

# CHAPTER I

## INTRODUCTION

### 1.1. Research Background

Japan remains to be one of the world's top donors of international aid. Until 2021, Japan was in 3rd place with the amount of foreign aid included in Country Programmable Aid (CPA) reaching 14,201 million USD (OECD, 2024). As a country that has an advanced economy, Japan continues to be committed to providing Official Development Assistance (ODA), especially to less developed and developing countries. Even when it was still a recipient of foreign aid after World War II, Japan had begun providing development assistance in the form of war reparations to countries in Asia (Bahri, 2004). Eventually, the Japanese economy started to rebound and transitioned into a country that provides ODA. This assistance is administered through a special agency called the Japan International Cooperation Agency (JICA), which operates in all countries receiving aid (JICA, 2024).

Japan has significantly contributed to the development of Southeast Asian countries through its ODA and remains the foremost bilateral donor in the region. The presence of ODA is anticipated to enhance the economic progress and well-being of developing nations, as outlined by the ODA criteria established by the Organization for Economic Cooperation and Development (OECD) in 1972 (Hynes & Scott, 2013). On the other hand, Japanese assistance in this region is also an integral and synergistic component of Japan's growing trade and foreign direct investment in Southeast Asia. Even though there are always problems and difficulties, Japan's ODA allocation and its synergy with trade and FDI have served Japan and Southeast Asia well to the point that political relations between Japan and countries in Southeast Asia are well and deeply established. When assessing the effectiveness of Japan's ODA programs and strategies, it is apparent that it has significantly contributed to the development of Southeast Asia in a favorable manner (Patrick, 2008).

The beginning of Japan provided ODA to Indonesia was in 1958 in the form of compensation for war damage suffered by Indonesia during World War II (Akiko, 2000). Providing ODA continued, and by 2016 Japan had provided assistance with an accumulated amount of more than 5.5 trillion yen (around 668 trillion rupiah or USD 49.5 billion). For Indonesia, Japan is the country that provides the largest bilateral aid, while for Japan, Indonesia is the country that receives the largest ODA based on accumulation (JICA, 2018). Through JICA, distribution of ODA assistance in the form of bilateral categories is carried out in three forms, namely Loan Aid, Grant Aid, and Technical Cooperation (JICA, 2009). Loan Aid are provided on long-term, low-interest terms which are usually allocated for large-scale infrastructure development. Meanwhile, Grant Aid is financial assistance that is not accompanied by an obligation to pay back which is usually used to improve basic infrastructure. At last, Technical Cooperation is assistance that aims to help develop human resources in developing countries (JICA, 2008).

As a Southeast Asian country with a large and fast economic growth, it cannot be denied that Indonesia is the goal of many developed countries in terms of their foreign policy. This is the case with what has been shown by Japan, where Indonesia has become a strategic destination country in its foreign affairs taking into account its large population, abundant natural resources, and continuously growing consumer market. As Indonesia is the largest country in Southeast Asia and the only member of the G20 among ASEAN countries, Japan's aim in providing ODA to Indonesia is not only to help development and social stability in Indonesia but also for Asian countries and even Japan (Sato & Rai, 2019). Becoming a strategic partner in the last few decades means that Japan must continue to maintain its relations with Indonesia. Especially in matters of economic relations, because Indonesia is one of Japan's largest markets, thus maintaining its economic relations can contribute to Japan's economic growth and stability.

In recent years, regional and global dynamics have begun to experience quite significant changes. China has emerged as a dominant and influential player in various countries, including Indonesia. Especially since

China launched the Belt and Road Initiative (BRI) in 2013 as one of China's strategies to compete in the global political economy. Xi Jinping dubbed the BRI project as the “project of the century” and described it as a new option for countries that want to accelerate development while maintaining their independence (Malik, et al., 2021). The amount of Chinese investment into Indonesia continues to increase significantly from 2017 with a total of 5.5 billion USD to 2020 reaching 8.4 billion USD (Pramono, et al., 2022). The substantial amount of investment and foreign aid from China has brought the Indonesian government into closer alignment with China. Although from the latest data, Indonesia is included in Japan's ODA Top 10 recipients in 2021, where Indonesia is in 4th position with a total ODA receipt of 1033.1 million USD (OECD, 2023). Considering this quantity, it is apparent that Japan may still engage in competition with China to acquire influence through the provision of foreign aid. This is especially relevant considering that Japan’s ODA has been present in Indonesia for several decades.

Indonesia's position as a country with a strategic geographical location and abundant natural resources, a large population, and strong market potential has become the main battleground for economic competition and diplomatic maneuvering between Japan and China. In its efforts to maintain a long-term partnership with Indonesia amidst China's growing influence, one of the important tools that Japan has is ODA. Historically Japanese ODA has played an important role in supporting Indonesia's economic development. By funding infrastructure projects, energy, education, and health services (JICA, 2024). These ODA projects not only contribute to Indonesia's socio-economic progress but also serve as a means for Japan to strengthen economic ties and increase its influence in the country. However, with China's presence and its strong influence in Indonesia through the large-scale infrastructure projects, financial assistance, and trade partnerships, Japan is facing challenges in maintaining its relations and influence in Indonesia.

The indications of competition between Japan and China can be seen from the Jakarta-Bandung High-Speed Rail (HSR). Initially, this high-speed rail project will be financed by the JICA through the ODA scheme by

financing 75% of the total project costs with an interest rate of 0.1% as long as the Indonesian government provides a loan repayment guarantee (Malik, et al., 2021). At the same time, China also offered loans by trying to outperform Japan through more promising loans and speed of implementation of the project until finally, Indonesia's decision was to enter into a loan contract agreement for the Jakarta-Bandung High-Speed Rail (HSR) with China in 2017. Indonesia agreed to China's revised proposal with an interest rate of 2% and for a shorter period of 3 years. In the proposal submitted by China, it also eliminates all state guarantee requirements and proposes balance sheet transactions outside the government by providing loans to Chinese and Indonesian state-owned companies (Malik, et al., 2021). This crucial momentum certainly cannot be separated from the assumption that there is rivalry between the powers of Japan and China to maintain their position of power in Indonesia, in this case regarding foreign aid. Therefore, it is necessary to carry out further studies to find out how Japan can maintain its position and influence in Indonesia through the ODA scheme amidst the strong influence and closeness of relations between Indonesia and China.

Against this background, it is important to examine the role of the Japanese ODA in maintaining relations with Indonesia amidst China's strong influence. By understanding the strategies implemented by the Japanese government through its ODA to be able to compete with China amidst the dynamics of regional change, especially in Indonesia. Considering that foreign aid from China has become more popular in the last ten years, especially since President Joko Widodo's leadership was more inclined towards China's BRI policy. Although at the same time Japan's ODA remains consistent in providing assistance to Indonesia. Therefore, by researching relevant data on the issues raised, the writer intends to understand Japan's effective strategy in maintaining partnerships and influence in Indonesia through ODA scheme amidst influence and competition with China.

## 1.2. Research Question

Based on the research background, the research question can be stated as follow:

*How is the role of Japan's ODA in Preserving Ties with Indonesia  
Amidst China's Growing Presence?*

## 1.3. Research Goals

This research aims to enhance understanding of the role of Japan's ODA in preserving ties with Indonesia in the midst of China's growing presence.

## 1.4. Literature Review

In this research, the writer determines several previous studies as a literature review that are relevant to the topic discussed. In the case of Japan's provision of ODA to Indonesia, there are several previous studies that the writer used as a comparison in conducting this research. The first previous study related to Japanese ODA in Indonesia was M. Mossadeq Bahri's research journal entitled *International Aid for Development? An Overview Japanese ODA to Indonesia*. In this journal article, Bahri discusses the motives behind Japan's foreign aid program which involves economic, national strategic interests and humanitarian issues for aid recipients.

In his argument, Bahri explained that Japan's foreign aid was not just humanitarian assistance but there was a motive to pursue its interests. Moreover, Indonesia has proven to be an attractive country for Japan because it has rich natural resources and its strategic geopolitical location among other Asian countries. In this study it was concluded that Japan's grant aid program was too rigid and very closely linked to the procurement of goods and services from Japan as a strategy to maintain its political and economic interests in the recipient countries (Bahri, 2004).

The next previous study that the writer uses is a research journal written by Muhammad Mirza Rizki Yudha and Viani Puspita Sari with the title "*Kerja Sama Japan International Cooperation Agency dan Indonesia dalam Proyek Mass Rapid Transit Jakarta Fase II*". This research analyzes

the cooperation between Indonesia and Japan in the MRT Jakarta Phase 2 project which contributes to improving bilateral relations between Indonesia and Japan. This MRT project is considered to be a solution to overcome the problem of vehicle density in Jakarta by building adequate modes of public transportation with funding assisted by JICA through its bilateral assistance scheme in the form of ODA loan funds.

The research by Yudha and Sari concludes that the bilateral cooperative relationship between Japan and Indonesia in the form of providing ODA foreign assistance to the Jakarta MRT project has the potential to provide mutual benefits (Yudha & Sari, 2023). The commonality between this study and the forthcoming study conducted by the writer is the recipient country of Japan's ODA, specifically Indonesia. In addition, there are similarities in the emphasis placed on the role of Japanese ODA in enhancing the relations between Indonesia and Japan. However, the distinction comes in the inclusion of additional actors that play a role in the effectiveness of ODA in preserving its ties with Indonesia. Previous research did not address these actors, although the writer will establish it to China's presence in Indonesia.

The foreign aid provided by Japan to recipient countries is of course inseparable from Japan's national interests related to security and economic interests. As explained by Hiroyuki Hoshiro in "Japan's Foreign Aid Policy: Has It Changed? Thirty Years of ODA Charters" stated that the Japanese government officially linked foreign aid to Japan's security and economic interests through the 2003 Charter and there were several references to Japan's national interests outlined in the 2015 Charter. Hoshiro further explained that ODA serving Japan's economic interests increased after the 2003 Charter (Hoshiro, 2022).

The closeness of Japan's economic interests to its foreign aid was also conveyed by Sarah Anabarja in "*Efektivitas Official Development Assistance Jepang terhadap Negara Resipien*" where Japan provides a quite different approach to development cooperation with developing countries compared to other donor countries which only carry out their moral obligations as rich countries to help poor countries. Anabarja further

explained that in the case of Japan, ODA is closely associated with the use of the economic cooperation, development cooperation or international cooperation terms. Therefore, in the case of Japan, economic cooperation changes the nature of donor countries' relations with developing countries from one based on humanitarian assistance to a partnership for growth (Anabarja, 2012).

Other previous research is a journal article related to Japan's rivalry with China in the Southeast Asia region. As mentioned above, the dynamics of the Southeast Asian region are very interesting to explore, where China has emerged as an actor that has a strong influence on countries in this region. This encourages a struggle for power for countries that want to expand and maintain their influence in this region. As stated in a study from Hiroyuki Hoshiro entitled "Aid coordination through competition? Unintended consequences of China–Japan rivalry in foreign aid policy in Asia", explained that there was a power struggle between Japan and China in Asia which extended to competition for foreign aid.

Hoshiro further stated that Japan used to dominate foreign aid in this region, but China is present by taking over Japan's position in terms of infrastructure assistance. The research concluded that the current aid competition between Japan and China is at its tightest, giving rise to natural aid coordination which makes aid more effective (Hoshiro, 2023). However, in general it needs to be understood that rivalry is forming between Japan and China in matters of providing foreign aid to developing countries, especially in the Southeast Asia region.

Further in the study described by Yoshimatsu & Trinidad, Japan actively supports the economic integration of ASEAN countries through its ODA by seeking to accommodate and balance China's increasing prominence in Southeast Asia. It cannot be denied that China's increasing influence in Southeast Asia has made Japan act reactive by being proactively involved in regional development (Yoshimatsu & Trinidad, 2010). The similarity between these studies and the research that the author will carry out lies in the rivalry between Japan and China, which compete with each other to exert influence through foreign aid. The difference is that these

studies focus on Asia and Southeast Asia, while the writer will focus on Indonesia as a destination country for Japanese foreign aid and how Japan competes to maintain its influence in Indonesia amidst China's strong presence in Indonesia.

### **1.5. Conceptual Framework**

In order to understand the role of Japan's ODA in preserving relations with Indonesia in the midst of China's influence, the writer tries to use concepts from the field of International Relations. This serves to ensure that the research is thoroughly conceptualized and aligned with the evolving ideas in the field of International Relations Study. The central idea explored in this research is the concept of Foreign Aid.

#### **Foreign Aid**

According to Hans Morgenthau, foreign aid is one of the real innovations that modern developments have introduced into foreign policy practice (Morgenthau, 1962). Morgenthau divides the types of foreign aid which include the transfer of money, goods, and services from one country to another into six types:

##### **1. Humanitarian Foreign Aid**

This foreign aid is a type of aid that prioritizes aspects of humanitarian assistance when a disaster or tragedy occurs in the recipient country. Humanitarian Foreign Aid is the only type of aid proposed by Morgenthau that does not have political overtones (Morgenthau, 1962, p. 301).

##### **2. Subsistence Foreign Aid**

This type of aid is almost similar to humanitarian foreign aid, but is distinguished by the nature of this aid which is more long-term and sustainable, whereas humanitarian foreign aid is only temporary when the recipient country experiences a disaster or crisis. If this type of aid is stopped, it will cause destruction to the basic life of the people in the country receiving the aid (Morgenthau, 1962, p. 302).

##### **3. Military Foreign Aid**



This military foreign aid is aimed at funding military equipment and human resource assistance when the recipient country experiences security threats. One example is sending human resource assistance such as sending troops to recipient countries for military aid purposes (Morgenthau, 1962, p. 303).

#### 4. Bribery

This particular form of aid is regarded as the most morally questionable form of foreign aid due to its covert and secretive character. This form of assistance is commonly known as clandestine aid due to its association with the practice of providing bribes camouflaged as economic development assistance (Morgenthau, 1962, p. 302-303).

#### 5. Prestige Foreign Aid

This type of foreign aid is provided by the sending country by not only providing assistance purely but expecting reciprocal benefits for the sending country resulting from the aid. Providing this type of foreign aid is also carried out to improve relations between the sending country and the receiving country in political aspects (Morgenthau, 1962, p. 303).

#### 6. Foreign Aid for Economic Development

This type of assistance is very common in modern times. The factors that determine the implementation of foreign aid are unequal economic development in countries in the world and the increasing intensity of cooperative relations between countries. Providing this type of assistance is not only limited to providing funds but can take the form of infrastructure development that supports economic development in the country receiving the aid (Morgenthau, 1962, p. 304).

The development of foreign aid began after the Second World War with the European Recovery Program or what is commonly referred to as the Marshall Plan. Managed by the Organization for European Economic Cooperation (OEEC) as the predecessor of the OECD. The Marshall Plan was a program providing foreign aid by the United States to countries in the European region to assist post-war economic recovery efforts and stem

communist influence in the region (Sogge, 2002). The success of the Marshall Plan made developed countries interested in helping developing countries in the hope that poverty and inequality could be eliminated through growth and modernization through the foreign aid provided.

This concept of foreign aid is not a policy but a policy tool where foreign aid is a voluntary transfer of public resources, from government to other governments, to Non-Governmental Organizations (NGOs), or to international organizations with at least a 25 percent grant element (Lancaster, 2006). Meanwhile, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) uses the definition of Official Development Assistance (ODA), where ODA is calculated as the amount of grants and loans to aid recipients made by the donor country's official sector, and then has a purpose to promote economic development and prosperity in recipient countries, as well as using concessional financial terms with a grant element equal to at least 25 percent of the total. Apart from these financial flows, technical cooperation is also included in ODA, while grants, loans and credits for military purposes are excluded (Tarp, 2009).

Currently, there is a significant number of organizations and governments engaged in the provision of foreign aid. Several large organizations such as the World Bank, the Asian, African and Inter-American Development Bank, and the United Nations Development Program (UNDP) participated in providing foreign aid. Moreover, dozens of governments have significant foreign aid programs, including all the rich countries in North America, Western Europe, oil-producing countries in the Middle East, Japan, and middle-income developing countries. The most important forms of foreign assistance needed by recipient countries are development assistance, emergency assistance, financial assistance, technical assistance, assistance in the form of grants and loans, bilateral and multilateral assistance, as well as program and project assistance (Ali & Zeb, 2016). ODA in particular, as regulated in the UN charter and the DAC Resolution on Mutual Assistance Efforts, is assistance to help poor countries. In other words, it is hoped that it can make a positive economic contribution

in the recipient country.

From several data, developing countries have received quite significant ODA flows every year. In this case the donor country agrees to increase the volume and quality of aid, while the recipient commits to focus on good governance and development priorities. For Japan's ODA itself, from the start it has chosen East Asia and Southeast Asia as its priority regions for receiving ODA. This is one of the characteristics of Japanese ODA, where this region is an area that has close relations with Japan and can have an impact on Japan's stability and prosperity. The principle in Japanese ODA is that “first request” is given to support self-reliance efforts in developing countries (Aime, 2010). Therefore, in the context of developing countries, foreign aid in the form of ODA has a very crucial role in the success of development growth in these countries.

In the Japanese context, foreign aid has become an important policy instrument in recent decades. Where the Japanese government provides foreign aid not only for charitable reasons, but for specific purposes especially as a foreign policy tool (Akiko, 2000). As a primary diplomatic tool, foreign aid policy objectives can be divided into several areas that serve Japan's national interests. The development of Japanese foreign aid initially focused on commercial interests and economic interests, but over time, strategic objectives have become firmly embedded in Japan's foreign aid program (Jain, 2014). It can be seen from the last few years that Japan has begun to pursue other strategic objectives in its foreign aid. Indications of the presence of several other actors, such as China, which are quite significant in recipient countries of Japan's foreign aid, have made Japan attempt to counter China's influence (Keola, 2023). What Japan has done is consistent distribution of ODA and the number of loans that continues to increase in various aid recipient countries. This demonstrates how the purpose of foreign aid shifted progressively. Initially, it served to further Japan's economic expansion, but as threats from other countries seeking to subdue Japan's influence emerged, Japan adjusted its ODA needs with the aim of maintaining influence and cooperation with recipient countries amidst threats from other countries, which in this study is the growing

presence of China.

### **1.6. Argument**

Japan effectively preserves ties with Indonesia and counterbalances China's influence in Indonesia by increasing ODA capital amount, diverse programs, and consistent aid.

### **1.7. Methodology**

The research method used in this research is a qualitative method. Research using qualitative methods itself is research that uses methods such as participant observation or case studies that produce narrative, descriptive accounts of settings or practices (Kusumastuti & Khoiron, 2019). Qualitative method approach looks at phenomena from non-material aspects, behind what appears, studying meaning as something holistic. Furthermore, qualitative methods rely heavily on data collection. By emphasizing understanding of problems related to reality conditions or the natural setting of the problems that will be discussed in this research. This qualitative research aims to explore and understand the meaning that a number of individuals or groups of people ascribe to social or humanitarian problems (Creswell, 2009).

The data collected in this process defines the volatility of the research presented. Data from observations and data obtained using other techniques are used as the basis for conceptualization and categorization, both in the context of preparing descriptions and developing theories so that each concept, category, description, and theory produced is based on the data (Subadi, 2006). Furthermore, the aim of qualitative research is to describe and interpret problems or phenomena in a systematic way from the perspective of the individual being studied to produce new concepts and theories.

The data analysis and collection of this thesis uses a descriptive approach with the aim of providing a more detailed explanation regarding the discovery of the role and strategy of Japanese ODA in maintaining relations with Indonesia amidst the presence of China by applying the Foreign Aid conceptual framework. In this research, the author explains all discussions along with scientific truth based on valid sources that has been

listed in the bibliography. Secondary data in this thesis comes from written sources such as books, journals, articles, newspapers, and digital news media. All data relevant to the topic is analyzed through abstraction and interpretation by referring to theories that build a framework for thinking to produce in-depth analysis related to the topic studied.

### **1.8. System of Writing**

This research will be divided into four chapters. The detailed discussion contained in each chapter will be explained in sub-chapters. The discussions in each chapter will be interconnected to form systematic writing.

**CHAPTER 1:** This chapter explains the introduction of the thesis, including the Research Background, Research Question, Research Objectives, Literature Review, Conceptual Framework, Argument, Research Methods, and System of Writing.

**CHAPTER 2:** This chapter contains the explanation of Japan's ODA in general and its development in Indonesia.

**CHAPTER 3:** This chapter contains the result of analysis which describes the competition between Japan and China in gaining influence in Indonesia, the rapid China's investment in Indonesia, as well as an explanation of Japan's strategy through its ODA scheme in maintaining its relations with Indonesia amidst China's presence.

**CHAPTER 4:** This final chapter provides the conclusion of the research in this thesis.