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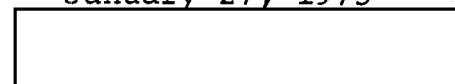
# STAFF NOTES:

## East Asia

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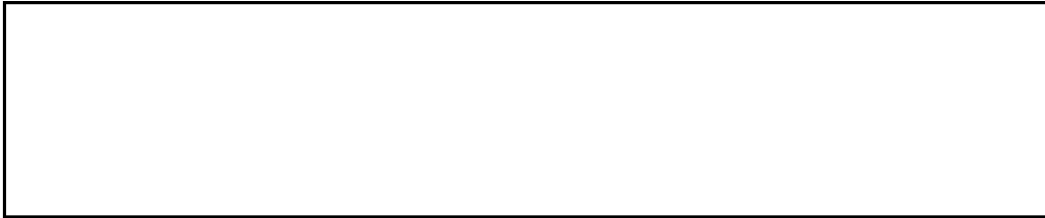


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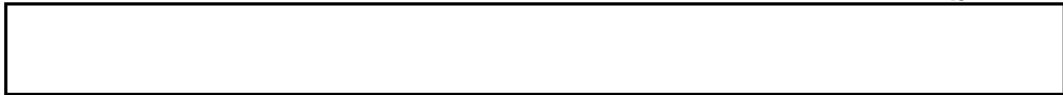


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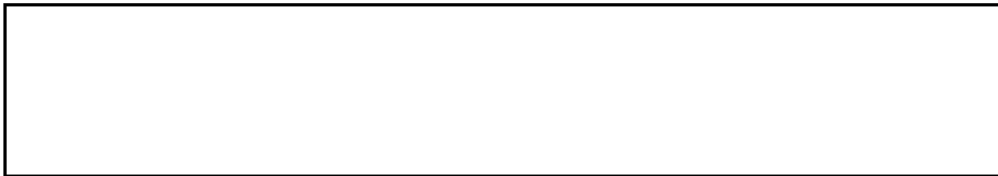
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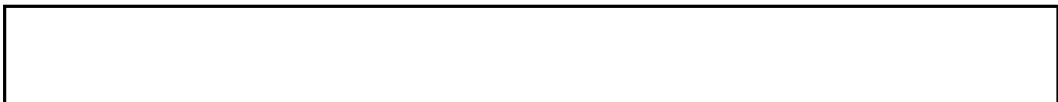
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SOUTHEAST ASIA

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The Arabs in Southeast Asia

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Travel posters most often depict Southeast Asia as a land of Buddhist temples and exotic Hindu dancers, but it is equally the land of Muhammad and the mosque. More than 123 million Muslims live in the region, and 114.5 million of these are in Indonesia, the most populous Muslim nation in the world. Malaysia, with 4.7 million, counts itself a Muslim state. Thailand, Singapore, and the Philippines have significant Muslim minorities, while Burma has a small but vocal Muslim community.

Despite historic religious ties with the Arabs, Southeast Asian states have until recently had few diplomatic contacts with them, most of which have occurred in the context of international economic and political issues affecting former colonies. The new prestige and aggressive diplomacy of the Arab world since the Middle East war of October 1973 and the oil embargo, however, are making waves in Southeast Asia.

Southeast Asian governments have ambivalent feelings about Arab interest in their area. On the one hand, they get a vicarious pleasure from watching the Arabs humble the former colonial powers, and they see a chance for new sources of easy credit and economic assistance. On the other, they worry about the political and religious repercussions among their own Muslim populations of increasing Arab activities.

The Philippines was the first Southeast Asian state to experience directly the political and diplomatic effects of resurgent Arab Islam. In

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1972, Libya's Qadhafi publicly took up the cause of Muslim insurgents in the southern Philippines. Interest in the rebels' cause subsequently spread to other Arab states as it became an important topic of discussion at the periodic international Islamic Conferences--a gathering of representatives of world Muslim states. Saudi Arabian officials have recently had bilateral talks with Manila about its treatment of the Muslim minority in the Philippines.

Arab interest in the Muslims has economic as well as political implications for Manila, which relies on the Middle East for 90 percent of its petroleum. Through some fancy diplomatic footwork, President Marcos managed to get an exemption from the oil embargo of 1973, but the experience brought home to him the consequences of antagonizing the Arabs. The nagging concern that Arab Muslim leaders are watching him closely has been an important factor in keeping Marcos on the path of moderation in his dealings with Muslim insurgents.

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Hoping to turn Arab interest in the southern Philippines to his own economic advantage, Marcos is seeking Arab participation in various development schemes planned for the Philippine Muslim

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area. Despite polite noises from various Arab leaders, however, Marcos is finding it very difficult to separate the Arabs from their money.

Indonesia, self-appointed leader in regional affairs, views the Arab "invasion" of Southeast Asia with a jaundiced eye. President Suharto regards Philippine Muslim affairs as a local problem and resents outside interference. He is unhappy with the Arab's Johnny-come-lately diplomacy, which threatens to undercut his own efforts at mediation. Moreover, Indonesia's military leadership is uneasy with the precedent of Arab support for a Muslim minority in revolt against an established central government.

The army has bitter memories of the Muslim revolt in Indonesia in the 1950s. Since acceding to power in 1967, the generals have kept Indonesian Muslims on a short political leash. None of the top Indonesian leaders is a devout Muslim and, at the last Islamic Conference, Jakarta took care to draw a line between itself and the other participants on the grounds that Indonesia does not consider itself an "Islamic state."

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While Suharto hopes to prevent Arab meddling in Indonesian Muslim politics, he--like Marcos-- is interested in opening up new sources of credit and economic assistance from the wealthy Arab states. Again like Marcos, Suharto has received more promises than capital. Some of his advisers attribute this to Arab uncertainty about his Muslim credentials.

Of all the Southeast Asian states, Malaysia probably has had the most contact with the Arabs. Malaysia has been an active participant in the Islamic Conference, and former Malaysian prime minister Tunku Abdul Rahman served as its secretary general until last year. Malaysian Islam, moreover, is more conservative and less eclectic than the Indonesian variety, and Malay Muslims have kept in closer touch with developments in Middle Eastern Islam, largely through students studying in Cairo and Mecca.

Malaysia has welcomed Arab interest in Southeast Asian Muslim affairs--particularly in the problem of Philippine Muslims, whose cause it has championed for many years.

Malaysian leaders show less concern than their Indonesian counterparts about the potential domestic political consequences of increased Arab activity; yet their government is probably the most vulnerable in Southeast Asia to political disruption from local Muslims. Although Malaysia calls itself an Islamic state, government leaders in Kuala Lumpur have little in common with the experiences and aspirations of the rural Malays, who form the majority of their Muslim constituency. Prime Minister Razak has already had problems with so-called Malay chauvinist politicians whose power is based in these rural areas.

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The increased presence of Arab Muslims in Southeast Asia could easily strike a resonant chord among conservative Malays and strengthen their hand against Razak. Unlike Indonesia, Malaysia does not have a large population of nominal Muslims to dissipate the effects of activist Muslim political ambitions. Moreover, the delicate communal balance between Malays and Chinese means that Razak must avoid anything that would politically divide the Malays.

Thailand has only a small Muslim minority, but it is concentrated in the southern provinces that border on Malaysia. Thai Muslims have long felt neglected by the central government, and Bangkok is suspicious of their close ethnic and cultural ties to Malay Muslims. The Arabs have already "discovered" the Thai Muslims, and the secretary general of the Islamic Conference recently toured the area. As with other Southeast Asian states, the Thai have begun paying more diplomatic attention to the Arabs, the major source of their oil.

With the exception of the Philippines, the new international prominence of the Arab states has had more impact on the leaders of Southeast Asian states than on their indigenous Muslim populations. This could quickly change, however, increasing problems for many governments in the area. Many local Muslim communities are dissatisfied with their present economic and political situation and increasing Arab interest in them could spawn antigovernment activities.

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Thailand--In Search of a Foreign Policy

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Thailand's foreign policy, like its political system, is in a state of transition. Although the outlook for parliamentary government taking permanent root in Thailand remains questionable, it is clear that Thai foreign policy is becoming more nationalistic and independent of the US than at any time since the end of World War II.

The metamorphosis in Thai foreign policy, which began during the latter years of the Thanom military regime, results largely from a conviction among senior Thai officials that the US is no longer prepared to play a major role in Southeast Asia. Many of these officials believe that their country's close support of US policy in Indochina has gained little more over the years than the enmity of Hanoi and Peking. Judging the US now to be a doubtful guarantor of Thailand's security, Bangkok has begun to mend its fences with neighbors long deemed hostile to its interests, notably China and North Vietnam. It has also taken steps to improve relations with Burma and Laos

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Bangkok has made some progress in dealing with the new coalition government in Vientiane and with Ne Win's regime in Rangoon, but it has discovered that rapprochement with Peking and Hanoi is more easily said than done.

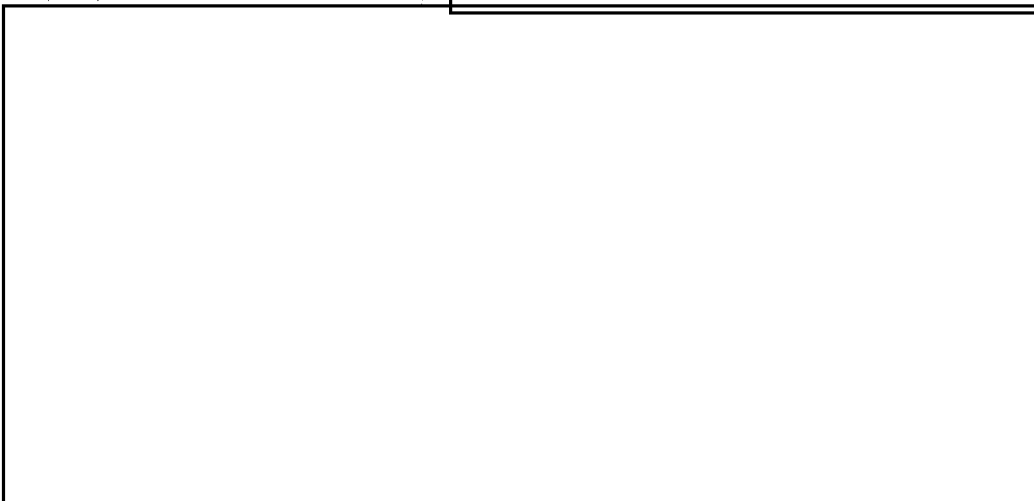
Thai officials generally agree that Peking is amenable to improving relations, but they are not of one mind on how best to proceed. Conservative government, military, and business circles remain wary of moving too fast to repair relations with Peking, out of concern partly over Chinese support to Communist insurgents in north Thailand and partly over a possible resurgence of pro-Peking sentiment

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within Thailand's large Chinese population. The Foreign Ministry, on the other hand, believes that the sooner formal diplomatic relations are established with China, the better it will be for Thailand. Ministry officials seem to believe that moving closer to China will help to balance Thailand's long-standing close relationship with the US--a relationship that many Thai believe to be out of balance and in need of adjustment. Such thinking has also prompted the ministry to accelerate the establishment of formal diplomatic relations with East European countries.

The Thai have been less successful in trying to establish a dialogue with the North Vietnamese than with the Chinese.

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Although Thailand's new parliamentary government is likely to be conservative, it will probably also be responsive to the pressures for developing closer ties with Peking and Hanoi.

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even though little careful thought had been given to what form better relations with Hanoi or Peking should take, the newly elected government could well

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move to establish formal diplomatic ties with China before the year is out. Mutual suspicions and the US base issue would seem, however, to rule out any early progress in relations with North Vietnam.

The new Thai government will want to retain a close association with the US. But it will probably seek to avoid becoming identified with US policies that it believes would impair its efforts to improve relations with its neighbors.

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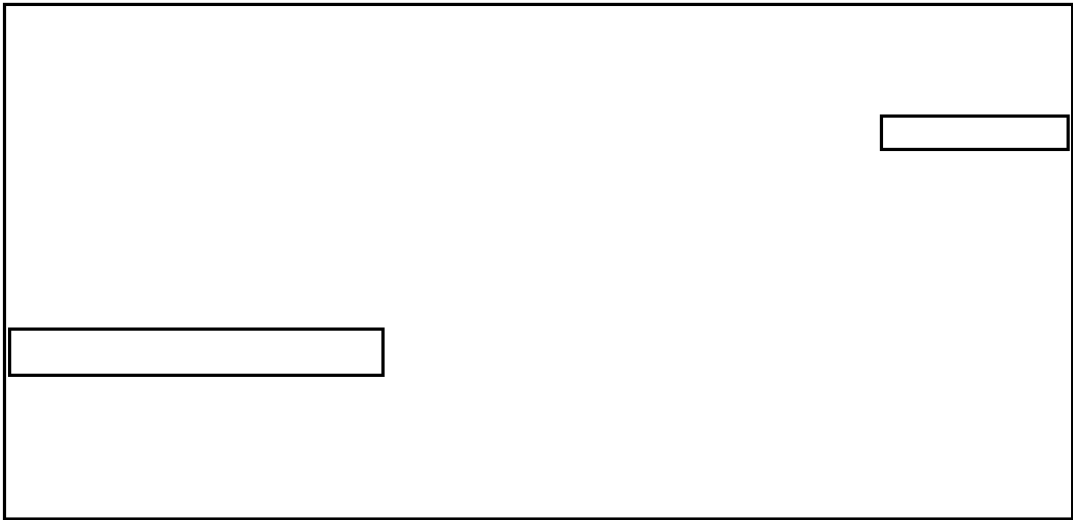
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Malaysia-Singapore: Friends at Last

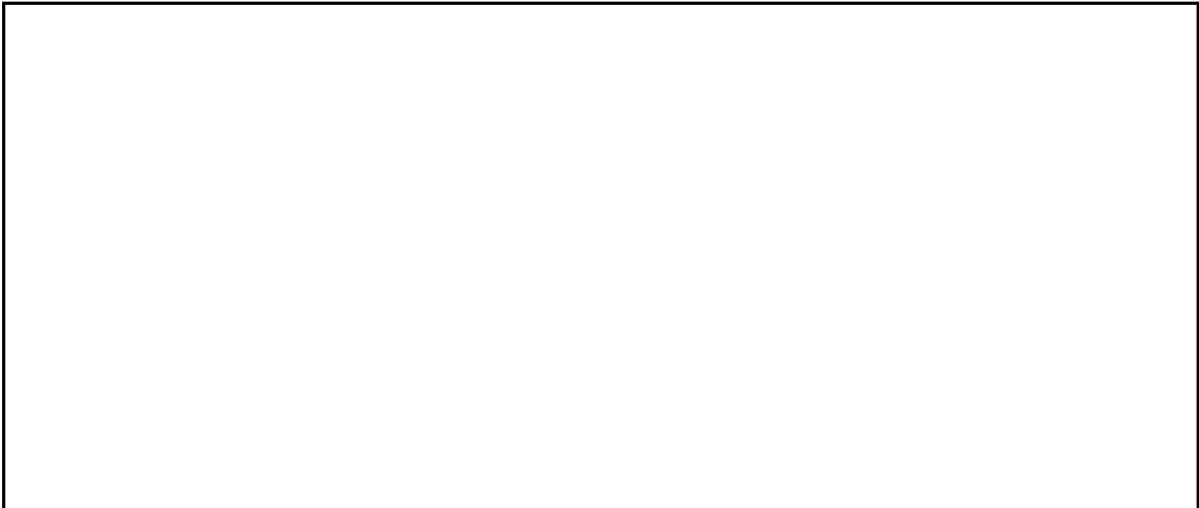
Singapore Prime Minister Lee Kuan Yew's three-day visit to Kuala Lumpur this month appears to have largely removed the vestiges of the bitter relations that followed Singapore's expulsion from the Malaysian Federation almost a decade ago.



Lee's visit, at his initiative, took place amidst a cordiality that clearly pleased both Malaysian and Singaporean officials. Considering the predominance of each leader in his country, their obviously close rapport should have a beneficial effect in removing the rough spots that remain in the working level relationship.



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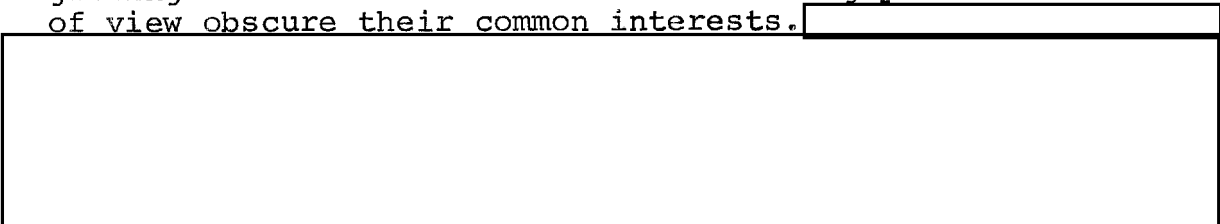


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The improvement in Malaysian-Singaporean relations is partly the consequence of a broadening regional outlook in both countries. Their increased contacts through the Association of Southeast Asian Nations (ASEAN) have brought a greater awareness of shared aspirations with their neighbors. Malaysia's expanding international role has spawned greater self-confidence in its dealings with the aggressive Singaporean Chinese, and Razak seems less constrained by Malay chauvinism than was his predecessor. For his part, Lee--although he does not brook questioning of his leadership at home--shows a greater disposition to try to understand his Malay neighbors.

Ingrained racial suspicions will continue to limit relations between Singapore and Malaysia. Nevertheless, the current lack of rancor is in sharp contrast to the feuding of the past, suggesting a greater maturity in both states and a growing determination not to let differing points of view obscure their common interests.

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Japan and CIPEC

*Japan is moving cautiously in its dealings on the copper market, trying to avoid action that might strengthen the Intergovernmental Council of Copper Exporting Countries (CIPEC). The CIPEC countries, which supply 30 percent of Japan's copper imports, have succeeded at least temporarily in getting the Japanese to stop exporting refined copper, but the Japanese probably will resume exports, even at a loss, if ore shipments cannot be reduced from both CIPEC and non-CIPEC countries. To avoid giving any incentive for other nations to join CIPEC, Japan is asking for equal percentage cutbacks from all its major ore suppliers.*

Normally a large net importer of refined copper, Japan upset the world market last year by becoming a large net exporter. In fact, Japan accounted for more than 100 percent of the increase in Free World exports during January-September 1974 as sales of many traditional large exporters declined. Despite a sharp falloff in domestic demand, Japanese smelters maintained metal production until late 1974 because they were tied to long-term import contracts for ores and concentrates. As inventories climbed and interest rates rose, the industry sought relief through exports. Refined copper exports totaled 203,000 metric tons during the first three quarters of 1974 compared with only 21,000 tons during the comparable 1973 period. Japan's exports jumped to 11 percent of the Free World total last year from only 1 percent in 1972 and 1973.

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JAPAN: COPPER PRODUCTION AND STOCKS  
(1,000 metric tons)

	1973		1974	
	<u>Production</u>	<u>Stocks</u>	<u>Production</u>	<u>Stocks</u>
January	73.3	18.8	79.0	53.9
February	70.0	15.1	75.8	59.6
March	76.0	12.7	85.2	48.9
April	77.7	14.5	79.8	50.9
May	74.1	14.3	84.7	63.2
June	82.4	16.2	82.5	68.9
July	84.8	22.4	89.9	80.7
August	85.3	33.5	89.1	81.2
September	80.1	42.4	81.7	67.7
October	83.3	46.0	n.a.	n.a.
November	83.7	47.1	n.a.	n.a.
December	80.1	53.1	n.a.	n.a.

JAPAN: COPPER IMPORTS  
(in metric tons)  
ORES, CONCENTRATES, AND BLISTER  
(Copper Content)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974 (9 mo.)</u>
AUSTRALIA	41,200	47,675	48,678	41,262
CANADA	162,445	203,357	295,376	217,130
CHILE	74,634	52,977	58,509	46,963
PAPUA-NEW GUINEA	-----	43,820	95,209	64,335
PERU	37,735	34,485	39,829	16,844
PHILIPPINES	192,036	178,787	190,720	172,514
ZAIRE	-----	-----	18,998	15,303
ZAMBIA	43,603	51,516	26,573	7,272
OTHER	45,531	50,145	49,899	59,157
<b>TOTAL</b>	<b>597,184</b>	<b>662,762</b>	<b>823,791</b>	<b>640,780</b>

REFINED COPPER

AUSTRALIA	7,475	6,058	6,589	4,477
CANADA	219	944	10,193	2,528
CHILE	29,514	24,902	24,251	26,578
PAPUA-NEW GUINEA	-----	-----	-----	-----
PERU	1,497	-----	99	-----
PHILIPPINES	-----	-----	-----	-----
ZAIRE	14,971	9,923	10,396	10,321
ZAMBIA	90,986	99,671	160,520	100,008
OTHER	8,022	31,894	101,953	18,500
<b>TOTAL</b>	<b>152,684</b>	<b>173,392</b>	<b>314,001</b>	<b>162,412</b>

Japanese exports undoubtedly were a key factor in the nearly 65-percent drop in the London Metal Exchange price of copper between April and the end of the year. In an effort to halt the decline, the CIPEC countries (Chile, Peru, Zambia, and Zaire) began probing Japanese intentions last summer and in September requested that Tokyo suspend exports. Japanese producers were reluctant to renegotiate their ore-import contracts, and Tokyo neither wanted to reduce export earnings nor help finance the producers' inventories. CIPEC pressure mounted, however, and Tokyo responded with a partial export ban on October 1 and a total ban on November 6. By this time, the Japanese had delivered their message: suspension of exports would require a cutback in production and a corresponding cut in imports of ores and concentrates.

The CIPEC members reportedly agreed to cut exports of unrefined copper to Japan by 10 percent during December 1974 and January 1975, and Japan agreed to approach other shippers for similar reductions. Within a month, however, the situation in Japan deteriorated; domestic demand fell further and inventories mounted. The government and commercial banks arranged \$48 million in loans to help finance stocks, but the smelters claimed they needed at least \$300 million to survive. Producers had no choice but to reduce output, in most cases by 15-25 percent. To prevent ore stocks from mounting, the Japanese went back to CIPEC and requested a 30 percent reduction in ore shipments through June 1975. The two sides reportedly compromised on a 15-percent cut for December and January deliveries, and agreed to negotiate the level of subsequent deliveries.

The Japanese have approached copper companies in non-CIPEC countries for similar percentage cutbacks in ore shipments. The response from Papua-New Guinea, Australia, Canada, and the Philippines,

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which together provide about 60 percent of Japan's copper imports, has not been altogether favorable. Bougainville Copper, Ltd., in Papua-New Guinea, has agreed to reduce ore shipments by 15 percent for two months as have several companies in Canada. The Australians apparently are stalling, and Philippine companies reportedly are refusing to go along in the belief that the Japanese will reduce imports from other suppliers in favor of honoring contracts for lower price Philippine concentrates. If the Japanese persist, however, Philippine producers probably will have to accede because they have no alternative markets.

Tokyo responded positively to CIPEC pressure principally because it does not want to antagonize important raw material suppliers. For the same reason, the Japanese are trying to be impartial, reducing ore shipments from all suppliers by an equal percentage. By treating all suppliers equally, Japan also hopes to avoid encouraging other countries to join CIPEC. The Japanese prefer to deal bilaterally with raw-material suppliers, relying on the continued success of their network of trading companies to get what they need. International commodity agreements are viewed as a last resort. Should CIPEC emerge from the current disarray with any real clout in the market, it will be because the sharp falloff in world demand and in prices for copper induced members to work more closely together than at any time in the past.

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