

JAPAN-INDONESIA RELATIONS IN THE POST COLD WAR PERIOD

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To
Mummy and Papa

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PREFACE

My research is an attempt to make a study of Japan's relations with Indonesia in the post cold war period. The selection of the period and country is not without significance. Indonesia is the largest of the ASEAN States in terms of geographical extent and the size of the population. It is potentially the most important country in the region because of its abundant resource of oil and other natural resources. Its strategic importance lies in the fact that it links the sea routes to Australia, the Indian Ocean, the Middle East, Europe and Africa. The post cold war period is significant in the sense that the winding down of the cold war tensions between the major powers in East Asia, marked by Vietnams announcement in 1988 of the withdrawal of its forces from Cambodia, lowered in turn the bipolar international structural barriers to Japanese interaction with ASEAN, and has since enhanced Japans freedom to continue its efforts to strengthen its ties with and reintegrate the region politically and economically.

This dissertation treats the relationship between Japan and Indonesia, between an industrialized nation with sparse natural resources and a developing nation with rich natural resources over the period from 1991 to 2004.

The research for this dissertation is based primarily upon Japanese and Indonesian sources, including government reports, newspapers, journals, as well as academic works.

It can be seen that Japanese investment usually flows to regions of strategic and political importance. Japanese direct investment policy is trade oriented and is more conducive to the development of Indonesia. Indonesia acquired large amount of Japanese investment through proven economic policies such as reducing tariff rates, better infrastructure condition, and by liberalizing domestic economy. Japan-Indonesia relationship is leading to a constructive partnership based on mutual benefit.

The foreign policy of Japan and Indonesia are discussed in the Chapter 1. Chapter 2 focuses on the historical perspective between the two countries. It assesses the factors that led to the growth of Japan-Indonesia relations. Chapter 3 deals with the economic dimension focusing on the trade, foreign direct investment and rate of official development assistance flow from Japan to Indonesia. It also analyses the different policy measures taken by Indonesia for attracting Japanese investment. Chapter 4 emphasizes on the political and security dimension between the two countries. In conclusion the general relationship between the two countries shows mutual cooperation on various issues. The obstacles for the growth of Japan-Indonesia relations are determined through conclusion.

First of all I would like to express my deep sense of gratitude to my supervisor Dr Lalima Varma, who guided me in the preparation of this dissertation from the very beginning. But for her constant guidance and assistance, I would not have completed this study.

I should like to record my sincere thanks to the librarian and staff of the Japan Cultural and Information center, Jawaharlal Nehru University, Indian council of World Affairs library, Japan Bank of International cooperation, ICSSR and the Institute of Defense and strategic analysis, New Delhi for the unfailing cooperation and courtesy they extended to me. My profound thanks are also due to Mr. Madan at the Indonesian embassy in New Delhi.

I am heavily indebted to Ajay, who constantly shared all sufferings during writing and made valuable suggestions and also provided proper advice for the integration of the entire fragments of this research into the form of this dissertation. I would also like to thank Sreeman, and Abhinav whose computer skills bailed me out in times of the problems arising out of my limited computer awareness.

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ABBREVIATIONS

ADB	Asian development Bank
AMF	Asian monetary Fund
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN regional Forum
ASEAN	Association of South East Asian Nations
ASEAN+ 3	ASEAN, Japan, South Korea and China
ASEM	Asia-Europe Meeting
FDI	Foreign Direct Investment
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
MITI	Ministry of International Trade and Industry
MOFA	Ministry of Foreign Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRC	Peoples Republic of China
SDF	Self Defense Forces
UNDP	United Nations Development Program

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CHAPTER – I

INTRODUCTION

Typically, when people think of Japan's foreign policy, the focus of attention is on its relations with the United States, China, Russia, and to a lesser extent the two Koreas. That this should be so is understandable since the primary issues affecting Japan's security are bound up in the complex of relationships among these countries. Far less attention is given to Japan's relations with Indonesia and the various countries of South East Asia, and much of the discussion that is devoted to this proceeds with the comfortable assumption that these countries are bound by so many economic ties to Japan as to be largely beholden to Tokyo's core preferences.¹ There are already quite a number of general and issue specific studies of Indonesian foreign policy. As yet, however, there has been remarkably little serious analysis of the bilateral relationship with Japan.

Japan has been an integral part of the dynamic growth performance of the Asia-Pacific region around the last two decades of the 20th century. The geographical proximity and economic and political circumstances has brought Japan to play a closer relationship with the South East Asian region. The South East Asian leaders enthusiastically welcomed Japanese foreign investment to finance their national development. Some even openly advocated schemes to emulate Japan, such as the "look East Policy" espoused by Malaysian Prime Minister Dr. Mahathir Mohammed and Singapore's "learning from Japan movement" in the late 1970s and early 1980s. At the same time, Japan considered South East Asia as a region of great strategic importance and enormous potential for economic growth that asserted Japan to have a special relationship with the region as a leader, a donor or a role model.²

¹ Andrew MacIntyre, "*Japan, Indonesia and Policy leadership in the Pacific: Economic Crisis and Foreign Policy Opportunities*", p.193.

² Paridah Abdul Samad & Mokhtar Muhammad, "Japan in South East Asia: its diplomatic, economic and military commitment", *Indonesian Quarterly*, 22(3), 1994, p.261.

The first post war Japanese efforts to establish an overseas economic and diplomatic role, has been evident in its relationship with South East Asian region. Japan has had long standing economic and political interests in this region, which is significant to Japan as a source of raw materials, a market for Japanese manufacturers, and an area through which many of Japan's products and commerce transited.³ In the early 1980s, the South East Asian countries accounted for approximately 15 % of Japan's imports, including most of its natural rubber, tropical timber, palm oil, about half its liquid natural gas, and one sixth of petroleum.⁴

The region purchased about 10 % of Japanese exports. It stands astride major trade route connecting Japan with fuel suppliers in the Middle East and iron ore suppliers in Western Australia. Politically, the South East Asian member nations were the first in the developing world in which Japanese influence and presence was reasserted after the war. In the foreign policy aspects, South East Asia remains an especially important pillar of Japan's relations with outside world in general and its comprehensive security policy in particular.

To begin with, let us take a brief overview of the main features of Indonesia's foreign policy. Since the late 1960s, foreign affair was a policy area of only moderate political significance in Indonesia.⁵ Only sometimes foreign policy issues commanded sustained high level political attention. We can clearly see as to why this was so. First, for roughly the first two decades after Suharto took power, the overwhelming policy preoccupations were domestic in nature: internal security and economic development. In the wake of the political and economic chaos on the mid-1960s in Indonesia, Suharto and his key supporters in the military focused administrative resources and political energy on securing the position of the regime by suppressing opponents and co-opting others at the same time as fostering rapid

³ In 1979, 78% of Japan's crude oil imports, 41% of iron ore imports, 35% of steel exports, 63% of its cement exports, and 39% of its automobile exports passed through the Strait of Malacca. See, Charles E Morrison, 'Japan and the ASEAN countries: the evolution of Japan's regional role in Takashi Inoguchi and Daniel I Okimoto, *"the political economy of Japan: Vol. II, the changing international context"*, California, Stanford University Press, 1988.

⁴ ibid

⁵ In the much more fluid political environment of the early 1960s and 1950s, however, foreign policy was both high profile and keenly contested politically.

economic development. Second, reinforcing this heavy domestic focus was the fact that country's external strategic environment was quite benign. As the largest country in South East Asia, Indonesia was relaxed about the possibility of a serious security threat coming from within its immediate region. The cold war conflict in Vietnam was of some concern to Suharto's staunchly anticommunist regime, but the possibility of external threat from either China or the Soviet Union was remote compared to the potential threat to the state from domestic opponents.

More recently, despite the international systemic changes associated with the passing of the cold war, and separately, the reemergence of China as a regional force, Indonesia's strategic circumstances have remained relatively benign. The rise of China is certainly a source of quite but real concern to Jakarta, though it does not exercise the attention of the country's political elite to nearly the same extent that it does in, say, Hanoi, Manila, Seoul, or Tokyo.

The key international priority during the early period of the Suharto regime was to nurture relations with Indonesia's creditors- particularly the United States and Japan-as part of the struggle to rehabilitate the country's economy. An important component of this endeavor was the rebuilding of relations with its neighbors in South East Asia as a means for again earning the trust of the major western powers. This was a primary initial motive behind Indonesia's sponsorship of the formation of ASEAN.⁶ For the most part, however, from the mid 1960s into the 1980s, Indonesia's attention was primarily directed inward. From around the mid 1980s this picture began to change as Indonesia came to assume an increasingly outward looking and active diplomatic posture. As part of this, Indonesia also came to exhibit much stronger interest in multilateral cooperation, something it had previously avoided in its desire to minimize international alignment and alliance entanglements. Indonesia's support to ASEAN can be seen in this context. Lying behind this more active and self-assured foreign policy stance were important domestic and international changes. Domestically, both the personal position of Suharto as President and that of the regime more generally had become much more

⁶ D.F.Anwar, *"Indonesia in ASEAN: Foreign policy and Regionalism"*, (Singapore: Institute of South East Asian studies, 1994); M.Leifer, *"Indonesia's Foreign Policy"* (London: George Allen & Unwin, 1983).

politically secure. With the prospect of a credible challenge to its position increasingly remote, the government became more willing to devote attention to international issues. Also contributing to this result, as well as underpinning the emerging interest in multilateralism, was the liberalization of the Indonesian economy from the mid-1980s onwards. As the country's economy opened up and became increasingly integrated into the wider regional economy, interests and problems shared with other Asian countries pointed to the growing utility of regional cooperation. And, of course, the end of the cold war played a part here as well.

Finally, in the current transitional period, one can clearly see that the collapse of the Suharto's regime amid the Asia wide financial crisis of 1997-98 has inevitably had a major bearing on the country's foreign policy posture. Although the Habibie government remained nominally committed to the various multilateral frameworks for regional cooperation, in practice they fell sharply as priorities. Once again, severe internal economic and political problems forced most foreign policy issues into the background. And more concretely, the radical depreciation of the rupiah meant that the dollar cost (or other currency cost) of maintaining established diplomatic missions as well as ad-hoc ventures rose to punishing heights. As a result, Jakarta was forced to curtail Foreign Ministry outlays severely.⁷ The principal exception to this was the desperate need to nurture bilateral relations with Washington, and particularly Tokyo, to maximize the flow of financial relief during this period of acute economic distress.⁸

If these are the broad outlines of Indonesia's Foreign policy postures over the past three decades, how has Japan fit into Indonesian Foreign policy calculations? How does Indonesia view Japan and its role in the wider Pacific region? Inevitably, the starting point of any discussion of Japan's relationship with Indonesia- as its relationships with most other Asian countries- is recognition of the strength and depth of bilateral economic relations. Simply put, Japan looms very large in the

⁷ *Jakarta Post*, 20 December, 1998.

⁸ The other notable foreign policy endeavor during the crisis was the governments declared willingness to allow East Timor to leave the republic if it does not wish to accept a government proposal for enhanced regional autonomy.

Indonesian economy. Japan is Indonesia's most important trading partner, as both its largest export market (principally oil, gas, and timber) and its largest supplies of imports (principally manufacturers). Similarly, Japan has also been Indonesia's largest foreign direct investor. Indeed if we look just at the manufacturing sector, Japan massively outstrips other countries as a source of foreign investment into Indonesia. Japan has also dominated Organization for Economic Cooperation and Development (OECD) bank lending to Indonesia. Japan has also far outstripped all other providers of Official development assistance (ODA) to Indonesia. We can also see that, after the financial crisis Japan has assumed an even more important role as a supplier of ODA.

In broad terms it is evident that for, Indonesia, Japan represents a key source of capital and to some extent technology. For Japan, Indonesia represents an important emerging market in South East Asia, a key supplier of oil and gas, and a useful production platform to other markets in North America and Europe. Given the density of these economic ties and the asymmetries between the two countries, it is not surprising that much of the literature focusing on Japan and its position in the region tends to portray Indonesia and the rest of South East Asia as passive subjects in the tight and altogether happy embrace of the giant Japan.⁹ Reflecting on Japan's importance in terms of trade, investment, and aid to Indonesia and other countries in the region T.J. Pempel¹⁰ declares that, "Such economic leverage over the entire national economy of so many of these countries clearly puts Japan in an exceptionally powerful position in the region." He goes on to add that, "Japan stands in a uniquely superior position to the rest of the countries of Asia." This may be the way things appear from Tokyo, or perhaps to outsiders focusing on Tokyo, but viewed from Jakarta, the relationship appears rather different.

Japan's Indonesia policy has three major components. First, it must be taken into consideration that the Republic of Indonesia was born under the protection of the Indonesian army, created by Indonesian nationalists armed by the Japanese

⁹ W. Hatch and K. Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance*, (Melbourne: Cambridge University Press, 1996)

¹⁰ T.J.Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," in P. Katzenstein and T. Shiraishi, eds., *Network Power: Japan and the Asia*, (Ithaca: Cornell University Press, 1997), p.71.

imperial army in the 1940s. The father of independence, President Sukarno, started out in the army. In the early days, 1948-65, there were strong ties among the elites of Japan and Indonesia. These networks were transformed somewhat during the Suharto years 1967-98, focusing more on the business elite, but continuing to be strong nevertheless. Second, Indonesia has long been a source of energy supplies and other natural resources for Japan, first utilized in the execution of the Pacific war and later on in economic development. Such resources include petroleum and natural gas as well as iron Ore, tin, nickel ore and bauxite. For Japan, which practices and benefits from free trade and depends on Middle Eastern oil for 90 % of its petroleum consumption, maintaining good relations with Indonesia is the sine qua non that assures it free passage through the archipelago linking the pacific ocean and the Indian ocean. Third, Indonesia has been a place for Japanese direct investment in manufacturing. From war reparations, then to official development assistance, and then to direct investment, Japan has invested a great deal in Indonesia. Indonesia has been a key state in ASEAN, and so ensuring its political and economic development is one of Japan's most important tasks.

Although, to be sure, Indonesia periodically worries about the possible dangers of excessive economic dependence upon Japan, for the most part there has been remarkably little concerned attention focused on the bilateral government-to-government relationship. One does not encounter among Indonesian policymakers, military officers, businesspeople, intellectuals, or journalists a sense that Tokyo is constraining or influencing the policy choices of the Indonesian government, or indeed, that Tokyo is even pursuing an effective or meaningful regional leadership role. Certainly it is well understood that Tokyo seeks to support Japanese corporations in their pursuit of narrow commercial interests, but this stands apart from the wider question of Tokyo's pursuing a coherent and consequential broadly based Foreign policy. Japan's economic presence in Indonesia has yielded much less policy leverage than one might expect. The United States, which has fewer economic ties to Indonesia and does much less for Indonesia terms of providing development assistance, nonetheless features very much more prominently in Indonesian thinking. Indicative of this is that if one reviews the scholarly literature on Indonesian Foreign policy, there is very little focused discussion of the significance of Japan to Indonesia. A book length synoptic study of Indonesian

Foreign Policy devoted less than two and a half pages to Indonesia's relations with Japan.¹¹

More broadly, there has been remarkably little attention in the Indonesia foreign policy literature to the bilateral relationship; it simply hasn't commanded the wider policy attention that strong economic ties might lead the distant observer to expect.¹² Though there are a number of competent studies on Japan's relations with the region during and before the cold war years, no significant attempt has so far been made to study Japan's relations with Indonesia during the post cold war period in a comprehensive manner. My study is a modest attempt to fill this gap.

In the midst of the challenges of the post cold war emerging global order, this work would pursue the three major questions: the 'what', 'why', and 'how' of Japan's relations with Indonesia in the dimensions of politics, economics, and security.

¹¹ L. Suryadinata, *"Indonesia's foreign policy under Suharto: Aspiring to international leadership"*, (Singapore: Times Academic Press, 1996).

¹² There are several essay length studies that deal at least partly with Indonesia-Japan Relations. See D.F.Anwar, "Indonesia's relations with China and Japan: Images, Perceptions and Realities," *Contemporary South East Asia* 12:3 (1990),pp.225-46; H.Soeastro, "Japans ODA and Indonesia's resource security aid", 1993; S.Hardjosoekarto, "Japans role in Indonesia's development," *Indonesian Quarterly* 21:4 (1993); P. Samad and M. Muhammad, "Japan in South East Asia : Its Diplomatic, Economic and Military Commitments," *Indonesian Quarterly* 22:3 (1994); S.Sudo, "Japan and the security of South East Asia," *Pacific Review* 4:4 (1996); R. Foot, "Thinking globally from a regional perspective: Chinese, Indonesian and Malaysian Reflections in the post cold war era," *Contemporary South East Asia* 18:1 (1996), pp.17-36.

CHAPTER – II

JAPAN-INDONESIA RELATIONS: A HISTORICAL PERSPECTIVE

The Japanese and the Indonesians are Asiatic, Oceanic peoples, inhabiting regions north and south of the equator, who have shared a long tradition of cultural and commercial intercourse. In contemporary history they were brought even closer from March 1942, during Japans military occupation of Indonesia. It lasted for three and a half years and ended with Japans surrender to the allied powers, which included the Netherlands, Indonesia's former colonial master¹.

After the Japanese attacks of Pearl Harbor in Hawaii, Japanese armed forces went southwards and occupied several South East Asian countries. After the British defeated Singapore, Japanese forces invaded the Dutch East Indies whereupon the Dutch colonial army surrendered to the Japanese in March 1942. Ir. Soekarno was released from his detention. The Japanese introduced Japan's "Great East Asia Co-Prosperity idea," which became unpopular in Indonesia as the Indonesians realized that Japanese occupation was just an alternate colonialism substituting Dutch colonialism.² The Japanese attempted to win over Indonesia and create mass Islamic organizations as vehicles for their own ambitions. The general experience of the majority of Indonesian peasants under the Japanese was very bad and they tried to fight what they considered to be Japanese ruthlessness, cruelty and inefficiency.³

¹ Masashi Nishihara, "*The Japanese and Sukarno's Indonesia*", an east west centre book, Honolulu, 1976, pg (xiii).

² Japans co-prosperity concept was formally established following an announcement by Minister Matsuoka Yosuke in 1940. this was followed by Premier konoe fimiraro's radio address on the same subject. To quote "we will liberate them from their colonial status and try to raise their consciousness as people of greater East Asia. We will expand the power of nationalities and have them contribute to the building of the southern area. We shall have them assume charge of the defense (of the area). In fostering or leading them, we will discipline ourselves and be kind not uncontrolled. (Joyce C. Lebra, ed., "*Japan's greater east Asia co-prosperity sphere in world war II*", OUP, 1975), p.120. japans role was thus as "deliverer" of the indigenous peoples in south East Asia from their western colonial masters.

³ Ibid.

However the Japanese occupation had a significant impact on all Indonesian life, in furthering national aspirations for independence from the Netherlands. Sukarno collaborated with the Japanese military administration which assisted him in becoming Indonesia's first president. His successor General Suharto was also trained by the Japanese military and served as a platoon commander of the Indonesian voluntary army created by the Japanese. For the sake of furthering the cause of Indonesia's independence however Ir. Soekarno and Dr Mohammad Hatta gave limited assistance to Japanese occupation authorities on the surface while other Indonesian nationalist leaders went underground to stage insurrection all over java, such as in Blitar (East Java), Tasikmalaya and Indramayu (west java), Sumatra and kalimantan.

Due to the hardships suffered by the Japanese in waging the pacific war caused by interruptions of their supply lines and by Indonesian insurrections, the Japanese occupation forces in Indonesia ultimately gave in to recognize the Indonesian Red and White colored Flag as the Indonesian national flag which was followed later by the recognition of the "Indonesian Raya" as Indonesia's national anthem, and the "Bahasa Indonesia" as Indonesia's national language.

After persistent demands by the Indonesians for complete indonesianization of the civil administration in Indonesia, the demands were ultimately met by the Japanese. This became Indonesia's basis to further build up the foundation for the proclamation of independence of the republic of Indonesia.⁴ The final defeat of Japan after the dropping of the atomic bomb in Hiroshima and Nagasaki on the 6th and 9th of August 1945 prompted the Japanese to surrender unconditionally to the allies. This provided an opportunity for Ir. Soekarno and Dr. Mohammad Hatta to proclaim Indonesia's independence on the 17th of August 1945.

Japan is the only power in this century that can be said to have contributed to the decolonization process and to the political development of the South East Asian Region.⁵

⁴ Indonesia 2003, An Official Hand Book, *National Information Agency*, Republic of Indonesia, pg 26.

⁵ David Chee-Meow Sheah, "ASEAN and Japan's South East Asian Regionalism", p.84.

Despite the fact that half a century has already elapsed since the end of the World War II, Japan's role in the war is characterized by most writings as establishment of colonial hegemony. That formulation however, downplays three important points. First, Japan made no attempt to occupy the single remaining "native" Siam during the war. Second, the period of Japanese military interregnum of three and a half years was too short as to allow any normalization of conditions for enfranchisement to take place. Third a pro native policy already prevailed in these territories.

It is worth noting that despite the vicissitudes of war, increased efforts were made to select and dispatch young people from inside these southern areas to Japan for training and study, and many of them returned to their home countries to assume positions of leadership. Programs of this sort date back to the 1930s, when the ministry of foreign affairs set up an international student's institute.⁶

Most post war studies done in the west have portrayed these training schemes and their promotion of nationalist groups in a negative light. Ironically that negative tone acted to influence post war Japanese thinking as well. The tendency to see this history negatively could be attributed to the enormous cost of the war and the impact of its failure on the country. Other factors, such as the subsequent impact of the allied occupation and intense criticism from other countries, prevented Japanese from attempting to draw any positive interpretations from the war. That legacy is clearly noticeable even today. Political leaders in Japan rarely venture to express positive appraisals of the war. Leading politician Hashimoto Ryutaro, for example, abandoned involvement in the patriotic front when he found himself in line for the Prime minister ship.⁷ Japanese and observers from overseas view visits to Yasukuni Shrine, which is a shrine dedicated to honoring the war dead, by incumbent government leaders with mixed feelings.

⁶ Goto Kenichi, "'bright legacy' or 'abortive flower': Indonesian students in Japan during world war two", in Grand K Goodman, ed., *Japanese cultural policies in south East Asia during world war two*, (London: Macmillan, 1991), p.8.

⁷ Hashimoto headed the influential Japan war bereaved family association. This is the largest and most influential war veterans group with over one million members. Its fundamental principle is to oppose any forthright apology to the Asian countries for the war episode.

Under a sanitized political environment, it is clear that the co-prosperity concept is a topic that virtually cannot be publicly discussed in Japan. Ultimately it has been assigned to the dark pages of history and loosely regarded as a grand but ill fated scheme of Japanese colonial policy. Whatever consideration might have been given to the south East Asian region in that scheme has also been left untouched. In such a context, any positive contribution that Japan might have made to the region in the expulsion of colonial forces has been ignored. Historical record shows, however, that the anti colonial impact of Japanese prewar and war time foreign policy cannot be ignored. Had there been no military conquest that accelerated the dislodging of western colonial administrations, the decolonization process that took place after the war ended would not have taken place as rapidly.

Japan would seem to deserve positive credit for its role in altering the political landscape. In Indonesia, it is possible that the various uncoordinated training programs operated by the Japanese military authorities on the eve of their surrender to the Dutch and the allocation (at times, symbolically) of respect to nationalist leaders substantively enhanced their confidence in assuming self-rule. The tolerance given to Indonesian nationalists in cultivating patriotism among the masses no doubt also contributed in this direction.

These contributions have nevertheless been obscured by “war guilt”, a charge that persists to this day. Of all the three powers of the axis camp, Japan is the only one that continues to be required to expiate its war guilt. Compensation and apologies that had already been extended by Japan to East and South East Asian countries in the 1960s were considered insufficient. Japanese ODA has left many of its recipients dissatisfied. Reparations to South East Asian countries to compensate for war time damage done by the Japanese have been criticized. In the case of Indonesia, in the early 1960s, reparation projects were seen to have more negative than positive effects in economic terms. Many projects ran out of funds, and of those completed; only a small number were judged to be in a satisfactory condition.⁸

⁸ Ruth Taplin, “Japan’s foreign policy towards South East Asia”, p. 88.

However, it is also possible to argue that Japan's contributions to Indonesia's development have not been adequately portrayed. The positive role played by Japan in anti colonialism up to the end of the war has been essentially ignored. South East Asian leaders have not attributed even nominal credit to Japan for the role it played. Many of the people who were groomed for leadership through training in Japan in the war period actually did attain top political, administrative, and economic positions, especially in Indonesia.⁹

After the end of the World War II, the Japanese concentrated on rebuilding their economy. Foreign policy towards South East Asia became dormant, with the main emphasis on increasing business and economic links. Japan's interests in Indonesia's natural resources and geopolitical location continued into the post war period. As early as 1951 the Japanese government began discussing measures to develop Indonesian industries and to import Indonesian resources. Japan held its first reparations talks with the Indonesian mission in Tokyo in December 1951. Ayu Kawa Gisuke, who in the 1930s had developed Manchurian agricultural and iron mining resources, went to Indonesia in 1956 in connection with reparations problems but also showed a strong interest in the Japanese development of Sumatran oil.¹⁰ Indonesia's oil was not able to be imported immediately to Japan because of three principal obstacles. First, there remained ill feelings among the Indonesians over Japan's war time conduct; second, there existed both political instability and anti foreign sentiment in Indonesia, hindering foreign investment; and third, Japan's business lacked sufficient capital for foreign investment.

To minimize Indonesia's as well as the other Asian countries hostility towards them, the Japanese made their approaches cautiously, retaining neutrality on political issues and striving to expand trade activity in the area.

Japan's geopolitical interest in Indonesia as a defense line against the allies naturally disappeared in 1945, but in the post war period Japan hoped that

⁹ Akashi Yoji, "Japanese cultural policy in Malaya and Singapore, 1942-45" in Goodman, op cit, 1991, pp.117-72, gives good coverage of the implementation of this policy in Indonesia. It has a listing of the various awardees and their subsequent professional attainments.

¹⁰ Masashi Nishihara, "*The Japanese and Sukarno's Indonesia*," the university press of Hawaii, Honolulu, 1976, p.5.

Indonesia would remain non-communist. The Maoist regime established in mainland China in 1949 had increased the communist threat to the whole South East Asian region, where local subversives, aided by China as well as the Soviet Union, were very active. Japan would have had difficulty conducting trade with a communist regime in Indonesia which would have preferred business relations with Peking or Moscow. As the largest country in South East Asia, Indonesia also might have conceivably impeded Japan's trade with the rest of the region. A non communist Indonesia as well as a non communist Asia also would ensure the security of the Japanese oil route from the Middle East via the Strait of Malacca and the South China Sea. Thus, Japan's importation of oil through the Strait of Malacca added an important dimension to its interests in Indonesia. This consideration in turn reinforced Japan's desire for a friendly Indonesia and partially explains its offer to mediate between Jakarta and Kuala Lumpur from 1963-66. Japan's efforts was rewarded, for by the 1960s its trade levels with South East Asian nations were quite remarkable. Between 1960-1967 Indonesia's exports to Japan increased five times.

The 1960s were politically eventful for South East Asia, with the establishment of ASEAN after a number of unsuccessful attempts to form a political organization to represent the interests of the region. Probably no other group of leaders in the world was watching the development of Japanese foreign policy as closely at this time than those of South East Asia. They lived with the memory of ill-treatment and broken promises from Japan¹¹ during the second world war and believed that as Japan's investments and trade grew in the region, so inevitably would some sort of political role. Their suspicions deepened with experiences of the working practices of the Japanese, which seemed to take a lot out of South East Asia and offer very little to the region in return. The big trading companies and MITI seemed to bias everything in their own favour, as the government had done at the time of the co-prosperity sphere.¹²

¹¹ Although people in all South East Asian countries agree that the Japanese were cruel conquerors, it is important to note that south East Asia's response towards the Japanese role in war differed among these countries. Indonesia and Burma acknowledge that Japanese rule was crucial in advancing their nationalist movements against European colonialists. Only the Philippines and Singapore were outwardly critical of the Japanese occupation.

¹² Eugene R. Black, *Alternatives in South East Asia*, London: Pall Mall press, 1969, p. 83.

Japan's return to South East Asia during this time was due to two considerations. One was the larger U.S. Cold war strategy of containing communism. Japan's integration with South East Asia served the American goals of bolstering South East Asia against Chinese communism and minimizing Japan's trade links with China.¹³ A second consideration was the closure of the China market through out the 1950s and 1960s.¹⁴ Since China was one of the main pre war markets for Japan, its closure meant that Japan became totally dependent on the United States for both economic survival and security which in turn resulted in Japan establishing economic links with South East Asian countries for their markets and natural resources.

The Japanese government began to increase financial aid to Indonesia at this time, but a disagreement between the foreign office and the finance ministry hindered this policy development. The ministry of finance, which is the most powerful in the Japanese government and is also the closest to Japanese politics, argued that while the Japanese standard of living was relatively low, financial aid to foreign countries was not politically acceptable. A political rationale for foreign aid could only be found when Japan defined its new political role in the world. The opportunity for this political role came during the Malaysian- Indonesian confrontation.

This confrontation between Indonesia and Malaysia (1963-66) proved to be one of the most turbulent events for South East Asia and Japan became involved as a mediator in this dispute through its payment of reparations to Indonesia, Burma, Philippines and South Vietnam.¹⁵ Japan was very concerned about the formation of Malaysia because it did not wish to have its economic relations with the region disrupted or its oil investments threatened by conflict in the straits of Malacca. The Malaysian-Indonesian conflict threatened to disrupt the carefully laid ground work for a secure Japanese market and supply of oil. Japan was compelled, therefore for

¹³ Michael Schaller, "securing the great crescent: occupied Japan and the origins of containment in south East Asia," *journal of American history* 69:2(September 1982), p.393.

¹⁴ Shiraishi, "Japan and South East Asia", p.176.

¹⁵ Ruth Taplin, "japans foreign policy towards south East Asia", p.81.

its own economic interests, to end the dispute. It used its good relationships, cultivated during the war with Indonesia's leaders, and millions of dollars of aid to help resolve the dispute. Japanese aid made Indonesia one of the regions success stories, although without political plurality or democracy, which the Japanese pledged to facilitate in the region.¹⁶

Several factors contributed to Japanese Prime Minister Ikeda Hayato's desire to mediate. First, he felt that neither the United States nor Great Britain were exerting adequate pressure upon Indonesia and Malaysia. Second, it seemed that the leaders of Malaysia, Indonesia, and the Philippines harbored more emotional rather than political disagreements, and that all of them seemed to desire another summit meeting. Third when subandrio stopped in Tokyo en route to New York, he gave the impression to Oda Takio, former ambassador to Indonesia and the then counselor in the foreign ministry, that Indonesia would appreciate Japan's mediation.¹⁷ Fourth, it was in Japan's interest to prevent the Malaysian issue from developing into a full-fledged East-West conflict, and fifth, a stable South East Asia would insure the continuous export of Japanese goods to the region. Ikeda further reasoned that the stability of the Sukarno regime was imperative to containing the advance of communist forces into South East Asia and that Japan's mediation would strengthen its political position in the region.

Japan's policies towards the South East Asian countries were probably more indicative of the nature of Japan's evolving international role than of its policies towards other regions. The U.S. government had long urged Japan to accept greater international responsibilities and to play a larger economic and political role, especially in developing Asia. As early as October 1962, President, John F. Kennedy told Japanese leader, Sato Eisaku, then out of office, that Japan should contribute more to the economic development of South East Asia.¹⁸

¹⁶ John Bresnan, *"Managing Indonesia: the modern political economy"*, New York, Columbia university press, 1994.

¹⁷ Masashi Nishihara, *"The Japanese and Sukarno's Indonesia,"* p.131, originally cited in *Asahi Shinbun*, September 19, 1963.

¹⁸ Charles E. Morrison, "Japan and the ASEAN countries: the evolution of Japan's regional role", in Takashi Inoguchi & Daniel. I. Okimoto, *"the political economy of Japan: Vol II, the changing international context"*, California, Stanford university press, 1988, p. 414.

Japanese leverage in the South East Asian region increased considerably ever since Japan counted on United States for leadership in providing external support for maintaining stability in the ASEAN region. The Japanese and the South East Asian governments have had complementary interests in a stable regional order in East Asia, including preservation of the basic social, economic and political framework of the South East Asian societies.

Changes in the international environment forced a more explicit recognition of these interests. American pressure as well as uncertainties about the U.S. regional role in the 1960s and early 1970s raised the question of whether Japan must assume a more prominent regional role if it is to achieve its economic and political goals. Japan had become an important regional actor and its South East Asian policy was to commensurate with its relationship with the United States which ensured its role as a facilitator of the economic and political order in the region.

However, the period of the late 1960s, and through out the 1970s, witnessed a major shift in large power relationship in Asia. The leaders of the governments in both Japan and in the South East Asian region perceived a sense of vulnerability in the region due to the events that occurred in the international economic system and the political turmoil within the South East Asian region. Until late 1960s, the United States and western European countries remained the main source of both tangible assistance and psychological support for the South East Asian governments. However, with the collapse of the Bretton woods system and OPEC's quadrupling of oil prices combined with American withdrawal from the South East Asian region deeply disturbed the political economic order in the region. Moreover, the growing signs of protectionism in the west, the inability of the United States to respond effectively to the Arab oil embargo which culminated in the waning nature of U.S. hegemony in the world economy, the reappearance of the Soviet Union in world affairs and the re-approachment in the Sino-American relations necessitated both Japan and South East Asian region especially Indonesia to come closer and to identify the areas for mutual benefit.

Apart from these developments, the domestic political turmoil in the South East Asian countries such as the communal riot in Malaysia in 1969 and temporary suspension of parliament, frequent public protests in Manila prior to September 1972 declaration of martial law, and political jockeying in Indonesia as the Suharto government gradually entrenched itself, occurred during the same period. These turbulent events went in the direction of lightening governmental control, a policy shift adopted by many of the countries in the region. Throughout the 1970s, there were considerable political tensions within all the South East Asian societies. These political tensions played a major role in the riots that occurred in Jakarta and Bangkok in January 1974 during Japanese Prime minister, Kakuei Tanaka's South East Asian tour.

Tokyo's establishment of the Asian Development Bank in 1966 aided its penetration into the economic affairs of South East Asia.¹⁹ Tokyo had total control of the running of the ADB, as Japanese had held the presidency since its inception. However, Tokyo's control of the ADB served as a double edged sword. While the ADB allowed Japan to establish a foothold in South East Asia's economic activities, it also marred Tokyo's image. This was because Tokyo was seen as concentrating only on economic penetration, without paying attention to the voices of South East Asian countries.²⁰ During this time Japan did not show any interest in the formation of ASEAN.²¹ Its participation in the political / security affairs of ASEAN was minimal. Japan's political involvement included being part of the international peace observation team for Indo-China in 1968 and in 1970, the mediation team (along with Indonesia and Malaysia) whose mission was to bring an end to the Vietnam War.

¹⁹ Asian development bank home page: <<http://www.adb.org/About/default.asp>>

²⁰ Suetō Sado, "Nanshin, Superdomino and the Fukuda doctrine: stages in Japan-South East Asia relations," *Journal of North East Asian studies* 5:3(fall 1986) p.38.

²¹ Japan regarded the institution as ineffective for three reasons. First, ASEAN was a new institution with limited influence in a world dominated by super powers; second, ASEAN members had vast problems both in their domestic affairs and bilateral relations; and third, Tokyo feared that ASEAN could become a collective bargaining organization that could force Japan to reduce its growing trade surplus with South East Asian countries. (William R. Nester, "Japan and the third world : patterns, power, prospects", New York, St Martins press, 1992, p.123)

Immediately after ASEAN was formed, Japanese Prime Minister, Sato, toured each country promising increases in aid and better trade terms. Tension increased between Japan and ASEAN after the organization declared its non alignment in 1971. Growing regional resentment of what was perceived as Japanese economic aggression, culminating with mass demonstrations against Prime Minister Tanaka's visit to Thailand and Indonesia in January 1974, forced Tokyo to make some concessions. In March 1974, Tokyo agreed to establish the Japan-ASEAN forum on rubber to allay some of the criticism.²² Despite this concession, Tokyo's diplomatic strategy centered on playing one South East Asian nation against the other through largely unfulfilled promises of better trade, investment and aid terms.

In the mid 1970s several developments compelled Japan to reorient its policies towards Indonesia from low profile to a high level of neo mercantilism. The dramatic events occurred during these periods such as the "Nixon Shocks"- the U.S. opening up to China and the floating of the dollar, the 1973 oil crisis, and the U.S. withdrawal from the South East Asian region in 1975 demonstrated the need for a new foreign policy approach in Japan's policy towards Indonesia. Tokyo clearly recognized that a power vacuum was opening in South East Asia, which Japan could fill through active, creative diplomacy while simultaneously enhanced Japan's economic hegemony over the region. This policy shift was part of a "comprehensive security policy" following the oil crisis of 1973. Tokyo considered South East Asia to be as important sphere of influence, just like the Caribbean basin was to the United States. By the mid 1970s, Japan had supplanted the United States as the most important trade partner of almost every nation in the region.

Despite the reservations over Japanese hegemony in the region, ASEAN eventually recognized the need for a constructive Japanese role because the United States was cutting back its commitment in this zone. Their main efforts were directed towards consolidating control on the domestic level, strengthening regional solidarity, and diversifying their foreign relations.²³ Especially in the latter context, they began to

²² Sueo Sudo, "From Fukuda to Takeshita: A decade of Japan-ASEAN relations", *Contemporary South East Asia*, Vol. X (2), September 1988, p. 511.

²³ *Far eastern economic review*, 18 February 1979, cited from Nester, "Japan and the third world", p.125

view Japan an economic powerhouse whose interests and interactions in the ASEAN region has been rapidly expanding as a potentially greater source of political power. Japan's South East Asia policy was formally enunciated in August 1977 when Fukuda visited the ASEAN countries (as well as Burma) and attended the second ASEAN summit in Kuala Lumpur. At the end of his trip in Manila, he announced that "Japan would not become a military power, that it would cooperate with the South East Asian countries in developing practical cooperation in the political, economic, social and cultural spheres based on 'heart-to heart' understanding, and that Japan would assist in strengthening the solidarity between the ASEAN member countries while fostering mutual understanding between them and the nations of Indo-China."²⁴

Fukuda doctrine has been regarded as a major turning point in the Post war Japan relations with South East Asian nations. ASEAN was crucial for Japan as it was a major source of energy and other essential raw materials, 98 % of its imports of natural rubber, 96 % of its tin, 40 % of its copper and bauxite came from this area.²⁵ These interests not only were compatible with Japan's 'omni directional' foreign policy, but also assumed a degree of Japanese political leadership in the region, to be based on economic and political initiative rather than on military strength. Japan's South East Asian diplomacy was explicitly cited as a Japanese contribution to the international order. Sonada, Foreign minister in the Fukuda cabinet explained it as: "it is the duty of Japan as an advanced country in Asia to stabilize the area and establish a constructive order".²⁶

Although Fukuda doctrine became an underlining factor of Japanese policy towards ASEAN region, the situation was no conducive for negotiating specific issues. Despite Tokyo's acceptance to provide a \$ 1 billion role to finance ASEAN industrial products, the loans were contingent on each project's feasibility. The projects included urea plants in Indonesia and Malaysia, a soda plant in Thailand, a

²⁴ Sueo Sudo, "From Fukuda to Takeshita: A decade of Japan-ASEAN relations", *Contemporary South East Asia*, Vol. X (2), September 1988, p.511.

²⁵ Wolf Mendel, "changing perspective of Foreign policy" in Loukas Tsoukalis & Maureen White (eds), *Japan and the Western Europe*, London, franker, 1982, p. 90.

²⁶ *Strait times*, December 13, 1977, cited from Charles E. Morrison, "Japan and the ASEAN countries", p. 422.

phosphate factory in Philippines and a diesel engine factory for Singapore.²⁷ After extensive negotiations, Tokyo formally agreed to extend the loan to Indonesia's project in October 1980. A number of other factors seem to have influenced an expanded Japanese diplomatic role in South East Asia getting diminished. These included the breakdown of relations between China and Vietnam, the development of close Sino-Thai ties against possible Vietnamese aggression, and the restoration of a more vigorous U.S. defense role. ASEAN however, eagerly sought Japan's support on issues of great political importance to the member countries, especially Vietnam's occupation of Kampuchea and the Indo-Chinese refugee crisis. Rather than a leader, Japan occasionally became a reluctant supporter of ASEAN demarches on these issues.

The period of 1970 was marked by political upheavals and economic uncertainties in the South East Asian region. Under these circumstances, the Japanese played a crucial role for creating political and economic stability in the region. In order to create such stability and integration Japan substantially increased direct investment in the region. Indonesia liberalized its economy and gave various incentives to attract Japanese FDI. Japan invested in natural resources, extraction sectors and in manufacturing during this period. By the end of 1970s, Japan emerged as the principal trading partner and major investor in the ASEAN countries.

Indeed the period of 1980's was a peak in Japanese influence. Its leadership status in the economic sphere remained unshaken. Hard indicators to show the level of affirmative interest are easily identifiable. Branches of Key Japanese department stores like Seiyu, Daimaru, Takashimaya etc were welcomed and patronized in the ASEAN countries. Features of Contemporary culture- Karaoke, Pop music, *Manga* (comics), televised cartoons- became accepted features of domestic popular entertainment in the region. Religious groups of distinctly Japanese origin, such as *Soka Gakkai*, were also accepted. Specialized academic departments focusing on Japan were set up in many institutes, and adhoc programs were often hastily arranged among those that could not pull together sufficient resources to mount established degree courses. The Japanese language could be found on numerous

²⁷ Nester, "*Japan and the third world*", p.127.

shop fronts and sign boards. The number of South East Asians sitting for the Japanese language proficiency test increased at a phenomenal pace.

Japan it seems was successful in slating itself for a non controversial economic role. Both the official and the unofficial sectors in Japan embraced this line of thinking. No Japanese leader commented on or made statements about how these countries should govern themselves. Key issues such as human rights and advocacy of more egalitarian distribution practices were never raised. The general thinking on Japan was apparently to adopt the "live and let live approach". This thinking was undoubtedly welcomed in South East Asia, for leaders do not need to guard themselves from criticisms from Japan. ASEAN governments had grown wary, by contrast, of the tendency of Americans to raise sensitive issues without adequate concern for the ruling regimes.

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A key question facing Japan is whether this pliant approach in the crafting of its Foreign policy towards South East Asia can continue. Until the assumption of Hashimoto as Prime Minister, it seemed that strategy would be maintained. Japanese leaders and bureaucrats have held the basic notion that grievances between Japan and South East Asian Nations can be satisfactorily resolved through discussion and negotiation. Implicit to this argument, is the belief that mere economic presence and leadership will suffice. Such an approach seemed feasible so long as the Japanese economy was experiencing sustained growth. The Plaza Accord had led to a rapid increase of Japanese investments in the ASEAN countries, and both Japan and the region were apparently happy with this relationship. The cozy relationship could not be sustained, however, if the Japanese economy deteriorated. The bursting of the economy's "bubble" in 1989 jolted Japan from this relatively warm situation. While there was the possibility that any economy would have its ups and downs, the question then surfaced was, as to Japan could retain the same kind of economic relationship that had prevailed in the 1980's. This was an apparently legitimate fear. Alternatively, could the Japanese try to sustain their presence in South East Asia from other perspectives?

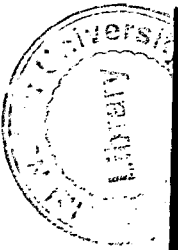
This sense of urgency was partly the result of the end of the cold war. The end of the ideological struggle would not necessarily mean a more placid world. In South

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East Asia, there was every possibility that a new package of crisis that could reshape the region might be delivered. Would the decline of USSR be replaced by an emerging Peoples Republic of China? Would the South East Asian region prefer to see a situation dominated by the US (and perhaps, see greater comfort for the Japanese)? Could a Japanese political- military presence be used to buttress the US guard in this area, or should the Japanese contemplate becoming an independent presence in the not-too-distant future. Where the Indian influence would be allocated should India, like the Peoples Republic of China, choose to extend its influence as it did in pre European South East Asia?

The need to go beyond the economic trump card was indicated in certain visible ways in the arena of Defense. There was greater interest in exposing elements of the self defense forces in the region in ways other than the mere dispatch of military attaches to embassies. Any military presence in South East Asia depends on Japan's calculation of its long term strategic interest. Japan would have to throw off its war time "albatross". This was apparently initiated by Hashimoto. One has also to see, whether Japan could devise a foreign policy that reflects independence in calculating its strategic interests. Even now, the shadow of American Foreign policy still hangs over most Japanese initiatives.

In the 1990's, ASEAN perceptions also softened somewhat toward Japan's involvement in the Political/ Security sphere. This change coincided with the decline in U.S. force presence in Asia Pacific after the cold war. In the most significant manifestation of this change in perception, Thailand's former Prime Minister Choon Havan said in May, 1990, that to augment ASEAN defense needs, Japan should participate in Joint naval exercises in the South China Sea.²⁸ And although Lee Kuan Yew said in 1991 that letting Japanese defense forces join overseas operations was like "giving liquor chocolates to an alcoholic," he changed his stance a Year later arguing:

Rationally, it is unlikely that the geopolitical situation in the world will deteriorate to a point, where as in the 1930's and 1940's, Japan will consider military force as the solution of her problems. In the 1930's the world was divided into empires and spheres of influence. The Europeans restricted Japan's access to their empires. So long as the present system of GATT, IMF, [and the] World Bank prevails, Japan will not find military aggression either necessary or profitable. So by all

²⁸ B. A. Hamzah, "ASEAN and the remilitarization of Japan: challenges or opportunities," *Indonesian Quarterly* 19:2 (1991) pp.161-62.

reason and logic, there should be no fear of a Japanese return to military aggression ... therefore, fear of Japan's remilitarization is more emotional than rational.²⁹

The concerns expressed by Lee about Japan in 1991 were not representative of the general perception of ASEAN leaders. Such concerns were dismissed by former Malaysian finance Minister Anwar Ibrahim. During an interview with *Newsweek* in 1991, he said "it is good to be alert and cautious. But it is not correct to be unduly worried (Over Japan's intentions). This is a different world."³⁰

Many South East Asian leaders did not oppose the passage of the International peace cooperation law in 1992 in the Japanese diet and the eventual dispatch of Japan's self defense forces to Cambodia. Indonesia's then President Suharto told Watanabe Michio, a senior Japanese politician, that it was Japan's sovereign right to decide whether to send troops overseas on peace keeping missions under the UN Auspices.³¹ In the Early 1990's Japan also began actively participating in Political and Security dialogues with South East Asian Countries. According to Singapore's then Foreign Minister Wong Kan Seng, Japan's active participation in Political and Security dialogues reflected a maturing ASEAN-Japan relationship.³²

Even in 1991, when a Japanese Naval flotilla arrived in the Philippines en route to minesweeping operations in the gulf, there was general approval from ASEAN capitals for the Japanese navy's first operational mission beyond territorial waters since the end of World war II. Malaysian defense minister Datuk Seri Mohammad Najib Razak said his government had no misgivings about the flotilla's planned stop at Penang, while Indonesian Foreign Minister Ali Alatas said Japan was acting within its rights.³³ In 1994, Prime Minister Tomiichi Murayama was given a shock when he visited Malaysia. When Murayama expressed remorse for the suffering

²⁹ Eiichi Furukawa, 'changes in South East Asian views on Japan,' *Japan Echo* 20:3 (1993). This quote was from a February 1992 speech delivered by Lee Kuan Yew at a symposium in Kyoto.

³⁰ Ibid. p.52, originally cited in *News Week*, August 5, 1991.

³¹ "Indonesia accepts Japan's Right to send forces overseas", *Far Eastern Economic Review*, 151:11 (March 1991).

³² "ASEAN-Japan ties mature with security talks, says Wong", *kyodo News International*, August 2, 1993.

³³ ASEAN acceptance of Japan's emerging political role was dependent on Tokyo's security alliance with Washington. As Singapore's Prime Minister Goh Chok Tong noted, "A Japan that remains firmly anchored to the US alliance system and which is trusted by its neighbors will be a positive force." *Far Eastern Economic Review*, May 16, 1991.

Japan Inflicted on South East Asia during World War II, Mahathir said he could not understand why Japan “ Kept on apologizing for war crimes committed Fifty Years ago”.³⁴

Recently ASEAN countries have been increasingly adopting the view that ASEAN's Political/Security future is tied with Japan. At the ASEAN-Japan symposium in February 2000, Philippine secretary of Foreign Affairs Domingo Siazon stressed that Japan-ASEAN regional cooperation must progress beyond economic issues to include matters of peace and security.³⁵ Countries in South East Asia have intensified efforts together with Japan to help maintain regional stability. This increased cooperation is especially evident for the issue of Piracy, which has grown dramatically and poses a genuine risk to sea lanes.³⁶ Singapore and Japan agreed to device cooperatively initiatives to combat increasing incidents of Piracy in Indonesia.³⁷ Besides Bilateral arrangements, Japan's role in security affairs has been accepted by ASEAN in multilateral settings such as the ARF. Japanese initiatives in peace keeping, preventive diplomacy and nuclear disarmament are readily accepted by the ASEAN.³⁸

Although not totally forgotten, the image of a militarist Japan has become less prevalent in the perceptions of ASEAN countries. The recent debate on the change to the constitution's Article 9, under which Japan renounced the use of offensive force to resolve international conflicts, and the resurgence of sentiment to adopt the *Kimigayo* (National Anthem) and *Hinomaru* (National Flag) as National symbols, both point to growing Japanese nationalism. However, these developments did not raise eyebrow within ASEAN, as they would have in the past. Similarly the

³⁴ Charles Smith, “Japan: Forgive and Forget, *ibid*” 157:36, September 8, 1994.

³⁵ Hardev Kaur, “Ensuring we're not bitten by the same dog twice”, *New Straits Times* (Malaysia), October 3, 2000.

³⁶ According to International Maritime Organization, World Wide Piracy cases rose to 471 in 2001 from 228 in 1996. Half of the 471 incidents in 2000 took place in South East Asia. See, “Japan to send planes on Anti -Piracy Mission to South East Asia”, *Kyodo News Service*, August 27, 2001.

³⁷ *Straits Times* (Singapore), January 10, 2001, p.4.

³⁸ Simon S.C. Tay, “What Japan can achieve in the next millennium”, *Straits Times* (Singapore), December 17, 1999, p.109.

History Text book issue³⁹ and Prime Minister Junichiro Koizumi's 2002 visit to the Yasukuni Shrine did not raise much concern among ASEAN members. Even the passing of the Anti Terrorism law, which led to the dispatch of SDF forces to the Indian Ocean to support the U.S. led battle against terrorism did not raise red flags for ASEAN members.

Although in the post cold war period Japan-Indonesia relations have improved considerably, compared with the darker days of anti-japanese demonstrations in the 1970's, much could still be done to forge a stable, mutually beneficial, enriching partnership. Both parties could implement policies that not only strengthen relations but also increase the level of confidence in each side's intentions and activities. The most important task for Japan is to come to terms with the history issue back home, which would for once and for all mitigate, if not completely extinguish, existing fears of Japan remilitarization on the part of the ASEAN countries. Japan-Indonesia ties would also be greatly improved by greater cultural exchanges, political /security dialogues between leaders, and the opening up of Japanese society and academic institutions to people from Indonesia and vice versa.

³⁹ The History textbook, for middle school students, deliberately downplays Japanese atrocities before and during World War II. The book fails to mention the abduction and forced prostitution of tens and thousands of so called comfort women for Japanese soldiers during World War II and the 1937 "Rape of Nanking", China, by the Japanese military.

CHAPTER – III

JAPAN-INDONESIA RELATIONS: ECONOMIC DIMENSION – OFFICIAL DEVELOPMENT ASSISTANCE, FOREIGN DIRECT INVESTMENT AND TRADE

The stability and sustainable development of the international community is a key concern for Japan as it is dependent on overseas natural resources, energy and food. The growing depth of interdependence today has given rise to the world where events in developing economies have had significant and various impacts on the stability of the international community: the Asian currency and economic crisis in 1997 brought serious difficulties to the world economy, including Japan; and regional conflicts and terrorism, while poverty is considered to be one causal factor, are seriously affecting international peace and stability. As environmental degradation has been proceeding on a global scale, poverty, population increase and rapid development in the developing countries could also aggravate difficulties surrounding the international community.

This implies that it is an important agenda for Japan and the international community to realize sustainable development of developing countries, overcome poverty and environmental problems, in order to achieve a stable international system and realize sustainable economic development in the world. In this context we can see Japan 'continuing' the positive contribution to addressing challenges of the developing countries as an important member of the international community. Such contribution engenders greater international trust in Japan as well as builds favorable bilateral relations with developing countries. Official Development Assistance (ODA) is therefore an important policy instrument for Japan that does not have military strength to address major challenges facing the international community, make an international contribution and pursue its national interest.

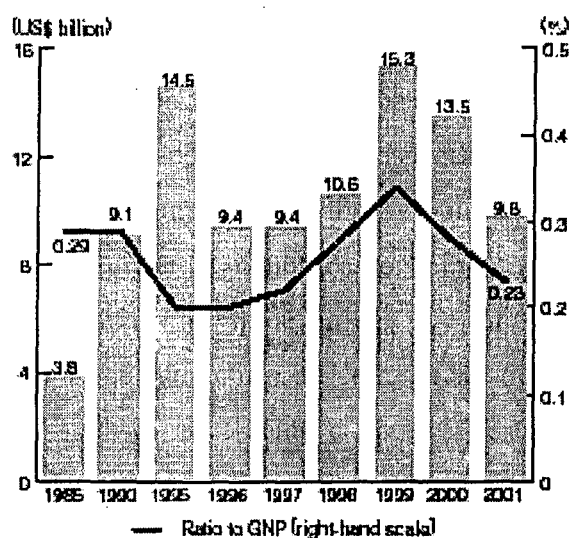
ODA loans, which constitute part of Japan's official development assistance, are long term, low interest loans. Given their characteristics¹, these loans are an

¹ The characteristics include (a) a borrowing country has an obligation to repay loans no matter how long their repayment periods may be and how low their interest rates may be. This encourages the borrowing country to make spontaneous efforts toward efficient use of funds and sound macroeconomic management to ensure subsequent loan repayments. (b) Long term and low interest loans are able to support projects that do not have access to private financing due to low returns in terms of cash flow and poor commercial viability despite their high

effective instrument of assistance to promote economic and social development in developing countries. ODA loans have helped Indonesia in this respect and in achieving economic stability, at the same time strengthening Japan's economic ties with it through greater trade and investment activities of Japanese business.

Japan's economic power and interests pervade virtually all aspects of its foreign relations.² The end of the cold war had eliminated the thorny political obstacles that had hindered Japanese ODA to different countries, opening the door to additional flows. As a nation that lives on trade in an age of deepening interdependence, Japan seeks to reinforce economic and commercial ties with all nations and to contribute to the growth of developing countries. Peace and the expansion of trade are of crucial importance to Japan's national interest.

Table 1: Trends in Japan's Official Development Assistance



Source: Ministry of Foreign Affairs, *Saishu koshaku enji hakusho* (ODA White Paper), 2002.
 Note: Excludes assistance to East European countries.

Economic cooperation measures of the developed countries essentially have their own features. Japan's ODA has several salient features that differ from that of

significance in terms of development objectives and in meeting public needs. (c) Since the borrowing country repays the loan, development assistance is provided efficiently with less cost on Japanese tax payers. This allows larger volumes of assistance, enabling financing large scale projects that have major impacts on economic growth, environmental improvement and social development. (d) A combination of knowledge and financial assistance accumulated through ODA loan operations increases the impact of knowledge and technology transfers from Japan to developing countries on their development.

² Samuel Kim, "The International Relation of North East Asia", p.171.

other countries. Those features may be a reflection of a unique Japanese history, having experienced the phenomenon of originally being a large aid recipient to becoming the world's top donor. Japan has demonstrated a successful model of economic developments as an aid recipient.

Japan has often been criticized for having no clear or consistent ideas that underlie its Japanese economic cooperation policies. One argument--though it is not necessarily clear—is that Japan is attempting to support the self-help efforts of developing countries. But what constitutes an aid philosophy based on the concept of self-help? According to Nishigaki and Shimomura (1999), two essential elements are emphasized.

The first is the underlying conviction that economic development is only possible when the government and citizens of a developing country make unremitting efforts to improve their current conditions. Unless the people of a developing country take it upon themselves to make the necessary efforts and sacrifices, neither aid nor development will ultimately be successful. The efforts of the developing country are central; foreign aid merely has the supporting role of making it somewhat easier for those efforts to bear fruit.

The second essential element has to do with where the focus of aid implementation should lie. Japan's basic approach is that an aid donor should not impose its plans on aid recipients; rather, it should do its best to search out and discover nascent independent projects in a developing country and then lend a deft and experienced helping hand to ensure that small seeds can grow to fruition.

Recent Trends³

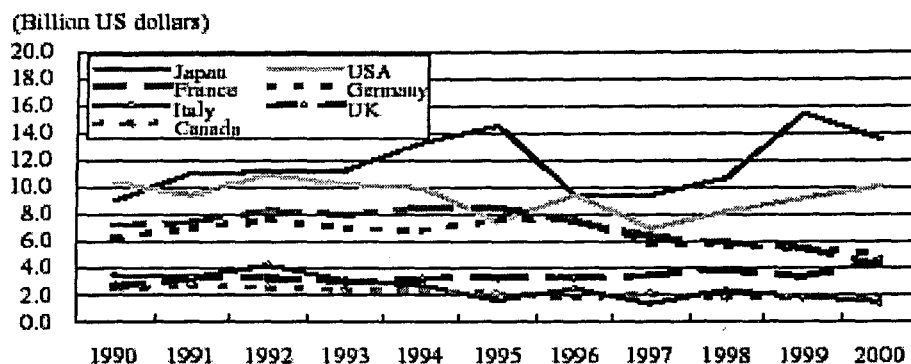
In 1991, the volume of Japan's ODA in terms of net-disbursement⁴ exceeded that of the United States and became the largest in the world. As shown in figure below, Japan had maintained this position of top donor country in the world in the

³ Nishigaki, A. and Y. Shimomura (1999) *The Economics of Development Assistance*, LTCB International Library Selection No. 7, LTCB International Library Foundation, Tokyo.

⁴ This is the net amount of deducting the repayments of loans from the total amount of aid.

1990s,⁵ during which time Japan's ODA accounted for around a fourth or fifth of the total world aid.

Table 2: Trends in Major Countries ODA



Source: 2001 Development Cooperation Report, OECD

Japan also believes that economic growth holds the key not only to eradicating hunger and poverty in developing nations but also to triggering long term political and economic mechanisms that will engender a new middle class and promote the diversification and democratization of society.⁶ Diplomatic relations between Indonesia and Japan have existed for more than forty years. Overall the relationship has been stable and of mutual benefit to both countries. Over the last 16 years Japan has been the biggest investor in Indonesia, a major trading partner, and a source of high technology, development assistance, and tourism while Indonesia has provided a large market for Japanese products as well as a vital source of natural resources, especially oil, natural gas and forest products. Furthermore, Japan regards Indonesia as an influential regional leader that plays an important role in maintaining political, economic and security stability.

⁵ According to a preliminary report in May 2000 prepared by the DAC (Development Assistance Committee) of OECD, the volume of Japan's ODA was the second largest in the world in 2001 following that of the United States.

⁶ Makoto Iokibe, "ODA as a foreign policy tool", *Japan review of international affairs*, summer 2003.

Japan's ODA in Indonesia

There are certain Basic Policies which the Japanese government follows while giving ODA to Indonesia, which to a great extent explains Indonesia's Position in Japan's ODA. Japan provides assistance to Indonesia, taking into account the following factors:

- 1) Indonesia is of great importance to Japan politically and economically, and has close interdependent relations with Japan in such areas as trade and investment
- 2) Geographically, Indonesia occupies an important position in Japan's maritime transportation. Indonesia also provides oil, natural gas and other natural resources.
- 3) Indonesia has a population of more than 200 million and has played an important role in the growth and stability of the Southeast Asian economy as a core member of ASEAN.
- 4) In addition to Indonesia's needs for aid to eradicate poverty and remedy regional disparities, the effects of the 1997 economic crisis have destabilized the political and economic situations. Although Indonesia has begun to recover from this crisis, the government must seek economic recovery and social stability by implementing appropriate reforms and effectively responding to the changing conditions.

It may be of interest to look briefly at the extent of relationship between Indonesia and Japan in quantitative terms, covering the areas of development assistance, trade, investment and human resource development.

For many years Indonesia has been a major recipient in Asia and the world of Japanese ODA, with the total value from 1966-1997 being more than three trillion Yen.⁷ The table below shows the annual value of ODA Indonesia received from 1995-1999.

⁷ OECF *annual report* 1998, p.230.

Table 3: Japanese official development Assistance to Indonesia

	1995	1996	1997	1998	1999
Amount disbursed (U.S.\$ million)	892	966	497	830	1606
Share of total (%)	8.45	11.55	7.51	9.60	15.30

Source: <http://www.jpca.jp/>

Priority Areas for Japan's ODA

On the basis of studies and research concerning development conditions and tasks in Indonesia and its development plans, as well as policy dialogues between Japan and Indonesia, including the High-Level Mission on Economic and Technical Cooperation sent to Indonesia in February 1994 and subsequent policy dialogues, Japan has given priority to assistance in the following areas.

1) Achieving equality

Balanced development in terms of social and regional equality will be secured by focusing on the socially disadvantaged, who have been hardest hit by the effects of the economic crisis. Emphasis is to be placed on: (a) poverty alleviation through the improvement of living conditions for the poor; (b) assistance for basic human needs (BHN) through the improvement of living conditions and health and medical care; (c) population control, family planning and AIDS prevention; and (d) development in eastern Indonesia to rectify regional disparities.

An example of this can be seen in the Japanese Assistance for Countermeasures against Severe Acute Respiratory Syndrome (SARS), to Indonesia on the May 14, 2003. To assist the countermeasures against SARS in Indonesia, the Government of Japan provided medical equipment and other necessities (about 30 million yen in total, including shipping charges), to the country through the Japan International Cooperation Agency (JICA).⁸ Further the Government of Japan provided medical

⁸ The Items of equipment that were provided were as follows:
(a) Personal Protective Equipment (coveralls, masks, breath support systems, etc.)
(b) Basic Laboratory Equipment (table-top autoclaves, portable centrifuges, portable biohazard

equipment and other items through JICA to China and six other countries. This assistance was decided in response to a request from Indonesia, where there was also concern about the effects of SARS.

Another example can be seen in the Japanese Assistance for Reproductive Health in Indonesia.

On December 27, 2002 the Government of Japan and the United Nations (UN) extended a total of 1,355,061.82 - US dollar assistance through the Trust Fund for Human Security to the project "Reproductive Health Support in Emergency Situations" in Indonesia to be implemented by the United Nations Population Fund (UNFPA).

The objective of the project was to contribute to psychological and physical reproductive health well-being of women Internally Displaced Persons (IDPs) in six provinces including Aceh. A series of activities included the provision of clean delivery services, prevention and management of sexual violence, provision of contraceptives, and prevention of HIV infection and other STIs. This project helped in improving the reproductive health status of women IDPs in the provinces.

2) Human resources development and education

Improvement of the educational level and the development of human resources across a broad sector to enable Indonesia to recover from the Asian economic crisis and to strengthen its competitive abilities in the international markets. Emphasis is to be placed on: a) improvement of primary and secondary education; b) improvement of the quality of teachers (with a further emphasis on mathematics and science teachers for primary and secondary schools); and c) improved education for technical experts and engineers.

boxes, etc.)

(C) Blood Sampling Equipment (alcohol swabs, blood collection vacutainers, syringes, etc.)

(d) Specimen Storage & Shipping Equipment (infectious substance shipper, bio-bottles, coolers, portable liquid nitrogen tanks, etc.)

(e) Medicaments.

(f) Miscellaneous (emergency start up kits, antibacterial soaps, thermometers, etc.)

3) Environmental conservation

Measures are needed to counteract environmental problems associated with rapid development (depletion of forests and other natural resources, environmental pollution and disasters), and the deterioration in living conditions resulting from over-concentration of population in urban areas. Emphasis is to be placed on: a) conserving and ensuring sustainable use of forests and other natural resources, as well as the natural environment (including preservation of biodiversity); b) cooperation to improve urban living conditions and pollution control; and c) building institutions to handle all environmental issues (including improvement of the capability to implement policies related to the environment).

An example of this can be seen in the "Asia Forest Partnership (AFP)" program. Japan thinks that in order to promote sustainable forest management in world-wide level, promotion of regional initiatives is important. Therefore, Japan, in cooperation with Indonesia and other partners, launched "Asia Forest Partnership (AFP)" during Johannesburg Summit in 2002, which aimed to promote sustainable forest management in Asia, and organized the first meeting for the promotion of AFP in Japan in November 2002, and the second AFP meeting in Indonesia in July 2003, addressing the issues of combating illegal logging, preventing forest fire, rehabilitating and reforesting degraded lands.

Another pointer to this policy is the Emergency Assistance for the Earthquake Disaster in Papua Province, Indonesia.

The Government of Japan on February 8, 2004 provided emergency assistance in kind (blankets, tents, and electricity generators) worth about 13 million yen in total to the Government of Indonesia for the earthquake disaster in the province of Papua, Indonesia. The Government of Indonesia, which made efforts, such as distributing food and dispatching doctors, on its own to restore the situation, requested assistance from Japan as the people affected were forced to take shelter in uncomfortable surroundings. The Government of Japan then extended the emergency assistance for the afflicted people in light of the humanitarian point of view and the friendly relations between Japan and Indonesia.

4) Support for industrial restructuring

Providing assistance for sound macroeconomic management, for the promotion of industry across a broad base and for the promotion of agriculture. Particular emphasis is to be placed on: a) assistance for macroeconomic management; b) promotion of supporting industries; and c) promoting agriculture (diversification of agricultural products and raising agricultural products that offer high added value).

An example can be cited of the Joint Announcement and Action Plan on the Cooperation in Combating Illegal logging, between Japan and Indonesia.

Japan and Indonesia signed the "Joint Announcement" and "Action-Plan" on the Cooperation in Combating Illegal Logging on 24 June 2003. The "Joint Announcement" was a document describing the principle of bilateral cooperation between Japan and Indonesia to combat illegal logging and the following outline of the "Action Plan". The "Action Plan" included various measures for bilateral cooperation between Japan and Indonesia to combat illegal logging, which are to be implemented in the short, medium, and long-term. The main contents of the action plan were as follows:

(a) Development of a mechanism to verify and track legally harvested timber (b) Monitoring and inspection of the implementation of the mechanism through the participation of civil society. (c) Studies on the necessary measures against distribution and export of illegally harvested timber.

5) Industrial infrastructure (and economic infrastructure)

Indonesia needs continuous inflows of direct investment in order to achieve sustainable economic development. Obtaining this capital requires that Indonesia build a favorable environment for investment. Sectors of priority would be as follows: a) electric power, b) water resource development, c) transportation, and d) communications.

An example of this is the Jabotek Area Railway Project, in Indonesia that is being supported by Japan.

If we analyze the major recipients of bilateral official development assistance from Japan then the position of Indonesia amongst those becomes clear. It can be seen from the table below that Indonesia is an important recipient of ODA from Japan.

Table 4: Major Recipients of Bilateral Official Development Assistance from Japan

	1994		1995		1996		1997	
	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)
Indonesia	886	9.15	892	8.45	866	11.55	497	7.51
China	1,479	15.29	1,380	13.07	862	10.31	577	8.72
India	887	9.16	506	4.80	579	6.93	492	7.44
Vietnam	79	0.82	170	1.61	121	1.45	232	3.52
Philippines	592	6.11	416	3.94	414	4.96	319	4.82
Thailand	393	3.95	667	6.32	664	7.95	468	7.08

	1998		1999		2000		2001	
	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)	Amount disbursed (US\$ million)	Share of total (%)
Indonesia	830	9.60	1,606	15.30	970	10.06	860	11.54
China	1,080	12.60	1,226	11.68	769	7.98	686	8.21
India	505	5.84	634	6.04	368	3.82	529	7.50
Vietnam	390	4.51	680	6.48	924	9.58	460	6.17
Philippines	301	3.49	413	3.93	304	3.16	298	4.00
Thailand	560	6.48	880	8.39	695	6.59	210	2.81

Source: Ministry of Foreign Affairs, *Seifu kaihatsu enjo hakusho* (ODA White Paper), 2002.

Foreign Direct Investment in Indonesia

Indonesia has been a very attractive market for the foreign investors since its time of independence. A number of foreign companies, most of them large multinationals, have invested in the Indonesian market in certain areas. These companies have contributed a lot in the development of the country's resources, building infrastructure, establishing Manufacturing facilities for export and/or provide products and services for the domestic market. The Indonesian market is a very hot perspective for investment and there are numerous opportunities available for setting up a company.

The government of Indonesia itself is quiet interested in inviting new foreign companies and attracting more and more investments in the country. This policy had been adopted by the Indonesian government from the very beginning and

therefore it has taken several measures in this regard. To encourage the foreign direct investment in the country, the Indonesian government introduced the Foreign Investment Law No. 1/1967 in the year 1967. However, this legislation excluded oil and gas, banking, insurance and leasing sectors. This law provided a number of incentives to the investors such as tax exemptions and some guarantees. Though in the beginning, the Indonesian government adopted an open door policy but in later years they changed their strategy. In the year 1970, some of the sectors were closed for foreign direct investments. In the coming years these policies were made further strict because of the protest from the public on the over presence of Japanese investors. After these restrictions the foreign investors were required by law to invest their capital with a local partner in the form of joint venture. The restrictive regulations also had the aim to speed up the process of transfer of shares to the Indonesian partners of investors. However, in the later years the end of oil boom and other crisis forced the Indonesian government to deregulate the economy and to adopt more liberal policies to attract foreign investment in the country.

Recently, the Investment Coordinating Board of Indonesia has proposed to the government to adopt more effective measures to encourage foreign investments in the country. Their proposal included the suggestion to open all business sectors to foreign investors, except for a few ones which are considered sensitive to the country's security. The Board passed a bill which, if implemented, is expected to further make more efficient to the process of foreign direct investments by shortening the restrictive investments list and leaving only a few sectors, such as religion, culture, environment and small and medium enterprises, prohibited for foreign investments. This proposed bill is going to bring a more liberalized attitude in the policies of the Indonesian government. In the past, the government of Indonesia has maintained a very lengthy prohibitive investment list, which had totally or partially closed several business sectors to foreign investment. The last list issued by the government was the list released by the administration of the former President Abdurrahman Wahid. This list had even banned the foreign investments in the print media, television and radio sectors. However, it had also awarded the foreign investors with more opportunities in the telecommunications sector, air transportation and port management, power generation, transmission and distribution, shipping, drinking water supply, and atomic power generation. However, even in these sectors the foreign companies or investors were required to

enter with the cooperation of the local partners. The argument given by the administration in favor of this policy was that the investment liberalization aimed at by the future law intended to strengthen competition in the country and boost the efficiency of the country's industrial sector. This was supposed to benefit the general public at large as the increase in competition in these "open" sectors will force the companies to operate efficiently and cut prices to win market share.

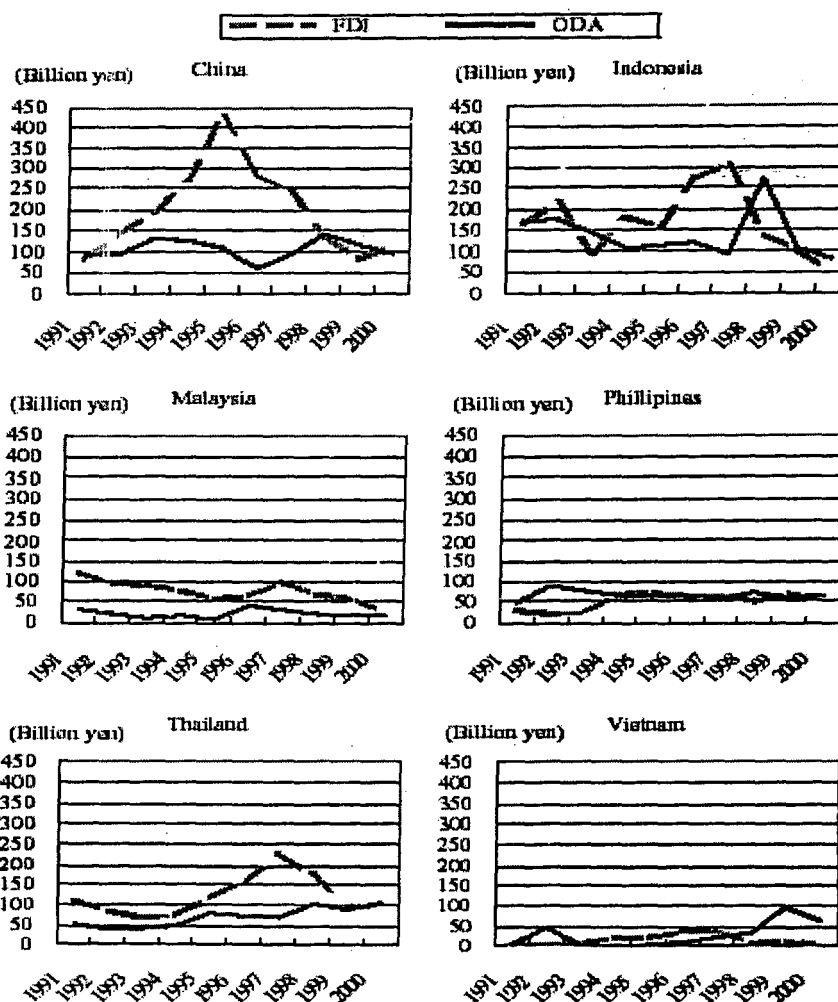
With the implementation of the recently proposed bill, the government will keep an equal control over the foreign and domestic investors. The government intends to establish certain departments and supportive bodies in order to speed up the investment licensing procedures. The government will also provide some incentives to foreign investors, including tax incentives. However, this should be kept in mind that only sound regulations and incentives are not enough measures to attract foreign investors as they also took into consideration other factors, including legal certainties. With the introduction of the new investment law, the foreign investors will be able to confidently make the investment decisions as it will give them more legal certainty. One more problem is the increase in the level of political disturbances in the country and other security related problems which make a foreign investor more and more hesitant to come to Indonesia.

From the introduction of the Foreign Investment law in the year 1967 until today, the level of Foreign Investment approved has reached the mark of US\$ 234.147,8 million. The number of projects being approved by this time has reached to the point of 9.784 Projects. These projects are mainly established in the sectors of Oil & Gas, Mining, Banking and Financial Services. The major investing partners of the Indonesian economy are Japan, UK, Singapore, Hong Kong, China, Taiwan, USA, Netherlands, South Korea, Germany and Australia. The companies from these countries have invested in about 24 major sectors including Trade, Industry, Property, Plantation, Services, Infrastructure, Construction, Fishery, and Franchises. The main hub for foreign direct investors is the island of Java. Though, the islands of Sumatra, Kalimantan, and Sulawesi are also of significant importance but their importance is secondary.

A look at the FDI and ODA loans by Japan to the selected Asian countries from the period 1991-2000 shows the position of Indonesia amongst them. From the

table given below it becomes clear that Indonesia surpassed the other countries in terms of ODA and FDI from Japan. It proves the point that Indonesia is a destination of Japanese investment and assistance. That this assistance and investment increased from the period 1991-2000 is due to the various policy measures taken by Indonesia for attracting the Japanese investment as discussed above.

Table 5: Trends in Flows of FDI and ODA Loans



Source: *Ministry of Finance Statistics Monthly*, Ministry of Finance
Annual Report of JBIC, Japan Bank for International Cooperation

The developments of Japanese capital outflows to selected Asian countries are shown in figure above. Among others, trends in outward FDI and ODA loans⁹ are

⁹ The figures in the chart are on a gross-disbursement basis, which are the total amount of new capital in flows to Asian countries not deducted from the amount of repayment of past loans.

compared.¹⁰ It is shown that Japanese FDI flows into these Asian countries peaked out at around the time of the 1997 Asian crisis.¹¹ On the other hand; the amount of ODA loans corresponds to that of FDI in China, the Philippines, and Thailand at the end of the 1990s. Moreover, ODA loans have surpassed FDI in Indonesia and Vietnam. Although, the absolute volume of ODA loans in these five countries are in a relatively narrow range between 50 to 100 billion yen. It may be pointed out that ODA loans have played an important role of offsetting the declining trends in private capital inflows into these Asian countries.¹²

Table 6: Trends of Japanese Investment in Indonesia

Fiscal year	1990	1991	1992	1993	1994	1995	1996	1997
No. of cases	155	148	122	115	116	168	160	170
value (100 million Yen)	11,05	1,193	1,676	952	1,808	1,548	2,720	3,085

Note: cumulative total 1951-97: no of cases 2872; value: 24,316 hundred million Yen

Source: ASEAN Centre statistical pocket book 1990, 1994, 1998

Japan has been the largest foreign investor in Indonesia. In August 1998, Japan's total investment in Indonesia, measured as "cumulative approvals" ranked by country of origin, amounted to US \$ 42.26 billion worth 1053 projects. The figures above suggest that in the last 14 Years, Japan has ranked first among foreign investors in Indonesia, except for in 1993.

Table 7: Japanese investment in Indonesia 1998-2000

1998	1999	2000
1300	644	1889

Source: mofa.go.jp

¹⁰ These two are different in the sense that FDI is private capital, while ODA is public capital. However, they share one common trait: they are spent largely on long-term physical investment, which forms capital stock, and which therefore expands production capacities, rather than on speculative investment that can be withdrawn quickly.

¹¹ It must be noted that FDI flows to China from the other countries remains large, amounting to around 40 billion US dollars in total including those from Japan in 2000, according to UNCTAD (2001). Japan's share in FDI flows to China is relatively low compared with that in other countries.

¹² Japan's Other Official Finance (OOF) has also played an important role in response to capital shortage according to Asian financial crisis.

To promote FDI and increase investor confidence, the president of Republic of Indonesia declared the “Indonesia investment year 2003”.¹³

Japanese FDI in Indonesia

Although Indonesia is the best endowed of all the ASEAN countries in natural resources, its domestic economy was the lowest among the regional countries. The Indonesian economy was heavily dependent on primary sectors such as agriculture, fishing, timber industry and other traditional sectors. The outstanding tasks which Indonesia faced during the initial years after independence from the Dutch was to provide job opportunities both to the urban rural employment, reduce the income and productivity gaps between the modern sectors and the traditional sectors of its economy, produce better balance of economic power between native Indonesians and the Chinese Population of Indonesia, and strengthen the manufacturing sector to broaden the industrial base, so much so that, Indonesia desperately needed enormous investments to resolve these problems.

The internal sources of investment capital were fewer and technology was not ample enough to provide for modernization of its industry. During this period, Indonesia depended on foreign sources, in the form of ODA and private investment. Indonesia also laid emphasis on seeking foreign technology to increase productivity of its economic activities. This kind of entry of technology into the country was primarily through direct foreign investment including joint ventures as well as through patent purchasing.¹⁴ However despite its tremendous need for foreign investment and Indonesia’s open door policy to foreign investors, it still remained an area of considerable political sensitivity and regarded foreign investment as a tool of western economic domination on which Indonesia could be internally more vulnerable. The New Order regime of 1966 adopted large scale policy deregulations to attract foreign investment. By the end of 1960’s, Japan became the dominant source of foreign investment to Indonesia and Indonesia-Japan relationship took the spotlight in the internal national debate about the role of foreign sector in Indonesian economic development.

¹³ UNCTAD, *World investment report 2003*, FDI policies for development: national and international perspectives, U.N. New York, 2003.

¹⁴ Siamet Seno Adji, “Japanese investment in Indonesia”, p. 91.

By the early 1970's, the Indonesian economy showed significant growth with an annual average rate of six to seven percent GDP. Together with its ASEAN partners, Indonesia became one of the most economically dynamic countries in the world. This macro economic stability, combined with smooth political and social order that continued through the 1970's and 1980's, created a Conducive atmosphere to attract Japanese investments in Indonesia.

Table 8: Destination of Japan's FDI

1999	2000	2001	2002
200	588	483	303

(US \$ million)

Source: JETRO (Figures based on Balance of Payment) (Facts and Figures of Japan 2004).

Theoretical interpretation of Investment Development Path vis-à-vis Indonesia and Japan

The notion that outward and inward direct investment position of a country is systematically relates to its economic development, and relatively to the rest of the world, was first put forward by John. H. Dunning in 1979¹⁵. The investment development path (IDP) suggests that countries tend to go through five main stages of development and that these stages can be fully classified according to the propensity of those countries to be outward and inward to direct investors.¹⁶ According to him, during the first stage of IDP, a specific country is presumed to be insufficient to attract inward direct investment with the exception of those arising from its possession of natural assets. This condition is characterized by limited domestic market demand levels which are minimal because of the low per capita income; inappropriate economic systems or government policies; inadequate infrastructure such as transportation and communication facilities; and perhaps the most important of all, a poorly educated, trained and motivated labour force.¹⁷ The economy will be predominantly labour intensive and primarily a product based one, and may be influenced by the government through an infant industry

¹⁵ John H Dunning and Rajneesh Narula, "The investment development path revisited: some emerging issues" in John H Dunning and Rajneesh Narula (eds), *Foreign Direct Investments and Governments: catalyst for economic reconstruction*"; London, Routledge, 1996, p.1.

¹⁶ *ibid.*

¹⁷ *Ibid*, p.2.

protection system such as import controls. As far as FDI is concerned in this stage, of course foreign firms will be preferred to export to and import from this market, or accomplish cooperative non equity arrangements with indigenous firms.

Government intervention during this stage I will normally take two forms. First, it may be the main means of providing basic infrastructure, and the upgrading of human capital via education and training. Government will attempt to reduce some of the endemic market failures holding back development. Second, they would engage in a variety of economic and social policies, which for good or bad, will affect the structure of markets. Import protection, domestic content policies and export subsidies are example of such intervention at this stage of development. At this stage, however, there is likely to be only limited government involvement in the upgrading of the country's created assets such as innovatory capacity and human resources.

In stage II, inward direct investments start to multiply, while outward investment remains low or negligible. Domestic markets may have grown either in size or in purchasing power making some local production by foreign firms a viable proposition. Initially, this is likely to take the form of import substituting manufacturing investment based upon their possession of intangible assets, such as technology, trademarks and managerial skills. Subsequently, host governments stimulate such inward FDI by imposing tariff and non tariff barriers. In the case of export-oriented industries, the extent to which the host country is able to offer the necessary infrastructure (transportation, communication facilities and supplies of skilled and unskilled labour) would be a decisive factor.¹⁸

In this stage, industries clustered around primary industries and production centers will move towards semiskilled and moderately knowledge-intensive consumer goods. Outward direct investment emerges at this stage. This may wither of a market-seeking type or trade related type in developed countries. In this stage of development, countries will increase their net inward investment and employment opportunities, and the capacity of skilled labor will also be increased.

¹⁸ At this stage of development, such inward direct investment will still be in natural resources and primary commodities with some forward vertical integration into labor-intensive technology and light manufacturers.

Countries in stage III marks a gradual decrease in the rate of growth of outward direct investment (net outward investment). The technological capabilities of the country are geared towards the production of standardized goods. With rising incomes, consumers are tempted to demand higher quality goods, fuelled in part by the growing competitiveness among the supplying firms. Comparative advantage in labor intensive activities will deteriorate, domestic wages will rise, and outward direct investment will be directed more towards countries at their lower stages in their IDP. Finally, the domestic firms will acquire sophisticated technology and become competitive and can compete with the foreign firms in the same sectors.

Growing by these competitive advantages such as an enlarged market and improved domestic innovatory capacity will make for economies of scale and with rising wage costs, will encourage non-technology intensive manufacturing as well as higher value added ones locally. The motives of inward direct investment will shift towards efficiency seeking production and away from import substituting production. In industries where domestic firms have a competitive advantage, there may be some inward direct investment directed towards strategic asset acquiring activities. During this stage, government policies will continue to be directed reducing structural market imperfections in resource-intensive countries. Thus, governments may attempt to attract inward direct investment in those sectors in which the local firms are the weakest.

Stage IV comes in play when a country's outward direct investment stock exceeds or equals the inward investment stock from foreign owned firms and the rate of growth of outward FDI is still rising faster than that of inward FDI. At this stage, domestic firms can now not only effectively compete with the foreign owned firms in the domestic sector in which the home country has developed a competitive advantage, but they are able to penetrate foreign markets as well. When a country reaches this stage of development the production will be based on capital intensive production techniques, as the cost of the capital will be lower than that of labour. Lately, outward direct investment will continue to grow, as firms seek to maintain their competitive advantage by moving operations which are losing their competitiveness to offshore locations (in countries at lower stages), as well as responding to trade barriers installed by both countries at stages IV and V. firms will have an increasing propensity to internationalize the market in order to

maintain the comparative advantage by engaging in FDI rather than exports. During this stage, intra-industry production will become relatively more important, intra industry trade will tend to be increasingly conducted within multinational enterprises.

The role of government is also likely to change in stage IV, while continuing into supervisory and regulatory function, to reduce market imperfections and maintain competition. It will give more attention to the structural adjustments of its location bound assets and technological capabilities, such as fostering asset upgrading in infant industries and phasing out declining industries. At this stage, governmental intervention continues to remain and begin to take a more strategic posture in their policy formulation in order to take measures designed to aid the upgrading of domestic resources and capabilities and to curb the market distorting behavior of private economic units.

When a country reaches at the level of stage V, both inward and outward FDI are likely to increase. During this stage, per capita income and technologies and the labor force skill will be at par with the developed countries. It has to be suggested that this phenomena represent a natural and predictable progress of the internationalization of firms and economies. Thus, the nature and scope of activity gradually shifts from arms length trade between nations producing very different goods and services to trade within hierarchies (or cooperative ventures) between countries producing similar products.

A look at the investment trends in the various sectors in Indonesia during the post second world war to the contemporary period, we see that Indonesia fits perfectly into the Investment Development Path analysis. Ever since the Indonesian economy could catch up with the dynamic performances in the 1970's and 1980's, it began to move from stage II to stage III in its IDP. As the focus of study is on the post cold war period so let's look at the trend in investment in the post cold war period.

It can be argued that the Indonesian government has played an important role in influencing the inward flow of FDI. The government emphasized the creation of a healthy system of macro-economic variables, namely growth rates, exchange rates,

education levels, infrastructure development and trade barriers, all of which has received considerable attention in the policy. As the IDP model suggests, the inward and outward flows of FDI are influenced by the state of economic development of the host country and its growth overtime. And this state of development and growth, in turn, has been influenced by government policy and its administration. Hence, the Indonesian government had a major role within the IDP framework of analysis.

The Indonesian government's liberalization policy continued during the 1990's without any major obstacles. During this period, Indonesian economy expanded rapidly with an average growth rate of 7% annually with healthy economic growth and increase inflows of FDI, the pressure on the government for further liberalization was reduced. However, in 1991, rapid growth and the resulting accelerating inflation and the increasing current account deficit led the government to institute macro-stabilization measures of light monetary practices, as well as to impose limits on foreign borrowing by state controlled entities. Beginning in 1992, external factors such as the recession in Japan, the diversion of substantial amounts of foreign investment to China, and the decline in general investment climate in Indonesia led to a perceived decline in foreign investor interest.¹⁹ As a result, the government made two important policy reforms in 1992-93.

A significant initiative came in the government's 1992 decree, where by it allowed 100 % foreign ownership for certain types of investment- investments of over \$ 50 million, investments located in eastern Indonesia, and investments located in an export-oriented zone if all production were exported. For these types of investments, phase down from a maximum 100% foreign ownership to maximum of 80% foreign ownership was required. The other changes introduced by the government were that for foreign investment in labour intensive operations (defined as those employing more than 50 persons), export oriented projects (defined as projects that exported 65 % of production) and supplier industries producing raw materials or intermediate goods, the minimum Indonesian share holding at the time of investment was set at 5% with a phase down to 10% in ten

¹⁹ Donale J Lecraw, "Indonesia and the critical role of government", p.329, in John H Dunning and Rajneesh Narula (eds), *Foreign Direct Investments and Governments: catalyst for economic reconstruction*"; London, Routledge, 1996.

years and 51% in twenty years from the start of commercial production.²⁰ The lower minimum investment also applied to foreign investment in the service sector, but with 20% minimum Indonesian share holding at formation and phase down to 51% in twenty years.

In June 1994, the government announced a dramatic liberalization package for the FDI system by removing phase down regulations. FDI with up to hundred percent foreign ownership was permitted in wide range of sectors without the previous conditions on investments, the minimum capital requirements were eliminated, and nine “public-interest” sectors- ports, production, transmission and distribution of electricity, telecommunications, shipping, air transportation, drinking water, railways atomic generation plants, and mass media- which had previously been closed to FDI were opened to majority, but not hundred percent foreign ownership.

Since, the 1990’s there has been a shift in prominence of Japanese investment in Indonesia. Over 70% of Japanese investment was made in export oriented enterprises to take the comparative advantage of the liberalization of the Indonesian investment regime. Firms specializing in advanced technologies, including electronics, have taken root. Nurtured by low labour cost, political stability and accelerated economic growth by late 1980’s Indonesia reached self sufficiency in many of the sector which was the high propensity areas to have received Japanese FDI.

A notable investment made by Japan in Indonesia and a standing testimony to the Indonesian efforts to attract FDI is the industrial park in Batan Island located about twenty miles south of Singapore. The industrial park, developed with the assistance of Mitsui and company, one of Japan’s giant trading companies, has its own water supply, new power generators (build by Kansai Electric power), a microwave communications network and a container shipping facility.²¹ There were no import duties, and no restrictions on equity. With such a generous package, the park attracted multinationals all over the world, especially from Japan. Worthy to note is the fact that of the park’s thirty seven tenants in 1993, fifteen were Japanese.²²

²⁰ Ibid, p.330.

²¹ Yamamura, Japan in Asia’s embrace, p.36.

²² ibid, p.36.

Aid and Trade Policies

Indonesia's exports were vital to its economic development, as exports earned the foreign exchange that permitted Indonesia to purchase raw materials and machinery necessary for industrial production and growth. During the 1980s, about 25 percent of domestic production, or GDP, was exported. Although petroleum was the most important export, other exports included agricultural products such as rubber and coffee and a growing share of manufactured exports. In the late 1980s, the government classified about 70 percent of imports as raw materials or auxiliary goods for industry, about 25 percent of imports as capital goods, primarily transportation equipment, and only around 5 percent of imports as consumer goods.

Export earnings also contributed to Indonesia's ability to borrow from world financial markets and international development agencies. On an average, about US\$3 billion per year was borrowed during the 1980s. These borrowings primarily financed government sponsored development projects. However, increasing interest payment obligations in the late 1980s helped bring more restraint to government borrowing.

Indonesian exports were traditionally based on the country's rich natural resources and agricultural productivity, making the economy vulnerable to the vicissitudes of changing world prices for these types of products. For example, the Dutch colonial economy suffered when world sugar prices collapsed during the Great Depression, and fifty years later, the New Order endured the dramatic oil market collapse in the mid-1980s. Manufactured exports offered the prospect of more stable export markets during the 1980s, but even these products were threatened by increased trade protection among industrial countries. To avoid heavy reliance on a few trade partners, the government pursued several measures to diversify export markets, especially to other developing nations such as China and Indonesia's fellow members of the Association of Southeast Asian Nations.

Substantial trade reforms during the 1980s contributed to the surge in manufactured exports from Indonesia. The most important manufactured export was plywood, whose domestic production was facilitated by the ban on log exports

in the early 1980s. In 1990 plywood accounted for over 10 percent of total merchandise exports. Although not yet significant individually, a wide range of manufactured products, including electrical machinery, paper products, cement, tires, and chemical products, helped bring overall manufactured exports to 35 percent of merchandise exports, or a total of US\$9 billion in 1990, up from less than US\$2 billion in 1984.

The growth in non-oil exports helped Indonesia maintain a positive trade balance throughout the 1980s in spite of the oil market collapse. However, increases in imports, service costs such as foreign shipping, and interest payments on outstanding foreign debt all contributed to a worsening current account deficit in the late 1980s. The deficit more than doubled from US\$1.1 billion in 1989 to US\$2.4 billion in 1990. The 1991 current account deficit was predicted to reach as high as US\$6 billion.

The government had successfully avoided a debt crisis in the early 1980s when many developing countries, including the neighboring Philippines, were forced to temporarily halt debt repayments. In a comparative study of Indonesia and other debtor nations, economists Wing Thye Woo and Anwar Nasution argued that Indonesia's success was due to two main factors: heavy reliance on long-term concessional loans and sustained high exports because of a willingness to devalue the exchange rate even when oil export revenues were buoyant. When dollar interest rates soared in the early 1980s, Indonesia's average interest rate on long-term debt was 16 percent compared with over 20 percent paid by Brazil and Mexico.

By 1990 Indonesia's total outstanding foreign debt had reached US\$54 billion, more than double the amount in 1983. Over 80 percent of this debt was either lent directly to the government or guaranteed by the government. Measures to reduce foreign borrowing together with the rise in export earnings brought the debt service ratio from 35 percent in 1989 to 30 percent in 1990. Indonesia continued to rely heavily on borrowing from official creditors rather than private sources such as commercial banks or bond issues. In 1990 US\$ 33 billion, or 75 percent, of government debt was from official creditors; of this amount, US\$ 18.5 was at concessional terms. In 1990 US\$5 billion in new loan commitments from official creditors were secured at an average interest rate of 5.7 percent, with an average

maturity of twenty-three years, whereas US\$1 billion in new commitments from private creditors entailed a 7.4 percent interest rate and an average of fifteen years maturity.

The mounting government concern over foreign debt led to the establishment of a Foreign Debt Coordinating Committee in 1991, which included ten cabinet ministers chaired by the coordinating minister for economics, finance, industry, and development supervision. The committee was given broad powers to document and coordinate all foreign borrowing that was related to either the central government budget or the state enterprise sector. Although in theory this debt excluded private-sector foreign borrowing, such borrowing could be included if the investment project received any state financing or supply contracts from state enterprises. The power of this committee was made apparent in its first initiative in 1991, which postponed until 1995 four major energy and petrochemical projects representing a total investment of US\$10 billion.

Multilateral aid to Indonesia was long an area of international interest, particularly with the Netherlands, the former colonial manager of Indonesia's economy. Starting in 1967, the bulk of Indonesia's multilateral aid was coordinated by an international group of foreign governments and international financial organizations, the Inter-Governmental Group on Indonesia. The IGGI was established by the government of the Netherlands and continued to meet annually under Dutch leadership, although Dutch aid accounted for less than 2 percent of the US\$4.75 billion total lending arranged through the IGGI for FY 1991.

The Netherlands, together with Denmark and Canada, suspended aid to Indonesia following the Indonesian army shootings of at least fifty demonstrators in Dilli, Timor Timur Province, in November 1991. The shootings led to international protests against government policy in the former colony of Portuguese Timor, which had been forcefully incorporated into the Indonesian nation in 1976 without international recognition. Indonesian minister of foreign affairs Ali Alatas announced in March 1992 that the Indonesian government would decline all future aid from the Netherlands as part of a blanket refusal to link foreign assistance to human rights issues, and requested that the IGGI be disbanded and replaced by the Consultative Group on Indonesia.

Indonesia's major aid donors--Japan, the World Bank, and the Asian Development Bank contributed about 80 percent of IGGI-coordinated assistance, and were willing to continue assistance outside the IGGI framework. Other donors, however, such as the European Community, had charter clauses refusing financial assistance to governments that violated human rights. Although European Community did not sever its aid ties to Indonesia following the 1991 events in East Timor, human rights concerns were expected to affect subsequent negotiations.

Direction of Trade

In the early 1990s, Indonesia's trade partners included dozens of countries throughout the world. Imported goods came from markets as near as Singapore, one of the newly industrializing economies (NIEs) of Asia, and as far as Europe and the Middle East. Japan and the United States were the most important suppliers, together accounting for a 37 percent of imports in the late 1980s. The growth in Indonesia's manufactured products contributed to a growing diversity of export markets. However, the importance of oil and liquefied natural gas in total exports gave Japan, the major market for these natural resources, predominance among export destinations.

In 1990 more than 70 percent of exports to Japan were crude petroleum, petroleum products, and natural gas, which represented 67 percent of all petroleum exports and 75 percent of all natural gas exports from Indonesia. Although Japan was also an important market for agricultural and manufactured goods, the markets for these products were more diversified among Indonesia's many trade partners. Half of Indonesia's natural rubber and one-third of its clothing exports were exported to the United States. One-third of Indonesia's plywood products were exported to Japan, but significant shares also were exported to the United States, the Republic of Korea (South Korea), Taiwan, and several European nations.

The government participated in several initiatives to expand and diversify export markets. In 1991 the Department of Trade organized a mission to China, a country with which economic ties had been effectively severed from 1965 until the late 1980s. Recorded exports to China were 3.2 percent of Indonesia's total exports in 1990 (although this measure may not have indicated a genuine increase in trade as before 1990 Indonesian products were shipped to China via Singapore and Hong

Kong). Compared with trade with other trade-partner nations, 3.2 percent ranked the China trade close to countries such as the Netherlands and the Federal Republic of Germany (West Germany) but ahead of all ASEAN partners except Singapore. Relations with China warmed after the trade mission and greater overall trade was anticipated.

ASEAN was founded to promote economic integration among the nations of Indonesia, Singapore, Thailand, Malaysia, and the Philippines, and later Brunei. Early efforts of this group included an industrial projects agreement signed in 1976 to establish several large-scale industrial projects jointly owned by member governments, and the 1981 Industrial Complementation Scheme designed to coordinate the production of components for manufactured products, such as automobiles, among ASEAN members. In 1992 a major trade accord--the Common Effective Preferential Tariff--proclaimed that an ASEAN Free Trade Area (AFTA) was to be established in January 1993 and result in a gradual reduction in tariffs on manufactured goods to a maximum of 5 percent by 2008. The initial measures listed fifteen categories of manufactured goods, including plastics, fertilizer, wood pulp, glass products, electronics, and wooden furniture, that would have a uniform tariff of no more than 20 percent within eight years. The *Asian Wall Street Journal* reported in early 1992 that significant loopholes in the trade accord, such as permission for individual countries to exclude certain products from tariff cuts, could dilute its impact. In addition, Indonesian won a delay of fifteen years in implementation.

Long-term trends in the share of selected Asian countries in the destination of Japanese exports and sources of Japanese imports are shown in the figure below. Asian countries in total are becoming much more significant partners of Japanese trade.

Table 9: Destination's for Japan's Exports

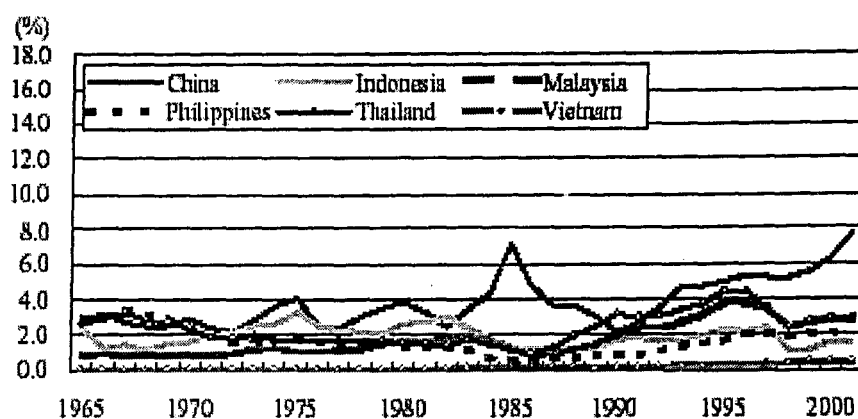
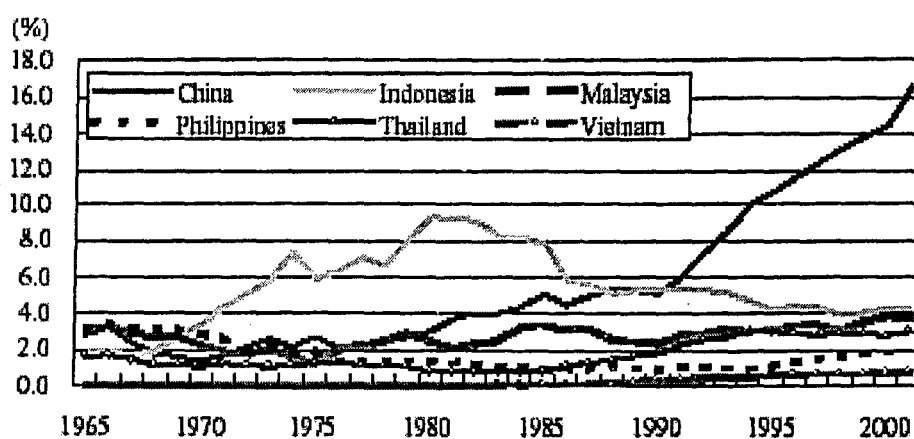


Table 10: Sources of Japan's Imports



Source: *Trade Statistics*, Ministry of Finance.

The above data points to several key structural changes. First, these Asian countries are much more important as source regions rather than destination regions. Second, what is striking is the rapid growth in both exports to and imports from China. The share of Japanese trade with China reached at around a tenth at the end of 1990s. Third, on the other hand, one distinguishing feature in view of relative position among countries is a larger drop in the share of Japanese imports from Indonesia. This would be a reflection of the structural changes in Japanese imports, in which the share of oils and raw commodities has declined substantially after the oil crises in the 1970s. It must be noted that Indonesia is no longer a special partner of Japanese trade as far as this figure of total share is concerned.

The quality of Indonesia-Japan relations in 1992 was best measured by statistics on trade, investment, and the flow of assistance. Japan was the destination of more than 50 percent of Indonesia's exports, the single largest foreign investor, and by far the most important donor of development assistance. In return, as the dominant foreign economic presence in Indonesia, Japan was subject to all the expectations and resentments attendant on that status. For example, Indonesia sought greater technology transfer as part of investment. The association of Japanese firms with politically well-connected Indonesians led to charges of exploitation. With their memories of World War II and the anti Japanese demonstrations during Tanaka Kakuei's 1974 visit, the Indonesian leadership was keenly sensitive to the possibility of a disruptive anti-Japanese backlash.

In the long term, the critical issue for Indonesia in the early 1990s was access to Japan's markets for manufactured goods and the debt owed to Japanese lenders. Yet, Indonesia shared the ASEAN-wide concern about the implications for Southeast Asia of Japanese remilitarization and was ambivalent about Japanese military participation in UN peacekeeping operations in Cambodia. From Tokyo's point of view, there was only indirect linkage between Japan's economic presence and the political relationship between the two countries, but Japan was aware of Indonesia's geo-strategic straddling of the main commercial routes to the Middle East and Europe. Possibly, this concern explained why Japan seemed the least concerned of Indonesia's major economic partners about the human rights issue in general and East Timor in particular and explicitly rejected the linking of human rights with economic assistance.

Table 11: Trade interdependency between Japan and Indonesia
Value of Japan's imports from Indonesia by source and commodity, 2000(Yen million)

Total	Foodstuffs	Raw materials	Mineral fuels	Chemical Products	Machinery and Equipment	Textiles	Iron and Steel
1,766,187	121,567	180,452	902,507	35,310	188,613	59,143	2,505

Source: Ministry of Economy, Trade and Industry (White Paper on International Trade), 2000.

Table 12: Value of Japan's exports to Indonesia by destination and commodity, 2000(Yen million)

Total	Textiles	Chemical Products	Metal and Metal Products	General Machinery	Electrical Machinery	Transport Equipment	Precision Instruments
817,745	28,107	88,716	88,073	229,652	192,569	108,475	14,328

Source: Ministry of Economy, Trade and Industry (White Paper on International Trade), 2000.

Bilateral relations are most intense and flourishing in the area of trade and economic cooperation. Japan is one of the most important markets for Indonesian exports, and is the main source of Indonesian exports in capital goods. Indonesia has been one of Japan's main suppliers of oil and natural gas, and high returns mean Indonesia has enjoyed a trade surplus with Japan for a number of years, the only ASEAN country to do so.

For a number of years, Japan has been Indonesia's biggest trading partner, accounting for 27 % of Indonesia's total exports and 23 % of total imports in 1996, while Indonesia has ranked third or fourth among Japan's trading partners from 1993-97, with a share of about 3 to 3.59 % of Japan's world trade.

Table 13: Japan's trade with Indonesia, 1993-97

	1993	1994	1995	1996	1997
Japan's world trade	601,581	672,250	779,154	760,080	758,204
Japan's Indonesia trade	18,449	24,160	24,173	24,241	24,770
Share	3.08%	3.59%	3.10%	3.19%	3.27%
Japan's world exports	360,911	396,850	443,114	410,918	420,130
Japan's Indonesia exports	6,021	9,964	9,969	9,053	10,167
Share	1.67%	2.51%	2.25%	2.20%	2.42%
Japan's world imports	2,40,670	2,75,400	3,36,400	3,49,162	3,38,074
Japan's Indonesia imports	12,478	14,196	14,204	15,188	14,603
Share	5.18%	5.15%	4.23%	4.35%	4.32%
Japan's oil/gas world imports	42,927	42,540	47,268	53,892	55,800
Japan's oil/ gas Indonesia's imports	6,845	6,424	6,431	7,008	6,377
Share	15.95%	15.10%	13.61%	13.00%	11.43%

Source: Global Trade Information Service Inc.

The above table shows that there was a significant decrease in both countries trade, especially in twelve months after the crisis hit Indonesia. But later in the period 1998-2003, there is an increase in the trade between the two countries.

Indonesian Trade with Japan:

Indonesia exports, 93,360 bbl/day of oil to Japan. In the Year 1999 it exported 12.6 billion dollar worth oil and natural gas to Japan while the imports of machinery, equipment and metal products in the same year were worth 1.9 billion dollar.

The Japan-Indonesia economic relationship presents a classic case of international trade: interdependence between a developed but resource poor country and a developing but resource rich one. Oil and technology is embodied in machinery and equipment. There are many examples of bilateral trade between two countries which have more or less specialized in a few commodities for trade. In fact trade between the ASEAN and developed countries offer cases in point. Nevertheless, what makes Japan-Indonesia relations particularly interesting and significant is that their bilateral trade presents the international division of labour in accordance with their factor endowments in its extreme form. Over half of Indonesia's exports to Japan consist of crude oil, while more than half of Japan's exports to Indonesia are machinery and equipment.

Table 14: Indonesia's global trade relationship

Export		Import	
Japan	21.1 %	Japan	14.1 %
United states	13.2 %	Singapore	13.1 %
Singapore	9.4 %	United states	8.4 %
South Korea	7.2 %	China	7.8 %
China	5.1 %	South Korea	5.3 %
Taiwan	4.2 %	Taiwan	5.1 %

Source: moga.go.jp (2002)

The above table clearly shows that in terms of trade relationship, Japan is the leading destination for Indonesia both in terms of imports and exports.

Table 15: Japan, principal import sources, 2003.

China	19.7%
U. S.	15.4%
South Korea	4.7%
Indonesia	4.3%

Source: mofa.go.jp

To promote trade and investment between the two countries as well as bilateral cooperation in other areas, the two leaders at the Japan-Indonesia summit meeting decided to task the officials from the two governments to preliminarily explore the possibility of a bilateral economic partnership agreement (EPA) between Japan and Indonesia. In this regard, talks on an investment agreement were undertaken.²³

The Indonesian economic crisis: Japan's contribution

The financial crisis that first hit Thailand and then the Philippines spread suddenly to Indonesia in the mid 1997. It nullified the economic progress of the previous two decades, and brought political and social instability in its wake. Its impact was severe, not only for Indonesia but also for other countries in the region, including Japan.

Since the crisis first affected Indonesia, Japan closely watched its impact on Indonesia's economic structure and on Japanese economic interests. The Japanese government's quick and positive response was greatly appreciated by Indonesia. Visits to Indonesia by a Liberal Democratic Party (LDP) parliamentarians Mission and by Japanese officials at the end of 1997, and the visit of the then Prime Minister Hashimoto in early 1998 resulted in concrete assistance being extended to Indonesia. In addition Japan had sent economic advisors to assess the nature of the crisis and determine what assistance Japan could best offer. Japanese businessmen, either as individuals or within the business organization Keidanren, dispatched several missions to Indonesia.

²³ Indonesia has successfully completed the projects in the field of electricity, petrochemical, oil and gas, and fertilizer plant and so on that were put on hold following the monetary crisis in 1997-98. Indonesia positively considers the important role of various Japanese companies and agencies in the renegotiation and restructuring process of these projects.

Assistance through regional and multilateral institutions

The IMF- led package and Japan

It quickly became apparent that strengthening and stabilizing the currency was, alone, not enough to overcome the financial crisis, which had spilled over to affect the entire economic structure. Indonesia by itself did not have the capability to solve it, and thus decided to seek assistance from the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank. The three donor institutions agreed to extend a US \$ 23 billion loan to help Indonesia's ailing economy with loans from individual countries, this financial assistance amounted to US \$ 43 billion. In the IMF- led package, Japan agreed to contribute US \$ 5 billion as a loan to be used for a credit line support program.

Japan played a crucial role in the I M F's dealings with Indonesia and must carry some responsibility for I M F policies toward Indonesia.²⁴ It should not be forgotten that initially Japan wanted to offer \$ 5 billion to Indonesia under a bilateral arrangement, but the US pressed Japan to incorporate the fund into the IMF led package, making it subject to the IMF conditions. With the US pressuring all bilateral donors, Japan had no choice, and consequently had to accept the outcome of the IMF policies, even though Japanese business interests were disadvantaged as a result.

Japan: Major donor within the consultative group on Indonesia

Japan's role in Indonesia's development goes back many years. Japan has been and continues to be the major donor within the consultative group on Indonesia (CGI), formerly called the Inter-Governmental Group on Indonesia (IGGI). At the seventh

²⁴ At the beginning the urgent need was to strengthen and stabilize the Indonesian currency, and the IMF advised Indonesia to implement tough measures, including closing sixteen Banks (November 1997) and merging some other private banks. The reforms suggested by the IMF focused on five broad areas: fiscal policy, monetary policy, structural reform, banking reform and private sector debt restructuring. The conditions imposed by IMF were very tough, and included the abolition of government subsidies on fuel, electricity, and transportation as well as the restructuring of the banking sector. IMF believed strongly that the crisis would be overcome if Indonesia could implement the same prescription that was so successfully applied during the Mexican-Peso crisis in 1995. Also the IMF had its own agenda. There was a strong feeling among Indonesians and some foreign scholars that the IMF was using the opportunity not only to assist Indonesia to solve the economic crisis, but also to pursue a political agenda, which was to alter the political situation in Indonesia.

annual meeting of the CGI held at Paris on 29-30 July 1998, the donor countries and institutions extended assistance worth US \$ 7.894 billion to Indonesia, an increase of about 40 % compared to 1997-98 pledges, as a quick disbursement loan rather than a project- oriented loan, at interest of one percent per annum, with a grace period of ten years and repayment over 30 years. Of that total, Japan contributed 187 billion yen (about US \$ 1.5 billion), consisting of 150 billion yen as part of the sector loan program (SLP), 20 billion yen as a grant, and 17 billion yen in technical cooperation. 50 billion yen was to be used for supporting food supply programs, activities that increase employment opportunities, and infrastructure development such as roads, ports, irrigation, and society safety net programs, while 100 million yen was allocated for flood amelioration projects.

Table 16: CGI commitment (figures represent US \$ million)

Loan sources	1996-97	1997-98	1998-99
Bilateral			
Japan	1916.7	1869.1	1500
Germany	208.3	66.3	300
France	100		
Spain	62.5	62.5	25
England	20	16	46
United States	84.7	74	250

Source: information center, KOMPAS

The above table shows Japan's position as the major bilateral donor within CGI, as well as the share of other donor countries. In 1996-97, although Japanese government policy on official development assistance (ODA) was being assessed and it was subsequently decided that it should be decreased by up to 10 %, Japan's commitment to Indonesia did not change.

Japan's proposal for an Asian Monetary Fund

In early 1998, Japan's vice minister for International Affairs in the Ministry of Finance, Eisuke Sakakibara, came up with the brilliant idea of establishing an Asian type IMF, to be called the Asian Monetary Fund (AMF). In Japan's view, the crisis would not have spread if Asia had a special fund to help strengthen its currencies at an earlier stage. It was envisaged that AMF could be used immediately before a crisis affected others or soon after. Moreover, it could be used in ways compatible with Asian needs and with a shorter process. Japan believed that Asian countries could raise the money from countries that were not severely affected by the crisis.

This proposal was abandoned following considerable opposition from the US, whose main objection was that an AMF would not impose as tough conditions as the IMF. The US insisted that only stringent measures would work, and that financial assistance should be kept within the IMF framework. Indonesia, meanwhile, waited enthusiastically for the Japanese proposal to materialize, as did other Asian countries. The idea was regarded as a significant indicator of Japan's willingness to shoulder greater responsibility for overcoming the Asian problem, and as appropriate to Japan's role as a financial leader. The US had other reasons, mainly political, for opposing the AMF idea. First, Japan's proposal would have destroyed any camouflage afforded by the IMF to the US political agenda, its desire to change the Indonesian government. If conditions softer than those of the IMF were offered, political change might not have eventuated. Second, in accord with its global strategic objectives, the US wanted to be the only righteous player in the game. Although, the US would certainly deny this, it is widely believed that when it comes to global issues, the US does not want Japan to play a more dominant role. When it comes to 'money' and 'finance', the US demands more and more from Japan, but when it comes to policy initiative, the US always says 'wait a minute'. The US wants as free a hand as possible in its dealings with Asia, and particularly with Indonesia. It wants Indonesia to provide more benefits in both economic and strategic terms to the US than to Japan.

In mid December 1998, Finance Minister Miyazawa revived the idea of establishing the AMF, both to supplement the IMF and to help forestall speculative

attacks on the regions currencies. His courage in resurrecting the proposal can be seen as an attempt by Japan to gain political leadership in the post-crisis Asia. Furthermore, it could also be regarded as an act of serious lobbying for Japan's bid to gain permanent membership in the United Nations Security Council.

A look at the bilateral framework shows the close and friendly relations between Japan and Indonesia.

Strengthening and stabilizing the rupiah

The origin of the economic crisis in Indonesia was a currency crisis caused by the development of the Indonesian rupiah. In early 1998, the Bank of Japan and the Bank authority of Singapore undertook a joint intervention in the international market by selling a large amount of US dollars and buying Indonesian rupiah. The joint move was aimed at assisting Indonesia's Central Bank, Bank Indonesia to strengthen the rupiah. Although the intervention was unsuccessful, the effort was welcomed and appreciated by Indonesia.

Overcoming the corporate debt problem

According to the Bank for international settlements, of the total corporate debt (about Eighty three billion), about Fifty percent was banking sector debt. The major foreign creditors were banks from Japan (\$ 22.02 billion), Germany (\$6.17 billion), France (\$4.77 billion), and United States (\$4.49 billion).²⁵ Indonesia requested foreign banks, especially Japanese banks, to reschedule the corporate debt.

Although the Japanese government and politicians understood the corporate debt issue and related banking problems, and supported the INDRA²⁶ concept to solve them, the Japanese private sector, particularly bankers, were not easily convinced. Indonesia reiterated assurances that they would have the opportunity to be involved in solving the crisis, and emphasized that unless Japanese bankers extended some

²⁵ *Business Indonesia*, 3 July, 1998.

²⁶ The Frankfurt agreement on corporate debt restructuring led to the establishment of the Indonesian Debt Restructuring Agency (INDRA).under INDRA, the government accepted a limited exchange rate risk in order to induce negotiations between foreign creditors and domestic debtors to defer debt service obligations, thus reducing pressure on the exchange rate for several years.

flexibility, the Indonesian economic crisis would continue to worsen and its contagion perhaps spread to Japan's own economy. After long negotiations, it was finally agreed to reschedule the corporate debt under the "Paris club" agreement. In support of this plan, Japan agreed to provide new united loans to Indonesia equivalent to the amount of principle due up until March 1999, and proposed a relief scheme for the remaining period, details of which were left to the subsequent negotiations. In addition the Japanese government took the corporate debt issue to the G 7 meeting in 1998 and to other international organizations, explaining the urgent need to assist Indonesia in coping with these specific problems.

Trade Financing

Devaluation of the rupiah meant that companies could not afford to import goods, while exports diminished due to disruption of the distribution system within Indonesia. The letters of credit of the trading companies were no longer accepted overseas. To cope with this problem, Indonesia needed foreign assistance in the form of trade financing. Indonesian officials and businessmen visited foreign countries, including Japan, to meet their counterparts and persuade them of the importance of addressing the issue.

Japan responded positively and in June 1998 the Japan Export- Import Bank (JEXIM) extended a two step loan of US \$ 1 billion to fund Indonesian Export products requiring imported raw materials. Another facility to assist private sector activities, especially among Japanese companies operating in Indonesia, was an untied loan of about US \$ 1 billion for trade and investment insurance, intended to support short and long term infrastructure projects to complement the economic reforms advised by the IMF. Japan also included a trade financing fund within the Miyazawa initiative.

Humanitarian Assistance

The social impact of the crisis was severe. The price of basic commodities rose and staple foods became scarce. The distribution system was disrupted, and to aggravate matters, the rice harvest was reduced to the effects of the prolonged dry season (El Nino). Student demonstrations not only harmed "Chinese business" but

also many Japanese corporations operating in Indonesia. Japan responded by extending humanitarian aid to Indonesia.

Vice president B J Habibie visited Japan in March 1998, and requested rice loans totaling one million tons. Japan did not respond directly to this request but later agreed to provide 550,000 tons of rice for Indonesia: 500,000 tons as loans to be returned in thirty years with a ten year grace period, while 50,000 tons was grant in aid as a symbol of friendship and sympathy from ordinary Japanese farmers.

In October 1998, Japan extended further loans of 400,000 tons of rice consisting of 200,000 tons of Japanese rice with the rest purchased on the international market. Rice loans were made possible through funds provided by the Japanese government under the sector loan program. The total amount of rice aid to Indonesia was one-twentieth of Japan's total annual needs. Between August and December 1998, ninety ships, each carrying about five tons of rice from Japan, were sent to twenty one Indonesian ports. Shipment costs of eleven billion Yen were borne by the Japanese government. This was the first time; Japan had extended such a large amount of rice aid to a foreign country. Japan also gave medical assistance totaling one billion Yen to Indonesia.

One interesting development in this context was that NGO's played a significant role, for several reasons. First, Indonesia needed the assistance to reach destitute people as quickly as possible. Japanese and Indonesian NGO's already had an extensive network and were able to assist with the distribution of basic necessities. Second, the Japanese government was under pressure to be more transparent in its handling of foreign aid, with demands for Japanese citizens to be involved in the policy making process as well as in the implementation of Japanese aid.

Apart from the assistance given in response to Indonesia's direct request, Japanese government aid measures came after the IMF appeal. Many intellectuals and NGO's in Japan had suggested that there was a need to address the social impact of the crisis long before Indonesia requested aid, but it was more than half a year after the crisis hit and significantly, after the student demonstrations and social unrest which culminated with Soeharto's resignation, that Japan became serious in tackling this problem. The Indonesian government and people greatly appreciated

Japan's help, but the Japanese government cannot avoid some criticism for being too slow to respond to the crisis.

Miyazawa Initiative

At the G 7 meeting in Washington and again in October 1998, Japan's Finance Minister, Kiichi Miyazawa, announced a package called "A New Miyazawa Initiative". Under the initiative a fund totaling US \$ 30 billion was allocated as support for six Asian countries- Indonesia, South Korea, Malaysia, The Philippines, Thailand and Vietnam- to assist them in overcoming their economic difficulties and to contribute to the stability of international financial markets.²⁷

Japan also promised to establish an "Asian crisis support facility", for extending interest subsidies to Asian countries that borrowed from JEXIM or Private Banks. Utilization of this fund was on the basis of "first come first served", and each country was required to state how much they needed and what for projects. The initiative was highly appreciated by the Asian leaders. The Indonesian government regarded it as a very bold decision that helped resolve the crisis affected economies, particularly praiseworthy since Japan itself was experiencing economic difficulty.

The Economic advisor of President Habibie, Professor Widjojo Nitisastro and Indonesia's coordinating Minister for Economics, Finance and Industry affairs, Ginandjar Kartasmita visited Tokyo in late October 1998 to discuss the details of the fund and indicated five areas²⁸ of high priority for funding. Indonesia requested about US \$ 3 billion but Japan later approved \$ 2.4 billion. After the Indonesian government announced its budget for 1999-2000, Minister Ginandjar visited Tokyo in January 1999, to ask for budgetary assistance. Indonesia proposed to use the long term Miyazawa Initiative to support the state budget, while the short one

²⁷ The package had two parts: US \$ fifteen billion as short term loan for capital needs during the process of implementing economic reform; and a US dollar fifteen billion for medium to long term financial needs to support the implementation of various policy measures for economic recovery. The prioritized measures included the supporting a corporate debt restructuring program, strengthening the social safety net program, measures to increase employment and extending credit for trade financing facilities and small and medium scale enterprises.

²⁸ The five areas were Infrastructure projects with high local content that were labor intensive; a social safety net covering education, health, food security and other social projects in urban areas as well as villages; development of small and medium scale enterprises; restructuring of the private business and banking sectors ;and trade financing to promote exports.

was to be used to finance activities such as the opening of Indonesia's letters of credit. Many Indonesian economists and business leaders are of the opinion that the fund was instrumental in supporting the Indonesian budget, social safety net program and helped regenerating the real economic sectors.

Obuchi-Clinton initiative

US president Clinton and Japanese Prime Minister Obuchi jointly announced the financial package of US \$ 13.5 billion, called the "Asian Growth and Recovery Initiative" in November 1998 to support quick recovery in the Asian economies. The fund was to be used by the World Bank and the Asian Development Bank to speed up restructuring of private sectors, including private banking to support trade financing and capital mobilization for new private companies, and to increase technical assistance.

Japan's joint approach with the US can be viewed in two ways. First, it reflected a serious commitment to help countries affected by the crisis, and an understanding that more comprehensive joint efforts were needed. Second, the US decision to join Japan in supporting the "Asian Growth and Recovery Initiative" can be seen as a result of US irritation at Japan's aggressiveness in extending more funds to Asia, and a wish not to be judged less responsive and less serious in solving the crisis. Thus competition between US and Japan benefited Asians.

It is important to note that financial assistance described above was extended in addition to what Japan had previously pledged to Indonesia through other international frameworks such as the CGI as well as funds committed under the IMF framework.

Japan continued to provide assistance to Indonesia in its efforts to overcome economic difficulties and to provide support for measures for the socially disadvantaged and the unemployed. In July 1998, Japan announced a total of ¥187 billion in assistance to the Indonesian government (consisting of ¥150 billion in yen loans, and 50,000 tons of rice). Additionally, Japan provided 700,000 tons of rice from government stores under a food aid arrangement. Some \$900 million in yen loans for the country's balance of payments and the socially disadvantaged was announced in October 1998 under the October 1998 New Miyazawa Initiative.

Loans from JEXIM of approximately \$1.5 billion were also announced as public financing in addition to aid. Japan also assisted the general election held in June 1999. Indonesia remains top recipient of Japan's bilateral aid (based on cumulative net disbursements up to 1998).

A look at the Japanese assistance in various projects shows the depth of bilateral relationship between the two countries.

Support for attaining self sufficiency in rice by development of irrigation facilities

Indonesia experienced the full brunt of the Asian currency crisis in 1997, resulting in a 14.1% plunge in real GDP in 1998. The influence of the Asian currency crisis reached rural areas. Rice production decreased due to the combination of soaring prices of agricultural materials and equipments triggered by the depreciation of the rupiah and a major drought caused by the El Nino effect. With a view to attaining self sufficiency in the production of rice, the country's staple food, the government of Indonesia implemented the first phase of Batang Hari Irrigation project to increase rice production in West Sumatra and Jambi provinces of Sumatra, which have the highest potential for developing rice fields. JBIC provided an ODA loan in the amount of 7639 million Yen for the second phase of the Batang Hari Irrigation project²⁹. The second phase developed new rice paddies and constructed drainages and the main canals as well as the tertiary canals. The project increased rice production and the income of the farmers in the project area by the expansion of rice fields, the introduction of new agricultural extension service programs and the dissemination of high yield of varieties and agricultural techniques.

Project on strengthening Sulawesi Rural Community development to support poverty alleviation programs (project type technical cooperation/1997-2002)

Indonesia has been developing economically, but large gaps have emerged between the regions. Therefore the government of Indonesia has declared poverty alleviation a priority issue. JICA has been working in south Sulawesi (eastern

²⁹ JBIC Annual report, 2002, p.40.

Indonesia) to promote village development with participation of local residents from the stand point of alleviating poverty.³⁰

Biodiversity conservation project (phase II) project type technical cooperation (1998-2003)

There are growing concerns that Indonesia's rapid industrial development is damaging the natural environment and threatening Biodiversity. For this reason the Indonesian government in 1991 enacted the "Indonesia Biodiversity Action Plan". Furthermore Indonesia was selected as a target country for a US-Japan joint project for helping developing countries better manage and protect their natural resources. Japan has provided grant aid for establishing the biological development center-animal section in Cibinong, an environment protection information center in Bogor, and an administrative office and research station in Gunung Halimun National Park. JICA has been cooperating in efforts to establish an information system for preserving Biodiversity.

Billi-Billi irrigation project

In September 2000, JBIC conducted research in Indonesia, on what benefits local people in developing countries from ODA loan projects .The voices of the people were as follows:

Before the irrigation facilities were constructed, we used to raise just one crop in the rainy season. Now water is available all through the year round, we can raise one crop in the rainy season and another in the dry season. In two and a half years, we can raise a second crop and the annual amount of harvests more than doubled. Our annual income also has almost doubled what we used to earn. (By a male farmer).³¹

This clearly shows the impact of the Japan-Indonesia relationship and the strength of the bilateral relationship. If we look at the cooperation in the field of ODA loan

³⁰ *Japan international cooperation agency, JICA INFO-KIT file B-1, Region ASEAN, 2003.*

³¹ *Basic strategy of Japan's ODA loan, Japan Bank for International Cooperation, April 1, 2002, p.7.*

commitment in the various sectors, in the various projects in the previous five years, the assessment of the relationship becomes clear.

Table 17: Loan Aid exchange of notes in the Fiscal year 2003

Project	100 million Yen
Tanjung Priok Gas fired Power Plant Extension Project	586.79
Semarang power plant rehabilitation and gasification project	86.85
Lahendong geothermal power plant project	58.66
Railway double tracking on Java south line II	103.48
Rehabilitation and improvement project of Jakarta fishing port	34.37
Maritime telecommunication system development project IV	55.67
The urgent rehabilitation project of Tanjung priok port	120.52

Source: mofa.go.jp (31 March, 2004)

Assistance to the formation of IT policies

In order to assist IT policy formation Japan has been sending senior advisers and giving comprehensive policy advice since 2001. Prior to this Japan had been sending specialists of IT related field like telecommunications and broadcasting on a long term basis to Indonesian ministers and agencies concerned.

Cases in which IT was utilized for the improvement of concrete services

Indonesia / institutional and human resource development for IT related customs services improvement project

As a member of WTO, Indonesia is required to speed up the customs procedure in accordance with the WTO rules, but due to a large increase in the trade volume, Indonesia is facing difficulty in meeting the situation by appropriate and prompt processing. This project, assisted by Japan's Yen loan cooperation, is to modernize and improve the transparency of the custom's work by introducing IT and new systems as well as fostering personnel.

Promoting the utilization of IT in developed assistance- Japan intends to construct bases for a network of distance technical cooperation called “J-NET”

The system aims at extending timely and flexible technical cooperation and policy advice to developing countries, by linking the core centers in Tokyo and Okinawa and satellite centers to be set up at human resource building bases in developing countries through technologies such as satellite communications. It is planned that satellite centers will be established in Indonesia.³²

Japan has considered development of human resources very important for supporting its economic dealings in Indonesia, and has established bilateral and regional training programs. Since 1990, around 15,000 trainees have participated in on the job training programs in Japan; in December 1998, there were about 9000 trainees in Japan. In 1998, about one thousand Indonesian students were pursuing their higher education in Japan. After the realization of the former Japanese Prime Minister Ryutaro Hashimoto’s pledge, made in Kuala Lumpur in early 1997, to provide, 20,000 scholarships for ASEAN students over a period of five Years, the number of Indonesian students in Japan have substantially increased in the year 2003.

The Japan Education Fair, held at Indonesia on December 11, 2003 which was supported by the Japanese Ministry of Education, Culture, Sports, Science and Technology emphasized to provide the Indonesian students and educators with up to date and correct information about Japanese higher education and research by participating organizations in order to help students select appropriate school and course to achieve their academic pursuits.

Instances of Indonesian student B. Cak winning the world championship robot contest, held at Fukushima, Japan in March 2001 (contest sponsored by JICA) and the trip to Yogyakarta (Indonesia) by the winner of essay contest for Japanese students (contest sponsored by JICA) points to the increasing good relationship between the two countries.

³² JICA-NET, 2003.

A look at the Japanese investments in various projects in different sectors in the year 2003 helps us to understand the depth of cooperation between the two countries.

Table 18: List of Future Candidate Projects for Indonesia

#	Sector	Project Name	Project Description	Executing Agency	Project Cost	Note
1	Transportation	North Java Corridor Flyover Project	Construction of the new flyover in Java	Directorate General of Regional Infrastructure (DGRI), Ministry of Settlement and Regional Infrastructure	9,267 million yen	Location: West Java, Central Java, Banten
2		Local Bridge Replacement and New Construction Project	Replacement and construction of bridges in Sumatra, Kalimantan, Sulawesi	Directorate General of Regional Infrastructure (DGRI), Ministry of Settlement and Regional Infrastructure	15,339.2 million yen	Location: Sumatra, Kalimantan, Sulawesi
3		Mahkota II (Mahakam Kota II) Bridge Project	Construction of the bridge	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 26.5 million	Location: East Kalimantan
4		Semplak By Pass Project	Construction of By Pass	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 6million	Location: West Java
5		Kediri Bridge Project	Construction of the bridge	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 3.87 million	Location: East Java

6	Rantauan Keliling Iir Bridge Project	Construction of the bridge	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 3.33 million	Location: South Kalimantan
7	Enggano Flyover Project	Construction of the flyover	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 9.5 million	Location: Jakarta
8	Kalibanteng Traffic Improvement Project	Construction of the flyover interchange	Directorate General of Urban and Rural Development (DGURD), Ministry of Settlement and Regional Infrastructure	US\$ 5 million	Location: East Java
9	Railway Double Tracking on Java Southline (II)	Construction of the second track beside the existing track of Kutoarjo-Yogyakarta railway line	Directorate General of Land Communications (DGLC), Ministry of Communications	9,493 million yen(USD 93 million)	Location: Central Java
10	Jakarta Mass Rapid Transit System (I)	Construction of substructure and superstructure for Mass Rapid Transit System	Directorate General of Land Communications (DGLC), Ministry of Communications	USD 493.73 million	Location: Jakarta
11	Maritime Telecommunication System Development (IV)	To improvement and modernize the maritime telecommunication system in order to secure the safety of life and property at sea and effective sea transportation and other maritime activities	Directorate General of Sea Communications (DGSC), Ministry of Communications	US\$ 41.87 million	Location: the whole country

12		Tanjung Priok Port Rehabilitation Project	Improvement of navigational condition by deepening and widening of the channel and the relocation of the existing breakwater and improvement related road and development of automobile terminal	Directorate General of Sea Communications (DGSC), Ministry of Communications	US\$ 136.57 million	Location: Jakarta
13	Water Resources	Komeiring Irrigation Project Stage II, Phase 2	To utilize irrigation water developed by Stage I and Stage II Phase 1	DG of Water Resources, Ministry of Settlement and Regional Infrastructure	15,856.92 million yen	Location: South Sumatra
14		Lower Solo River Improvement Project (II)	Construction of barrage and river improvement for flood control	DG of Water Resources, Ministry of Settlement and Regional Infrastructure	22,580.30 million yen	Location: Central Java, East Java
15		Gilirang Irrigation Project	To supply to other rice deficit province; to rise incomes and living standard of farmers; to mitigate inundation damage through flood control by construction of dam	DG of Water Resources, Ministry of Settlement and Regional Infrastructure	7,333.79 million yen	Location: South Sulawesi
16		Integrated Sediment Disaster Mitigation Management of Mount Merapi and Kali Progo River	Volcanic Disaster Management; Riverbed Stabilization in the lower Kali Progo; Sustainable Sand Mining Management; Regional Development through Sediment Disaster Control.	DG of Water Resources, Ministry of Settlement and Regional Infrastructure	5,935.40 million yen	Location: Yogyakarta
17		Kali Garang Flood Control and Semarang Urban Drainage System Improvement	To mitigate flood damages along the West Floodway/Garang River	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	9,288.2 million yen	Location: Central Java
18		East Jakarta Flood Control Project	To prevent the eastern part of Jakarta City from floods by means of construction of the Eastern Banjir Canal (EBC)	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	68,456 million yen	Location: Jakarta

19		Padang Area Flood Control Project (III)	To increase the development potential of flood control of Padang	DG.of Water Resources, Ministry of Settlement and Regional Infrastructure	11,693 million yen	Location: West Sumatra
20		Lower Asahan Flood Control	To mitigate vast and frequent flood damages	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	Rp. 96,600 million	Location: North Sumatra
21		Banel Water Management Project	Irrigation, Water Supply, and Flood Control	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	Rp. 61,000 million	Location: Bali
22		Mujur Water Management Project	Irrigation, Water Supply, and Flood Control	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	Rp. 240,000 million	Location: East Nusa Tenggara
23		Urgent Water Resources Infrastructure Development of Tondano River Basin	Water Supply and Flood Control	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	Rp. 290,000 million	Location: North Sulawesi
24		River Improvement of Lower Bone and Lower Bolango Rivers	Flood Control and water Management	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	Rp. 500,000 million	Location: Gorontalo
25		Jambu Aye Water Management Project	Water Management of Siak River Basin	DG. of Water Resources, Ministry of Settlement and Regional Infrastructure	USD 402.08 million	Location: Riau
26	Fisheries	The Jakarta Fishing Port Rehabilitation Project	To rehabilitate the quay wall structure for maintaining the function of the Port	DG of Capture Fisheries, Ministry of Marine Affairs and Fisheries	USD 15 million	Location: Jakarta
27	Regional Development	Urban Infrastructure Improvement of the City of Makassar	Improvement of living environment through management of waste water.	DG. of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 30 million	Location: South Sulawesi

28		Jakarta Waste Water Disposal Project (Stage I, Phase II)	Improvement of living environment through management of solid waste water.	DG of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 145 million	Location: Jakarta
29		Rural Urban Linkage Infrastructure Support for Local Economic Development	Improvement of infrastructure to support local economic.	DG of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 300 million	Location: Whole Country
30		Sewerage System Improvement Project in the City of Medan	Improvement of living environment through management of Sewerage.	DG of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 100 million	Location: North Sumatra
31		Drainage in the Metropolitan City Makasar (E/S)	Improvement of living environment through management of drainage system.	DG of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 50 million	Location: South Sulawesi
32		Umbulan Water Supply Project (E/S)	To increase water supply coverage in the city of Surabaya, Malang, Pasuruan	DG of Urban and Rural Development, Ministry of Settlement and Regional Infrastructure	US\$ 50 million	Location: East Java
33		Upland Integrated Area Development with Specific in Karst Region	To improve environmental capacity, economic growth, quality of life and education	DG of Regional Development, Ministry of Home Affairs	USD 6 million	Location: Java, Sulawesi, Kalimantan
34		Rural Areas Infrastructure Development Project (IV)	To reduce poverty through the basic infrastructure development in rural area	DG of Regional Development, DG of Community Empowerment, Ministry of Home Affairs and DG of Urban and Rural Infrastructure Development, Ministry of Settlement and Regional Infrastructure	USD 300 million	Location: Sumatra, Kalimantan, Sulawesi, West Nusa Tenggara

35	Information Technology	Local Administration Capacity Building and Human Resources Development Project	Establishment of e-government model in Indonesia in order to achieve good governance	State Ministry for Communication and Information, BIDA (Batam Industrial Development Authority) and Batam Municipality	USD48.61 million	Location: Riau
36		National Geo-Spatial Data infrastructure Development Project	Acquisition of National Geo-Spatial Data, production of National Geo-Spatial data, and strengthening of the GIS Data Center	Bakosurtanal	USD 100.4 million	Location: Jakarta
37	Energy	Tanjung Priok Combined Cycle Power Plant Project	To build Combined Cycle Gas Thermal Power Plant having capacity of 720MW	PT. PLN (Persero)	USD 455 million	Location: Jakarta
38		ERP Application to Support Generation Project	To build ERP (Enterprise Resource Planning) application and to achieve effective and efficiency in power plant operation	PT. PLN (Persero)	USD 10 million	Location: Java-Bali
39		Rehabilitation and Upgrading of Suralaya Coal Fired Power Plant Project	Rehabilitation and upgrading of boiler, turbine, generator and control instruments	PT. PLN (Persero)	USD 72 million	Location: West Java
40		Rehabilitation and Gasification of Semarang Steam Power Plant Project	Rehabilitation and upgrading of boiler, turbine, generator and control instruments	PT. PLN (Persero)	USD 65 million	Location: Central Java
41		Tanjung Perak Power Station Repowering Project	To build complete Combined Cycle Gas Thermal Power Plant having capacity of 332.4MW	PT. PLN (Persero)	USD 186 million	Location: East Java
42		Java-Bali Overhead Transmission Line Project	To build OHL (Overhead Transmission Line) between Java and Bali (the first stage) and 500 kV upgrading	PT. PLN (Persero)	USD 319.81 million	Location: East Java, Bali
	Stage 1 (Inter connector)			USD 55.97 million		

			500 kV upgrading from Paiton to Kapal Sub Station (second stage).	Stage 2 (In land 500 kV OHL)	USD 222.3 million	
				Contingency	USD 41.6 million	
43		Parit Baru Coal Fired Thermal Power Project	To build fired thermal power plant	PT. PLN (Persero)	USD 120 million	Location: West Kalimantan
44		Biomass Power Plant Project	To develop steam power plant 1 x 30 MW by using empty bunch and coal as fuel	PT. PLN (Persero)	USD 52 million	Location: East Kalimantan
45		Kramasan Power Station Repowering and Extension Project	To install combined cycle power plant of 82 MW in South Sumatra	PT. PLN (Persero)	USD 65 million	Location: South Sumatra
46		Lahendong Geothermal Power Plant Project.	To install 2 x 20 MW geothermal power plant nearby existing plant	PT. PLN (Persero)	USD 40 million	Location: North Sulawesi

Source: mofa.go.jp

Indonesia-Japan bilateral relations go beyond the government to government relationship. Local governments and individual citizens have contributed to the wide ranging practical cooperation. Sister province and sister city relationships between the two countries have flourished, and cooperation in this context covers issues such as agriculture, education, health and city infrastructure.

The Japanese corporate sector has greatly assisted Indonesia in dealing with the effects of the economic crisis, particularly through the efforts of Keidanren working in cooperation with the Indonesian chamber of Commerce and Industry. Keidanren sent a mission to Indonesia in November 1998, and encouraged its members to remain in Indonesia to do business rather than relocate their investments to the other countries. Japanese Non government organizations and ordinary Japanese citizens have given generous assistance to Indonesia, not only during the Asian Economic crisis, but in the past at times of natural calamities as well. This assistance is one result of the comprehensive coverage of the crisis in the Japanese print and electronic media, which helped the Japanese people to understand the extent of the crisis in Indonesia and its implications for Japan's economy and security. The reverse side of this extensive and sometimes exaggerated media coverage is that Indonesia is sometimes perceived very

negatively, which deters businessmen and tourists. Nevertheless, the responses of the Japanese people and the Japanese government to Indonesia's need have been overwhelming and of great assistance to Indonesia.

A number of organizations and associations in Japan, from business groups to merely social groups, have contributed significantly to the Japan-Indonesia relationship. Activities conducted by organizations such as Keidanren, particularly the Japan-Indonesia Economic Committee, the Japan-Indonesia Science and Technology Forum (JIF), as well as the Japan-Indonesia Parliamentarian league, have been very important, and as have those organized by JAPINDA (the Japan-Indonesia association) and the Nippon-Indonesia Yuko Dantai Kyogikai. In Indonesia, foundations such as Dharma Persada enhance the two countries relations, particularly by spreading information on Japanese culture and language to the Indonesian people. The establishment of Japan study centers at the three universities in Indonesia (university of Indonesia, Gajah Mada University, and Padjadjaran University) is also expected to encourage students to study Japanese affairs.

Given below is the Japanese governments support to the various NGO's from the year 1990-2002. It clearly explains the grant assistance for the grass root projects which has increased over the years. As explained earlier these NGOs play an important role in establishing Japan-Indonesia relationship.

Table 19: Trends in Government Support for NGOs

FY	NPO project subsidies			Grant assistance for grassroots projects		
	Number of projects	Number of NGO's	Amount disbursed (million yen)	Number of Countries / regions	Number of NGO's projects	Amount disbursed (million yen)
1990	36	16	180	44/0	92	296
1991	47	24	236	49/0	156	499
1992	53	30	278	55/1	227	700
1993	75	31	368	55/1	258	1,000
1994	92	49	450	56/1	331	1,492
1995	137	84	624	71/1	307	2,908
1996	215	132	817	82/1	962	4500
1997	224	116	919	89/1	964	5000
1998	185	111	788	93/1	1,064	5,700
1999	154	92	717	108/1	1,264	6,907
2000	149	86	541	106/2	1,523	8,488
2001	140	75	512	117/2	1,531	9,987
2002	127	66	411	111/1	1,415	9,498

Source: Ministry of Foreign Affairs, Japan

CHAPTER –IV

JAPAN-INDONESIA RELATIONS: POLITICAL AND SECURITY DIMENSION

For most of the past half century, the principal pillar of Japanese foreign policy has been the relationship with the US. Japan was generally seen as a global, rather than a regional player in international affairs, though the focus of her foreign policy was far more economic than political or strategic. Over the past decade or more, however a rather more regional focus has become evident in the orientation of Japan's external relations. This trend has not, as some observers thought in the early 1990s, led to a breakdown in the time-honoured structures of the Japan-US relationship. But in a Post Cold War world, Japan's attention has necessarily come to shift focus towards regional problems and linkages.

The chapter deals with Japan's political and security involvement with Indonesia. The study tries to understand Japan's regional diplomacy through a bilateral approach. Japan presents the students of international relations with a paradox. By most conventional measures of power, Japan is one of the strongest nations in Asia, if not the strongest. Its economy is second largest in the world. Japan's technological capabilities are exceeded by only those of the United States. Japan's armed forces are among the largest and the best equipped in the world, replete with F-16 combat aircraft, Aegis-class destroyers and an annual defense budget that, at approximately \$ 40 billion dollars¹, is the world's second largest. Only in the area of nuclear weapons does Japan lag behind if compared with Russia and the Peoples Republic of China. Even in this respect, there is little doubt that were it to choose to do so, Japan could develop a formidable nuclear arsenal in a relatively short period of time.²

¹ For fiscal year 2001, the Japanese defense related expenditures were approved at 4.94 trillion Yen, which at the 2004 exchange rate of 120 Yen to a dollar rounds to \$ 41 billion.

² Selig Harrison, "*Japan's nuclear future: the plutonium debate and the East Asian security*" (Washington D.C.: Carnegie Endowment for International peace, 1996).

Despite these assets, Japanese national security policy making since 1945 has been marked by an extraordinary degree of circumspection even timidity, when it comes to the actual exercise of military power. Japan has gone out of its way to avoid assuming an active military role in security affairs, restricting its armed forces primarily to the defense of its own territory. Japan has deliberately eschewed developing weapons system that could be construed as offensive in character, including aircraft carriers and long range bombers. Japan's basic approach to national security could be described as a quasi-isolationist strategy of limited rearmament, limited alignment and maximal distancing of Japan from any potential military conflict. At times this strategy has provoked bitter charges of "Free Riding" from the United States, which felt that Japan was enjoying the fruits of America's efforts to contain communism in Asia while paying only a small part of the costs. In response, Japan countered that it had provided the United States with the bases it needed to support American strategy in Asia, and it pointed out that it had consistently followed America's lead on the most important foreign policy issues.

Since the end of cold war, however, Japan's cautious approach to national security has come under pressure. With the collapse of the U.S.-Soviet military rivalry, Japan can no longer take American strategic support for granted. At the same time, the global and regional security environment remains unstable. The global war on terrorism offers a new challenge for Japan's security policy. The end of cold war entailed four developments at the global level:

1. The disappearance of the capitalist-communist ideological conflict as the most important source of political division at the global and regional levels.
2. The structural transformation of the international political economy from super power centered bipolarity to multi polarity characterized by more diffuse power distribution and more complex patterns of cooperation among the major powers.
3. The primacy of economic development both as a foundation of political legitimacy domestically and as determinant of the pattern of international relations.

4. The rise of nationalism as a powerful force in international relations and often frustrating efforts at international cooperation.³

For much of the post war period, Japan needed little in the way of an independent strategy for defending and promoting its interests in South East Asia. Instead, it relied on U.S. leadership in seeking stability in this sub region. Even the announcement of the Nixon doctrine in 1969 did not immediately prompt any serious search for a Japanese political policy toward South East Asia. Only after Japan's growing economic presence in the area generated adverse reaction, such as the anti-Japanese demonstrations in Thailand and Indonesia during Prime Minister Tanaka's tour of South East Asia in 1974, did Tokyo begin to pursue an activist policy in the area. The U.S. defeat in the Vietnam War also forced Tokyo to formulate an explicit policy toward the region. Hence the Fukuda Doctrine was announced in 1977. Fortunately, Tokyo's adoption of a "comprehensive security policy" in the early 1980's corresponded closely to the ASEAN countries pursuit of "national and regional resilience", with an emphasis on domestic economic growth and political stability as an approach to national security. This conceptual congruence enhanced the role of Japanese economic assistance in the region.⁴ Economic aid and private investments, despite their shortcomings, were the single most important contribution that Japan had made toward the dynamic economic development and resulting political stability in the region. On the political front, international support for a Japanese security role in South East Asia is slowly growing. Earlier there was a favorable response among the ASEAN countries to the dispatch of Japanese minesweepers to the post cease fire gulf. Japan's patient and quiet diplomacy, in concert with the ASEAN countries, to promote a comprehensive political settlement of the Cambodian conflict also won praise among the political observers in South East Asia.

In light of the Foreign policy reorientation, the 1990's also saw a Japan that was more active than previously in the political/security affairs of South East Asia.

³ Robert .A. Scalapino, "The United States and Asia: Future Prospects," *Foreign Affairs*, vol. 70, no.5 (winter 1991/1992), pp. 19-40.

⁴ Tsuneo Akaha, "Japan's Comprehensive Security Policy: A New East Asian Environment," *Asian Survey*, vol.31, no.4 (1991) pp. 337-39.

Other than organizing the Tokyo conference in 1990, to promote an agreement among the Cambodian factions to cease armed hostilities, in 1991, then Japanese Foreign Minister Nakayama Taro also proposed the formation of a multilateral arrangement in South East Asia to discuss security issues and regional stability. Although the South East Asian countries did not initially showed interest, they tacitly accepted the notion when they formed the ASEAN Regional Forum (ARF) in 1994.

In 1994, the Japanese defense agency sponsored a pacific defense seminar for lieutenant colonels and naval commanders from Australia, Brunei, Canada, China, Indonesia, Japan, South Korea, Malaysia New Zealand, Philippines, Russia, Singapore, Thailand and United States.⁵ In wake of the 1997, Hashimoto doctrine, Japan has engaged in political and security dialogues with Singapore, Thailand and Indonesia.

Japan's efforts to participate in the political/ security affairs of the South East Asian countries including Indonesia led to the establishment of closer understanding between the two countries and it can be seen in terms of the establishment of Diplomatic Relations between the two countries in April 1958 with the Signing of the Treaty of Peace between Japan and the Republic of Indonesia.

Another indication of the closeness of Japanese-Indonesian contacts is the mobility of their nationals between the two countries. The steady flow of tourists and businessmen into a country often reflects the political stability of the country while a sudden outflow is likely to signify political instability.

Table 20: Number of registered Indonesians in Japan

Year	No of registered Indonesians in Japan
Dec 1999	10,581
Dec 2000	19,346

Source: Ministry of Justice, Japan

⁵ Tsuneo Akaha, "Japan's security agenda in the post cold war era", *Pacific Review* 8:1 (1995), p.52.

In April 2001, 12,208 Japanese nationals were residing in Indonesia. If we see the number of Indonesian's living in Japan, we notice an increase of 17.8% from 1999 to 2000.

Just as the flow of citizens between two nations is a fairly reliable index to their friendly relations so may be the exchange of visits by their respective leaders. An exchange at the summit level sometimes is undertaken to solve mutual problems and to ease tensions. But generally it is the frequency of these reciprocal visits which measures the amicability between the nations concerned. Unbalanced exchanges reflect uneven relations: the leaders of subordinate nations tend to visit dominant nations more often than the reverse.

From Japan to Indonesia

July 1999	Foreign Minister Masahiko Koumura
January 2000	Senior State Secretary for Foreign Affairs Shozo Azuma
April 2000	Minister for Foreign Affairs Yohei Kono
September 2001	Director-General of the Defense Agency Gen Nakatani
January 2002	Prime Minister Junichiro Koizumi

From Indonesia to Japan

March 1998	Vice President B.J. Habibie
June 1999	Foreign Minister Ali Alatas
April 2000	President Abdurrahman Wahid
September 2001	President Megawati Sukarnoputri
January 2003	President Megawati Sukarnoputri

Japanese leaders seem to visit foreign countries in the order of their commercial and political importance. Visits by Japanese leaders to foreign countries including Indonesia are short, rigidly scheduled, and usually capped by joint communiqués carefully worded in advance by foreign ministry officials. In contrast, Indonesian leaders consider Japan a site favorable for both official and unofficial visits, as Tokyo is conveniently located as a stopover en route to the United States, the United Nations, and Western Europe via the North Pole and even to North Korea.

In Western and Oriental History, subordinate countries frequently visited dominant powers. Every Japanese prime minister in the post-1952 period has had to begin his term of office by going to Washington as soon as possible to formulate his foreign and even his domestic policies. While more Japanese leaders visited Washington than the reverse, more American citizens traveled to Japan than Japanese citizens to America. This is true of Japan-Indonesia relations too. More Indonesian leaders come to Tokyo than vice versa, on the other hand more ordinary Japanese visit Jakarta than Indonesians to Tokyo.

Areas of cooperation

Indonesia and Japan cooperate aiming at achieving stability and development of the region through bilateral, regional, and international frameworks such as the United Nations, the Association of Southeast Asian Nations (ASEAN) +3, the ASEAN Regional Forum (ARF), the Asia-Europe Meeting (ASEM) and Asia-Pacific Economic Cooperation (APEC). Both the countries realize the importance of strengthening cooperation under the framework for cooperation, namely, "acting together and advancing together" as "sincere and open partners." ⁶

Indonesia's assumption of the chair of ASEAN in July 2003 and the Japan-ASEAN Commemorative Summit in Japan in December 2003 further enhanced the Japan-Indonesia cooperative relationship.

It can be seen that the bilateral cooperation between the two countries are based on three basic themes; (1) the promotion of the reform process including the democratization in Indonesia and the attainment of prosperity; (2) the realization of a stable Asian Region; and (3) cooperation for future development.

⁶ The President of the Republic of Indonesia, H.E. Megawati Soekarnoputri made a state visit to Japan on June 22-25, 2003. During the visit, the Prime Minister of Japan H.E. Junichiro Koizumi held a Summit Meeting with President Megawati Soekarnoputri at the Prime Minister's Office. The two leaders reiterated the importance of strengthening cooperation between Japan and Indonesia.

Promotion of the Reform Process and the Attainment of Prosperity

Japan gives the assistance and support for the acceleration of Indonesia's reform process and democratization. In the economic field, Indonesia is considering a strategy that would allow it to graduate from the IMF program, particularly by maintaining Indonesia's macroeconomic stability. Japan hopes that Indonesia would carry out its exit strategy from the IMF program smoothly and stresses the importance of continued economic reform. In addition, Japan extends its support to Indonesia's reform efforts in order to enable Indonesia to manage its fiscal policy and economy in a sound manner in 2004 and thereafter. To implement the IMF reforms President Megawati launched 2003 Indonesian Investment Year. The Indonesian Government was determined to improve Indonesia's investment climate so as to boost economic growth. The private sector plays a key role in enhancing economic relations between the two countries. Indonesian efforts to improve the investment climate would sustain or even expand existing Japanese direct investments as well as attract new investments. Japan's Economic Policy Supporting Team, which was established in September 2001, played a significant role in economic reform efforts made by the Government of Indonesia.

The two countries cooperation in the police reform as one of the processes of achieving better governance has shown positive results and so the two continue their cooperation in this field. Japan supports the legal reforms in Indonesia. Japan's intention to assist Indonesia in the upcoming 2004 elections was for furthering the process of democratization in Indonesia.

The Japanese role in the 2004 elections in Indonesia.

Given the vast land area of Indonesia, approximately 147 million eligible voters and 600 thousand polling stations, the multiple elections and complex voting systems, as well as the limited lead time for preparations, physical and technical difficulties for the conduct of the elections were indeed daunting. The Government of Japan, taking these factors into consideration, provided a total of 22.5 million US dollars of grant aid, including the costs of procuring ballot boxes and polling

booths as well as technical cooperation of dispatching 17 JICA experts to the central and local KPUs in Indonesia.

The Japanese Government Observation Mission contributed to the successful implementation of the elections for the people of Indonesia. The Japanese Government Mission, dispatched from a friendly nation of Indonesia, expressed its strong hope that the people of Indonesia will march forward on the path for the building of a fair and democratic society on the basis of the election results.

The Japanese Government Observation Mission for the general elections in Indonesia, consisted of 23 election observers, out of which 16 were dispatched by the home government and 7 were from the embassy and consulates general in Indonesia and they conducted observation activities in each process of the preparation for setting up of polling stations, voting, and counting. The Mission was divided into Jakarta, Surabaya, Denpasar, Makkasar, Medan and Aceh teams. On the voting day of April 5, the Mission, in six different regions, visited 150 polling stations in total to observe the voting and counting.⁷

Indonesia took a firm step forward toward its democratization with the last general elections in 1999. The series of subsequent revisions of the Constitution introduced new institutions to enlarge the opportunities of political participation among the people of Indonesia. It can be seen that the general elections were greatly significant in terms of consolidation of the process for democratization of Indonesia. It is of critical importance that the general elections in April were held in a peaceful, free, and fair manner in the sense that the elections lead to the presidential election scheduled to be held in July where the people of Indonesia will directly elect their president for the first time in their history.

Japan, a close friend of Indonesia, was able to participate in the observation activities of the elections this time in a same way as was the case in the last general elections. The Japanese Government Observation Mission was extended cordial welcome wherever it visited, which enabled the Mission to achieve its goals. The

⁷ Statement by the head of the Japanese government observatory mission for the general elections in Indonesia, April 7, 2004.

Japanese Prime minister expressed his sincerest gratitude to the Indonesian Electoral Commission (KPU) and others concerned on the Indonesian side for their cooperation.⁸

Cooperation on the Realization of a Stable Asian Region

Japan and Indonesia attach importance to overcoming the increasing problem of piracy occurring in South East Asian waters. Both countries recognize that the increasing number of piracy poses a serious threat to the safety of maritime transportation of neighboring countries, including Japan, and has adverse effects on the region's social and economic developments. In this regard, both countries share the view that there is an urgent need for both countries to strengthen their cooperation on prevention and suppression of piracy, including the early adoption of the Regional Cooperation Agreement on Anti-Piracy in Asia.

The issue of illegal logging and associated illegal trade is also important. In this regard, Japan and Indonesia are taking comprehensive steps for cooperation between the two countries as stated in the Joint Announcement and the Action Plan on the Cooperation in Combating Illegal Logging and the Trade in Illegally Logged Timber and Wood Products signed on June 24, 2003 in Tokyo, and in line with the Asia Forest Partnership initiated by Japan and Indonesia during the World Summit on Sustainable Development WSSD in Johannesburg.

⁸ Since the Mission was able to visit and conduct its activities only at limited locations in a rather limited time to directly observe the situations, they were not in a position to evaluate the whole process of the general elections including preparation, campaign, nationwide counting and tabulation, and announcement of the final results. The Mission deems, however, that the process of voting and counting at each polling station it observed was conducted in a free and fair manner; as far as the Mission could ascertain, it is of the opinion that the overall process was implemented generally in accordance with the election-related rules. Some of the teams of the Mission pointed out that the standard voting procedures stipulated by the KPU were not observed at some polling stations. On the other hand, the Mission was impressed in whichever polling station it visited with the serious attitude of those concerned toward the successful elections at every step of their work ranging from setting-up of polling stations, voting, and up to counting stages. No doubt the voting was not conducted on April 5 in some areas due to technical or security reasons. The problems related to voter registration and many violations of election-related rules were pointed out during the preparation process of the elections. Japan strongly hoped that the remaining election process including the voting and counting in areas where voting was postponed and nationwide tabulation work was conducted in a fair and faithful manner until the final election results were confirmed.

Japan and Indonesia share concern over the situation in the Korean Peninsula, in particular the North Korean nuclear issue as an utmost concern not only to the peace and stability of the Korean Peninsula, but also to the Asian region and to the international nuclear non-proliferation regime, and stress that any action which would exacerbate the situation should not be taken and that responsible steps towards the resolution of issues including the nuclear issue should be taken. Both countries appreciate efforts made by various parties in seeking ways to help solve the nuclear issue, including the trilateral talks held in Beijing in April as a good start, and hope that intensified dialogue could bring about comprehensive resolution of the North Korean issues. This concern for the Korean crisis was discussed at the Japan-Indonesia meeting in Tokyo.⁹

ASEAN-Japan Exchange Year 2003 was a success, increasing cooperation in a wide range of fields and promoting economic, political and social activities as well as cultural and intellectual exchanges both at governmental and community levels.

Cooperation for Future Development

Tourism plays an important role towards the development of social, economic and cross-cultural relations of the two countries and their cooperation is based on the "Joint Announcement on Tourism Cooperation between Japan and the Republic of Indonesia."

Both countries are aware of the importance of promoting economic development in the African region through international cooperation. They are of the same view that the upcoming the Asian-African Sub Regional Conference (AASROC), jointly initiated by Indonesia and South Africa, and the Third Tokyo International Conference on African Development (TICAD), co-organized by Japan, the United Nations, Global Coalition for Africa and the World Bank could be complementary. Furthermore, Japan-Indonesia cooperation in supporting these two

⁹ At the summit meeting both countries expressed their intentions to further strengthen cooperation between them and with other countries concerned in seeking a peaceful and diplomatic settlement to the nuclear issue. President Megawati shared the concern that led Japan towards its position in solving issues such as the nuclear issue, the missile issue and the abduction issue, based on the Japan-North Korea Pyongyang Declaration, and normalizing the relations with North Korea in a manner that would contribute to the peace and stability of Northeast Asia.

forums could encourage better inter-regional cooperation between Asia and Africa on global challenges. In accordance with this, both countries are of the view that they would set up a Partnership Program to enable Japan to play a more important role in supporting the South-South cooperation programs being carried out by Indonesia.

The Japan-Indonesia Partnership

Japanese and Indonesian Governments have strengthened bilateral technical cooperation to promote the economic and social development of developing countries. In cooperation with relatively developed countries among the developing countries to which Japan has implemented technical cooperation, Japan has been extending technical cooperation (triangular cooperation) to less developed countries. Through such cooperation, Japan has at the same time been assisting the partner countries to strengthen their assistance capacity and eventually to become donor countries. Japan has already established partnership programs with Thailand, Singapore, Egypt, Tunisia, Chile, Brazil, Argentina, the Philippines, Morocco, and Mexico. Indonesia will be the 11th partner for Japan. This partnership came as a result of the signing of the framework document concerning the Japan-Indonesia Partnership Program that took place on December 10, 2003 in Tokyo (Imperial Hotel) between Ms. Yoriko Kawaguchi, Minister for Foreign Affairs, and Dr. Hassan Wirayuda, Minister for Foreign Affairs of Indonesia.

The outlines of the framework document were as follows:

- (1) Joint implementation and cost-sharing of the Third Country Training Programme. (Receiving trainees from third countries, making use of technologies that have been transferred from Japan to Indonesia).
- (2) Dispatch of Indonesian experts for technical cooperation project implemented by Japan in third countries.
- (3) Holding of joint seminar in a third country.
- (4) The planning committee to be established by both Governments will formulate an annual work plan within this framework.

It is expected that the signing of the framework document will enable Japan and Indonesia to further promote partnership and cooperation, and Japan will be able to implement more effective and efficient technical cooperation to other developing

countries, especially ASEAN and African countries. The fact that the signing of the document took place between Foreign Minister Kawaguchi and Dr. Hassan during the latter's visit to Japan to attend the Japan-ASEAN Commemorative Summit symbolizes the partnership commensurate with a new era which both countries aim at and it is expected that the bilateral relations between Japan and Indonesia will be further strengthened.

Japans concern on the situation in Aceh, Indonesia

Concerning the decision for the extension of military emergency for further six months in Aceh, made by the Government of Indonesia on November 6, 2003, Japan expressed its concerns for the extension, as it has been Japan's basic position to expect the issue of Aceh to be peacefully solved under the territorial integrity of Indonesia. The Government of Japan has been continually urging the Government of Indonesia in cooperation with other countries concerned to heed human rights and secure transparency. Japan intends to continue urging the Indonesian Government towards the peaceful resolution of this issue. Japan is also prepared to extend all the indirect assistance necessary for that goal.¹⁰

In this regard, Japan is prepared to cooperate with Indonesia in, where the situation allows, holding a meeting for such dialogue, including holding it in Tokyo.¹¹ Human sufferings and the excess of combined operations in Aceh are to be minimized. The support of the Government of Japan to the sovereignty and territorial integrity of the Republic of Indonesia is appreciated. The Indonesian Government is taking all necessary measures to carry out its responsibility to maintain the sovereignty and territorial integrity of the country by initiating intensive combined operations to bring vitally needed humanitarian assistance to the people of Aceh, to enforce the law, to restore peace and security and to ensure

¹⁰ Statement by the Press Secretary/Director-General for Press and Public Relations, *Ministry of Foreign Affairs*, on the Situation in Aceh, Indonesia. November 6, 2003.

¹¹ At the Japan-Indonesia summit meeting, on the situation on Aceh, Prime Minister Koizumi reaffirmed Japan's full support to the sovereignty and territorial integrity of the Republic of Indonesia. While commending the effort of the Government of Indonesia for having sought a peaceful solution to the Aceh issue through dialogue, and reiterating that a peaceful solution through dialogue is the best way to resolve the conflict, he expressed his hope that the resumption of dialogue between the parties can reach a political settlement based on special autonomy as the final solution, as stipulated in the Chairman's Statement of the ARF issued on June 19, 2003.

to the full functioning of all local governments. The door to the dialogue remains open and it is hoped that a peaceful solution can be found based on special autonomy as the final solution for Aceh.

Cooperation in Fighting against International Terrorism

Japan and Indonesia are committed to fight international terrorism, which is a threat to international peace and security and has no justification whatever the perpetrators' motives may be. The terrorist attacks in Bali on October 12 2002, where innocent civilians from many countries, including Indonesia and Japan, had lost their lives had a major bearing on the cooperation among the two countries on the issue of terrorism. The Government of Japan appreciates the remarkable achievements made by the Government of Indonesia, in cooperation with other countries, in investigating the Bali tragedy and strongly supports the enhanced counter-terrorism measures taken by the Government of Indonesia in preventing the recurrence of such terrorist attacks.

There is necessity for both countries to cooperate in the fight against terrorism in view of the fact that terrorism is still a profound threat to the world and the Asian region. As the threat and act of terrorism have a significant impact on peace, security and prosperity, it is imperative for countries to cooperate in combating this scourge. Japan and Indonesia reject any attempt to associate terrorism with any particular religion or ethnic groups. Both also feel that it is important to continue promoting tolerance and understanding among diverse peoples, their cultures and civilizations. Recognizing the importance of international solidarity and close cooperation in combating international terrorism, both countries are promoting cooperation in international fora such as the United Nations, the Association of Southeast Asian Nations (ASEAN) +3, the ASEAN Regional Forum (ARF), Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM) to which both countries are members.

Japan and Indonesia emphasize the importance of denying terrorist safe haven, and stress the significance of renewing the determination of all countries to engage in combating terrorism, and to enhance their capacities. Both countries also closely

cooperate in the efforts to combat trans-national crimes in view of the possible linkage between terrorism and trans-national crimes, such as arms smuggling and money laundering. In this respect, the Government of Indonesia welcomes the assistance provided by the Government of Japan to Asian countries including Indonesia for their capacity building in counter-terrorism in the following six areas: immigration control, aviation security, customs cooperation, export control, police and law enforcement and measures against terrorist financing. Japan and Indonesia also take duly into account root causes of terrorism, such as economic disparity, poverty and injustice, without acknowledging these as Justification for terrorist activities.

Japan and Indonesia are taking the following concrete steps aimed at preventing, countering and suppressing the activities of terrorist groups especially in the region of Southeast Asia:

- 1) To ensure the early conclusion and implementation of all relevant counter-terrorism conventions and protocols and the full implementation of UN Security Council resolutions on counter-terrorism including Resolution 1373, to which both Japan and Indonesia have already made a commitment, in order to prevent and suppress any possible acts of terrorist in their respective territories;
- 2) To strengthen exchange of information on the activities of terrorists and

Terrorist organizations;

- 3) To take appropriate measures in order that terrorists may not use networks, organizations and groups, including charitable, social and cultural ones to cover their activities and to strengthen immigration controls to prevent terrorists from moving beyond their borders;
- 4) To take necessary measures to counter and prevent the financing of terrorists and terrorist organizations and the abusing of alternative means of remittance such as an underground money transfer;
- 5) To take appropriate measures to prevent materials and technologies related to chemical, biological, radiological and nuclear (CBRN) weapons from falling into terrorists' hands;

- 6) To ensure the implementation of measures to enhance transport security, including container security, maritime security, aviation security, and security of movement of people; and
- 7) To promote bilateral cooperation in order to implement the above steps among others by developing capacity-building programs and providing access toward appropriate technology, and to develop multilateral cooperation on fighting against terrorism in the international Fora.

At the Japan – Indonesia summit meeting¹² Koizumi and Megawati reaffirmed that the issue of terrorism is one of the main obstacles in maintaining international peace and security, and stated their intention to continue to cooperate in overcoming the threat according to the basic framework described in the Joint Announcement on Fighting against International Terrorism. Japan appreciates Indonesia's efforts and cooperation with the international community in combating terrorism. Referring to the security situation in Indonesia, the Japanese decision to lower the level of Travel Advice & Warning for Indonesia is appreciated since it would give a positive effect on tourism.

Assistance for Internally Displaced Persons in Indonesia by the Trust Fund for Human Security

The Government of Japan and the United Nations (UN) gave a total of 2,437,159-dollar assistance through the Trust Fund for Human Security to the projects to be implemented by United Nations Development Programme (UNDP) and United Nations Children's Fund (UNICEF).¹³ These projects supported Internally

¹² The Japan-Indonesia Summit Meeting took place at the APEC Economic Leaders' Meeting in Los Cabos, Mexico, when Prime Minister Junichiro Koizumi met with Indonesian President Megawati Soekarnoputri.

¹³ The two projects supported by the Trust Fund for Human Security were as follows. (1) UNDP: Tobelo-Galela Area Recovery Initiative (\$1,429,684). In Tobelo-Galela Area of North Maluku, the basic socio-economic foundation required for sustainable re-settlement of IDPs was developed through generating small scale labor intensive public works for conflict affected persons and supporting them in the area of agriculture and fishery. (2) UNICEF: The Development of Schools and Teaching to Improve the Ability of Children and Their Communities to Maintain Their Human Security: (\$1,007,475) In Aceh, Maluku, and North Maluku, educational material such as textbooks were provided to IDP children so that they can receive education. School teachers were trained in play therapy and psycho-social support, in order to alleviate children's trauma caused by the conflict. Peace education was introduced in the school curriculum as a conflict prevention strategy.

Displaced Persons (IDP) in Indonesia for their resettlement in North Maluku, Maluku, and Aceh provinces. This assistance by the Trust Fund for Human Security was extended in response to the Consolidated Inter-Agency Appeal 2002 for Internally Displaced Persons in Indonesia, which the United Nations issued. This assistance forms a part of the approximately 10,000,000-dollar assistance package for IDPs in Indonesia, which Prime Minister Koizumi extended directly to President Megawati during his visit to Indonesia.¹⁴

Indonesia continues to tackle reform in various areas. At the annual session of the People's consultative assembly in August 2002, the fourth phase of amendments to the constitution was adopted and the direct election of the president and structural reform of the people's consultative assembly was agreed upon. The economic situation is such that Indonesia is heading towards recovery, bolstered by strong domestic consumptions. However, judicial reform and the establishment of the rule of law, including the development of the legal system, are becoming important in order to respond to the decrease in domestic and foreign investment. There were approximately 500 victims in the terrorist bombing in Bali that occurred on October 12, 2002, which reminded the international community of the threat of terrorism. The Indonesian government is making efforts towards a thorough investigation of the incident and the arrest of the suspects. Regarding the issue of Aceh, where a separatist and independence movement is taking place, a framework agreement concerning the cessation of hostilities was signed on between the Indonesian government and the free Aceh Movement (GAM), thereby serving as the first step towards peace. There were plans to conduct ceasefire monitoring in a way that involves the international community. Japan believes that the stability of Indonesia is extremely important for the stability and prosperity of the South East Asian region and has thus continued to support its reform efforts. Prime Minister Koizumi visited Indonesia in 2002 and pledged to extend assistance in areas such as the judicial system, police, tax collection and promotion of small and medium sized enterprises. Furthermore, at the summit meeting that was held at the 10th Asia-

¹⁴ The Japanese Government established the Trust Fund for Human Security in the United Nations in March 1999, and has so far contributed 18.9 billion yen to the fund. The Trust Fund for Human Security has been assisting many projects implemented by organizations within the United Nations system in their efforts to tackle various threats to human lives, livelihoods, and dignity with a focus on human security.

Pacific Economic Cooperation (APEC) economic leaders meeting in Mexico, Prime Minister Koizumi stated that Japan would provide assistance of U.S. \$26 million for the areas of economic reform, governance reform and human resource development. Moreover, Japan hosted the preparatory conference on peace and reconstruction in Aceh in Tokyo together with the U.S., European Union and the World Bank and is actively striving toward the promotion of the “consolidation of peace in Aceh”.¹⁵

SECURITY DIMENSION

History shows that ‘Security, whether defined narrowly or widely, is a scarce commodity’.¹⁶ Therefore, it is generally observed that in face of security threat perceptions, states feel the necessity to combine their efforts to strengthen their own security by acting together. After discussing the Japan-Indonesia relationship and cooperation in the political dimension, let’s now see the security dimension between the two countries vis-à-vis United States, China and ASEAN.

The end of the cold war did not have the same, immediate impact in Asia that it did in Europe. There was no Soviet Empire in Asia comparable to the vast territories under Moscow’s control in Europe. While communist regimes collapsed from Berlin to Moscow, Marxism-Leninism continued to be the ruling orthodoxy in the Peoples Republic of China, North Korea and Vietnam. In Europe, the fall of the Berlin wall led to German unification, removing what had been arguably the greatest source of tension in European politics between 1945 and 1989. In Asia, however, disputes over national boundaries remained widespread. Although the collapse of the Soviet Union led to be considerable reductions in military tensions in Asia, the potential for conflict, if anything, increased on the Korean peninsula and in the Taiwan Strait. Japan continued to be confronted with the strategic dilemma of protecting the vital sea lanes along which the lifeblood of its economy flowed.

¹⁵ *Diplomatic blue book*, 2003, “Japanese diplomacy and global affairs in 2002”, *Ministry of foreign Affairs*, Japan, 2003.

¹⁶ J.C.Garnett, ‘Introduction: Conflict and Security in the new world order’, in M.J.Davis, ed., *security Issues in the Post Cold War*, (Edward Elgar, London, 1996), p.10.

In terms of political-security consideration, South East Asia's importance to Japan is more obvious. Situated between the Indian Ocean and the Pacific Ocean, South East Asia is geo strategically important to Japan. Oil supply from the Middle East must depend on the sea lines of communication that pass through the South East Asian waters, especially the Strait of Malacca and the Lombok Strait. Roughly speaking, sixty percent of Japan's oil imports and forty percent of Japan's foreign trade are transported through these two Straits. Clearly, the free passage of Japanese ships through these sea lanes is a condition to ensure Japan's economic vitality.

Two prominent and interrelated traits of Japanese Foreign Policy during the cold war were close relations with western democracies and a minimalist approach. Japan did not need to take bold initiatives on the international stage when it relied on the west. Thus, Japan willingly went along with the rules set by other countries because it wanted to concentrate on its own economic development and refrained from taking on extra tasks.

However, global political changes in the 1990's gave, Japan an impetus to transform its old fashioned diplomatic style into a more independent and progressive way to conduct Foreign policy. In 1991, the vice minister in the Ministry of foreign Affairs and a leading proponent of diplomatic activism, Takakazu Kuriyama asserted that passive diplomacy, that took a given international order for granted, was no longer relevant. As he put it, "Japan must take an active role in the reconstruction of the world order".¹⁷ Kuriyama called for a sharing of responsibilities for global peace and prosperity among the U.S., Western Europe and Japan in an arrangement that he termed "global partnership". More importantly, Kuriyama defined the Asia-Pacific region as "the main theatre of Japan's foreign Policy" in the post cold war period, and "global partnership" meant a leadership role for Japan in East Asia.¹⁸

¹⁷ Takakazu Kuriyama, "Japan's foreign policy: My two Years experience at a cross-road", *Japan Review of International Affairs* 5, no.2 (Fall/Winter 1991):p.117.

¹⁸ David Arase, "Japanese policy towards Democracy and Human Rights in Asia," *Asian Survey* 33, no.10 (October 1993):935-52

An important reason why Japan is set to play an active role in Asia is that Japan sees itself as part of Asia and the Japanese consider themselves Asian. As Ishizuka put it: "Despite the strong political and Economic ties with the west, Japanese people are inclined to identify themselves with Asia, This is only natural."¹⁹

Japan-United States-ASEAN (Indonesia)

Both Japan and the ASEAN nations are attempting to involve super power nations in the region because they realize that to compete against them is an exercise in futility. The proposed East Asian Economic Caucus highlighted the equilibrium that needs to be established between regionalism and globalism. Not all ASEAN members were completely supportive of EAEC, but they seemed to be less cautious than Japan, which was placed in a politically delicate position. Japan's foreign policy dilemma is far more complex than of many other nations in the region. Japan is being pressed politically, especially by the United States, to take a more active role internationally, while ASEAN countries pressure Japan to be part of Asia and push for Asian priorities.

Within the traditional Japanese context of harmony and consensus, it can be argued that there is no conflict for Japan between its relations with the United States and with Asia. Rather, both regions need to be managed equally. There in lies the essence of Japan's foreign policy, to be an 'Honest broker', attempting through its diplomacy and unique position as both a World economic power and a member of the Asian community to strive for policy coordination between Asia and the United States for the benefit of all. However, to balance equitably demands from the regionalists and the internationalists is not an easy task. Japan depends on both its international and its regional economic and political links. It has to maintain a distance from both camps, while being active in both in a liason role. If it can achieve such diplomatic distance Japan could take on the role of neutral negotiator in the world, initiating policy and resolving conflict in the future.²⁰

¹⁹ Masahiro Ishizuka, "Japan looks to Asia," *Far Eastern Economic Review*, 16 December 1993, p.24.

²⁰ *Japan Times*, 4 November 1993.

China-Japan-Indonesia (ASEAN)

Sino-Japanese relations have had a strong impact on South East Asia especially Indonesia. For both China and Japan, the China-ASEAN-Japan triangular relationship is perhaps the second most important relationship after the China-America-Japan triangle.

In, South East Asia, Indonesia is likely to maintain its strategic advantage in its relations with China and Japan in the years to come. First, South East Asia is a key to regional influence. One Chinese strategic thinker notes that so long as china is able to pre-empt Japan in South East Asia and the Korean peninsula, Japan will be in position to compete with China in Asia.²¹ Second South East Asia has its own geo-political significance for both China and Japan. After all, much of their trade and oil from the Middle East pass through the region. The region is also Japan's important source of raw materials. Third, with a population of 450 million and growing economies, South East Asia has obvious economic importance.

For China, South East Asia's importance also lies in some other considerations.

1. ASEAN is crucial to the Chinese strategy of promoting multi polarity.
2. South East Asia is important in China's effort to counter the perceived U.S. Containment strategy.²²
3. South East Asia offers one of the best opportunities for China to discredit the persistent "China threat" theory. Malaysian Prime Minister Mahathir Mohammad's statement that "china should be viewed as a country with enormous opportunities rather than perceived as a threat" is the message China endeavors to send.²³

²¹ Jin Xide's comment on Japan in Yan Xuetong, "our situation after 9.11: changes and continuity", *Shijie Zhishi* [world knowledge], no.1 (2002):39-40.

²² N. Ganeshan, "ASEAN's relations with Major External Powers", *Contemporary South East Asia* 22, no.2 (August 2000):271.

²³ As quoted in Dana R. Dillon, "Contemporary Security Challenges in South East Asia", *Parameters* 27, no.1 (spring 1997):129.

4. South East Asia could be China's ally in resisting the west's pressure on issues like political liberalization and Human Rights.²⁴
5. Finally, closer relations with South East Asian nations would make it harder for Taiwan to build up its political ties with these nations.

One major step for both Tokyo and Beijing is to deepen their economic cooperation and integration with Indonesia. This is especially so for China given that some ASEAN members are concerned about China's economic threat. It is unlikely that South East Asia will suffer from a violent China-Japan rivalry in the foreseeable future although the two giants may well intensify their competition in world politics and particularly in South East Asia. However, South East Asian nation's relations with China and Japan can be very delicate due to a number of challenges to Sino-Japanese relations.

History used to be a major factor affecting South East Asia's perceptions of Japan. During World War II, Japan rapaciously exploited South East Asia's resources and committed grave atrocities. For that reason, despite strong economic relations, ASEAN was wary of Japan's political role in the post-war years. From the mid 1970's to the late 1980's, with Japan taking an active interest in the political affairs of South East Asia, South East Asia's perceptions of Japan experienced a steady evolution towards acceptance. By now, although there is variance among ASEAN members, in general "History has diminished as a determining factor in defining ASEAN's perceptions of Japan".²⁵

A bigger issue is China's reactions to Japan's long march toward political power status. China will continue its efforts to slow down Japan's long march. Most South East Asian nations are rather relaxed about Japan becoming a political power, even through military means. Lee Kuan Yew's concerns that the dispatch of Japanese military forces on overseas operations was similar to giving liquor

²⁴ Jie Chen, Human Rights: "ASEAN's New importance to China", *The Pacific Review* 6, no. 3, (1993):227-37; Michael Vatikiotio, "Mixed Motives: fear and Prospect of profits color ASEAN view of China", *Far Eastern Economic Review*, 24 June 1993, p.13.

²⁵ Bhubhindar Singh, "ASEAN's perceptions of Japan", *Asian Survey* 42, no.2 (February 2002): 277-78.

chocolates to an alcoholic were not shared by other South East Asian nations²⁶. In fact Lee himself changed his stance one year later²⁷. Jusuf Wanadi said in 1994 that Japan's leadership was an important factor for the stability of the region in the future. This leadership should not be confined only to the economic sphere, but should also include the political and to a certain extent the security field", said Wanadi.²⁸

By the 1990's, Japan had already won much trust in South East Asia. When the Japanese lower house in June 1992 passed the PKO Bill, the Philippines, Thailand and Indonesia endorsed the Japanese move²⁹. Before that in March 1991, Indonesia's then President Suharto said to a senior Japanese politician that it was Japan's sovereign right to decide whether to send troops overseas on peace keeping missions under U.N. auspices.³⁰ Then in January 1993, Mahathir told visiting Prime Minister Miyazawa that he hoped the SDF in the future would be able to participate fully in peace keeping operations without restrictions imposed by the Japanese Diet.³¹ South East Asia did not react negatively to the upgrading of the US-Japan security alliance in 1996-97 either. The position partly reflected these countries' belief that US involvement and a more active Japan are desirable in counterbalancing China's increasing power.

An issue which has already had a significant impact on South East Asia's security is China's military competition with Japan. China will not enter into an arms race with Japan in the near future but it is widely accepted among Chinese analysts that Japan will further strengthen its military and, more importantly will sooner or later amend its peace constitution to accommodate its military activity overseas. China may not see Japan as posing an immediate military threat, but may nevertheless feel pressured to speed up its military modernization. Indeed, in Michael J. Green's

²⁶ Furukawa Eiichi, "changes in South East Asian views of Japan", *Japan Echo* 20, no.3. (Autumn 1993):45-52.

²⁷ As cited in Singh, "ASEAN perceptions of Japan", op cit; p.292.

²⁸ Jusuf Wanadi, "U.S-Japan and China relations in the Asia Pacific", *The Indonesian Quarterly* 22, no.4. (1994):370.

²⁹ Nayan Chanda, "Why then worry", *Far Eastern Economic Review*, 25 June 1992, p.18.

³⁰ As cited in Singh, "ASEAN perceptions of Japan", op. cit, p.292.

³¹ *ibid*, pp.292-93.

words, there are “ingredients for a classic defense dilemma” between China and Japan.³²

China’s military competition with Japan will inevitably affect South East Asian nations, especially those who have territorial disputes with China, most notably in the South China Sea. The regions concerns about China derive from the fear of less U.S. commitment to the region after the end of the cold war, China’s increasing power and the shift of the region’s security focus from internal security such as counter insurgency and protection of political regimes to external security like territorial integrity.³³

Other issues between China and Japan that may have impact, direct or indirect; on Indonesia include China’s movements in the South China Sea, The Taiwan issue, nationalism and the dispute over Diaoyu islands.

The issue of South China Sea is a core security issue between South East Asia and China. Japan might be involved because of the importance of sea lane. It is simply natural that Japan will not sit by if it believes its vital interests are in serious danger. However, Japan is sensitive to China’s position on the issue and is likely to continue its current approach of encouraging multilateral dialogues³⁴, which is in line with ASEAN’s position.

Nationalism in both China and Japan highlight the necessity of regional security dialogues. Nationalism makes the conflicts between China and Japan potentially explosive. Nationalism has been on the rise in Asia since the end of Cold-War. As noted by Hisahiko Okazaki, “In Europe, it may be true that the age of nationalism has passed ...but in Asia the age of nationalism is now.”³⁵ Understandably, the Chinese are concerned about rising nationalism in Japan, such as the debate on the

³² Michael J. Green, “*Japan’s Reluctant Realism: Foreign Policy challenges in an era of Uncertain power*”, (Basing stoke: palgrave, 2001), p.93.

³³ Dana and Dillon, op.cit, pp. 119-33.

³⁴ Lam Peng Er, “Japan and Spratly’s dispute: aspirations and limitations”, *Asian Survey*, 36No. 10(Oct.1996):995-1010

³⁵ Hisahiko Okazaki, “National Strategy for the 21st Century”, *Japan Echo*, 26, No.5 (Oct.1999), p. 38.

revision of the Peace Constitution, the adoption of the *Kimigayo* as national anthem and *Hinomaru* as a national flag.

This all points to the importance of the establishing of confidence building measures (CBMs). Whether or not China and Japan are able to increase their mutual trust through CBMs in the region has much to do with ASEAN. For one thing, ASEAN “provides a model of confidence building measures *par excellence*”³⁶. For the other, both China and Japan were major factors leading to the establishment of ARF. While the rise of China and to include China “in a rule-based arrangement to encourage it in the practice of good international behavior” was ASEAN’s key concern,³⁷ Japan becoming a normal country and its possible repercussions was also high on ASEAN’s security agenda. The failure in dealing with either of these two issues will constitute a fatal blow ARF, and to the economic forum ASEAN+3.

ASEAN is in a unique position to facilitate the peaceful strategic competition between China and Japan to make sure that the two giants will not fall into a hostile and violent rivalry. Despite suspicions and criticisms,³⁸ ARF remains relevant and important as the key security forum in the region. While ARF has scored some achievements, it still faces daunting challenges.³⁹ ASEAN+3 is also facing challenges although, it is playing an increasingly important role in deepening East Asia’s economic interdependence. It is of great importance for ASEAN to overcome these challenges and strengthen regional security order by involving China and Japan into regional CBMs and economical cooperation.

³⁶ Wanandi, *op.cit.*, p.377.

³⁷ Ralf Emmers, “The Influence of the Balance of Power Factor within the ASEAN Regional Forum”, *Contemporary South East Asia*, 23, No.2 (August 2001): p.275.

³⁸ Robin Lim, “The ASEAN Regional Forum: Building on Sand”, *Contemporary South East Asia* 20 No. 2 (August 1998): 115-134.

³⁹ John Garofano, “flexibility or Irrelevance: Ways forward for the ARF,” *Contemporary South East Asia* 21, No. 1(April 1999): 74-94.

CHAPTER – V

CONCLUSION

Why is it that Japan does not command more attention in Indonesia- in the way, for instance, the United States in Mexico? At the simplest level, one element in the explanation for this is that the bilateral relationship between Japan and Indonesia is in fact surprisingly thin. There are remarkably few substantive areas of interaction between the two countries beyond commercial exchange and aid program (unlike Mexico and the United States). Revealingly, when asked about this in an interview with the Indonesian journalists, the Japanese ambassador could point only to government sponsored cultural and friendship festivals, government sponsored educational fellowships, and Japanese tourists holidaying in Bali as evidence of wider noncommercial connections between the two countries.¹ Despite the steady efforts of the Japanese government since the launching of the so called Fukuda doctrine in 1977 (when Japanese Prime minister Fukuda Takeo visited South East Asia declaring Japan's determination to build "heart-to-heart" relations, not just economic relations) the reality is that non economic ties remain remarkably slender. Not only is there little substantive bilateral interaction on either political or security issues, even on the socio cultural front, the interconnections are much less extensive than the economic linkages would suggest. Despite strong efforts by Tokyo to fund more Indonesians to study in Japan, the proportion of those Indonesians studying overseas who choose Japan has scarcely grown over the past decade. In both absolute and relative terms, the number of Indonesians going to Japan for education lags well behind not just the United States, but also Australia and Germany, and probably, Malaysia and Philippines.

Thinness of bilateral ties is one factor, but deeper forces are also at work. Simply put, notwithstanding the economic importance of Japan to Indonesia and the economic asymmetries between the two, there is little sense that Japan causes Indonesia to adjust its policy settings to accommodate Tokyo's preferences to any significant event. We can see this illustrated on several levels. At the most

¹ *Jakarta Post*, 3 December 1998.

elemental level, Jakarta does not worry about Japan as a security threat. Lingering sensitivities arising from World War II are now largely a thing of the past (unlike in China or Korea). It goes without saying Indonesia would indeed worry were we to witness the reemergence of strongly nationalistic politics in Japan and an expansionist Foreign Policy, but as is widely understood such conditions have simply not really emerged in Japan since the war and continue to appear quite improbable for the foreseeable future. From what we know of Indonesian defense planning, Japan simply does not appear in any of the significant threat scenarios Indonesian defense planners work with. Unlike China, then Japan is simply not a source of significant strategic concern to Indonesia.²

Nor does Japan threaten or even inconvenience Indonesia diplomatically on political issues such as human rights. While Jakarta does have to worry about the United States and a number of other large and small western countries periodically subjecting it to focused criticism on human rights and labor rights issues, Japan eschews such action. Thus, for example, when Prime Minister Hashimoto visited Jakarta in January 1997, he specifically assured President Suharto that not a single Japanese Government official would even meet with Nobel peace laureate and East Timor activist Jose Ramos Horta, who was visiting Japan in a bid to bring pressure to bear on Jakarta.

Similarly, unlike other western Governments and particularly the U.S. government, Tokyo very rarely takes punitive trade diplomacy measures against Indonesia. It took an extraordinarily egregious breach of WTO rules by Jakarta- the awarding of exorbitant privileges to a car assembly joint venture between a son of Suharto and the Korean Kia group in 1996 (an act that flagrantly struck at core Japanese corporate interests in the Indonesian automotive sector)- to trigger serious policy counter measures from Tokyo. Following protracted effort by Japan's Ministry of International Trade and Industry to persuade the Indonesian Government to reconsider its position and a declared preparedness to take the matter to the WTO, not only did Jakarta not accede, but in April 1997, Suharto bluntly rebuffed

² A.Dufont, 'Indonesian defense strategy and security: time for a rethink?', *Contemporary South East Asia* 18:3 (1996), pp.278-79

Japanese entreaties and ordered that the project in fact be accelerated.³ These were scarcely the actions of a Government fearing significant bilateral sanctions.

More broadly, if we look beyond strictly bilateral ties and consider Indonesian views of Japan's regional behavior and positioning, a similar picture emerges. There is little sense in Jakarta that Tokyo is pursuing a grand strategic policy of reshaping the region or projecting its own policy presence on others. Of course it is clearly understood that Tokyo supports the expanding network of Japanese corporations, but from Jakarta it does not appear that Tokyo is actively shaping the regional policy agenda or playing a regional leadership role. The attempt in January 1997 to launch the so called Hashimoto Doctrine for regular Japan-ASEAN summits and separate but parallel bilateral dialogues on regional security matters was greeted politely but with what could only be described as lukewarm interest.⁴ Indeed, if asked, many members of the Indonesian Foreign Policy community would quietly say that Jakarta demonstrated greater verve and leadership in handling the 1994 APEC summit in Bogor than Japan did the following year with the Osaka meeting. Much the same would be said of Japan's actions during the twelve months of the financial crisis.

Although Tokyo was prompt and generous with financial assistance, many in Indonesian policy making circles were despairing of the possibility of Tokyo's playing a truly effective role in dealing with the crisis. The frustration in Jakarta focused not so much –as some might have expected– on the fact that it was Japanese banks that were the primary lenders of the short term funds that flooded into the country during the boom of the mid 1990s or on the fact that Japanese banks were the least willing (among foreign lenders) to renegotiate the structure of the debt once the financial collapse had taken place, but rather on the unwillingness or inability of Tokyo to do anything other than throw aid money around.

³ *Japan times weekly*, 24-30 June 1996; *Business Times*, 22 April, 1997.

⁴ *Far Eastern Economic Review*, 30 January 1997; Inoguchi Takashi, 'Japan wants new Asian Pals', *Far Eastern Economic Review*, 2 February, 1997. Indonesia with its ASEAN partners, subsequently adopted a proposal that had developed earlier and separately in the ASEAN-ISIS track II network, which grew in the ASEAN regional forum.

Specifically, not only was Tokyo unwilling to accede to long standing calls from Indonesia (and other Asian countries) to allow more exports into the Japanese market, more fundamentally, it seemed incapable of rekindling solid growth in the Japanese economy- without which the task of rehabilitating the battered economies of South East Asia would be very much difficult. And Tokyo's hasty retreat in the face of U.S. and Chinese opposition to its proposal in September 1997 of a \$ 100 billion Asian Monetary fund to tackle the regions financial problems only reinforced Jakarta's perception that Japan was incapable of providing effective regional leadership role, even in a time or crisis. As one leading Indonesian Foreign Policy commentator⁵ puts it: "There is a feeling of a real lacuna in Japan's leadership in the crisis, which after all is an economic one and is happening in East Asia and therefore should be of great concern to Japan. This suggests that Japan really has to prepare herself and to get her act together now in order to play a leadership role for the future developments of the region," or as one normally cautious member of the Indonesian Foreign Policy community pithily summed up widespread exasperation, with Japan: "Helpless and Hopeless!".

It is important to recognize that the fact that Jakarta has not felt pressured or constrained by Tokyo or does not view Tokyo as playing a significant leadership role does not necessarily imply that Tokyo itself is anything less than happy with the status quo. This state of affairs may suit Japan well. Indeed, as has been widely discussed in the literature on Japanese Foreign Policy, the whole logic of the post world war II Foreign Policy framework put in place in the early 1950's by Yoshida Shigeru was that Japan would forgo traditional security and political Foreign Policy goals, and focus instead more narrowly on economic and social ties. A range of factors underpinned this: Japan's domestic political configuration, its limited resource endowments, the determination of the United States to guard against a military and politically independent Japan in the wake of the World War II, and the systemic imperatives of the cold war. Moreover as David Arase⁶ has

⁵ Jusuf Wanandi, 'The strategic implications of the Economic crisis in East Asia', *Indonesian Quarterly* 26: 1 (1998), pp. 3-4.

⁶ Arase, 1995.

persuasively argued, Japan's ODA has been deliberately and effectively harnessed for the purpose of supporting the expansion of Japanese corporate networks through out Asia.

It's clear that contrary to the popular image of Japan as an economic juggernaut rolling through Asia, at least as viewed from Jakarta, Tokyo appears curiously passive and sometimes even timid rather than overbearing or formidable. The United States and China, with much smaller economic presences in Indonesia, figure far more prominently in Indonesian Foreign Policy thinking.

Despite Japan's great economic presence in Indonesia, it has exerted remarkably little policy influence on Indonesia; put differently, Jakarta has been largely unconstrained by Tokyo. This applies both to purely bilateral relationship and, more broadly, to Indonesia's view of Japan's position within East Asia and its unobtrusive-even diffident regional behavior. However, there is potential for significant change in Indonesia's relations with Japan in the aftermath of the regional financial crisis. For Indonesia- and much of South East Asia- the financial crisis represents a major watershed: many economic and domestic political changes flew from it. It had significant consequences for the way in which Indonesia interacts with other countries, most notably Japan.

Indonesia and Japan have both benefited from their strong bilateral relationship, which has been instrumental in Indonesia's development achievements over the last thirty years. Japan's valuable support and assistance in convincing the IMF and others of the need to understand certain aspects of Indonesia's political, economic, and cultural background and realities has strengthened the relationship.

It is clear that Japan had a very significant role in overcoming the Asian crisis as well as Indonesia's economic troubles in particular. Many Asians believe, however, that Japan could have responded much earlier, before the crisis had become severe. If all Japanese initiatives and packages had been delivered earlier, the situation may not have deteriorated to the same extent, and, in turn, its impact

on Japan would have been less. Japan would have gained more praise and acknowledgement from the Asians for showing real leadership. But we should not forget Japan's problems. The crisis came at a time when Japan was facing the deepest economic recession in its recent history, which simply added to the usual complexity of the decision making process within Japan. It was a regional crisis but had global implications, and any policies aimed at overcoming the crisis would have affected the other countries. Other major powers wanted to play a significant role in saving Asia, and some regional rivalry surfaced. For, Japan the biggest obstacle against taking a leading role was its closest ally, the US.

Indonesia is still experiencing economic difficulties, but these are transient in nature. The factors that allowed Indonesia to grow so successfully over the last three decades are still very much in existence: the increased purchasing power of the growing middle class has created new markets for both domestic and foreign products; better education standards have ensured a large skilled labor force is available; Indonesia still has a high saving rate; and cultural values emphasize the value of education and a strong work ethic. Indonesia remains committed to liberalization of trade and investment both regionally under the framework of ASEAN-AFTA and APEC, as well as multilaterally within the WTO framework, and this should assist quick economic recovery. The reforms undertaken by the Indonesian government have received generous understanding and support, both internally and externally. This is reflected in new commitments to provide additional assistance and loans to the Indonesian government, and is evident that Indonesia has regained credibility. The outcome of the CGI meeting held in July 1998 also showed stronger trust by the international community.

The Indonesian people face difficult challenges in the quest for national prosperity. The central issue is how to get most benefit from globalization and confine negative impacts to a minimum, and the difficulties will have to be dealt with by the whole society, not just the business world or the government. Indonesia is a complex society in transition. It is a society striving to overcome high unemployment, rising prices, and escalating inflation. But Indonesia is not a volcano about to erupt. It is a society in political transition toward a new

generation of leaders, in economic transition toward becoming a newly industrialized nation, and in social transition toward a more open society. By coming to grips with the harsh economic challenges of the crisis, Indonesia has established the solid foundation needed to pursue its development goals.

The prospects for economic recovery in Indonesia depend also on economic improvement in other countries of the region. It has been widely suggested that if Japan were successful in generating a strong domestic economic recovery, that would in turn help Asia's recovery. Japan and the other developed countries are expected to facilitate greater access to their domestic markets for Indonesian and other ASEAN products. In this connection, Japanese exporters with interests in Indonesia should continue to facilitate raw material imports into Indonesia for export oriented production. By the same token, it would be heartening to see subsidiaries of Japanese companies in Indonesia reduce their import content and substitute local content. Indonesia hopes that Japan will continue to increase its investment in Indonesia. The economic stimulus package implemented by Japan will have a direct impact on Indonesia's economic recovery.

Although Indonesia inaugurated a new government and has emerged from the most severe effects of the Asian financial crisis politically, socially and economically, the country's economy, in real terms, remains in a difficult situation, and there is need for Asian support policies for the socially disadvantaged to continue. Based on then-Prime Minister Hashimoto's proposal at the December 1997 Japan-ASEAN summit for Japan-ASEAN Programs for Comprehensive Human Resource Development, Japan is helping to develop the human resources needed in Indonesia to achieve sustainable economic development. Japan currently provides assistance to Indonesia in the agricultural field under third-phase "umbrella cooperation," which is directed at raising living standards for Indonesian farmers. Such cooperation is provided as part of Japan's efforts to integrate different forms of assistance

It can be expected that the relationship between Indonesia and Japan will gradually be transformed from one of seller-buyer of natural gas or donor-recipient into one

where both are equal trade, investment and political partners. Both countries share the same interest in promoting sustainable development and should maintain their partnership at the multilateral level in the wider regional and international forums. Through APEC, ASEAN, and other similar organizations, Japan and Indonesia, together with other countries in the region, should continue striving for peace, stability, and prosperity in the region and the world.

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