CHAPTER - VI
CONCLUSION

INDONESIAN PERCEPTION OF JAPAN'S ECONOMIC DIPLOMACY AND FUTURE PROSPECTS

The study has attempted to examine and analyse Japan's economic diplomacy vis-a-vis Indonesia from 1966 to 1986. It reveals a deep and expanding involvement of Japan in Indonesia's economy, notably in the fields of aid, trade and investment. The deeper involvement of Japan in Indonesia's economy has invited strong and mounting reactions from the Indonesian people. The most glaring example of which has been the anti-Japanese riots which broke out in Jakarta in January 1974 on the eve of Prime Minister Kakuei Tanaka's visit to Indonesia. The anti-Japanese riots clearly demonstrated Indonesians' anger against Japan's economic domination of the country.

However, trade, aid and investment, as the instrument of economic diplomacy, have helped Japan achieve, protect and promote its various economic, political and strategic objectives in Indonesia. For Japan, Indonesia is the richest prize in the Southeast Asian region as it is immensely endowed with oil, gas, tin, bauxite, copper, timber, rubber etc. Japan's economic diplomacy is designed to secure the supply of these resources as they are
vital for Japan's industrial and economic survival. Indonesian oil with low sulphur content is of added significance as it pollutes the least. The two oil shocks of 1973 and 1979 further necessitated Japan's dependence on Indonesian oil. Moreover, growing concern about pollution and tighter environmental protection regulations are changing energy consumption patterns in Japan. This has led to the increasing demand for liquefied natural gas (LNG) as a substitute for oil in electricity generation and industry.¹ Since Indonesia has immense reserves of gas, Japan finds Indonesia attractive. Besides the mineral fuels, timber, bauxite and other mineral resources are important for Japan.

Moreover, Japan's interest in Indonesia lies in the latter's strategic location. Overlooking the Indian Ocean and the South China Sea and sharing the strait of Malacca with the Malayan peninsula - Malaysia and Singapore, Indonesia becomes vital for Japan's commerce. The Malacca straits provide the shortest, cheapest and most convenient sea link between the pacific and the Indian Oceans. It is, therefore, of

supreme economic and strategic interest to the nations that depend substantially on overseas trade in the Pacific and the Asian waters extending from the South China Sea to the Persian Gulf. Foremost among these nations is Japan which acquires 80-85 per cent of its energy requirement from the Arab countries through this sea route.  

Besides, the bulk of Japan's commerce passes through the Malacca straits. Thus, Japan's economic diplomacy aims at securing and protecting this Water Way, which constitutes its 'life line'. For this, a politically and economically viable Indonesia is a must and Japan's economic assistance in the form of aid, loans and investment aims at achieving this.

However, Japan's economic diplomacy based on aid, trade and investment is viewed with concern by Indonesians. Indonesians view their country's strategic location and wealth of natural resources as an allurement and incentive for great powers to intervene which puts the country in an unusual state of jeopardy. Many Indonesians compare their country with that of a

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pretty maiden constantly being approached by men who want to take advantage of her.  

This view is the product of Indonesia's history as well as a reflection of country's present situation. The Dutch colonial rule was motivated primarily by a desire to exploit Indonesia's natural wealth. Japan occupied Indonesia during the World War II with the objective of exploiting Indonesia's natural resources which they could not do during the Dutch colonial rule. After independence, both the superpowers during the cold war days wooed Indonesia because of her rich natural renounces. Besides, main objective of Japan's economic diplomacy has been to secure the supply of these natural resources by building a strong relationship with Indonesia. The Americans and the Chinese also scramble for Indonesia's natural wealth. America's presence in Indonesian extractive industries has remained so far strong and undilutable.

Views on Investment:

Japanese investments in Indonesia have been motivated by a number of factors. First, to secure natural resources like oil, gas, timber, bauxite etc.

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3 For more details see Franklin B. Weinstein, Indonesian Foreign Policy and the Dilema of Dependence: From Sukarno to Soeharto, Cornell University Press, Ithaca, 1976, p. 42.
Second, to secure, maintain and expand still further markets for Japan's manufactures, industrial raw materials, capital, technology and technological know-how. Third, to remedy the worsening situation of labour shortages and rising wage levels in Japan. Fourth, to overcome the scarcity of plant sites in Japan and fifth, to keep environmental pollution out of Japan's soil.

All the factors have contributed to Japan's large and in some cases unmatchable investments in resource industries like oil and gas for example investment in pertamiNa oil company and Asahan aluminium and hydroelectric project, manufacturing industries, textiles, timber industries - to mention a few.

Today Japan is the largest foreign investor in Indonesia (see chapter III on investment). Its investments visibly intrude into every aspect of Indonesian life. They deal with all aspects of the production processes and engage in intensive, face to face relationship with Indonesian personnel. Moreover, Japanese investors recruit Indonesian labour, hire and train managers and seek business partners. They market their products and directly compete with the
domestic products of mostly small scale indigenous enterprises.

However, the overpresence of the Japanese firms, capital, technology and the technocrats has always been a source of tensions and frictions between the Indonesians and the Japanese. Japanese businessmen are characterised as totally heartless, unscrupulous, arrogant and dominating. Japanese investments are dismissed as of little benefit to Indonesia, since all aspects of Japan's economic assistance to Indonesia are calculated solely in terms of profit and loss to Japan.4

Indonesians' principal complaints against the Japanese investments in their country are:

(i) Japanese investment contributes to and aggravates problems of economic dualism, accentuating sectoral, regional and ethnic divisions in Indonesia as most of it, like other foreign direct investment, is concentrated in the so-called modern sectors. The manufacturing sector accounts for the largest Japanese direct investment followed by the mining sector. The traditional sectors of agriculture, trade and services

comes to the third place. This imbalanced pattern of Japanese foreign direct investment in Indonesia has created the problem of economic dualism leading to the development of manufacturing and processing sector and also the mining sector but keeping the agricultural and services sector backward and underdeveloped.

Moreover, the Japanese investment has also led to the creation of regional imbalances as it is heavily concentrated in the areas like Java and Madura where there are concentration of population and market centres attracting additional labour and new business in already densely populated and industrialised areas, thus reinforcing the imbalance growth of the economy.

Regionally, 74 per cent or the biggest number of Japanese investment projects and joint ventures are concentrated in Java, 6 per cent in Sumatra, 5 per cent respectively in Kalimantan and Sulawesi and 9.5 per cent in the other islands of Indonesia. In Java, the Jakarta capital and the province of West Java have received a very large proportion of new domestic and Japanese and other foreign direct investment creating a density of 600 persons per
square kilometer with less than 7 per cent of the country's total land area. 5

The regional and sectoral over-representation of Japanese investments has been the source of socio-political disturbances in Indonesia.

(ii) Another complaint which is levelled against Japanese foreign direct investment is that it leads to increasing dependency on Japan for the import of industrial raw materials, intermediate goods and spare-parts from Japan. There is an over-representation of Japanese in the manufacture of import substituting products, mostly consumer products such as food, pharmaceuticals, rubber and plastic goods, textiles, metal fabrication, non-metal and mineral industries. However, the agricultural sector and the pulp and the paper industry seem not to be attractive to Japanese investors. In addition while refraining from establishing subcontracting relationships with domestic small and medium scale enterprises, they mainly rely on imports of industrial raw materials, intermediate goods and spare parts from Japan. Trade

barriers do not affect this kind of trade, instead they maintain and in some cases they even enhance such trade between Japan and Indonesia. For Indonesia this means a shift of dependency from consumer goods to imports of raw materials, complementary goods and capital goods.6

Besides, the Japanese investment is also held responsible for accentuating the problem of unemployment in Indonesia. Although often labelled labour intensive industries, Japanese investments in Indonesia use, relative to the industrial conditions in Indonesia, exclusively better quality and more capital intensive production techniques. These companies producing goods for domestic consumption often outcompete and displace local small and medium scale industries, employing labour intensive production methods, thus aggravating the unemployment problem.

Moreover, the use of capital intensive technology has an adverse effect on income distribution, since the returns on privately owned resources (capital) go to the owners of those resources, the foreign

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shareholders, and a small group of local partners of the joint ventures who already belong to the most well to do in the country. It can also be said that income concentration and unemployment feed on each other. Raising the income of the rich, which in Indonesia only comprises a very small group, will generate less jobs than an equivalent rise in the incomes of the poor, since the luxury goods bought by the well-off tend to be relatively capital intensive in nature, whereas the goods a poor person normally purchases require more labour to produce. Therefore, income distribution is not likely to improve significantly without an increase of employment and enterprises for the majority of the population.

(iii) Indonesians strongly object to Japan's reluctance to transfer technology to their local Indonesian partners. Japanese firms are quite often criticised for not sharing their skill, methods and techniques of production with their Indonesian counterparts. As they argue that this will lead to the creation of a potential competition after the Indonesian possesses the technologies. Another view is that the Japanese are unwilling to transfer
technologies to others when they themselves had to painstakingly acquire, select and dearly pay for each and every technology they now own. Besides, they also show reluctance to exchange expensive choice technologies just for the opportunity to invest and participate in joint ventures in Indonesia even if there exists an agreement with the Indonesian government to do so. This negative view is more strongly expressed by the general trading firms.

This limiting factor to the flow of technology is intensified because useful information is not shared due to the general practice of not including Indonesian staff members in the process of 'Nemawashi' that is, manoeuvering behind the scenes or in making vital decisions. Most of the difficult and crucial issues are discussed with the Jakarta's representative office or the parent organisation in Tokyo or Osaka.  

Thus the issue of transfer of managerial and technical skill has been the cause of great concern for the Indonesian entrepreneurs who strongly resent Japanese recalcitrance to impart their skill and technology to realise the process of Indonesianisation.

Another argument against Japanese foreign direct investment is that it does not contribute to economic development in general and industrialization in particular. The Japanese and Indonesian governments argue that private Japanese foreign investments contribute to Indonesia's industrialization. But the majority of the Indonesians feel, however, that there exists an inevitable gap between the national interests of Indonesia in promoting economic modernisation and the private interests of Japanese businessmen. They strongly argue for stronger government efforts to be made to alter the direction of Japanese direct foreign investment towards areas more compatible with Indonesia's modernisation programme. 8

Since Japan is an investor of high importance in the economy of Indonesia, particularly in the manufacturing and "natural resource based" sectors such as mining, forestry, and fishery, this position somewhat confirms the accusation frequently made by Indonesians that Japan cares only to obtain direct

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8 See, "Japanese Transnational Enterprises in Indonesia" in Ampo (Special Issue), volume 12, no.4, 1980.
access to Indonesia's natural resources and to its large domestic market. Japan is less concerned about Indonesia's efforts at economic development and, in particular, industrialisation.

(v) Some Indonesians are also of the view that Japanese foreign direct investment has strengthened the economic position of the Chinese and has squeezed out the indigenous, pribumi, entrepreneurs. With the Chinese comprising only three per cent of the population, the national economic power has concentrated in the hands of a minority with cultural, religious and ethnic affinities at variance with those of the indigenous majority. 9

Closely associated with this is the complaint against the relationship between the Chinese and persons in military-bureaucratic complex who have enriched themselves by close financial links with the Japanese and other foreign investors in Indonesia.

Views on Aid:

Aid has been the most important instrument of Japan's economic diplomacy to fulfil its various economic political and strategic objectives in Indonesia. Aid, in the forms of loans and credits, has been given with a view to (a) secure the supply of natural resources, (b) to secure the market for Japanese manufactures and capital, (c) to build a stable and favourable political situation in Indonesia and finally (d) to keep the Indonesian government policies in consonance with the Japanese economic, political and strategic interests in the region.

Reparation in the form of tied aid not only helped Japan restore its links with the decision makers in Indonesia but largely stimulated demand for Japanese goods and capital. Instead of helping the Indonesian economy, the reparations greatly benefited Japanese businessmen who openly said "there is no business like reparations business".\footnote{See Koji Nokamura, "Japan Overseas Image: Fundamental Changes Required", Far Eastern Economic Review, August 21, 1971.}
Moreover, diplomacy of aid also helped Japan maintain a considerably good relationship with Sukarno even during the years of Konfrontasi 1963-1966. The mediation cum economic aid cost Japan $124 million. This was the period when Sukarno was showing his repugnance towards economic aid as a means of pressure tactic adopted by the Western countries and the United States of America, in particular, to pressurise Sukarno to end Indonesia's confrontation with Malaysia. Sukarno claimed that the "imperialists were trying to defeat the Indonesian revolution by scaring us, if Indonesia continues to crush Malaysia ... We will withdraw our economic aid ....... If they want to withdraw aid, we say OK, you may withdraw economic aid to Indonesia. We are not going to retreat a step, because we have lots of resources", and declared; "if some nation says to us you can have aid, but you have to end confrontation, then I say, go to hell with your aid".11

Of the $470 million in foreign credits believed to have been secured by Sukarno's government in 1965, 74 per cent came from noncommunist countries, with

11 For quoted part see, Franklin B Weinstein, Indonesian Foreign Policy and the Dilemma of Dependence: From Sukarno to Soeharto, n.3, p. 219.
Japan the largest single contributor. 12

With the arrival of the New Order regime under the leadership of Suharto in 1966, Japanese aid continued to flow in Indonesia. Today Japan is the largest aid donor to Indonesia (see chapter IV on aid). Aid is justified by the present regime on the ground that it will contribute to the achievement of genuine independence in the long run by providing capital and technology that can enable an underdeveloped country to transform its economy structurally to a viable, essentially self-sustaining economic unit.

But the need for aid, particularly the Japanese aid, has created misgivings among the Indonesian people. They argue that Japan's aid assistance to Indonesia is significantly related to natural resource. Such a resource rich country as Indonesia tends to receive more aid.

Moreover, it is also pointed out that most of its aid programmes have benefited Japan much more than Indonesia. Further, Japan seeks to dominate Indonesia through aid and Japan imposes too many

12 Ibid., p. 221.
conditions for its aid programme who hampers and distorts Indonesia's economic interests.  

Foreign aid is a most stable and profit assured business, where in the sixties there was 'no business like reparations business, the slogan today is 'no business like the foreign aid business'.  

As long as foreign aid is profit motivated, it will be difficult for Japan to correct its present image in Indonesia and the other countries of Southwest Asia removing more with the left hand than is given with the right.

Thus to ease anxieties over Japanese domination of Indonesia and the Southeast Asian region, Japan should try to record it aid priority or to change means to channel its aid. First, Japan should switch the emphasis from aid that helps stimulate trade between Japan and Indonesia and the region (e.g. export credit) to aid that develops communication system, medical and health service and technical training facilities.


Second, serious consideration should be given to aid that helps uplift living conditions of the poor masses. And, third, Japan should shift its bilateral assistance to multi-lateral assistance through such agencies as the United Nations, and the Asian Development Bank (ADB).

Views on Trade:

Like aid and investment, Indonesians view their trade relations with Japan with a great concern. Japan's trade pattern with Indonesia have created many disconcerting features. First, the trade structure is essentially vertical, with heavy imports of raw materials and export of manufactured goods. This trade pattern has kept Indonesia as the exporter of the primary commodities, mainly natural resources like oil, gas, timber, fish, bauxite etc. Since these commodities have a highly competitive international market, prices tend to be low and thus it becomes a loss to Indonesia. Moreover, since Japan imports a very large percentage of Indonesian natural resources particularly oil and timber, (see chapter V on trade), it has led to the monopolitic control of Japan over these resources. Indonesian view that Japan intentionally keeps the prices of these commodities low which harms their
foreign trade in Indonesia is largely managed or controlled by the Japanese big companies; prices for exports and imports are set disproportionately, higher cost for the finished industrial goods produced in Japan.

Besides, the Indonesians consider Japanese trade practices discriminatory as Japan has taken recourse to protectionist measures to thwart the export of Indonesian manufactures to Japan particularly in the case of plywood and wood products and textile goods and other manufactured products.

Though it is in the interest of Japan to continue the same trade structure which gives it access to Indonesian natural resources and large market for its manufactured goods, this trade pattern, which at present seems irreversible, is a cause of concern for Indonesia and a factor responsible for christening Japanese as 'economic animals' and 'yellow perils'. Thus, Japan should restructure its trade relations with Indonesia. It should make its market far more accessible to Indonesian manufactured goods by removing or lowering tariff and non-tariff
restrictions by further reducing tariff rates, further expanding ceiling quotas in the general system of preferences (GSP) and further improving procedures. It was in this connection that Yasuhiro Nakasone, on his tour of Southeast Asia from April 30 to May 10, announced that Japan would improve its general system of preferences as proof of its efforts to maintain free trade; for this total ceiling quotas for the imports of industrial products would be expanded by around 50 per cent to encourage exports to Japan by Indonesia and other ASEAN countries. The ceiling was to go up from US $ 3.3 billion to US $ 5 billion in the fiscal year 1984. He also assured Suharto of Japan's purchase of 15 per cent of Indonesian oil. 16

There also remain differences between Japan and Indonesia over the former's attempts to establish close and expanding economic ties with the People's Republic of China. Indonesians' anxieties are based on the following factors:

First, Japan's economic assistance will strengthen Communist China which is perceived as a potential

security threat by the Indonesians. Indonesians also greatly resent the nexus between the Chinese and the Japanese businessmen and entrepreneurs in Indonesia which harm the indigenous, pribumi, Indonesian businessmen.

Second, Indonesians fear that Japan's expanding economic ties with China will undermine their economic relationship with Japan, and that Japan's aid to Indonesia would accordingly be reduced.

Third, Japan's economic assistance will strengthen Chinese economy and stabilize its currency leading to competition between Chinese and Indonesian commodities in the ASEAN market.

To allay this fear of the Indonesian government and the people, Masayoshi Ohira declared in a joint statement at the Japan-ASEAN Economic Ministers meeting held in Tokyo in November 1979 that there would be no alteration to Japan's policy of giving priority to Indonesia and other ASEAN countries - not even by an improvement of the relationship between Japan and China. Later, on December 5, 1979, when Ohira visited China, the first amount of credit was determined at 50 billion so as not to exceed the annual amount of 55 billion supplied to Indonesia -
the largest recipient of Japan's yen credit.\textsuperscript{17}

Moreover, Indonesia like other ASEAN countries strongly differs with Japan and shows its concern on the question of the establishment of a "Pacific Rim Community" or a "Pan-Pacific Association" comprising of the countries surrounding the Pacific Ocean. Ohira's initiative aimed at establishing a new international organisation to supplement the existing bilateral and multilateral relationships in the region through cooperation in the various fields of culture, economy, resource development and transportation.\textsuperscript{18}

Indonesia and other countries of ASEAN are sceptical of Japan's move as they see it as the reappearance of the past nightmare of the greater Southeast Asia coproserity sphere of the Second World War. They are also apprehensive that the solidarity formed within ASEAN as a regional organisation would be weakened in a larger international organisation and that ASEAN unity would be weakened as a result.\textsuperscript{19}

\begin{footnotesize}
\begin{enumerate}
\item See \textit{Far Eastern Economic Review}, December 14, 1979, p. 100. Despite, Indonesians remain concerned about Japan's economic ties with China and the latter's economic and security threat to Indonesia.
\item See Derek Davies, "Exploding the Pacific Tide", \textit{Far Eastern Economic Review}, December 21, 1979, pp. 47-59.
\item \textit{Ibid.}, p. 48.
\end{enumerate}
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Another issue on which Japan and Indonesia differ is Japan's overtures to increase its defence capacity albeit for its self-defence only. Indonesia and other countries of ASEAN have expressed public concern over Japan's plans to defend sea lines of communication of up to 1,000 nautical miles from Tokyo. Under the Suzuki cabinet, the United States had put increased pressure on Japan to strengthen its defensive power and Suzuki had accepted Japan's responsibility for sea-lane defence. This had caused fear and suspicion among the peoples of Association of Southeast Asian Nations. Prime Minister Yasuhiro Nakasone's visit to Indonesia and other ASEAN countries from April 30 to May 10, 1983 was seen as an attempt to quell such fear and suspicion over Japan's defence policy. During his visit, he also tried to gain ASEAN's understanding and support for Japan's defence build up, which he stressed was consistent with Tokyo's past policy, based on the Japanese Constitution which renounces war as an instrument of national policy. He assured President Suharto and other ASEAN leaders that Japan's policy to increase its effectiveness in air-defence, anti-submarine and mining capabilities had the objective of defending the Japanese homeland and seas immediately surrounding it. He also stated that the
guarantee that Japan would not face strong opposition from non-government quarters - particularly people and the press.

Thus from the above discussion, it can be said that though there exist some irritants between Japan and Indonesia and other ASEAN countries over Japan's policies of aid, trade and investment and other political and security matters, they are unlikely to have any serious economic repercussions in the foreseeable future. Economic realities are considered stronger than emotions and it is in the common interest of both sides to deepen their relationship by promoting mutual understanding and knowledge. Japan needs Indonesia and other ASEAN countries not only for securing their raw materials and market but also their support for playing a wider political role in the Southeast Asian region and beyond. It is in the economic, political and security interests of Japan to keep Southeast Asian region free from communist influence and domination. And its economic diplomacy towards Indonesia and other countries of ASEAN broadly aims at achieving this objective. Indonesia is the largest among ASEAN countries and also the richest in natural resources. Therefore, Indonesia's support is a must for Japan over its economic, political and security policies in the region.
as a source of raw materials and a market for Japanese products, and must cooperate in their economic and social development so that these countries will be able to achieve a self-sustained and a self-reliant economic system. Second, rather than economic aid, the best form of cooperation between Japan and Indonesia and other ASEAN countries would be the opening of the Japanese market to their products in order to accelerate ASEAN's industrialisation programme. Third, Japan should realise that economic development alone does not represent human happiness. Japan must formulate its policies of economic cooperation which would bring much greater benefit for the people of ASEAN as a whole and not only for a small number of people which have direct contact with Japanese decision makers and businessmen. Fourth, the Japanese decision makers should step up the efforts to deepen their understanding of the feelings and cultures of the peoples of ASEAN to establish a real, friendly relationship by working for cultural understanding rather than economic interest. Fifth, Japan should take more care to find out the best combination of measures in aid, trade and investment policies in accordance