

# Indonesia:

## Japan Economic Cooperation in Historical Perspective

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### **Abstract**

Over the past 50 years, economic cooperation has become the main focus in the diplomatic relationship between Indonesia and Japan, while political relationship was used to facilitate the economic interests. Indonesia's needs of Japan's economic aid, trade and investment has placed Japan in the prominent position in Indonesia's foreign policy. Meanwhile, Japan's need of Indonesia's natural resources, energy and market for its manufacturing products has put Indonesia as a priority in Japan's relationship with Southeast Asian countries. However, the interdependency nature of the relationship between the two countries did not subsequently generate mutual economic cooperation. There are differences which made economic cooperation was not always smooth. The desire to promote economic cooperation was always shadowed by conflicts of interest along the relationship. Three characteristics which consecutively underlined the historical trajectory of economic cooperation between Indonesia and Japan were dependency, interdependency and cooperation.

Keywords: Indonesia-Japan; economic cooperation; bilateral relationship

### **1. Introduction**

Over the past 50 years, economic cooperation has become the main focus in the diplomatic relationship between Indonesia and Japan. Started with the reparation payment from Japan to Indonesia as a consequence of Japan's defeated after the World War II in 1945, formal relationship was then established in 1958. Japan relationship with Indonesia changed from occupation to cooperation. The two countries agreed to develop a relationship based on political-economic mutual

interests. Indonesia's needs of Japan's economic aid, trade and investment has placed Japan in the prominent position in Indonesia's foreign policy. Meanwhile, Japan's need of Indonesia's natural resources, energy and market for its manufacturing products has put Indonesia as a priority in Japan's relationship with Southeast Asian countries.

However, the interdependency nature of the relationship between the two countries did not subsequently generate mutual economic cooperation. There are differences which made economic cooperation was not always smooth. In particular, economic cooperation was always shadowed by conflicts of interest along the relationship. Three characteristics which consecutively underlined the historical trajectory of economic cooperation since the initial phase were dependency, interdependency and cooperation. Through a long history, the two countries have tried to forge a beneficial economic cooperation, although such efforts did not always bring good result.

This paper attempts to trace back the past 50 years of economic cooperation between Indonesia and Japan, and analyzes its characteristics and changes. It is the aim of this paper to find answer to the questions such as: what characterize economic cooperation between Indonesian and Japan. What were the aims of the economic cooperation? What kind of problems emerged from the economic cooperation? How has the characteristic of economic cooperation changed? What factors influenced the changes and how? Answer to these questions will be derived from the analysis of economic cooperation policy of the two countries which was determined by their political and economic interests. By doing that, the paper intends to shed light on the understanding of historical trajectory in economic cooperation between the two countries in order to figure out the future cooperation.

Following the introduction, the paper will then identify the characteristics of economic cooperation during the initial period when the two countries started diplomatic relationship after the World War II. By so doing, it will look at the changes in the characteristic of economic cooperation during the 1970s and 1980s,

after analyzing the factors which generated the changes. Economic cooperation in the post-Cold War era will be elaborated in the next part, to see further changes and new initiatives in the cooperation. Before arriving at the conclusion, the next part will look at the prospects of an economic partnership between Indonesia and Japan, the latest initiative to strengthen economic cooperation in the era of globalization.

## **2. Characteristics of Indonesia-Japan Economic Cooperation**

The chronological records of Indonesia-Japan economic cooperation was started with the reparation payments as a consequence of Japan's defeat in the Pacific War in 1945, and as prerequisite to renew diplomatic relationship with Southeast Asian countries. During the period from 1945 to 1958, bilateral relationship was characterized by efforts of the two countries to reach settlement concerning the payment of compensation to the war and to lay the foundation for economic cooperation. It was then followed by a mutual and beneficial relationship in the rest of the period until 1965 when Indonesia experienced changes of government from the Old Order under President Sukarno to the New Order under President Suharto.

Indonesia-Japan economic cooperation during the New Order government can be divided in three periods of time with different characteristics as follows: the first period which was started from 1966–1975 characterized by aid diplomacy from Indonesia to Japan. Economic cooperation of dependence was prominent. The second period from 1976–1985 was started with the initiation of Fukuda Doctrine. During this period, economic cooperation changed from dependence to interdependence between economy, politics and socio-cultural (complex interdependence). The third period from 1986–1995 characterized by post Cold War- economic cooperation, where interdependence economic cooperation continued. After the economic crisis of 1997, the New Order government in Indonesia ended and was replaced by more democratic governments of President B. J. Habibie, Abdurrahman Wahid, Megawati and the present President of Susilo

Bambang Yudhoyono (SBY). In 2007 the fourth period of economic cooperation was initiated from the Asian economic crisis of 1997 to the present which was characterized by efforts to develop an economic partnership, which was meant to strengthen economic cooperation beyond just trade.

## 2.1. Reparation Payments

Economic cooperation which was forged between Indonesia and Japan was started from the reparation payment which formed basic characteristic to build the foundation for the future economic relationship. The reparation payments laid the groundwork for subsequent aid programs and Japan's economic expansion not only in Indonesia but also in Southeast Asia. The motivation was primarily economic and was to remain so in the following three decades. However, there was an undertone of Japanese political aspirations right from the beginning.<sup>1</sup>

Two prominent objectives of Japan's reparation payments were initially: (1) to prevent the spread of Communism (in the context of the Cold War) which was in step with the US foreign policy; and (2) to create a relationship of dependency between the recipients of reparations and Japan.<sup>2</sup> In the Indonesian side, the reparation payment was important to convert the nature of the relationship between the two countries from occupation to cooperation. The Indonesian government under President Sukarno was actively negotiating the terms of reparation payment. When the issue of reparation was finally settled where Indonesia received the total amount of US\$800 million as reparation payment, it led to the establishment of formal diplomatic relations in April 1958.<sup>3</sup>

The reparation payment has laid the foundation of Indonesia's economic development, which was later supported with Official Development Assistance

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1 Wolf Mendel, 1995, *Japan's Asia Policy, Regional Security and Global Interests*, London, Routledge, p. 99.

2 Wolf Mendel, 1995, *Ibid.*

3 Nishihara Masashi, 1976, *The Japanese and Sukarno's Indonesia, Tokyo-Jakarta Relations 1951-1966*, Honolulu, The University of Hawaii Press, p. xiii.

(ODA) from the Japanese government in substantial amounts. The reparation fund was mostly disbursed for infrastructure development such as building multi-purpose dams, establishing textile and pulp factories, shipyard, hotel (among others was Hotel Indonesia in Jakarta), and a department store called “*Sarinah*” in Jakarta. Using the term “*keizai kyoroku*” which mean economic cooperation, the Japanese government redirected the fund to flow back to Japan by using it for financing imports of consumer goods from Japan and other materials for infrastructure development. Instead of that, the Japanese government also invited the Japanese private sectors to participate in development projects that were funded by the reparation fund. Therefore, the Japanese government facilitated the entrance of Japanese private investment in Indonesia in its initial phase.

Indonesia-Japan relation during the period from 1958 to 1965 was referred to as “special” because although the Sukarno government (the so-called the Old Order government) leaned toward the Communist bloc, economic cooperation with Japan continued without disruption.<sup>4</sup> Japan’s interest in Indonesia’s oil and other natural resources has motivated the government to develop a close “affinity” with the Indonesian leader at that time, President Sukarno. Both business circles and the government saw economic relations with Indonesia and Southeast Asia as an important factor in the economic recovery of Japan, an essential prerequisite for its emergence as a leading economic power in East Asia.<sup>5</sup>

When the Sukarno government was finally overthrown by General Suharto due to the abortive coup d’état of the Communist party in 1965, Japan was the last of the non-Communist countries to give up on Sukarno.<sup>6</sup> Only a few months before the event, Japan was still providing Yen loan to Indonesia amounted to US\$37 million worth of textiles and other consumer goods which was recognized as “Kawashima” credit.<sup>7</sup>

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4 Nishihara Masashi, 1976, *op.cit.*, p. xv.

5 Wolf Mendel, 1995, *op.cit.*, p. 100.

6 Olson. L, 1970, *Japan in Postwar Asia*, New York, Praeger Publisher, p. 185.

7 Olson. L, 1970, *Ibid.*

## 2.2. Economic Aid, Trade and Investment

With the rise of General Suharto as Indonesia's second president in 1967, Indonesia's economic cooperation with Japan entered a new phase. Japan played a significant role in Indonesia's economic development which was the main agenda of the Suharto's New Order government. In particular, in the early years after Suharto came to power, Japan was among the developed countries which save Indonesia from economic disaster due to over-indebtedness, high inflation, and depreciation of the value of Indonesian currency (*Rupiah*). It was during this time that Japan restarted its economic activities in Indonesia after a short period of uncertainties during the last years of the Sukarno government in 1965 which disturbed Japanese economic interests and activities in the country. Indonesia's need of economic assistance for economic recovery and development has put Japan in the prominent position as provider of economic assistance, together with the US and the European countries. The Japanese government initiated a multilateral conference in Tokyo in 1966, inviting the US and European countries to discuss Indonesia's need for economic assistance but ended without reaching any agreement. A year later, a similar multilateral conference was again held in Paris and then in Amsterdam, which finally reached an agreement to reschedule Indonesia's debt payment. In addition, the conference also agreed to provide emergency aid credits worth US\$200 million, in which Japan committed to share one-third of the amount.<sup>8</sup>

With the economic assistance from the Western countries and Japan, the Suharto government started economic development programs oriented toward three targets of: (1) achieving economic growth (2) generating social-economic welfare for the majority of the people; and (3) creating political stability.<sup>9</sup> For that purposes, the government cultivated a close economic cooperation with Japan and the

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8 Panglaykim and Thomas, 1967, "The Road to Amsterdam, Aspects of Indonesia's Stabilization Program," *Asian Survey*, Vol. VII, October, p. 67.

9 The three targets were called as Development Trilogy, which was a kind of development ideology of the Suharto government.

Western countries through the provision of economic development aid. To facilitate the cooperation, the Western countries and Japan established a consortium of donor countries called as Inter Governmental Group on Indonesia (IGGI), headed by the Netherlands as chairman. The consortium held a meeting in Paris once a year to discuss the amount of economic aid to be provided for Indonesia's economic development program.<sup>10</sup> Since its establishment in 1967, Japan was actively involved in IGGI's annual meetings and committed to provide economic assistance in significant amounts. However, the Japanese government preferred to provide development aid to Indonesia through bilateral channel. From 1967 to 1970 Japan consistently shared one fourth the amount of economic assistance provided by IGGI.<sup>11</sup> By doing that, Japan was able to strengthen its economic cooperation with Indonesia while at the same time developed its own economic assistance program to Indonesia through Official Development Assistance (ODA).

Japan's ODA to Indonesia since 1968 was continuously increasing so that Indonesia became the major recipient among the Asian countries. Since the early 1970s Indonesia was always become the main recipient of Japan's ODA. Between 1968 and 1977 Indonesia ranked fourth after China, Burma (Myanmar) and the Philippines. Among the biggest ten recipient countries of ODA in Asia, Indonesia consistently ranked fourth to one. The amount of ODA received by Indonesia as loans from Japan which keep increasing year by year has worried the government and the people that Indonesia would experience a condition of dependency to Japan.

Furthermore, Japanese economic assistance through ODA, has paved the way for the other economic cooperation between Indonesia and Japan in the fields of trade and investment. Japan's need of natural resources and energy from Indonesia has placed Indonesia in the highest priority in Japan's trade and investment. In particular, Japan used its ODA disbursement to extend economic cooperation

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10 See G. A. Posthumus, 1971, *The Inter-Governmental Group on Indonesia*, Rotterdam University Press.

11 Alan Rix, 1980, *Japan's Economic Aid*, London, Croom Helm Ltd., p. 11.

through trade and investment involving the private sectors. According to one scholar, “Japanese aid is widely perceived, and not without some justification, as being largely designed to serve the interests of Japanese industry rather than the needs of the recipient country.”<sup>12</sup> Other report noted that “the Japanese have been very successful at blending official development assistance (ODA) activities in private sector based projects.”<sup>13</sup>

In the field of trade, by the beginning of the 1970s Japan was well established as Indonesia’s major trading partner where one-third of its trade went to Japan, particularly in the forms of oil and other natural resources. This condition has created a dependency of Indonesia to the Japanese market. At the end of the decade the dependence syndrome had reached the stage where more than half of Indonesia’s revenue was derived from the export of oil, more than forty percent of which went to Japan. The pattern continued in the 1980s, where Indonesia provided Japan with some thirteen percent of its imports of crude oil.<sup>14</sup> The table below showed the share of Indonesia’s major trading partners, where Japan ranked the highest as Indonesia’s source of imports and the destination of exports (Table 1).

**Table 1: Share of Indonesia’s Major Trading Partners in 1975<sup>15</sup>**  
(as a percentage)

Countries	Imports	Exports
Japan	31.0	43.9
USA	14.0	13.0
Europe	19.7	13.4

Due to the structural changes in Japan’s economy following the “oil shock” of

12 Felicity Marsh, 1983, *Japanese Overseas Investment: The New Challenge*, London: The Economist Intelligence Unit, p. 68.

13 Seiji Naya, K. S. Sandhu, M. Plummer, and N. Akrasanee, 1989, *ASEAN-US Initiative: Assessment and Recommendation for Improved Economic Relations*, Honolulu, East-West Center, p. 117.

14 Wolf Mendel, 1995, *op.cit.*, p. 99.

15 Ruperto Alonzo, 1987, “Japan’s Economic Impact on ASEAN Countries,” *Indonesia Quarterly*, XV: 3, July, p. 478.



the 1973, the nature of bilateral economic cooperation changed with the increasing role of Japanese Foreign Direct Investment (FDI). Japanese investment in Indonesia accounted for more than one third of Indonesia's FDI, and by far the largest when compared with the US and European FDI or with Japanese investment in any of the other countries in the region. The entrance of Japanese investment in this era was also in line with the Indonesian government industrialization strategy to develop manufacturing industries. Therefore, a number of investment in manufacturing sectors such as automotive and electronics industries from a number of Japanese companies such as Toyota, Honda, Mitsubishi, Sony, Matsushita, etc. entered the country. Those companies developed production facilities in Indonesia for domestic markets. Investment in the manufacturing sector constituted the biggest Japanese investment in terms of project and percentage (see Table 2 below).

**Table 2: Japanese FDI in Indonesia as of March 1973**

Sector	Number of Project	Ratio to total (percentage)
Manufacturing	65	59
Mining	3	23
Forestry	11	7
Agriculture	5	3
Fishery	9	5
Construction	6	2
Transportation	4	1
Total	100	100

Source: Yoshi Tsurumi, "Japanese Investment in Indonesia" in Gustav Papanek (ed.), *The Indonesian Economy*, New York, Praeger, p. 298.

Moreover, the regionalization strategy of the Japanese multinational corporation (MNCs) has inserted Indonesia as one of Japanese 'production network' in Southeast Asia. However, the Japanese economic cooperation policy developed by the multinational corporations determined through a series of ad hoc policy which tended to cause dissatisfaction to Indonesia as the host country. Since the Indonesian political elites have long been obsessed to use Japanese multinational

corporations as engine of economic growth and industrialization, such policy was disappointed.<sup>16</sup> As a result, there was a feeling of dominated by Japan economically through the operation of its multinational corporations.

Instead of investing in manufacturing sectors, a number of Japanese companies also invested in the energy sector to guarantee energy supply to Japan. However, investment in the oil sector was quite limited due to the dominant role of American oil companies in Indonesia's oil industry. In 1970s, Indonesia's oil was produced by mainly by the US oil companies, where the role of Caltex was prominent. The monopoly of the US oil companies have left no opportunity for Japan to participate in oil production. Moreover, the US also has important role in deciding the export allocation of oil products. The role of the US corporations in determining the export destination of oil products has made Indonesia depended heavily on Japan as its primary market. This dependence situation was not good for Indonesia, since should something happened in Indonesia-Japan relations, the export of oil to Japan could be disturbed.<sup>17</sup>

In order to diversify energy supply to Japan, Japan invested in Indonesia's Liquefied Natural Gas (LNG). Indonesia's two major processing facilities, Arun at Lhokseumawe in Aceh province and Badak at Bontang in East Kalimantan province, were both constructed in the mid-1970s under supply contracts to Japan.<sup>18</sup> The two LNG fields were 15% owned by Japan Indonesia LNG Company (JILCO), and therefore it could be fairly said that Japan has been the driving force behind the development of the Indonesian LNG industry.<sup>19</sup> Economic cooperation in the energy sector was then became the main arena of economic relationship between

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16 Panglaykim, 1978, "Economic Cooperation, Indonesia-Japanese Joint Ventures," *Asian Survey*, p. 95.

17 See Wayne Robinson, 1980, *The Politics of Japanese-Indonesian Energy Cooperation with Particular Reference to the Period 1972-1976*, Ph.D. Dissertation, Center of Southeast Asian Studies, Monash University.

18 David Adam Stott, "Japan's Fragile Relations with Indonesia and the Specter of China," *japanfocus.org.*, accessed on June 3, 2012.

19 Ibid.

the two countries.

### 2.3. Problem of Indonesia's Economic Dependency to Japan

Economic cooperation which has been established through economic development aid, trade and investment between the two countries during period from 1966–1975 has created Indonesian economic dependency on Japan. The condition of economic dependency in turn created political problems which could threaten the bilateral relationship between the two countries. As a matter of fact, Indonesia-Japan relations since after the World War II fell into a dilemma between the desire to form cooperation and the fear of domination. According to one scholar, Kesavan “the Indonesians do admire Japan’s tremendous economic progress and would like to see Japan help their nation in the task of nation building. However, at the same time they are also very keen on keeping Japan in a position from where she will not exert undue economic pressure.”<sup>20</sup>

During the early 1970s a number of intellectual expressed their worries on the possibility of Japan’s economic domination through mass media, such as one expressed by Baha’uddin which was reported in *Indonesia Raya* daily in the following statement:

*“What is true is that the aids we receive from Japan give us the impression that we are so dependent on Japan that we cannot sell our oil at international prices. We could play a (greater) diplomatic role in today’s international climate if we could only extricate ourselves from these strong ties to Japan, using oil as weapon to apply political pressure.”*<sup>21</sup>

The worried on Japan’s economic domination over Indonesia indicated that the

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20 Kesavan, 1970, “Some Aspects in Japan-Indonesia Relations,” Singapore, ISEAS, p. 10.

21 Bahau’ddin, quoted from Chalmers and Hadiz, 1997, *The Politics of Economic Development in Indonesia, Contending Perspectives*, London, Routledge, p. 65.

dependence characteristic of Indonesia-Japan economic cooperation need to be revised. However, Indonesia's capability to use oil as a mean to exert political leverage over Japan were quite limited, due to dominant position of oil exploration and distribution of the US oil companies. On the other hand, Japan's ability to use the leverage of its strong economic presence in Indonesia to influence matters was also quite limited, even if it sought to do so.<sup>22</sup>

The characteristic of dependency in economic cooperation between Indonesia and Japan finally changed into interdependence economic relationship in the mid-1970s. The change was triggered by an incident of a huge student demonstration against foreign capital—particularly that of Japanese capital—in the capital city of Jakarta. The demonstration turned into violence when the students crushed “everything” related to Japan, such as Japanese companies and their products (cars and electronic appliances), Japanese shops and restaurants in the capital city of Jakarta in January 1974. The riot was then called as the *Malari*<sup>23</sup> incident. The occurrence of the *Malari* incident in 1974 was an important turning point in the history of Indonesia-Japan economic cooperation. The incident which happened at the time of visit by Japanese Prime Minister Tanaka Kakuei came as a shock to Japan when it has to realize its “bad image” in the eyes of the Indonesian and Southeast Asian people. Similar demonstration was also took place in Thailand and the Philippines few months before.

What was wrong with the economic cooperation between Indonesia and Japan during that time so that Japan became the target of the demonstration? The facts presented in a number of analyses showed that economic cooperation which has been take place for more than a decade was characterized by imbalance condition, where Indonesia was more dependent on Japan. The three areas of economic cooperation (trade, investment and aid) indicated that Japan benefited more than

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22 Fred R. Von der Mehden, 2000, “Japanese Energy Security and Changing Global Energy Markets,” *Working Paper*, Rice University, p. 17.

23 *Malari* was an acronym of *Malapetaka Limabelas January*, an Indonesian language for the 15th January misery.

Indonesia. The Japanese companies were not only the largest but also the most visible foreign investors and traders operated in the explosive capital area. The majority of Japanese companies occupied mostly the high-rise buildings of the Jakarta city, with their names clearly exposed in the billboards showing a contrast scene with the poor kampongs (traditional housing complex) in the surrounding.

In 1970, imports from Japan reached US\$ 263 million, while that from the US was only US\$ 158 million and from Europe was US\$122 million. Japanese investment reached US\$294 million, second only to the US which reached US\$423, and were dispersed in many small-scale manufacturing projects in many big cities in Java. The concentration of Japanese investment in manufacturing industries oriented toward Indonesian consumers has made the Japanese economic presence highly visible, and perceived as a kind of Japanese domination over Indonesia.<sup>24</sup> The feeling of being dominated by Japan was then triggered the protests in the capital city of Jakarta which was ended in political riots.

Aside from trade imbalances between Indonesia and Japan, the amount of ODA received by Indonesia year by year combined with the increasing amount of FDI have generated a feeling among the majority of the Indonesian people that they were under the Japanese economic domination.

#### **2.4. Fukuda Doctrine and a New Economic Cooperation**

Since the *Malari* incident, Japan reviewed its economic cooperation policy not only with Indonesia, but also with the other ASEAN member countries. To normalize the relationship between Japan and Indonesia and the other ASEAN countries, PM Fukuda Takeo who replaced PM Tanaka Kakuei toured to the five ASEAN member countries plus Burma (Myanmar) in March 1977. In a press conference before his departure to attend ASEAN Summit Meeting in Manila on 18

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24 Yoshi Tsurumi, 1980, "Japanese Investment in Indonesia: Ownership, Technology Transfer and Political Conflict," in Gustav Papanek (ed.), *The Indonesian Economy*, New York, Praeger, pp. 55–56.

August 1977, Fukuda delivered a speech as follows:

*“Diplomacy toward Southeast Asia until now was contact through money and goods. It was not contact based on the policy of good friends acting for mutual benefits. Even when viewed from our country, there was the impression of economic aggression and arrogant manners, and it was a situation which was symbolized by the expression economic animal (Nihon Keizai, 5 August 1977).”*<sup>25</sup>

The presence of Fukuda in the ASEAN Summit Meeting gave him opportunity to deliver a speech and inaugurated what was called as “Fukuda Doctrine” which was a new initiative by Japan in its economic cooperation policy toward the Asian countries. According to Fukuda, Japan relations with the Southeast Asian countries would be based on *“special relationship based on equality and “heart-to-heart understanding with ASEAN.”*<sup>26</sup> The main argument of the Fukuda doctrine was that the relationship between Japan and the ASEAN countries would be taken place in a better situation by making important the “heart-to-heart” relationship, based on mutual trust and seeks solidarity between Japan and the ASEAN member countries as equal partners. The policy succeeded in attracting the interest of Southeast Asian countries toward Japan and boosted Japanese image in Southeast Asia.

For Indonesia, the enactment of the Fukuda Doctrine has brought about changes in the characteristic of economic cooperation with Japan. The former characteristic of dependency economic cooperation, where Indonesia was more depended on Japan changed into interdependence. Instead of that, economic cooperation was enlarged to cover other aspects such as social and culture. One of the implementation of the Fukuda Doctrine was the development of a fertilizer

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25 William W. Haddad, “Japan, The Fukuda Doctrine and ASEAN,” *Contemporary Southeast Asia*, Vol. 2, No.1, June, 1980, p. 13.

26 Ibid.

factory in Aceh, Indonesia.

Since the announcement of the Fukuda doctrine, the perceptions of the ASEAN people and the Indonesia people toward Japan have started to change. By the 1980s, the importance of Japan as a model for modernization and economic development as well as a necessary economic player in Southeast Asian region became increasingly accepted. Many countries in the region intended to emulate Japan's economic development model, in terms of state-business cooperation in achieving economic growth, values of discipline and hard-working, the retention of traditional cultural elements in the face of economic growth, and group cohesion. For example, government leader of Malaysia, Dr. Mahathir Muhammad proposed a "Look East" policy to be adopted for the country's economic development. There were also some Indonesian intellectuals who expressed similar views, although the government did not specifically mention about emulating Japanese development model. At the meeting on Japanese-Southeast Asian relations, one observer stated that: "The Indonesians regard Japan as a dynamic nation. Many fantastic changes have occurred which no other country can manage."<sup>27</sup>

### **3. Post-Cold War Economic Cooperation Policy**

The end of Cold War has brought about significant changes in international relations. Issues of security and ideology were relatively disappeared with the collapse of the Soviet Union. Economic cooperation in many regions flourished, replacing conflict and competition in military and armaments. Instead of that, a number of new issues emerge as new agenda in international relations. The issue concerning human right was among the issues which become an important issue addressed by the international society. The perception of Japan as economically single-minded has led to criticisms from human right advocates that the government has been reluctant to weaken its economic ties with countries suspected as violating

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27 Sumantoro, 1990, "Indonesia-Japan Relations, Experiences and Prospects," *ASEAN-Japan Relations*, Bandung, Padjadjaran University, p. 250.

human rights. This was also happened in economic cooperation between Indonesia and Japan. A new characteristic of economic cooperation emerged during this period. In the Indonesian side, the desire to be more independent and be in the equal position in economic cooperation with Japan was growing high. Instead of that, Japan also tried to renew its economic cooperation policy with Indonesia.

By the 1990s, Indonesia ranked the first among the ASEAN member states in terms of Japanese direct investment and the recipient of bilateral development aid. This has posed Japan in a dilemmatic position due to the issue of human right violation committed by Indonesia in East Timor. Japan was accused by a number of Non-Governmental Organizations (NGOs) which concern with human rights of remaining silent for a very long time over human right abuse in East Timor by continuously giving ODA to Indonesia. However, when the political riot happened in Dili tahun 1992 which was handled by military operation, Japan acted a little different. The Japanese government threatened to give sanction to the Indonesian government if the Dili incident did not settled peacefully. Similar threat was also expressed by the IGGI, which was responded by the Indonesian government by dissolving the IGGI. Therefore, Japan's respons to the Dili incident was probably meant to boost its international image as an aid provider which concern with human right issues.

#### **4. Indonesia-Japan Economic Partnership**

Economic cooperation in the global era has changed significantly from the previous eras. Partnership became the new norm in economic cooperation. In 1997, Indonesia experienced an economic crisis as a contagion effect of Asia's financial crisis which started from Thailand, Korea, Malaysia and the other Asia's countries. The broke-up of the Asian economic crisis has generated controversies, particularly that related to the Japanese role. Was Japan part of the cause of the crisis considering that the Asian countries economy was closely integrated to Japan? Or Japan has to give solutions to overcome the economic crisis?



The impact of the economic crisis for Indonesia was the decrease in the volume of trade and investment, particularly from Japan. The Japanese FDI decreased drastically since 1997's economic crisis and still difficult to regain. The Indonesian government has tried very hard to invite Japanese FDI through a number of investment conferences held in Japan and Jakarta, but with no significant result. Many Japanese manufacturing companies in Indonesia such as Sony, Matsushita stopped their production activities and relocated their factories to other countries (China, Vietnam, and Thailand) to gain greater profits. This has indicated that Indonesia is no longer an ideal production base for Japanese manufacturing companies, due to high economic cost, inconsistent regulations, and unsuitable business climate. Indonesia needs to diversify its export to Japan and to reduce its dependence on oil and gas export. It should also develop export of manufacturing and agricultural products while increasing its market share, and to continuously receive ODA from Japan. On the other hand, Japan needs to secure its energy supply from Indonesia in terms of its stability of supply in reasonable price and a continuous commitment vis-à-vis other buyers (particularly China). It also needs to secure domestic market for its products in a harsh competition with other countries in the global era.

The most serious impact of the economic crisis was regime change and a whole domestic political re-configuration from an authoritarian to democracy. Suharto's authoritarian regime ended and was replaced by a democratic regime, although at the beginning it was difficult to go through transition to democracy. The experience of overcoming economic crisis has motivated Japan to strengthen its economic cooperation with the Southeast Asian countries and also Indonesia. Japan is still Indonesia's largest trading partner and the first destination of its export. In the year 2001, Indonesia's export to Japan accounted for approximately 22% of the total export. Japan is also the largest source of import with approximately 14%. Japan is a major source of investment and ODA for Indonesia. In 2006 Japan's ODA amounted to 1.034,61 million US dollar. However, Indonesia is not Japan's largest

trading partner. In fact, Indonesia ranked the 5th as Japan's trading partner. In the trade relationship, and market share accounted for only 4% (1.7% in oil and gas products, 2.2% in non-oil and gas)—compare to China with 17% market share. Instead of that, Indonesia's export to Japan was mainly in the commodity of: oil and gas products (more than 50%, accounted for approximately 68% of Japanese needs). The amount was approximately 90% of gas export is to Japan. Manufacturing and agricultural products accounted for approximately 40%, accounted for 2.2% of market share. Meanwhile, Japan's export to Indonesia consisted of manufacturing and industrial products (machinery, steel, electronics and automotives).

Indonesia-Japan economic cooperation entered a new era with characteristics which differed significantly from the previous eras. Started in 2005, the two countries began formal negotiations to develop an economic partnership oriented toward strengthening bilateral economic cooperation beyond just trade and investment. Indonesia-Japan signed IJEPA in 2007 with the main purpose to increase economic cooperation and trade between the two countries. This is a political agreement with normative scheme. The agreement will open wide opportunities for Indonesian businesses to enter Japanese markets with non-discriminatory policies. Under the agreement the Indonesian government should make efforts to take the opportunity to strengthen the relationship with Japan through economic cooperation. The government should set a priority in its trade relationship with Japan, whether it will continuously depend on export of oil and gas products or diversify its export commodities to manufacturing and agricultural products. To develop export of manufacturing and agricultural products Indonesia needs to attract more FDI. Indonesia needs to develop trading companies to support / facilitate trade expansion to Japan.

In Japan side, more concern on the Indonesian political-economic conditions as a mean to strengthen the relationship. Committed more to help Indonesia develops its economy and industry. Give opportunity to Indonesian products to enter Japan through economic cooperation. Develop more cultural understanding

among the Japanese people towards the Indonesian people.

Japan's motivation to propose the Indonesia-Japan Economic Partnership Agreement (IJEPA) was to consolidate the close historic interdependence relationship between Japan and Indonesia as they celebrate the 50th anniversary of bilateral diplomatic relations in 2008.<sup>28</sup> Instead of that, Japan intended to secure the supply of energy from Indonesia to Japan. The Japanese government has long urged the Indonesian government to guarantee LNG supplies to Japan as part of the agreement in the IJEPA. This request was stated clearly in the agreement. This has shown that Japan's basic approach in its economic cooperation with Indonesia did not change significantly. In a sense, economic cooperation was used to support Japan's economic interest to secure its energy needs. Instead of those reasons, the emergence of China and Korea as Indonesia's new economic partners has worried the Japanese government that Indonesia will left Japan.

In the Indonesian side, Japan's initiative was seen with different views and perceptions among the business community, the mass media and the government. Some parts of the political elite were enthusiastically supported the agreement, although the business community and some of the public doubted the benefit from such arrangement. There is a suspicion expressed in the mass media that Japan got the better deal in the IJEPA than Indonesia. The chairman of Indonesia's Chamber of Commerce also expressed a similar view, as he argued that, "Japan is supporting industries back home while eating out on the Indonesian market. We will likely become more dependent on Japan to the detriment of local industry."<sup>29</sup>

The business community was not quite enthusiast toward the agreement. The comings of the Japanese Ministers to follow-up the agreement of economic partnership were coldly welcome by the Indonesian business community. As was reported by a prominent daily The Jakarta Post: "*Several years ago, it was*

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28 David Adam Stott, "Japan's Fragile Relations with Indonesia and the Specter of China," *japanfocus.org.*, accessed on June 3, 2010.

29 Andi Haswidi, "Indonesia likely to be the loser in Japan agreement," *The Jakarta Post*, 18 August 2007.

*unimaginable that any high-ranking Indonesian official would skip a meeting with a Japanese minister, as Japan was Indonesian largest lender and investor. Today, high-ranking Indonesian officials look for opportunities to meet with Chinese or Korean ministers, a situation many have said mirrors a shift of power relations within East Asia.*<sup>30</sup>

The government believes that IJEPA will enhance economic cooperation between the two countries by boosting bilateral trade and facilitating Japanese investment. However, Japan's reluctance to open its market for Indonesia's agricultural products has cast doubt on the effectiveness of the agreement. As exporters of agricultural products, Indonesia needs market opening for its products which was expected to be provided by Japan. As compensation, Japan offered to provide a program of capacity building for Indonesian industries and human resources.

## 5. Conclusion

Economic cooperation between Indonesia and Japan has developed through gradual steps from dependence, interdependence, cooperation and now approaching an economic partnership. Every step in the cooperation was a process that was not easy to achieve the targets and to adjust the economic interests of the two countries. Although focusing on economic cooperation, it could not ignore the political aspects of the cooperation.

To preserve its relationship with Indonesia, particularly to guarantee its economic interests in Indonesia, Japan needs new ways and mechanism in its relationship with Indonesia. Formal approach through state-to-state relationship was no longer sufficient to support diplomatic relationship. Japan has to develop 'multi-track' diplomacy to approach Indonesia by making use of many links developed by non-state actors by using 'soft-power' in the forms of culture and

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30 The Jakarta Post, 20 October 2011, p. 7.

attractions.

Furthermore, Japan's genuine approach to support Indonesia by fulfilling Indonesia's expectation to use Japan as an engine of growth and industrialization has to be materialized. Through the Economic Partnership Agreement which was just signed, Japan has to show a new mechanism in economic cooperation which placed the two countries in the 'equal' position. Only with these ways Japan could balance China's position in the relationship with Indonesia.