

CHAPTER I

INTRODUCTION

A. Background

Indonesia is the fourth most populous country in the world with more than 240 million citizens living in different islands. They need transportation tools such as plane, ship, train, bus, motorcycle or car to go from place to place. Indonesian people tend to use cars and motorcycles rather than mass transportation because it is easier. According to the data from Police Department, there are 9.5 million cars and 69.2 million motorcycles in 2011. The number of cars and motorcycles increasing from year to year, Central Statistical Agency stated that in 2011 and 2012, the growth of cars are 7.6% while the growth of motorcycles are 9.4%¹.

The massive increase of cars and motorcycles has brought impacts towards the higher traffic jam and scarcity of petroleum. Traffic jam in Indonesia, especially in Jakarta as the capital city of Indonesia, is very high. Millions motorcycle and car are moving through roads in Jakarta. The comparison between the vehicle and the road is imbalance. The number of vehicles increase rapidly, on the other side, the process of broadening road is very low. It makes the vehicle stuck in a traffic jam for several hours. Traffic jam led into time ineffectiveness of the worker.

¹ Bambang Susantono, Ph.D. Transportasi & Investasi: Tantangan dan Perspektif Multidimensi. Jakarta: Kompas, 2013 page 35.

The amount of petroleum wasted is also getting higher because of the higher traffic jam. Petroleum consumption in Indonesia is predicted up to 167 kiloliter in 2025. Most petroleum in Indonesia is used by the transportation sector, especially cars and motorcycles. The condition leads to the scarcity of petroleum, which is used by cars and motorcycles. Directorate General of Budget in the Ministry of Finance in 2003, Askolani, said that subsidy for petroleum in 2013 is up to Rp 240 billion².

The condition will get worse because the government as policy maker is trying to implement Low Cost Green Car (LCGC). The idea to implement LCGC in Indonesia was first proposed by the Ministry of Industry. According to the Ministry of Industry, September 30th 2011, Indonesia has the potency to sell 300,000 to 600,000 green cars per year. The chance would be taken by car from another country, especially another member of ASEAN, if Indonesian automotive industry did not exploit this potential product. Because of those considerations, there is a willingness from Indonesian automotive industry to develop Low Cost Green Car³.

Low Cost Green Car is a program from the government to reduce tax for cars that can fulfill several requirements such as 980-1200 cc cylinder capacity with the consumption of fuel oil (BBM) of at least 20 km/liter; consuming *Pertamax*; consists of 80% local components; the products are required to use brand, model, and logo

² Iris Gera. *Nilai Tukar Rupiah Melemah, Anggaran Subsidi Meningkat*. Accessed from <http://www.voaindonesia.com/content/nilai-tukar-melemah-anggaran-subsidi-meningkat/1825605.html>, Accessed October 26th 2013.

³ Departemen Keuangan Republik Indonesia. Accessed from <http://www.fiskal.depkeu.go.id/2010/adoku/2013%5Ckajian%5Cpkpn%5Cpublikasi%20LCGC.pdf>, Accessed May 30th 2014.

that reflect Indonesia; and the highest price is Rp 95 million⁴. In September 2012, the government and automakers accept the concept of Low Cost Green Car (LCGC). Manufacturers who are ready to produce LCGC are Japanese automotive company such as Daihatsu, Suzuki, Toyota, Mitsubishi, and Nissan⁵. It is in compliance with the fact that the automotive sector has become one of the biggest Japanese investments in Indonesia. During the first quarter of 2013, total Japanese investment in Indonesia reached US\$ 1.2 billion, or 16.3% of total foreign direct investment (FDI) which is up to Rp 65.5 trillion⁶.

Indonesian government is succeeding to absorb Japanese investment in the automotive sector. Muhammad Luthfi, ambassador of Indonesia for Japan in that era, said that Japanese investment has increased into 300% since 2010. Previously, Japanese investment in Indonesia is about US\$ 2.4 billion. While, in the first semester of 2013 Japanese investment in Indonesia is US\$ 2.3 billion.⁷ The 2012 Automotive Industry Association's data (Gaikindo) shows that the Japanese brands dominate 96% of the national car market. Now, it is potentially lasting dominance, after the government initiated a program of low cost green car (LCGC), cheap and

⁴ Suhendra. *Mobil Murah Harus Bisa Memenuhi Syarat Ini*. Accessed from <http://finance.detik.com/read/2013/07/14/144957/2302077/1036/mobil-murah-harus-bisa-memenuhi-syarat-ini>, Accessed May 28th 2014.

⁵ Agung Kurniawan. *Program Mobil Murah Serap Investasi Rp 33.3 T*. Accessed from <http://otomotif.kompas.com/read/2012/01/31/646/Program.Mobil.Murah.Serap.Investasi.Rp33.3.T>. Accessed June 1st 2014.

⁶ Kementerian Perindustrian. Accessed from <http://kemenperin.go.id/artikel/6113/Jepang-Investor-Nomor-Satu>, Accessed October 27th 2013.

⁷ Pingit, Aria. *Jepang Bahas Kebijakan Mobil Murah Kepada Hatta*. Accessed from <http://www.tempo.co/read/news/2013/10/04/090519261/Jepang-Bahas-Kebijakan-Mobil-Murah-Kepada-Hatta>, Accessed November 2nd 2013.

environmentally friendly cars. In October 2013, total selling of city car from factory into dealer is 16.557 units. From that selling, 11.592 units come from LCGC (Low Cost Green Car). It can be conclude that in the 10th months, city car selling without LCGC only 4.965 units⁸.

Implementation of LCGC (Low Cost Green Car) has risen controversy in Indonesia. Those who disagree argued that low cost car would increase congestion. Based on research from LPEM UI (2004) concluded that the increasing of the length of the road was 10%, it would give 0.88% contribution towards economic growth. Central Bureau Statistics has released data that length of the road in Indonesia in 2011 was 492,398 kilometer while in 2012 was 501,969 kilometer⁹. Compared to Thailand and Korea who has 800 kilometer road for 1 million people or Japan who has 6,000 kilometer road for 1 million people, the comparison length of the road with population in Indonesia is not ideal because Indonesia only has 160 kilometer road for 1 million people¹⁰.

Length of the road is not balanced compared to the increasing number of cars. Data from *Gaikindo* (Gabungan Industri Kendaraan Bermotor Indonesia) shows that in 2011, there are 894,164 cars sold. It is increasing 24.8% in 2012 which shows that

⁸ Mahaputra, Sandy Adam. *Mereka yang Mulai Jadi Tumbal Mobil Murah*. Accessed from <http://otomotif.news.viva.co.id/news/read/460568-mereka-yang-mulai-jadi-tumbal-mobil-murah>, Accessed November 2nd 2013.

⁹ Badan Pusat Statistik. Accessed from http://www.bps.go.id/tab_sub/view.php?tabel=1&daftar=1&id_subyek=17¬ab=11, Accessed May 12th 2014.

¹⁰ Merdeka.com. Accessed from <http://www.merdeka.com/otomotif/panjang-jalan-indonesia-tak-ideal.html>, Accessed May 12th 2014.

1.161 million cars sold¹¹. The increasing number of cars also brings impact towards petroleum consumption. Petroleum consumption in 2011 is 71.43 million kiloliter and it is increasing into 74.71 million kiloliter in 2012. It consists of non-subsidized petroleum which is addressed to middle and higher income people and subsidized petroleum which is addressed to lower income people. Non-subsidized petroleum consumption in 2011 is 29.74 million kiloliter and it is increasing 0.8 % into 30 million kiloliter in 2012¹². In 2011, the government has spent Rp 165.2 trillion¹³ to buy 41.69 million kiloliter subsidized petroleum¹⁴ and it is increasing into 44.78 million kiloliter in 2012¹⁵ which has spent Rp 211.9 trillion from national budget¹⁶. Increasing number of cars and petroleum consumption led to higher level of pollution. WHO has already decided that safe limits of air pollution 20 microgram/m³. Data from WHO has already monitoring several big cities in Indonesia because of their air pollution level. Then, the monitoring result shows that Medan is the highest polluted

¹¹ Kurniawan, Agung. 2012: *Rekor Baru Penjualan Mobil di Indonesia, 1,161 Juta Unit*. Accessed from

<http://otomotif.kompas.com/read/2013/01/11/6126/2012.Rekor.Baru.Penjualan.Mobil.di.Indonesia.1.161.Juta.Unit>. Accessed May 10th 2014.

¹² Riendy Astria. *Jumlah Konsumsi BBM Non Subsidi Hanya Naik Tipis Sepanjang 2012*. Accessed from <http://www.solopos.com/2013/02/12/konsumsi-bbm-jumlah-konsumsi-bbm-non-subsidi-hanya-naik-tipis-sepanjang-2012-378488>, Accessed May 12th 2014.

¹³ Ester Meryana. *Subsidi BBM Bisa Tembus Rp 203 Triliun*. Accessed from <http://bisniskeuangan.kompas.com/read/2012/03/23/08474322/Subsidi.BBM.Bisa.Tembus.Rp.203.Triliun>, Accessed May 12th 2014.

¹⁴Kementerian Energi dan Sumber Daya Mineral Republik Indonesia. Accessed from <http://www.esdm.go.id/berita/migas/40-migas/5344-konsumsi-bbm-pso-2011-mencapai-4169-kl.html>, Accessed May 12th 2014.

¹⁵ Ratna, Heppy. *Konsumsi BBM subsidi diperkirakan capai 49 juta kiloliter*. Accessed from <http://www.antaraneews.com/berita/357988/konsumsi-bbm-subsidi-diperkirakan-capai-49-juta-kiloliter>, Accessed May 12th 2014.

¹⁶ Pradipto, Rimawan. *Hitung-hitungan Subsidi BBM*. Accessed from <http://bisniskeuangan.kompas.com/read/2013/06/18/0746006/Hitunghitungan.Subsidi.BBM.>, Accessed May 12th 2014.

city in Indonesia with air pollution 111 microgram/m³, Surabaya with 69 microgram/m³, Bandung and Jakarta with 43 microgram/m³¹⁷.

In this paper, the author would like to explain more about the reasons of the government of Indonesia accept the Japanese investment in Low Cost Green Car (LCGC) program.

B. Research Question

“Why did the governments of Indonesia accept the Japanese investment in Low Cost Green Car (LCGC) program?”

C. Research Purposes

1. To describe the process of cooperation between Japan and Indonesia in the implementation of Low Cost Green Car.
2. To analyze the reason of Indonesia to accept the Japanese investment in Low Cost Green Car program.

D. Theoretical Framework

To analyze a case, it will be easier to be understood when we use a theory. Theory is a view or perception of what happened. The theory in this case is used as the basic framework of analysis in explaining a phenomenon that occurs and may also predict the phenomena in the future. In this case, the author will try to use Rational Actor Theory and Free Trade Concept.

¹⁷ Matoa. Accessed from <http://matoa.org/polusi-di-indonesia-dan-efeknya/>, Accessed May 12th 2014.

Rational Actor

In this model, foreign policy is viewed as the result of the actions of rational actors, especially a monolith government, which is done intentionally to achieve a goal. Foreign policy decision -making is described as an intellectual process. Government behavior's analogous to the behavior of individuals which is reasonable and coordinated. In this analogy the individual - through a series of stages of intellectual, by applying reasoning seriously - trying to apply the alternative - choice alternatives. Thus, the unit of analysis is the decision-making choices taken by the government. Thus, foreign policy analysis should focus on the analysis of national interests and objectives of a nation, the course of wisdom alternatives that can be taken by government and the calculation of profit and loss of each alternative.¹⁸

Rational actor models illustrates that the decision makers in taking the choices or alternatives to the use of the criterion of "optimizing outcomes". The decision-makers portrayed always ready to make changes or adjustments in its sole discretion. They also assumed to be able to obtain enough information so that it can perform thorough search of all possible alternatives wisdom and all the sources that can be used to achieve the goals they set.

Graham T. Allison provides an overview of the decision-making process. The model used is the model of the rational actor, organizational process models and

¹⁸ Mohtar Mas'oe'd, Ilmu Hubungan Internasional: Disiplin dan Metodologi, Jakarta: LP3ES, 1990, page. 234.

models of bureaucratic politics. In this model, foreign policy is seen as a result of the actions of rational actors to achieve a goal. Rational actor is seen as a people who know about the options available and the consequences that may arise from each option before making a decision.

Foreign policy decision-making is described as an intellectual process. The government is analogous as behavior of individual which is reasoned and coordinated. Each individual, which through several intellectual stages and set alternative options that exist. Then, the unit of analysis in making this decision is the choices made by the government. Thus, analysis of foreign policy should focus on national interests and objectives of the nation itself. This model is very popular mainly due to the assumption of rationality that it contains. In this model of decision-makers is considered rational, and we generally do tend to think that the decision - particularly with respect to foreign policy - are made rationally. That is why, according to Allison, this model is most often applied to describe and explain foreign policy.

Rational limits has a specific meaning, in the decision-making process is based on four steps¹⁹:

1. Selection of the objective value of a policy that is definitely aimed at the maximum goal,

¹⁹ Spainer Uslander, "American Foreign Policy Making & the Democratic Dilemmas", CBS College Publishing, New York, 1982, page. 226.

2. The selection of the alternatives available to achieve the expected results,
3. Calculations of profit and loss from the taken alternative,
4. The selection of the alternative that gives optimal results.

Based on the rational actor models, it illustrated that Indonesia as the decision makers in do the choices or alternatives to the use of the criterion of "optimizing outcomes". The decision-makers portrayed always ready to make changes or adjustments in its sole discretion. They also assumed to be able to obtain enough information so that it can perform thorough search of all possible alternatives wisdom and all the sources that can be used to achieve the goals they set.

Table 1.1

**Profit and Loss Comparison of Indonesia as a Rational Actor toward
Implementation of Low Cost Green Car (LCGC)**

Low Cost Green Car	
Profit	Loss
<ol style="list-style-type: none"> 1. Indonesia has more preparation to face AFTA 2015. 2. Many corporations will build and 	<ol style="list-style-type: none"> 1. The congestion in big cities will get worse. 2. Petroleum subsidy will increase.

expand factories which will absorb thousand workers.	
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Based on table 1.1, the government has already offered solutions to overcome the loss such as:

1. Minister of Industry said the government would ask the producer to spread the distribution of LCGC.
2. Ministry of Industry has issued regulations about LCGC, one of them is the producer have to use nozzle that cannot be filled by premium petroleum.

Free Trade Concept

The idea of free trade begins from Liberal Theory by David Ricardo and Adam Smith as a critic towards economic nationalism through argument that the most effective way to increase national income is let the trading between individuals in domestic and international level becomes free and border-less, in another word, propose free trade. Basically, free trade is an economic liberal thought, because free trade activity is the principle of economic liberalization. By giving freedom to commodities exchange, elimination of barriers to the flow of investment and the creation of an international level division of labor, each individual will benefit in the long term. It can be happened because Liberalization Policy will encourage the ultimate goal of economy, optimize utilization of resources, or maximize the world

welfare. Therefore, liberals believe that in order to fulfill their own national interests, every nation should be open and cooperative in the economic relations with other countries.

Adam Smith and David Ricardo believe that commercial trades should be allowed to exchange money and goods without concern for national barriers. There should be few legal barriers on international commerce, and no artificial protection or subsidies constraining the freedom to exchange. An open global market, where goods and services can pass freely across national boundaries, should be the objective of policy makers in all nation-states. Only free trade will maximize economic growth and generate the competition that will promote the most efficient use of resources, people and capital²⁰. Free trade, however, was a more peaceful means of achieving national wealth because according to the theory of comparative advantage, each economy would be materially better off than if it had been pursuing nationalism and self-sufficiency (autarky). According to David Ricardo, free trade means ‘binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world’ (Ricardo 1911:114)²¹.

Free Trade has benefits towards trader and consumer. Three benefits of free trade are²²:

²⁰ Scott Burchill. *Theories of International Relations*. New York: Palgrave Macmillan, 2005, page 73.

²¹ *Ibid* page 63.

²² Griffiths. Martin and O’collaghan. Terry. *International Relation: The Key Concept*. London: Routledge. 2002.

1. Trading trigger open competition.
2. Trading promoting consumer's choice, giving more options to consumers to choose products that they needed.
3. Open trading decreasing lack of certain goods.

Several countries succeed in free trade era because they are well prepared. Japan is one of them. Indonesian government also has made several policies to face free trade, such as remove tariff barriers, *SKA (Surat Keterangan Asal barang)* issuing 'authority' decentralization, regulation about safeguard policy, provides facilities towards trading activity, and developing national export²³.

Preparation to face ASEAN Free Trade Area (AFTA) also became one of the rational reasons why Indonesian government received LCGC program. ASEAN would start the implementation of ASEAN Free Trade Area (AFTA) in 2015. Indonesia as a country who has signed the agreement of AFTA should be well prepared to face it. Before goods and services from another ASEAN member easily enter Indonesian market, the government should made policies to improve goods and services from Indonesia for the competition. The implementation of Low Cost Green Car is one of them. Minister of Industry, M.S. Hidayat, said if Indonesia did not run the program before AFTA 2015, another ASEAN member would take it over and it meant that we would import most of the car from them. Through this program,

²³ Henry Aspan. *Kebijakan Perdagangan Luar Negeri Indonesia dalam Menghadapi Pemberlakuan Kesepakatan ASEAN Free Trade Area (AFTA)*. Jurnal Ilmiah Abdi Ilmu, Vol. 4 No.2 Desember 2011, page 683-686.

Indonesia will try to build car with the domestic made components. Automotive factories who want to join the program have to fulfill 80% local component. It means that the car nearly “Made in Indonesia” due to majority local components of the car, factory which is located in Indonesia, and employees who build the car is Indonesian.

E. Hypothesis

The governments of Indonesia accepted the Japanese investment in Low Cost Green Car (LCGC) program, because of two reasons which were:

- 1) Indonesian automotive industry was required to produce vehicles at affordable prices for both domestic and export markets in order to addressing competition in the era of ASEAN Free Trade Agreement in 2015.
- 2) Encourage the increase of economic activity in these areas as well as creating new employment, particularly in the manufacturing sector.

F. Method of Research and Data Analysis

This thesis is using descriptive method which describes and explains the problem based on data and information. Data collections are collected through library research that is related to content analysis and expertise concepts that are published in the articles, textbooks, journals, and other resources.

G. Range of Research

The research is limited within 2012-2014 because the writer wants to focus this undergraduate thesis in the early days of this policy was made. The data will be collected from necessary years in order to make the analysis easier.

H. System of Writing

Chapter I: Explain background, research questions, research purposes, theoretical framework, hypotheses, research methodology, the range of research, and system of writing.

Chapter II: Explains relations between Indonesia and Japan which consists of historical relationship and crisis relationship among two states.

Chapter III: Discusses the process of AFTA and Indonesian policy in automotive industry which consists of history, implementation, challenge and chance of AFTA and then discusses economic conditions and development in Indonesia to face AFTA.

Chapter IV: Discusses the reason of Indonesian government to receive Japanese investment in Low Cost Green Car (LCGC) program.

Chapter V: Contains the conclusion from all chapters and also the answers of research question.