and enacted measured legislation to outlaw BOC operations. In October 1958, Lee's secretary leaked his intention to the BOC manager in Kuala Lumpur.⁹⁹ In December 1958, the Malayan government formally announced its decision to close the BOC branch in Kuala Lumpur that would have opened in April 1959, citing "subversive activities" by left-wing rebels that the BOC local branches funded.

Lee's decision agitated Beijing, which then criticized the Malayan government for colluding with "certain imperialists." This was partly correlated with the fact that the BOC branch in Kuala Lumpur, which helped facilitate local Chinese merchants' visits to China in 1956, was an essential avenue between the Malayan Chinese merchants and China.¹⁰⁰ In an open letter published in the *People's Daily*, Nan Hanchen attributed Malayan action to an international conspiracy of imperialists. "It is noteworthy that the extreme unfriendly action taken by the Malayan authorities against China is inseparable from the schemes and activities of certain imperialists," Nan criticized, "[and] they are resorting to all kinds of tricks to sow dissension among the Asian and African

⁹⁹ "Zhong guo ren min yin hang zong hang guo wai ye wu guan li ju chao zhuan Xing Ma you guan hang lai han: guan yu Ma lai ya zheng fu jiang xian qi qing li wo Ji long po, Bin lang yu liang zhong hang wen ti" [From the Administration of Foreign Operations, the People's Bank of China: Forwarding a Letter from Relevant Banks in Singapore and Malaysia. Regarding the Malayan Government's Decision to Liquidate and Close Two Bank of China Branches in Kuala Lumpur and Penang], November 27, 1958, File No. 105-00715-01, BAMOFAPRC.

¹⁰⁰ Hu Lu, *Xin Ma Hua ren de Zhongguo guan zhi yan jiu, 1949-1965* [A Study of Local Chinese in Singapore and Malaysia and Their Views of China, 1949-1965] (Singapore: Ba fang wen hua chuang zuo shi, 2014), 112.

countries and disrupt the unity and cooperation of their peoples.”¹⁰¹ Beijing’s response was to mobilize the Chinese Chamber of Commerce of Malaya to change Kuala Lumpur’s position. The local leaders of the Chinese merchants’ community, including Gao Degen, Ye Pingyu, and Lin Jimin, who were members of a trade delegation to China in 1956, all received telegrams from Beijing encouraging them to mobilize merchants and put pressure on the government.¹⁰² In addition, China began to employ punitive measures against Malayan traders in late 1958, including putting a halt to imports from Malay and denying the use of Malayan currency in payments.¹⁰³ To maximize pressure, the MOFT also instructed its trading companies to “distinguish between Singaporean Malayan merchants, and apply different policies for them.”¹⁰⁴ Even after the regulation in 1959, these measures remained in force until the late 1960s. However, Beijing’s strategy failed to revert Malaya’s decision. Lee remained firm on his decision to close the BOC

¹⁰¹ Hanchen Nan, “Nan Hanchen Issues Statement on Suspension of Chinese Bank in Malaya,” *People’s Daily*, trans. National Chinese News Agency (NCNA), Beijing, FC 1111/5, FO 371/141277, February 1, 1959, TNA, 19.

¹⁰² Shuihao Lin, *Chuang ye yu hu gen: ru shang pian: Malaixiya Hua ren li shi yu ren wu* [Entrepreneurship and the Protection of Cultural Root: Confucian Businessmen, a History of Chinese and in Malaysia and Representative Personnels] (Kuala Lumpur: Hua she yan jiu zhong xin, 2003), 227.

¹⁰³ “Zhong guo ren min yin hang dian gao Lei dai bu zhang, Liao fu zhu ren, bing bao Li Xiannian, Chen Yi fu zong li” [Telegram from the People’s Bank of China, to Deputy Minister Lei and Vice-Director Liao, Copying Vice-Premiers Li Xiannian and Chen Yi], December 6, 1958, File No. 105-00715-01, BAMOFAPRC.

¹⁰⁴ Shanghai Shi dui wai mao yi ju, “Guan yu dui Xin Ma mao yi zuo fa de bu chong tong zhi” [Supplementary Notice on Measures for Trade with Singapore and Malaya], July 28, 1959, B230-2-292-66, SMA.

branches, proclaiming that the pause in China trade would do little harm to the Malaya economy, as it was predominantly beneficial for the Chinese side.¹⁰⁵

This decision prompted varying responses in the region. North Borneo, the Crown colony that later became a federal state of Malaysia in 1963, took the Malayan government's side. To curtail "the exerting of influence by the Bank through local subsidiaries such as insurance agents, as well as by means of cheap credit given to Chinese bankers," the North Borneo government informed London that they had discussed the BOC issue at their Inter Territorial Conference with Brunei and Sarawak.¹⁰⁶ In contrast, the British government demonstrated little interest in limiting BOC activities in either London or Hong Kong. Although Malayan officials suggested that London should consider closing BOC branches in Singapore and Hong Kong, both governments declined, in consultation with the Bank of England, to pursue this agenda. This was partly explained by the extensive financial cooperation between the BOC and British banks that had been established throughout the 1950s. According to the Bank of England, this action would seriously endanger the relationships that Hong Kong and Shanghai banks and the Chartered Bank had with the BOC, which remained "close and friendly" at that time.¹⁰⁷ In addition, the British side feared potential

¹⁰⁵ Er'beimi Wu. "Leng zhan shi qi Zhong guo yin hang Ma lai ya jing li chu bei po ting ye shi jian tan xi" [A Study on the Event of Closure of Bank of China Malaya Agencies During the Cold War], *Zhong gong dang shi yan jiu*, no. 7 (July 2017): 75.

¹⁰⁶ Alec W. Ward, "EGD. 90/349/01: Activities of the Bank of China in South East Asia," February 2, 1959, FC 1111/6, FO 371/141277, TNA, 26.

¹⁰⁷ H.L. Hogg, "From Bank of England. Bank of China, Position at Present," January 16, 1959,

retribution from Beijing. The Bank of England concluded in its interdepartmental meeting that the vital position of Singapore as a regional entrepôt and the indispensable place it occupied in financing regional trade would make the closure of its BOC branch a “much more serious step” than that in Malaya, as it was most likely that British banks in Shanghai would suffer Chinese retributions. Therefore, the conclusion was that it would be wise for Downing Street to remain neutral on this matter.¹⁰⁸

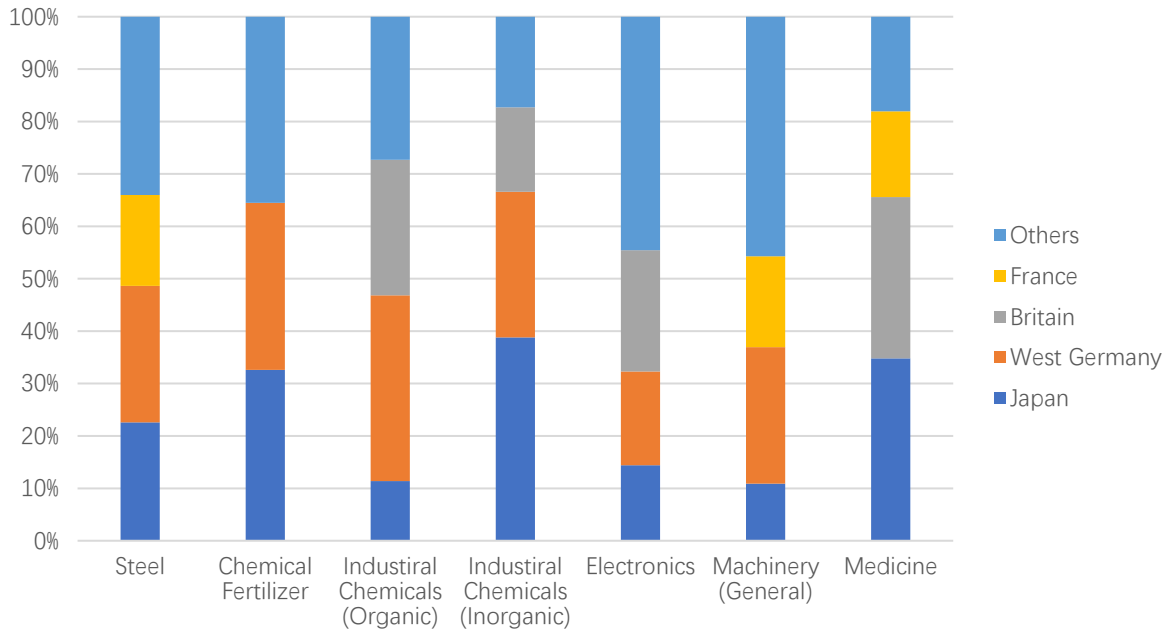
In addition to the financial considerations, another reason for London’s rather indifferent attitude toward the BOC issue came from the dimension of trade. After the abrupt suspension of Sino-Japanese trade in 1958, London, Bonn, and Paris all saw potential opportunities to pick up where Japanese merchants left off in China. Throughout the 1950s, Japan and her West European counterparts engaged in fierce competition for the Chinese market. As shown in Figure 3.2 and Table 3.1, Japan’s major exports to China – steel, chemical fertilizers, and general machinery – engaged in fierce market competition with counterparts from West Germany, Britain, Italy, and France in the late 1950s. As a result, when Sino-Japanese trade derailed in 1958, Britain and West Germany easily replaced Japan’s share, with the former doubling and the latter tripling their exports to the PRC. The fear of losing the Chinese market to European competitors had become a significant motive behind the reopening of Sino-Japanese trade in the early 1960s, when the Ikeda

FC 1111/4, FO 371/141277, TNA, 12.

¹⁰⁸ Ibid., 12–13.

government was feeling pressure from corporate Japan and approached Beijing for negotiations.¹⁰⁹

Figure 3.2. PRC Import of Selected Merchandise, January – September 1957.



Source: Data from “Dai 26 hyō 1957-nen 1 - 9 getsu Chūgoku-muke shuyō shōhin no kunibetsu yushutsu jisseki” in Nitchū Yushutsunyū Kumiai, *Nitchū Bōeki Hakusho: Bōeki Chūdan Ni Saishite* [White Paper for Sino-Japanese Trade: At the Time of Trade Disruption] (Osaka: Daidō Shoin Shuppan, 1958), 97.

¹⁰⁹ Masayoshi Ōhira, *Shunpū shūu: Nagata-chō to Kasumigaseki* [Spring Breeze, Autumn Rain: Nagatacho and Kasumigaseki] (Tōkyō: Kashima Kenkyūjo Shuppankai, 1966), 123–124.

Table 3.1. Chinese Import of Selected Merchandise from Non-Communist Countries, 1956–1960
(Unit: Percentage).

Steel and Iron

| | 1956 | 1957 | 1958 | 1959 | 1960 |
|----------------|------|------|------|------|------|
| Japan | 4.5 | 20.3 | 37.7 | 1.7 | 0.4 |
| Britain | 34.3 | 13.0 | 6.9 | 15.6 | 15.4 |
| FDR | 12.4 | 33.9 | 44.2 | 32.1 | 33.9 |
| France | 38.0 | 26.8 | 19.6 | 26.0 | 24.8 |
| Italy | 5.8 | 10.8 | 7.4 | 3.9 | 5.3 |

Chemical Fertilizers

| | 1956 | 1957 | 1958 | 1959 | 1960 |
|---------------|------|------|------|------|------|
| Japan | 21.0 | 23.0 | 33.2 | <1.0 | 2.1 |
| FDR | 36.9 | 37.3 | 41.8 | 18.8 | 26.4 |
| France | 2.1 | 2.9 | <1.0 | 8 | 9.1 |
| Italy | 15.4 | 18.5 | 13.1 | 35.5 | 36.6 |

General Machinery

| | 1956 | 1957 | 1958 | 1959 | 1960 |
|----------------|------|------|------|------|------|
| Japan | 19.7 | 15.1 | 9.6 | 1.3 | 4.2 |
| Britain | 10.5 | 6.1 | 19.7 | 16.7 | 21.0 |
| FDR | 28.3 | 16.9 | 30.4 | 24.9 | 21.8 |
| France | 21.2 | 12.4 | 7.6 | 2.7 | 16.5 |
| Italy | <1.0 | 0.6 | 5.4 | 0.6 | 1.5 |

Source: Data from Gaimushō keizai-kyoku tōzai tsūshō-ka, “1956 -’60-Nenkan ni okeru Chūkyō no Seiō shokoku shuyō sanpin yunyū-hin kōsei” [Composition of Communist China’s Major Imports from Western Europe During the Period of 1956-1960], October 18, 1963, Chūkyō boeki, 2013-3128, DAMOFAJ.

Nevertheless, the eventual closure of the BOC branches in Malaya marked an important setback for Chinese expansion in Southeast Asia and foiled Beijing’s economic and diplomatic agendas in the region. In 1959, China’s exports to Southeast Asia declined sharply. According to

Japanese estimates, Chinese exports via Hong Kong were reduced by 30 to 40 percent, making “the sale of Japanese products much easier than before.”¹¹⁰ The change of attitude even reached overseas Chinese communities. The Japanese Embassies in Cambodia and Thailand all reported that local Chinese merchants had developed doubts about Beijing’s capability to bring them commercial gains and that their passion for Beijing had “cooled down.”¹¹¹

The setback also hurt the morale in Beijing, which called for a reevaluation of its diplomatic strategies in Southeast Asia. In his estimation sent to the Foreign Ministry, Wilson Duncan, the British chargé d’affaires in China, observed that China’s relations with Southeast Asia had failed and entered “a time of maximum muddle” due to Chinese miscalculations:

It was undoubtedly counter-productive in that the Chinese overestimated their capacity to produce and transport the necessary goods and had very little to show for the fears and countermeasures that the “drive” provoked (sharp reactions by Thailand and Singapore against Chinese export and closure of the Bank of China branch in Malaya)...the year following the spring of 1958 was, in fact, a bad one for any short-term political progress in South and Southeast Asia.¹¹²

British estimation echoed China’s own, noting that China had faced many setbacks over the previous two years. In a 1959 report to the National Congress, Zhou Enlai attributed the “disunity

¹¹⁰ Gaimushō keizai-kyoku tōzai tsūshō-ka, “Hon’nen shotō ni okeru Chūkyō no bōeki gentai jōkyō,” [On the Trade Decline in Communist China at the Beginning of the Year], May 1959, Chūkyō taigai keizai kankei bōeki kankei bōeki seisaku, E’3.5.2.5-1-1, DAMOFAJ, 2.

¹¹¹ Noritake Yoshioka, “Kanbojia ni okeru Chūgoku no katsudō jōkyō ni kansuru ken” [On Chinese Activities in Cambodia], June 12, 1959, A’2.2.0.C(C)/CM1, DAMOFAJ, 8–16.

¹¹² Archibald Duncan Wilson, “FC 1022/7, Chinese Relations with the Far East and South-East Asia,” July 9, 1959, FC 1022/7, FO 371/141253, TNA.

between our country and Southeast Asian countries” to the slander by imperialists. “Some Southeast Asian countries took the anti-Chinese policies,” Zhou proclaimed, “and completely fell for the imperialists’ trickery. We hope this situation will be corrected and interests of overseas Chinese protected.”¹¹³ Liao Chengzhi, too, expressed his frustration in a lecture given to the Expatriate Committee of the CPC. He advised party cadres not to “preserve any unrealistic illusions” about the “Southeast Asian national bourgeoisie.”¹¹⁴ Liao also tried to assure his comrades that China’s difficulties were temporary: “There are some of us afraid, asking whether China is being alienated....It is not us that have been alienated, but rather it is imperialism and the reactionaries.”¹¹⁵

However, Liao’s optimism was not realized in the following years. As China’s relations with the Soviet Union deteriorated significantly in 1960, Beijing lost support from its communist allies and found itself in increasingly profound isolation. The two years of fierce trade competition also cost Beijing its sympathizers in corporate Japan. The OCCI, which had once championed the

¹¹³ “1959 nian Zhong hua ren min gong he guo guo wu yuan zheng fu gong zuo bao gao” [1959 Report on the Work of the Government of the State Council of the People's Republic of China], *People's Daily*, April 19, 1959.

¹¹⁴ “Lecture by Liao Chengzhi during the Expatriate Committee’s 1959 Meeting for Expatriate Affairs within the Party’ 01-04-1959,” Guangxi Zhuang Autonomous Region Archives X42-1-72, January 4, 1959. Obtained for CWIHP by Hongwei Fan, trans Max Maller, History and Public Policy Program Digital Archive, WCDA, <https://digitalarchive.wilsoncenter.org/document/118258>.

¹¹⁵ *Ibid.*

movement to reopen Sino-Japanese trade, joined cotton spinners to voice concern about Chinese competition. In April 1959, the OCCI published an extensive report on China's trade expansion in Southeast Asian markets. This report concluded that the competition between China and Japan in the region was more a structural competition than a temporal friction contingent on the political climate:

We must realize that their competition with our countries will continue to intensify in the future. It will not be conditioned by the change in the political situation between us... China's transition to becoming an industrial nation and industrial advancement demands us to develop long-term strategies.¹¹⁶

The OCCI's conclusion in 1959 drew a stark contrast to the friendly tone it had held regarding China trade before 1956, when the OCCI had consistently pressed Prime Minister Hatoyama to facilitate Sino-Japanese economic cooperation.¹¹⁷ As the climate for the betterment of Sino-Japanese trade relations continued to decline, Tokyo became less concerned about confronting Chinese competition in Southeast Asia and began treating Beijing more as a threat than as a potential trade partner.

However, China's diplomatic isolation at the end of the 1950s was just one of Beijing's many grave challenges. In the first months of 1960, the dire economic consequences of the Great Leap Forward Movement kicked in and forced Beijing to turn its focus to domestic economic recovery.

¹¹⁶ "Tōnan'ajia ichiba ni okeru Chūkyō shōhin shinshutsu no jittai" [The Actual Situation of Chinese Commodity Entering Southeast Asian Market], *Chambers* 106, (April 1959): 46.

¹¹⁷ "Memorandum of a Conversation, Department of State, Washington, January 28, 1955," January 28, 1955, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 9, 13.

These economic and diplomatic setbacks forced Beijing to adjust its diplomatic goals in a more pragmatic direction. Beijing's tempered diplomatic stance led to a reconciliatory turn in the early 1960s, both with Japan and throughout Southeast Asia.

Conclusion

In hindsight, the latter half of the 1950s marked a peculiar time in Sino-Japanese relations. On the one hand, the two countries achieved significant economic progress under the Hatoyama and Ishibashi administrations and in the first year of the Kishi Cabinet. On the other hand, they engaged in increasingly intense competition in Southeast Asia for commercial interests and diplomatic prestige. After the Bandung Conference, the two countries formed distinctive perspectives on regional development and made various attempts to promote their ideas through formal and informal diplomacy. From 1955 to 1957, cooperation in the two countries' bilateral relations ran parallel to the competition for markets in Southeast Asia. Nevertheless, this pattern in Sino-Japanese relations came to a close in mid-1958, when the relative tranquility between Beijing and Tokyo gave way to full-fledged competition. From 1958 to 1960, China engaged in a trade war with Japan to undercut the latter's commercial interest in Southeast Asia, while Japan championed a coordinated effort in the region to check China's expanding economic influence. As a result, the trade relations between the two countries, which had been deepening since 1952, came to a complete halt at the end of the 1950s.

A set of structural factors contributed to this seemingly abrupt transition. The rapid industrialization in the PRC from 1953 to 1957 remade the economic dynamics that had existed

between Japan and China since the prewar period, when the latter had served merely as a source of raw materials and a market for manufactured products. In the 1950s, although China remained a significant supplier of raw materials for Japanese industries, corporate Japan found itself engaging in increasingly fierce competition in Southeast Asia with Chinese manufacturers. This was especially true in the cotton textile and other consumer goods sectors, which were both countries' main exports to the region. China's expanding industrial capacity surprised many Japanese businesses, which had based their support for Sino-Japanese reconciliation on the wish to restore Japan's economic relations with China to their prewar heyday. Therefore, it is not surprising that many pro-engagement trade organizations – the JCCI and OCCI, for instance – shifted their attitude toward China over time, eventually treating it more as a competitor than as a potential trade partner.

The division between Tokyo and Beijing was further widened by the pivotal position that Southeast Asia occupied in their geopolitical strategies and the fundamental differences in their respective outlooks. From Hatoyama to Kishi, Japanese decision-makers hinged the country's return to regional politics on its economic expansion in Southeast Asia. Beijing was also bonded to this region by historical associations, a large overseas Chinese population, and intensifying communist movements in the wake of decolonization. For decision-makers in both countries, the raw materials, markets, and international prestige associated with the region were too important to lose to the other side. Therefore, as Beijing's promotion of self-reliant industrial build-up and intra-regional collaboration clashed with Japan's proposal for international, multilateral economic

platforms in the region, Sino-Japanese relations at this time were constantly shadowed by the competition for Southeast Asia, making the eventual confrontation in the late 1950s inevitable.

However, bilateral relations between Beijing and Tokyo were not defined by pure competition for long. Developments in the early 1960s in domestic and international theatres provided the two countries with new venues of cooperation. While shifting economic landscapes in both countries eliminated the hope – mostly from the Japanese side – to restore bilateral economic relations to its prewar state, they also provided new areas for cooperation, such as over technology, fertilizers, and industrial equipment. The unstable geopolitical situation in Southeast Asia – marked by coups in Burma, the confrontation between Indonesia and Malaya, and the escalation in the Indochina Peninsula – created shared interests in the region for both countries. Adding to the volatile situation in Southeast Asia, China's return to pragmatic diplomacy in the post-Great Leap Forward (GLF) Movement period and Kishi's stepdown after the protests in the 1960s allowed the two countries to enter another period of rapprochement. Competition and collaboration again occurred between Beijing and Tokyo as the two countries attempted to navigate uncertainties at the height of the global Cold War.

Part II: “The Black Sheep of Their Camps”: China’s Foreign Trade Reorientation and Japan’s Pursuit of Economic Leadership in Asia, 1960– 1965

While competition in Southeast Asia between Beijing and Tokyo temporarily paralyzed trade between the two countries at the end of the 1950s, it recovered and even expanded at the turn of the next decade. Beginning in 1960, both governments began to allow a group of Japanese companies known as “friendly companies” (*you hao shang she*; *Yūkō shōsha*) to conduct business with China. In November 1962, the two countries came to terms on a five-year trade memorandum that allowed them to resume trade with each other based on a synthesized barter system. The Trade Memorandum, generally referred to as the Liao-Takasaki (LT) Trade Agreement, not only allowed China and Japan to restore trade relationships after the interruption in 1958, but also offered convenience for technology transfer and personnel exchange. When the LT Agreement ended in 1967, the two countries extended it by renaming it the Memorandum Trade (MT) Agreement, which was superseded by a formal trade agreement after the two countries established diplomatic relations in 1972.

In hindsight, the decade between 1962 and 1972 saw relative stability in economic relations between China and Japan – less especially when compared with China’s trade within the Socialist Bloc – even though this was at the height of the global Cold War. Under the principle of “separating politics from the economy” (*seikei bunri*), China and Japan did not allow ideological or geopolitical disputes to jeopardize existing economic associations, as they had in 1958. The

relatively stable trade relationship helped boost confidence among Japanese companies, which then took the initiative to conduct business outside the memorandum. Due to the blooming private exchange, Japan, a supposed ideological enemy of the PRC, replaced the USSR and became its largest trade partner in 1965.¹

Historians have not sufficiently addressed the character, the causes, and most importantly, the international context of the economic association that China and Japan built in the 1960s; most notably absent is a diplomatic perspective. A well-accepted argument from the scholarship on early PRC history attributes the LT Trade Agreement to China's own need for economic recovery. This line of inquiry suggests that China's economic attraction to Japan was Beijing's reaction to the deepening Sino-Soviet split. The deteriorating relationship with the socialist "big brother" had cost China dearly: in 1960, the Soviet Union put an end to technology transfer programs in China and demonstrated a much more reserved attitude toward providing loans for China's industrialization. The retraction of Soviet aid exacerbated China's already difficult economic situation in the aftermath of the GLF. The dire prospects for the Sino-Soviet relationship forced Chinese leadership to turn to the non-socialist world for an economic boost. As Lawrence Reardon explains, China's determination to shift from dependence on Soviet support to economic self-reliance (*zi li geng sheng*) stimulated its trade with West Germany, Britain, and Japan during the 1960s.² In

¹ Chalmers Johnson, "The Patterns of Japanese Relations with China, 1952–1982," *Pacific Affairs* 59, no. 3 (1986): 406.

² See Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy* (Seattle: University of Washington Press, 2015), 116. For a detailed examination of

other words, Japan and West Europe benefitted when China tried to address its geopolitical isolation. While offering a convincing narrative on the domestic factors in the countries involved, the emphasis on Beijing's need for economic recovery overlooks the larger context of ongoing competition for economic leadership in Asia.

During this time, business leaders and industrialists in Japan participated in the state's diplomacy, with both China and Southeast Asian countries, to establish Japan as the powerhouse of an Asian economic network. These Japanese entrepreneurs even influenced the government's estimation of China within the regional economic cooperation it envisioned for Asia. During this process, Tokyo developed its own agenda for Southeast Asia that distanced it from or even directly contrasted those held by its allies, namely the United States and Britain. Instead, Beijing and Tokyo found common ground on some regional affairs, especially in Burma and Indonesia. These factors, as a whole, speak to the larger context of Sino-Japanese economic associations, in which Southeast Asia was deeply involved.

The inadequate attention paid to the international context in current scholarship has also affected analysis of the leaders responsible for Sino-Japanese reproachment. Current scholarship on these negotiators, namely Takasaki Tatsunosuke, Matsumura Kenzō, and Liao Chengzhi, tends to view them as members of pro-China/pro-Japanese groups in their domestic politics. This line of

China's turn to West Europe, see Liang-Shing Fan, "The Economy and Foreign Trade of China," *Law and Contemporary Problems* 38, no. 2 (1973): 249–259.

inquiry argues for China's strategic manipulation of the "apologetic" stance adopted by Japan, concluding that the pro-China negotiators – especially Takasaki and Matsumura – were essentially motivated by a shared sense of guilt from World War II.³ This point is also supported by Chalmers Johnson, who argues for the influence of pro-China sentiments on Japan's approach to the PRC in the 1960s. Although he considers Japan's approach to China "a clever, covert adaptation by Japan to the Cold War" and applauds the pragmatic Japanese pursuit of the country's interests, he nevertheless holds that China took advantage of Japan in the 1960s and manipulated the apologetic public opinion in its favor:

Any attempt to study Sino-Japanese relations in the postwar era must, therefore, address not only the "objective" complementarities between the two nations and their respective government policies but also the pressures of public opinion, an influence that is infinitely greater on the Japanese side (a totally open mass democracy) than on the Chinese side (a relatively closed and controlled Leninist country)...between the mid-1950s and the late 1970s, Japan's peculiar attitude toward China permitted the PRC to take political advantage of Japan in their bilateral relations.⁴

According to Johnson, even though rapprochement with China was indeed in the economic interest of Japan and consistent with its "neo-mercantilist" economic policy, the apologetic sentiments were nevertheless disadvantageous to Japan in actual practice. Johnson argues that a realistic view of China did not form until the mid-1980s, when Japan retook some initiative in the relationship. In other words, the carefully executed policy helped Japan maintain a balance between the ROC,

³ Nobuyuki Matsuoka, "Takasaki Tatsunosuke ni okeru keizai jiritsu shugi - jitsugyōka shushin seijika no shisō to kōdō," (PhD diss., Meiji University, 2014).

⁴ Chalmers Johnson, "The Patterns of Japanese Relations with China, 1952–1982," *Pacific Affairs* 59, no. 3 (1986): 402–403.

PRC, and United States. It was hardly a total victory for Japan, as it was swayed in favor of Communist China.

Johnson's evaluation of the role of pro-China elements in early Sino-Japanese rapprochement echoed assessments in the Anglophone literature. Although not all scholars agree with his evaluation, they nevertheless note the negotiators' memberships in pro-China groups in Japanese politics. Itoh Mayumi's *Pioneers of Sino-Japanese Relations: Liao and Takasaki* exemplifies such an interpretation. According to her, Takasaki's personal traits as both a businessman and a politician who had previous connections with China and Liao Chengzhi's connections to Japan made them suitable negotiators in their respective countries. The two negotiators' positions as pro-engagement diplomats, Itoh argues, reflected the attitude of a group of decision-makers in each country – Takasaki represented the pro-China faction (*shinchū-ha*) in the Liberal Democratic Party (LDP), and Liao represented the pro-Japan coalition (*qinri pai*) in China – that eventually brought the two governments to the negotiation table.⁵

Yet this line of inquiry fails to recognize that when developing their plans, these politicians were aware of their countries' positions in the Asian geopolitical landscape, and they developed strategies to situate the Sino-Japanese economic association within it. For instance, Matsumura's plan for a Japanese-led agricultural coalition in Asia and Takasaki's hope to create a pan-Asian

⁵ Mayumi Itoh, *Pioneers of Sino-Japanese Relations: Liao and Takasaki* (New York: Palgrave Macmillan, 2012).

economic platform both suggest that their plan to incorporate China was part of a larger blueprint for Asia. The economic regionalization that Europe was pursuing at the time was arguably an inspiration to some Japanese decision-makers, who later cited European experiences to justify their proposal for economic cooperation in Asia. The creation of the European Economic Community (EEC) and the European Free Trade Association (EFTA), as well as European attempts to expand economic association with China after the Sino-Soviet split, created anxiety among Japanese entrepreneurs and economic technocrats. Similarly, Japan's rise as an economic power prompted responses in both the United States and Europe: Kennedy's presidency witnessed trade frictions with Japan over his "buy American" policy and restrictions on Japan's textile exports. At the same time, Europe sought to create a standard European economic body and close coordination in its overseas expansion. Japanese bureaucrats actively engaged in open discussions – either via mass media or in economists' circles – regarding how Japan should respond to these developments. These initiatives, combined with China's alienation from the Soviet Bloc, created new contingencies for decision-makers in both Beijing and Tokyo, who subsequently sought novel economic dynamism in Asia.

The two chapters in this section will examine a variety of domestic and international contingencies that shaped Beijing's and Tokyo's approaches in the region in the early 1960s. I argue that the frictions experienced by China and Japan within their respective ideological blocs drove the two countries to form closer economic ties with each other and with countries in Southeast Asia. These initiatives, including the competition between Japan and Europe in the

Chinese market, the establishment of the EEC and EFTA, the US-Japan dispute over Japan's economic leadership in the region, and China's reliance on Southeast Asia for foreign exchange revenue, prompted Beijing and Tokyo to adopt a range of flexible approaches in their diplomacies in Asia.

Certainly, this is neither to discredit the importance of domestic politics nor to disregard the influence of pro-China sentiments in Japan's diplomatic decisions. Instead, these elements help explain the development that occurred in the early 1960s in the context of Japan's enduring pursuit of economic regionalization. The two chapters illustrate how a mixture of economic and political incentives rallied the economic technocrats and entrepreneurs behind this pursuit. In particular, Japanese bureaucrats' and entrepreneurs' hopes regarding Sino-Japanese economic cooperation frequently echoed their economic proposals for Southeast Asia.

Therefore, the two chapters will account for Japan's initiative in expanding Sino-Japanese trade to incorporate China into its economic strategy for Asia as well as China's decision to cooperate and compete with Japan for economic leadership. Chapter IV will first show how the Sino-Soviet split and Japan's fear of the loss of the Chinese market to European competitors drove decision-makers in the two countries to seek economic ties with each other. In addition, this chapter will call attention to the various considerations behind the proposals for Sino-Japanese economic relations, including Matsumura Kenzō's plan of an agricultural coalition for Asia, as well as plans put forward by Okazaki Kaheta, Takasaki Tatsunosuke, and Inayama Yoshihiro to include China in Japan's economic agenda. Chapter V, on the other hand, seeks to complicate the

picture by analyzing the competition for economic leadership in Asia between Beijing and Tokyo and explaining how the two countries became unlikely allies due to shared interests in regional affairs, including in Burma, Cambodia, and Indonesia. In doing so, the two chapters situate the Sino-Japanese economic relationship in the context of the Cold War and explain the factors that contributed to the convoluted relations the two countries developed with each other and in the region.

Chapter IV: From the Matsumura Plan to the LT Trade Agreement: Sino-Japanese Economic Collaboration and Its Connection to Japan's Economic Diplomacy in Asia, 1960–1965

The turn of 1960 was challenging for Beijing on both domestic and international fronts. In addition to the abrupt suspension of Sino-Japanese trade and various diplomatic setbacks in Southeast Asia, Beijing's worsening relations with the Soviet Union also became a danger to its deteriorating economy. Since 1958, Beijing and Moscow had found themselves disagreeing over a wide range of issues, including Cold War strategies toward the Western Bloc, the debate over leadership within the socialist camp, Khrushchev's approach to Stalin's legacy, and the "right path" to socialism.¹ The two countries made their conflict public in June 1960 during the Bucharest Conference for Communist Parties, when the delegations from Beijing and Moscow openly criticized each other's policies.² The two parties engaged in a prolonged debate from 1960 to 1964, effectively ending the decade of the Sino-Soviet alliance that began with the Korean War.

¹ Existing historiographies have analyzed the various factors that contributed to the Sino-Soviet split in 1960, including economic, political, and ideological aspects. For economic factors, see Jeremy S. Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World* (Chapel Hill: University of North Carolina Press, 2015); for the rift in politics and international relations, see Odd Arne Westad, *The Cold War: A World History* (New York: Basic Books, 2017); Jian Chen, *Mao's China and the Cold War* (Chapel Hill: University of North Carolina Press, 2001). For an analysis of the ideological split, see Lorenzi Luthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2010).

² Peter Jones, Siân Kevill, and Alan J. Day. *China and the Soviet Union 1949–84* (Harlow: Pearson-Longman, 1985), 19–22.

The Sino-Soviet split also bore economic consequences for China, which was pursuing rapid industrialization and facing increasingly severe economic difficulties from the Great Leap Forward (GLF) Movement. In July 1960, the socialist “big brother” demanded that all Soviet experts in China retreat and negotiated with Beijing in June 1961 to cancel eighty-nine industrial aid projects it had agreed to provide.³ The decline of Sino-Soviet relations caused much disruption to China’s pursuit of industrialization and reshaped the country’s foreign trade landscape. Before the split, the Soviet Union was China’s largest trade partner and the most crucial provider of technology and industrial equipment. As Table 4.1 suggests, from 1954 to 1960, China predominantly relied on the Socialist circle – and the Soviet Union in particular – for its foreign trade. However, the trade was far from balanced. While it seems (Figure 4.1) that Beijing was able to achieve a trade surplus from 1956 on, this was a result of the credit provided by the Soviet side, which enabled China to purchase capital goods, including industrial equipment, metal products, and machinery.⁴ In this way, the trade deficit in Sino-Soviet trade generated significant debt for China during the GLF between 1958 and 1960.⁵

³ Guo jia ji hua wei yuan hui, “Guan yu Su lian yuan zhu wo guo jian she de cheng tao xiang mu de qing kuang he zi liao” [Information and Situational Reports on Capital Projects Built with Soviet Aid], JJDAXB, 332–333.

⁴ Dui wai mao yi bu, “Jin ji nian lai dui wai mao yi ji ge zhu yao bian hua he zi liao” [Materials and Major Shifts in Foreign Trade Over the Last Few Years], August 1, 1962, JJDAXB, 72.

⁵ Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy* (Seattle: University of Washington Press, 2015), 103.

Therefore, it was not surprising to see the debt become a challenge for China when it fell out of grace in Moscow. In 1960, Beijing found the debt situation even more severe, since China faced difficulty fulfilling the export quota due to low agricultural procurement amid widespread crop failure. As a result, the PRC could not repay debts owed to the Soviet Union in 1960 and even had to negotiate a repayment moratorium of 1.21 billion RMB that year.⁶ However, the Sino-Soviet split rendered China's debt negotiation with the Soviets difficult because of Moscow's reluctance to offer lenient terms and Beijing's refusal to compromise its political stance in exchange for economic benefits. The failure to secure preferential terms for repayment further exacerbated China's foreign exchange situation, as most of its production had to be used to repay its debt to Moscow, even while it faced a surging demand that led to the country importing grain from abroad for immediate relief. As a result, Sino-Soviet trade declined sharply from 1961 to 1964, when China decimated its import from the USSR and kept its export primarily for debt-repaying purposes.

Table 4.1. The Regional Distribution of China's Foreign Trade, 1954–1964 (Unit: Percentage).

| | Communist Countries (All) | Soviet Union | Non-Communist Countries (All) | Industrial Countries in the Western Bloc (Japan incl.) |
|-------------|----------------------------------|---------------------|--------------------------------------|---|
| 1954 | 73.2 | 55.8 | 26.8 | 10.0 |
| 1955 | 70.1 | 52.4 | 29.9 | 12.7 |
| 1956 | 65.2 | 48.9 | 34.8 | 16.1 |
| 1957 | 61.3 | 43.4 | 38.7 | 17.1 |

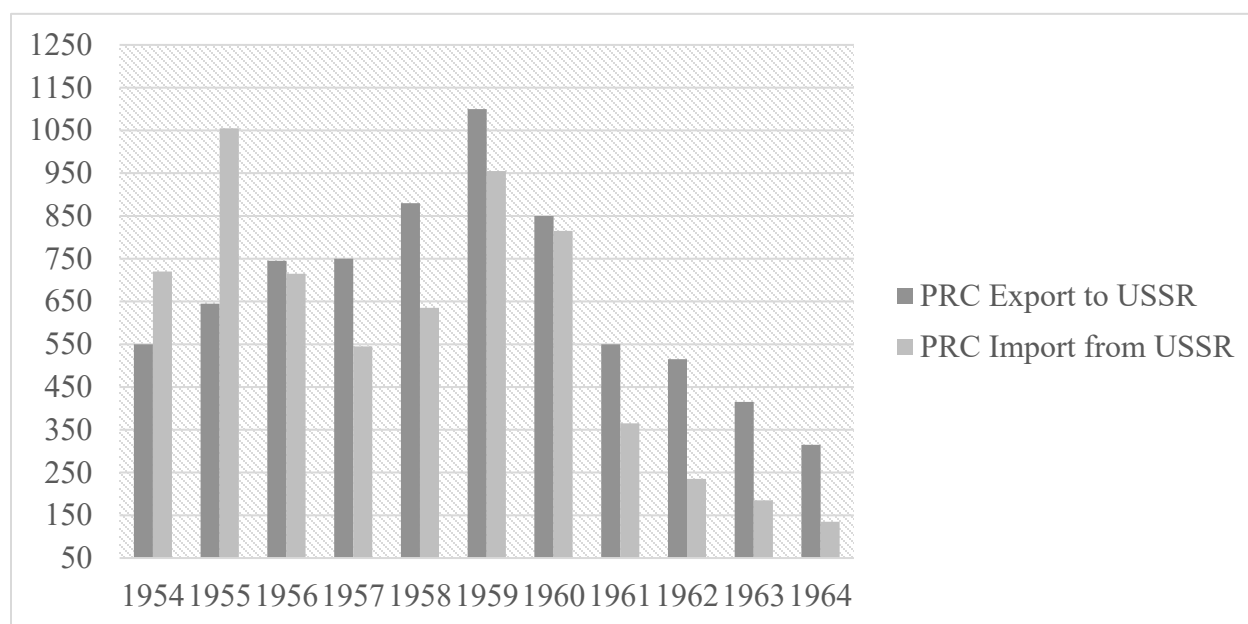
⁶ Ibid., 104.

Table 4.1 (Continued)

| | | | | |
|-------------|-------------|-------------|-------------|-------------|
| 1958 | 59.5 | 40.6 | 40.5 | 19.8 |
| 1959 | 67.6 | 50.8 | 32.4 | 15.5 |
| 1960 | 63.0 | 44.4 | 37.0 | 17.2 |
| 1961 | 52.8 | 33.8 | 47.2 | 15.4 |
| 1962 | 47.6 | 30.6 | 52.4 | 16.5 |
| 1963 | 39.3 | 23.7 | 60.7 | 18.9 |
| 1964 | 29.8 | 15.0 | 70.2 | 24.8 |

Source: Data from Nihon bōeki shinkō-kai bōeki shiryō sentā, “Chūgoku no taigai bōeki to chūso bōeki no dōkō” [Trends in China’s Foreign Trade and Sino-Soviet Trade], *Kaigai ichiba* 184 (February 1967): 97.

Figure 4.1. Sino-Soviet Trade Volume, 1954-1964 (Unit: One Million US Dollars).



Source: Data from Willy Kraus, *Economic Development and Social Change in the People’s Republic of China*. (New York: Springer-Verlag, 1982): 341.

In contrast to the decline in Sino-Soviet trade, China’s trade with the Western Bloc, especially with Canada, Japan, and Western Europe countries, gained momentum during this period. In response to the domestic food shortage, China reallocated its funds for the import of capital goods

in heavy industry to agricultural products and light industry equipment. In April 1961, the Politburo of the Communist Party of China (CPC) approved the new foreign trade principle that put “food first, market second, and infrastructure third” and asked national trading companies to “actively explore” the possibility of trading with non-socialist countries.⁷ From 1961 to 1962, China imported approximately ten million tons of grain from the international market, most of which was from the Western Bloc.⁸

China’s food crisis in the post-GLF period drew the country nearer to the Western Bloc and Southeast Asia. Beijing’s need to import grain, fertilizers, and chemicals for agricultural production prompted Chinese economic technocrats to establish trade relations with grain-producing countries – namely Canada, Australia, and New Zealand – which were seeking buyers in the international market for their surplus grains.⁹ In 1961 alone, the PRC imported more than 5.81 million tons of grains from Canada and Australia, posting a stark contrast to the 0.07 million

⁷ Zhongguo Shehui Kexue Yuan eds., *1958–1965 Zhonghua Renmin Gonghe Guo jing ji dang an zi liao xuan bian* (Beijing: Zhongguo cai jing jing ji chu ban she, 2011), 5.

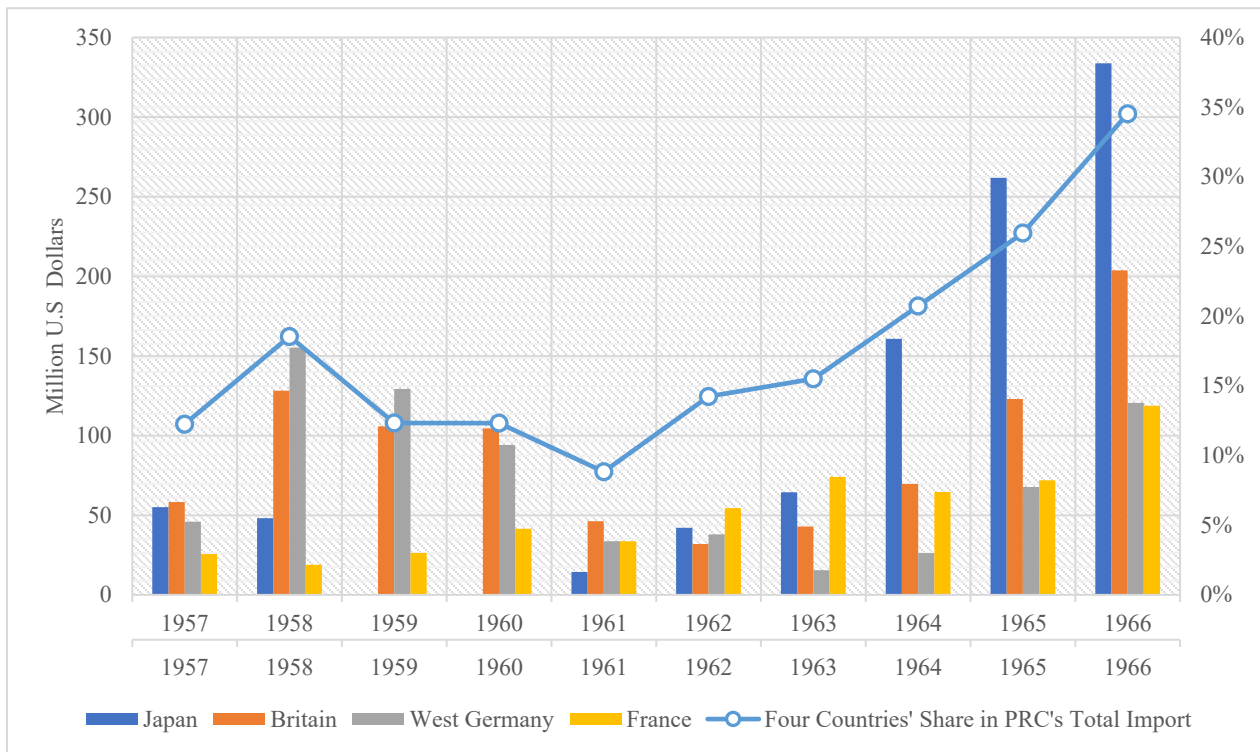
⁸ Haiyun Lin, “Cai mao gong zuo hui yi jian bao,” JJDAXB, 74–75.

⁹ It is worth noting that both Beijing and the governments in Canada and Australia had taken initiatives to realize the grain trade. The latter adopted a series of efforts to bypass the US-imposed trade embargo and successfully secured a grain contract with China. For discussion of grain trade with China during the late 1950s and early 1960s, see Chad Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979* (Florence: Routledge, 2005); Greg Donaghy and Michael D. Stevenson, “The Limits of Alliance: Cold War Solidarity and Canadian Wheat Exports to China, 1950–1963,” *Agricultural History* 83, no. 1 (2009): 29–50.

tons it had imported the previous year.¹⁰ As China's food crisis lessened in late 1962, China's demand for fertilizers, light industry equipment, and chemicals continued to boost its trade with industrial countries in the Western bloc, namely Japan, Britain, West Germany, and France. As shown in Figure 4.2, from 1961 to 1966, China's trade with Japan, Germany, France, and Britain steadily increased, and the four countries' share of China's total imports increased from 8.4 percent in 1961 to 34.5 percent in 1966. In other words, the first half of the 1960s saw China shift its import sources and increase its economic dependence on Europe and Japan.

¹⁰ James T. H. Tsao, *China's Development Strategies and Foreign Trade* (Lexington: Lexington Books, 1987), 170.

Figure 4.2. PRC Import from Selected Countries in the Western Bloc, 1957-1966.



Source: Data from James T. H. Tsao, *China's Development Strategies and Foreign Trade*, (Lexington: Lexington Books, 1987): 156, 160, 166.

In addition to expanding imports from advanced economies in West Europe and Japan, another important change in China's foreign trade landscape was Beijing's effort to maximize foreign exchange earnings by exporting to Southeast Asian markets. The food crisis and the debt China accumulated from importing from the Western Bloc had depleted Beijing's foreign reserves. According to Japanese and United States' estimations, China's debt to non-communist countries soared from 1957 to 1959, from seventy million dollars to one hundred and thirty million dollars.¹¹

¹¹ Akira Nishiyama, "Chūkyō no gaika hoyū-ryō ni kansuru ken" [Regarding the Foreign

In addition, China's grain purchases from Canada and Australia, mainly through credit, had generated 362 million dollars of debt by 1962.¹² These debts, along with that China had accumulated to the Soviet Union throughout the 1950s, worsened Beijing's financial standing, forcing it to sell off its gold and silver reserves and extensively use overseas Chinese remittances for settlement in its international trade.¹³

To address its dearth of foreign reserve, Beijing adopted a variety of strategies, including initiating a special round of procurement for export goods in certain provinces and designating some factories and farms for "export-specific" (*chu kou zhuan yong*) uses.¹⁴ In addition to increasing procurement for export, the Ministry of Foreign Trade (MOFT) also adopted strategies to conserve foreign exchange by adjusting trade items, which later contributed to China's economic association with Japan and Southeast Asia. In May 1960, traders were instructed to uplift the "rate of foreign exchange earning" (*huan hui lǜ*) by expanding the export of manufactured and

Currency Reserve of Communist China], May 29, 1961, *Chūkyō taigai keizai*, 2013-1690, DAMOFAJ.

¹² Tetsurō Furukaki, "Soren oyobi Chūkyō no Seiō shokoku-muke kingin jigane yushutsu ni kansuru ken" [On the Export of Gold and Silver Bullion from the Soviet Union and the Chinese Communist Party to Western European Countries], June 7, 1961, *Chūkyō taigai keizai*, 2013-1690, DAMOFAJ.

¹³ For reports on China's selloff of its gold and silver reserves in 1961, see Seiichi Shima, "Chūkyō no gaika jijō ni kansuru jōhō hōkoku no ken" [Intelligence Report on Communist China's Foreign Reserve Situation], June 8, 1961, *Chūkyō taigai keizai*, 2013-1690, DAMOFAJ.

¹⁴ See Haiyun Lin, "Cai mao gong zuo hui yi fa yan jian bao" [Summary of Speech at the Working Meeting for Finance and Trade], July 28, 1963, JJDAXB, 73-75.

reducing that of raw materials.¹⁵ This policy of “using import to nurture export” (yi jin yang chu) was developed because Chinese traders would gain more foreign exchange for international trade by importing raw materials for re-exporting processed goods. According to the calculation of the Chinese State Planning Committee (CSPC, Zhongguo guojia jihua weiyuan hui), it would be much more beneficial to first purchase raw cotton from the international market and export cotton textiles in exchange for grain import than to purchase grain directly:

Importing fifty million kilograms of grain will cost us 3.8–4.0 million dollars. We could buy a hundred thousand pounds of cotton if these funds were used to purchase raw cotton. If such raw cotton got weaved into the cloth and exported, it would earn us 6.5 million dollars, which, if used for grain import, would be 60% more than the direct import of grain.¹⁶

In addition to cotton, China’s need for fertilizers was also driven by its goal to save and expand its foreign currency reserves. In its calculation, the CSPC concluded that it would be much more beneficial for China to import fertilizers than grain, since fertilizer would simultaneously boost China’s cotton production for export and grain production for domestic consumption, generating more economic benefit than simply purchasing food.¹⁷ China’s aim to conserve foreign exchange reserves by prioritizing the import of fertilizers contributed to reliance on Japan and Western European countries, the leading suppliers of fertilizers in the world market. As a result, Japanese

¹⁵ “Guo jia ji wei san nian ji hua hui yi ji yao di 30 hao” [National Planning Commission, Meeting on Three-Year Plan, Minutes No. 30], May 13, 1960, JJDAXB, 34.

¹⁶ “Guo jia ji wei you guan jin kou fang mian de ji ge ji suan” [Several Calculations on Imports from the State Planning Commission], 1962, JJDAXB, 277.

¹⁷ *Ibid.*, 277.

exporters' bid for the Chinese fertilizer market facilitated the conciliatory turn in Sino-Japanese relations in the early 1960s.

Beijing's strategy to maximize foreign exchange gains also affected its economic relations with Southeast Asia. Despite various restrictions on Chinese imports in the late 1950s, these countries still relied upon cheap consumer goods from China. As a result, Chinese technocrats in the MOFT adopted a variety of means in the early 1960s to circumvent trade restrictions in Southeast Asian countries. These included the more extensive use of transitory trade via *entrepôts*, namely Hong Kong and Singapore, in China's export to Southeast Asia. From 1960 to 1964, the volume of China's export to Hong Kong increased from 207.5 million dollars to 406.3 million dollars, lifting Hong Kong's share in China's overall export to the Southeast Asia region from 52.4 percent to 60.9 percent.¹⁸ Malaysia/Singapore also benefited from China's shifting trade landscape: the volume of Chinese export to Malaysia/Singapore reached 106.5 million dollars in 1965, doubling from its low point in 1959 due to the BOC dispute and trade restrictions.¹⁹ In this way, the two *entrepôts* helped China circumvent trade restrictions and contributed to most of China's trade in the region.

Additionally, the government began to downplay the importance of the "revolutionary

¹⁸ Nihon bōeki shinkō-kai bōeki shiryō sentā, "Chūgoku no taigai bōeki to chū so bōeki no dōkō" [Trends in China's Foreign Trade and Sino-Soviet Trade], *Kaigai ichiba* 184 (February 1967): 113.

¹⁹ *Ibid.*, 113.

principle” in foreign trade and gave economic technocrats more liberty in their negotiations with merchants from the capitalist world. Instead of criticizing “the lack of revolutionary spirit” of traders, as in the late 1950s, they were expected to improve their “levels of flexibility” in the “highly competitive capitalist market.” As the MOFT’s internal report to the central committee suggested in February 1963:

Some of our managers were balking in their interactions with merchants from capitalist countries, either incapable or afraid of adopting some practices common in the capitalist market. For instance, they should adopt more flexible standards for commission fees, payment terms, and other contract terms. Some of our managers feared doing so and wished to observe some old practices. In doing so, we could not take good advantage of capitalist merchants to promote our commodities and vitalize our trade.²⁰

The liberalization of trade practices and the downplay of political elements in international trade significantly boosted China’s competitiveness in Southeast Asian markets. As the Japanese textile export association reported to the MOFA in August 1962, their Chinese counterparts adopted a variety of “meticulous and careful” (*gei ga komakai*) methods to facilitate export, including a pledge to cover the buyers’ risk from the fluctuating exchange rate, competitive prices and commission fees, and the use of credit and loans in contracts.²¹ This contrasted with the emphasis

²⁰ “Dui wai mao yi bu dang zu guan yu gai shan dui wai mao yi jing ying guan li de qing kuang he jin hou yi jian de bao gao” [Report from the Party Group of the Ministry of Foreign Trade: On the Improvement of Management and Operation in Foreign Trade, and on Future Endeavors], February 1, 1963, JJDAXB, 280.

²¹ Nihon wata-kei nuno yushutsu kumiai chōsa-ka, “Kyōsan-ken shokoku no menpu yushutsu jōkyō – tokuni Chūkyō menpu no shinshutsu ni tsuite” [The Situation of Cotton Cloth Exports from Communist Bloc Countries, with Particular Reference to the Growth of Communist China’s Cotton Cloth], August 18, 1962, Chūkyō bōeki, 2013-3752, DAMOFAJ.

on “both-red-and-professional” that the MOFT had communicated to its traders in the late 1950s. Through these efforts, Beijing maintained Southeast Asia as its primary source of foreign revenue. Table 4.2 shows that China increased its export to Southeast Asia from 1960 to 1964, with its annual trade surplus increasing from 262.2 million to 490 million dollars.

Table 4.2. China’s Trade Balance with Southeast Asia, 1960–1964 (Unit: One Million US Dollars).

| | China’s Export to Southeast Asian Markets | China’s Import from Southeast Asian Markets | Trade Surplus/Deficit for China |
|-------------|--|--|--|
| 1960 | 407.4 | 145.2 | +262.2 |
| 1961 | 331.0 | 108.1 | +222.9 |
| 1962 | 410.0 | 100.0 | +310.0 |
| 1963 | 495.0 | 115.0 | +380.0 |
| 1964 | 600.0 | 110.0 | +490.0 |

Source: Data from “Chūkyō no tai Tōnan’ajia bōeki” [Communist China’s Trade with Southeast Asia], *Bōeki geppo* 89 (January 1970): 49.

However, despite the improved flexibility in China’s trade practices and transitory trade via entrepôts, export to Southeast Asia was still a challenge due to these countries’ protective trade policies, which had been enacted to cultivate domestic manufacturers and conserve foreign currency reserves. This was especially true in the textile trade, the most crucial source of trade surplus for Beijing in the 1950s and 1960s. Japanese intelligence estimated that, while Southeast Asia’s demand for textile remained high, Southeast Asian countries’ lack of foreign currency reserves, their protective policies for domestic textile manufacturers, and the existing restrictions on the import of textiles from China would pose a severe challenge to increasing Beijing’s – and

Tokyo's – trade volume.²² As Chapter V will show, the lack of purchasing power in Southeast Asia prompted China and Japan to step up their respective economic aid to the region's countries, causing a new dynamism in their competition for economic leadership in the area.

The Reopening of Sino-Japanese Trade and Japan's Economic Diplomacy in Asia, 1960–1965

In the early 1960s, China's alienation from the Soviet Union and its deepening economic dependence on the non-communist world presented both opportunities and challenges to Japan. Japanese decision-makers in both the business world and the government developed mixed and even conflicting responses to China's economic reorientation. Japanese exporters seeking to benefit from China's opening-up to the non-socialist world found much frustration in the situation: due to the interruption of Sino-Japanese trade in 1958, Japanese traders had to watch their European counterparts – namely those from France, Britain, West Germany, and Italy – take the market share of China that could have been theirs. Table 4.3 shows that before the Sino-Japanese conflict in 1958, Japan exceeded its European competitors, becoming China's most important trade partner in the Western Bloc. However, when its trade with China took a sharp downturn between 1958 and 1962, Western Europe expanded its trade with China at Japan's expense.

²² Gaimushō Chūgoku-ka, “Soren-muke Chūkyō sen’i no ichiba tenkan no kanōsei ni tsuite no ichi shiron” [A Discussion on the Possibility of China Redirecting its Textiles for the Soviet Union to Other Markets], November 2, 1962, Chūkyō bōeki, 2013-3752, DAMOFAJ.

Table 4.3. China's Trade Volume with Selected Non-Communist Countries, 1957–1965 (Unit: One Million US Dollars).

| | Japan | FDR | Britain | France | Italy |
|-------------|--------------|------------|----------------|---------------|--------------|
| 1957 | 141.0 | 88.6 | 73.9 | 36.4 | 22.0 |
| 1958 | 105.0 | 210.9 | 128.2 | 55.8 | 46.4 |
| 1959 | 22.5 | 195.0 | 124.6 | 56.0 | 49.6 |
| 1960 | 23.4 | 164.8 | 159.5 | 75.5 | 63.8 |
| 1961 | 47.5 | 70.2 | 122.9 | 52.3 | 42.0 |
| 1962 | 84.5 | 70.4 | 88.9 | 60.2 | 33.0 |
| 1963 | 137.0 | 56.2 | 89.3 | 79.5 | 40.5 |
| 1964 | 310.3 | 77.2 | 118.9 | 80.4 | 42.1 |
| 1965 | 469.7 | 151.7 | 155.6 | 103.8 | 94.8 |

Source: Data from Nihon bōeki shinkō-kai bōeki shiryō sentā, “Chūgoku no taigai bōeki to chū so bōeki no dōkō,” *Kaigai ichiba* 184 (February 1967): 112.

The fear of losing the Chinese market to European competitors prompted Japanese business leaders and some politicians to make overtures to Beijing. Former prime minister Ishibashi, who continued Hatoyama's pro-engagement policy during his administration, led the first of these attempts. In August 1959, Ishibashi visited Beijing to meet with Zhou Enlai, and announced a joint communique on the prospects of Sino-Japanese relations. While the communique featured Beijing's criticism of Japan's “adherence” to outside influence – namely that from Washington – in its diplomatic decisions, the statement nevertheless signaled China's less stringent attitude and movement toward the relaxation of commercial exchange before the normalization of Sino-

Japanese relations.²³ A month later, the LDP's senior member, Matsumura Kenzō, also visited Beijing with a small number of other LDP politicians. The visit concluded with a formal invitation for Ministry of International Trade and Industry (MITI) Minister Takasaki to visit China in the spring of 1960 and Zhou's assurance that some cultural and economic exchanges could take place before "political exchanges" need occur.²⁴ Although Takasaki could not visit China due to Kishi's opposition, the softened attitude of Beijing nevertheless encouraged the pro-engagement voices on the Japanese side.

After Kishi's cabinet collapsed in the wake of the Anpo protests in June 1960, the call for Japan to take the initiative to reopen Sino-Japanese trade gained more momentum in the Diet. Ikeda Hayato, the new prime minister, openly embraced a soft stance on China in his inaugural speech in October 1960 and pledged to "welcome the opportunity to reopen Sino-Japanese trade." According to Ikeda, the relationship between Tokyo and Beijing would gradually improve due to "the mutual respect of respective diplomatic stances and the principle of non-intervention in domestic affairs."²⁵ Left-wing politicians in the Japanese Socialist Party (JSP) also added to this momentum. In January 1962, the JSP organized a delegation to visit China and made a statement

²³ Kurt Radtke, *China's Relations with Japan, 1945–83* (New York: Manchester University Press, 1990), 128–129.

²⁴ *Ibid.*, 130.

²⁵ Hayato Ikeda, "Shisei hōshin enzetsu, dai 36-kai (rinji-kai)" [State Policy Address, the 36th Diet Session (Temporary Session)], October 21, 1960, DSTN, <https://worldjpn.grips.ac.jp/documents/texts/pm/19601021.SWJ.html>.

calling for a “relentless effort to reach an intra-governmental trade agreement along with the current trend of private trade.”²⁶ The business world, too, made incremental efforts to reopen Sino-Japanese trade. Suzuki Kazuo, the commissioner of the China-Japan Trade Promotion Association, led a delegation to visit Beijing in August 1960, during which the Chinese side suggested that they would welcome companies with a progressive political stance to trade with China, especially those “demonstrating a supportive attitude to the Anpo struggle.”²⁷ This softened stance from the Chinese allowed commercial activities to begin under “friendly trade” (*you hao mao yi; yūkō bōeki*) in November 1960. Until Sino-Japanese trade formally resumed in 1962 under the LT Trade Agreement, traders from both sides continually expanded the list of “friendly trading companies,” from 17 at the time of commencement to 220 in April 1962.²⁸

While “friendly trade” was principally designed for small and mid-size companies with little association with the government, Japan’s large enterprises actively participated in such endeavors. Although the list of friendly trading companies did not – except for Nichimen – include Japan’s mega companies, they nonetheless engaged in the “friendship trade” through the use of small front

²⁶ “Shakaitō hōchū-dan to Chūgoku jinmin gaikō gakkai no kyōdō komyunike” [Joint Communiqué of the Socialist Party Delegation to China and the China People Diplomacy Academy], January 13, 1962, DSTN, <https://worldjpn.grips.ac.jp/documents/texts/JPCH/19620113.D1J.html>.

²⁷ Tadao Ishikawa, Mineo Nakajima, and Masaru Ikei. *Sengo shiryō Nitchū kankei* [Postwar Materials on Sino-Japanese Relations] (Tōkyō: Nihon Hyōronsha, 1970), 260–261.

²⁸ Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)* [Sino-Japanese Private Economic Diplomacy, 1945-1972] (Beijing: Ren min chu ban she, 1997), 263.

agencies. According to the MOFA's internal report, several major Japanese corporate groups – Mitsubishi, Mitsui, Sumitomo, and Marubeni – set up “dummy companies” to participate in friendly trade with Beijing.²⁹ Among the 136 “friendly trading companies” that China acknowledged, 12 were directly set up by the identified groups.³⁰ In addition, major steel manufacturing businesses that had a deep association with the mega-corporations – for instance, Yawata Steel, Fuji Steel, Kawasaki Steel, and NKK steel – also acquiesced to the use of “dummy” trading companies to import necessary raw materials from China.³¹ When Sino-Japanese trade formally resumed in 1962 after the commencement of the LT Trade Agreement, these big enterprises also used the quota to maximize their share in the Chinese market.

However, Japanese businesses did not run unopposed. During this time, Japanese products – especially in the fertilizer, steel, and machinery industries – faced much competition in China from their European counterparts, which were eager to expand in Asian markets. Many European enterprises sought a coordinated approach in their competition with Japan and the United States

²⁹ Gaimushō Chūgoku-ka, “Matsumura Takasaki ryōshi no hōchū ni kansuru ken” [On Matsumura and Takasaki's China Visit], September 6, 1962, Ni-Chūkyō kankei Matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

³⁰ Ibid.

³¹ For information on the trade arrangements between steel manufacturers and mega corporations regarding the friendly trade with China, see Gaimushō keizai-kyoku tōzai tsūshō-ka, “Ōte tekkō hachi-sha no tsūjō toriatsukai shōsha-chū no yūkōshōsha oyobi hi yūkōshōsha no jitsujō” [Facts about Friendly and Non-Friendly Trading Companies that are Business Partners to the Eight Major Steel Manufacturers], August 14, 1962, Ni-Chūkyō kankei Matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

for overseas markets. This was especially true for the chemical industry, one of the key sectors in Ikeda's economic plan for Japan in his "Income Doubling Plan" (Shotoku Baizō Keikaku).³² In 1962, thirteen European fertilizer producers met in Zurich and established Nitrex AG, a trade cartel responsible for coordinating the sale of European-produced fertilizers. Unlike the EEC, which primarily focused on creating a common market within Europe, the establishment of Nitrex AG signaled Europe's intention to increase European share in the global market by competing with the United States, Canada, and unavoidably, Japan.³³ Except for the British chemical industry – namely the ICI, which had engaged in trade with China through Hong Kong since the 1950s – Nitrex AG worked to ensure that European fertilizer exports would act on agreed terms – including forms of payment, credit line, and interest rate – in trade negotiations, and it made export to Asian markets its primary goal.³⁴ Due to China's great demand for fertilizers, it was the primary target in this endeavor. China in the post-GLF period pursued self-reliance and eagerly procured fertilizer factories from European industrialists, but domestic production could hardly meet the immediate – and surging – need for fertilizers in the early 1960s.³⁵ Nitrex AG approached Beijing to sell its

³² Ekonomisuto henshū-bu, *Shōgen kōdo seichō-ki no Nihon (jō)* [Tesimonies : Japan During the High Speed Growth Period] (Tokyo: Mainichi shinbunsha, 1984), 102–126

³³ Jean-Pierre Jeannot and Hein Schreuder, *From Coal to Biotech: The Transformation of DSM with Business School Support* (New York: Springer, 2015), 62.

³⁴ Einar Lie, "Market Power and Market Failure; The Decline of the European Fertilizer Industry and the Expansion of Norsk Hydro," *Enterprise & Society* 9, no. 1 (2008): 76; see also Nitrex. *Thirty-Five Years of Nitrex AG* (Zürich: Nitrex, 1997).

³⁵ Jung-Chao Liu, "Fertilizer Supply and Grain Production in Communist China," *Journal of*

sulfate-based and chloride-based fertilizers, and the supplier cartel was even ready to provide preferential terms on pricing and credit for contracts. In August 1962, the European cartel signed a trade agreement with Beijing that pledged to sell the latter 1.08 million tons of fertilizers with a twelve-month payment period.³⁶

The success that Nitrex AG achieved in China stimulated Japanese manufacturers, who were eagerly searching for markets for their overproduction. As a result of Nitrex AG's competition, British and Japanese fertilizer producers were forced to provide more generous terms – including lower unit prices and a more extended payment period – in their offers to Beijing. Throughout the 1960s, similar competition repeatedly drove Japanese chemical giants to a price war with Nitrex AG in both Chinese and Southeast Asian markets.³⁷ Such competition forced MITI and MOFA officials to adopt more flexible stances in their trade negotiations with these governments.

Another source of anxiety for Japanese entrepreneurs and politicians at this time was Europe's incremental progress toward economic regionalization. In the late 1950s, European countries

Farm Economics 47, no. 4 (1965): 922–923.

³⁶ Chad Mitcham, *China's Economic Relations with the West and Japan, 1949–1979* (Florence: Routledge, 2005), 98.

³⁷ For instance, the Italian fertilizer manufacturer Azienda Nazionale Idrogenazione Combustibili (ANIC) had to cut its prices in a sale agreement with Beijing in 1963, providing an 18-month payment period. Similarly, the JASEA also provided better credit in Chinese contracts in their sale agreements in 1962, allowing Beijing to further press Nitrex AG to provide even better terms in 1963. See Chad Mitcham, *China's Economic Relations with the West and Japan, 1949–1979* (Florence: Routledge, 2005), 98–99.

established two regional economic organizations, the EEC with France and Germany at the center and the EFTA with Britain and Switzerland as its leaders. Despite the frictions between the two organizations, the successful establishment of the EEC and EFTA posted a stark contrast to Japan's failed efforts under Hatoyama and Kishi to establish the Asian Payment Union and the Asian Development Fund. For Japanese decision-makers, the country's struggle to establish Japan's economic leadership in Asia, especially in light of Europe's success, had to be addressed by committing more resources to the region and adopting a more flexible diplomatic stance.

A question for Japanese decision-makers, therefore, was how to define China's position in the Japan-led economic regionalization plan. The government and the business world developed varying ideas about the role that China could play. Some took China as an underdeveloped economy with rich natural resources, which could serve, as it once had in the prewar period, as a market for Japanese export and a source of raw materials. Others believed in "developmental cooperation," contending that China's rapid industrialization would not only yield profit for Japanese exporters of industrial equipment but also help develop the country's dependence on Japanese technological input, as well as help Tokyo incorporate China into its regional economic platform.

Interestingly, Takasaki and Matsumura, the two leading advocates for Sino-Japanese cooperation and the top negotiators in the Sino-Japanese trade talks since 1960, were the most proactive advocates for the second line of argument. In an interview in February 1962, Takasaki specifically cited the European example and warned that Japan would be left out should it remain

reluctant to engage China instead of following in Europe's footsteps. "The EEC, which emerged between the Soviet and America's spheres of influence, is bringing a hurricane to the international economic arena," Takasaki told his interviewer. "[Therefore], it would be peculiar for Japan, China's neighboring country, to adopt a passive attitude to trade when the EEC is actively making progress."³⁸ A month later, Takasaki expressed his hope to include China and even the Soviet Union in an Asian economic circle led by Japan. In the interview, Takasaki linked Japan's prosperity to the establishment of regional economic cooperation in East Asia:

Therefore for Japan's future, it is necessary to create an economic cooperation circle in East Asia, just like the one existing in Europe. This must be done. However, it is regretful that the most important [parts in this circle] are Communist China and the Soviet Union, which are engaging in the Cold War with the United States....Japan, therefore, must convince the United States of its stance and receive complete understanding from her, and establish a trade relationship with China and the Soviet Union.³⁹

Takasaki's belief echoed that of Matsumura. As a senior LDP politician, Matsumura was the leader of a group of left-leaning LDP members – the so-called Matsumura-Miki faction – that favored economic association with China and the Soviet Union. Two months after concluding the LT Agreement, Matsumura published an article in the journal *Shisō* that elaborated on his perspective on Asian regionalization. He believed that Asia, especially China and Japan, should follow

³⁸ Tatsunosuke Takasaki, "Kitarubeki mono ga kita dakeda" [What was to Come, Just Came], October 5, 1962, in *Takasaki Tatsunosuke-shū kankō-kai. Takasakitatsunosuke-shū*. (Tokyo: Tōyōseikan, 1965), 155–156.

³⁹ Tatsunosuke Takasaki and Tokutarō Kitamura, "Taidan bōeki ni aka mo shiro mo aru mono ka! Nisso Nitchū bōeki o naze osoreru?" [Dialogue: There is no red or white in trade! Why Fear Sino-Japanese Trade?], *Jitsugyō no Nihon* 65, (3), no. 1519 (March 1962): 39.

Europe's lead and create its own version of the EEC, one "that does not talk in terms of Red or White" (*aka toka shiro toka iwazu ni*):

As a form of regionalization, the EEC is not for Europe only but will become a global trend in the future....To divide Asia into the Red and the White [camps] is certainly not in the interest of Asia and Japan. When I talked with Chinese leaders, I repeatedly urged them not to speak of "Red and White" division and instead consider Asia's great picture.⁴⁰

To convince his audience that Sino-Japanese cooperation was plausible, Matsumura downplayed the significance of ideological differences between Communist China and Japan by defining the EEC as a "new form of an economic system that has both elements of capitalism and socialism."⁴¹ Matsumura's argument for economic cooperation with Beijing sparked interest in the business world, especially in sectors – steel, chemical, and machinery– that had relied on raw materials from China in the prewar period. Some industrialists – championed by Inayama Yoshihiro (Yawata Steel Corporation) and Okazaki Kaheta (All-Nippon Airline) – even utilized their connections in the political establishment and proposed personal plans (*shi'an*) to the government for Sino-Japanese cooperation. Some of these proposals, including those from Matsumura and Okazaki, eventually laid the foundation for the LT Agreement signed between China and Japan in 1962.

Interestingly, Japanese industrialists' personal proposals for China, which put emphasis on "cooperation in development" (*kaihatsu kyōryoku*) through technological exchange, bore a resemblance to their companies' approaches in Southeast Asia. Some advocates even highlighted

⁴⁰ Kenzo Matsumura, "Watashi no Ajia-kan nitchūkankei o chūshin ni," *Shisō* 463, no. 1 (1963): 153.

⁴¹ *Ibid.*, 153.

such connections. This point was true for Matsumura, who proposed that Japan should become the supplier of agricultural technology to China and the rest of Asia. During his visit in September 1959, Matsumura met Zhou, who suggested that China was open to “gradual progress to improve bilateral economic relations, including trade and the communication over technology.” Matsumura then proposed that China could benefit from “receiving Japanese technicians and experts on the use of pesticide, fertilizers, as well as on the construction of agricultural infrastructure.”⁴² While the meeting did not produce any results under the Kishi administration, Zhou’s open attitude encouraged Matsumura and the like-minded in the corporate world to imagine potential technological cooperation between the two countries, which would boost Japan’s position of authority in Asia’s agricultural development.

When Ikeda came to power in 1960, Matsumura finally gained the liberty to move his agenda forward. As a contender for the presidency of the LDP in 1959 and a critical faction leader who helped Ikeda win party leadership, Matsumura held much influence over the new prime minister. In exchange for his support, Ikeda entrusted diplomacy with China to Matsumura, who would only have to answer to Foreign Minister Ohira and the prime minister himself on this matter.⁴³ Under

⁴² Gaimushō keizai-kyoku, “Hanashi gō no yōken Matsumura pēpā” [Notes on Negotiation: the Matsumura Paper], August 9, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁴³ Matsumura himself substantiated this point, and he told the Chinese side on multiple occasions that Ikeda had given him the liberty to move forward on diplomacy with China at his discretion. See Pinghua Sun, *Zhong Ri you hao sui xiang lu* [Reflections on Sino-Japanese Friendship] (Beijing: Shi jie zhi shi chu ban she, 1987), 57.

such circumstances, Matsumura proposed the “Matsumura Plan” (Matsumura kōsō) to address the food crisis in China while advancing Japan’s economic interests. According to Matsumura, the Japanese side was ready to “supply China with agricultural technologies, fertilizers, pesticides, and even food....This will be the beginning of the progress towards economic normalization between the two countries.”⁴⁴ Matsumura then communicated closely with Ikeda and Ohira to win their support for his plan and conveyed it to Beijing via Sun Pinghua, Liao’s acolyte who was visiting Tokyo in December 1961.⁴⁵ On March 14, 1962, Matsumura again met with a Chinese delegate to promote his proposal for an exchange of agricultural technology. As Matsumura told Ohira, he again proposed to the Chinese side that in order to “create momentum for the gradual improvement of bilateral relations,” Japan could demonstrate a more cooperative attitude by “sending agricultural experts, providing convenience for fertilizer supply, and offering other forms of technological assistance” to China.⁴⁶

To Matsumura’s disappointment, the Chinese initially demonstrated little interest in pursuing his plan. When Matsumura’s secretary, Okubo Noriharu, visited Beijing, officials told him that while they were ready to invite Matsumura to visit China, they were only open to discussing one

⁴⁴ Gaimushō Chūgoku kachō, “Nitchūkankei ni kansuru matsumura kenzō-shi no ugoki” [Kenzo Matsumura's Activities regarding Japan-China Relations], July 30, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁴⁵ Ibid.

⁴⁶ “Gokuhi matsumura kenzō-shi no ken” [Top Secret: The Case of Mr. Kenzo Matsumura], March 17, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

particular item in his proposal, namely the sale of Japanese chemical fertilizers on credit terms. Beijing's cold response frustrated Matsumura, who saw the lack of interest in his proposal as a rejection of further negotiation, and he refused to entertain the idea of a new visit should Beijing remain set on its current terms.⁴⁷ Beijing's concern about Matsumura's proposal was primarily rooted in its political implications: the introduction of Japanese agricultural technology and expertise would damage its propaganda efforts overseas regarding the success of the Chinese economic model. This point was partly substantiated by Zhou, who told Matsumura during the latter's visit in 1962 that such a plan must be discreetly kept to "a tiny group" and asked Matsumura to withhold information on China's interest in acquiring technological assistance.⁴⁸

Beijing eventually offered a concession, since it had a higher stake in ensuring Matsumura's visit due to his influence in the cabinet and the business world. Matsumura's influence on Ikeda regarding diplomacy with Beijing was also known by business leaders. When advocates for China trade in the business world – for instance, Okazaki and Inayama – made their proposals for Sino-Japanese trade, they sought Matsumura's counsel and even made him a presumed guarantor in potential contracts.⁴⁹ Therefore, it was not surprising to see Beijing change its attitude and pledge

⁴⁷ Gaimushō Chūgoku kachō, "Nitchūkankei ni kansuru matsumura kenzō-shi no ugoki," July 30, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁴⁸ Ibid.

⁴⁹ See Okazaki Kaheita-den kankō-kai, *Okazaki kaheita Den: Shin wa tateito ai wa yokoito* [Biography of Kaheita Okazaki: Trust is the Warp and Love is the Weft] (Tokyo: Gyōsei, 1992), 352–353.

to value Matsumura's proposal on agricultural cooperation in order to secure his visit. The change of position was conveyed when Zhou secretly sent Sun to meet with Matsumura in July 1962. To ensure the secrecy of this meeting, Zhou put Sun in the Chinese go (boardgame) delegation to Japan, instructing him to meet both Takasaki and Matsumura to discuss the details of their potential visits to China later that year.⁵⁰ During the meeting, Matsumura told Sun that Beijing should welcome Japanese experts' input in addition to the import of fertilizers, since "the lack of know-how and experience on the use of these chemicals will inflict damage on farmers' lives and cause crop failure."⁵¹ As Matsumura later reported to Ohira, the Chinese side "had changed their attitude for the better" during the meeting and was open to his suggestion on agricultural experts. Both the MOFA and the MITI, Matsumura suggested, should discuss possible implementation methods.

It is noteworthy that M's proposal had prior roots, as it was not the first attempt to realize agricultural collaboration between the two. The Chinese side and some of Matsumura's former subordinates from the Ministry of Agriculture and Forestry (Nōrin-shō, MOAF) had made efforts to facilitate agricultural collaboration, and under the Ishibashi administration, Yugawa Motoi, the

⁵⁰ According to Sun's memoir, he received an order directly from Zhou and Liao just before the I-go delegation departed for Tokyo. In his capacity as the vice president of the delegation, Sun was asked to make his presence known to Takasaki and Matsumura, and then he waited for their invitation to meet. See Sun Pinghua and Kazuhiro Morisue, *Wu shi nian cang sang – Sun Pinghua fang tan lu* (Beijing: Jin ri Zhong guo chu ban she, 2000), 157.

⁵¹ "Matsumura kenzō-shi to Ōhira gaishō to no kaidan-roku" [Meeting Transcript between Mr. Kenzō Matsumura and Foreign Minister Ohira], September 11, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

former administrative vice-minister of the MOAF when Matsumura was the minister, had helped send a group of thirty-five Japanese agricultural experts – more than half of whom were civil servants from the ministry – to China in April 1958. Upon Beijing’s invitation, they provided counseling services on “rice planting, hydraulic projects, and agricultural machineries” over a six-month appointment.⁵² This collaboration was achieved through trilateral coordination between governments and corporate Japan: the traveling expenses were covered by the Chinese government and Japanese manufacturers for agricultural machinery, and the MOAF experts in the group were sent under a “business trip order” (*shutchō meirei*) from the department.⁵³ Although this initiative ended abruptly in 1958, it nevertheless provided a precedent for Sino-Japanese cooperation on agricultural technologies that included many elements from the Japanese government.

In addition to technocrats in the MOAF, Matsumura’s enthusiasm also received support in the Japan Agricultural Cooperatives (Nōgyō Kyōdō Kumiai, JA). At this time, the JA was seeking to establish Japan’s leadership in the “international division of labor in agriculture” (*nōgyō no kokusai-teki bungyō*) and facilitate Japan’s agricultural export under the principle of “trade through development” (*kaihatsu bōeki*). Hasumi Yasushi, the president of the JA, laid out this ambition in an interview on February 28, 1962: “We will let them produce crops that Japan lacks, and in turn produce what they lack here in Japan. In this way, we will create a mutually reinforcing agricultural

⁵² Gaimushō Chūgoku-ka, “Matsumura Takasaki ryōshi no hōchū ni kansuru ken,” September 6, 1962, Ni-Chūkyō kankei Matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

⁵³ *Ibid.*, 3.

system [in Asia].”⁵⁴ The head of the JA’s International Department further elaborated on Hasumi’s idea in the same interview, advocating that “instead of merely importing agricultural products, there is a unique advantage in providing a wide range of technology related to the trade of agricultural products, and combining it with the aid projects.”⁵⁵ Prioritizing such ideas, the JA worked closely with the MOAF to set up various agricultural cooperation projects across Asia, including agricultural training centers in Thailand and Burma and technician exchange programs with Cambodia and Indonesia.⁵⁶

Echoing the JA’s desire to establish Japan’s leadership in agricultural development in Asia, Matsumura also demonstrated his support, both in public and with cabinet members. In his writings for economic and political journals, Matsumura openly linked his plan for China to a grand design ensuring Japan’s economic leadership in Asia. In his article “My Perspective on Asia” (*watashi no Ajia-kan*), published in January 1963, Matsumura compared Washington’s current embargo against China to Napoleon’s failed blockade of Britain and argued that Japan should adopt real independent diplomacy by lending agricultural aid to China:

In my view, it was an error that the Chinese received [agricultural] guidance from Soviet

⁵⁴ “Taidan Ajia no nōgyō kaihatu to nōkyō no yakuwari” [Dialogue: Agricultural Development in Asia and the Role of Agricultural Cooperatives], *Nōgyōkyōdō kumiai* 8, (4), 86 (April 1962): 21.

⁵⁵ *Ibid.*, 22.

⁵⁶ Yasushi Hasumi, “Kyōdō kumiai no kokusai-teki kōryū to Nihon no nōkyō” [Japan Agricultural Association’s International Interactions and Japan’s Agriculture], *Nōgyōkyōdō kumiai* 10, (1), no. 107 (January 1964): 13–21.

experts, who only knew plain fieldwork but not paddy fieldwork. I believe that no one but Japan could save Chinese agriculture by providing talents, fertilizers, and agricultural know-how....In the idea [of developing] alongside the rest of Asia, isn't it necessary for us to extend a warm hand to China and help them out?⁵⁷

To be sure, the sense of idealism Matsumura expressed in his article was only a part of the motivation behind his proposal. In a private meeting with the prime minister, Matsumura laid out the more practical aspects of his plan. Before Matsumura's trip to China, he told Ikeda in March 1962 that his proposal to provide agricultural technical assistance to China was part of a grander plan to establish Japan's agricultural leadership in Asia. "While there is no direct connection to [our previous topic on] the agricultural assistance to China," Matsumura wrote in his report on the meeting, "I elaborated my ideas about the agricultural collaboration (in the principle of making Asian countries cultivate crops that Japan wants) in the whole Asia when I met the Prime Minister."⁵⁸ Ikeda principally agreed to Matsumura's plan – "though not in its entirety," as Ohira suggested in his memorandum for the MOFA – and advised Foreign Minister Ohira to give the green light to Matsumura's proposal when the latter made the trip to China in September 1962.⁵⁹

Similar to Matsumura, whose plan mainly focused on the exchange of agricultural

⁵⁷ Kenzo Matsumura, "Watashi no Ajia-kan nitchūkankei o chūshin ni," *Shisō* 463, no. 1 (1963): 155.

⁵⁸ Gaimushō tōzai Chūgoku kachō, "Matsumura kenzō-shi no naiwa ni tsuite" [On the Private Conversation with Mr. Kenzō Matsumura], August 1, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁵⁹ "Ōhira daijin no iken" [Opinions from Minister Ohira], August 2, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

technologies, the other three significant advocates from the business world – Inayama, Okazaki, and Takasaki – also tried to situate China within a grander picture of economic cooperation. The three business veterans, however, were more interested in facilitating the industrial complex’s interests. In turn, their plans also received a more positive response from Beijing, which hoped to use their connections among Japanese industrialists to advance China’s industrialization.⁶⁰ In July 1962, Okazaki handed his personal proposal to Kurogane Yasumi, the chief cabinet secretary of the Ikeda government, in hopes that Matsumura would bring this proposal during his upcoming visit to China.⁶¹ Okazaki’s plan was primarily developed from the perspective of big industries. According to his proposal, major manufacturers of steel, fertilizer, and pesticide in Japan should work together to form a “makers’ group” to coordinate their export to China, as well as boost their export to China through credit from the Export-Import Bank of Japan (EIB).⁶² While the pricing of Japanese exports would match that in the international market, Okazaki suggested that the proposed group would be able to “coordinate and adjust the price, type, and amount within the

⁶⁰ Okazaki Kaheita, the president of All Nippon Airlines (ANA) and a personal economic counselor to Ikeda, also closely coordinated with Ohira and Ikeda to facilitate Matsumura’s visit. He played a central role in persuading Matsumura to move forward with his plan to visit Beijing in April. See Gaimushō Chūgoku-ka, “Okazaki kaheita-shi to no kaidan” [Meeting with Kaheita Okazaki], June 9, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁶¹ Gaimushō tōzai tsūshō kachō, “Nitchū bōeki ni kansuru okazaki kaheita-shi no kōsō ni tsuite” [On Kaheita Okazaki's Plan for Sino-Japanese Trade], August 1, 1962, (Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁶² Gaimushō Chūgoku-ka “Okazaki kōsō to sono mondaiten” [The Okazaki Plan and its Problems], August 6, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

group when the situation demands.”⁶³ This in-group coordination of export prices suggested by Okazaki was common in Japanese enterprises’ economic expansion in Southeast Asia. In both repatriation and economic cooperation agreements, large Japanese corporations would significantly compromise the profit of specific merchandise in the interest of securing contracts for other manufacturers under the same corporation.⁶⁴ In this way, Okazaki’s proposal, similar to its counterparts adopted in Southeast Asia, was designated to promote Japan’s economic presence in China by yielding some profit to the recipient country.

Inayama, on the other hand, went further, suggesting that the Japanese steel industry should intervene and provide direct technological aid to China to help it build its mining industry. To be sure, some of the ideas in Inayama’s plan had already occurred to Japanese steelmakers in the 1950s. As the president of Yawata Steel, Inayama and his colleagues in other major steel companies had been attempting to secure coal and iron ore from China since the early 1950s.⁶⁵

⁶³ “Nitchū bōeki kankei shiryō ni. LT bōeki hōsoku tōji no ikisatsu” (February 1968). Repr. *LT MT bōeki kankei shiryō: Aichidaigaku kokusaimondai kenkyūjo shōzō dai 5-kan*, eds. Tamio Shimakura and Masaya Inoue (Tokyo: Yumanishobō, 2018), 209.

⁶⁴ For examples of such practices in Southeast Asia, see Taku Yashiro, *Ran shirushi no sengo to Nihon no keizai shinshutsu: Kishi Ikeda seiken-ka no Nihon kigyō* [Japan’s Postwar Economic Expansion in Indonesia: Japanese Companies under the Kishi-Ikeda Administration] (Tokyo: Akihiro shobō, 2020).

⁶⁵ For the various efforts necessary to facilitate the purchase of Chinese iron ore and coal, including setting up front companies in the friendly trade, intermediary trade through Keimeï Co. via Hong Kong, and the negotiation for the Sino-Japanese agreement on steel and iron, see Chapter II and Chapter III of this dissertation.

Since the trade interruption in 1958 had nullified the *Sino-Japanese Steel-Iron Barter Agreement*, the Japanese steel industry had been actively searching for steady alternative sources of coal and iron ore from China. According to the Inayama Plan (Inayama kōsō), which was submitted to the MOFA in April 1962, Japan would not only export between two hundred thousand and three hundred thousand tons of steel annually – similar to the amount prescribed in the original barter agreement in 1958 – in exchange for Chinese coal and iron ore, but it would also provide technical support to expand mining facilities in the iron-rich areas of Hainan Island.⁶⁶

Inayama's plan for the Hainan development also had roots in Japan's wartime endeavors. The mines identified in the plan – Tiandu and Shilu – were discovered during the Japanese occupation. They were then developed and had been mined by forced labor and Chinese POWs since 1939. Japanese steelmakers' dependence on iron ore from Hainan continued during the immediate postwar period. Before 1951, the Japanese steel industry continued to depend on iron ore from Hainan and Malaya; minerals from the United States and Canada only constituted 42 percent of Japan's total ore imports.⁶⁷ These historical connections made clear the economic significance of the Hainan mines to the Japanese steel industry. When representatives from the steel industry visited China for the *Steel-Iron Barter Agreement* in 1958, the delegates requested a visit to Hainan

⁶⁶ Gaimushō Chūgoku-ka, “Chūkyō ni taisuru kōzai yushutsu mondai” [Issues regarding Steel Export to Communist China], July 26, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁶⁷ Ajia keizai ken kyūsho, *Tōnan'ajia no shigen kōzō* [The Structure of Natural Resources in Southeast Asia]. (Tokyo: Ajia keizai kenkyūsho, 1962), 182

to evaluate the potential output of local mines. As Inayama noted in his proposal, Japanese engineers assessed that the output of the two mines could reach three million tons annually if the Chinese upgraded the wartime facilities with the latest Japanese technologies.⁶⁸ The iron ore from Hainan, Inayama suggested, would help solve the increasingly severe shortage of raw materials that was hampering the development of Japan's steel industry.

While Japanese industrialists attempted to secure a stable supply in China, they were simultaneously making efforts to receive iron ore from Southeast Asia. Since the mid-1950s, major Japanese steelmakers had been making long-term contracts with mines in Southeast Asia through joint ventures, direct investment, and barter deals. As summarized in the Fuji Steel Cooperation report, Japanese steel industries had secured twenty-one long-term contracts with Southeast Asian mines by the end of the 1950s, including eight from India, two from Goa, three from the Philippines, seven from Malaya, and one in Hong Kong.⁶⁹ Most of these long-term contracts resembled the barter deal Japanese steelmakers signed with China in 1958: instead of cash settlement, the Japanese would provide mining equipment, infrastructure buildup, and technical support to local mining companies, and they would receive compensation in the form of iron ore.⁷⁰ Under such an

⁶⁸ Gaimushō Chūgoku-ka, “Kainantō no tetsukōseki ni tsuite” [On Iron Ore in Hainan Island], July 28, 1962, Ni-Chūkyō bōeki, 2013-1628, DAMOFAJ.

⁶⁹ Ajia keizai ken kyūsho, *Tōnan'ajia no shigen kōzō* (Tokyo: Ajia keizai kenkyūsho, 1962), 36

⁷⁰ Yawata seitetsu chōsa-bu, “Dai 19-hyō sengo ni kaihatsu keiyaku sa reta Tōnan'ajia no kōzan (1958-nen genzai),” in *Ajiakeizaikenkyūjo. Tōnan'ajia no shigen kōzō* (Tokyo: Ajia keizai kenkyūjo, 1962), 40–43.

arrangement, Japanese mining technicians flocked to Southeast Asia to provide technical guidance at local mining facilities. By November 1961, Japan had sent one hundred and seventy-nine mining experts overseas, of which ninety-seven (54 percent) were sent to Southeast Asia.⁷¹

However, Japanese steelmakers' arrangements in Southeast Asia faced various challenges at the turn of the 1960s, both from competition with European importers and from the declining output of contracted mines. According to the Japan External Trade Organization's (JETRO) report in 1962, Japan's traditional sources of import in the region – Malaya, Indonesia, and the Philippines – could not maintain their output due to the depletion of existing mines. Additionally, Japan's imports from possible exporters in the region, namely China and India, faced significant uncertainty due to the two countries' rapid industrialization and “a competition for the source of supply with countries including FDR, Czech, and Poland.”⁷² In light of this situation, the JETRO report recommended that “Japanese industries needed to make further efforts on the investigation and development of resources in the region” and “must treat Southeast Asia as the main target of such endeavor.”⁷³ JETRO's estimation was in line with that held by Inayama and his colleagues in the steel industry, who believed that China's appetite for various kinds of galvanized and alloy

⁷¹ Misawa, Tōru. *Tōnan'ajia ni okeru wagakuni kigyō teikei no jittai: Kōgyō (sekiyu o nozoku), ringyō, gyogyō* (Tokyo: Ajia keizai kenkyūsho, 1963), 134.

⁷² Ajia keizai ken kyūsho, *Tōnan'ajia no shigen kōzō* (Tokyo: Ajia keizai kenkyūsho, 1962), 188.

⁷³ *Ibid.*, 176–177, 189.

steel – which Chinese metallurgists had failed to provide in large quantities – would make Beijing a willing supplier for Japanese steelmakers.

In contrast to the sense of optimism shared by industrialists, MOFA technocrats were much more reserved toward Inayama's plan, citing concerns about the political implications of such action:

While Chinese communists may have planned to develop mines in Hainan and lack the technological know-how, and our industrialists are developing corresponding plans to introduce Japanese technologies, there was no precedent that China would accept technological support from free nations....Therefore, we consider exporting machinery necessary to develop mines possible, but direct technological collaboration [between the two sides] was a much more complicated matter.⁷⁴

Due to opposition from the MOFA, Inayama's plan was rendered as a more conservative version in which the Japanese side would only export mining equipment to China as part of the Japanese export in the barter exchange between the two countries. The MOFA also painted a rather bleak picture of Matsumura's visit, suggesting that the Chinese side may not accept technological assistance, as did Southeast Asian countries, due to its concern for political prestige and hostility toward the "free world."

To the MOFA's surprise, Beijing demonstrated an unexpected level of flexibility over technological collaboration during Matsumura's visit in September and Takasaki's subsequent visit in November 1962. To the surprise of MOFA bureaucrats, the Chinese side did not hesitate

⁷⁴ Gaimushō Chūgoku-ka, "Matsumura Takasaki ryōshi no hōchū ni kansuru ken," September 6, 1962, Ni-Chūkyō kankei Matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

accepting Matsumura's proposal for Japanese agricultural experts. In Matsumura's internal report, he was "shocked" that Liao had reported his proposal in detail to Zhou, who agreed to entertain such a possibility and allow two Japanese agricultural experts to travel to Beijing during Takasaki's visit.⁷⁵ Matsumura's proposal was finally realized in 1965, when the Asia Agricultural Technology Exchange Association (*Ajia nōgyō gijutsu kōryū kyōkai*), which was set up by his former subordinate in the MOAF, Yugawa Motoi, sent a delegation of six agricultural experts to China to guide rice cultivation.⁷⁶ According to the agreement reached between the head of the Japanese delegation, Ara Tetsuo, and his Chinese counterpart, Jin Shanbao, Beijing promised to welcome Japanese agricultural experts and receive guidance on "seedling, sampling, livestock, machinery, farming techniques, and other areas concerned."⁷⁷ However, the delegation failed to establish a regular exchange of agricultural experts, as planned, due to the outbreak of the Cultural Revolution in the subsequent year.⁷⁸

⁷⁵ Gaimushō tōzai Chūgoku kachō, "Matsumura-shi no naiwa," September 29, 1962, Ni-Chūkyō kankei matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

⁷⁶ *Ajia nōgyō gijutsu kōryū kyōkai*, *Ajia nōgyō gijutsu kōryū kyōkai 45-nen no ayumi* [45 Years of the Asia Agricultural Technology Exchange Association] (Tokyo: *Ajia nōgyō gijutsu kōryū kyōkai*, 2004), 5–6

⁷⁷ "Nitchu nōgyō gijutsu kōryū kyōkai to Chūgoku nōgaku-kai to no nōgyō gijutsu kōryū ni kansuru kyōdō tōgi-sho" [Joint Discussion Paper on Agricultural Technology Exchange between the Japan-China Agricultural Technology Exchange Association and the Chinese Society of Agricultural Science], August 5, 1965. Repr. Minshu shugi kenkyūkai, *Nihon Chūkyō kōryū nenshi* (Tokyo: Minshu shugi kenkyūkai, 1966), 383.

⁷⁸ *Ajia nōgyō gijutsu kōryū kyōkai*, *Ajia nōgyō gijutsu kōryū kyōkai 45-nen no ayumi*, 7.

Compared to the rather unfruitful cooperation in agriculture, that regarding industrial technology was far more successful under the Ikeda administration. As part of the negotiation between Takasaki and Liao, the two sides explored in detail – and secured acquiescence from their governments regarding – how Japanese equipment manufacturers could use the EIB’s credit to export capital goods to China.⁷⁹ In 1963 alone, Beijing secured contracts with Kuraray to import two vinylon factories to Shanghai and Beijing. Before the Cultural Revolution, Chinese officials made progress in procuring a fertilizer factory from the Toyo Engineering Company, a shipbuilding contract with Hitachi Zōsen, and a contract for a nylon factory with the Nichimen Company.⁸⁰ From the commencement of the LT Agreement in November 1962 to early 1966, the two sides came to terms on ten contracts for the import of capital goods with a total worth of 34.2

⁷⁹ Even before the LT Trade Agreement was signed, the different ministries within the Japanese government had an extensive discussion about the use and the terms of EIB credit in the potential export of capital goods to China. The MOFA largely opposed the idea of offering lenient credit terms to China, citing political consequences with Washington and Taipei, while the MITI and the Ministry of Finance acted as the leading advocates for such an idea. Eventually, the Ikeda Cabinet adopted the MITI version of the plan and instructed Takasaki to negotiate with the Chinese side on this term. For details, see Mayumi Itoh, *Pioneers of Sino-Japanese Relations: Liao and Takasaki* (New York: Palgrave Macmillan, 2012); see also Chad Mitcham, *China’s Economic Relations with the West and Japan, 1949–79: Grain, Trade and Diplomacy*, (London: Routledge, 2005). For a collection of internal discussion papers from Japanese ministries, see “Nitchū bōeki kankei shiryō ni. LT bōeki hossoku tōji no ikisatsu” (February 1968). Repr. *LT MT bōeki kankei shiryō: Aichidaigaku kokusaimondai kenkyūjo shozō dai 5-kan*, eds. Tamio Shimakura and Masaya Inoue (Tokyo: Yumanishobō, 2018), 205–278.

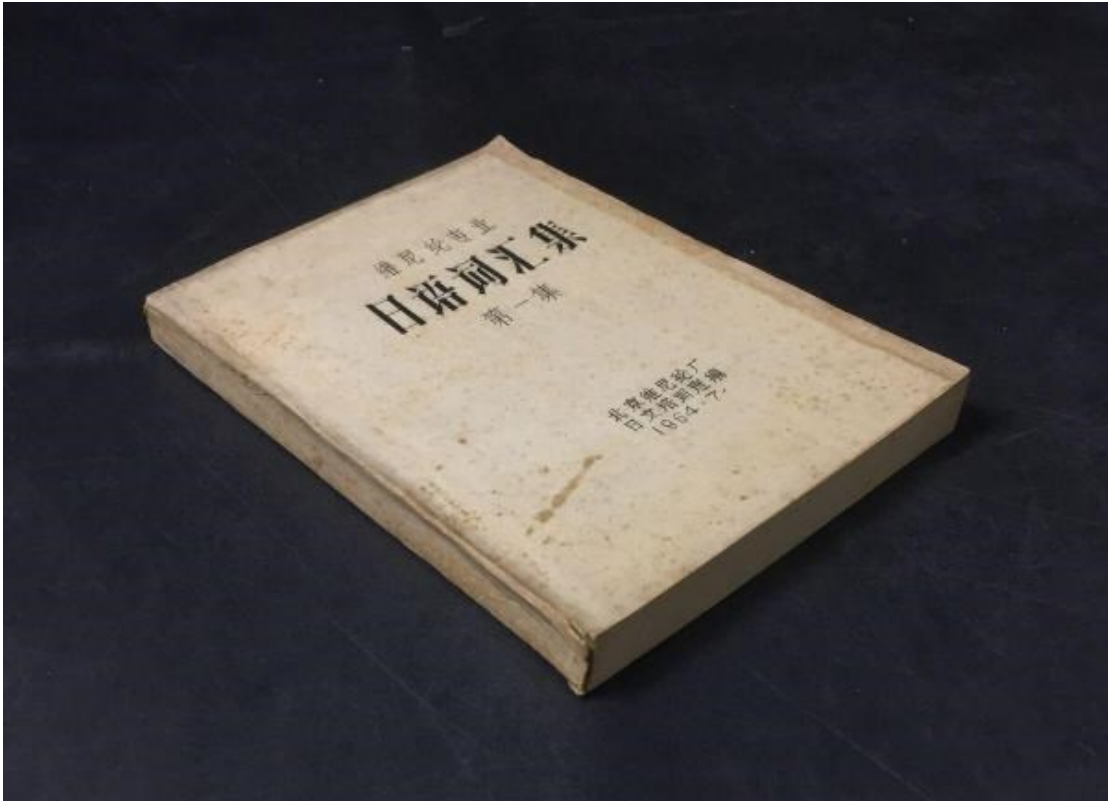
⁸⁰ Gaimushō keizai-kyoku tsūshō-ka, “Nihon no Chūkyō-muke puranto yushutsu” [Japan’s Plant Exports to Communist China], December 22, 1966, Ni-Chūkyō bōeki, 2015–1306, DAMOFAJ.

million dollars.⁸¹ According to the estimation of the MOFA, this surmounted Chinese imports from most Western European countries, the only exception being Britain, which exported 43.4 million dollars in capital goods to China during that time.⁸² The capital goods contracts also opened the gateway for Japanese technicians to travel to China and provide their services. In October 1962, Kuraray sent a delegation of engineers to China. Led by its chief engineer, Matsubara Ryōichi, the delegation's goal was to train Chinese technicians to operate Japanese equipment.⁸³ Kuraray's case also provided a precedent for other Japanese companies, which sent engineers to China to provide training and technical guidance from 1963 to 1966.

⁸¹ Ibid.

⁸² “Seiō shokoku no Chūkyō-muke puranto-rui yushutsu seiyaku jōkyō” [Western European Countries' Contracts to Export Plants to Communist China], 1968, Ni-Chūkyō bōeki, 2015-1306, DAMOFAJ.

⁸³ Shanghai-shi fang zhi pin jin zhu kou gong si, “Guan yu jie dai Ri ben Cang fu ren zao si chang ji shu ke zhang Song Yuan Liang Yi de ji hua” [Reception for Ryoichi Matsubara, the Head of the Technical Division of Japan's Kurashiki Rayon Factory], October 3, 1962, B134-6-670-1, SMA.



Picture 4.1. *A Collection of Japanese Vocabulary for the Vinylon Profession*, Published by the Beijing First Vinylon Factory. In: Beijing wei ni lun chang Ri wen pei xun ban. *Wei ni lun zhuan ye Ri yu ci hui ji di yi ji* [A Collection of Japanese Vocabulary for the Vinylon Profession, Volume 1], (Beijing: Beijing wei ni lun chang ri wen pei xun ban, 1964).

However, this promising economic situation ended abruptly in late 1965. The deepening economic collaboration between China and Japan had prompted strong responses in Taipei and Washington. This, along with the reemerging competition in Southeast Asia, added additional pressure on the Ikeda administration's efforts to give priority to the US-Japan relationship. Eventually, Sino-Japanese economic coordination took a sharp downturn in 1966, when Beijing and Tokyo canceled most ongoing negotiations over technology transfer amid increasingly diverging interests in Southeast Asia.

Conclusion

A variety of domestic and international factors motivated Chinese and Japanese leaders to deepen the economic association between their two countries. In the early 1960s, both countries faced challenges created within their own ideological blocs. The Sino-Soviet split in 1960 and the subsequent decline in economic relations between China and the socialist camp forced the Chinese leadership to look beyond the socialist world for trade opportunities, foreign revenue, and sources of technology. At the same time, Japanese decision-makers feared the loss of the Chinese market and resources to European countries and sought to mimic the economic regionalization Western Europe was pursuing at the time. Under such circumstances, both Beijing and Tokyo set aside ideological conflict for pragmatic economic interests, thus paving the way for a reconciliatory turn in bilateral relations in the early 1960s.

Another set of motivations behind the Japanese pursuit of Sino-Japanese cooperation was related to their plan to situate China in their economic ambitions for Asia. Matsumura's idea to provide agricultural technologies to China fell in line with his goal – shared by a group of Japanese agricultural technocrats – to establish Japan's leadership in regional development. Inayama's proposal to provide mining technology and equipment to China was also related to the Japanese industrial complex's goal to secure a stable supply of raw materials. In other words, the Japanese proposals for China were mainly in line with their goal to establish Japan's leadership in the economic landscape of Asia; within this plan, China, as well as the Southeast Asian countries, would become Japan's sources of industrial raw materials, destinations of technological export,

and markets for its excessive fertilizer stock. In this way, the Sino-Japanese economic association was closely integrated with the two countries' involvement in Southeast Asia.

However, the economic relationship between China and Japan was more complicated than that between a beneficiary and a benefactor. The next chapter will show that Beijing and Tokyo also engaged in fierce competition for technological leadership in Southeast Asia and mindfully devoted resources to their respective aid projects to offset the other side's influence. Nevertheless, the two countries' competition for technological output bore an unexpected consequence: during this time, Japan's goal to establish economic leadership prompted the country to adopt a more tolerant attitude toward the region's countries, including Burma and Indonesia, thus distancing Tokyo from Washington's – and to some extent, the Western Bloc's – geopolitical agenda for Southeast Asia. We will see that Beijing and Tokyo found some common ground in their bids for economic assistance to Southeast Asia. Both faced similar challenges extending aid to Ne Win's Burma, and both rallied behind Sukarno's Indonesia before he was overthrown in a military coup.

Chapter V: Sino-Japanese Competition for Economic Leadership and the US-Japan Division Over Southeast Asia, 1960–1965

While bilateral economic relations between Beijing and Tokyo improved in the early 1960s, the two sides also competed for economic influence in Asia. During this time, Chinese traders and diplomats revitalized their efforts to enhance the country's economic association with the region, including exporting industrial equipment to local industrialists, receiving and sending technicians for technological aid, and providing credit and loans to facilitate the receiving country's purchase of Chinese goods. Beijing's renewed efforts at the "peace offense" and the exchange of Chinese experts, industrial equipment, and trainees with the region's countries prompted responses in Japan. To combat this Chinese influence in Southeast Asia, which Japan considered its most important market, Japanese technocrats and entrepreneurs also devoted more resources to their aid efforts in the region. The two countries thus consciously engaged in competition for aid projects, generating new dynamism in the regional economic landscape.

However, Beijing and Tokyo were not merely competitors in Southeast Asia. During this time, the two countries found common ground in their relations to regimes in the area, namely Sukarno's Indonesia and Ne Win's Burma. In both cases, Beijing and Tokyo were motivated by political and economic incentives to prevent regime change by providing generous aid to Rangoon and Jakarta. However, these actions were not favored by Japan's allies in the Western Bloc. Throughout Ikeda's administration, Tokyo struggled to manage its relations with allies in the Atlantic world, and it failed to secure Washington's support for its approaches to China and Southeast Asia. In this way,

frictions with Washington made Beijing, which had also invested significantly in Indonesia and Burma, the unlikely friend of Tokyo. The “friendship” faltered when Suharto’s coup, backed by Washington, put an end to Sukarno’s regime, but the brief period between 1961 and 1965 witnessed a blossoming of mutual understanding and interest between Tokyo and Beijing, even as they both continued to compete for influence in the region. This curious period, which juxtaposed competition and coordination in Southeast Asia between Beijing and Tokyo, sheds light on how the two countries navigated the highly volatile situation in the region during the early 1960s.

Competition Between Japan and China for Economic Leadership in Southeast Asia, 1960–1965

Compared to their race for the export market in Southeast Asia in the 1950s, the Sino-Japanese competition in the early 1960s put more effort into the technological sphere. From 1960 to 1965, both sides incrementally committed more resources to aid programs and devised respective strategies to prove the superiority of their aid.

What contributed to their turn to technological competition in Southeast Asia? This turn had prior roots, since Southeast Asian leaders had, since the Bandung Conference, come to see technological aid as an indispensable part of their pursuit of economic modernization. As Chapter III elaborates, delegates at the Bandung Conference engaged in heated debates about the sources, means, and types of technologies Afro-Asian countries needed for their development. This process was further accelerated by attempt of countries in the region to nationalize their economies which generated much demand for state-controlled professional knowledge. Since the late 1950s, the

governments of the region's countries – championed by Indonesia, Burma, and Malaya – initiated a series of nativization policies, including the nationalization of mines and timbers, a restriction on foreign licensure in specific trades, and the acquisition of foreign assets. Since the early 1960s, the region's governments had accelerated this process, and in the case of Burma, they even sought the exclusion of foreign ownership and stock-holding arrangements in critical industries. In November 1962, the Ne Win government abolished the *Union of Burma Investment Act* after overthrowing the U Nu administration. They replaced it with the policy of “absolute nationalization” and acquired the joint ventures set up by foreign entrepreneurs and the former government.¹ According to JETRO's estimation, Burma acquired more than a dozen foreign industrial and mining enterprises in 1963 alone – including the British-owned Burma Oil Company and the Anglo-Burma Tin Company, the most significant foreign-operated joint ventures in the country – with a total worth reaching approximately twenty-five million pounds.²

However, the procurement of foreign industrial assets also created a surging need for technical know-how. This was especially true for Burma, which pursued an accelerated course of nationalization. As Japanese technicians sent to Burma reported in 1960, the Burmese government faced extreme difficulties in cultivating an able technician community of its own, since the

¹ Nippon keizai chōsa kyōgi-kai, *Tōnan'ajia no Nihon-kei kigyō* [Japanese Companies in Southeast Asia] (Tokyo: Nippon keizai chōsa kyōgi-kai, 1967), 318–319.

² Kikusan Kotō, ed., *Tōnan'ajia ni okeru wagakuni kigyō teikei no jittai* (Tokyo: Ajia Keizai kenkyū-sho, 1963), 56–57.

government's effort to cultivate local technicians could only yield limited results in the short term:

Admittedly, the Burmese government sought to address its lack of technicians by promoting technology education and sending technician students abroad for training. Consequently, many young engineers emerged quickly....Nevertheless, the able technicians who could manage design and implementation remained highly scarce. This was because the valuable [Burmese] talents would immediately become administrators and stop accumulating experience from actual practices.³

Burma's lack of technical experts was further exacerbated by the military's firm grasp on economic institutes. Since 1961, nationalization had been carried out by the Burma Economic Development Corporation (BEDC), which was established by Ne Win's acolyte, Lt. General Aung Gyi, to replace the Defense Service Institute (DSI) and avoid criticism for military intervention in the national economy. Aung Gyi claimed that the BEDC had taken over seventeen corporations from DSI and would welcome non-governmental capital and entrepreneurs.⁴ In reality, the BEDC maintained essential ties to the Burmese military. Japanese Ambassador Higuchi reported that the BEDC demonstrated little enthusiasm for soliciting non-governmental capital for its projects.⁵

Burma's lack of technological know-how and its declining relations with the West due to skepticism about foreign influence in its national economy prompted Rangoon to seek support

³ Masanobu Sakaida, "Hatsuden kōji o tsūjite mita Biruma no jijō" [The Situation in Burma as Seen Through the Construction of Power Generation Infrastructures], *Keizai kyōryoku* 6, no. 41 (June 1960): 14.

⁴ Rokuzo Yaguchi, "Defense Service Institute (Chōkan on jī junshō) no tōgoku ni okeru keizai-teki seiryoku ni kansuru ken" [The Economic Influence of the Defense Service Institute (Director: Lt. General Aung Gyi) in Burma], August 29, 1961, Biruma yōjin honpō hōmon kankei Aun jī junshō kankei, A'1.6.1.5-2, DAMOFAJ.

⁵ Ibid.

from Beijing. In January 1961, Zhou Enlai met with Aung Gyi, Ne Win's top economic acolyte, to secure additional economic assistance for Burma. The result of their negotiation was the Sino-Burmese Agreement on Economic and Technology Cooperation (Zhong-Mian jing ji ji shu he zuo xie ding), which prescribed that Beijing would provide Rangoon an interest-free loan of thirty million British pounds to purchase technology and equipment from China and bring "technicians and professionals to Burma at China's expense."⁶ As Aung Gyi later told the Japanese, the factories China promised to Burma were mainly processing factories for the country's agricultural products, including paper mills and textile, sugar, and bamboo pipe factories.⁷ Despite China's economic difficulties in the aftermath of the Great Leap Forward Movement, these programs were delivered on time in the mid-1960s, boosting Burma's manufacturing capacity through Chinese equipment. Similar efforts were made in Cambodia: the Chinese delivered two factories in 1960 and pledged to cover all expenses of Cambodian trainees sent to China from 1959 to 1962.⁸

⁶ "Zhong Mian liang guo zheng fu jing ji ji shu he zuo xie ding" [Agreement on Economic and Technical Cooperation between the Governments of China and Burma], *People's Daily*, January 9, 1961.

⁷ Dang dai zhong guo cong shu bian ji bu, *Dang dai Zhong Guo de dui wai jing ji he zuo* [China's Economic Cooperation with Foreign Countries in the Contemporary Period] (Beijing: Zhong guo she hui ke xue chu ban she, 1989), 39.

⁸ Zhong guo cheng tao she bei jin chu kou gong si, "Yu Jian pu zhai zhu Hua shang wu can zan Yang An hui tan jian bao" [Briefing on the Conversation with Yang An, the Commercial Counselor of Cambodia to China], November 12, 1959, B134-1-546-27, SMA; Zhong guo cheng tao she bei jin chu kou gong si. "Zhong guo cheng tao she bei chu kou gong si yu Jian pu zhai zhu Hua da shi guan Yang An can zan hui tan jian bao" [Briefing on the Conversation with Yang An, the Commercial Counselor of Cambodia to China, from China National Complete Plant Import & Export Corporation], February 11, 1960, B134-6-1355-11, SMA.

In addition to aid projects, Beijing also offered credit to the region's countries to purchase Chinese goods. Chinese negotiators often pledged to offer credit that could be used specifically to purchase consumer goods – mostly cotton cloth and food – and industrial equipment from China. As the Japanese MOFA estimated, the terms of Chinese credit were much preferable to those of its Western counterparts: the average interest rate for credit offered by Washington and the World Bank ranged from 3 percent to 6 percent, whereas that offered by Chinese credit was below 2.5 percent.⁹ Contrary to the credit offered by the United States under Public Law 480, which focused mainly on the credit sale of agricultural surpluses, Chinese credit covered industrial equipment and even capital goods for the entire factory. Burma and Indonesia became the largest beneficiaries of such arrangements: the Sukarno government used Chinese credit to purchase seventy-two million yards of cotton cloth in 1958. In subsequent negotiations with China, Sukarno secured an additional thirty million dollars' worth of credit to purchase steel and cotton textile factories.¹⁰ Similar terms were included in the deal signed between China and Burma in 1961, which allowed Rangoon to purchase a hundred million dollars' worth of consumer and capital goods from Beijing.¹¹

⁹ Akatani Gen'ichi, "Kyōsan-ken shokoku no tei kaihatsu shokoku ni taisuru keizai shinshutsu" [The Economic Expansion of Communist Countries into Underdeveloped Countries], *Gaimushō chōsa geppō* 2 (May 1960): 121.

¹⁰ *Ibid.*, 124.

¹¹ "Ikeda sōri, on jī junshō kaidan yōshi" [Summary of Meeting between Prime Minister Ikeda and Lt. General Aung Gyi], September 8, 1961, Biruma yōjin honpō hōmon kankei Aun jī junshō

Naturally, Beijing's expansion of economic influence through aid prompted anxiety among Japanese entrepreneurs and diplomats, who feared that it would again hurt Japanese export to the region. In 1962, Japanese merchants reported that Chinese credit had helped boost the market share of Chinese manufactured goods in Indonesia, Ceylon, and Burma, as these countries could purchase Chinese goods without depleting their tight foreign exchange reserves.¹² Diplomats from the Japanese Embassy in Phnom Penh also wrote regarding the potential disruption posed by China-aided cotton factories to Japanese cotton products and how China had, out of fear of competition, dissuaded local Chinese industrialists from cooperating with Japan in the establishment of cotton factories.¹³ In Burma, Japanese economic technocrats feared that since the size and terms of Japanese aid were not comparable to that provided by the Chinese, China's aid would "take over a significant share of [equipment in] Burma's four-year plan, thus affecting our country's future economic assistance to the country."¹⁴ Furthermore, Japanese diplomats in

kankei, A'1.6.1.5-2, DAMOFAJ.

¹² Nihon wata-kei nuno yushutsu kumiai chōsa-ka, "Kyōsan-ken shokoku no menpu yushutsu jōkyō – tokuni Chūkyō menpu no shinshutsu ni tsuite" [The Situation of Cotton Cloth Exports from Communist Bloc Countries, with Particular Reference to the Growth of Communist China's Cotton Cloth], August 18, 1962, Chūkyō bōeki, 2013-3752, DAMOFAJ.

¹³ Shirō Haga, "Shin keizai kyōryoku ni kansuru ken" [On the New Economic Cooperation], November 16, 1962, Honpō tai kanbodia keizai gijutsu kyōryoku kankei kōgyō kankei, E' 2'1'9'3-1, DAMOFAJ.

¹⁴ Gaimushō Chūgoku-ka, "Chūkyō Biruma keizai gijutsu kyōryoku kyōtei-tō no chōin ni tsuite" [On the Signing of the Agreement on Economic and Technical Cooperation between China and Burma], January 25, 1961, Chūkyō taigai keizai, 2013-1690, DAMOFAJ.

Burma were also anxious about how Beijing could turn economic progress into political influence. As Ambassador Yaguchi in Burma estimated, Chinese aid to Burma would boost the popularity of the pro-China faction (the Thakin faction) in the congress, which would pivot Rangoon in Beijing's direction should it gain the upper hand in the next election.¹⁵

The lack of progress on the part of Japanese entrepreneurs in securing bilateral economic cooperation agreements further exacerbated Tokyo's worries about China's expanding economic influence. From 1960 to 1961, the negotiation for aid between Burmese technocrats and Japanese experts made little progress toward finalizing the details of Japanese aid, partly due to Japanese entrepreneurs' concerns regarding potential nationalization. When U Rashid, Burma's minister of industry, visited Japan in 1960, he approached Japanese corporate leaders and negotiated terms for Japanese technological assistance. As the negotiation memorandum shows, the demands from the two sides were far apart: the Burmese side hoped that Japanese investors would establish these factories as joint ventures so that Burmese could learn from their professional knowledge and both sides could "share the burden and profit." In addition, the Burmese side held to its nationalization schedule, rejecting the Japanese demand to extend the grace period for private ownership from ten to twenty years.¹⁶ Burma's unyielding attitude met little enthusiasm on the Japanese side, which

¹⁵ Rokuzo Yaguchi, "Aun jī junshō no hōnichi ni kansuru ken" [Lieutenant General Aung Gyi's Visit to Japan], September 2, 1961, Biruma yōjin honpō hōmon kankei Aun jī junshō kankei, A'1.6.1.5-2, DAMOFAJ.

¹⁶ Zentarō Kosaka, "U rashitto, Biruma kōgyō daijin no rainichi ni kansuru ken" [On The Minister of Industry U Rashid's Visit to Japan], December 6, 1960, Biruma yōjin honpō hōmon

not only dismissed Rashid's proposal but also demanded Rangoon accept a lower percentage of Japanese investment and pay the "technical fee" upfront for Japanese technology and equipment.¹⁷ In response, Rashid complained to Japanese Foreign Minister Kosaka that the "failure to deliver any of the promised aid" over the preceding years had caused political problems in Burma, especially when Nichimen's plan to build a textile factory failed to yield any progress, even after years of negotiation.¹⁸ Upon returning to Burma, Rashid also expressed frustration with Ambassador Hara and worried that the failure to secure a Japanese compromise could further endanger the bilateral relations between the two countries.

However, the progress China made in Rangoon became the turning point in Burma-Japanese negotiation, as it prompted Japan to offer concessions it had been previously unwilling to make. When Aung Gyi visited Tokyo for a new round of negotiation in 1961, he used Japan's concern for Beijing's expanding influence as leverage. "In order to balance Chinese communists' expanding [influence]," Aung Gyi told Prime Minister Ikeda, "Japan and Burma [must] build closer ties between themselves."¹⁹ In addition, Aung Gyi exaggerated the scale of Chinese aid to Burma, claiming that Beijing had offered "a hundred million dollars" of credit. In response, Ikeda

kankei zakken, A' 1.6.1.5, DAMOFAJ.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ "Ikeda sōri, on jī junshō kaidan yōshi," September 8, 1961, Biruma yōjin honpō hōmon kankei Aun jī junshō kankei, A' 1.6.1.5-2, DAMOFAJ.

told Aung Gyi that Japan would love to provide Burma with the “technical know-how” it needed.²⁰ In his subsequent negotiation with Japan’s economic technocrats and business leaders, Aung Gyi found a more cooperative attitude on the Japanese side: not only did the general press Sato Eisaku, the minister of the MITI, to intervene and ask Nichimen to accelerate the construction of textile factories in Burma, he also secured additional technological aid – in terms of Japanese exports and the promise to cover their expenses – from Japanese industrialists present at the negotiation. In this way, Burma benefited from the competition between Beijing and Tokyo.

To be sure, Burma was not the only party to gain from the situation. China’s renewed interest in exerting economic influence also prompted Japanese decision-makers to expand their commitment elsewhere, leading to a competition for provision of aid across the region. In MITI and MOFA, Japanese technocrats had been reporting to the cabinet regarding the urgent necessity to facilitate Japan’s role in the development of Southeast Asia. These proposals were soon adopted by Ikeda, giving rise to extra expenditures from both the government and big corporations. From 1962 to 1964, Japan’s aid from both public and private sectors to Southeast Asia increased from 98.1 million to 137.9 million dollars, boosting the region’s share of Japan’s overall commitment to aid from 34.7 percent to 56.3 percent.²¹ Japanese industrialists also sought American capital to

²⁰ Ibid.

²¹ Gaimushō keizai kyōryoku-kyoku, “Tōnan’ajia keizai kyōryoku baizō-an no jitsugen no kanōsei ni tsuite” [On the Possibility of Realizing the Proposal to Double Economic Cooperation in Southeast Asia], March 22, 1966, File No. J-5-36, kusuda minoru shiryō dainibu, Japan Digital Archives Center (hereafter cited as J-DAC).

facilitate their technology transfer overseas. For instance, the CRC reported to Beijing that a local machinery producer in Hong Kong that competed with Chinese products was established through US capital and Japanese technicians.²² During this period, Japanese enterprises also received the government's support to expand their investment in Southeast Asia, including exporting industrial equipment and factories via credit from the Japan Export-Import Bank (JIXIM).

The increased commitment from Tokyo, in turn, created challenges for Beijing. To compete, China began to offer even more generous terms to aid-receiving countries, and it pledged to cover expenses for advisors, equipment adjustment, and interns sent to China. Beijing's renewed ambition surely put the country's fiscal and technological capacity to the test, especially because the country was still struggling with economic recovery in the first half of 1960. Diplomats in Washington were skeptical of China's ability to sponsor industrial aid, and they concluded in a report in 1964 that the country's aid promises may not be sustainable due to its relatively weak industrial capacity:

It has built up a level of commitments, which it may have difficulty fulfilling adequately....Although the Chinese are capable in specific industrial fields and can use industrial projects as a vehicle for subversion, the industrial area is one in which they are short of capital goods and technicians....As with trade, involvement in complicated aid programs encumbers the Chinese with promises and practical problems, which they may have difficulty resolving. In sum the real effectiveness of the Chinese aid program for the less developed areas of the non-communist world is still to be tested.²³

²² Hua run gong si, "Wo ji dian chan pin zai Xiang gang shi chang shang tui xiao ji Ri huo jing zheng qing kuang" [Situational Reports on Our Electromechanical Products and the Competition with Japanese Products in the Hong Kong Market], May 31, 1960, B230-1-57-58, SMA.

²³ "Communist China, 1964 – Trade and Aid; Some Implications," February 20, 1964, Chūkyō

American evaluations echoed those from technocrats in aid-receiving countries and from China itself. While Burmese officials did not hesitate to use the promised aid as leverage to bargain with the Japanese, they remained skeptical of the feasibility of Chinese aid. Burmese observers kept a watchful eye for Chinese aid to Cambodia and noted the often-poor quality of Chinese equipment in the factories:

Take the case of Cambodia. A plywood factory was established by the Chinese there, but it has only been partially produced since October 1960....Also, the Cambodian wood used in the factory is too hard for the cutting blades supplied by China. No replacement blades are forthcoming either....One wonders why China should persist in offering economic aid and technical guidance to other countries, especially when its internal economic problems are so appalling.²⁴

In response, China made painstaking – and costly – efforts to improve its aid. In June 1960, Chinese officials in the State Council instructed trading companies to pay close attention to the quality of any industrial equipment provided to Southeast Asia, as prior poor quality and lack of adaptability to local conditions had “seriously impaired the reputation and pricing of our products in the international markets and afflicted damage to the country’s political and economic interests.”²⁵ To address the insufficient quality of Chinese industrial aid, the government had to allocate even more resources to aid projects, often to develop specialized tools and equipment for

bōeki, 2013-3128, DAMOFAJ.

²⁴ “Chinese Aid to Cambodia,” *The Nation (Burma)*, March 17, 1963.

²⁵ “Guo wu yuan guan yu wo guo gong ye pin chu kou wen ti de ji xiang jue ding” [Several Decisions from the State Council on the Export of Industrial Products from Our Country], June 28, 1960, File No. 005-001-00483, Beijing Municipal Archives (hereafter cited as BMA), Beijing.

aid-receiving countries.

Some Chinese experts and technocrats also raised doubts about whether the government's bid for aid projects was sustainable for China's national economy, which was still struggling to recover from the economic impact of the GLF. In their reports, Chinese technocrats complained about the rising costs required by Chinese engineers to deliver what the state promised. In practice, Chinese technicians struggled to adapt their gear to the tropical weather in Southeast Asia, and the country was forced to use its valuable foreign exchange reserves to purchase related equipment from Britain, West Germany, and France.²⁶ This point was also reflected in the Ministry of Light Industry's (MLI) budget for foreign industrial aid: the report concluded that the cost allocated to equipment development and purchase was significant and had surely exacerbated the financial burden on Beijing's tight foreign reserves.²⁷

The Chinese leadership was aware of the cost of keeping up its commitment overseas. During a CSPC meeting on August 9, 1964, Bo Yibo admitted that "technological underdevelopment" was a significant problem for China's foreign aid projects. However, Bo argued, it might provide

²⁶ For examples given by Chinese economic bureaucrats, see Zhong hua ren ming gong he guo qing gong ye bu, "Qing gong ye bu dui wai jing ji ji shu yuan zhu shou ce" [Notebook for Foreign Economic and Technological Aid, from the Ministry of Light Industry], 1962, B163-2-1368-19, SMA.

²⁷ For a list of budgets for equipment purchase and development specifically designated for foreign aid, see Zhong hua ren ming gong he guo qing gong ye bu, "1965 nian du qing gong ye dui wai jing ji ji shu yuan zhu ji hua" [The Annual Plan for Foreign Economic and Technological Aid in Terms of Light Industry, 1965], August 1964, B163-2-1756-1, SMA.

“an opportunity” for Chinese technicians to “facilitate our technological development through meeting the requirements from the aid-receiving countries.”²⁸ However, despite optimism at the leadership level, the lack of technical know-how hampered Chinese engineers from delivering Beijing’s promises. In 1960, Chinese engineers could only deliver fifteen of the projects Beijing had promised to North Vietnam and Cambodia, and they were forced to indefinitely postpone thirteen projects that were deemed “unable to complete/complete only with urgent efforts.”²⁹

To address its technological disadvantage, Beijing increased efforts on the propaganda front and advocated the political superiority of Chinese aid over Japanese aid. Chinese diplomats repeatedly told their counterparts in Southeast Asia that Chinese aid was altruistic and most compatible with the recipient countries’ goal of achieving self-reliance. This point was also revealed in the State Planning Committee’s report on October 1964: Chinese decision-makers made it clear that since China could not match the quantities of aid that Japan provided, it must compete for quality instead of quantity in the provision of technological services. “We do not need to compete with imperialists and revisionists for the quantities [of aid programs]. Instead, we compete with them regarding policies, performances, achievements, and how we help aided countries develop a self-reliant economy.”³⁰ To set a contrast to Japan’s aid, China’s technological

²⁸ “1965 nian nian du ji hua zuo tan hui ji yao (di si ci)” [Synopsis of Conference on the Annual Plan of 1965 (the Fourth Conference)], August 9, 1964, JJDAXB, 553.

²⁹ *Ibid.*, 553.

³⁰ “Guo jia ji wei xiang zhu xi, zhong yang bao gao 1965-nian guo min jing ji ji hua gang yao (cao’an)” [Reports from the State Planning Commission to the President and the Central

aid was carried out under the “Eight Principles of China’s Economic and Technological Aid” (Zhong guo zheng fu dui wai ti gong jing ji ji shu yuan zhu de ba xiang yuan ze), announced in December 1964, which emphasized that China would “facilitate the aided country’s level of self-reliance, and would not increase the aided country’s dependence on China.”³¹

Beijing’s propaganda offense prompted responses from Japan. In October 1964, the Japanese MOFA developed new policies for economic assistance abroad, making the “effective utilization of technical cooperation as a powerful means to achieve diplomatic objectives” the essential aspect of Japan’s aid policies.³² In explaining the new strategies, the MOFA technocrats articulated that the goal was to address Japan’s ongoing competition with Beijing:

The Asia region, where our country is located, is a contested area between the communist bloc – the PRC, for a start – and various underdeveloped countries. In light of this [situation], the economic development that would sustain the political stability of our Asian neighbors is an indispensable premise to the prosperity and security of our nation...The technological elevation, as well as the development of human resources, is of particular significance...maybe small in scale, the technical assistance projects had contributed to the national development of the region’s countries, and helped them form closer ties with us.³³

Committee, On the Outline of the National Economic Plan in 1965 (draft), October 29, 1965, JJDAXB, 554.

³¹ “Zhong guo zheng fu dui wai ti gong jing ji ji shu yuan zhu de ba xiang yuan ze” [The Eight Principles of Chinese Government’s Foreign Economic and Technological Aid], December 1964, JJDAXB, 554–555.

³² Gaimusho, “Keizai kyōryoku shin seisaku” [New Policies on Economic Cooperation], October 21, 1964, Nihon eikoku-kan gaikō kankei nichiei teiki kyōgi kankei daiyonkai kankei kaidan kankei, A’1’3’1’1’4-4-1, DAMOFAJ, 5.

³³ Ibid., 4–5.

As the MOFA document shows, Japanese technocrats recognized that competition with Beijing for aid to Southeast Asian countries was inevitable, and the key to its success was to exploit Japan's technological advantage. However, Japan's allies did not favor this belief. As the next part will show, Japan's fixation on providing technological and economic aid to its "Asian neighbors" faced much opposition among its allies in Europe and America, who had little regard for economic regionalization in Asia.

US-Japanese Division in the Development of Southeast Asia and China, 1960–1965

Interestingly, despite its persistence in maintaining an economic blockade against China, Washington demonstrated a somewhat ambiguous – if not indifferent – attitude to Japan's competition with Beijing for economic aid to Southeast Asia. To be sure, the lack of support from Washington was in line with its long-standing opposition to the creation of an economic bloc that transcended ideological boundaries, which had been clear since the mid-1950s. Under the previous prime ministers, Hatoyama and Kishi, Japanese economic technocrats had developed an interest in establishing regional cooperation organizations. The former had keenly promoted the idea of a regional payment union, while the latter insisted on creating the Asian Development Fund to facilitate regional investment.³⁴ However, both proposals received little support from Washington

³⁴ For a discussion of Japan's blueprint for regionalization, see Hayato Hasegawa, "Kishi naikaku-ki no naisei gaikō rosen no rekishi-teki saikentō 'fukushi kokka,' 'keizai gaikō' to iu shiten kara" [A Historical Reexamination of the Domestic and Foreign Policy of the Kishi Cabinet: From the Perspectives of "Welfare State" and "Economic Diplomacy"], (PhD diss., No. JD070014, Hitotsubashi University, 2020).

in the 1950s. In part, this was attributed to Eisenhower's skepticism toward the feasibility of Japan's plan for regional development organizations. He repeatedly rejected proposals brought to him by Hatoyama, Ishibashi, and Kishi, arguing that the plans were too costly for Washington's taste. Alternatively, Eisenhower preferred direct bilateral aid to countries in the region. As stated by USNSC Policy Paper No. 5506, the policy paper adopted in Washington in January 1955, it was believed that the US financial contribution to Asia should be "in realistic and reasonable amounts." US participation in "the creation of any new multilateral banking or credit institution within this region" was also rejected.³⁵ Like his predecessor, Hatoyama, Kishi failed to persuade Eisenhower, who told the Japanese prime minister on June 19, 1957 that Washington could not sponsor his proposal for regional development funding, as "our money is not unlimited."³⁶ Washington's lack of financial commitment to Japan's regional strategy and frequent trade frictions between the two countries in the late 1950s nurtured an increasingly strong voice within the Japanese decision-making circle that favored an independent approach to economic regionalization in Asia.

The division between Washington and Tokyo over economic regionalization remained even after the change of leadership in both countries in 1960. Admittedly, Kennedy made efforts to

³⁵ "National Security Council Report," January 24, 1955, FRUS, 1955–1957, East Asian security; Cambodia; Laos, Vol. XXI, Document 7, 16–22.

³⁶ "Memorandum of a Conversation, White House, Washington, June 19, 1957, 11:30 a.m.," June 19, 1957, FRUS, 1955–1957, Japan, Vol. XXIII, Part 1, Document 183, 373–374.

mend US-Japanese relations, which had been damaged by the security treaty protests of 1960, by appointing Edwin O. Reischauer, a pro-Japanese scholar from Harvard, as the ambassador to Japan.³⁷ Nevertheless, the two countries remained divided on several key topics, including bilateral trade, the “Buy American” principle in America’s foreign aid projects, and most importantly, policies regarding China and Southeast Asia. This division was made clear to the Japanese side when Ikeda, after succeeding Kishi as the new prime minister, visited Washington in June 1961 to seek possible coordination with the Kennedy administration. Like his predecessor, Kennedy declined Ikeda’s proposal to strengthen the two countries’ cooperation over economic assistance to Southeast Asia and emphasized the need to provide military aid to the region’s countries to keep the communist insurgencies in check.³⁸

What, then, was the strategic consideration behind Washington’s renewed opposition to Japan’s proposal in Southeast Asia? Even before the Anpo protest in 1960, a sense of skepticism existed in Washington toward Tokyo’s loyalty to the Western Bloc and Japan’s essentially opportunistic diplomacy to establish a stronger presence in Asia. This sentiment was central to

³⁷ Historians believe that Reischauer played a crucial role in stabilizing relations between Washington and Tokyo amidst the solid anti-American sentiment created during the Anpo protest. During his appointment, Reischauer expanded his contacts beyond LDP politicians to include people from the corporate world and the primarily left-leaning Japanese academia, and he promoted the idea of “equal partnership” to boost Washington’s popularity in Tokyo. See Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), 167–168.

³⁸ *Ibid.*, 170.

Washington's lack of enthusiasm for Japan's plan. As the USNSC paper suggested in June 1960, Washington estimated that Japan would continue to pursue "a course of expedient opportunism" between the Free World and the communist camp, seeking "political and economical accommodation with the Sino-Soviet bloc."³⁹ Therefore, Japanese leadership, which was "most strongly guided by Japan's economic interests and the urge to satisfy Japan's international aspirations," would seek "a larger voice in the framing of Asian policies" while demanding more support from Washington to access regional markets in Europe and elsewhere.⁴⁰ Due to its ongoing tension with the Soviet Union and China over Cuba, Berlin, and the U-2 incident in 1960 and 1961, Washington could not support the uncertainty embodied in what it believed to be an opportunistic approach toward the Socialist Bloc. The priority for the United States, therefore, was to enhance Japan's commitment to the Free World, including encouraging its contribution to the economic development of "less-developed nations of the free world" and "access on a non-discriminatory" basis to "Free World sources of raw materials."⁴¹ This starkly contrasted to Tokyo's plan, which focused on establishing Japan at the center of an Asian economic sphere that included as many countries as possible, regardless of their ideological orientations. This division

³⁹ United States National Security Council, NSC 6008/1: US Policy Toward Japan, June 11, 1960, *Nihon senryō kankei shiryō*, AMP-571, Modern Japanese Political History Materials Room of the National Diet Library (hereafter cited as MJPHM-NDL), Tokyo.

⁴⁰ *Ibid.*, 1, 7.

⁴¹ *Ibid.*, 9, 15.

between Washington and Tokyo over the latter's economic plan for Asia – especially its intention to include economic association with Beijing in its overall economic blueprint – became a point of conflict between the two in the years after the Anpo protest.

Washington's opposition to Japan's economic approach to China and Southeast Asia was best exemplified by the crossfire in the US-Japanese Joint Economic Committee meetings from 1961 to 1964. When Dean Rusk led the US delegation to participate in the first meeting at Hakone in 1961, the two sides presented vastly different views on economic assistance to underdeveloped countries. For Washington, Japanese aid and technological transfer to the region must first serve the geopolitical interests of preventing communist takeovers. The United States also expected Japan to play a more significant role in facilitating economic development elsewhere in the Free World, namely in Latin America, by reallocating its resources to the region.⁴²

Japanese ministers were, in turn, disappointed by Washington's preoccupation with an anti-communist stance as a premise for economic assistance to the region's countries and by its request for Japan to invest beyond Asia. According to the Japanese talking paper, Tokyo expected Washington to understand its vital interest in "extending economic assistance to Southeast Asia, particularly in the region east of Burma."⁴³ Japanese economic technocrats also rejected

⁴² Gaimushō keizai-kyoku, "Dai 1-kai nichibeibōeki keizai gōdō iinkai ni okeru tōgi naiyō no gaiyō" [Summary of Discussions at the First Meeting of the Joint Japan-U.S Committee on Trade and Economic Affairs], November 24, 1961, Nichibeibōeki keizai gōdō iinkai kankei daiichikai iinkai honkaigi, E' 2'3'17-1-3, DAMOFAJ.

⁴³ "Nichibei keizai gōdō iinkai gidai 6" [The Joint Japan-US Committee on Trade and Economic Affairs, Topic No.6], November 30, 1961, Nichibeibōeki keizai gōdō iinkai kankei daiichikai

Washington's call for Tokyo to allocate its resources to South America, demanding Washington's understanding that Southeast Asia, above all other regions, was "the primary focus for Japan."⁴⁴ Such disagreement remained in place during the meetings in 1962 and 1963, when the United States repeatedly asked Japan to abandon its "Asian-inclination" (*Ajia jūten shugi*) to contribute more to development projects in Latin America and repeatedly stated its opposition to Japan's economic association with China.⁴⁵

The meeting proceedings in 1961 also shed light on the tension between Japan's essentially Asian-oriented diplomacy and Washington's emphasis on global ideological confrontation. Washington and Tokyo had starkly different attitudes toward Burma under Ne Win. Even before Ne Win's isolationist turn after his coup in 1962, Washington was dissatisfied with his decision to accept Chinese aid and the country's diplomatic neutralism. This point was conveyed to the Japanese during the meetings at Hakone. During the third round of meetings, Fujiyama expressed

iinkai honkaigi, E'2'3'1'17-1-3, DAMOFAJ.

⁴⁴ Ibid.

⁴⁵ For American positions in the Joint Economic Committee in 1962, see Gaimushō keizai-kyoku Beikoku Kanada-ka, "Dai 3-kai nichibeibōeki keizai gōdō iinkai-mai-gawa kōkan-yō shiryō no kosshi" [Bulletin of the Exchanged Materials from the American side for the Third the Joint Japan-U.S Committee on Trade and Economic Affairs], November 12, 1962, Nichibeibōeki keizai gōdō iinkai kankei daisankai iinkai tōkingu pēpā, E'2'3'1'17-3-8, DAMOFAJ. For a summary of the Japanese position on economic assistance to Southeast Asia and the emphasis on Asia, see Keizai kyōryoku-kyoku, "Taihei daijin-yō memo" [Memorandum for Minister Ohira], November 22, 1962, Nichibeibōeki keizai gōdō iinkai kankei daisankai iinkai honkaigi, E'2'3'1'17-3-3, DAMOFAJ.

skepticism toward Washington's "strict attitude" toward committing resources to regional development, and he suggested that the two countries should cooperate more on developing local industrial capacities than on "helping various leaders in less developed countries build monuments to themselves."⁴⁶ Labor Minister Fukunaga further suggested that Japan could be the "agent" for Washington's aid to Asia and used Burma as an example, claiming that since Burma did not wish to "accept assistance openly from either the US or the Soviet Bloc," Japan could provide the necessary venues through which to funnel the aid materials.⁴⁷ In this way, the Japanese side's attitude at the meeting was apparent: the United States should alter its plan and accept Japan's position on providing technical assistance to the region. Rusk, however, rejected Fukunaga's proposition on Burma. The United States would only provide aid to countries that demonstrated an unequivocal pro-Washington stance, Rusk proclaimed, and "did not wish to be a party" in providing to governments that "would welcome US money at the back door but did not welcome the US at the front door."⁴⁸ While such disagreements were omitted from the joint communique that the two sides released after the meeting, the top officials were nevertheless disappointed by the division and sought to persuade the other side in subsequent months through both open and

⁴⁶ US Embassy in Japan, "Record of the first meeting of Joint US-Japan Committee on Trade and Economic Affairs," FRUS, 1961–1963, Arms Control, National Security Policy; Foreign Economic Policy, microfiche supplement, Vols. VII, VIII, IX, Document 453, 1809.

⁴⁷ *Ibid.*, 1809.

⁴⁸ *Ibid.*, 1810.

private channels.⁴⁹

The division over Burma at Hakone was one of many disputes between the two allies. The early 1960s witnessed a protracted period during which Japan had to resist pressure from Washington and maintain its course in pursuing economic association with China and Southeast Asia. In 1962 and early 1963, some US officials, including Kennedy himself, voiced Washington's opposition to any progress in Sino-Japanese trade. Averell Harriman, the assistant secretary of state, gave a talk on September 26 and warned that any deal between Tokyo and Beijing would seriously jeopardize Japan's relations with its allies in the West.⁵⁰ He even threatened, in December 1962, further trade restrictions on Japan's access to American markets, including textile products.⁵¹ Kennedy, too, addressed the Japanese delegation during the third Joint Economic

⁴⁹ The annual Japan-US Business Conference functioned as a channel for the private exchange of ideas between the two sides. In 1961, Japanese entrepreneurs expressed their disappointment in the lack of understanding in Washington of Japan's special interests in China and Southeast Asia. The Japanese entrepreneurs – led by Sato Satō Kiichirō, the head of Mitsui Bank – echoed their government, expressed to their American counterparts that the priority of Japanese economic assistance remained in Southeast Asia, and sought US understanding of Japan's need for the Chinese market. See Nichibeibōeki gōdō iinkai, “Nichibeibōeki keizai kankei no kaizen ni kansuru yōbō chōsa” [Survey on the Hope to improve U.S.-Japan Trade and Economic Relations], October 1961, Tsuigome bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikaijinkaigi dai 2-kai kaigi (1962. 11), E'2'3'1'22-1-2, DAMOFAJ.

⁵⁰ Gaimushō Chūgoku-ka, “Matsumura Jimintō giin no hōchū ni taisuru kakkoku no hankyō ni tsuite” [Foreign Reactions LDP Congressman Matsumura's Visit to China], October 16, 1962, Ni-Chūkyō kankei matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

⁵¹ Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), 192.

Committee in Washington, and he stated that it was part of both Japan's and the United States' roles as allies to prevent Chinese communist expansion in Asia.⁵² During the Joint Economic Committee meeting, Rusk also spoke to Ambassador Asakai and Foreign Minister Ohira regarding the Chinese threat to Asia. However, all these efforts were dismissed by the Japanese side. Ohira even openly told Rusk during the meeting that Washington may benefit from "leaving Communist China alone."⁵³ Eventually, despite opposition from the United States, the Sino-Japanese trade talk concluded in November 1962 with a five-year bilateral barter agreement (the Liao-Takasaki Trade Agreement), and Ikeda even approved the sale of rayon factories to China in 1963, allowing Beijing to use credit provided by Japan's official bank, JEXIM. This decision later prompted furious responses in Taipei, which viewed China's use of Japan's governmental bank as a significant step toward formal recognition of Beijing.

Eventually, Japan's determination won Tokyo a provisional victory and forced Washington to adopt a more flexible stance on Japan's interest in China and Southeast Asia. In order to prevent the tension from going public, Rusk offered concessions in his last individual meeting with Ohira during the Joint Economic Committee on December 5, 1962, suggesting that Washington would understand "the necessity of a certain degree of trade with China" in order for Japan to gather intelligence on Beijing "for the entire free world."⁵⁴ As the Japanese memorandum shows, Ohira

⁵² Ibid., 192.

⁵³ Ibid., 192.

⁵⁴ Kōichirō Asakai, "Taihei, rasuku kaidan (5 nichiya) no ken" [On the Conversation between

was surprised when Rusk told him that Washington expected Japan to use its connections to Thailand, Malaysia, Burma, and Cambodia to foster solidarity – in the interest of anti-communist agenda – in Southeast Asia.⁵⁵ Rusk’s new position contrasted sharply with the unequivocal opposition he had exhibited a year before toward similar proposals from Japan.

However, despite some level of compromise on Japan’s trade with China, the two countries remained opposed in various critical aspects of their approaches in Southeast Asia, especially regarding Ne Win’s Burma – the military junta established after the coup in 1962 – and Sukarno’s Indonesia. Unlike Washington, which was highly skeptical of Ne Win’s Burma in the aftermath of the coup, Tokyo maintained a friendly relationship with Rangoon. In part, Washington’s skepticism toward Ne Win came from its failure to facilitate economic relations between the two countries. In May 1963, US Ambassador to Burma John Everton met with Ne Win. The ambassador suggested that the United States was concerned with Burma’s relations with China and was ready to provide Burma with the necessary technological know-how to facilitate its development of natural resources, including oil and natural gas.⁵⁶ However, Ne Win was unmoved

Ohira and Rusk (the Evening of the Fifth day)], December 6, 1962, Nichibeibōeki keizai gōdō iinkai kankei dai 2-kai iinkai kobetsu kaidan, E’2’3’1’17-2-4, DAMOFAJ.

⁵⁵ “Taihei daijin to rasuku kokumu chōkan to no kaidan no ken” [On the Conversation between Minister Ohira and State Secretary Rusk], December 5, 1962, Nichibeibōeki keizai gōdō iinkai kankei dai 2-kai iinkai kobetsu kaidan, E’2’3’1’17-2-4, DAMOFAJ.

⁵⁶ Ken’ichi Kotabe, “Beimen kankei ni kansuru Amerika taishi no danwa no ken” [On Conversation with the U.S. Ambassador: the Discourse of U.S.-Burmese Relations], May 18, 1963, Biruma gaikō, 2012-1600, DAMOFAJ.

by Everton's suggestion, and he stated that as a small country, Burma did not have "the luxury to get itself entangled with things other than domestic affairs, including Laos and China," and did not need to send trainees to the United States.⁵⁷ Ne Win's indifference frustrated Everton, who told Japanese Ambassador Kotabe during the subsequent meeting that he feared the situation in Burma had reached "a point of no return" in its "left-leaning tendency [toward Beijing]," and he asked whether Japan would help sway Burma's position toward the West. Interestingly, Kotabe demonstrated little empathy to Everton's proposal and told the American ambassador – in a rather blunt manner – that "the bilateral relation between Burma and Japan should only be dealt with between the two countries involved, and it was not for an American ambassador to intervene."⁵⁸ To some extent, this conversation between ambassadors of supposed allies offers a glance at the vastly different evaluations that Tokyo and Washington had formed of Ne Win's Burma.

Compared to the indifference toward Washington's proposal, Rangoon demonstrated a much more welcoming attitude toward economic cooperation with China and Japan. In April 1962, Tokyo sent Okuda Shigemoto as a special emissary to Burma to speak with Ne Win's representatives and ensure that the military government would maintain a friendly attitude toward Japan. In his conversation with Aung Gyi, the latter assured Okuda that existing programs signed by the U Nu government, although "unrealistic in many ways," would only receive adjustment

⁵⁷ Ibid.

⁵⁸ Ibid.

rather than abandonment, as the new government wished to remain on good terms with foreign governments.⁵⁹ Although the country would no longer favor setting up joint ventures with Japan, Aung Gyi pledged that the new government still wished to solicit help from Tokyo, especially in technology transfer.⁶⁰ In the Chinese case, Beijing had demonstrated a surprisingly friendly attitude, even when Ne Win's nationalization policy hurt the local Chinese population's interest. As a Japanese agent in Rangoon reported, nationalization had effectively "moved Chinese and Indian merchants' control of the economy to the hands of the Burmese government."⁶¹ Even though Beijing deemed these events unfriendly actions "suppressing" the local Chinese, it did not risk antagonizing Burma, citing the potential political consequences of undermining the "Five Principles of Peaceful Coexistence" prescribed at Bandung. Beijing also avoided criticizing Burma's nationalization of the Bank of China in Rangoon, featuring it as "a national gift" to the Burmese side.⁶² While local Chinese were disappointed with the lack of response from Beijing

⁵⁹ Nansei Ajia-ka. "Okuda Shigemoto-shi no Biruma shutchō hōkoku" [Shigemoto Okuda's Report on his Visit to Burma], April 5, 1962, *Nihon Biruma baishō oyobi keizai kyōryoku kyōtei kankei Ikken baishō saikentō mondai ni tsuite no gōi ni kansuru oboegaki kankei dai 4-kan*, E' 2'3'1'2, DAMOFAJ.

⁶⁰ Ibid.

⁶¹ Tsutomu Tanaka, "Tōnan'ajia no bukyō-koku Biruma no genjitsu" [The Reality of Burma, a Buddhist Country in Southeast Asia], *Jitsugyō no Nihon* 69, (2), 1611 (January 1966): 127.

⁶² Hongwei Fan, "Nai Wen jun ren zheng quan de jian li yu Zhong guo de dui Mian zheng ce – jian lun 20 shi ji 60 nian dai chu Zhong guo dui wai zheng ce Zhong de yi shi xing tai yu xian shi xuan ze" [The Establishment of the Ne Win Military Regime and China's Policy Toward Burma: A Discussion of Ideology and Realistic Choices in China's Foreign Policy at the Beginning of the 1960s], *Journal of Xiamen University (Arts and Social Sciences)* 200, (August 2010): 82–88.

and turned toward Taipei, Chinese actions won the trust of Ne Win, who then invited Liu Shaoqi and Zhou Enlai for official state visits in 1963 and 1964.⁶³

In addition, unlike Washington, which took Ne Win's rejection of foreign investment as a sign of his "left-leaning tendency," both Beijing and Tokyo identified Ne Win's obsession with Burmanization as the essential aspect of his ideology, and they even viewed the country's economic isolation as an opportunity to expand their respective economic influence. When Aung Gyi was forced to resign as minister of trade and industry and as BEDC president in 1963 and was replaced by Tin Pe, Ne Win's new economic advisor, the mild nationalization policy gave way to an accelerated course of "Burmanization."⁶⁴ On February 15, 1963, Ne Win rolled out his "new economic policy" and publicly proclaimed that the country would seek to nationalize all economic sectors, including the "production, distribution, import, and export of all commodities."⁶⁵ From 1963 to 1964, the Burmese government accelerated the nationalization effort and fully annexed foreign banks, factories, and commission trading agencies. This also included a complete nationalization of semi-civil, semi-governmental entities under the nominal "directorship" of the

⁶³ Gaimushō Ajia-kyoku Chūgoku-ka, "Tōnan'ajia shokoku ni okeru kakyō mondai" [Overseas Chinese Issues in Southeast Asian Countries], August 1967, Chūkyō Ajia shokoku kankei, 2013-2418, DAMOFAJ.

⁶⁴ Donald M. Seekins, *Historical Dictionary of Burma (Myanmar)* (Lanham: Scarecrow Press, 2006), 91–92.

⁶⁵ Frank N. Trager, "The Failure of U Nu and the Return of the Armed Forces in Burma," *The Review of Politics* 25, no. 3 (July 1963): 325.

BEDC and DSI.⁶⁶ Consequently, the foreign managerial experts and technical advisors that these economic bodies relied upon were replaced by military officers appointed as managers and board members.

Due in part to this replacement of managerial professionals with military officers, Rangoon's rapid nationalization under the DSI and BEDC led to immediate dire economic consequences in 1963 and 1964. As the Chinese Embassy in Burma observed, the lack of professional guidance had disrupted industrial and agricultural production, leading to a decline in Burma's national economy. Ne Win was disappointed at the economic fallout caused by Tin Pe's plan. According to Chinese intelligence, the commander-in-chief had asked his ministers to hold steadfast to the nationalization policy but tried to mitigate the dire economic consequences. "I do not know what the outcome will be," Ne Win told his subordinates on May 5, 1965. "What's done is done, and must be seen through to the end. We cannot abandon it halfway."⁶⁷ From Ne Win's perspective, while Burma could survive without foreign investment and joint ventures, it still needed agricultural expertise and industrial know-how to build the self-sustaining economy envisioned in his "Burmese Way to Socialism."

⁶⁶ Nihon bōeki shinkō-kai, *Jetoro bōeki ichiba shirīzu nanbā 24: Biruma* [JETRO Trade Market Series Number 24: Burma] (Tokyo: Nihon bōeki shinkō-kai, 1964), 1.

⁶⁷ "Chinese Foreign Ministry Report, Excerpts of General Ne Win's Internal Conversations, the Current Situation and its Solutions," History and Public Policy Program Digital Archive, PRC FMA 105-01226-01, June 26, 1964, accessed May 16, 2022. Obtained by Hongwei Fan, trans. Max Maller. <http://digitalarchive.wilsoncenter.org/document/118241>.

Technocrats in Beijing and Tokyo took note of Ne Win's frustration and developed proposals for technical assistance to address Rangoon's need. As the Chinese MOFA noted in February 1964, Burmese nationalization may have increased the country's economic dependence on China: "[The nationalization] has caused every crucial connection in the Burmese economy to suffer disruption....Burma relies heavily on us and Russia; they are a crucial communications channel for us, so we need to continue maintaining an amicable relationship with the Burmese."⁶⁸ In June, Beijing decided to move forward with support for Ne Win's government. The Chinese Foreign Ministry instructed Geng Biao, the Chinese ambassador in Burma, to use Ne Win's diplomatic isolation and economic difficulties as diplomatic leverage to facilitate bilateral relations: "He [i.e., Ne Win] needs to find help, and lately he has appeared friendly to us....We should take this opportunity to 'send coal during snow,' working with arduous ardor."⁶⁹

On the Japanese side, diplomats not only engaged Rangoon to propose the establishment of a second agricultural training center – the first was built in 1961 – to facilitate Ne Win's pursuit of agricultural socialism but also mobilized Japanese corporations to send various investigation

⁶⁸ "Chinese Foreign Ministry's Summary for the Embassy of the Burmese Government's Circumstances for 1963 and Official Directive for 1964 Plans and Projects," February 8, 1964, PRC FMA 105-01864-01, Obtained by Hongwei Fan, trans. Max Maller, History and Public Policy Program Digital Archive, WCDA, accessed May 16, 2022, <http://digitalarchive.wilsoncenter.org/document/118238>.

⁶⁹ "Chinese Foreign Ministry Report, 'On the Topic of Strengthening Our Work in Burma,'" June 5, 1964, PRC FMA 105-01865-01, Obtained by Hongwei Fan, trans. Max Maller, History and Public Policy Program Digital Archive, WCDA, accessed May 16, 2022. <https://digitalarchive.wilsoncenter.org/document/118239>.

groups to help Burma inspect its natural resources.⁷⁰ With encouragement from the government, Japanese enterprises in Burma also changed their strategies and provided technical assistance to Burma without engaging in the sensitive matter of joint ventures. Instead of seeking direct investment, Japanese industries mainly adopted the “technological assistance agreement” (*gijutsu enjo kyōtei*) which allowed them to provide equipment, technology, and training in exchange for a sum of commission fees, and then yield the full control the trained Burmese personnels after a pre-negotiated period.⁷¹ As the JETRO report shows, Japanese manufacturers – including Panasonic, Hino Motors, Nippon Electronic Company, and Toyo Kogyo (Mazda) – developed new interests in Burma through this kind of arrangements.⁷² As the MITI report shows, from 1965 to 1966, the number of interns and professionals provided by corporations in these sectors exceeded that in the governmental-sponsored programs, making it the central channel for Japanese technological exchange with Burma.⁷³

⁷⁰ Examples of such initiatives include a natural gas inspection and the design of a fertilizer factory in the Chauk area, as well as the inspection of tin mines in Kalagyungyi Island, Masanpa Island, and Cimalo Island. See “Honpō tai Biruma keizai gijutsu kyōryoku kankei Biruma ten’nen gasu chōsa-dan haken kankei (1963-nen)” [Japan's Economic and Technical Cooperation with Burma: the Natural Gas Survey Mission (1963)], E’2’4’2’ 6-4, DAMOFAJ.

⁷¹ Nippon keizai chōsa kyōgi-kai, *Tōnan’ajia no Nihon-kei kigyō*, 319.

⁷² Nihon bōeki shinkō-kai, *Jetoro bōeki ichiba shirīzu nanbā 24: Biruma* (Tokyo: Nihon bōeki shinkō-kai, 1964), 33.

⁷³ Tsūshōsangyōshō bōeki shinkō-kyoku, *Keizai kyōryoku no genjō to mondaiten 1966* [Current Status and Problems of Economic Cooperation in 1966] (Tokyo: Tsūshōsangyōshō bōeki shinkō-kyoku, 1966), 210; Tsūshōsangyōshō bōeki shinkō-kyoku, *Keizai kyōryoku no genjō to mondaiten 1967* [Current Status and Problems of Economic Cooperation in 1967] (Tokyo:

Technological assistance, in turn, increased Burma's technological dependence on Japan in critical industrial sectors. This was especially true for Japanese manufacturers in transportation and electronics, the fields in which Burma had already developed a reliance on Japanese technologies. When Tanaka Tsutomu, a technician working for Nichimen, arrived in Rangoon in 1966, he wrote that Burma's transportation system was solely dependent on Japanese technologies. According to his report, the Burmese national railway was "predominantly supplied by Japanese trains, rails, and carriages," which he considered "advantageous for Japan since the Burmese side kept placing orders on components [for replacement]."⁷⁴ In this way, Japan's emphasis on technology-centered aid enabled it to further Burma's technological dependence on them and kept Japanese industries relevant, even after Burma's national economy became increasingly isolationist.

To compete with Tokyo, Beijing also prioritized its commitment to Rangoon by allocating more resources for technical support. In its plan for foreign technical assistance for 1965, the Chinese Ministry of Light Industry gave the country priority in the exchange of technicians and trainees: among the one hundred and forty-nine trainees MLI intended to receive for the year, one-third came from Burma. MLI also decided to send one-fifth of the 500 total technicians sent abroad to Burma.⁷⁵ The Chinese government covered the expenses of technicians and exchange students.

Tsūshōsangyōshō bōeki shinkō-kyoku, 1967), 230.

⁷⁴ Tanaka, "Tōnan'ajia no bukkyō-koku Biruma no genjitsu," 127.

⁷⁵ "1965 nian du qing gong ye dui wai jing ji ji shu yuan zhu ji hua" [The Annual Plan for

In sum, from 1960 to 1965, the assessments of Burma made by Beijing and Tokyo roughly converged, and these contrasted to that of Washington. Despite their competition for economic influence, both countries supported Ne Win's regime and devoted economic and technological resources to sustaining it. Tokyo's choice to defend Rangoon in its talks with the American side and its decision not to alienate Ne Win's military government distanced it from Washington, which considered Ne Win's ambiguous attitude toward Beijing to be a danger to its regional policy. Similar dynamism also appeared in the three countries' entanglements with Sukarno's Indonesia. The developments in Indonesia under the Johnson administration fueled Tokyo's alienation from Washington's policy in Southeast Asia. This created an unlikely alliance with Beijing, which held a similar view of Indonesia.

The Commencement of the Johnson Administration and US-Japanese Divergence on Indonesia, 1963–1965

After change from the Kennedy to the Johnson administration, the conflict between Washington and Tokyo over Southeast Asia and China intensified, this time over Indonesia. By retaining Kennedy's foreign policy advisors, the Johnson administration, at its commencement, largely inherited hostility toward Beijing from the previous administration.⁷⁶ In addition, the president's

Foreign Economic and Technological Aid in Terms of Light Industry, 1965], August 1964, B163-2-1756-1, SMA.

⁷⁶ See David Fromkin, Review of *Lyndon Johnson and Foreign Policy: What the New Documents Show*, by H.W. Brands, Warren I. Cohen, Nancy Bernkopf Tucker, George C. Herring, and Ted Gittinger. *Foreign Affairs* 74, no. 1 (1995): 161–70.

preoccupation with Vietnam – the belief that Ho Chi-Minh had firm backing from Beijing – and his decision to seek reconciliation with Moscow ran directly against Japan’s desire to improve Sino-Japanese relations. As a result, the two sides again disagreed on whether China, rather than the Soviet Union, should be the focus of the containment policy.⁷⁷

Johnson’s position also affected Washington’s approach to Indonesia. Under Kennedy, Washington had maintained ambiguously friendly relations with Sukarno and had even supported Indonesia’s claim for the West Irian. Further, during his visit to Washington, Sukarno had persuaded the president to send Robert F. Kennedy to negotiate with the Netherlands on Indonesia’s behalf.⁷⁸ Washington’s support for Sukarno also included economic aid. Kennedy instructed his cabinet to devise a plan to expand America’s presence in the country, including “civic action, military aid, and economic stabilization and development programs, as well as diplomatic initiatives.”⁷⁹ The aid programs included immediate relief funds for raw material procurement, interim loans to stabilize the national economy, and long-term military and

⁷⁷ Nancy Bernkopf Tucker, “Threats, Opportunities, and Frustrations in East Asia” in *Lyndon Johnson Confronts the World: American Foreign Policy, 1963–1968*, eds. Warren I. Cohen and Nancy Bernkopf Tucker (Cambridge: Cambridge University Press, 1994), 126–127.

⁷⁸ Taku Yashiro, *Ran shirushi no sengo to Nihon no keizai shinshutsu: Kishi Ikeda seiken-ka no Nihon kigyō* [Japan’s Postwar Economic Expansion in Indonesia: Japanese Companies under the Kishi-Ikeda Administration] (Tokyo: Akihiro shobō, 2020), 169.

⁷⁹ “National Security Action Memorandum No. 179,” August 16, 1962, FRUS, 1961–1963, Southeast Asia, Vol. XXIII, Document 287, 627.

technological aid to offset the influx of aid from the Communist Bloc.⁸⁰ Indonesia consistently received such aid from the United States, which aimed to balance the influence gained by the Soviet Union and China through their respective economic and military aid. As indicated in the Joint Chiefs of Staff's report to McNamara on September 5, 1962, Washington's essential interest in Indonesia was to use "a coordinated military, political, and economic program" to "achieve the revival of an Indonesian society oriented to the West."⁸¹ This position remained largely in effect during the Kennedy administration.

However, Washington's friendship with the Sukarno regime slowly declined after 1963, when the isolation Indonesia faced in the Western Bloc – especially from the Commonwealth circle – drove Sukarno further toward the Communist Party of Indonesia (PKI) and Beijing. In March 1961, Chen Yi visited Jakarta and signed the *Sino-Indonesian Treaty of Friendship (Zhong hua ren min gong he guo he Yin du ni xi ya gong he guo you hao tiao yue)*, as well as the *Agreement on Cultural Cooperation (Zhong hua ren min gong he guo he Yin du ni xi ya gong Wen hua he zuo xie ding)*.

⁸⁰ For instance, the United States offered seventeen million US dollars of immediate relief funds to Indonesia in September 1962, and through coordination with IMF, provided a total sum of fifty million dollars of credit to Sukarno under the name of the Stabilization Program in August 1963. For examples of such initiatives, see "Memorandum From the Assistant Administrator for the Far East, Agency for International Development (Janow) to Michael V. Forrestal of the National Security Council Staff," August 29, 1963, FRUS, Vol. XXIII, Document 313, 681–683; see also "Memorandum From Michael V. Forrestal of the National Security Council Staff to Secretary of State Rusk," December 18, 1962, FRUS, 1961–1963, Southeast Asia, Vol. XXIII, Document 298, 654.

⁸¹ "JCSM-692–62: Memorandum From the Joint Chiefs of Staff to Secretary of Defense McNamara," September 5, 1962, FRUS, 1961–1963, Southeast Asia, Vol. XXIII, Document 288, 629.

In the joint-communique, China affirmed its “full support for the struggle of Indonesian people to reclaim its lawful territory in West Irian.”⁸² In addition to its propaganda machine, Beijing pledged to provide additional economic assistance to the country if the Western Bloc cut ties. When the Commonwealth circle imposed economic sanctions on Indonesia, the Communist Bloc saw it as an opportune moment to increase its influence in the country. As the CIA’s estimation in June 1964 had forewarned, the Soviet Bloc and China initiated various industrial programs in Indonesia after the conflict escalated. Their purchase of Indonesian oil and rubber helped Jakarta compensate for the loss of Western markets for its natural resources.⁸³ Sukarno’s increasing inclination toward the Eastern Bloc created many complications for Washington’s decision-makers, who were forced to manage the differences within their bloc.

Under such circumstances, it is unsurprising that the Malaysia-Indonesia conflict became a point of contention within the Western Bloc, especially between Britain, the United States, and Japan. In September 1963, the Federation of Malaya incorporated the British-controlled North Borneo and Sarawak to become the state of Malaysia. The creation of Malaysia and the

⁸² “Zhong hua ren min gong he guo wai jiao bu hang he Yin du ni xi ya gong he guo wai jiao bu zhang de lian he gong bao” [Joint Communiqué of the Ministers for Foreign Affairs of the People’s Republic of China and the Republic of Indonesia], *Zhong hua ren min gong he guo guo wu yuan gong bao* 235 (April 1961): 101.

⁸³ Economic Intelligence Committee, “EIC-R14-S17: Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World: January 1–June 30, 1964,” August 1, 1964, USDDO, accessed April 1, 2021, <https://link.gale.com/apps/doc/CK2349507308/USDD?u=camb55135&sid=USDD&xid=47fb2f83&pg=1>.

incorporation of British Borneo infuriated Sukarno, who saw the merge a challenge to his dream of “Great Indonesia” comprising the entirety of Borneo Island. In response Indonesia supported Brunei resistance forces and secretly sent Indonesian troops across the border. This led to a series of border conflicts between the two countries. Since the beginning of the crisis, Britain – along with its former colonial suzerain, the Netherlands – had been the most proactive supporter for Kuala Lumpur, and it had even offered direct military intervention through the platform of the Commonwealth. Washington slowly drew itself closer to Britain on this matter, partly due to Johnson’s need to solicit London’s support for the escalation in Vietnam.⁸⁴ Eventually, when the United States halted its aid to Indonesia in January 1965, the same month that Sukarno quit the United Nations – a decision that was applauded in Beijing – the relationship between Washington and Jakarta, which had been improving, became confrontational.

Compared to its allies in London and Washington, the Ikeda administration demonstrated a tolerant, if not supportive, attitude toward Sukarno’s Indonesia. Regarding the dispute, Ikeda also differed from the Western Bloc’s position supporting Kuala Lumpur and even tried to offer intermediation by bringing both sides to a trilateral conference in Tokyo.⁸⁵ In addition, Japan’s

⁸⁴ See Robert J. McMahon, *Limits of Empire: The United States and Southeast Asia Since World War II* (New York: Columbia University Press, 1999), 122–123.

⁸⁵ However, the conference itself was a disaster due to uncompromising attitudes from both sides, especially Sukarno’s refusal to accept territorial claims held by Malaysia. The failure to produce any result led to criticism of Ikeda’s position in Indonesia and abroad. See Yashiro, *Ran shirushi no sengo to Nihon no keizai shinshutsu*, 176.

economic interests in the country prevented the Japanese government from embracing the Western Bloc's embargo against Indonesia.⁸⁶ Since the 1960s, Japan had become the country's most important source of investment and technology transfer and had participated in the Jakarta's various economic initiatives, including the national railroad system, its forestry development project in Kalimantan, and the import of various sugar and rubber factories.⁸⁷ Ikeda told his cabinet that since "some industrial countries gave up the chance to provide [Indonesia] what it needs," it was up to Japan to provide and benefit from the situation.⁸⁸

Japan's reluctance to cut economic ties and technological aid to Sukarno's regime became a major disappointment to Japan's allies, especially after Washington changed to a more anti-Sukarno diplomacy in 1964. When Foreign Minister Shiina met his British counterpart Patrick Gordon Walker on January 15, 1965, he rejected the British demand for Japan to "drop its economic support as long as Indonesia does not change its position [on Malaysia]."⁸⁹ Instead,

⁸⁶ See Toshiharu Yoshikawa, *Kin gendai-shi no naka no Nihon to Tōnan'ajia* [Japan and Southeast Asia in Modern History] (Tokyo: Tōkyōshoseki, 1992), 114–115.

⁸⁷ Yashiro, *Ran shirushi no sengo to Nihon no keizai shinshutsu*, 176.

⁸⁸ Sumio Hatano and Shin Satō, *Gendainihon no tōnan'ajia seisaku—1950–2005* (Tokyo: Wasedaigaku shuppan-bu, 2007), 101.

⁸⁹ Gaimushō ōa-kyoku Ei renpō-ka, "Shīna gaishō to gōdon'uōkā gaishō to no kaidan-roku (zaiei taishikan yori no hōkoku ni yoru)" [Transcript of the Meeting between Foreign Minister Shiina and Foreign Minister Gordon Walker (as Reported by the Embassy in the UK)], February 2, 1965, Nihon Igrisu-kan gaikō kankei nichiei teiki kyōgi kankei daisankai kankei kaidan kankei, A'1'3'1'1-4-3-1, DAMOFAJ, 21–22.

Shiina argued that Japan considered it necessary to “maintain – with flexibility – some level of economic and technological support for the country” and called attention to the danger of a communist takeover in Indonesia if Sukarno’s political life “meets a premature death.”⁹⁰ Even when Sato succeeded Ikeda in September 1964, Japan’s position on the economic commitment to Indonesia remained robust. To demonstrate Japan’s support and to placate the corporate world, which feared the decline of Japanese-Indonesian relations, Sato sent Kawashima Shōjirō, the vice president of the LDP, to Indonesia as a special emissary.⁹¹ In this way, Tokyo’s insistence on maintaining economic connections to Sukarno’s Indonesia echoed Beijing’s position, making the two countries, although they were on different sides of the Cold War, the two most significant supporters of Indonesia before Suharto’s military coup.

Therefore, it is unsurprising that Washington and Tokyo continued to differ significantly in relation to Southeast Asia in the first years of the Johnson administration. In January 1964, Rusk and Japanese Foreign Minister Ohira confronted each other over Japan’s approaches to China and Southeast Asia. While Ohira stated clearly that Japanese reactions would be “undesirable” should Washington demand Tokyo follow its “stiff” course, Rusk replied by asking Japan to “think in

⁹⁰ Ibid., 24, 26–27.

⁹¹ Kawashima even met secretly with Zhou Enlai, who was also visiting Indonesia, on April 19, and both sides agreed on the need to keep stability in Indonesia. For more on Kawashima’s visit and his meeting with Zhou, see *Mareishia funsō honpō no taido Kawashima tokushi, Indoneshia, mareishia, Tai shokoku hōmon kankei dai 1-kan* [Japanese Attitude toward the Malaya Dispute, Special Envoy Kawashima, Indonesia, Malaysia], A’7.1.0.12-7-2, DAMOFAJ.

Asian terms and...consider Asian relations with Beijing.”⁹² “Japan should think about Japan’s interests – for example, in Korea, Formosa, Vietnam, Cambodia, Thailand, and Indonesia,” Rusk warned, “and Japan should consider how her interests are affected by Beijing’s policies and actions toward these areas.”⁹³ Ohira reticently agreed only to consult with Asian countries on Japan’s approach to China.⁹⁴ The division between Washington and Tokyo was furthered when the Johnson administration demanded support from its allies for Washington’s position in Vietnam after the Tonkin Bay Incident in July 1964. William Bundy, the assistant secretary of state responsible for Asian affairs, clearly articulated such a position when he visited Tokyo to give a speech to the Research Institute of Japan on September 29. In his speech, Bundy unequivocally declared that Washington had no intention to seek reconciliation with Beijing, urged Japan to pursue economic assistance to Asian countries within the sphere of the Free World, and asked his Japanese audience to support – in both political and economic terms – America’s efforts to prevent

⁹² “Summary of Conversation Between Secretary Rusk and Japan’s Foreign Minister Ohira Regarding Joint Economic Committee Meetings Between Japan and Communist China,” January 28, 1964, USDDO, accessed September 21, 2020, <https://link.gale.com/apps/doc/CK2349001946/USDD?u=camb55135&sid=USDD&xid=6053d5c5>. However, Ohira’s speech is omitted from this document. For Ohira’s part of this conversation, see “Taihei gaimu daijin, Beikoku kokumu chōkan rasuku kaidan yōshi” [The Summary of Conversation between Foreign Minister Ohira and State Secretary Rusk], January 28, 1964, Nichibeibōeki keizai gōdō iinkai kankei dai 3-kai iinkai (1964. 1) Kobetsu kaidan, E’.2.3.1.17-3-4, DAMOFAJ.

⁹³ Ibid., 3.

⁹⁴ Ibid., 4.

communist expansion in Indochina.⁹⁵ Bundy's position was met with little enthusiasm among Japanese technocrats, who told the assistant secretary of state that the situation in Vietnam was, as the axiom goes, "a rotten wood beyond carving" (*ki yuu boku haerube karazu*).⁹⁶ In this way, Japan's initial responses to Washington's initiatives in Vietnam and Southeast Asia echoed Washington's allies in Europe, who also expressed skepticism toward the Johnson administration's escalation policy in the region.

However, a series of changes in both the domestic and international arenas in late 1964 and 1965 brought new possibilities to break the impasse to the impasse between Tokyo and Washington. In September 1964, Ikeda's worsening physical condition forced him to resign and concede the position of prime minister to Sato Eisaku, Yoshida's protegee and a longstanding pro-American figure in the LDP. The leadership change in Tokyo provided an opportunity for Washington to adopt a more flexible approach and repair its relations with Japan. On June 6, 1965, Bundy suggested to Rusk that Sato's visit to Washington was an opportune moment to address the "needless difficulties in current US-Japanese economic relations" and offer recognition that Asian countries should be "the principal beneficiaries of Japanese aid."⁹⁷ Washington's efforts to

⁹⁵ William P. Bundy, "Progress and Problems in East Asia: An American Viewpoint," September 29, 1964, Beikoku yōjin honpō hōmon kankei zakken daiyonkan, A'1'6'2'4, DAMOFAJ.

⁹⁶ Gaimushō Amerika Tsubone Hokubei-ka, "Bandeī kokumu jikanho to Gaimushō kanbu to no kaidan yōshi" [Summary of Meeting between Assistant Secretary of State Bundy and Foreign Ministry Officials], October 12, 1964, Beikoku yōjin honpō hōmon kankei zakken daiyonkan, A'1'6'2'4, DAMOFAJ.

⁹⁷ William P. Bundy, "Action Memorandum From the Assistant Secretary of State for Far

reconcile with Japan coincided with political upheavals in the region's countries that frustrated Beijing. Suharto's coup in September 1965 put an end to Sukarno's rule, which had received support from both Japan and China.⁹⁸ The military coup and Washington's explicit support for Suharto during his massacre of the Chinese population in Indonesia prompted Beijing to adopt a more confrontational approach in the region. China also faced significant setbacks in Burma when Ne Win intensified suppression of local Chinese communities. Subsequently, various initiatives that had facilitated Sino-Japanese cooperation under Ikeda were replaced by intensified competition between China and Japan in the region.

Conclusion

The relationship between Beijing and Tokyo remained complicated and unstable in the early 1960s. Both sides actively explored alternatives to the diplomatic positions in their ideological blocs. During this time, their bilateral relations were contingent on their respective policies toward Southeast Asia. For China, while Japan was identified as the main competitor for its economic interests in the region, it was a significant source of technology and trade opportunities, as well as a country with a similar interest in maintaining stability in Indonesia and Burma. Similarly, the Ikeda Cabinet was intent on pursuing its economic interests in China and Southeast Asia, even

Eastern Affairs (Bundy) to Secretary of State Rusk," January 6, 1965, FRUS, Vol. XXIX, Part 2, Document 39, 59–61.

⁹⁸ For Japan's entanglement with Sukarno's Indonesia, see Masashi Nishihara, *The Japanese and Sukarno's Indonesia* (Honolulu: University of Hawaii Press, 1976).

when those interests led to confrontation with its allies in Washington and London.

This situation in Asia owed derived from a group of structural factors in China and Japan, firstly stemming from the two countries' own needs for economic development. China's turn to economic pragmatism in the aftermath of the Great Leap Forward and its Westward reorientation due to the Sino-Soviet split made Japan and Southeast Asia increasingly important trade partners for Beijing. Economic incentives were also present in Japan, which was struggling to obtain raw material supplies after losing its traditional supply source in mainland Asia. So, both sides had reason to develop an economic association with each other and, simultaneously, with Southeast Asia, allowing collaboration and competition to coexist in their economic relations.

Another set of motives related to Japan's pursuit of economic leadership in Asia. Europe's progress in economic regionalization prompted anxiety among Japanese decision-makers, who then sought to replicate European methods in Asia with Japan at the center. The similarities between the approach utilized by Japanese entrepreneurs in Southeast Asia and those proposed by Japanese proponents of Sino-Japanese trade – Matsumura, Takasaki, Okazaki, and Inayama – speak to this point, as they sought to assign China and Southeast Asian countries supplemental roles in an economic initiative that Japan would lead. China, however, was not content with this assignment and sought to establish itself as a technology provider and, potentially, as the economic leader for the region.

The friction between Tokyo and its Western allies also exemplifies this point. Because they saw economic leadership of Asia as Japan's core interest, Japanese technocrats found the US

position, which rejected Japan's economic association with China, and its preoccupation with ideology in economic aid projects, unreasonable. In the opinion of the technocrats, Japan's pursuit of economic regionalization had to transcend ideological boundaries and include all countries in the region that could contribute to Japan's economic standing. Japan's determination to create an economic bloc in Asia ran counter to Washington's commitment to containment of the Communist Bloc – and China in particular – in Southeast Asia. Both Kennedy and Johnson were sensitive to China's efforts to break out of containment and the challenge that posed to Washington's efforts to solicit support from the region's countries. Therefore, it was difficult for Washington to respect the inclination of countries in Asia – Japan included – toward developing economic relations with China. Further the US viewed Sukarno's Indonesia and Ne Win's Burma as threats to the geopolitical order it envisioned in Asia. Tokyo was caught between its goal of establishing economic leadership in Asia and the American bloc's aim to keep Chinese influence in check. This dilemma was resolved only when Burma and Indonesia broke from Beijing in 1965 and 1966, respectively, allowing the Sato administration to align Japan's pursuit of economic leadership in Southeast Asia with the bloc's containment of China.

Part III: “The Asia That is Red”: Interludes in Sino-Japanese Collaboration in Southeast Asia, 1965–1972

In hindsight, the decade from 1965 to 1972 was a curious time in diplomacy between China and Japan. On one hand, the escalation of the American war in Indochina and the removal of pragmatists from foreign affairs during the Cultural Revolution brought on China’s turn to a more aggressive, revolutionary discourse in the region. Even after Nixon visited Beijing and set in motion the gradual détente between the two countries, Beijing’s commitment to revolutionary movements in Southeast Asia remained in place and only slowly faded throughout the latter half of the 1970s. This trend was especially true in Indochina, as China stepped up its aid to Sihanouk and Ho Chi-Minh. In Japan, the Sato administration distanced itself from Ikeda’s pursuit of independent diplomacy regarding Southeast Asia and China, instead seeking to advance Japanese interests under Washington’s Asian policy. In contrast to the path toward reconciliation in the early 1960s, Sino-Japanese relations became significantly turbulent under such circumstances.

However, Beijing and Tokyo managed to navigate the geopolitical escalation without jeopardizing bilateral trade and their respective approaches in Southeast Asia. At the turn of the 1970s we can find undercurrents that foreshadowed Sino-Japanese normalization and China’s return to pragmatic diplomacy. While facing pressure from revolutionary waves that Beijing had sponsored, Southeast Asian countries began to seek reconciliation with China, which was slowly and hesitantly alienating itself from its pursuit of radical revolutions in the region. From Malaysia to Burma, decision-makers were mindful of the increasing economic connections they were

building with China, and they sought reconciliation with Beijing through official and private channels. Similar momentum appeared in Japan: the Sato administration separated itself from Washington's Southeast Asia policy and moved toward a more pragmatic, economic-centered approach in the wake of Nixon's Vietnamization policy. Facing increasingly hostile attitudes toward Japan's economic activities in the region, Sato's successors – Tanaka, Miki, and Fukuda – switched to flexible stances in their respective diplomacies with China, Vietnam, Burma, Indonesia, and Cambodia, and they again explored Ikeda's idea of Japan becoming the leading economic power in the potential economic regionalization in Asia.

How, then, should we interpret the turnabouts in Chinese and Japanese diplomacy during this period? Existing explanations tend to treat the countries' strategies as responses to America's war in Indochina. Michael Schaller – and to a lesser extent Warren Cohen – have contended that Japan made meticulous use of the Vietnam War to advance its economic interests. At the same time, Nancy Tucker argued that Japan offered an olive branch during the time of the Johnson administration's desperate search for solidarity among its allies.¹ These arguments speak to the calculating nature of Japan's survival strategy in the context of Washington's costly agenda in

¹ For more in this line of inquiry, see Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997); Nancy Bernkopf Tucker, "Threats, Opportunities, and Frustrations in East Asia," in *Lyndon Johnson Confronts the World: American Foreign Policy, 1963-1968*, eds. Warren I. Cohen and Nancy Bernkopf Tucker (Cambridge: Cambridge University Press, 1994), 99–134; see also Warren I. Cohen, "China in Japanese-American Relations" in *The United States and Japan in the Postwar World*, eds. Akira Iriye and Warren I. Cohen (Lexington: University Press of Kentucky, 1989), 36–60.

Asia. On the other hand, Japanese scholars have identified long-term structural changes in the international environment as the main reason behind Japan's shifting diplomacy. Japan's attempt to aggrandize its influence in Southeast Asia in the late 1960s and 1970s, these scholars argue, was its response to the power vacuum created throughout the postwar period, both by Britain's retreat from "the East of Suez" and the United States' failure to achieve a new order through the Vietnam War.² The varying strategies Japanese decision-makers adopted, therefore, were their attempts to navigate the structural changes in the region, including the search for "Sino-US-Japan collaboration" (*nichi-bei-chū teikei*) under Ikeda, the turn to a more realistic "Sino-US-USSR-Japan coordination" (*Nichi-bei-chū-so kyōchō*) under Sato, and the attempt to achieve a balance between the two by their successors, Tanaka and Miki.³

However, by primarily focusing on the power dynamics between governments and political considerations in diplomatic processes, these explanations overlook the important changes in

² For scholarship on the power dynamics in the Anglo-Japanese relations in Southeast Asia, see Junko Tomaru, *The Postwar Rapprochement of Malaya and Japan, 1945-61: The Roles of Britain and Japan in South-East Asia* (New York: St. Martin's Press in association with St Antony's College, Oxford, 2000); see also Yōichi Kibata, *Teikoku no tasogare: reisenka no Igrisu to Ajia* (Tōkyō: Tōkyō Daigaku Shuppankai, 1996). See also Taizō Miyagi, *Japan's Quest for Stability in Southeast Asia: Navigating the Turning Points in Postwar Asia* (London: Taylor & Francis Group, 2018).

³ For more in this line of inquiry, see Yutaka Kanda, *Japan's Cold War Policy and China: Two Perceptions of Order, 1960-1972* (Milton: Taylor and Francis, 2019); Hidekazu Wakatsuki, "1970-nendai no reisen tairitsu kōzō no hendō to Nihon gaikō—Pekin Mosukuwa o nirande" [Japanese Diplomacy in the Changing Structure of Cold War Confrontation in the 1970s: from the Perspectives of Beijing-Moscow], in *Reisen hen'yōki no Nihon gaikō: "hiyowa na taikoku" no kiki to mosaku*, ed. Sumio Hatano (Kyoto: Minerva Shobō, 2013), 183-228.

economic considerations that Japanese decision-makers developed regarding Southeast Asia and China. For instance, the coupling of US-Japanese interests in Southeast Asia could also be attributed to developments in Indonesia, when Tokyo's anxiety about losing economic interests in Suharto's Indonesia was partially ameliorated by Washington's decision to buttress Japanese leadership in the Inter-Governmental Group on Indonesia (IGGI), which hosted the country's major debtors, including the United States, Britain, the Netherlands, West Germany, the Soviet Union, and France. In addition, the difference between Washington and Tokyo over Ne Win's Burma can also be explained by the fundamentally different visions that the two governments had for Rangoon. Unlike the United States, which saw Burma as a piece in its Indochina policy and containment against China, Tokyo was mostly interested in benefitting from Burma's deepening economic isolation due to deteriorating Sino-Burmese relations, and Japan showed little interest in advancing Washington's goal in the country. Reflecting upon the details of the economic diplomacy that Japan, China, and the United States utilized suggests a fundamental difference between Japan and the United States in their views, not only for China but for Asia as a whole.

The two chapters of this section will pursue this line of inquiry and examine Sino-Japanese interactions in the context of both countries' strategies toward Southeast Asia. The relationship between Beijing and Tokyo, as well as their respective approaches in Southeast Asia, followed a different track from that between Beijing and Washington. The economic relations between China, Japan, and Southeast Asian countries played an important role in facilitating the changes identified at the beginning of this section. Chapter VI discusses Beijing's turn to more radical revolutionary

tactics – both domestic and international – after the intensification of the Vietnam War. Tokyo also adopted a less flexible position in Southeast Asia under the Sato administration due to its need to protect economic interests in the region, which was then facing direct US intervention. This chapter additionally discusses how the situation in Southeast Asia impacted Sino-Japanese cooperation. The expiration of the LT Trade Agreement in 1967, which had been turbulent throughout, led to a prolonged negotiation for renewal. I argue that the dynamics of this period resemble those at the end of the Kishi administration, during which China reacted strongly to Sato's pro-Washington diplomacy by – rather unsuccessfully – putting Sino-Japanese economic relations in jeopardy.

Chapter VII, on the other hand, examines Beijing's and Tokyo's renewed efforts at reconciliation and their strategies for navigating situations in Southeast Asia at the turn of the 1970s. China's return to pragmatic diplomacy, as well as the power vacuum created by Nixon's Vietnamization policy, provided a gateway for the region's countries to seek reconciliation with China, firstly through economic channels. Similarly, the shifting power dynamics in post-American Indochina generated uncertainty for Sato and his successors. This provided opportunities for Japanese entrepreneurs, who had been influential in economic diplomacy with China and Southeast Asia, to explore new possibilities with the leadership in Beijing, Hanoi, Rangoon, and Phnom Penh. These attempts, I argue, paved the way for Tanaka's reproachment with China and Japan's transition to become an economic power in Asia under the Fukuda Doctrine.

Chapter VI: “Under American Flag”: The Coupling of Japanese and American Interests Under the Sato Administration, 1965–1970

Similar to their Chinese counterparts, the new Japanese leadership under Prime Minister Sato Eisaku – the brother of former prime minister Kishi – were presented with a dilemma: how should they approach the coup in Indonesia and the escalation in Vietnam? The close association between Japan and Sukarno’s Indonesia, which helped advance Japan’s economic interests in the country, now became a negative asset under the new Suharto regime. Similarly, the American commencement of Operation Rolling Thunder in Vietnam in February 1965 and the escalation of American military intervention in March also prompted fear of major military conflicts in Southeast Asia that would obliterate the achievements of Japanese investment thus far. Therefore, Sato’s priority was to navigate a Japanese course in the wake of the new uncertainty Washington helped create in 1965.

Initially, Japanese officials maintained a rather neutral – if not bluntly skeptical – view of the US position in Vietnam. As shown in Chapter V, Bundy’s efforts to enlist Japan’s help for the American cause in Indochina in the last days of the Ikeda administration were met with little enthusiasm among Japanese technocrats, who believed that aid to South Vietnam was a lost cause. Such skepticism remained in the first days of the Sato administration, when technocrats of the MOFA expressed concern at the lack of solidarity in the Western Bloc for Johnson’s policy in

Vietnam.¹ Additionally, the critical view of the US position in Vietnam among the general public, especially opposition to the use of Okinawa as the base for the mass bombing against North Vietnam, rendered it difficult for Japanese decision-makers to overtly pledge support for Washington's war efforts.²

However, geopolitical developments since early 1965, as well as the emergence of Sato as Ikeda's successor, created new dynamism in Japanese leadership, which steered the country's diplomacy in a new direction. Losing its most crucial ally, Sukarno, to an unanticipated coup and the increasingly intense situation in the region due to the escalation in Vietnam prompted Japanese leadership to reassess its strategies in Southeast Asia.³ In this process, Sato's belief in the

¹ COE Ōraru seisaku kenkyū purojekuto, *Kikuchi Kiyooki ōraruhisutorī: Jō* [Kiyooki Kikuchi's Oral History, Part I] (Tokyo: Seisaku kenkyū daigakuin daigaku, 2004), 201.

² Nancy Bernkopf Tucker, "Threats, Opportunities, and Frustrations in East Asia," in *Lyndon Johnson Confronts the World: American Foreign Policy, 1963–1968*, eds. Warren I. Cohen and Nancy Bernkopf Tucker (Cambridge; New York: Cambridge University Press, 1994), 116–117.

³ Whether Tokyo was aware of Suharto's upcoming coup is debatable. Despite the scarcity of declassified documents on this matter, scholarship in the field tends to ascertain early US, British, and Australian involvement in the coup. On the other hand, Tokyo was kept out of the loop due to its closeness to the Sukarno administration. As the document cited in Chapter V shows, as late as 1964, Foreign Minister Shiina was still telling his British counterpart about the danger of "a communist takeover" should Sukarno's political life end. See "Ohira gaimu daijin, Beikoku Tsutomu chōkan rasuku kaidan yōshi" [The Summary of Conversation between Foreign Minister Ohira and State Secretary Rusk], January 28, 1964, Nichibeibōeki keizai gōdō iinkai kankei dai 3-kai iinkai (1964. 1) Kobetsu kaidan, E'.2.3.1.17-3-4, DAMOFAJ. For studies on foreign involvement in Suharto's coup, see John Roosa, *Pretext for Mass Murder: The September 30th Movement and Suharto's Coup D'État in Indonesia* (Madison: The University of Wisconsin Press, 2006); Peter Dale Scott, "The United States and the Overthrow of Sukarno, 1965–1967," *Pacific Affairs* 58, no. 2 (1985): 239–264; and Benedict R.O'G Anderson, Ruth Thomas McVey, and Frederick P. Bunnell, *A Preliminary Analysis of the October 1, 1965 Coup in Indonesia* (Ithaca, N.Y.: Modern Indonesia Project, Cornell University, 1971).

necessity of seeking American protection of Japanese interests in Southeast Asia helped disperse skepticism in the bureaucracy. As Motono Koriyuki, the prime minister's secretary, recalled, Sato expressed that "in the Cold War structure, Japan's national interest is clearly served by maintaining support for America's ongoing policies [in Southeast Asia]."⁴ The prime minister's determination to seek coordination set the stage for Tokyo's collaborative turn toward the United States, not only in Indochina but in Southeast Asia as a whole.

Elements on both sides of the Pacific contributed to the reconciliatory turn in US-Japanese relations. Many of Japan's core national challenges – the return of Okinawa, the imbalance in US-Japanese trade, and the investment of the overwhelming majority of Japan's overseas economic interests in Southeast Asia – hinged on the country's relationship with Washington.⁵ Indonesia, under Suharto, provides a telling example of Japan's dependence on the United States for its regional economic interests. After the collapse of the Sukarno regime in September 1965, Japan's economic interests and influence in Indonesia faced a challenge from both the new military regime and European competitors. For instance, Britain made significant efforts to reduce Japanese influence in Suharto's Indonesia. In November 1965, the British Foreign Office asked its embassy

⁴ COE Ōraru seisaku kenkyū purojekuto, *Motono Moriyuki ōraruhisutorī* [Moriyuki Motono's Oral History] (Tokyo: Seisaku kenkyū daigakuin daigaku, 2005), 119.

⁵ Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), 190–191.

in Washington to suggest to Rusk that Tokyo not be informed of the discussion of Indonesia's political solution until a conclusion was reached between Britain and the United States.⁶ Britain also hoped that Bonn, instead of Tokyo, would be the coordinator for Western aid to Suharto in the upcoming IGGI Conference.⁷ Domestically, Indonesia under Suharto also started to pursue an accelerated course of nationalization, which posed a threat to the large amount of Japanese investment realized under Sukarno. Japanese entrepreneurs realized that their old connections built during the "honeymoon period" with Sukarno could no longer protect their interests. They now had to answer to the newly established Ministry of National Development Planning.⁸

Under such circumstances, Japanese leadership in both the government and the corporate sphere turned to Washington, which hoped Indonesia would stabilize its economy and become the bastion of the United States' security arrangement in the region. Moreover, Washington did not abandon Tokyo: to balance British influence in the region, the United States used its diplomatic influence on Australia and New Zealand to reduce their support for British proposal, thus forced

⁶ "Foreign Office Telegram to Washington," November 9, 1965, FO 371/ 181456, TNA.

⁷ Pi Cui, "Tōnan'ajia ni okeru Nichibei no kyōryoku Indoneshia enjo o meguru saiken-koku kaigi no kigen to sono eikyō" [U.S.-Japanese Cooperation : the Origin of Inter-Governmental Group on Indonesia and its Influence], in *Gurōbaruhisutorī to shite no reisen to Chūgoku no gaikō: Dai 3-kai reisen-shi kokusai wākushoppu 2011-nen 3 gatsu 14-nichi*, eds. Rumi Aoyama and Pi Cui (Tokyo: Ningen bunka kenkyū kikō NIHU gendaichūgoku chiiki kenkyū chūshin kyoten Wasedadai gaku gendaichūgoku kenkyūjo, 2012), 45.

⁸ Takum Yashiro, *Ran-In no sengo to Nihon no keizai shinshutsu: Gan Ikeda seiken-ka no Nihon kigyō* (Kyoto: Akihiro shobō, 2020), 182.

Britain to accept Japan as the coordinator in the upcoming preparation conference for the IGGI.⁹ The Japanese proposal to resolve Indonesia's foreign debt also received full support from the United States during the preparatory meeting for the IGGI held in Tokyo in July 1967; this allowed Japan to retain a significant level of economic influence in Indonesia.¹⁰ In exchange, Sato agreed to Washington's request that Japan expand its aid to Suharto's regime, along with the United States and Western European countries, each contributing one-third of the bloc's aid to Indonesia.¹¹ In this way, Tokyo's and Washington's interests in Indonesia converged, posting a stark contrast to the conflict of interests during the Ikeda administration.

In addition to welcoming Washington's use of diplomatic resources to protect Japanese economic interests, Japanese technocrats were also enthusiastic about the economic opportunities the Johnson administration presented in Southeast Asia. On April 7, 1965, Johnson delivered a speech about the "program for peace" at Johns Hopkins University and pledged that he would seek one billion US dollars to facilitate economic development in Southeast Asia. In addition, Johnson also called upon Tokyo to contribute half a billion dollars to aid projects and expressed interest in

⁹ Pi Cui, "Tōnan'ajia ni okeru Nichibei no kyōryoku Indoneshia enjo o meguru saiken-koku kaigi no kigen to sono eikyō," 40–44.

¹⁰ For the Japanese proposal and talking paper from the conference, see "Tai Indoneshia saiken-koku kaigi," [The Conference of Inter-Governmental Group on Indonesia], 2010-0182, DAMOFAJ.

¹¹ "Memorandum From the President's Special Assistant (Rostow) to President Johnson," June 18, 1968, FRUS, 1964–1968, Indonesia; Malaysia-Singapore; Philippines, Vol. XXVI, Document 258.

strengthening coordination with Tokyo to realize such plans.¹² The “Johnson Plan” (Jonson kōsō) was positively received in Japan: for some in the Japanese leadership, Johnson’s idea resonated with Japan’s long-standing wish for American fiscal support in the development of Southeast Asia. In the official journal of the Economic Bureau of the MOFA, Japanese technocrats even considered Johnson’s proposal a long-awaited chance to establish Japan’s leadership in the region. While technocrats from MITI expressed concern about the fiscal burden of large-scale aid projects, Foreign Minister Shiina and career officials from MOFA were enthusiastic about the United States’ new attitude.¹³ Ushiba Nobuhiko, the deputy vice minister for foreign affairs, argued that Johnson’s proposal “was not only a signal for Japan’s aggrandizing power and improved standing in the international community, but also an indication of America’s more willing attitude for international coordination.”¹⁴ MOFA technocrats even expressed optimism at what they believed would be their inevitable victory in the economic competition in Indochina and their confidence

¹² For Johnson’s speech delivered at Johns Hopkins University, see Lyndon B. Johnson, “Address at Johns Hopkins University: ‘Peace without Conquest,’” online by Gerhard Peters and John T. Woolley, The American Presidency Project, April 7, 1965, accessed September 28, 2022, <https://www.presidency.ucsb.edu/node/241950>.

¹³ Fumiaki Nozoe, “Tōnan’ajia kaihatsu kakuryō kaigi kaisai no seiji keizai katei: Satō seiken-ki ni okeru Nihon no tōnan’ajia gaikō ni kansuru ichikōsatsu” [The Process of Holding the Ministerial Conference for Economic Development in Southeast Asia: A Study of the Sato Administration’s Diplomatic Policy Toward Southeast Asia], *Hitotsubashi Hogaku* 8, no. 1: 73–74.

¹⁴ Nobuhiko Ushiba, “Daiyonkai nichibeibōeki keizai gōdō iinkai no kansō” [Reflections on the Fourth Meeting of the Joint Japan-US Committee on Trade and Economic Affairs], *Keizai to gaikō* 467 (August 1965): 5–6.

that China, as well as the entire Socialist Bloc, would lose diplomatic prestige due to their lack of economic power:

If China does not put more resources into facilitating economic development in North Vietnam...the economic gap between the north and the south will prompt people to leave for south, and they [i.e., communists] will have to build a wall of humiliation on the 17th parallel, just like they did in East Berlin.¹⁵

However, while Washington expected Tokyo to play the role of quartermaster in its plan for Southeast Asia, it was not ready, at least not immediately, to fully embrace Japan's initiative, partly out of the concern that Tokyo would seek to dictate the terms of regional economic cooperation. As a result, US leadership – both in Washington and the business world – remained half-hearted in the face of the overtly enthusiastic Japanese delegations seeking US support for their plans.

At the fourth Japan-United States Businessmen's Conference (Dai-4 kai Nichibei zaikaijin kaigi) in 1965, a delegation from the JBF and major Japanese industrial agglomerates – championed by JBF board members Takatsugi Shinichi (Mitsubishi Chemical) and Yamagata Katsumi (Yamashita Shin Nippon Steamship) – presented detailed plans to establish a Pacific Basin Economic Cooperative Institution (Taiheiyō chiiki keizai kyōryoku kaihatsu kikō) and Asian Development Bank (ADB). The goal of these measures, Japanese talking papers suggested, was to “amplify the effect of US aid to the region” by utilizing Japan's affinity with other Asian countries:

In order to maximize the effect of capital assistance and economic aid from the United States, we must first understand better the national character and social construction of Asian nations, and develop working methods that cater local needs and show respect for the subjectivity of these countries....Regarding this point, we believe that the introduction of Japanese

¹⁵ “Kokusai seikyoku o kisei suru keizai no genjitsu,” *Keizai to gaikō* 467 (August 1965), 45.

technologies and [economic] capabilities will not only facilitate the economic development of Asian nations, but also expand the effect of American aid in the region.¹⁶

In contrast to the enthusiasm demonstrated by the Japanese, there was little response to the proposal from the US delegation. The American side did not prepare any talking paper regarding regional economic cooperation and kept the discussion of such initiatives to a minimum in the subsequent meetings.¹⁷ As the vice president of the Japanese delegation, Yamagata Katsumi, recalled, the only response the United States delegation offered was to recognize that Japan's wish for United States' participation echoed America's own proposal for Southeast Asian development at the United Nations.¹⁸ Similar disparities were seen in the Fourth US-Japan Joint Economic Committee, when the American side repeatedly pressed Japan to provide more aid than loans or credit to the region and to raise its aid contribution from 0.54 percent to at least 1 percent of its GNP. In addition, the American side offered no promise to a Japanese request to use US funding

¹⁶ “Ajia kaihatsu ginkō no setsu ritsu ni tsuite Nichibeizaikaijinkaigi no gidai (7)” [On the Establishment of Asian Development Bank – Topic 7 of the Japan-U.S Business Conference], October 13, 1965, (Taibei bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikaijinkaigi dai 4-kai kaigi (1965.10), E'2'3'1'22-1-4, DAMOFAJ.

¹⁷ See “Fourth Japan-United States Businessmen's Conference, October 19-20, 1965, Chicago, Illinois: A Compilation of US Papers Presented at Fourth Japan-United States Businessmen's Conference, Chicago, Illinois,” October 28, 1965, Taibei bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikaijinkaigi dai 4-kai kaigi (1965. 10), E'2'3'1'22-1-4, DAMOFAJ.

¹⁸ Taibei bōeki gōdō iinkai, “Dai 4-kai Nichibeizaikaijinkaigi kikoku hōkoku kaigi koto yōroku,” Taibei bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikaijinkaigi dai 4-kai kaigi (1965. 10), E'2'3'1'22-1-4, DAMOFAJ.

in its proposed programs.¹⁹ Japan was also pressured by its European allies – with acquiescence from Washington – at the Conference for the OECD Development Aid Committee (DAC), who called on Tokyo to replace its self-serving agenda of supplying credit and loans with more commitment to aid projects.²⁰

Washington’s reluctance to contribute financially to Japanese proposals partly reflected its belief that Japan, as a beneficiary of US spending and trade, had a moral responsibility to contribute to American interests in the region. For the Johnson administration, this point was juxtaposed with the trade balance issue, an essential aspect of the economic relationship between the two countries. Table 6.1 shows that 1965 was a watershed year when Japan achieved a trade balance with the United States for the first time in the postwar period. This shift, and the ensuing imbalance in bilateral trade, contributed to Washington’s belief that Japan, which had benefited economically from the American market and activities in the region, should contribute more to Washington’s geopolitical interests in Southeast Asia. During Sato’s conversation with Rusk before he visited

¹⁹ See Nichibeibōeki keizai gōdō iinkai kankei dai 4-kai iinkai (1965. 7) Honkaigi giji gaiyō [The Joint Japan-US Committee on Trade and Economic Affairs: the Fourth Committee (July 1965), Plenary Session, Summary of Meetings], E’.2.3.1.17-4-3-2, DAMOFAJ; Nichibeibōeki keizai gōdō iinkai kankei dai 4-kai iinkai (1965. 7) Kobetsu kaidan [The Joint Japan-US Committee on Trade and Economic Affairs: the Fourth Committee (July 1965), Individual Meetings], E’.2.3.1.17-4-4, DAMOFAJ. See also “Tōnan’ajia keizai enjo mondai” [Issues Regarding Economic Aid to Southeast Asia], *Keizai to gaikō* 467 (August 1965), 34–37.

²⁰ Kunio Kagayama, “DAC nōgyō enjo kaigi no gaiyō” [An Overview of DAC Conference on Agricultural Aid], in *Nōgyō enjo seisaku-jō no mondaiten dai 2-kai Tōnan’ajia kaihatu kakuryō kaigi no gaiyō daku nōgyō enjo kaigi no gaiyō* (Tokyo: Kaigai gijutsu kyōryoku jigyō-dan, 1967), 1–4.

Washington, the prime minister raised the issue of the trade deficit, suggesting that while the trade situation had by then reversed in Japan's favor, the United States should accept it as "a natural phenomenon," just as Japan did during the Hakone Conference in 1961.²¹ The Secretary of State, however, rejected Sato's analogy and insinuated that Japan should shoulder more responsibility due to its beneficiary role in the bilateral trade. Rusk reminded Sato that Japan not only obtained 300 million dollars from "American military expenditures in Japan," but it had also benefitted from the billion dollars that the Vietnam War had added to Washington's balance of payments problem.²² Rusk's attitude remained unyielding until 1967. Prior to Sato's visit in November, Rusk suggested to Johnson that the President should press Japan "to take on a greater share of regional leadership and the financial burden of economic assistance and of redressing the imbalance in our balance of payments." He also demanded that Tokyo provide the South Vietnamese government with additional economic aid.²³ In other words, Washington deemed Japan's support for America's war endeavor to be a natural return for the economic benefits it enjoyed.

²¹ "Memorandum of Conversation," July 7, 1966, FRUS, 1964–1968, Japan, Vol. XXIX, Part 2, Document 75; The Hakone Conference that Sato mentioned was the first Joint Economic Committee meeting that took place in Hakone, Japan in 1961. The conference is discussed in detail in Chapter V.

²² *Ibid.*

²³ "Memorandum From Secretary of State Rusk to President Johnson," September 6, 1967, FRUS, 1964–1968, Japan, Vol. XXIX, Part 2, Document 96.

Table 6.1. US-Japan Trade Balance, 1961–1970 (Unit: One Billion US Dollars).

| | Japan's Export to the US | Japan's Import from the US | Trade Balance for Japan |
|------|--------------------------|----------------------------|-------------------------|
| 1961 | 1.1 | 2.1 | -1.0 |
| 1962 | 1.4 | 1.8 | -0.4 |
| 1963 | 1.5 | 2.1 | -0.6 |
| 1964 | 1.8 | 2.3 | -0.5 |
| 1965 | 2.4 | 2.4 | 0 |
| 1966 | 3.0 | 2.7 | 0.3 |
| 1967 | 3.0 | 3.2 | -0.2 |
| 1968 | 4.1 | 3.5 | 0.6 |
| 1969 | 5.0 | 4.1 | 0.9 |
| 1970 | 5.9 | 5.6 | 0.3 |

Source: Data from Hisao Kanamori, “Nichibeibōeki kankei no hensen to shōrai,” in *Nichibei keizai kankei: Sekiyu enerugi bōeki*, ed. katōkan kanamori hisao (Tokyo: Keiō tsūshin, 1984), 26–27.

The Sato administration eventually gave in. Responding to pressure from its allies, Tokyo made efforts to expand its commitment to aid projects and put forward a series of regional cooperative platforms in 1966. This was partly due to Miki Takeo, who had been in charge of both the MITI (1965–1966) and the MOFA (1966–1968) under Sato. As a powerful politician in the LDP and a long-term advocate for Japan’s economic agenda in Southeast Asia, Miki was able to suppress opposition from within the bureaucracy and work with Shiina to devise Japan’s plans for regional economic development.²⁴ Under the new minister, MITI officials, while skeptical of the

²⁴ Miki was appointed as secretary-general in the LDP under Ikeda, and he held much influence, even after Sato became the new prime minister. Since the 1950s, Miki had been one of the most vocal critics of the pro-American Yoshida doctrine, and he wrote extensively to promote his idea of expanding Japan’s economic association with Southeast Asia. For Miki’s thoughts on Southeast Asia, see Takeo Miki, *Tōnan’ajia seisaku no kichō* [The Baseline of Our Southeast Asian Policy], (Tokyo: Sekai seikei kenkyūkai, 1956). Repr. File No. 6760-01, Onrain-ban Miki

fiscal feasibility of increasing aid, began to push for various intra-governmental cooperation platforms in the region. In addition to the Asian Development Bank in 1966, programs initiated or funded by Japan included the Ministerial Conference for Economic Development of South-East Asia (Tōnan'ajia kaihatu kakuryō kaigi), the Conference for the Agricultural Development of Southeast Asia (Tōnan'ajia nōgyō kaihatu kaigi, CADSA), and the Pacific Basin Economic Cooperation Committee (Taiheiyō keizai iinkai, PBECC).²⁵ The proactive role Japan adopted in aid projects in the latter half of the 1960s prompted both excitement and concern among the regions' countries, which saw Japanese activism as both an opportunity and a potential "economic invasion from developed industrial countries."²⁶ As the next section of this chapter will show, Beijing came to view Japan's pursuit of economic cooperation in the region as evidence of its commitment to American geopolitical goals.

Beijing's skepticism about Japan's diplomatic reorientation was not unfounded. In 1966, the Johnson administration found it increasingly difficult to procure support from its allies due to ongoing political instability in South Vietnam and the lack of popular domestic and international

Takeo kankei shiryō, J-DAC.

²⁵ For Miki's involvement in creating these platforms, see Takashi Terada, "The Origins of Japan's APEC Policy: Foreign Minister Takeo Miki's Asia-Pacific Policy and Current Implications," *The Pacific Review* 11, (March, 1998): 337–363.

²⁶ Onda Takashi, "Dainikai Tōnan'ajia kaihatu kakuryō kaigi no gaiyō" [Summary of the Second Southeast Asia Development Ministerial Conference], in *Nōgyō enjo seisaku-jō no mondaiten dai 2-kai Tōnan'ajia kaihatu kakuryō kaigi no gaiyō dakku nōgyō enjo kaigi no gaiyō. Jūn 1967* (Tokyo: Kaigai gijutsu kyōryoku jigyō-dan, 1967), 12–14.

support for US military action. Frustrated by the lack of support in the Atlantic world, Washington developed a more substantial need for its Asian allies – in Tokyo, Seoul, and Taipei – to show solidarity. This was evident in Bundy’s telegram to Rusk in March 1966, which stated that both Reischauer and he believed in the urgency of “bringing Japan to a greater role of responsibility” against “the emergence of a new selfish nationalism” that did not serve Washington’s interest in the region.²⁷ The assessment, which had been compiled by a working group under George Ball, also indicated that support from Japan for the US position in Vietnam was largely hesitant and that US choices in Vietnam must consider this factor. Japan’s acceptance of US actions in Vietnam, Ball concluded, “could degenerate into a predominantly critical attitude that could seriously affect our ability to work with these countries [i.e., Britain and Japan] in wider projects.”²⁸ Later, in November 1966, the State Department also suggested that in order to demonstrate solidarity and “wide support for basic objectives in Vietnam,” the time was “ripe for major efforts to obtain additional manpower contributions by other countries in Vietnam,” and it instructed its embassies to provide reports on the feasibility of such a plan in their respective jurisdictions.²⁹ The survey

²⁷ William Bundy, “Information Memorandum From the Assistant Secretary of State for Far Eastern Affairs (Bundy) to Secretary of State Dean Rusk,” March 14, 1966, FRUS, 1964–1968, Indonesia; Malaysia-Singapore; Phillippines, Vol. XXVI, Document 272, 604.

²⁸ George Ball, “Basic Choices in Vietnam,” April 25, 1966, FRUS, 1964–1968, Vol. IV, Vietnam, 1966, Document 126, 364.

²⁹ “Circular Telegram 8350,” November 11, 1966, Department of State, Central Files, POL 27–3 VIET S/LOUISIANA, RG 59, NACP.

results convinced both Bundy and Rusk that Japan was the only country in the Asia-Pacific region that could be swayed to provide more with the right amount of diplomatic pressure.³⁰ For American decision-makers, the pressing need for Japan's support in Vietnam made Tokyo's demand for a larger voice in regional matters less difficult to swallow.

Sato took advantage of Washington's need for support and secured compromises from the United States on several fronts. On his visit to the United States in November 1967, Sato made much progress toward winning the reversion of Okinawa and the Bonin Islands.³¹ In the economic realm, Washington's compromise was apparent in the fifth round of the Japan-U.S Business Council in 1967, when the US delegation demonstrated interest in participating in Japan's proposal for the creation of the PBECC. Henry Kearns, a member of the US delegation who was later appointed during the Nixon presidency as the chair of the Export-Import Bank of the United States, told the Japanese side that "major US business organizations should be encouraged to play an active part in the Committee's [i.e. the Pacific Basin Economic Cooperation Committee] deliberation from the outset" and that he had "assurance that the Chamber of Commerce of the United States will want to assist and even invite private American business organizations to

³⁰ "Memorandum From the Assistant Secretary of State for East Asian and Pacific Affairs (Bundy) to Secretary of State Rusk," November 15, 1966, in "Memorandum of Conversation," July 29, 1969, FURS, 1969–1976, Vietnam, January 1969–July 1970, Vol. VI, Document 309.

³¹ Nancy Bernkopf Tucker, "Threats, Opportunities, and Frustrations in East Asia," in *Lyndon Johnson Confronts the World: American Foreign Policy, 1963–1968*, eds. Warren I. Cohen and Nancy Bernkopf Tucker (Cambridge; New York: Cambridge University Press, 1994), 120–121.

explore all possibilities of working with and increasing the effectiveness of the Committee.”³²

This was a stark contrast to the largely indifferent attitude the American delegation had expressed to similar proposals two years before.

Nevertheless, some Japanese leaders were unwilling to embrace the cooperative turn in US-Japanese relations in Southeast Asia. In addition to MITI officials’ skepticism about the questionable economic benefit gained by assisting the United States’ geopolitical agenda in the region, the corporate world expressed concern that mirroring Washington’s geopolitical stance might put Japan on a confrontational track with China.³³ Such skepticism was articulated in an article published in the *Economic Journal Diamond* (*Keizai zasshi daiyamondo*) in August 1965. The article claimed that Washington’s interest in enlisting Japanese help in the development of Southeast Asia stemmed from its political need to counter China and North Vietnam. Japan, therefore, should be careful about the “delicate position” (*bimyō-na tachiba*) it was in and adopt a more independent approach:

[America’s intention] is articulated by John. D. Rockefeller during a banquet at the Japan Society: “what America hopes to achieve is that through exploiting the opportunity of economic development in Southeast Asia, Japan delivers what the United States failed to deliver militarily.” Rockefeller’s personal opinion also speaks to the policy of the American government...therefore, before we think about Japan-American cooperation, we must first

³² Henry Kearns, “Pacific Basin Economic Cooperation: Paper Presented by Mr. Henry Kearns, President, Kearns International,” October 19, 1967, Taibei bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikajinkaigi dai 5-kai kaigi (1967. 11), E’2’3’1’22-1-5, DAMOFAJ.

³³ “Nawa hari araso ni yuragu enjo seisaku gaimu tsūsan ōkura no ma,” *Shūkan ekonomisuto* 29 (July 1965): 57–58.

prioritize the positions of aid-receiving countries and think about how actually to improve the economies of Asian nations.³⁴

The skepticism toward the government's attachment to America's Asia policy was partially supported by the Japanese technicians and entrepreneurs sent to aid-receiving countries, who reported on locals' hostility toward the close association between Tokyo and Washington. Watanabe Toitsu, an agricultural expert sent to South Vietnam from 1964 to 1967, complained that despite the relentless input of Japanese materials and technical support, local media still believed that "Japan is here only for making money from [America's] procurement programs, and is not here to help us."³⁵ Similarly, Japanese technicians in Cambodia reported that locals – bureaucrats and intellectuals in particular – wished for Japan to abandon its "one-sided policy towards America" and to "draw a clearer line for its independent, self-determining diplomacy."³⁶

Japanese entrepreneurs' frustration with the coupling of Japanese and American interests also stemmed from their disappointment with American intervention in Sino-Japanese trade. In addition to the request for America to support their plans in Southeast Asia, the Japanese delegation at the fourth Japan-United States Businessmen's Conference in 1965 also expressed a strong desire for American understanding of their need to conduct trade with China. The Japanese delegation

³⁴ "Ki ga juku shite kita Tōnan'ajia kaihatsu enjo bimyōna tachiba no Nihon no yakuwari to shimei," *Keizai zasshi daiyamondo* 53, no. 36 (August, 1965): 36.

³⁵ Kaigai gijutsu kyōryoku jigyō-dan, *Gijutsu kyōryoku dōkō chōsa hōkoku-sho (nanbā 6) (Kanbojia Betonamu-hen)* (Tokyo: Kaigai gijutsu kyōryoku jigyō-dan, 1968), 103.

³⁶ *Ibid.*, 61.

even tried to assure their American counterparts that such interactions were “of purely economic nature” and would not challenge COCOM regulations on the embargo against China.³⁷ However, Japanese proposals received little enthusiasm from the American side, who told the Japanese delegates that the US “would not approve any measure that would expand China’s economic capacity.”³⁸ The failure to persuade US delegates to loosen the trade embargo against China frustrated the JBF leadership, who remained committed to expanding their exports to China amid competition with Europe.

The corporate side’s skepticism resonated with that of the government. Pro-China members of the LDP – including the Matsumura, Ishibashi, Takasaki, and Fujiyama factions – all demonstrated their disappointment toward Sato’s deferential attitude to Washington’s demands and showed concern over the danger of damaging Japan’s economic relations with the Socialist Bloc and China. The different ideas about policy toward China led to an open political division within the LDP. In November 1964, Sato’s supporters formed the “Asian Studies Group” (Ajia

³⁷ “Taikyōsan-ken bōeki ni tsuite (tokuni tai Chūkyō bōeki o chūshin ni)—Nichibeizaikajinkaigi no gidai (3)—” [On the Trade with Communist Bloc (with Special Focus on Trade with Communist China), The Topics of Japan-U.S Business Council (Part III)], October 13, 1965, Taibeī bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikajinkaigi dai 4-kai kaigi (1965. 10), E’2’3’1’22-1-4, DAMOFAJ.

³⁸ Taibeī bōeki gōdō iinkai, “Dai 4-kai Nichibeizaikajinkaigi kikoku hōkoku kaigi koto yōroku” [The Brief of the Summary Meeting after Returning from the Fourth Meeting of the Japan-U.S. Business Council], Taibeī bōeki gōdō iinkai kankei (Keidanren, nihonshōkōkaigisho, Nihon bōeki shutai no minkan iinkai) Nichibeizaikajinkaigi dai 4-kai kaigi (1965. 10), E’2’3’1’22-1-4, DAMOFAJ.

Mondai Kenkyukai), which advocated a hardline approach with Beijing. In response, pro-China members in the LDP – championed by Utsunomiya Tokuma (Ishibashi/Miki faction), Kawasaki Hideki (Matsumura faction), and Kuno Chūji (Ikeda/Sato faction) – formed the “Afro-Asian Studies Group” (Aja-Afurika Mondai Kenkyukai) and argued for a less confrontational approach toward China.³⁹ The division on China policy within the LDP and the corporate world was noted by Reischauer, who wrote in a cable that while the current Sato administration was working to repair US-Japanese relations, there was considerable skepticism both within the LDP and in the general society toward Washington’s Asia policy, especially concerning China:

A large part of their own Party, however, is restive about Japan’s close identification with our China policy, and the public at large is decidedly unhappy about it...Growing Japanese realism about the ChiCom menace is likely to be more than offset by mounting fears of a US-ChiCom military confrontation and a rapidly rising sense of national pride, which makes Japanese increasingly desirous of asserting a position on ChiRep and other China policies more in line with basic Japanese feelings and less open to the charge of subservience to the US.⁴⁰

Reischauer’s observation was supported by the general optimism toward Sino-Japanese relations in Japan at that time. Polls showed that the Japanese public felt little threat, even when China began to pursue a more revolutionary policy both domestically and internationally, and a vast majority

³⁹ Masaya Inoue, “Nihon kara mita ryōshōshi no tainichi kōsaku—Jimintō shin Chūgoku-ha o chūshin ni” [Liao Chengzhi's Operations in Japan from the Japanese Perspective: Focusing on the Pro-China Faction in the Liberal Democratic Party], in *Sengo nitchū kankei to Ryō shōshi: Chūgoku no chinichiha (Japan hanzu) to tainichi seisaku*, ed. Setsu pin Wan (Tokyo: Keiō gijuku daigaku shuppankai, 2013), 214.

⁴⁰ Edwin Reischauer, “Telegram From the Embassy in Japan to the Department of State,” August 11, 1966, FRUS, 1964–1968, China, Vol. XXX, Document 174, 367–368

of Japanese – more than 70 percent – favored diplomatic normalization between Tokyo and Beijing.⁴¹ This perception frustrated Sato, who complained to Johnson during his visit in 1967 that Japanese people were “strange” and “the government had not done enough to educate the masses” on the threat China posed. Nevertheless, the “China Question” remained a critical difference between the increasingly diverging allies.

Indeed, the rapidly expanding trade between Beijing and Tokyo since the LT Agreement, and the ongoing competition between Japan and Western Europe for the Chinese market, also contributed to skepticism toward Sato’s policy. In December 1966, the Department of State reported on China’s use of negotiations with the European fertilizer cartel NITREX AG and Japanese fertilizer exporters that forced both sides to provide 4.7 million tons of fertilizer to China at a discounted price that was far lower than that in the world market.⁴² The report also noted that China had deliberately used its trade negotiations as diplomatic leverage in Japan. By encouraging “Japan’s hopes for record sales to China in 1967” at the Guangzhou Trade Fair while making significant purchases from Europe, Beijing was able to maximize its influence on Japan’s domestic politics by suggesting that “Prime Minister Sato’s stand-offish policy vis-à-vis Communist China

⁴¹ Nancy Bernkopf Tucker, “Threats, Opportunities, and Frustrations in East Asia,” in *Lyndon Johnson Confronts the World: American Foreign Policy, 1963–1968*, eds. Warren I. Cohen and Nancy Bernkopf Tucker (Cambridge: Cambridge University Press, 1994), 126.

⁴² Thomas L. Hughes, “Peking Breaks World Fertilizer Market, Saves \$66 Million, and Puts Capitalists in Their Place,” December 19, 1966, USDDO, accessed September 21, 2020, <https://link.gale.com/apps/doc/CK2349400744/USDD?u=camb55135&sid=USDD&xid=5975ac2a>.

has allowed European traders to gain an advantage in the China market.”⁴³ These actions, in turn, strengthened the arguments put forward by pro-China figures in the LDP.

Despite the general support for Sino-Japanese economic relations in business and government, this pressure failed to yield actual policy changes under Sato. The deaths of Takasaki and Ikeda in 1964 and 1965, respectively, and the dissolution of Fujiyama’s faction (the so-called “Fujiyama Konzern”) due to his failure to win party leadership in 1966 relieved Sato of the pressure from within the party. In addition, the split between Chinese communists and their Japanese comrades due to China’s turn to radical revolutionary discourse also weakened pro-China voices in Japan.⁴⁴ Consequently, Sino-Japanese relations again experienced a confrontational turn in 1966 that coincided with Beijing’s political radicalization during the Cultural Revolution. As the next part will show, when pragmatic considerations in Beijing gave way to revolutionary goals in Asia, negotiators from both China and Japan struggled to halt the decline in Sino-Japanese relations and keep bilateral trade in operation.

Beijing’s Revolutionary Turn in Southeast Asia and the Difficult Trade Negotiations for the MT Trade Agreement, 1966–1970

Compared to Japan, which had recovered its economic interests in Suharto’s Indonesia with Washington’s support, China suffered a heavy loss from the coup and faced a much more hostile

⁴³ Ibid., 4.

⁴⁴ See Yū Kojima, ed., *Nitchū ryōtō shimatsu-ki kyōdō komyunike wa dōshite haiki sa reta ka* (Tokyo: Shin Nihon shubbansha, 1980).

environment in Southeast Asia in 1966. Suharto's purge of Indonesian Communists (PKI) eliminated Beijing's ideological allies in Jakarta. At the same time, the massacre, forced naturalization, internment, and suppression of the Chinese population in 1965 and 1966 uprooted Beijing's influence in the country.⁴⁵ In response, Beijing agreed with Jakarta to receive Chinese repatriates fleeing Indonesia.⁴⁶ Before diplomatic relations between China and Indonesia were finally cut off in October 1967, more than ninety thousand Indonesian Chinese returned to China as repatriates. The coup also cost Beijing in the economic realm. Despite being one of the largest lenders to Indonesia under Sukarno, Beijing had been deliberately excluded from the IGGI Conference. In contrast, the USSR was invited to participate and received compensation for the aid it had extended before 1965.

Losing its main foothold in Southeast Asia and the subsequent diplomatic isolation were perceived as diplomatic failures in Beijing. Pragmatists who called for "peaceful co-existence" faced many challenges in the Politburo, where Chen Yi, Zhou Enlai, and Liao Chengzhi were

⁴⁵ For Indonesian-Chinese situations in the immediate aftermath of Suharto's coup, see Akira Nishiyama, "1967-Nen 9, 10 getsu no Indoneshia kakyō jōsei (hōkoku)" [The Situation of Overseas Chinese in Indonesia, September and October 1967 (Report)], November 18, 1967, Chūkyō Indoneshia, kanbodia kankei, 2013-1962, DAMOFAJ.

⁴⁶ Despite the decline in Sino-Indonesian relations, repatriation was achieved through Beijing's diplomatic coordination with Jakarta. See "Dainiji kakyō hikiagesen shukkō ni tsuite" [On the Departure of Second Repatriation Vessel for Overseas Chinese], November 21, 1966, Chūkyō Indoneshia, kanbodia kankei, 2013-1962, DAMOFAJ. See also "Chūkyō seki kakyō hikiagesen no shukkō ni tsuite (hōkoku)" [Departure of Repatriation Vessel for Communist China-affiliated Overseas Chinese (Report)], January 31, 1967, Chūkyō Indoneshia, kanbodia kankei, 2013-1962, DAMOFAJ.

criticized for not anticipating the event. This decrease in the influence of moderate voices in diplomatic affairs in the aftermath of the Indonesian coup coincided with the political radicalization at home. The start of the Cultural Revolution also reshaped Beijing's diplomatic decision-making groups by removing Liao and Chen – along with the MOFA officials who were close to them – from their directory positions.⁴⁷ In August 1967, political radicalization temporarily paralyzed the Foreign Ministry, during which time some Red Guards even set fire to the British Embassy to protest its “imperialist position in Hong Kong.”⁴⁸ This, along with the escalation of conflict in the Indochina Peninsula, led China in a more confrontational direction with the Western Bloc.

As support for revolutionary forces in Southeast Asia gained momentum, China prepared to devote more resources to facilitating “the revolutionary wave” (*ge ming lang chao*) in the region.

⁴⁷ Since 1966, the Red Guard factions within the MOFA had constantly harrassed and pressured Chen and Liao, and they were forced to confess their “wrongdoings” in the internal meetings. In the “Eight-Seven Incident” (Ba qi shi jian) in August 1967, they were removed from administrative positions in the department by the Red Guard leader, Wang Li. See Chen Yi zhuan bian xie zu, *Chen Yi zhuan* [A Biography of Chen Yi] (Beijing: Dang dai Zhong guo chu ban she, 2015), 346–351.

⁴⁸ For this event, see “British Embassy Fired By Peking Red Guards Attack Seen Heavy Threat To Hong Kong,” *The Desert Sun*, August 22, 1967; see also “Ying di guo zhu yi wu shi wo wai jiao bu zhao hui, ji qi wo guo ren min yi fen shou du hong wei bing dui Ying dai ban chu cai qu qiang lie xing dong yi wan duo shi wei qun Zhong yan zheng zhi chu, Ying di bi xu cheng dan xiang Zhong guo ren min tiao xin de yan zhong hou guo” [British Imperialists Ignored our Foreign Ministry's Notice, Causing Righteous Fury Among Our People. The Red Guards in the Capital Took Strong Action Against the British Chargé d'affaires. More than 10,000 Demonstrators Solemnly Pointed Out that the British Empire Must Bear the Serious Consequences of Provoking the Chinese people], *People's Daily*, August 23, 1967.

This was most obvious in Beijing's increased support for Hanoi. Table 6.2 shows that Beijing's budget for support of North Vietnam increased dramatically from 1965 to 1968. In 1965 alone, Chinese economic technocrats raised the budget for foreign aid twice, from the initial commitment of 1.4 billion yuan to 1.8 billion yuan in April and to 2.16 billion yuan in June.⁴⁹ This increase was partially a response to Washington's escalation in Vietnam. According to Bo Yibo's report, the most significant additions to the initial aid package to Vietnam were the construction of rail and roads (117 million yuan), military-grade communication and transportation equipment (220 million), and military facility construction (86 million).⁵⁰ The *New York Times* reported on the scale of Chinese aid to Vietnam: "the aid program is so extensive that it may have forced Beijing to cut back its own economic goals."⁵¹ Beijing's determination was also conveyed across the Iron Curtain. As a Polish delegate in Laos informed the Japanese, even when Hanoi chose to distance itself from "Beijing's revolutionary discourse," neither the political radicalization from the Cultural Revolution nor the ideological differences between Beijing and Moscow would undermine Beijing's commitment to Hanoi.⁵²

⁴⁹ "Dui wai jing ji ji shu yuan zhu de jian yao qing kuang he di san ge wu nia ji hua qi jian yuan wai ren wu de chu bu she xiang" [Brief Situations of Foreign Economic and Technological Assistance, and Preliminary Ideas on Foreign Aid Missions during the Third Five-Year Plan], July 27, 1965, JJDAXB, 555.

⁵⁰ Ibid., 555–556

⁵¹ Seymour Topping, "Peking Reported Stepping up Help to North Vietnam," *New York Times*, December 1, 1965.

⁵² "Hokuetsu enjo ni kansuru CIC pōrando daihyō no naiwa" [Private Conversation with Polish

Table 6.2. Estimated Value of Aid to North Vietnam from China and USSR, 1965–1968. (Unit: One Million US Dollars).

| | China | | USSR | |
|-------------|----------|----------|----------|----------|
| | Economic | Military | Economic | Military |
| 1965 | 50 | 60 | 85 | 210 |
| 1966 | 75 | 95 | 150 | 360 |
| 1967 | 80 | 145 | 200 | 505 |
| 1968 | 100 | 100 | 240 | 440 |

Source: Data from “Communist Aid to North Vietnam in 1968,” March 3, 1969, Chūkyō taigai keizai enjō, 2013–3131, DAMOFAJ.

In addition to Vietnam, China’s aid to pro-communist forces elsewhere in Indochina also gained new momentum in late 1965, leading to varying responses among neutralist countries. In Cambodia, embassy officials began to disseminate Maoist pamphlets to local Chinese schools and companies and solicited students’ help in propaganda efforts.⁵³ While Sihanouk was concerned about radicalizing Chinese communities in his country, Phnom Penh’s economic relations with Beijing were relatively unscathed.⁵⁴ From 1965 to 1968, China remained committed to the

Representative of the CIC on Aid to North Vietnam], May 6, 1967, Chūkyō taigai keizai enjō, 2013-3131, DAMOFAJ.

⁵³ Yukihiisa Tamura, “Zai kanbodia Chūkyō taishikan bunka han no saikin no katsudō furi” [Briefing on the Activities of the Cultural Group of Communist China’s Embassy in Cambodia], October 7, 1967, Chūkyō Indonesia, kanbodia kankei, 2013-1962, DAMOFAJ; See also Stanley Karnow, “China Turning Criticism to Cambodia,” *Washington Post*, August 28, 1967.

⁵⁴ Sihanouk criticized increasing political propaganda efforts – although in a rather euphemistic way – on several occasions, and he asked his foreign minister to convey his concern to Beijing during the visit. See “Shū onrai shushō to purisara `ka’ gaishō to no kaidan” [Premier Zhou Enlai’s Conversation with Phurissara, the Foreign Minister of Cambodia], September 29, 1967, Chūkyō Indonesia, kanbodia kankei, 2013-1962, DAMOFAJ.

economic and military aid programs that it had agreed to provide for Cambodia.⁵⁵ The aid from China and Sihanouk's skepticism toward the increasing US military presence in Indochina kept Sino-Cambodian relations on a relatively steady track until the Cambodian military coup in 1970.

However, in Burma's case, Beijing's revolutionary turn and its new focus on supporting communist struggles in Indochina disrupted relations. Since 1965, the relationship between the two countries had been on a sliding slope, as Ne Win felt threatened by increasingly radicalized Chinese communities in his country and the growing forces of Maoist groups fighting against his rule. For the military regime, the white flag communists – led by Thakin Than Tun, who received training in China – were a significant threat, and their activities received support from ethnic minorities in provinces bordering China. Pro-Beijing Chinese communities in Burma, who were suffering from Ne Win's nationalization policy, were also sympathetic to the struggles against Ne Win. As the Japanese Consulate in Rangoon reported, Chow Kwok Ket, the director of a local Chinese school who was a confidant for the local Chinese Embassy, openly complained about Ne Win at a local convention, believing that “the fumbling of this bumpkin Ne Win had set the communist movement in Burma back by a decade.”⁵⁶ Under such circumstances, Ne Win was concerned about China's potential military and financial support for his enemies. He frequently

⁵⁵ Yukihiisa Tamura, “Saikin no shihanūku gaikō nitsuite” [On Recent Development of Sihanouk's Diplomacy], May 23, 1967, Chūkyō Indonesia, kanbodia kankei, 2013-1962, DAMOFAJ.

⁵⁶ Kenichi Kotabe, “Chūkyō kankei jōhō ni tsuite (Hōkoku)” [Information on Communist China (Report)], December 24, 1964, Chūkyō Biruma kankei, 2013-2466, DAMOFAJ.

communicated with Beijing – both via the Chinese Embassy in Rangoon and through state visits in 1965 and 1966 – to ask for clarification on Beijing’s policy toward Burmese communists.

Table 6.3. Value of Foreign Aid to Burma (Delivered) by the People’s Republic of China, 1960–1965 (Unit: One Hundred Million Yuan).

| | Military Aid | Capital Construction | General Goods | Total Foreign Aid | The Percentage of Military Aid |
|-------------|---------------------|-----------------------------|----------------------|--------------------------|---------------------------------------|
| 1960 | 0.94 | 1.12 | 0.3 | 2.47 | 38.1% |
| 1961 | 1.81 | 1.48 | 1.12 | 4.43 | 40.9% |
| 1962 | 1.63 | 1.95 | 2.09 | 5.76 | 28.3% |
| 1963 | 2.38 | 1.43 | 2.77 | 6.7 | 35.5% |
| 1964 | 5.29 | 1.76 | 2.37 | 10.12 | 52.3% |
| 1965 | 5.55 | 2.92 | 6.54 | 15.62 | 35.5% |

Source: Data from Guo jia tong ji ju, *Quan guo cai mao tong ji zi liao (1949–1978)* [National Finance and Trade Statistics (1949-1978)] (Beijing: Zhong guo guo jia tong ji ju, 1979), 281–283.

To be sure, Beijing refrained from openly supporting the Burmese communists before the pragmatists were removed from power in 1967. Despite Ne Win’s unfriendly attitude toward local Chinese and the confiscation of the local branch of the Bank of China in Rangoon, Beijing managed to stay on friendly terms with Ne Win before 1967. In part, this decision reflected China’s need for Ne Win to maintain Burma’s neutralist stance in the wake of the escalation in Vietnam. As Table 6.3 shows, Beijing kept – and in 1964 and 1965, expanded – its aid commitment to Burma, and it switched to a more covert method of extending support to local Chinese communities. The Chinese Foreign Ministry’s directives to its embassy in Burma stated that Beijing must remain cautious regarding Burma’s domestic affairs to ensure “the long-term survival” of Chinese

communities in Burma:

We must address and mindfully handle specific problems connected with internal changes and do our work with the utmost integrity....We should educate the ethnic Chinese, developing a spirit of mutual aid and support, diligently enabling expatriates in every kind of social endeavor, thus benefiting their long-term survival.⁵⁷

However, despite the cautious approach Beijing adopted in Rangoon, Chinese communists still offered some assistance to Burmese communists in border provinces – namely Shan and Kachin – where white flag communists enjoyed much popularity among local minorities. Japanese Ambassador Kotabe Ken'ichi wrote in a report that Beijing was quietly expanding its influence over finance and personnel in border areas:

Chinese communists are decentralizing the financing of their activities, and they have expanded their areas of operations to include both the Shan and Kachin states. Formerly, money had to be dispatched from Rangoon; now there is no more such a necessity. Just three years ago, Chinese authorities forbade dealings in Chinese currency lest they jeopardize the stability of the currency of a friendly country. Now, border people are allowed to make small purchases with Chinese currency. In other words, they are encouraged to accept Chinese currency.⁵⁸

Therefore, it was not surprising that Sino-Burmese relations became more tense after late 1966.

The increasingly radical political propaganda received by the Chinese in Burma also exacerbated the already delicate dynamics between Ne Win's regime and local Chinese communities. In

⁵⁷ “Chinese Foreign Ministry’s Summary for the Embassy of the Burmese Government’s Circumstances for 1963 and Official Directive for 1964 Plans and Projects,” February 08, 1964, obtained by Hongwei Fan, trans. Max Maller, PRC FMA 105-01864-01, History and Public Policy Program Digital Archive, WCDA, accessed September 15, 2022, <https://digitalarchive.wilsoncenter.org/document/118238>.

⁵⁸ Kenichi Kotabe, “Latest Trend in Sino-Burmese Relationship,” December 24, 1964, Chūkyō Biruma kankei, 2013-2466, DAMOFAJ.

November 1966, Chinese students protested against Ne Win's policy of forbidding Chinese from entering Burmese universities and distributed Maoist documents while chanting "Long Live Chairman Mao" in Rangoon.⁵⁹ In response, Ne Win took further action to suppress Chinese activities, including the forced closure of local Chinese schools. From 1966 to 1967, ethnic violence between the Burmese and Chinese populations led to dozens of civilian casualties, exacerbating the already strained ethnic relations in the country.⁶⁰ Eventually, the conflict reached the state level in mid-1967: on June 26, Burmese protestors stormed the Chinese Embassy in Rangoon, resulting in the death of Liu Yi, a Chinese expert assigned to China's aid project in the city.

This event led to strong responses in China and became a watershed moment in Sino-Burmese relations. In response to the death of this Chinese expert, The Central Committee of Cultural Revolution (Zhong yang wen ge xiao zu) – which had taken power from career technocrats in the MOFA in mid-1967 – allowed large gatherings in front of the Burmese Embassy from June 29 to July 3 and called for further agitation that would "eventually force Burma to cut their diplomatic relations [with us]."⁶¹ Mao clarified that Beijing must not depart from its commitment to the world

⁵⁹ Jirō Takase, "Kōeihei undō o meguru sho eikyō ni tsuite" [On The Various Effect of Red Guard Movement], December 14, 1966, Chūkyō Biruma kankei, 2013-2466, DAMOFAJ.

⁶⁰ Chaozhu Ji, *Cong "Yang wa wa" dao wai jiao guan – Ji Chao zhu kou shu hui yi lu* [From "Foreign Doll" to Diplomat: Ji Chaozhu's Oral Memoirs] (Beijing: Beijing University Press, 2000), 266.

⁶¹ See Weihua Pu, "Wen ge zhong de wai jiao ji zuo wen ti" [The Far-Left Problem in Diplomacy During the Cultural Revolution], *Er' shi yi shi ji shaung yue kan* 95 (June 2006): 35–

revolution and must seize the chance to support Burmese comrades' armed struggles. On July 7, Mao told his comrades that they must not be afraid of the anti-Chinese sentiments in Southeast Asia, and they should let China become "the arsenal of world revolution" for the Third World countries:

Regarding the anti-Chinese sentiments in many places [abroad]: it may appear that we are isolated. In fact, these anti-Chinese movements reflect their fear of the increasing influence of our country and our Cultural Revolution. We are not only the political center of the world revolution, but should also become the military, technological center of world revolution. We will give them weapons, and must do so openly, to become the arsenal of world revolutionary [forces].⁶²

In the same speech, Mao also instructed the military officials in the audience to expand support for Burmese communists and even stated that China "would be able to support Burmese communists more openly if the Burmese government decides to cut diplomatic relations with us. It's better off that way."⁶³ Under such circumstances, while Ne Win – and, to a lesser extent, pragmatists including Zhou and Liao – made attempts to downplay the influence of these events, Beijing's hardline position prevented the two sides from reaching any consensus on de-escalation. Beijing recalled the majority of its technicians from Burma in the aftermath of the anti-Chinese riots. American intelligence reported that Chinese engineers assigned to a bridge project in Takaw, hydroelectric plants in Kunlong, and a plywood factory at Swa were all recalled from their sites,

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⁶² Zedong Mao. "Zhong guo ying gai cheng wei shi jie de bin gong chang," July 7, 1967. Cited in Pu, "Wen ge zhong de wai jiao ji zuo wen ti," 42.

⁶³ Ibid., 42.

leaving the unfinished projects entirely to Burmese engineers.⁶⁴ As a result, the total number of Chinese engineers in Burma decreased from approximately 300 in 1964 to less than 120 in July 1967.⁶⁵ Ne Win's frustration with China, and his skepticism toward the United States – which, in turn, remained hostile to his regime – also prevented Burma from seeking help from the Atlantic world.⁶⁶ The next chapter will show how Burma's economic isolation further pushed the country toward Japan until a more pragmatic China returned to the table in 1971.

Interestingly, compared to the damage it caused to China's political relations and economic influence in Southeast Asian countries, the political radicalization in 1966 only caused a limited disruption to Beijing's commercial activities in the region, especially the country's efforts to maximize its foreign exchange earnings. On the eve of the Cultural Revolution, China enjoyed steady growth in its trade volume with Southeast Asia through direct barter and intermediary trade.

⁶⁴ "Intelligence Report 9853. Burma/China Political/Economic Analysis of the Chinese Aid Programme in Burma," October 5, 1967, Chūkyō taigai keizai enjō, 2013-3131, DAMOFAJ, 1–2.

⁶⁵ *Ibid.*, 3.

⁶⁶ Despite Rusk's suggestion for LBJ to use the Sino-Burmese conflict to draw Burma closer to the Western Bloc, Ne Win's skepticism towards aid from the Western Bloc and his insistence on strict nationalization rendered Washington skeptical of the use of any aid programs to the country. The estimation of the Department of State from 1967 to 1969 mainly emphasized the lack of trust and good economic feasibility for American aid to Burma. See "Draft Memorandum From the Deputy Assistant Secretary of State for East Asian and Pacific Affairs (Berger) to the Assistant Secretary of State (Bundy)," December 13, 1967, FRUS, 1964–1968, Mainland Southeast Asia; Regional Affairs, Vol XXVII, Document 103; See also "SNIE 51-68: Special National Intelligence Estimate, Insurgency in Burma," March 14, 1968, FRUS, 1964–1968, Mainland Southeast Asia; Regional Affairs Vol XXVII, Document 104.

Chinese technocrats also attempted to increase China's trade output, opening up more trade ports for foreign merchants. This trend was apparent in Guangzhou, the trade port primarily responsible for trade with Southeast Asian countries. In 1964, the Guangzhou government refitted the Huangpu region as a port for foreign trade (*kou'an*) and made efforts to solicit more foreign merchants from Southeast Asia to the Annual Trade Fair in Guangzhou (Guangzhou jiao yi hui).⁶⁷ These efforts, Japanese technocrats believed, posed a strong challenge to Japanese products' market share in Southeast Asia, especially in Burma, Indonesia, Cambodia, and Pakistan.⁶⁸ Japanese engineers in Cambodia also reported that since 1964, Chinese equipment, considered "low-quality but cheap" by local entrepreneurs, had been competing fiercely with the expensive German and French products and the moderately priced Japanese products.⁶⁹ Due to ongoing embargo and China's relatively small size of cargo ship fleet, the country's export to Southeast Asia mostly went through entrepôts, namely Hong Kong and Singapore. In this way, Table 6.4 shows that China's trade with Southeast Asia expanded continuously from 1964 to 1966 and quickly recovered after brief disruptions in 1967.

⁶⁷ Gaimushō keizai-kyoku, "Chūkyō no tai Tōnan'ajia keizai shinshutsu" [Communist China's Economic Expansion in Southeast Asia], November 1, 1966, Chūkyō bōeki, 2013-3752, DAMOFAJ, 9.

⁶⁸ Gaimushō keizai-kyoku tsūshō-ka, "Chūkyō no tai Tōnan'ajia keizai shinshutsu" [Communist China's Economic Expansion in Southeast Asia], January 20, 1967, Chūkyō bōeki, 2013-3752, DAMOFAJ, 8.

⁶⁹ Kaigai gijutsu kyōryoku jigyō-dan, *Gijutsu kyōryoku dōkō chōsa hōkoku-sho (nanbā 6) (Kanbojia Betonamu-hen)* (Tokyo: Kaigai gijutsu kyōryoku jigyō-dan, 1968), 52.

Table 6.4. Chinese Export to Southeast Asian Markets, 1964–1968 (Unit: One Million US Dollars).

| | Total Export | Hong Kong | Burma | Cambodia | Indonesia | Malaysia and Singapore |
|-------------|---------------------|------------------|--------------|-----------------|------------------|-------------------------------|
| 1964 | 630 | 344.8 | 31.8 | 10.4 | 61.0 | 103.9 |
| 1965 | 700 | 406.3 | 27.6 | 13.5 | 98.9 | 106.4 |
| 1966 | 750 | 484.6 | 9.5 | 17.6 | 59.7 | 145.3 |
| 1967 | 700 | 379.0 | 17.5 | 8.8 | 50.4 | 187.7 |
| 1968 | 730 | 400.9 | 7.3 | 6.7 | N.A. | 231.0 |

Source: Data from “Chūkyō no tai Tōnan’ajia bōeki” [Communist China’s Trade with Southeast Asia], *Bōeki geppō* 89 (January 1970): 49–57.

Nevertheless, the removal of seasoned diplomats and pragmatic technocrats at the beginning of the Cultural Revolution brought much uncertainty to Beijing’s economic relations with the non-communist world. On the one hand, the general environment became less friendly for foreign diplomats and trade representatives visiting China.⁷⁰ On the other hand, the revolutionaries became increasingly hostile toward the “surrenderists” (*tou xiang zhu yi zhe*) technology imported from the West during the Cultural Revolution, calling for a gradual decrease and even suspension of capital goods purchases from the “retroactive world.” In July 1968, the editorial board of *Guang min ri bao*, the second largest state-owned media, published an article entitled “Condemning Chinese Khrushchevites and Their Crime Idolizing Western Technologies” (*Che di pi pan Zhong guo He lu xiao fu yi huo zai ji shu fang mian chong yang mei wai de zui xing*). Deeming the import

⁷⁰ Dang dai zhong guo cong shu bian ji bu, *Dang dai Zhong Guo wai jiao* [China’s Diplomacy in the Contemporary Period] (Beijing: Zhong guo she hui ke xue chu ban she, 1990), 211.

of foreign technology a “revisionist way” serving only the interests of imperialists abroad, authors from the Ministry of Chemical Industry (Hua gong bu) argued that it would be better for China to return to the principle of “self-reliance” and avoid relying on unnecessary technological imports:

A group of Khrushchevites in our Party made all efforts to propagandize advanced technologies in imperialist and revisionist countries, and argued that as long as we import from them, we will be able to introduce the latest technology to our country. This is their conspiracy serving those imperialists and revisionists...the projects introduced under the name of importing advanced technologies are not advanced at all; the exporters themselves did not even have a good grasp of the technologies they sold us...many projects were significantly delayed, and had to be refitted repeatedly before they could be used...therefore, unveiling and criticizing the Khrushchevites’ anti-revolutionary, revisionist plot is a necessary step for our proletariat class struggle against the capitalists [in our Party].⁷¹

To be fair, a sense of skepticism toward “excessive” technological import existed in China’s industrial sectors on the eve of the Cultural Revolution. According to the MOFT report to Bo Yibo in March 1965, there was a “tendency to rely only on imported [technologies] and waste of resources on unnecessary imports” in such projects.⁷² Nevertheless, such arguments gained new momentum in the wake of the Cultural Revolution and caused a significant disruption to China’s technology imports in the latter half of the 1960s.

Japan, Beijing’s largest trade partner in 1965, faced immediate fallout from China’s inward

⁷¹ Hua gong bu ji guan wu chan jie ji ge ping pai da lian he wei yuan hui, “Che di pi pan Zhong guo He lu xiao fu yi huo zai ji shu fang mian chong yang mei wai de zui xing” [Thoroughly Criticize the Crimes of China’s Khrushchev Clique for Pandering to Foreigners in Terms of Technology], *Guang ming ri bao*, July 14, 1968.

⁷² See “Xin ji shu jin kou xiao zu guan yu yin jing xin ji shu gong zuo ji ge zhu yao wen ti de bao gao” [Report from the Study Group on the Import of New Technology: Several Major Issues in the Introduction of New Technologies], March 8, 1965, JJDAXB, 463.

turn. From 1966 to 1968, China's imports from Japan declined sharply, decreasing by 22.1 percent (1967) and 10 percent (1968) from their height in 1966. Among all import items, the proportion of machinery and capital goods decreased most significantly, dropping from 17.2 percent in 1966 to a mere 8.7 percent in 1968.⁷³ The slowdown of Chinese import of Japanese industrial equipment also prompted changes in Japan: the Japanese industrial complex, which was crucial in facilitating export to China in the early 1960s, became increasingly concerned about the prospect of Sino-Japanese trade and thus became less motivated to further promote trade with China.

Adding to their worries about China's declining interest in importing technology was the expiration of the LT Trade Agreement at the end of 1967 and subsequent negotiations for renewal. The initial delegation – again led by Okazaki – sent by Japan in November 1967 was denied entrance to China, citing Japan's failure to meet the Chinese deadline for negotiation. In hindsight, the Chinese decision can be partly explained as a form of protest against the “Yoshida Letter” (Yoshida shokan), which reaffirmed Japan's anti-communist stance and its support for the legitimacy of the KMT regime.⁷⁴ As a result, the two sides failed to conclude a new trade agreement before the LT Agreement expired, setting Sino-Japanese economic relations back to where they had been in 1962.

⁷³ Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)* [Sino-Japanese Private Economic Diplomacy, 1945-1972] (Beijing: Ren min chu ban she, 1997), 362.

⁷⁴ Masaya Inoue, “Nihon kara mita ryōshōshi no tainichi kōsaku—Jimintō shin Chūgoku-ha o chūshin ni,” 219.

This failure to finalize an agreement prompted the corporate world to respond. Representatives led by Okazaki and Furui demanded that the government renounce the “Yoshida Letter” and provide some political basis for reopening trade.⁷⁵ Although the Sato administration refused to comply with their demands, Okazaki and Furui still managed to travel to China in January 1968 and initiate trade talks with Liu Xiwen and Sun Pinghua, the remaining members of Liao’s faction in the Ministry after Liao’s removal. After months of arduous negotiations, the two sides reached a new agreement for bilateral trade in March, renaming it the Memorandum Trade (MT) Agreement.

The new MT Agreement significantly scaled back trade volume and the extent of technological cooperation. The five-year synthesized LT Agreement was replaced by an annual review of trade terms, which generated significant uncertainty for traders seeking steady long-term supplies.⁷⁶ In addition, the terms of the LT Agreement had allowed the use of Japanese credit to purchase capital goods, which was crucial to sustaining trade, but this permission was omitted from the new agreement.⁷⁷ In other words, the unavailability of Japanese credit for capital goods

⁷⁵ Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 367.

⁷⁶ *Ibid.*, 368.

⁷⁷ For the negotiation in 1968 and the MT Agreement, see Tamio Shimakura and Masaya Inoue, eds., *Aichi Daigaku Kokusai Mondai Kenkyūjo shozō LT, MT bōeki kankei shiryō*, Vol. 5 (Tōkyō: Yumani Shobō, 2018). The term “friendly trade” (*you hao mao yi*) refers to the trade conducted by Japanese trading companies that were deemed to hold a pro-China view by Chinese officials. As Chapter IV entails, the system was introduced in August 1960 during Suzuki Kazuo’s visit to Beijing, and it remained in place until 1973. See also Mei Ko, “Chūgoku no tainichi seisaku to tainichi katsudō gurūpu—kenkoku kara kokkō seijō-ka made—,” *Ajiataiheiyō tōkyū* 20

purchases rendered such trade practically impossible. Table 6.5 shows that the total trade volume achieved under the LT/MT agreements and its percentage in the bilateral trade between China and Japan shrunk significantly from 1965 to 1970. However, it is important to note that in addition to the shrinking of LT/MT trade, which was mainly used by big companies, another factor contributing to the stark contrast between LT/MT trade and the friendly trade was the wide use of “dummy companies” in the latter. In order to expand trade beyond the quota ascribed by the annual LT/MT negotiation, major companies – manufacturers including Nichimen and Yawata Steel and trading companies including Itochu and Marubeni – used small trading companies to conduct business on their behalf under the framework of friendly trade. As Chapter IV shows, such practice was already prevalent in 1962: mega corporations directly controlled or jointly owned twelve of the 136 friendly companies.⁷⁸

(February 2013): 169–181.

⁷⁸ Gaimushō Chūgoku-ka, “Matsumura Takasaki ryōshi no hōchū ni kansuru ken” [On Matsumura and Takasaki’s China Visit], September 6, 1962, Ni-Chūkyō kankei Matsumura kenzō giin no chūgokuhōmon, 2020-0998, DAMOFAJ.

Table 6.5. Trade Volume of LT/MT Trade and Friendly Trade, 1964–1970. (Unit: One Million US Dollars).

| | LT/MT Trade Volume | Friendly Trade Volume | Percentage of LT/MT Trade |
|-------------|---------------------------|------------------------------|----------------------------------|
| 1964 | 128.4 | 182.6 | 41.1 |
| 1965 | 179.1 | 290.5 | 38.1 |
| 1966 | 205.2 | 416.2 | 33.0 |
| 1967 | 151.5 | 404.3 | 27.5 |
| 1968 | 115.9 | 433.7 | 21.1 |
| 1969 | 69.6 | 555.7 | 11.7 |
| 1970 | 70.0 | 752.7 | 8.5 |

Source: Data from Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 390.

Nevertheless, the set of restrictions incorporated into the new trade agreement, as well as China’s increasingly hostile attitude to purchases from Japan, boded ill for Japanese industrial giants, which had been the main facilitators of Sino-Japanese trade, and Beijing’s relations with big Japanese enterprises suffered from the fallout. As the next chapter will show, the pro-China voices in Japanese enterprises did not recover until pragmatists in Beijing again sought their help and support at the turn of the 1970s.

Conclusion

This chapter elucidates a set of factors that contributed to the convergence of American and Japanese interests in Southeast Asia. The collapse of the Sukarno regime and the immediate threat to Japanese economic interests posed by Suharto’s Indonesia prompted much anxiety among Japanese decision-makers, who subsequently chose to solicit American protection by availing

themselves of Washington's need for support for its aggression in Indochina. Therefore, the latter half of the 1960s witnessed a more cooperative relationship between Tokyo and Washington concerning their shared interests in Southeast Asia.

However, despite their seemingly more cordial relations, the two countries continued to diverge in key areas of their regional policies. Washington's intention to feature Japan as the quartermaster of pro-American regimes in the area was fundamentally different from Japan's pursuit of a leading role in economic regionalization. In addition, Washington's perception of Japan as the beneficiary of its Asian policies also contrasted with the belief – held by anti-Sato members of the LDP and entrepreneurs – that Japan was entitled to the trade surplus with the United States and the right to trade with China without American interference. In this way, it was not surprising to see Tokyo's turn to more independent diplomacy when Nixon began to reduce the American presence in Southeast Asia at the turn of the 1970s.

This chapter also shows that China's revolutionary turn in the wake of developments in Southeast Asia facilitated Japan's alignment with US objectives in Southeast Asia. A set of diplomatic setbacks, including losing its most important ally in the neutralist countries and escalating ethnic conflicts in Burma, gave momentum to more confrontational approaches in Southeast Asia. The increase in aid to revolutionary forces in the area, including to white flag communists in Burma and to forces under Ho Chi-Minh in both North and South Vietnam, created more obstacles for China's diplomacy in Rangoon and Phnom Penh.

The situation was further exacerbated after the commencement of the Cultural Revolution,

when pragmatists, including Chen and Liao, were removed from leadership positions. China's political radicalization also brought upheaval to Sino-Japanese cooperation: Beijing's increasingly hostile attitude toward the purchase of Japanese technologies, and its intention to use trade talks to exert pressure and facilitate political changes in Japan, eventually backfired. The newly negotiated MT Trade Agreement, which effectively prevented the Chinese import of Japanese industrial equipment, only antagonized Japanese industrial entrepreneurs who had been important in facilitating Sino-Japanese interactions since the 1950s. As a result, Sino-Japanese economic relations sharply declined in the latter half of the 1960s and only improved when Beijing adopted a more pragmatic approach in the first few years of the 1970s.

Chapter VII: Uneasy Friends Again: Beijing's and Tokyo's Realistic Turns in the Wake of Vietnamization, 1968–1972

Nixon's victory in the 1968 election and his decision to reduce the American presence in Asia sparked new departures in Beijing's and Tokyo's regional policies. In Japan, decision-makers became disoriented by Washington's decision to pull out from Vietnam and by the political as well as economic uncertainty created by the "Nixon Shocks": the President's surprise visit to Beijing in 1972 and the end of the Breton Wood System. In addition, bilateral economic relations between Japan and the United States deteriorated during Nixon's first term. Disputes over Japan's textile exports reemerged, and the painstaking process to resolve this issue cast a shadow on the once promising economic cooperation in Asia between the two countries. Consequently, the call for independent diplomacy again gained momentum in Japan, first in the corporate world and later in the political establishment. This led to a reorientation in the country's Asian policies.

At the same time, China slowly disengaged from political fanaticism in its diplomacy. While the Cultural Revolution remained a priority in domestic society, seasoned diplomats were restored – by Zhou Enlai with the acquiescence from Mao – to their previous posts in the MOFA and MOFT, providing more stable leadership in China's foreign policy. Under these veterans, Beijing reinitiated efforts to secure support from Japanese industrialists and advance its diplomatic goals in the country. Eventually, China's new approach met its aims: new momentum advocating improved Sino-Japanese relations helped pro-China voices gain ground in the Japanese Diet and corporate world. This momentum even contributed to Tanaka Kakuei's success in becoming the

new prime minister in 1972. While all four contenders – Tanaka, Miki, Ohira, and Fukuda – made private overtures to Beijing for possible normalization under their respective administrations, China’s preference to proceed with normalization under Tanaka helped him secure support from Miki and Ohira. As a result, the two countries normalized diplomatic relations twenty-two years after the founding of the PRC.

To be sure, the change in Japan’s diplomatic position cannot be attributed solely to Beijing’s diplomatic maneuvers. Tokyo’s diplomatic reorientation was also informed by its attempt to navigate the highly volatile geopolitical situation caused by Washington’s activities at the turn of the 1970s. On one hand, Nixon’s decision to seek rapprochement with China and his surprising visit to Beijing in February 1971 sent shockwaves across the Western bloc. In Japan, this dealt a heavy blow to Sato and the group of pro-Taiwan politicians and industrialists rallied behind him. Facing mounting pressure from pro-China factions, many of them quickly changed their position on China and demanded the government to do the same. On the other hand, the United States’ retreat from Southeast Asia under Nixon, as well as Britain’s retreat from “the East of Suez” and Japan’s own rise as an international “economic power” (*keizai taikoku*), created an opportune moment for Japan’s longstanding pursuit of regional leadership. However, Japanese entrepreneurs in Southeast Asia faced growing animosity toward the country’s economic expansion there, especially given Japan’s links to the unpopular American intervention in the area. Thus, both pull and push factors prompted Tokyo to – quietly and, to some extent, painfully – distance itself from Washington in search of independent diplomacy. This process, in turn, further enhanced Japan’s

diplomatic independence and reduced the obstacles to Tokyo's rapprochement with China.

Existing scholarship has offered analyses of the implications of these events. Michael Schaller noted the differences between Japan and the United States at the turn of the 1970s, including Tokyo's disappointment with the "Nixon Shocks" and the prolonged confrontation over Japan's textile exports. Schaller concluded that despite these differences, the relations between Japan and the United States were "strained but never severed," as both countries "remained so mutually dependent" on one another.¹ Li Enmin, in his study of Sino-Japanese rapprochement, also emphasized the role Nixon's new policies played in facilitating Japan's decision to seek diplomatic breakthroughs with China. For him, corporate Japan pioneered this process and, together with external factors, pushed Japanese leadership to eventually realize the inevitability of diplomatic normalization between Beijing and Tokyo.²

However, both of these works failed to incorporate – or did not fully incorporate, in Schaller's case – economic initiatives in Southeast Asia in their analysis. While Tokyo and Washington managed to navigate their differences in bilateral trade and regional policies, Japanese decision-makers also devoted attention to Japan's interests in Asian affairs. They discussed how their policies might depart from Washington's Southeast Asian policy and become diplomacy that put

¹ Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), 244.

² Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)* [Sino-Japanese Private Economic Diplomacy, 1945-1972] (Beijing: Ren min chu ban she, 1997), 442–443.

Japanese interests first. These considerations even influenced Sino-Japanese rapprochement: the pioneers of Sino-Japanese normalization from corporate Japan – Saeki Isamu, Kikawada Kazutaka, Fujiyama Aiichirō, and Nagano Shigeo – demonstrated marked interest in Sino-Japanese coordination to facilitate economic regionalization and promote the idea of trilateral economic cooperation between China, Japan, and the United States. Under such circumstances, overlooking Southeast Asian factors blurs essential aspects in the trilateral relations between Tokyo, Beijing, and Washington in the first half of the 1970s.

Therefore, this chapter will discuss the respective diplomatic reorientations of Beijing and Tokyo, as well as the interactions between their strategies navigating situations in Southeast Asia and the rapprochement leading to normalization in 1972. China’s return to economic pragmatism also played an essential role in this process, as it provided opportunities for Japanese entrepreneurs who had been influential in economic diplomacy in China and Southeast Asia to explore new possibilities with leadership in Beijing, Hanoi, Rangoon, and Phnom Penh. These attempts paved the way for Tanaka’s rapprochement with China and Japan’s transition to economic power in Asia under the Fukuda Doctrine.

“Nixon Shocks” and Japan’s Navigation in Post-American Southeast Asia, 1968–1972

Interestingly, while Sino-Japanese relations declined in the latter half of the 1960s due to Sato’s decision to affiliate the country with Washington’s Asia policy, some American decision-makers began to weigh Japan’s role in Washington’s long-term plan for Asia. Even at the peak of US military commitment to Indochina, technocrats, career diplomats, and politicians in Washington

initiated a discussion about whether the United States would benefit from seeking a more coordinated position with Beijing to achieve strategic advantage in the region. This point was anchored in a report in 1966 by officials from both the State and the Defense Departments who argued that the United States should seek an offshore “balancing force” by relying on Japan and the Soviet Union as the main counterweights against China:

We might ease the tension between China and ourselves, thereby facilitating a decision that Chinese interests were better served by normalizing relations with us rather than risking another betrayal at the hands of Russians....We might over the very long run hope for a situation in which containment in China, insofar as it remains necessary, is left largely to Japan and the Soviet Union with our power and influence held in reserve to rectify any imbalances which might arise...and if we draw China increasingly into a cooperative relationship with ourselves and other free nations, the strategy of containment will truly have succeeded.³

In addition to the potential for Sino-American normalization, this report also raised an interesting idea about the power dynamics in Asia and the possibility of redefining the United States as a balancing force in the region. Moreover, the report did not clarify which direction Washington would lend its influence should an “imbalance” between China, Japan, and the Soviet Union arise. In other words, Washington’s hope that Japan would use its economic power to prevent China from expanding its influence in Asia was best understood as an act of balance contingent on the power dynamics between China and Japan in Asia.

Interestingly, Washington’s Japan experts also welcomed this idea. Edwin Reischauer, the US

³ “Study Prepared by the Special State-Defense Study Group,” June, 1966, FRUS, 1964–1968, China, Vol. XXX, Document 161, 343.

ambassador to Tokyo, was an advocate for Sino-US normalization and recognized it as the solution to the dilemma between Tokyo and Washington:

It seems safe to conclude that the continuing danger areas in US-Japanese relations lie not so much in our bilateral relations as in our respective approaches to regional Asian problems. Among the latter, the deep Japanese uneasiness over the China problem, and over American policies toward China presents the greatest threat...Japanese unease at being linked to a China policy which they consider is basically unrealistic and not in Japan's long-range interests is, in my judgment, the most serious problem that now exists in US-Japanese relations....It is also my considered opinion that, wholly aside from the price we pay in Japan and other countries, it is to US interests to modify our stand on the ChiRep issue and our whole attitude toward Peking.⁴

As Reischauer made painfully clear, Tokyo's goals for Asia – especially in China – were not necessarily aligned with those held by Washington. Therefore, adopting a more flexible and realistic approach to the China issue would help the American cause.

Washington's career diplomats also found support in the political establishment. Richard Nixon, a longstanding hardliner against the socialist camp, argued in October 1967 for the use of Japan as a counterbalance to China to facilitate Sino-American reconciliation and keep Beijing in check. As Nixon put it in his article in October 1967, Japan's economic power was crucial in orchestrating an anti-China community in Asia, which would then put Washington in an advantageous position with Beijing and force the latter to sit down for negotiation:

Only as the nations of non-communist Asia become so strong – economically, politically, and militarily – that they no longer furnish tempting targets for Chinese aggression, will the leaders in Peking be persuaded to turn their energies inward rather than outward. And that will be the time when the dialogue with mainland China can begin...[the goal is to build] a

⁴ Edwin Reischauer, "Telegram From the Embassy in Japan to the Department of State," August 11, 1966, FRUS, 1964–1968, China, Vol. XXX, Document 174, 367–369.

community embracing a concert of Asian strengths as a counterforce to the designs of China; one in which Japan will play an increasing role, as befits its commanding position as a world economic power.⁵

In hindsight, Nixon's argument predicted some essential aspects of the "Nixon Doctrine" adopted during his presidency: to proceed with Sino-US normalization while preserving Washington's leverage in Asia, it was considered crucial to build an anti-Beijing coalition in the region, this time with Japan rather than the United States as its backbone. As soon as Nixon emerged victorious in the 1968 presidential election, he put this strategy into practice. Nixon's position was made clear during his travel to Asia in the summer of 1969, when his visits received mixed responses from the region's countries.

Both leftist and nationalist media in Southeast Asia expressed skepticism toward Nixon's new plan and argued that America's retreat from Southeast Asia was merely a façade for its pursuit of control in the region through non-military means. "Southeast Asian people must treat Nixon's call for self-determination cautiously, as the only goal of it is to save his [country's] reputation," wrote the editorial board of *Nanyang Siang Po*, a pro-Beijing publication based in Singapore. "For informed people on international politics, military [intervention] is, along with economic and political [interventions], one of the trinitities in the arsenal of world hegemonies."⁶ Contrary to the skepticism demonstrated by the media, pro-Washington regimes in the region expressed their

⁵ Richard Nixon, "Asia After Vietnam," *Foreign Affairs* 46, no. 1 (October 1967): 113–125.

⁶ "She pin 'Ya zhou wen ti you Ya zhou ren zi ji jie jue' de shuo fa" [Opinion on "Asian Problems Should be Solved by Asians Themselves"], *Nanyang Siang Po*, July 29, 1969.

disappointment at Nixon's change of course in a rather blunt manner, as they considered the withdrawal of US military forces a betrayal of their trust. In the case of the Philippines, Ferdinand Marcos even openly claimed after meeting with Nixon that, in case of American evacuation, Asian nations may even have to rely on Moscow to "be the counterfoil for Red China in Asia."⁷ Marcos's statement was widely covered in both the Philippines and the United States, raising doubts about whether Nixon's new policy would cost the United States its influence in the region. Nixon and Kissinger were aware of these sentiments. During his visit to NATO headquarters on August 5, 1969, Kissinger admitted that the region's countries generally felt that the retreat was "too fast and made too much [sic.] concessions."⁸ It was important to note, Kissinger argued, that while Washington would refrain from committing US manpower to Southeast Asia in case of communist insurgency, it would support economic development and reform and would consider providing "military and technical assistance" to facilitate "regional or sub-regional" cooperation in Southeast Asia.⁹ In other words, the essential objective of the new administration's Asia policy was to maintain as much influence as possible while making no additional commitment to the region.

Given this complicated situation, it is unsurprising that not all leaders were enthusiastic about Kissinger's proposal. To keep the power balance in the region after American evacuation, some

⁷ "F.M. Says Russia May Replace US in Asia," *The Manila Chronicle*, July 29, 1969.

⁸ "Subject: Kissinger Visit to NATO August 5," August 8, 1969, Beikoku gaikō seisaku tai Ajia, 2012-1598, DAMOFAJ.

⁹ Ibid.

Southeast Asian countries turned to Japan for help. This was especially true for neutralist countries, including Burma and Cambodia, which demonstrated little interest in receiving either economic or military aid from Washington. Arthur W. Hummel, the US ambassador to Burma, told Nixon in 1969 that he did not see Rangoon becoming more receptive to the US presence, even in terms of economic aid after the American withdrawal from Vietnam. “Ne Win wants to see some US counterweight after Vietnam, though not applied in Burma....But Burma thoroughly neutralist and do not want to lean on us. Do not want to lean on big powers for economic aid.”¹⁰ In lieu of the US, Ne Win turned to Japan for additional aid. Table 7.1 shows that Japan’s aid to Burma rapidly increased in the early 1970s, especially via intragovernmental loans, indicating deepening ties between Rangoon and Tokyo. In the case of Cambodia, Sihanouk also expressed interest in enhancing the country’s association with Tokyo by calling for Japanese intervention to prevent a Chinese takeover in Southeast Asia. In March 1970, the Cambodian king published his perspective on Indochina after the American evacuation in *Preuves*, a French magazine funded by the CIA and the anti-communist Congress for Cultural Freedom. According to Sihanouk, to prevent “Southeast Asia from following the steps of ‘Czechoslovakia’ and becoming China’s satellite states,” it was necessary to strengthen the political independence of countries in the region and aid efforts to boost agricultural production.¹¹ Under such circumstances, Japan “ought to play the most

¹⁰ “Memorandum of Conversation,” July 29, 1969, FRUS, 1969–1976, Vietnam, January 1969–July 1970, Vol VI, Document 102.

¹¹ Akira Matsui and Norodom Sihanouk, “Vuietonamu sengo no Ajia ni kansuru shihanūkukanbodia genshu ronbun (hōkoku)” [Theses from Sihanouk, the Head of Cambodia, on

important role in shaping the future of Asia by effectively extending aid for economic development.”¹² What was ironic, however, was that Sihanouk’s reign ended with the coup d’état led by General Lon Nol and Sirik Matak two days after the article was published. The Cambodian king fled to Beijing – instead of Tokyo – for exile. Nevertheless, despite their traditional friendship – ambiguous and hampered by China’s political radicalization – with Beijing, regional leaders’ fear of Chinese dominance in the region after Vietnamization pushed them in Tokyo’s direction.

Table 7.1. Japanese Aid to Burma, 1968–1971.

| | Total Japanese Aid to Burma (in Million US Dollars) | Intra-Governmental Loans (in Million US Dollars) | Number of Technicians/Trainees Exchanged |
|-------------|--|---|---|
| 1968 | 10.44 | N/A | 49 |
| 1969 | 14.76 | N/A | 64 |
| 1970 | 11.94 | N/A | 95 |
| 1971 | 26.66 | 9.90 | 76 |
| 1972 | 29.64 | 11.59 | 133 |

Source: Data from Gaimushō jōhō bunka-kyoku, “Tōnan’ajia e no Nihon no keizai kyōryoku” [Japan’s Economic Cooperation with Southeast Asia], October 1973, Y111-KF10-462, The Parliamentary Documents and Official Publications Room, National Diet Library (hereafter cited as PDOP-NDL), Tokyo, 10–11.

Moreover, the skepticism towards US proposals and the hope that Tokyo would adopt an

Asia after the War in Vietnam (Report)], March 17, 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

¹² Ibid.

enhanced role in the region also emerged among pro-American regimes, namely Suharto's Indonesia. As Chapter VI explains, Suharto's Indonesia depended heavily on aid and financial support – coordinated through the IGGI led by Washington and Tokyo – from the Western Bloc. Under such circumstances, it was natural for Nixon to expect Indonesia to become the core of a regional security arrangement, and this idea was conveyed to Suharto when he visited Washington in May 1970. During the meeting, both Nixon and Kissinger expressed the idea that, while Washington would count on Japan for economic output in the region, it would also encourage Indonesia to seek leadership in regional security arrangements:

We may be helpful there. Looking at the broader picture in Southeast Asia and Asia, the larger countries such as Japan and Indonesia should play an effective role. The role of Japan can only be in the economic field. In Southeast Asia itself, Indonesia is the largest country and can perhaps lead the way in collective security arrangements but always within the framework of the necessity to maintain your nonaligned position.¹³

In response to Nixon's proposal, Suharto showed little interest in pursuing security leadership in Asia, and he made it clear that Indonesia's neutralist position and "limited capabilities for activity outside of the borders of our own country" prevented it from furthering Washington's cause.¹⁴ The situation could change, Suharto noted, as it depended "upon the rate of acceleration of our economic development program."¹⁵ However, despite his lack of interest in fulfilling

¹³ "Memorandum of Conversation," May 28, 1970, FRUS, 1969–1976, Southeast Asia 1969–1972, Vol. XX, Document 301.

¹⁴ Ibid.

¹⁵ Ibid.

Washington's expectations for security arrangements, Suharto did make an overture to Tokyo and sought further economic cooperation between the two countries. During this time, Suharto's national resource companies – the oil-drilling company NOSODECO and the nickel mining and refining company SUNIDECO – received an uptick in investment and technology transfer from Japan for capital construction. These projects, in turn, provided Japanese entrepreneurs with the oil and refined nickel that Japanese industry required.¹⁶ Although the deepening economic ties between Jakarta and Tokyo were not welcomed by all Indonesians – partly due to widespread corruption in the military-controlled corporations that benefitted from economic collaboration with Japan – the Japanese-Indonesian cooperation at that time exemplifies how countries in the region viewed the potential for Japanese influence to fill the vacuum that Washington's retreat left in the region.¹⁷

¹⁶ For more on Japanese investment for NOSODECO and Japan's role in Indonesia's oil industry build-up in the early 1970s, see Ikuo Aoyama, "*Hinomaru*" *no gen'yu o otte: tsuioku no Indonesia sekiyu* [In Pursuit of Japan (Hinomaru)'s Crude Oil: Indonesia's Oil in Remembrance] (Tokyo: Shinpusha, 2005); see also Yabe Takeshi, "Wasureenu sekiyu hito-tachi (sono 6) Kita Sumatora sekiyu kaihatu kyōryoku (NOSODECO, nosodeko) seikō no kiseki to sore o sasaeta 3 kenjin (kōhen) Ni~Tsu i keizai kyōryoku dai 1-gō no kakureta kōrō-sha Nishijima, Nakatani, Miyayama no 3-shi" [Unforgettable Petroleum People (Part 6)The Success of the North Sumatra Oil Development Cooperation (NOSODECO) and the Three Wise Men Who Supported It (Part 2)Nishijima, Nakatani and Miyayama, the Hidden Contributors to the First Japan-India Economic Cooperation], *Ten'nen gasu* 45, no. 5 (September, 2002): 21–35. For Japan's association with SUNIDECO, see Tai Ōiwa, "Antamu-sha pomara feronikkeru seirensho kensetsu ni tsuite" [Construction of Antam's Ferronickel Refinery in Pomara], *Nihon kōgyō kaishi* 93, no. 1074 (August, 1977): 7–11.

¹⁷ See Taku Yashiro, *Ran-In no sengo to Nihon no keizai shinshutsu: Gan Ikeda seiken-ka no Nihon kigyō* (Kyoto: Akihiro shobō, 2020),

In addition to the regional governments' interest in buttressing Japan's roles in Southeast Asia, the divergence between Tokyo and Washington on the former's Asian policies also became more prominent, especially regarding Japan's aid policies to Southeast Asia. Washington wanted Japan to replace the United States as the leading aid provider for the region as the latter reduced its presence. In August 1969, Marshal Green, who succeeded Bundy as the assistant secretary of state for East Asian and Pacific affairs, passed on to Tokyo a memorandum explaining this point to Japanese leadership:

We are establishing a low posture by reducing the number of official Americans in East Asia (most of them being military and contract personnel) and by minimizing the conspicuousness of our presence....We should encourage Asian countries to take the initiative in terms of improving their own internal situation and that of the region...Japan should be encouraged not only to give far more aid to East Asian countries but to extend its aid on more concessional terms.¹⁸

Japanese officials, however, did not find the American proposal to increase Japan's aid commitment appealing. In their estimation, the relentless expansion of Japanese aid commitment to the region was barely useful to Japan's economic interests. According to MOFA officials, all aid should first serve and advance Japan's economic interest in the region under the principle of "trade over aid." This point was explicated in a MOFA paper on perspectives toward Japan's economic diplomacy for the 1970s: "while the recognition for the essential role aid plays in the growth of developing countries remains unweakened, the call for 'trade over aid' will become

186–187.

¹⁸ Marshal Green, "A New Approach in East Asia," August 28, 1969, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

more prevalent among developing countries, especially among leading developing countries in Asia.”¹⁹ Under such circumstances, MOFA technocrats believed it would be better to “closely connect aid and trade, and extend aid to the purchase and resale of products manufactured through aided projects.”²⁰

In addition, the region’s countries skepticism toward the close ties between Washington and Tokyo also contributed to Japanese decision-makers’ reluctance to design their Asian policies on American terms. For Japanese officials, accepting the American proposal would prompt locals to see the country as an advocate for American interests and engender animosity toward Japan’s economic expansion in the region.²¹ Beijing’s propaganda machine championed this criticism of Japan’s economic expansion in Southeast Asia. Through channels at home and in Hong Kong, Singapore, and Malaysia, Chinese critics raised doubts about Japan’s “intention to control the economic lifeline of Southeast Asian countries” and argued that this was but the first step in

¹⁹ Gaimushō keizai-kyoku, “1970-Nen ni okeru wagakuni keizai gaikō no shuyō kadai ni kansuru hōshin to tenbō” [Policies and Prospects of Japan's Economic Diplomacy in 1970], January 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ, 30.

²⁰ Ibid., 33.

²¹ Both the government and corporate Japan paid close attention to regional responses to Japan’s economic activities in the region. Governmental institutes, including the Intelligence and Cultural Bureau of te MOFA and the CIRO affiliated with the Cabinet, were delegated to report on comments in local media on Japanese economic expansion in Southeast Asia, which were frequently critical of Japan’s “economic imperialism.” For examples of such reports, see Gaimushō jōhō bunka-kyoku, *Nihon no keizai shinshutsu ni kansuru kaigai ronchō* [Overseas Responses to Japan’s Economic Expansion] (Tokyo: Gaimushō jōhō bunka-kyoku, 1973).

returning to the notorious “Co-Prosperity Sphere in Greater Asia” proposed by Japanese fascists during World War II.²² To Japan’s disappointment, such criticism gained much popularity in Southeast Asia. According to an investigation conducted by the *Economist* (*Ekonomisuto*) journal in 1970, there was “a wide-spread sense of aversion, grudge, and even alarm [toward Japan] across the region [i.e., Southeast Asia].”²³ The journal article argued against aid efforts that “would only be interpreted as serving Japan’s exports” and lamented that “while it is hard to believe, the sense of uneasiness towards [the revival of Japan’s plan for the Greater Sphere of Co-Prosperity] was real from locals’ feelings in Southeast Asia.”²⁴ Japanese bureaucrats shared their corporate counterparts’ fear. Shinji Hisao, the head of the Investigate Bureau of the Economic Planning Agency, admitted in an interview in March 1970 that Japanese economic expansion in Southeast Asia must consider local responses and change its mode of operation to prevent unnecessary hostilities in the region.²⁵

²² “Chong dang Mei di qin lue ya zhou de ji xian feng wang tu chong jian Ri ben zhi min shi li fan wei Ri ben fan dong pai feng kuang xiang haiwai jin xing qin lue kuo zhang Ya zhou ge guo ren min ji wei fen kai, zheng zai bao chu gao du jing ti” [As the Vanguard of the U.S. Invasion of Asia, and In an Attempt to Re-establish Japan’s Colonial Sphere of Influence, the Japanese Reactionaries are Frantically Expanding Overseas, and the Peoples of Asia are on High Alert], *People’s Daily*, April 19, 1970.

²³ Hiroaki Fukami, “Tōnan’ajia no fuan-kan tsuyomaru towa reru Nihon no apurōchi” [Deepening Sense of Insecurity in Southeast Asia : Japan’s Approach Questioned], *Ekonomisuto* 48, no. 46 (October, 1970): 142.

²⁴ *Ibid.*, 143.

²⁵ Toshio Shinji and Shin’ichi Ichimura. “Tōnan’ajia keizai shinshutsu no kadai wa nani ka—Ajia ni okeru nihonjin-zō—”[-What are the Challenges of Economic Expansion in

Under such circumstances, the Sato administration was forced to address the fear created in the bureaucracy and business world by Japan's unpopularity in Southeast Asia. Aichi Kiichi, who succeeded Miki Takeo as foreign minister in 1968, tried to defend the government's policies by explaining the necessity of aid and defining its pursuit of economic influence as a necessary strategy for the country's survival:

For a country without natural resources, international economic cooperation is a necessity for survival. Therefore, economic aid is a price we must pay for the peace and prosperity of our country....Recently, sources, including Chinese leadership, have criticized our economic model, which was allegedly built upon the mode of robbing cheap raw materials from developing countries and selling manufactured goods. While we can think of the criticism as libel, we have no alternative to this, and developing a self-reliant economy is impossible.²⁶

In the same speech, Aichi also refuted the idea that Japan should keep its distance from Washington and warned that Tokyo choosing to sever its ties with the United States was exactly "what China and the Soviet Union would like to see."²⁷ However, Aichi's arguments faced opposition from within the government, mainly from economic bureaucrats in the MITI who thought Japan might benefit from a departure from America's Southeast Asian policy. As the Institute of Developing Economies (IDE), a semi-official organization within MITI, suggested, Southeast Asian countries "hope Japan will depart from its dependence on the United States and

Southeast Asia - Japanese Image in Asia], *Ekonomisuto* 48, no. 11 (March, 1970): 22–29.

²⁶Aichi Kiichi, Gaimushō jōhō bunka-kyoku kokunai kōhō-ka eds., "Kore kara no Nihon gaikō" [Japan's Diplomacy Moving Forward], July 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

²⁷ Ibid.

its current anti-China policy...now comes the time for Japan to review its diplomatic policy and adjust its aid and trade policies accordingly.”²⁸ Such opinions were common among Japanese enterprises and MITI officials, whose request for diplomatic reorientation clearly contrasted with the pro-American attitude held by MOFA bureaucrats. It did not take long for these differences in opinions to evolve into political action; as the next section elaborates, in the 1970s, Japanese industrialists and a group of anti-Sato members in the LDP began to act independently and eventually facilitated the country’s diplomatic reorientation in 1972.

Tokyo’s aversion to the US proposal for Japan to increase its economic commitment to Southeast Asia coincided with the deterioration in their bilateral relationship due to trade frictions. After the Japan-United States Textile Agreement in 1957, the fiber and textile industry resurfaced in the late 1960s as a heated topic in the two countries’ economic relations. However, unlike previous negotiations, which had mainly concerned economic affairs, the new dispute over Japanese textile exports to the United States was largely driven by political factors. Ushiba Nobuhiko, the vice minister of the MOFA who was in charge of trade talks with Washington, noted in his memoir that Japanese negotiators saw Nixon’s obsession with revisiting regulation of Japanese textile exports as “completely developed from political calculations rather than economic ones.”²⁹ The rift between Japan and the White House took a turn for the worse in March 1971,

²⁸ Takayuki Hagiwara, “Nihon no tōnan’ajia shinshutsu no genjō—Betonamu sengo no seiji bōeki enjo—” [Japan's Expansion into Southeast Asia: Politics, Trade, and Aid after the Vietnam War], *Keizai hyōron fukkan* 18, no. 2 (February 1969): 61–62.

²⁹ Nobuhiko Ushiba and Tadashi Yamamoto, *Keizai gaikō e no shōgen* [Testimonies on

when Japanese negotiators collaborated with Democrat Congressman Wilbur Mills to propose self-regulatory clauses that would facilitate Japanese manufacturers voluntarily limiting their export to the American market. In return, Mills openly expressed opposition to Nixon's plan to pass legislation imposing mandatory quotas on Japanese products.³⁰ This development hurt Nixon's political prestige: the fact that Japanese negotiators bypassed Nixon's team to cooperate with his political rivals – who managed to conclude what Nixon could not after two years of negotiation – led to criticism of Nixon in domestic newspapers.³¹ This was taken by Nixon as a personal humiliation, and Japan's noncooperative attitude agitated the president to such an extent that Nixon was reluctant to coordinate with Tokyo on his decision to approach China.³² Nixon's hostility toward Tokyo, in turn, further contributed to Japanese decision-makers' reluctance to seek coordination with the United States in terms of either bilateral relations or Japan's diplomacy in the region.

Under such circumstances, it was natural for Tokyo to turn to more independent diplomacy

Economic Diplomacy] (Tokyo: Daiyamondo-sha, 1984), 70.

³⁰ "Mills Says He Will Stand Firm Against Nixon on Textile Quotas," *New York Times*, March 16, 1971.

³¹ Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), 224; See also "Business: Nixon V. Mills: Showdown on Trade Policy," *Time (Chicago, Ill.)* 97, no. 12 (March 22, 1971): 98.

³² Ushiba, along with other top Japanese diplomats, believed that Nixon's decision not to notify Tokyo ahead of his visit to China was the president's revenge for the humiliation from these trade talks. See Ushiba and Yamamoto, *Keizai gaikō e no shōgen*, 77–78.

with China and Southeast Asia. Contrary to Washington's hope, the Japanese decision-making circle wished to take advantage of American withdrawal and establish Japan's own leadership – both economic and political – in the region. As Japanese diplomats put it, it was time to use Japan's economic power to establish the country's political role as “the mediator in regional situations.” Aichi himself stressed this point in a speech in July 1970, in which he claimed that Japan must reorient itself diplomatically in the wake of the American retreat. To his audience, Aichi argued that the opportune moment had come to make Japan “an unprecedented economic power without a military presence.” To do so, the country would have to embrace flexible, cool-headed diplomacy in the new decade:

It is a long-term trend that the United States will reduce its military presence in Asia, and the world will have to pay more attention to Japan as a major economic power. In this way, solid economic power will indeed bring us more political influence. Under such circumstances, our country will not sit on the bench in the trilateral relations between China, United States, and the Soviet Union. Instead, we are at a position where we can use our political influence and shape the course [of the geopolitical situation].³³

Aichi's colleagues in the Foreign Ministry further articulated this argument. In August 1970, MOFA officials completed a new policy paper on Japan's Asian policy and laid out the route map through which Japan could achieve its goal in Asia. “The three great pillars of our country's Asian policy,” the MOFA statement affirmed, “are economic diplomacy, cultural diplomacy, and the diplomacy of de-escalation.”³⁴ However, as the next part will show, it was Japanese entrepreneurs,

³³ Aichi Kiichi, Gaimushō jōhō bunka-kyoku kokunai kōhō-ka eds, “Kore kara no Nihon gaikō,” July 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

³⁴ Gaimushō Ajia-kyoku chiiki seisaku-ka, “Ajia no genjō to wagakuni no Ajia seisaku” [Current Situation in Asia and Japan's Asian Policy], August 31, 1970, Gaikō seisaku tai Ajia,

whose economic interests preceded political considerations, who championed Japan's diplomatic reorientation at the turn of the 1970s. At the same time, Beijing also took a realistic turn in its diplomacy in the wake of America's Vietnamization policy.

China's Return to Realistic Diplomacy and the Reemergence of Sino-Japanese Economic Cooperation on the Eve of Normalization, 1970–1972

Similar to Japan, China also reoriented itself at the turn of the 1970s, providing new possibilities for Sino-Japanese relations that had been declining since 1966. As Nixon's Vietnamization policy began in 1969, Beijing shifted its diplomacy in a more flexible direction, and the intelligence community in Washington noted this trend. As the CIA's report on China suggested in March 1969, while China would continue to pursue a revolutionary course in Asia, Chinese decision-makers would take a more conciliatory position internationally to facilitate foreign recognition of Beijing over Taipei:

The principal threat from China will, for many years, be in the realm of subversion and revolutionary activity – mainly in Southeast Asia. In South Vietnam and Laos, Peking must take account of Hanoi's direct interests....It is in the area of conventional diplomacy, which suffered severely in the Cultural Revolution, that Peking could most easily achieve significant changes. Restoration of normal diplomacy would facilitate a trend toward recognition of Peking, and this would in turn put pressure on other countries, particularly Japan, which does not want to be left behind in opening relations with the mainland.³⁵

In hindsight, this US assessment provided an accurate description of China's bifurcated diplomacy

2020-0987, DAMOFAJ.

³⁵ "SNIE 13-69: Communist China and Asia," March 6, 1969, FRUS, 1969–1976, CHINA, 1969–1972, Vol. XVII, Document 9, 24.

at the turn of the 1970s. On the one hand, Beijing continued to promote revolution in Southeast Asia, especially in the Indochina Peninsula. As the United States sought to reduce its presence in the region, Beijing committed more resources to Southeast Asia to maximize its pressure, even when doing so risked antagonizing the countries it aimed to entice. On the other hand, China viewed America's retreat as an opportune moment to break the country's diplomatic isolation, especially among American allies in Asia and Europe. In addition, the border conflicts with the Soviet Union that began in 1968 prompted Beijing to take a pragmatic turn and seek reconciliation with the Western Bloc for diplomatic and economic gains.

China's two seemingly contradictory diplomatic goals were exemplified by the mixed message it sent to the world at the 9th National Congress of the Chinese Communist Party (Jiu quan da hui) held in April 1969. On the one hand, the designation of Lin Biao as Mao's official successor and the criticism of Liu Shaoqi – and the “capitalist headquarter within the party” under him – seemed to mark the high tide for political radicalism since the start of the Cultural Revolution in 1967. The final report of the Congress even reaffirmed China's commitment to revolutionary diplomacy and braced for potential military conflicts with both the US and the Soviet Union. As Lin Biao proclaimed in the report:

We firmly pledge that we, the Communist Party of China and the Chinese people are determined to fulfill our proletarian internationalist duty and, together with them, carry through to the end the great struggle against imperialism, modern revisionism and the reactionaries of various countries....On no account must we relax our revolutionary vigilance because of victory or ignore the danger of US imperialism and Soviet revisionism launching a large-scale war of aggression. We must make full preparations. Preparations against their launching a big war and against their launching a war at an early date, preparations against their launching a conventional war and against their launching a large-scale nuclear war. In

short, we must be prepared.³⁶

Lin's tough talk reflected China's resolute attitude toward Southeast Asian affairs. In April 1970, Zhou Enlai made it clear to Matsumura's delegation to Beijing that Japanese enterprises participating in Sino-Japanese trade must not "trade or hold a significant investment in" Taiwan and South Korea and must not engage with activities "aiding American invasion in Vietnam, Cambodia, and Laos."³⁷ These terms, referred to as "Zhou's Four Principles" (Shū yon gensoku) in Japan, put many Japanese corporations in a dilemma. For instance, the New Japan Steel corporation that was created from the merge of Fuji Steel and Yawata Steel – both played important roles in Sino-Japanese economic rapprochement in the 1950s and 1960s – was reluctant to accept China's new terms due to major investments in Taiwan and South Korea.³⁸ Its president, Nagano Shigeo, who served as the head of the Japanese Chamber of Commerce and Industry (JCCI), was also put in an awkward position due to his association with the Committee for Promotion of Sino-Japanese Cooperation (Nikka kyōryoku iinkai; Zhong Ri he zuo ce jin wei yuan hui, CPSJC).³⁹

³⁶ Biao Lin, "Report to the Ninth National Congress of the Communist Party of China," Maoist Document Project, Marxist Internet Archive, April 19, 1969, accessed October 31, 2022, https://www.marxists.org/subject/china/documents/cpc/9th_congress_report.htm.

³⁷ Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 395.

³⁸ *Ibid.*, 399.

³⁹ The Committee was set up in 1957 to facilitate economic cooperation between Taiwan and Japan. As Chapter III noted, this Committee was also used by the Japanese side to facilitate Japan's trade competition with China in Southeast Asia after the Nagasaki Incident in 1958. For more on Nagano's role in the Committee, see Masaru Ikei, "Nikka kyōryoku iinkai: Sengo hidai kankei no ichikōsatsu" [The Committee for Promotion of Sino-Japanese Cooperation : An Examination of Japan-Taiwanese Relations in the Postwar Period], *Hōgaku kenkyū: Hōritsu seiji*

Beijing's new policy, which forced Japanese enterprises to take sides, agitated industrialists like Nagano, who then criticized Beijing for prioritizing its own political interests and interfering in Japan's domestic politics.⁴⁰

However, while Beijing became less tolerant of Japan's economic association with Taiwan, South Korea, and South Vietnam, it also employed a variety of practical approaches in its diplomacy, especially in the management of its economic relations with the non-communist bloc. This was a stark contrast to the revolutionary rhetoric in Lin's report. Since the Congress in 1969, China's foreign trade volume had increased rapidly, reaching a record high (\$4.46 billion) in 1971.⁴¹ The Guangzhou Exchange Fairs in 1970 witnessed more than 1250 participants from approximately 600 foreign enterprises, a significant increase over previous years.⁴² Japan's corporate sector noticed the gap between Beijing's propaganda and its actions in international trade and quickly responded. Since 1969, Japanese enterprises had quietly expanded their participation in the Chinese market. Table 7.2 shows that the number of Japanese participants in the Guangzhou Exchange Fairs experienced steady growth on the eve of Sino-Japanese normalization, especially

shakai 53, no. 2 (February, 1980): 1–28.

⁴⁰ Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 399–400.

⁴¹ Susumu Kobayashi, “Nihon to Chūgoku to Tōnan’ajia,” *Shōkō kin’yū* 23, no. 8 (August 1973): 17–34.

⁴² “Naikaku kanbō naikaku chōsa-shitsu,” *Naikaku kanbō chōsa geppō* 16, (2), no. 182 (February 1971): 11.

in 1970 and 1971. Consequently, Japan’s trade with China reached record highs, again making the country China’s largest trade partner at the turn of the 1970s.⁴³

Table 7.2. Japanese Participation in the Guangzhou Exchange Fairs, 1966–1972.

| | Number of Japanese Participants | Percentage of Japanese Participants | Number of Japanese Corporations at the Fair | Value of Contracts Signed at the Fair (in million US Dollars) |
|-------------|--|--|--|--|
| 1966 | 1438 | 11.98% | 436 | 219 |
| 1967 | 1778 | 10.58% | 530 | 260 |
| 1968 | 1811 | 11.32% | 540 | 252 |
| 1969 | 1857 | 14.28% | 528 | 338 |
| 1970 | 2146 | 17.88% | 839 | 268 |
| 1971 | 3651 | 10.14% | 2180 | 397 |
| 1972 | 4920 | 11.18% | 3200 | 444 |

Source: Data from Enmin Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 268–269.

The Sato administration, however, remained skeptical of China’s realistic turn and wondered whether Beijing was seeking – as it did in 1954 with the Yoshida administration and in 1958 with Kishi administration – to foster pro-China forces in Japan and undermine Sato’s position. According to a report by the Japanese Cabinet Research Office (CRO) in February 1971, Tokyo believed that the realist turn in China’s foreign diplomacy in 1970 was primarily a strategic move in response to the diplomatic isolation it had faced since the Cultural Revolution: “with China’s standing in the international community improved, it is assumed that China’s moves are designated

⁴³ Ibid.

to prompt international criticism against Japan and United States' positions [on China]." It also noted that "China's soft approach with 'anti-governmental forces in Japan' [i.e., anti-Sato factions] indicated Beijing's aim to shift the Japanese government's China policy in the near future."⁴⁴ Sato's skepticism was affirmed by Beijing's reluctance to negotiate with the current administration and its openness to negotiation with his successor. This point was also made clear by Zhou, who told Congressman Kawasaki Hideji, the head of the LDP delegation to Beijing in September 1971, that China would "be willing to negotiate with the next prime minister, if he admits to the 'one-China' policy."⁴⁵

In light of such convictions, Japanese leaders took a somewhat reticent approach to Sino-Japanese reconciliation. In July 1970, Aichi responded that while Tokyo was ready to embrace "more conciliatory diplomacy" with Beijing, Japan must do so "without alienating itself from America."⁴⁶ In his meeting with Canadian Prime Minister Pierre Trudeau, Sato also made clear that, while Japan was "willing to move forward with intragovernmental interactions with Beijing" and had given the green light to the new MT Trade Agreement "to create the sincere atmosphere

⁴⁴ "Naikaku kanbō naikaku chōsa-shitsu" *Chōsa geppō* 182 (February 1971): 10, 12.

⁴⁵ "'Hitotsu no chūgoku' o mitomereba jiki shushō no kangei Shū shushō, Kawasaki hōchū-dan ni kataru" [China Would Welcome Next Prime Minister if He Accepts the "One China" Policy : Premier Zhou Tells the Kawasaki Delegation], *Asahi Shimbun*, Tokyo Edition, September 17, 1971.

⁴⁶ Aichi Kiichi, Gaimushō jōhō bunka-kyoku kokunai kōhō-ka eds, "Kore kara no Nihon gaikō," July 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

for conversation,” Tokyo was not prepared to consider official recognition of the PRC. In addition, Sato even urged the Canadian government to offer recognition of Beijing’s sovereignty in Taiwan in the event of diplomatic normalization with China.⁴⁷ Under such circumstances, Sato and Aichi’s position on China is best understood as conditional rapprochement that kept China’s diplomatic gains to a minimum.

However, to Sato’s disappointment, the corporate world responded positively to Beijing’s tactics. Frustrated by Sato’s stiffness on China, corporate Japan again took the lead in changing the country’s policy toward Beijing. These efforts first came from the steel and fertilizer industries, which had depended on the Chinese market and raw materials since the 1950s. As explained in previous chapters, these industries championed Japan’s economic diplomacy with China during the Ikeda and Hatoyama administrations. Consequently, they were able to utilize their “old connections” (*lao guan xi*) in Beijing to navigate political complications and turbulence in Sino-Japanese economic relations. In May 1970, six member companies – including Mitsubishi Chemical Corporation, Nissan Chemical Corporation, and Mitsui-Toa Chemical Industry – of the Japan Ammonium Sulfate Industry Association (Nihon ryūan kōgyō kyōkai) openly declared that they would accept Beijing’s trade terms and cut economic ties with Taiwan and South Vietnam. This decision was then conveyed to Beijing via Okazaki’s MT office, and Beijing awarded these

⁴⁷ Gaimushō Ajia-kyoku Chūgoku-ka, “Torudō Ka shushō to Satō sōri kaidan yōryō” [Meeting Minutes: Prime Minister Trudeau and Prime Minister Sato], May 15, 1970, Gaikō seisaku tai Ajia, 2020-0987, DAMOFAJ.

companies new contracts and orders from China.⁴⁸ To a lesser extent, the steel industry adopted a similar stance regarding Zhou's new trade principles. Despite NJS's reluctance, major steel companies in Japan, including Nippon Kokan (NKK), Kawasaki Steel, and Kobe Steel, all accepted Beijing's new terms to maintain their trade relations with China.⁴⁹ Beijing responded positively to these efforts. In September 1971, Saeki Isamu, the head of the OCCI, arrived in Beijing with industrialists from the manufacturing-centered Kansai area, making him the first president of the Chamber of Commerce and Industry to visit China.⁵⁰ During their visit, Imai Seigoro, the board member representing Daido Steel Company, signed a long-term contract with Beijing to provide "special steel" to the latter.⁵¹ Saeki's visit became a watershed moment for corporate Japan, which had been troubled by the uncertainties and friction between Tokyo and Washington over various economic affairs. From October 1971 to Sino-Japanese normalization in

⁴⁸ "Chūgoku-muke hiriyō tairyō yushutsu ni seikō" [The Success of Massive Export of Fertilizers to China], *Kagaku keizai* 17, no. 11: 6–7.

⁴⁹ "Shū shi jōken to tekkō gyōkai" [Zhou's Four Conditions and the Steel Industry], *Tōhō keizai* 40(7) (July, 1970): 20; "Chūgoku yushutsu shōhin kōekikai fuku hisho-chō Go Sho kutō-shi no danwa" [Conversation with Wu Shudong, the Vice Secretary-General of China Import and Export Fair], *Tōhō keizai* 40, no. 7 (July 1970): 20-23.

⁵⁰ Jianqun Xie, Liande Lin, Xunzhen Liao, and Yangchun Fang., *Mao cu chun qiu: Zhong guo guo ji mao yi cu jin wei yuan hui shi (1952-1994)* [Spring and Autumn of Trade Promotion: History of China Council for the Promotion of International Trade (1952-1994)], *Xiajuan*, Vol. 2 (Beijing: Zhong guo guo ji mao yi cu jin wei yuan hui, 1997), 46–47.

⁵¹ "Chūgoku-muke tokushu-kō chōki torihiki de kihon-teki gōi" [Basic Agreement Reached on a Long-term Deal regarding the Export of Specially Tempered Steel to China], *Asahi Shimbun*, Tokyo Edition, September 19, 1971.

September 1972, major Japanese business leaders – including those from the Mitsubishi, Mitsu, Sumitomo, and Itochu groups – all swarmed to Beijing and negotiated with Chinese representatives.

The Kansai group’s success in Beijing facilitated changes, even among Sato’s supporters in the business world, who were happy to receive the olive branches offered by Beijing and distanced themselves from Sato’s diplomatic policies. In response to Saeki’s visit, Nagano announced in the official journal of the JCCI that he “expected great outcomes” from Saeki’s success and wished “for a future breakthrough between China and Japan.”⁵² Two months after the OCCI’s visit, the Tokyo-based industrialists also formed a delegation to visit Beijing, which was led by Nagano and Kikawada Kazutaka, the president of Tokyo Electric Power Company (TEPCO) and a board member of the Japan Association of Corporate Executives (JACE, Keizai Dōyūkai). Nagano and Kikawada’s visit to China dealt a heavy blow to Sato, not only because of their companies’ significance in Japan’s economic landscape but also due to their roles as leaders for pro-Taiwan and pro-American economic organizations, indicating a significant change among Japanese industrialists.⁵³ This point was especially true in the case of Nagano, who transformed from a

⁵² Shigeo Nagano, “Shiren ni chokumen suru nipponkeizai to shōkō kaigi-sho no shimei,” *Tōshō* 292 (October 1971): 8.

⁵³ Sadako Ogata, “Nihon no taigai seisaku kettei katei to zaikai: Shihon jiyū-ka Nitchū kokkō seijō-ka katei o chūshin ni” [Japan's Foreign Policy Making Process and the Business Community: Focusing on Processes of Capital Liberalization and the Sino-Japanese Normalization], in *Taigai seisaku kettei katei no nichī-bei hikaku*, eds. Hosoya Chihiro and Jōji Watanuki, (Tokyo: Tōkyō daigaku shuppankai, 1977), 233–234.

harsh critic of Zhou's Four Principles to a pro-China figure in less than a year. Shortly before his visit, Nagano announced that he would no longer serve on the board of the CPSJC, and he explained that his decision was based on "the return to the true spirit of entrepreneurship and the responsibility of an industrialist, which had sustained Japan's livelihood [thus far]."⁵⁴ Nagano's change in position indicated the failure of Sato's China policy and Nagano's attempt to manage the power balance between pro-Beijing and pro-Taiwan voices in the business world.

Under such circumstances, it was natural for corporate Japan to seek collaborators in the political establishment and turn its economic activities into political actions. As Miki Yōnosuke, the editor-in-chief of the *Zaikai* journal, observed, pro-China voices in the corporate world gained momentum in 1970 and 1971, to the extent that they matched the number of pro-American members in the business world. These industrialists would, Miki believed, seek acolytes in the political establishment who were able to transform their voices into diplomatic actions.⁵⁵ Ironically, it was Fujiyama Aiichirō, the former foreign minister who led Japan's diplomatic efforts to contain China's economic expansion in Southeast Asia in the 1950s, who emerged as the pro-China industrialists' representative in the political realm. This was partly due to Fujiyama's deep association with the corporate world and his anti-Sato position in the LDP. After losing to Sato for

⁵⁴ "Tokubetsu zadan-kai Nihon no katsuro o saguru"[Special Roundtable Discussion: Exploring Japan's Path to Revitalization], *Bungei shunjū* 49, no. 14 (November 1971): 101.

⁵⁵ Yōnosuke Miki, "'Fujiyama Aiichirō 'shukumei no hangyaku,'" *Zaikai* 19, no. 7 (April 1971): 145.

the LDP presidency in 1965, Fujiyama became a critic of the administration, especially Sato's diplomacy. In February 1970, Fujiyama openly criticized Sato by comparing him with Kishi, suggesting that the prime minister lacked both the judgment and sincerity that his predecessor had displayed in making diplomatic decisions. "It is incomprehensible," Fujiyama claimed, "to tell if Mr. Sato's idea came from himself or those close to him. I believe Mr. Sato's flawed personality and his lack of true leadership are responsible for this."⁵⁶ At the same time, Fujiyama also closely coordinated with Matsumura and Ishibashi – the established pro-China figures in the LDP – to facilitate economic reconciliation between China and Japan. After Matsumura passed away in 1971, Fujiyama became the banner bearer of the pro-engagement camp in the Diet. In 1971, Fujiyama gathered a group of congressmen and formed the Parliamentary Group for the Normalization of Diplomatic Relations between Japan and China (Nitchu kokkō kaifuku sokushin giin renmei).⁵⁷

However, despite their success in securing economic gains in China, these pro-engagement camps again had to address the longstanding fear of China's return to the international arena,

⁵⁶ Aiichirō Fujiyama, "Fujiyama aiichirō ga ima koso kataru `Kishi to Satō no sa`" ["the Gap between Kishi and Sato:" What Fujiyama Aiichirō Tells This Day], *Shūkan gendai* 12, no. 26 (July 1972): 146.

⁵⁷ In addition, Fujiyama succeeded former prime minister Ishibashi Tanzan in becoming the chairman of the Japan Association for the Promotion of International Trade (JAPIT) in 1973. He also served as the chair of the Parliamentary Group for the Promotion of Trade between Japan and China (Nitchu Boeki Sokushin Giin Renmei). See "Fujiyama Aiichirō," Portraits of Modern Japanese Historical Figures, the National Diet Library, accessed November 11, 2022, <https://www.ndl.go.jp/portrait/e/datas/382/>.

especially regarding potential conflict between two countries in Southeast Asia. This point was articulated in an interview with Fujiyama in September 1970. The interviewer asked, “In addition to Sino-Japanese competition in Southeast Asia, Japan will have to protect its economic interest there with [the expansion of] military power. Is not this what China was concerned about?”⁵⁸ In response, Fujiyama did not address the potential Sino-Japanese conflict in Southeast Asia and only vaguely emphasized Japan’s need to “take and hold the initiative in Asian affairs” as a significant regional economic power.⁵⁹ In some ways, the competition that Beijing’s “peace offense” had repeatedly posed to Japanese interests in Southeast Asia over the past two decades was still a dominant worry for many Japanese entrepreneurs, who were eager to expand Japan’s economic influence in the region after the American withdrawal.

This time, however, pro-China figures took advantage of American withdrawal from Asia to develop a new narrative about potential trilateral coordination in Southeast Asia between China, Japan, and the United States. According to this line of argument, while China might greatly expand its trade with Southeast Asia, Beijing and Tokyo should seek coordination and not treat each other as mere competitors. In May 1973, Kawada Tadashi, a professor from Sophia University and a commentator for the *Asahi Journal*, openly argued that China’s ascension as a major trade power

⁵⁸ Aiichirō Fujiyama and Michio Kuwayama, “Ketsudan o semara reru Nihon (tai Chūgoku seisaku)” [Japan Under Pressure to Make a Decision on its China Policy], *Chūō kōron* 86, (12), no. 1013 (September 1971): 95.

⁵⁹ *Ibid.*, 92.

in Southeast Asia would allow Japan to change its emphasis on the volume of export. The two sides could instead seek to “establish a complementary relation and together make a contribution to the economic self-reliance of Southeast Asian countries.”⁶⁰

This idea was welcomed by Fujiyama and a large group of his colleagues in the corporate world, who defined themselves as the “pro-American and pro-China faction” (*Shinbei shin Chūgoku-ha*) in Japan. “It is important to improve relations simultaneously with China and America,” Fujiyama explained in an interview in April 1971. “We do not seek conflict with the United States, but that does not mean we will affiliate to America and develop every [decision] from its angle.”⁶¹ Saeki Isamu, president of the Kintetsu Group and head of the OCCI, fully supported Fujiyama’s belief that China’s participation in the economic regionalization of developing Asia was essential. In October 1971, Saeki made this point in a meeting with his American counterparts during the Japan-American Conference of Mayors and Chambers of Commerce in Kyoto:

In order to realize the economic development of the Asian Pacific region, it is necessary to put China’s participation into consideration. This is not only because we cannot ignore China’s importance and weight in Asia, but also because China has been providing so much

⁶⁰ Tadashi Kawada, “Kironitatsu Tōnan’ajia keizai,” *Asahi jōnan* 15, (18), 740 (May 1973): 90–91.

⁶¹ Aiichirō Fujiyama and Yōnosuke Miki, *Shin Chūgoku, shinbei o tonaeru seikai no fushichō (miki yōnosuke toppu taidan) Hinaka kokkō kaifuku no rīdā, fujiyama aiichirō-shi ga kataru Chūgoku no genjō*” [Pro-China, Pro-U.S: The Phoenix in the Political World (Yonosuke Miki’s Top Conversation) with Aiichirō Fujiyama, the Leader of Diplomatic Normalization between Japan and China, China’s Current Situations as Aiichirō Fujiyama tells], *Shūkan Sankei* 20, (13), no. 1048 (April 1971): 45.

aid to developing countries in the region. As China's return to the international community is in sight, both governments and industrialists like us must ponder how to deepen our connections with them.⁶²

Nagano also supported Saeki's concept of triangular collaboration. Before he visited China, Nagano recognized that Japan was "caught up in the triangle of power dynamics between Soviet Union, China, and the United States, and Japan was, both geographically and economically, in between those three countries."⁶³ Nagano argued that it would be wise for Japan to act as the "glue" between those great powers and facilitate economic cooperation between them.⁶⁴ In some ways, Saeki's and Nagano's perspectives spoke to the general mood among Japanese business leaders, who were simultaneously navigating the uncertainties in US-Japanese economic relations and taking advantage of new opportunities offered by the potential breakthroughs in Sino-Japanese relations.

The group's efforts eventually paid off in 1972. Combining forces from the corporate world and the political establishment, this group also played an important role in determining Sato's successor after he decided to step down in June 1972. The failure to anticipate Nixon's visit to China and Beijing's successful bid for membership at the United Nations greatly hurt Sato's prestige within his party and made diplomacy with China a key issue in the competition to choose

⁶² Isamu Saeki, "Ajia Taiheiyō chiiki keizai kaihatsu ni okeru Nichibei jitsugyō hito no yakuwari" [The Role of Japanese and U.S. Businessmen in Asia-Pacific Economic Development], *Chambers* 242 (December 1971): 7.

⁶³ "Tokubetsu zadan-kai Nihon no katsuro o saguru," 101.

⁶⁴ *Ibid.*, 101.

his successor. As a result, the four most likely contenders – Tanaka Kakuei, Miki Takeo, Fukuda Takeo, and Ohira Masayoshi – all participated in the race for diplomatic access in Beijing. Foreign Minister Ohira openly declared his support for normalization in September 1971, and he even secretly approached Wang Xiaoyun, Liao’s acolyte, who was leading the Chinese Table Tennis Team visiting Tokyo at the time.⁶⁵ Miki Takeo, the former minister of the MITI and MOFA, met with a Chinese delegation attending Matsumura’s funeral in August 1971, where he sought to boost his popularity among pro-Beijing factions.⁶⁶ Ohira directly approached Fujiyama to seek his support for his candidacy.⁶⁷ Tanaka also participated, though somewhat clandestinely; two longstanding pro-China congressmen in the LDP – Furui Yoshimi and Tagawa Seiichi – secretly approached Beijing and learned from Zhou that China preferred normalization under the Tanaka Cabinet.⁶⁸ Eventually, with support from Ohira and Miki – the latter pledged his faction to Tanaka after a promise to move forward with Sino-Japanese normalization – Tanaka emerged as Sato’s successor in July 1972, and he immediately received an invitation from Beijing for a visit that

⁶⁵ Li, *Zhong Ri min jian jing ji wai jiao (1945–1972)*, 445.

⁶⁶ Sadako Ogata, *Normalization with China: A Comparative Study of US and Japanese Processes* (Berkeley: University of California Press, 1988), 45.

⁶⁷ “Hitori ni shiborenu tsuno fuku chōsei saishūtekini dan’nen” [No One Could be Selected : Kaku-fuku (Tanaka-Fukuda) Adjustment was Eventually Forfeited], *Asahi Shimbun*, June 19, 1972.

⁶⁸ Ogata, *Normalization With China: A Comparative Study of US and Japanese Processes*, 46–47.

eventually led to diplomatic normalization between the two countries.⁶⁹

Naturally, diplomatic normalization was a watershed moment in Sino-Japanese economic relations. After normalization in September 1972 through a joint communique between Mao and Tanaka, the two countries rapidly developed economic relations through commercial contracts and Official Development Assistance (ODA) projects between governments. China's capitalist ascension after Deng Xiaoping's economic reform in 1979 also brought ample opportunities for Japanese entrepreneurs and left a legacy that exceeded even the most optimistic imaginings of Matsumura, Takasaki, Okazaki, and others in the two decades after the war.

Conclusion

Regarding the turbulence between China and Japan during the Sato administration, it is notable that developments in Southeast Asia played, in a somewhat indirect manner, essential roles in Beijing's and Tokyo's respective diplomatic decision-making processes. As Chapters VI and VII showed, Washington's actions in Asia – whether to escalate or pull out – prompted Beijing and Tokyo to respond in ways that maximized their gains from the volatile situation. Japan's pursuit of economic leadership in the region was largely contingent on the United States' Asian policies. Beijing's support for revolution in Southeast Asia and its strategies toward Tokyo could also be interpreted as the Chinese leadership's responses to the highly volatile geopolitical situation

⁶⁹ Masaya Itō, *Jimintō sengoku-shi—kenryoku no kenkyū* [A History of the Warring States in the Liberal Democratic Party: A Study of Power] (Tokyo: Asahi sonorama, 1982), 85.

facilitated by American intervention in regional affairs. The desire of the region's countries – for instance, Burma, Cambodia, and Indonesia – for a balance of power in the region also shaped their attitudes toward Beijing and Tokyo, which in turn influenced the two regional powers' diplomatic strategies toward each other and in the region.

China's and Japan's diplomatic reorientations at the turn of the 1970s exemplified this point. For Japan, Nixon's Vietnamization policy created a power vacuum and uncertainties in the region, prompting countries in the region to seek Japanese influence to prevent Chinese dominance. Under such circumstances, Japanese decision-makers saw the opportunity both to establish Japan as the region's economic engine and, through this economic position of power, to consolidate the country's political leadership as a mediator for regional affairs. As a result, the turn of the 1970s witnessed the Japanese MOFA's attempt to utilize economic diplomacy to expand the country's political influence in Southeast Asia. Both voluntarily and forced by the corporate sector, Japanese decision-makers sought to distance their country from Washington's Asian policy and pursued a more independent diplomacy in the region.

This is also true in China's case. For Beijing, the American retreat from the Indochina Peninsula not only provided an opportune moment to further its revolutionary goals in the area but also put China in a more advantageous position in negotiations for recognition with countries in the Western Bloc. As a result, China adopted a more flexible stance toward Japan and actively solicited support from Japanese entrepreneurs and anti-Sato congress members in the LDP to facilitate policy changes in Japan. Unlike its previous attempts with the Kishi and Yoshida

administrations, Beijing's strategy worked well among corporate Japan's leaders and placed significant pressure on the Sato administration. During this process, Japanese advocates – Fujiyama, Saeki, and Nagano – even helped soothe doubt about Sino-Japanese competition in Southeast Asia by painting a picture of Sino-Japanese-American coordination in economic regionalization. As a result, corporate Japan emerged as the most active supporter of Sino-Japanese normalization, which was eventually realized in 1972 under the Tanaka administration.

Epilogue: The End of Asian Revolutions and China's Capitalist Ascension

Sino-Japanese normalization in 1972 not only marked a fundamental change in the bilateral relationship between Beijing and Tokyo but also, in a rather indirect manner, anticipated China's slow retreat from its preference for revolutions in Asia. In Japan, Maoist students were shocked to see Mao, the leader of revolutionary forces in the Third World, shaking hands with Prime Minister Tanaka, the "reactionary" leader against whom they had protested. The sense of betrayal dealt a heavy blow to students who had shed blood in the Yasuda Auditorium at Tokyo University to protest against the Vietnam War and at the construction site of the Narita Airport – the Sanrizuka area – against the collusion between the government and capitalists.¹ The Sino-Japanese reconciliation generated desperate resistance and bitter reflections in Japan. The Japanese United Red Army's (Rengō Sekigun) attempt at guerilla struggles in Japan's northern mountains ended with the bloodshed of radical activists and police in 1972, while the remaining Maoist loyalists chose to flee the country in exile. As Nakajima Miyuki sang in "Give Me an Eternal Lie" (*Eien' no uso wo tsuite kure*), a song believed to be dedicated to left-wing student activists in the 1970s: "leave me be and lie with your last strength, for I want neither a farewell nor the unbearable truth."²

¹ Maoist students – from student groups including the All-Campus Joint Struggle Committee (Zenkyōtō) and Revolutionary Communist League National Committee – played a vital role in both protests, which involved violent conflicts with the Japanese police force. For analysis and introduction to both movements, see David Ernest Apter and Nagayo Sawa, *Against the State: Politics and Social Protest in Japan* (Cambridge: Harvard University Press, 1984).

² Miyuki Nakajima and Takuro Yoshida, "Eien'no uso wo tsuite kure," 1995.

The age of left-wing revolutions seemed to have come to an end in Asia.

Ironically, developments in the mid-1970s were also disappointing for Japanese entrepreneurs, who had hoped that China's reconciliation with the West would provide the long-awaited opportunity for economic regionalization. To the disappointment of many, the latter half of the 1970s witnessed continuing bloodshed in the Indochina Peninsula. A reunified Vietnam invaded Khmer Rouge-led Cambodia with Soviet backing and engaged in a prolonged border conflict with China, the socialist brother upon which it had once relied during its struggle for independence and reunification. In addition to entrenched conflicts in Indochina, bitterness toward Japan's economic expansion in Southeast Asia also fomented anti-Japanese activism in the region. In November 1972, student groups in Thailand staged massive protests against the establishment of Noguchi Kickboxing Gym and initiated a movement to boycott Japanese products.³ The anti-Japanese movements, as they took place in Japan's oldest ally in the region, received sympathy across Southeast Asia, and criticism of Japan's "economic imperialism" became increasingly popular in local societies.⁴

During Tanaka's visit to Southeast Asia in 1974, these sentiments erupted in both Bangkok and Jakarta: students chanted "Tanaka go home" and burned Japanese manufactured cars in the

³ Ajia Keizai kenkyūjo, *Ajia dōkō nenpō 1973-nenban* [Annual Report of Developments in Asia, 1973] (Tokyo: Ajia Keizai kenkyūsho, 1973): 307–309.

⁴ See Nobuhiro Ihara, "1970-Nendai tōnan'ajia ni okeru Nihon no 'keizai shihai' imēji no saikentō" [Reexamining the Image of Japanese "Economic Domination" in Southeast Asia in the 1970s], *Media to shakai* 8 (March 2016): 1-16

streets. This embarrassment in Southeast Asia created much reflection in Japan. The incident, as well as subsequent hostility toward Japanese economic influence, prompted Fukuda, who succeeded Tanaka in 1976, to reaffirm Japan’s commitment to peaceful development and vow to promote “equal partnership” (*Taitōna pātonā*) with ASEAN countries during his visit to Manilla in 1977.⁵ Accompanying Fukuda’s diplomatic declaration, Japan upscaled its Official Development Assistance (ODA) and Foreign Direct Investment (FDI) to Asia. Table 8.1 shows that Japan’s ODA to Asian countries – and China especially – enjoyed rapid growth in the latter half of the 1970s. These efforts significantly buttressed Japan’s economic ties with the region, which remain strong today.

Table 8.1. Japan’s Official Development Assistance to Selected Countries, 1976–1983 (Unit: One Billion Japanese Yen).

| | China | Indonesia | Burma | Thailand | Philippines |
|-------------|--------------|------------------|--------------|-----------------|--------------------|
| 1976 | N.A. | 69.24 | 30.58 | 1.03 | 24.33 |
| 1977 | N.A. | 59.03 | 30.67 | 59.33 | 29.4 |
| 1978 | N.A. | 94.56 | 22.22 | 14.04 | 42.97 |
| 1979 | N.A. | 93.78 | 33.65 | 46.37 | 4.4 |
| 1980 | 66.68 | 75.38 | 39.01 | 61.49 | 40.82 |
| 1981 | 102.37 | 64.41 | 41.57 | 67.33 | 48.03 |
| 1982 | 71.58 | 67.64 | 49.33 | 83.3 | 56.84 |
| 1983 | 76.83 | 75.56 | 53.12 | 81.12 | 73.41 |

Source: Data from “Kokubetsu enjo jisseki 1990-nen made no jisseki,” accessed December 13, 2022, https://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/jisseki/kuni/j_90sbefore/frame3.htm#I.

⁵ Ministry of Foreign Affairs, Japan, “Asean to Nihon ~ Ajia no heiwa to han’ei no tame ni,” accessed December 13, 2022, <https://www.mofa.go.jp/mofaj/press/pr/wakaru/topics/vol64/>.

Japanese entrepreneurs' hopes for Asian economic cooperation received a stimulus after China opened its border and embraced the market economy. Beijing's war with Vietnam, its former socialist ally, paved the way for its capitalist ascension. In 1979, Mao's successor, Deng Xiaoping, declared that the country would turn to a "socialist market economy" and receive foreign investment in Shenzhen, Zhuhai, Xiamen, and Shantou, the country's first Special Economic Zones (SEZs). Over the next three decades, China gradually emerged as the world's most significant manufacturing power and the second largest economy. Japan's FDI, ODA, and technology transfer fueled this process and drew the two countries closer to each other through economic ties. This economic interdependence between Beijing and Tokyo even further accelerated after the Cold War ended in 1991: from 1992 to 2003, Japan remained China's largest trade partner, while China superseded the United States as Japan's largest trade partner in 2008 and has remained so since.⁶ Despite turbulence from territorial disputes and tension over the recognition of Japan's responsibility during the invasion, the economic ties between China and Japan have exceeded even the wildest imaginings of Takasaki, Okazaki, and Matsumura. Such ties continue to inform the delicate relations between the two Asian neighbors today.

China's capitalist ascension and the deepening economic ties between Beijing and Tokyo also overhauled Southeast Asia's economic landscape. In August 1978, the two sides signed the Treaty

⁶ Ministry of Foreign Affairs, People's Republic of China, "Zhong guo tong Ri ben de guan xi" [China's Relations with Japan], October 2022, accessed December 12, 2022, https://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676836/sbgx_676840/.

of Peace and Friendship between Japan and China, articulating that both countries shall not “seek hegemony in the Asia-Pacific region or any other region” and will oppose “efforts by any other country or group of countries to establish such hegemony.”⁷ While the primary purpose of this declaration was to address the Soviet Union’s and Vietnam’s expansionist policies in the Indochina Peninsula, it also relieved the longstanding anxiety about Sino-Japanese competition for influence in the region. This diplomatic gesture by Beijing and Tokyo also reassured Southeast Asian nations, as ASEAN expressed its approval and began to explore the economic opportunities offered by an increasingly open Chinese market. In the next four decades, ASEAN, established as a military coalition against China’s military threat to Southeast Asia, gradually transformed into a development-focused organization emphasizing economic cooperation with China. Consequently, the Comprehensive Economic Co-operation Between the People’s Republic of China and the Association of South East Asian Nations came into effect in November 2002, and ASEAN and China have been each other’s largest trade partners since 2020.⁸ The economic association between China and Southeast Asian countries and the subsequent influence that Beijing came to

⁷ “Treaty of Peace and Friendship Between Japan and the People’s Republic of China,” Ministry of Foreign Affairs, Japan, August 12, 1978, accessed December 13, 2022, <https://www.mofa.go.jp/region/asia-paci/china/treaty78.html>.

⁸ Ministry of Commerce, People’s Republic of China, “Hu wei di yi da mao yi huo ban shi ru he lian cheng de? – Zhong guo – Dong meng quanli da zao zi mao qu ‘sheng ji ban’ guan cha” [How to Make each other the Biggest Trade Partner? An Observation of China and ASEAN’s Efforts to Build an Upgraded Version of FTA], September 8, 2021, accessed December 13, 2022, http://fta.mofcom.gov.cn/article/ fzdongtai/202109/45757_1.html.

possess in regional affairs surpassed what Liao had imagined in the 1950s.

Uneasy Friends and Convenient Enemies: Understanding Sino-Japanese-US Relations in the Early Cold War

The question of economic regionalization played a key role in the Asian policies of China, Japan, and the United States, even influencing trilateral relations between the three countries. For Japan, the two decades from 1950 to 1970 witnessed a continuity in the leadership's perception of the country's position in Asian geopolitics. The pursuit of economic regionalization and Japan's leadership position were constantly on the minds of Japanese leaders in both the business and political worlds. To attain this goal, the Japanese government and the country's business elites took the initiative to incorporate China and Southeast Asia, which had developed close economic ties with Japan since the early twentieth century, into Japan's agenda to form an economic bloc with Tokyo at its center. During this process, old guards from the imperial period – Matsumura Kenzō, Murata Shinzo, and Yukawa Motoi – joined forces with business elites – Takasaki Tatsunosuke, Okazaki Kaheita, and Inayama Yoshihiro – to conduct diplomatic maneuvers in both governmental and private capacities. Similarly, Beijing's need to break the embargo and diplomatic isolation prompted China to mobilize its diplomats and traders for diplomacy with a decolonizing Southeast Asia. As this dissertation shows, Beijing's competition for economic influence in Southeast Asia, as well as the conflicting – and in some cases converging – interests adopted by China and Japan in the creation of Asian regionalization, was a vital element in Sino-Japanese relations during the early Cold War period.

A further complication was how Sino-Japanese interactions related to Southeast Asia contributed to the making of Washington's Asian policies. Instead of acting as a constructive force and pursuing a form of liberal regional order in Cold War Southeast Asia, Washington's responses to economic regionalization initiatives were mostly reluctant. The United States did not actively facilitate multilateral economic cooperation in the region, whether from its ally, Japan, or from other countries in the region. Instead, Washington showed little support for the regional initiative and, in turn, was motivated to prevent the creation of a multilateral economic platform that the United States could not dominate, whether communist or liberal. Washington's strategy was manifested in the essentially pragmatist attitude it adopted toward Japan's pursuit of economic regionalization. In the immediate postwar period, Washington supported Japan's expansion of its economic association with Southeast Asia to prevent either British or Chinese domination in decolonizing Asia. However, when Japan sought Asian-centered economic cooperation platforms at Bandung and beyond, America lost interest in facilitating economic ties between Japan and Southeast Asian countries. The decade from 1955 to 1965 witnessed clashes between Washington and Tokyo regarding their regional policies: in the 1950s, America's reluctance to sponsor Japan's proposals for the Asian Payment Union coincided with the assistance it offered to Japan in the competition with Britain and China in Southeast Asian markets. The 1960s also witnessed challenges as Washington and Tokyo struggled to find common ground in their blueprints for Asia. The former saw the Ikeda administration's progress with China, Burma, and Indonesia as challenge to America's pursuit of the containment policy. In response, Washington effectively ended some

of Ikeda's ambitions through an escalation in the Indochina Peninsula and a coup in Indonesia. Tokyo, in turn, became frustrated by Washington's unwavering stance regarding ideological elements in the evaluation of economic collaboration projects and created bilateral economic assistance projects with regimes that were disapproved of by the Americans. Therefore, for three decades after the end of World War II, Washington's support for Japan's economic ambitions in Asia was half-hearted at best.

Even when Tokyo and Washington sought cooperation during the Sato administration, the two sides diverged on various fronts. The Johnson administration's demand for Japanese fiscal aid in Vietnam in exchange for US to stop pressing Japan on American trade deficit in the U.S-Japan trade disappointed Japanese business leaders, whose request for American financial contributions to the various regional economic platforms was met with little enthusiasm from their American counterparts. Moreover, the two countries' differences regarding economic cooperation in Asia often coincided with trade frictions between them, creating further complications and bitterness on both sides. In this way, the relationship between Japan and the United States at that time resembled an uneasy friendship in which frequent disagreements prevented the two countries from cooperating meaningfully to facilitate economic liberalization in Cold War Asia.

Similar patterns are clear in Sino-Japanese relations, which featured both uneasy friendships and ambiguous competition from the 1950s to the 1970s. Even before diplomatic normalization in 1972, the lack of formal diplomatic ties did not prevent the two countries – despite long, bitter memories of invasion and resistance – from seeking economic cooperation. The three decades in

the postwar period witnessed Japanese leftists' efforts to facilitate economic ties between China and Japan, especially the Japanese establishment – the ruling Liberal Democratic Party (LDP), the bureaucracy, and the business world. Earlier attempts had targeted Japanese steel industries that sought raw materials from China. The cooperation between MITI bureaucrats, former MTI officials in the Keimei Trading Company, and industrialists from Nichimen and Yahata paved the way for the first barter contract between China and Japan in 1953, while the Korean War was still ongoing. The close coordination between the governmental and corporate sectors further expanded under the Hatoyama administration. Industrialists from steel and fertilizer industries – which were at the center of Japan's economic landscape in the postwar period – reached out to China and received immediate responses, while agricultural experts – supported by the old guard in the imperial government: Yukawa, Murata, Hasumi, and Matsumura – received a warm welcome when they offered technological guidance in China.

However, coordinating between the government and corporations to facilitate Sino-Japanese economic cooperation was not always a smooth process. Corporate Japan sometimes played a more active role in this process. The business world led – and in the case of the Sato administration, even forced – the government to adjust its position on China. This pattern stood out most clearly under Ikeda and Sato. With Ikeda's acquiescence, Japanese industrialists not only used front companies to trade with China in the form of “friendly trade” but also introduced plans that advocated further economic cooperation between the two countries, including technology transfer, agricultural cooperation, and coordination in mining and steel production.

On the other hand, Beijing accepted corporate Japan's offer at face value amid the country's split with the USSR, making Japan its biggest trade partner in 1965. In addition to activism in response to the government's acquiescence, Japanese enterprises acted independently and exerted pressure on the government through the various semiofficial economic organizations they controlled. The JCCI in Tokyo and the Osaka Chamber of Commerce and Industry (OCCI) played essential roles in swaying Japan's diplomatic relations with China. This was especially true at the turn of the 1970s, when Sakai's and Nagano's visits to China signaled business Japan's disappointment with Sato's reluctance to expand trade with China. The volatile power dynamism between corporate Japan and the government contributed to blurring the lines between confrontation and cooperation in Japan's policy with China.

In addition to the government-business relations, the Sino-Japanese relationship was further complicated by Japanese decision-makers' struggle to properly situate China in their blueprint for Asia. While the Japanese government and elite entrepreneurs hoped Beijing to participate in Japan-led economic regionalization, they also feared China's challenge to Japan's potential leadership – both political and economic – in Asia during this process. For Yoshida and Kishi, this challenge was Beijing's so-called "peace offense" in Southeast Asia, which China furthered through trade promotion and various intra-governmental economic initiatives. As Beijing solicited help from overseas Chinese to expand the country's market share and encouraged the region's countries – Burma, Indonesia, and Cambodia – to pursue China's industrialization model, both prime ministers saw these activities as a threat to Japan's pursuit of regional leadership and sought to contain

China's influence. Japan's responses were not taken lightly in Beijing, which saw Japan's policies align with Washington's pursuit of containment against China. Under such circumstances, Sino-Japanese economic cooperation at this time suffered constant interruptions due to both sides' skepticism about the other's intentions in Southeast Asia.

Such patterns also appeared in the 1960s. While China and Japan managed to recuperate some level of economic relation during the Ikeda administration, and some advocates – namely Takasaki, Okazaki, Inayama, and Matsumura on the Japanese side and Zhou, Liao, and Sun on the Chinese side – even imagined establishing a more profound economic association between the two countries, the momentum in Sino-Japanese economic collaboration remained fragile. Eventually, progress toward economic coordination during the Ikeda administration gave way to an acute confrontation under the Sato administration. In addition to the escalation of geopolitical confrontation in Indochina, China's turn to revolutionary radicalism, which threatened Japan's pursuit of economic regionalization, also facilitated Japan's diplomatic change between 1965 and 1968. For Sato, Johnson's plan for economic build-up in Southeast Asia and Washington's support for Japan's leadership offered a more compelling picture than did seeking reconciliation with revolutionary-minded Beijing. Similarly, Beijing's pro-engagement faction – led by Liao, Chen, and Zhou – lost its influence in the fallouts in Indonesia and Burma, costing China its longstanding allies in the neutralist camp. As a result, China's revolutionary turn in 1966 halted Sino-Japanese economic collaboration, which only resumed after Nixon's Vietnamization policy introduced a new dynamism to Sino-Japanese relations.

Merchants' Cold War: Economic Incentives in the Making of the Postwar Decades in Asia

In addition to the multilateral relations between China, Japan, and the United States and their corresponding strategy-making processes, another line of inquiry this dissertation has explored is how economic initiatives – by traders, economic organizations, enterprises, and industrialists – contributed to diplomacy during the Cold War. On the one hand, governments – in Beijing, Tokyo, Jakarta, Rangoon, and Kuala Lumpur – mobilized economic organizations to serve the country's diplomatic agenda. During this process, merchants' economic incentives often blended with the government's political calculations. Beijing's diplomatic successes facilitated the country's attraction to overseas Chinese merchants, who then cooperated with the Chinese for economic benefit and helped to bolster Beijing's political prestige. In Japan, the government solicited help from entrepreneurs and industrialists, whose investment and aid to Southeast Asia fueled the country's ambition for economic leadership. In the cases of Burma, Malaya, and Indonesia, the governments maintained delicate relations with foreign entrepreneurs and overseas Chinese merchants, sought economic support from China and Japan, and pursued economic nativization policies.

This dissertation also unveiled a variety of means through which economic bodies – enterprises, industrial complexes, and economic associations – participated in economic diplomacy. These organizations acted as governments' proxies and fulfilled contracts negotiated by economic technocrats, but they also took the initiative to survey potential collaboration opportunities, propose blueprints for industrial projects, and participate in intragovernmental trade

talks. This was especially true regarding China's and Japan's efforts to extend economic and technological aid to Southeast Asia. During this process, local Chinese entrepreneurs helped to advance Beijing's cause by importing Chinese merchandise and equipment into their countries of residence. At the same time, Japanese industrialists were called to provide technical assistance in exchange for the raw materials they needed. As a result, the postwar decades witnessed fierce competition between merchants for commercial interests and political gain for the governments they served.

However, this does not mean that entrepreneurs served merely as governments' vehicles in the geopolitical powerplay. Their involvement in economic diplomacy enabled them to develop close ties with governments and influenced – in various capacities – the policy-making processes. In some cases, entrepreneurs even took the initiative to protect their interests and pressured governments to act on their terms. When Beijing needed assistance for economic expansion, overseas Chinese merchants bargained and secured preferential terms for trade. Some Chinese merchants even used their relationship with Beijing to help their economic standing and boost their leadership in the local community. In the case of Japan, industrialists not only took the liberty of putting their agenda for economic cooperation forward to the government but also exerted pressure on the government to accept their proposals. Various roles that Japanese industrialists played were conspicuous in the making of Sino-Japanese economic relations: industrialists not only championed the government's economic diplomacy with Beijing but also used semi-official economic bodies – the JCCI, the JBF, and trade associations of the steel and fertilizer industries –

to facilitate policy changes within the ruling LDP and the government.

The power dynamics between business leaders and Japan's political establishment were conspicuous from the 1950s to 1970s: the collapses of Yoshida's and Sato's cabinets were closely associated with pro-engagement entrepreneurs' decisions to cooperate with their political rivals, who were in favor of expanding economic ties with China. In addition, business leaders, including Okazaki and Inayama, worked closely with veteran politicians in the LDP – namely Takasaki and Matsumura – to dictate the terms of economic diplomacy during the Ikeda administration. The various roles that entrepreneurs played in Japan's economic diplomacy at that time indicate close interactions between governments and non-governmental agents and a new perspective on Cold War power dynamics.

In conclusion, I believe this study points to a new interpretation of the significance of the Cold War in Asia. For four decades after the end of World War II, the acute ideological confrontation between Socialist and Western Blocs prompted armed conflicts and military confrontations in the Korean and Indochina Peninsulas. These geopolitical struggles fundamentally shaped the life experiences of those involved, often negatively. However, the chasm between ideological camps also generated a commitment by some to unite the fragmented region and establish meaningful connections that served the interests of both sides. In this way, it is possible to build an alternate narrative of the Cold War focused upon how the initiatives advocating economic cooperation and regionalization navigated geopolitical uncertainties – whether successful or not. In other words, it is possible to view the Cold War as an epoch of opportunities to forge unlikely friendships through

shared ideals for economic prosperity and regional solidarity.

APPENDIX

Archives

- BAMOFAPRC** Bureau of Archives of the Ministry of Foreign Affairs of the People's Republic of China
(中华人民共和国外交部档案馆)
2 Nandajie, Chaoyangmen, Chaoyang District, Beijing, China, 100010.
- BMA** Beijing Municipal Archives
(北京市档案馆)
31 Nanmofang Rd., Chaoyang District, Beijing, China, 100021.
- DAMOFAJ** The Diplomatic Archives of the Ministry of Foreign Affairs, Japan
(外務省外交史料館)
1 Chome-5-3 Azabudai, Minato City, Tokyo, 106-0041.
- EPL** Dwight D. Eisenhower Presidential Library
200 S E 4th St, Abilene, Kansas, United States, 67410.
- HKGRS** Hong Kong Government Record Services (香港特別行政區政府檔案處)
3/F, Hong Kong Public Records Building, 13 Tsui Ping Road, Kwun Tong, Kowloon, Hong Kong.
- NACP** National Archives at College Park
8601 Adelphi Rd, College Park, MD 20740, United States
- NAJ** National Archives of Japan
(国立公文書館)
3-2 Kitanomarukoen, Chiyoda City, Tokyo 102-0091.
- MJPHM-NDL** Modern Japanese Political History Materials Room of the National Diet Library
(国会図書館憲政資料室)
1 Chome-10-1 Nagatachō, Chiyoda City, Tokyo 100-8924
- PDOP-NDL** The Parliamentary Documents and Official Publications Room of the National Diet Library
(国会図書館議会官庁資料室)

1 Chome-10-1 Nagatachō, Chiyoda City, Tokyo 100-8924

- SMA Shanghai Municipal Archives
(上海市档案馆)
326 Xianxia Rd., Changning District, Shanghai, China, 200336.
- TNA The National Archives of the United Kingdom
The National Archives, Kew, Richmond, Surrey, UK, TW9 4DU.

Digital Archives:

- J-DAC Japan Digital Archives Center
(ジャパン デジタル アーカイブズ センター)
<http://j-dac.jp/>
- DSTN Dētabēsu “Sekai to Nihon”
(データベース「世界と日本」)
<https://worldjpn.net/ifindex.html>
- USDDO U.S Declassified Documents Online – GALE
<https://www.gale.com/jp/c/us-declassified-documents-online>
- WCDA Wilson Center Digital Archives
<https://digitalarchive.wilsoncenter.org/>
- KKKS Kokkai kaigi-roku kensaku shisutemu
(国会会議録検索システム)
<https://kokkai.ndl.go.jp/#/>
- NAJDA National Archives of Japan Digital Archive
(国立公文書館デジタルアーカイブ)
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