Chapter III

THE SETTLEMENT OF REPARATIONS PROBLEMS
In the previous chapter we have seen how the Philippines and Indonesia signed the peace treaty at San Francisco. This did not automatically normalize Japan's relations with them. The normalization of diplomatic relations depended upon the settlement of the reparations question. Both the Philippines and Indonesia considered a satisfactory solution of the reparations question a prerequisite for the resumption of diplomatic relations. (1) They believed that any hasty normalization of relations would affect their claims. They were very firm on this question partly because they believed that the payment of reparations was a moral duty which Japan should not ignore, and partly because reparations would provide them with the economic resources needed for the reconstruction of their countries.

As the problem of reparations had proved to be thorny even at the time of the peace settlement, the authors of the peace treaty thought it fit to let the parties concerned solve it by means of bilateral pacts after the signing of the peace treaty. Article 14 of the peace treaty only recognized the obligation of Japan to make reparations consistent with her capacity. (2) Even after the coming into effect of the peace treaty on 28 April 1952

1. See an article entitled "Furippin, Indonesia; Naze hijun ga okurete iru ka?", Asahi News (Furnished to me by the National Diet Library, Tokyo), 23 June 1952.

2. See Article 14 of the peace treaty.
the reparations issue proved as complex as it had been during the peace negotiations.

The settlement of the reparations problem depended upon both sides adopting an unemotional and practical attitude. It also depended upon both sides being willing to make sacrifices and being flexible in their approach. Unfortunately, however, during the actual negotiations, there was hardly any evidence of an unemotional and flexible approach on either side. The Filipinos especially were emotionally agitated during the negotiations, and on account of this, the Japan-Philippines negotiations during the early stages proved abortive. (3) The Indonesians were far less emotionally exercised, though the delay in the settlement of their question was even more prolonged. (4)

Two moot points

The two controversial aspects of the problem were the exact amount of reparations and the form of reparations. Regarding the volume of reparations, Article 14 of the peace treaty, while clearly recognizing the damages which Japan had caused to Southeast Asian countries during the war, stated that the payment of reparations should be based on the capacity of Japan. As has been noted in the previous chapter, Article 14 was a product of prolonged

3. See the views of Takasaki Tatsunosuke on the Filipino feelings in a panel discussion. The other participants included Fujiyama Aiichiro and Murata Shozo. "Nippi baisho choin owatte", in Zadankai, Mainichi Shimbun (Tokyo), 14 May 1966.

4. Fujiyama, who was connected with both the Philippine and Indonesian settlements, told this writer that the Indonesians were most friendly during the negotiations and that the question always was one of adjusting the technicalities. Interview with Fujiyama in September 1967.
discussions between the United States on the one hand and the Philippines, Indonesia and other Southeast Asian countries on the other. The Philippines and Indonesia accepted it only with much misgiving. Even in the post-peace-treaty period, they could not easily reconcile themselves to the idea of Japan paying them according to her capacity. For a considerable time, they insisted that the payment should be linked to the extent of war damages. As regards the form of reparations, Japan in the initial years was firmly committed to the services as stipulated in Article 14 of the peace treaty, whereas the Philippines and Indonesia wanted a considerable expansion of the terms of the peace treaty. It took much time for both sides to come to an agreement on the form of reparations.

From the viewpoint of Japan, the importance of settling the reparations question with Southeast Asian countries could hardly be exaggerated. Firstly, Southeast Asian countries like the Philippines and Indonesia formed the immediate neighbourhood of Japan, and she could not afford to be on unfriendly terms with them. Secondly, post-war political developments in the Far East made Japan and the Southeast Asian region interdependent. Japan had lost the whole of the China market which had played an important role in her pre-war economy. Moreover, she had also lost her colonies, Korea and Formosa. She had therefore to look to new sources of raw materials as well as new markets for her products. (5) These considerations occupied the attention of Japanese statesmen after

the peace treaty came into effect. Yoshida Shigeru, Hatoyama Ichiro, Kishi Nobusuke and all important Japanese statesmen attached the highest significance to the resumption of diplomatic relations with the countries of the Southeast Asian region by striving to solve the reparations issue.

SETTLEMENT WITH THE PHILIPPINES

The history of the reparations settlement between Japan and the Philippines may be divided into two periods, with the failure of the Ohno-Garcia Agreement (April 1954) as the dividing line. Till the failure of the Ohno-Garcia Agreement, discussions on reparations were mostly conducted on an emotional plane, neither side showing any inclination to study the facts involved. But after 1954, reparations negotiations were characterized by a pragmatic approach on both sides.

First period

At the time of the San Francisco Peace Conference, Premier Yoshida had discussed the issue with the Philippine delegates, and had assured them that Japan would "sincerely" implement her reparations obligations. (6) In September 1951, the Japanese Government held talks with the Philippine leader Diosdado Macapagal in Tokyo. Macapagal, who was a delegate to San Francisco, had halted in Tokyo, on his way back home, for talks with the Japanese Finance Minister, Ikeda Hayato. Ikeda reassured Macapagal that Japan would stand by her obligations, and the Filipino leader was impressed with the Japanese assurance. (7)

6. See Chapter II.
Tsushima mission

The first major attempt to open negotiations was made in January 1952, when the Japanese Government sent a mission to Manila under Tsushima Juichi, adviser to the Japanese Foreign Minister, to discuss the "basic principles and working arrangements" for a satisfactory settlement of the reparations question. Tsushima stayed in Manila a little over a fortnight and conducted negotiations with the Philippine panel under Foreign Secretary J.M. Elizalde. The Philippine Government in its discussions with Tsushima put forward the following three proposals: a) that the Japanese Government should recognize the claim of the Philippines to the tune of 8 billion US dollars; b) that Japan should undertake to settle the claim within a period of ten to fifteen years; and c) that Japan should make interim reparations even before the conclusion of a reparations agreement and the ratification of the peace treaty. (8) But the

8. The Memorandum for the Reparations Committee - Tsushima and Wajima Missions, Department of Foreign Affairs Treaty Series (Manila), vol. 11, no. 1, January 1953, p. 98. On the basis of its studies, the Liberal Party administration calculated $8 billion as the total cost of war damages. The damages were divided into the following categories:

a) Physical loss of properties, including Philippine currency and metal reserves, as follows: (1) Highways and Public Works, (2) Agriculture, (3) national, provincial and municipal institutions and enterprises, (4) public college and university libraries, (5) government and private homes and buildings, (6) government corporations, (7) air and land transportation equipment and installations, (8) industrial and commercial property, (9) direct war damages in losses of gold, silver, and currency, including those confiscated from private parties and banks, (10) ocean and coastwise shipping and (11) other damage and loss not included in the foregoing list.

b) Commandeered goods and services by the Japanese Government and armed forces;

Japanese delegation refused to accept any of these three proposals. As for the first proposal, it refused to commit itself to any figure on the ground that it had to "ascertain the reparations claims of all the claimant countries before it could determine the amount due to each of them taking into account Japan's capacity to pay". (9) It was not agreeable to any interim arrangement, as it argued that "the obligations under the Peace Treaty do not take effect until after its ratification by the Governments concerned". (10) Furthermore, it argued that an interim arrangement before the ratification of the peace treaty "would not be in consonance with the provisions of the Peace Treaty". It, however, offered to take, as a token of "its sincerity and good faith", such interim measures as a survey of the vessels that had lain unsalvaged in the Philippine seas since the war. (11)

Manila then modified its stand and put forward a new proposal. This revised proposal envisaged that Japan should recognize war damages to the tune of $8 billion and undertake, after the ratification of the peace treaty, to perform such services as might be agreed upon between the two countries. It stipulated that the value of such services should constitute 10 per cent of the total $8 billion and that the rest of the Philippine claim and the duration of the payment period should be settled within a year after the coming into effect of the peace treaty and after Japan had determined the claims of other Southeast Asian

9. Memorandum, n. 8, p. 99. See also Asahi Shimbun, 4 February 1952.

10. Memorandum, n. 8, p. 98.

11. Ibid., p. 99.
countries. (12) The Japanese delegation refused to commit itself to the revised Philippine proposal, but promised that it would convey it to Tokyo for "further study". (13) Before leaving Manila, Tsushima stated:

By free and frank exchange of views during the exploratory talks held here, we have made ourselves fully acquainted with the claims and feelings of the Government, and the people of the Philippines on reparations, and we are now in a position to report fully on them to our Government. We sincerely hope that the negotiations started in Manila will be resumed in the near future and bring about a mutually satisfactory solution of the problem. (14)

Thus, the first attempt to settle the problem revealed the existence of a great gap between the stands of the two countries.

Efforts to solve the problem were soon renewed in Tokyo in March, when Tsushima held discussions with J.P. Melencio, the chief of the Philippine Mission in Tokyo. (15) But these talks could not make much headway as the Japanese Government became too busy with manifold problems consequent upon the end of the occupation on 28 April 1952. In October 1952, when the US Assistant Secretary of State, John Allison, visited Manila, the Philippine Government sought his assistance for a speedy settlement of the problem. (16) Subsequently, Allison was reported to have

12. Ibid., pp. 99-100. See also Asahi Shimbun, 11 February 1952.
13. Memorandum, n. 8, p. 100.
15. Asahi Shimbun, 10 and 13 March 1952. The Philippine Mission was accredited to SCAP during the Allied Occupation. After the coming into effect of the peace treaty, it became necessary to enter into a reciprocal arrangement. By this arrangement, Japan set up her Mission in Manila in October 1952. The Mission was accredited to the Department of Foreign Affairs and was not included in the "Diplomatic and Consular List".
16. See Memorandum, n. 8, p. 101. See also Mainichi Shimbun, 10 October 1952.
"taken up" the matter with Tokyo. (17) In November 1952, after
the conclusion of the Japanese elections, Premier Yoshida and
Foreign Minister Okazaki Katsuo expressed their eagerness to
solve the problem as early as possible. (18)

Wajima mission

In December 1952, the Japanese Government sent to Manila
Wajima Eiji, chief of the Bureau of Asian Affairs, who was on his
way to New Delhi to attend the conference of the Japanese envoys
of the region. In his talks with the Philippine Government, Wajima
explained that he had the authority to discuss every aspect of the
reparations problem and "to initiate policy in order to arrive at
a solution". (19) He stressed that it was necessary for Manila to
specify "the kind of services the Philippines needs, how much
their value would amount to and whether Japan could afford to


In the initial stages, the United States showed
considerable interest in a speedy solution of the
reparations problem between the two countries. During
the latter half of 1952, John Allison took the initiative,
and urged both Tokyo and Manila to renew the negotiations.
In Japan, the opposition socialists took strong exception
to Allison's efforts. They viewed the American efforts in
the light of cold-war politics and therefore suspected the
motives behind those efforts. They contended that the
United States was interested in the solution of the problem
because she was planning to bring Japan, the Philippines,
Taiwan and South Korea under a regional security pact.
See Suzuki Mosaburo's speech in the House of Representatives
Also Katsumata Seiichi's speech on 29 November 1952.
Kampo Shugiin Kaigi-roku, no. 6, p. 86.

18. See the speeches made by Premier Yoshida and Foreign
Minister Okazaki in the Japanese Diet on 24 November
1952. 15th Diet, Kampo Shugiin Kaigi-roku, no. 5,
pp. 35-37.

19. Memorandum, n. 8, p. 103.
render them". (20) He then submitted a list of services which Japan could render to the Philippines. (21) The Philippine Government informed Wajima that his proposal would be given "careful consideration". To study the proposal, President Quirino set up on 23 December a new bipartisan panel under Foreign Secretary Elizalde. On the panel's recommendation, the Philippine Government informed Tokyo on 6 April 1953 that it would first like to know the amount, the manner and the duration of the payment to be made under the Wajima proposal. (22) But Tokyo did not send any reply to the Philippine note until October that year when Foreign Minister Okazaki visited Manila.

Senator Osias's mission to Japan

Meanwhile, inside the Philippines, the political cleavage on the reparations question became wider. After the signing of the peace treaty, the Liberal Party administration under President Quirino stressed that there was an urgent need to normalize relations with Japan in the interests of Pacific security against the Communist threat. He made many attempts during 1952-53 to get the peace treaty ratified by the Philippine Senate. (23) But all his attempts failed because of the opposition of the Nacionalista

20. Ibid.

21. See the list, ibid., pp. 104-5. See also Mainichi Shimbun, 21 December 1952.

22. Rafael P. De Togli, "Philippines and Japan Conclude Treaty on S60 Million Dollar Reparations", Manila Chronicle, 12 May 1956. See also Asahi Shimbun, 8 April 1953.

23. A detailed account of Quirino's attempts is made in the next chapter in connexion with the discussion on Japan and Pacific security.
Party, which then had the strength needed to block ratification in the Senate. (24) The opposition Nacionalista Party wanted Japan to make reparations worth $8 billion in cash, and it remained uncompromising. (25)

In January 1953, the Nacionalista Party sent one of its senior leaders, Camilo Osias, to Japan to study the prospects of a settlement of the problem. Osias met the Japanese Premier, Yoshida, and other prominent leaders during his stay in Japan. Some of the observations of Senator Osias did much to apprise the Nacionalista leaders of the Japanese attitude towards the problem. In his discussions with Yoshida, Osias found the Japanese Premier eager to remove "the obstacles that stand in the way of resuming normal economic and cultural relations". (26) The significance of Osias's mission lay in the fact that it did much to convince the Nacionalista Party that Japan was sincere in her efforts to atone for her past aggressive acts and that payments in services if properly adjusted need not be unacceptable to the Filipinos. Osias allayed the Nacionalista apprehension that payments in services might enable Japan to gain an economic foothold in the Philippines. He contended that there was no cause for such a fear as the reparations deal would be conducted on a government-to-government level. (27)


Okazaki's visit to Manila

Japanese Foreign Minister Okazaki's visit to Manila in October was a "constructive forward step" in the reparations negotiations. Okazaki undertook a Southeast Asian tour to "bring about the early restoration of formal diplomatic relations with these Southeast Asian countries" and to "exchange frank opinions with important people of the countries and observe conditions in them for myself". (28) He held discussions with the Philippine Government authorities as well as the leaders of the Nacionalista Party like Recto, Eulogio Rodriguez and Jose Laurel, Sr. (29) In his talks with the Philippine Government, he did not put forward any concrete proposal. He only stressed that the duration of the reparations payments should be so long as to enable Japan to make easy payments. (30) But he made one very important concession to the Philippines. He assured the Filipinos that Japan would expand Article 14 so as to make payments in capital goods also possible. (31) This was a very "constructive offer" on the part of the Japanese Government, which had till then insisted that it would make payment only in services. Okazaki's mission, however, suffered a set-back owing to two developments. First, the Philippines was then preoccupied with the Presidential and Senatorial elections, and the reparations question formed one of the issues in the elections.


Hence political parties did not want to make any proposal which might affect their electoral campaign. (32) Secondly, the Philippine Foreign Secretary, Elizalde, was away from Manila attending a UN session. (33)

Though the attempts during 1952-53 did not lead to any settlement, an important development took place soon after Wajima’s mission. On 24 January 1953 both Japan and the Philippines exchanged notes for an accord on the salvage of sunken vessels lying in the Philippine Seas. (34) The exchange of notes was followed by negotiations which culminated in the signing of an agreement on 12 March 1953. This agreement laid down the classes of vessels to be hauled up and the methods to be used in salvaging them. (35)

Ohno-Garcia Agreement and its failure, April 1954

The year 1954 opened with brighter prospects for the settlement of reparations. The election of Ramon Magsaysay to


33. See an article “Okazaki gaisho mukaeta sangoku no taido”, Asahi Shim bun, 9 October 1953. Also Mainichi Shim bun, 1 October 1953.


35. See the Interim Agreement in Department of Foreign Affairs Treaty Series, vol. 2, no. 2, January 1954, pp. 51-52. Disagreement on the expenses of the salvage delayed the salvage work. Japan originally offered $114 per ton for the salvage of vessels. But the Philippines refused to accept it. It was only on 8 June 1955 that the revised Japanese offer of $92 per ton was accepted by the Philippines. Official Gazette (Manila), June 1955, p. ccliv. This was immediately followed by an agreement in Manila on 17 June for the salvage of 59 vessels in Manila Bay and Cebu. This was the first stage in the salvage work. See Meyer, n. 25, p. 208.
the Philippine Presidency that year augured well for a settlement. With his election as President, the Nacionalista Party now controlled both the executive and legislative wings of the nation, and this factor enabled the President to work in the direction of a settlement of the problem. In his first Presidential address, Magsaysay emphasized his keenness to normalize relations with Japan as speedily as possible. (36)

In January 1954, the reparations negotiations started in Manila. Ohno Katsumi, the head of the Japanese Mission in Manila, and Carlos P. Garcia, the Philippine Vice-President and concurrently Foreign Secretary, pursued the negotiations for a period of three months, and early in April the negotiations reached a definite stage. Ohno tried in the beginning to limit the reparations to a sum of $250 to 300 million to be paid over a period of 15 years. (37) But during negotiations with Garcia, he saw that nothing less than $400 million would satisfy the Filipinos. Three times he interrupted the negotiations to visit Tokyo, and finally he obtained the approval of the Japanese Government. (38) On 15 April both Ohno and Garcia signed a preliminary agreement fixing the reparations at $400 million. The agreement envisaged Japanese financial and technical


38. See Togli, n. 22. Though the Nacionalista Party remained stubborn in its claim of $8 billion in cash during the initial stages, it changed its stand especially after 1954, when it assumed power. On 3 January 1954, Vice President Garcia said $8 billion was too high and that $2 billion would serve as a starting-point. Garcia further scaled down the amount to accept $400 million in April 1954. See Meyer, n. 25, p. 205.
contributions "calculated at $400 million over a period of ten years extendable for a similar period, depending upon the circumstances then prevailing, upon the request of either of the contracting parties". It expressed the hope that the Japanese financial and technical contributions "will bring the Philippine economy benefits whose estimated value as determined by a bilateral reparations commission shall not be less than one billion U.S. dollars". (39) These benefits included "the expansion of rice industry to make the Philippines a rice exporting country, development of mineral and forest resources, and of hydraulic power to provide the Philippine industry with cheap power, improvement of railway communication, port facilities, rural roads, and irrigation system, restoration of churches and schools destroyed during the war, construction of artesian wells, salvage operations and such projects as may be agreed upon by the two governments". (40)

The initial accord between Ohno and Garcia raised the hopes of the two countries. It was to be followed by formal negotiations to work out the details of the agreement. The Japanese Government appointed Murata Shozo as the head of the Japanese delegation to conduct the final negotiations. (41) This delegation duly reached Manila on 15 April. Senator Jose P. Laurel, Sr., was named the head of the Philippine delegation to conduct the final talks. (42)

41. Asahi Shimbun, 12 April 1954.
Senatorial Opposition

But these high hopes were soon frustrated by strong Philippine Senatorial opposition to the Ohno-Garcia Agreement. The opposition was chiefly led by Claro M. Recto, who had been advocating a tough policy towards Japan. The opposition group included Senators of the ruling Nacionalista Party, the Liberal Party, the Citizen Party, and the Democratic Party. (43) On 21 April, it became clear that at least 14 Senators were opposed to the accord. As the Senate ratification required at least 16 votes out of the total of 24 (2/3), the rejection of the accord became a certainty. (44) Recto and the others demanded the following: a) that the Ohno-Garcia accord should be scrapped and b) that Japan and the Philippines should re-negotiate, with one billion dollars as the irreducible minimum. (45)

The opposition in the Senate was so formidable that President Magsaysay had to pay heed to it. On 21 April, President Magsaysay asked Murata, the leader of the Japanese delegation, to clarify the Japanese offer of payments in services. Murata clarified that "services" included capital goods like steam turbines, diesel engines, irrigation pipes and the like. (46) President Magsaysay informed Murata that he approved the Ohno-Garcia Agreement on the ground that services included capital goods.

45. Ibid. The opposition of the Senators was also partly due to a rumour in Manila that six Filipino Senators had been bribed by a powerful Japanese lobby to ease the ratification of the peace treaty. See Japan Times, 1 April 1954.
"That is the reason", said Magsaysay, "I approved Garcia's preliminary and exploratory arrangements in principle as a starting point for negotiations as a basis of discussion. But this morning, I read that you would pay only in services, and if this term means only technical help and labour, we will not be able to agree." (47) Then Magsaysay asked Murata to meet the Philippine Under-Secretary, Leon M. Guerrero. The same day, Manila informed Murata through Guerrero that the Olmo-Garcia Agreement formed only a "starting point for the formal negotiations and that the negotiations would not be limited to the text of the Olmo-Garcia memorandum". (48) But Murata in his note informed the Philippine Government that the Olmo-Garcia accord formed the "very maximum efforts Japan can make" and that Japan and the Philippines were "bound by this memorandum". (49) Thus, there arose a basic difference between the stands of the two Governments, and it was thought that a "cooling off" period would help resume negotiations. (50) On 27 April, the heads of the two delegations, Murata and Laurel, held a discussion, but found themselves in a deadlock. In view of this, further talks were considered futile. (51) In the meantime, President Magsaysay announced that he would soon send to Japan a six-man survey mission, headed by Finance Secretary Hernandez, to "survey and appraise the present and prospective economic conditions in Japan with a view to assisting

Second period

The appointment of the Hernandez Commission marked a decisive stage in the reparations negotiations. It demonstrated the keen desire of President Magsaysay to solve the problem practically. Magsaysay believed that the "wisest decision" on the issue was dependent on a proper study of facts. He stated that "there has been too much talk on this whole question of reparations. It is time to get facts and make use of those facts without rumours, gossips or speculation." (53) He contended that it would be wrong to put a "price" on the bloodshed and damage suffered by the Filipinos during the war because "no amount of money can repay us, if it is our purpose to be repaid for the lives lost and sufferings by our people during the war". (54) Thus, he ruled out the idea of claiming reparations purely on the basis of the damages inflicted by Japan on the Philippines during the war. It was with this motive that he instituted the Hernandez Commission. Magsaysay instructed the Commission to exercise its critical judgment through a "system of checks and counter checks" and sift fact from "fancy, true from false". While advising the Commission to make an unemotional approach to its task, Magsaysay declared: "we have no right to let personal feelings enter into a matter of such major importance to

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the well-being of this nation and its people". (55)

**The reaction of Tokyo**

The reaction of Japan to this development was favourable. Murata felt that President Magsaysay had "launched on the settlement of the reparations problem from a broad standpoint". (56) The Government of Japan agreed to extend full co-operation to the Hernandez Commission. (57) The survey mission visited Japan with an "open mind". It made it clear that it had no idea of exacting unjust reparations from Japan. At the end of the survey, Hernandez found the Japanese Government "eager to settle the reparations question, and resume normal relations with the Philippines as soon as possible". In its report to the Philippine Government, the Commission concluded that Japan had made rapid economic recovery and that she could pay more than $400 million, the amount fixed in the Ohno-Garcia Agreement. (58)

In November 1954 there were indications that the negotiations between the two countries might be resumed. On 11 November, Premier Yoshida, who was on an official visit to Washington, met the Philippine Senator Jose P. Laurel, and discussed the resumption of negotiations. (59) The same day, in Manila, the Japanese envoy, Ohno Katsumi, held a meeting with Felino Neri, the new Philippine

55. Ibid.
57. Ibid.
negotiator for reparations. (60) But these encouraging trends were marred by a Cabinet crisis in Japan, and in December the Yoshida Cabinet resigned. (61)

Hatoyama Ichiro, who formed the caretaker Cabinet in December 1954, expressed his Government's keen desire to solve the reparations question. (62) But the Cabinet could not take serious action until the elections in February 1955. Hatoyama won the February elections and formed his full-fledged Cabinet in March 1955. The Philippine President soon sent a message to Premier Hatoyama on 6 March and requested him to "carry out your oft-expressed desire to hasten the settlement of the reparations question". (63) In reply, Premier Hatoyama expressed his "fervent desire" to restore Japan's diplomatic relations with the Philippines and to "foster the friendship between our two countries as members of the community of free nations in Asia". (64)

Resumption of negotiations

The exchange of messages between Hatoyama and Magsaysay was soon followed by constructive action on both sides. The Japanese Government proposed to the Government of the Philippines through its envoy in Manila that a conference on a technical level should be convened in Tokyo "for the purpose of paving the way for

63. Asahi Shim bun, 8 March 1955.
the successful outcome of the formal negotiations on the reparations question to be held later in Manila". The purpose of this technical conference was to "examine the details of the reparations items as desired by the Philippines and to determine which of them can be made available to the Philippines by Japan as well as their kinds, amounts, or quantities and other specifications". (65) The Philippine Government welcomed the Japanese proposal and appointed a technical panel with Caesar Z. Lanuza as its Chairman. (66)

The technical conference commenced its deliberations about the end of March, and the talks continued smoothly. Impressed by the progress of the talks, the Philippine side thought that the time was opportune for discussing such basic points as the total volume of reparations and the duration of the payment. (67) As a result of it, Felino Neri, the chief Philippine negotiator, visited Tokyo in the first week of May and remained there till 31 May. During his stay, Neri negotiated with the Japanese Government and reached definite agreement with Premier Hatoyama. On 31 May Neri left for Manila and submitted the agreement to the Philippine Government. (68) On 1 June, President Magsaysay stated: "I am pleased with the result of the mission of Ambassador Neri and the


68. Felino Neri told this writer that he got a definite commitment in writing from Premier Hatoyama. Subsequently, Hatoyama's position became embarrassing when he faced opposition to his commitment. Interview with Felino Neri in December 1967.
Philippine technical panel. The way has been paved for the final negotiations in Manila." (69) The provisional agreement was kept a secret till 14 June, as President Magsaysay wanted to ensure the support of the leaders of the Philippine Congress. On 14 June, Felino Neri explained the details of his provisional agreement at a Presidential conference. The details of the agreement were:

- $500 million to be paid in capital goods payable from 15 to 20 years.
- $30 million to be paid in services payable from 15 to 20 years.
- $20 million to be paid in cash in five years.
- $250 million in the form of economic development loans. (70)

On 12 August, President Magsaysay conveyed to Premier Hatoyama that the Philippine Government had accepted the reparations formula which Neri had negotiated in Tokyo. (71)

The sudden consensus in the Philippines on the reparations question was due to the flexible attitude which Senator Claro M. Recto now adopted. He had been chiefly responsible for the failure of the Ohno-Garcia Agreement of 1954. Later, when President Magsaysay sent the Hernandez Commission to Japan, he vehemently opposed the measure. (72) Though Senator Recto had initially


70. Ibid., p. cclxi. On 14 June, the Philippine technical panel under Caesar Lanuza and the Japanese panel under Nakagawa Toru, chief of the Asian Affairs Bureau, successfully concluded their talks in Tokyo and signed the agreed minutes listing the specific items with an aggregate total of $2 billion out of which to choose reparations worth $800 million. See Meyer, n. 25, pp. 207-8.


demanded one billion dollars as the "irreducible minimum", he gradually relented. When, in March 1955, the prospects of a settlement became bright following the convening of the technical conference in Tokyo, Senator Recto said that he would support an agreement even if it fell short of one billion dollars. Recto said, "I will not block any reasonable settlement. The final figure will depend on whatever President Magsaysay decides. Even if it is under one billion, I will not oppose it." (73) This was the major factor which enabled Neri to negotiate successfully with Tokyo. (74)

**Japanese political situation**

President Magsaysay's note dated 12 August reached Hatoyama at a time when his Democratic Party and the Japanese Liberal Party were making efforts towards a conservative unity. (75) The leaders of the Liberal Party like Mizuta Mikio, Okazaki Katsuo and Tsushima Juichi opposed the provisional agreement on the following grounds.


74. Felino Neri told this writer that though Recto was very uncompromising in the initial years, later he co-operated fully with Neri. He said that he used to consult Recto on the vital question "every day" in order to take him into confidence. He feared that much of Recto's criticism was due to his political differences with the Magsaysay administration. This point is dealt with in John H. Romani, *The Philippine Presidency* (Manila, 1956), pp. 160-4. See also Carlos Quirino, *Magsaysay of the Philippines* (Manila, 1958), pp. 155-6, 191-2; 195-7. See also the correspondence between Recto and Hartendorp in Claro M. Recto, *My Crusade* (Manila, 1955), pp. 22-45.

First, the provisional agreement differed greatly from the Ohno-Garcia agreement in size. Secondly, the cash component of the provisional agreement militated against the spirit of the San Francisco Peace treaty. Thirdly, the nature of the economic development loans was not clear, and it was thought inadvisable on the part of the Government to take up any responsibility. There was a strong feeling that the loans should be private. Lastly, there was no guarantee from the Philippines that there would be an expansion of trade after the conclusion of the reparations agreement. (76) The Socialist Party also opposed the provisional agreement on more or less the same grounds. (77)

Even after the merger of the two parties and the formation of the Liberal-Democratic Party in November 1955, the former Liberal leaders remained opposed to the provisional agreement. The Hatoyama Government had to make efforts to bring them round. A series of talks took place within the party during the next three months. It was only on 9 March 1956 that the conservative leaders arrived at an agreement by which they decided to send a special representative to Manila to discuss the problem of the expansion of trade and other moot points. (78) During this period, the Japanese envoy in Manila,  


77. See Kono Mitsu, "Nippon baisho", Yomiuri Shimbun, 10 May 1956. See also Socialist leader Asanuma Inejirō’s criticism in the table discussion, n. 76. Also the criticism of Socialist leader Sata Tadao, "The Socialist View on Foreign Policy", Japan Quarterly, vol. 3, no. 2, April-June 1956, p. 155.

Urabe Toshio was holding discussions with Felino Neri, and they reached an agreement on the controversial point relating to the $20 million cash component of the provisional agreement. The Philippines agreed to a substitute arrangement. (79)

Fujiyama mission

The Liberal Democratic Party chose Fujiyama Aiichiro as its special envoy to Manila, and Fujiyama carried Hatoyama's reply to Magsaysay's note dated 12 August 1955. The Hatoyama note attributed the inordinate delay to "the conditions" that obtained in Japan. (80) Fujiyama remained in Manila for about a month conducting talks with the leaders of the Philippine Government and returned to Tokyo on 12 April. He informed the leaders of the Liberal Democratic Party that the Philippines would not accept the Japanese demand for the inclusion of a clause on the expansion of trade. But he said that the Philippines would like to accept the spirit of the Japanese demand in a joint statement between the two plenipotentiary delegations. As for the economic development loans, he said that the Philippines had agreed that they would be on a commercial basis, but wanted easy terms with regard to duration and interest. (81) He discussed with the Party leaders the problem regarding the adjustment of views on the question of economic development loans.


and suggested a formula. This formula aimed at satisfying the wishes of the Filipinos. According to it, a) the Japanese Government would help and facilitate private loans; b) the loans would be repaid in instalments over a long term, and the interest would be at the international rates; c) the loans would be made available during a period of 20 years, and this period would be liable to be extended, if the target of $250 million was not reached within that period. (82) The Party leaders accepted Fujiyama's formula, and Fujiyama left for Manila with full authority to negotiate on the basis of his formula. (83) The Fujiyama formula found favour with the Philippine Government, and by 25 April, there was complete agreement on all important aspects. On 27 April, both Japan and the Philippines initialled the reparations and loan agreements. (84) The agreements were finally signed on 9 May by the two pleni-potentiary delegations led by Takasaki Tatsunosuke and Felino Neri.

The final agreement on reparations envisaged that Japan would supply the Philippines with the services of the Japanese people and the products of Japan in the form of capital goods amounting in total value $550 million over a period of twenty years. (85) It included payment of services of the value of $30 million. It also included payment in the form of the services of the Japanese people in processing the products of Japan other than those supplied under the reparations agreement which might be normally shipped to the

82. Asahi Shimbun, 17 April 1956.
84. Yomiuri Shimbun, 27 April 1956.
85. Article 1, Reparations Agreement. See official texts in English and Japanese in a brochure published by the Philippine Information Service (Tokyo, 1956), p. 3.
Philippines. These services would be supplied within five years after the coming into effect of the agreement, the annual value being $4 million. This was a substitute arrangement for the original cash payment which Neri had provisionally arranged with the Japanese Government. As we have seen, the change was effected in response to the Japanese opposition to cash payment. (86) According to the final agreement, Japan agreed to pay during the first ten years a sum of $250 million, the annual payment being $25 million. During the next ten years, Japan undertook to pay $300 million, the annual payment being $30 million. The agreement provided for the reduction of the latter period by consent between the two Governments. (87)

An exchange of notes provided for the economic development loans of $250 million at the commercial level. It was agreed that the loans should be made principally in the form of machinery and equipment and that the Philippine Government should have the full "right" to determine the utilization of the loans in accordance with its plans. While the terms of the loans were to be fixed by the

86. See exchange of notes concerning $50 million. Ibid., pp. 15-16.

This arrangement envisaged two alternatives. First, it was necessary for the Philippines to ship huge quantities of raw materials to Japan for being processed into finished products. Second, it made it necessary for the Philippines to import large quantities of Japanese products so as to make the Japanese processing services amount to $4 million annually for five years. The Philippines found both the alternatives cumbersome. So, on 20 April 1957, she came to an understanding with Tokyo by which Japan would send consumer goods as required by the Philippines for a period of five years, the annual payment being $4 million. The Philippine Government allotted this amount for the benefit of world war veterans. See Report of the Reparations Commission to the President of the Republic of the Philippines, the Senate, the House of Representatives, the National Economic Council for the period from September 20, 1956 to December 31, 1958, Appendix VIII, pp. 209-11.

87. See Article 2, Reparations Agreement, n. 85, p. 3.
private parties concerned, all that was stipulated in the exchange of notes was that the loans would be repaid in "kind or in the usual manner" and that "the period of repayment will be made as long and the rate of interest as low as may be warranted on a commercial basis". The loan arrangement was to remain in force for a period of 20 years, but could be extended beyond that period upon the request of either party. (88)

As regards the expansion of trade which the Japanese side had demanded as a part of the reparations agreement, Takasaki and Neri issued a joint statement expressing their hope for "the early initiation of negotiations for a treaty of friendship, commerce and navigation as well as such revision of the present trade and financial agreements as may be necessary". (89)

The Reparations Agreement was approved in the Japanese House of Representatives on 29 May and in the House of Councillors on 3 June. (90) The Philippine Senate, which had decided to ratify the peace treaty and the Reparations Agreement only after the Japanese Diet had done so, finally ratified them on 16 July 1956. (91)

88. See the exchange of notes concerning loans, ibid., pp. 26-28. The terms of the loans clearly show the incorporation of the formula suggested by Fujiyama.

89. See the joint statement in the brochure published by the Philippine Information Service, ibid., p. 1.

90. See Japan Times, 30 May and 4 June 1956.

91. See Nihon Keizai Shimbun, 15 May 1956; and Japan Times, 17 July 1956. The reparations agreement was ratified with 19 favourable votes. One Senator abstained, and one was absent. Three Senators—Recto, Tanada and Kangleon—voted negatively. Recto stated that he would have voted affirmatively if his vote had been required for securing the 2/3 majority. The peace treaty was ratified with 18 affirmative votes and 3 abstentions. Recto was one of the three who abstained. See Congressional Record, Senate, vol. 111, no. 16, 3rd Congress, Special Session, 16 July 1956, pp. 539 and 549.
While the reparations accord was welcomed in Japan as "turning a new page" or as a "new starting-point" in Japan's relations with Southeast Asia in general and the Philippines in particular, much anxiety was discernible with regard to its successful implementation. (92) It was rightly believed that the future of Japan in the Southeast Asian region depended upon how sincerely she implemented her obligations. Much of the anxiety also related to the extent to which the Japanese Government should assist in making the economic development loans available for the Philippines at the commercial base. (93)

In the Philippines also public opinion was by and large favourable to the Reparations Agreement. President Magsaysay considered the accord the beginning of "a new epoch of friendship" between the two nations. (94) But certain points in the Agreement were considered "defective". Congressman Macapagal considered Article 3(1) of the Agreement defective. This Article says: "The services and products to be supplied by way of reparations shall be those requested by the Government of the Republic of the Philippines and agreed upon between the two Governments." (95) Macapagal interpreted that this Article made Japan the final arbiter.


93. "Nippi baisho daketsu to kongo no mondai", Editorial, Yomiuri Shimbun, 29 April 1956; and "Nippi baisho no choin", Editorial, Mainichi Shimbun, 10 May 1956. See also an article by Hara Yasusaburo, "Nippi baisho choin to kongo no kada1", Nihon Keizai Shimbun, 9 May 1956.


95. See Article 3(1), n. 85, p. 3.
in the supply of goods and that she could "reject" any Philippine request at will. He expressed much dissatisfaction over this Article as it called upon the Filipinos to make "requests to Japan over our rights". (96)

Secondly, Article 5 of the Agreement, which deals with the reparations contracts was also considered defective. According to Article 5(2)(a), every reparations contract made by the Philippines is subject to verification by the Japanese Government. Article 5(3) lays down that disputes arising out of any reparation contract should be referred to an arbitration board of commerce for settlement. But in case of a failure to have such a settlement under arbitration, the matter is to be referred to an appropriate Japanese court in accordance with Article 7(7). (97) It was alleged that these provisions placed Japan in a better bargaining position during the implementation of the reparations programme. (98)

SETTLEMENT WITH INDONESIA

Though Indonesia was the first Southeast Asian nation with which Japan opened the reparations negotiations, it was not until January 1958 that agreement could be actually reached. This inordinate delay in the conclusion of the agreement was caused by certain factors. The first and foremost was the political

96. Macapagal's speech in the Philippine House of Representatives, Congressional Record, vol. 3, no. 2, 22 June 1956, p. 3077. See also the views expressed by Senator Cuenco in the Senate, Congressional Record, vol. 3, no. 16, 3rd Congress, Special Session, 16 July 1956, pp. 517-18; Senator Lorenzo Tanada's views, p. 538B.

97. See the provisions of Articles 5 and 7, n. 85, pp. 5-8.

98. See Macapagal's speech, n. 96, p. 3077. See the resolution of the Senate on this. Congressional Record, n. 96, p. 549.
instability of Indonesia. During 1952-58, there were as many as six Cabinet changes, some Cabinets lasting not more than a few months. (99) Added to this political instability was the controversy over the acceptability of the San Francisco peace treaty. The Sukiman Cabinet signed the peace treaty at San Francisco in September 1951. But subsequently, Indonesian Cabinets rejected it and refused to ratify it. Yet another reason for the delay was the wide area of disagreement between Japan and Indonesia on the total volume of reparations. It was only after the formation of the Kishi Cabinet in February 1957 that the negotiations began to take a more meaningful and decisive turn. (100)

Early negotiations 1951-1952

Following the assurances which Premier Yoshida gave in the Peace Conference, the negotiations began in the latter half of December 1951, when an Indonesian delegation led by Communications Minister Djuanda visited Tokyo. The negotiations, which lasted about a month, were conducted in a "friendly atmosphere". While Japan expressed her "sincere" hope to bring about a settlement, Indonesia promised that she would not tax Japan unduly by demanding exorbitant reparations. (101) Both Japan and Indonesia attached much significance to the negotiations for obvious reasons. For


101. See the introductory remarks of Ikeda Hayato and Djuanda on 22 December 1951. Asahi Shimbun. For the general attitude of Japan see "Indonesia to no baisho kosho hajimaru", Nihon Keizai Shimbun, Editorial, 18 December 1951.
Japan, the outcome of the negotiations would constitute a crucial precedent to be followed with other claimant countries. (102) In Indonesia, the success of the negotiations was expected to help Premier Sukiman to overcome opposition to the peace treaty and facilitate its parliamentary ratification. On the contrary, it was feared that if the negotiations failed, it would have a very "bad effect" on the ratification of the peace treaty. (103)

Despite the friendly atmosphere in which the month-long negotiations were held, Japan and Indonesia had certain fundamental differences of opinion. (104) Firstly, there was a difference of opinion on the total volume of reparations. Japan argued that the total volume of reparations should depend upon her ability to pay. But Indonesia replied that it should be linked to the physical and moral damage that she had sustained during the war. (105) Japan was, moreover, not inclined to discuss the volume of reparations in view of the fact that negotiations with other Southeast Asian countries were pending. Hence, the negotiations between Japan and Indonesia were confined to the determination of the form of reparations. Even as regards this, a sharp difference arose.

Japan, standing strictly by the terms of Article 14 of the peace treaty, was prepared to pay reparations in the form stipulated in that Article. But the Indonesian list presented during the


103. See an article, "Nihon-Indonesia baisho kosho shippai seba hijun ni akueikyo", Mainichi Shimbun, 14 December 1951.


105. Nihon Keizai Shimbun, 12 January 1952. Indonesia was reported to have claimed 18 billion US dollars.
negotiations included items that went beyond the terms of Article 14. (106) On account of the stubborn stand of the Japanese Government on the terms of Article 14, the Indonesian Government had to relent, and a provisional agreement in keeping with that Article was signed on 18 January 1952. By this agreement, Japan recognized the damage and suffering that she had caused to Indonesia during the Second World War, and agreed to make reparations as defined in Article 14 of the peace treaty. The reparations which Japan agreed to make were in the form of a) processing of raw materials, b) ship salvage, c) technical assistance and d) technical training of Indonesian workers. (107) The provisional agreement in short defined how Japan would pay rather than how much. (108)

Along with the reparations negotiations, talks were also conducted on Japanese fishing near Indonesian waters, but no agreement was reached on the question. (109)

Indonesian opposition to the interim agreement

The Sukiman Cabinet soon encountered a strong opposition to the interim agreement that was concluded on 18 January 1952. The


Jakarta Daily *Indonesia Raya*, for instance, declared that the Indonesian delegation had "surrendered entirely to the Japanese wishes". (110) The Dutch language *Java Bode* wrote: "Japan's attitude all the way through has been that of a rightful claimant rather than a nation that has inflicted terrible damage on Indonesia by aggression." *Merdeka* reported that the Indonesian National Party would withdraw from the Cabinet if Parliament should ratify the peace treaty. (111) Before the Sukiman Cabinet could take action on the provisional agreement, it resigned on 23 February 1952 due to the controversy on the mutual security aid agreement with the United States. (112)

The fall of the Sukiman Cabinet brought about a fundamental change in the stand of the Indonesian Government on the Japanese peace treaty. The successor Wilopo Cabinet disapproved of the signing of the San Francisco peace treaty and favoured a bilateral treaty with Japan. (113) As the provisional agreement of 18 January was based on the letter and spirit of the San Francisco peace treaty, its fate was also sealed. Hence the reparations talks had to be started again from the beginning on an entirely new basis and independently of the San Francisco peace treaty. The Japanese Government did not make any headway in the negotiations during Wilopo's Premiership, which continued until June 1953. Premier

111. Quoted in Report on Indonesia, 13 February 1952, p. 3.
112. See Chapter II.
Wilopo made no specific promise during his tenure, and took no action in this matter. (114) But it became clear that Indonesia would seek only a bilateral peace treaty and that she would not negotiate the reparations agreement on the basis of the San Francisco peace treaty. Ali Sastroamidjojo, who succeeded Wilopo as Premier in July 1953, also stressed the same policy. (115)

Okazaki's visit to Jakarta

Japan took a major step towards the settlement of the problem when Foreign Minister Okazaki visited Indonesia in the first week of October 1953, and held a series of talks with the Indonesian Prime Minister, Ali Sastroamidjojo. Okazaki's talks with the Indonesian Premier related to two issues - the peace treaty and reparations. From his talks with Premier Ali, it became clear to Okazaki that Indonesia was keen on concluding a bilateral peace treaty in preference to the San Francisco peace treaty. (116) As regards reparations, there was a big gap between what Indonesia claimed and what Japan thought she could pay. (117) Okazaki commented: "The Indonesian people expect a great deal from us, but our budget is too limited to be able to meet Indonesia's claims.


117. See "Indonesia to no kosho", Waga Gaiko no Kinkyo 1957, p. 34. Indonesia demanded more than ¥7 billion, whereas Okazaki offered to pay only ¥125 million.
for reparations." (118) The Indonesian Foreign Ministry also stated on 9 October that "the difference in our stand and that of Japan regarding the amount of war reparations to be paid is markedly great.... The Japanese mission has been unable to give a satisfactory elaboration of their stand." (119) The one important outcome of Okazaki's visit was that Japan promised to make reparations not only in services, but also in capital goods. (120) The Okazaki mission thus helped to clarify two important points. First, Japan and Indonesia would enter into a bilateral peace treaty in place of the San Francisco peace treaty. Second, Japan would pay reparations not only in services, but also in capital goods. (121)

The Okazaki mission set in motion trends favourable to the progress of formal negotiations. The Government of Indonesia dispatched to Japan, at the end of October 1953, a thirteen-man survey mission under the chairmanship of Dr. Sudarsono, the Chief of the Indonesian Foreign Ministry's Asian Department. The survey mission was expected to explore Japan's ability to pay reparations. It was also authorized to explore the possibilities of concluding an interim agreement about salvaging the sunken vessels which had been lying in the Indonesian Seas ever since the war. (122) The Sudarsono mission stayed in Japan from 29 October for about a month. During its stay, it also negotiated an agreement about

119. Ibid.
120. Asahi Shimbun, 9 October 1953.
121. For the result of Okazaki's mission see, an article entitled "Okazaki gaisho mukaeta Sangoku no taiko", n. 33.
122. Asahi Shimbun, 29 October 1953. See also Report on Indonesia, 6 November 1953, p. 8.
the salvage of sunken vessels. On 16 December, Japan and Indonesia signed an agreement by which Japan agreed to bear the cost of 6½ million US dollars for salvaging about sixty sunken vessels. (123)

Japan resumed negotiations in January 1954, and the Japanese special envoy, Wajima Eiji, conducted the talks in Jakarta. But the talks continued to be deadlocked by the wide gap between the stands of the two contending parties. While Indonesia put forward claims on the basis of the damages she had suffered, Japan harked back to Article 14 of the peace treaty. (124) In March, the Indonesian Foreign Minister, Sunario, stated that a solution would be possible only if Japan made a substantial increase in her offer. (125) The deadlock in the negotiations at this stage made the Indonesian Press critical of the Japanese attitude towards the problem. Abadi, for instance, wrote on 24 April 1954:

"The Japanese attitude in discussions on the question of payment of Japanese reparations not only with Indonesia, but with other Southeast Asian countries, could not be described as at all conciliatory. There has been complete absence of acknowledgement on the part of Japan of the sufferings of the peoples of Southeast Asian countries during the Japanese occupation. Japanese"

123. For details, see "Indonesian-Japanese Ship Salvage Pact", Report on Indonesia, 4 February 1954, pp. 6-7. It should be noted that this pact was never ratified by the Indonesian Parliament and hence remained unimplemented. See Waga Gaiko no Kinkyo, 1957 (Tokyo), pp. 34-35.

124. Waga Gaiko no Kinkyo, 1957, p. 35. See Ali’s statement on 11 February 1954, Report on Indonesia, 27 February 1954, p. 2. See Sunario’s speech on 9 March before the opening session of the Asian Conference for Ministry of Foreign Affairs, Indonesia and Its Foreign Policy (Ministry of Foreign Affairs, Jakarta, 1955), pp. 18-19. Also Asahi Shimbun, 4 March 1954. See also Report on Indonesia, 22 March 1954, p. 2. It was reported that Wajima offered only $125 million whereas Indonesia claimed $8 billion on the basis of damages.
leaders must realise that a settlement of the still unresolved reparations is in the best interests of Japan. (126)

During the rest of Premier Yoshida's tenure, this deadlock continued.

Hatoyama Ichiro, who succeeded Yoshida in December 1954, considered the settlement of reparations a major foreign policy objective of his Government. (127) The Hatoyama Cabinet, therefore, soon resumed negotiations through Wajima in Jakarta. In April 1955, the Afro-Asian Conference provided a good opportunity for the Japanese delegation to discuss the issue with the Indonesian Government. (128) In June, the two countries expressed their hope to bring about a speedy settlement of the problem. (129) But, unfortunately, the Ali Cabinet resigned in July 1955 and was succeeded by the Harahap Cabinet, which could not contemplate any effective initiative until the Indonesian elections in September 1955. (130)

The year 1956 opened with certain favourable trends. First, after the Indonesian elections, Ali Sastroamidjojo formed his second Cabinet in March 1956. Second, the conclusion of the reparations agreement with the Philippines in May 1956 marked a turning-point in Indonesian thinking about the total volume of


129. Mainichi Shimbun, 8 June 1955.

130. Asahi Shimbun, 1 August 1955. See Waga Gaiko no Kinkyo, 1957, p. 35.
reparations. (131) After May 1956, the Indonesian Government modified its previous stand and began to insist on the following. First, her reparations should be the same in volume as in the agreement with the Philippines. Second, the trade deficit which Indonesia had incurred in her trade with Japan since 1951 should be cancelled as a part of reparations. (132) But the Japanese Government refused to combine reparations and trade deficit, and made no commitment as regards the Indonesian demand that the volume of reparations should be the same as in the agreement with the Philippines. (133) During the rest of Hatoyama's Premiership, Wajima pursued negotiations in Jakarta, but this difference continued to plague the negotiations.

With the advent of Kishi Nobusuke as the Prime Minister of Japan, the negotiations entered upon a new phase. Premier Kishi declared that he would take "positive steps" for the settlement of the problem. (134) The negotiations during 1956 convinced the Kishi Government that Indonesia would stick to her demand that the volume of her reparations should be the same as in the agreement with the Philippines. Wajima, the Japanese negotiator, also impressed upon the Japanese Government the need to consider seriously the essential demands of Indonesia. (135) In the meantime, as Kishi went on his first tour of Southeast Asia and later of the


132. Mainichi Shimbun, 28 July 1957. See also Nihon Keizai Shimbun, 24 June 1957.

133. See Takasaki's remarks, Asahi Shimbun, 31 July 1957.


135. Asahi Shimbun, 8 May 1957.
United States in May-June 1957, no useful action could be taken. (136)

Djuanda's letter

The next important step was taken by the Indonesian Premier, Djuanda, who sent a note to Kishi on 7 July 1957 through Ishkandar Ishaq, the Indonesian envoy in Tokyo. (137) In his note, Djuanda reiterated the Indonesian stand, and claimed $400 million by way of pure reparations and another $400 million by way of economic co-operation loans. As for the trade deficit of $170 million, he said that it could be separately settled over a fixed period. (138) This was followed by the visit to Jakarta on 23 July of Takagi Koichi, the new Japanese envoy who had replaced Wajima. Takagi informed Jakarta that the Djuanda note was being given a "serious study from all angles" by the Japanese Government. (139)

Kobayashi's visit to Jakarta

Kobayashi Ataru, who visited Jakarta in September 1957 as a part of his overall Southeast Asian tour, was authorized to discuss the issue with the Indonesian Government. He conducted talks in Jakarta and reported the results to Tokyo as follows:

a) Indonesia stood firmly by the terms of the Djuanda note.
b) She had attained sufficient political stability. c) She intended


137. Waga Gaiko no Kinkyo, 1958, p. 43. About the middle of March 1957 the second Ali Cabinet resigned. On 9 April 1957, Djuanda formed his "working Cabinet". See Mainichi Shimbun, 17 April 1957.

138. See Antara (Jakarta). Quoted in Nihon Keizai Shimbun, 16 July 1957. See also Subandrio's speech, n. 100, p. 64.

combining the trade deficit with reparations. (140) Kobayashi also suggested the lines on which Japan should approach the problem, and his suggestions soon became the basis of the Japanese stand.

Mohammad Hatta's visit to Tokyo

When, in October 1957, Mohammad Hatta, the Indonesian leader, visited Tokyo on his way back home from People's China, the Japanese Government took advantage of his presence and held talks. Official talks were conducted by two delegations, one led by Itagaki Osamu and the other by Sudjono. The talks revealed that Japan and Indonesia had broadly agreed on a total volume of $800 million, and that the differences related only to the content. The Japanese Government conducted the talks on the basis of the Kobayashi formula, which envisaged the following: a) Pure reparations worth $200 million; quasi-reparations worth $200 million to be offered in government grants and services; the former to be extended in 10 years and to be followed by the latter in an additional period of ten years. b) Extension of economic co-operation loans worth $400 million to be made on a private basis. c) Indonesian trade debt ($177 million) to be converted into a loan to be repaid over a period of 20 years: at the interest of 3 per cent per annum. (141)

140. Asahi Shimbun, 12 October 1957. The Nihon Keizai Shimbun in an article reported that Kobayashi impressed upon the Japanese Government the need to concentrate on India and Indonesia. The yen credit that was granted to India following Nehru's visit was reported to be due to Kobayashi's report. See "Keizai kyoryoku ni kyoho - Indonesia baisho daketsu de", 1 December 1957.

But the Kobayashi formula was not acceptable to the Indonesian Government which wanted $400 million in pure reparations and $400 million in economic co-operation loans. It opposed the division of reparations into "pure" and "quasi" reparations and wanted them to be incorporated in one category. Furthermore, it refused to accept Japan's terms on the trade deficit. The talks held between Itagaki and Sudjono during the last week of October were deadlocked on these points. (142) At the end of the talks, it became clear to the Japanese Government that unless it offered a substantial concession to Indonesia, it would miss a good opportunity to solve the issue. It also became clear that the ultimate solution lay entirely in the hands of Premier Kishi, who was to visit Jakarta in the last week of November 1957. (143)

**Domestic factors**

Before Kishi's visit to Jakarta, certain factors created a favourable climate for a settlement. First, there was considerable pressure from the Liberal-Democratic Party for a speedy solution. The leaders of the Liberal-Democratic Party like Miki Takeo and Kawashima Shojiro, exerted their full influence to that end. When Mohammad Hatta visited Tokyo in the latter half of October, Miki and Kawashima promised to expedite the solution of the problem. (144)

142. Ibid.
144. See an article by Miki Takeo, "Indonesian Reparation", Japan Times, 21 October 1957. See also Japan Times, 19 October 1957. See another article by a Conservative leader, Takeyama Yutaro, "Indonesia baisho haikai", Tokyo Shimbun, 1 December 1957.
The Socialist Party was equally eager to see a solution reached during Kishi's visit to Jakarta. On 29 October Premier Kishi consulted the Socialist Party Chairman, Suzuki Mosaburo, at the instance of the Socialist Party. During the talks, the Socialist Party leader promised to extend his full support to Kishi's efforts to solve the problem. (145) He stressed that a speedy settlement of the problem was important from the point of view of promoting economic co-operation and fostering friendly relations between the two countries. As for the moot points in the negotiations, he seems to have told Kishi that Japan need not make a distinction between "pure" and "quasi" reparations. (146)

On 16 November, Kishi informed Miki, Chairman of the Liberal-Democratic Party Policy Board, that he hoped to reach a settlement during his stay in Jakarta. (147) On 18 November, a special Cabinet meeting was held. On the same day, Foreign Minister Fujiyama declared that although he was attaching great significance to the forthcoming Kishi-Sukarno meeting, he did not foresee a complete settlement. (148) On 21 November, the Government announced the appointment of Kobayashi as the official negotiator who would assist Premier Kishi in his talks in Jakarta. (149)

145. Asahi Shimbun, 29 October 1957.
146. Ibid.
149. Yomiuri Shimbun, 21 November 1957.
Premier Kishi arrived in Jakarta on 26 November, and met the Indonesian Premier, Djuanda on the forenoon of 27 November. On the same day, he had a talk with President Sukarno as well, and the talk dramatically brought about a mutual understanding on the basic principles for the settlement of the long-pending reparations question. (150) A joint communiqué issued by Kishi and Djuanda on 28 November confirmed this, and also stated that Kobayashi and his delegation would remain in Jakarta to work out the details of the agreement. (151) On 30 November, the Japanese Foreign Office released an official statement which said that Japan had agreed to cancel the Indonesian trade deficit of ¥177 million and that she would pay reparations worth $223 million to Indonesia. It made no reference either to the duration of payment or to the economic co-operation loans. The statement was thus confined only to the controversial points. (152) Kobayashi remained in Jakarta for a week more to work out further details of the agreement, and on 8 December, he exchanged a memorandum with Indonesia. This memorandum formed the basis of the final reparations treaty. (153)

Formal talks for framing the peace treaty and reparations agreement were thereafter carried on in Jakarta by the Japanese delegation under Takagi. These talks proceeded smoothly, and the bilateral peace treaty and the Reparations Agreement were finally

151. Japan Times, 29 November 1957.
152. Japan Times, 1 December 1957. See also Asahi Shimbun, 1 December 1957.
signed in Jakarta on 20 January 1958 by Foreign Minister Fujiyama and the Indonesian Foreign Minister, Subandrio.

According to the final agreement, Japan was to supply Indonesia, by way of reparations, with the products of Japan and the services of the Japanese people, the total value of which would be 223,030,000 US dollars. Japan also undertook to provide every year products and services worth $20 million during the next eleven years and the balance in the twelfth year. (154) The products and services which Indonesia required from Japan were enumerated in an annex to the treaty. The products to be supplied by Japan were capital goods, though other goods could also be supplied upon mutual agreement. (155)

An exchange of notes for commercial loans and investments provided that Japan would extend loans of the value of $400 million on a commercial basis either to the Indonesian Government or to its nationals. The Government of Indonesia reserved to itself the full right to determine "the fields of investment and the various industries" for which the loans would be contracted. The loans were to be mainly in the form of machinery and equipment as well as services incidental thereto. The loan arrangements were to be in force for a period of twenty years, but liable to be extended if the amount had not reached the stipulated $400 million during that period. (156)

155. See Article 2, ibid.
156. Exchange of notes concerning commercial loans and investments. See the full text, Japan Times, 21 January 1958.
Simultaneously, both Japan and Indonesia signed a bilateral peace treaty in which they expressed their desire to strengthen further "the economic relations between them in accordance with the spirit of the decisions made at the Afro-Asian conference...." They also expressed their desire for a speedy conclusion of treaties for putting their trading, maritime, aviation and other economic relations on a stable and friendly basis. Further, they agreed to accord each other non-discriminatory treatment as compared with that accorded to any third country in the field of trading, maritime and other economic relations between them, until the conclusion of a treaty thereon. (157)

Inside Japan, the reparations accord and the bilateral peace treaty were generally regarded as a welcome development in Japan's relations with the Southeast Asian region. But one important feature of the reparations accord did not escape criticism, and that related to the cancellation by Japan of the Indonesian trade deficit worth $177 million. It was undoubtedly a major concession which enabled Premier Kishi to clinch the issue. But it was pointed out that the cancellation of the trade deficit virtually meant payment in cash. (158)

In this chapter, we have examined how the settlement of the reparations question led to the normalization of diplomatic relations between Japan on the one hand and the Philippines and


158. "Nichi-I baisho no kyushinten O mukaete", Editorial, Asahi Shimbun, 1 December 1957. See also "Jishitsu wa 400 jun baisho o dashite", Editorial, Mainichi Shimbun, 1 December 1957.
Indonesia on the other. It should, however, be noted that even before the normalization of relations, Japan had started looming large in the foreign policy objectives of the two Southeast Asian countries. In the next chapter, we shall examine Japan's overall policies towards the Southeast Asian region and see how they affected her relations with the Philippines and Indonesia after 1952.