

# **CHAPTER I**

## **INTRODUCTION**

### **A: Background**

Economic development is one of the national interests of many countries, which is implemented through their foreign policy particularly through economic foreign policy. As a national interest, those countries try to reach it by any means. Rational actor states that in a foreign policy which include national interest, the decision maker try to maximize the benefit of the economical or political facets.<sup>1</sup> A decision maker need to make a "value maximizing" which means choosing the best alternative that bring the minimum disadvantages. Every nation in the world including Indonesia is trying to maximize by their economic foreign policy performance.

Japan is chosen as a variable of the research because of its outstanding achievement in economical, political and cultural aspects. Japan has in fact become the leader of the Asian nations in economical power. Its economical achievement after World War II has created many questions and discourses. The economy of Japan, in turn, will give benefit to its economic partner. With its reputation, Japan had created many economic relationships with developed, developing or even under-developed countries.

To create a new economic relationship is not an easy duty for a nation moreover if the candidate of the economic partner is on a better condition.

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<sup>1</sup> Jack C. Blau, Roy Oltan, *The International Relation Dictionary*, Third Edition, Clie Press Ltd

However Indonesia had proved that it could make it. Indonesia has a good economic relationship with Japan. The Relationship comes in three types, the first is trade, the second is investment and the last is economical aid.

Japan has a better economic condition than Indonesia, and it is assumed that it will have a better bargaining position in developing the policy of the economic relationship. It is assumed that Japan will push Indonesia to develop a policy which gives more advantages to Japan rather than to Indonesia. This is a big challenge for Indonesia to face. In fact, Indonesia is still trying to formulate the appropriate policy to maintain the economic relationship with Japan.

In the era that we called interdependency, every nation entity lives in a complicated economic circumstance and no nation entity could live sustainably without the help of the other country. By putting economic goal as the priority of the national interest, every nation sets its best economic strategy to reach the goal. Meanwhile, the global economic world presents a tight competition. The tight competition is a result of the international economic and political policy in the international scope, which has also pushed every nation to develop the best strategy and keep the economic relations with their partner. As hard as in creating a new economic relationship, maintaining it becomes an urgent effort to do. In creating a new economic relationship, a nation is guided by its scale of priority. This priority is an out put of the domestic decision making mechanism, where every factor plays an important role in giving an appropriate contribution. Those factors are economic and political interest and security. The economic factor is

economical development, and the potential of the natural resources. Domestic political condition including the ideology of the nation also gives an influence in the development of a priority of the national interest. It is quite hard for a liberal country to create an economic relationship with communist country. Ideology functions as guidance for the political direction. Finally a security factor plays protection role. A nation will not create a policy that threatens its integrity. The tight competition in the global economic as a result of international economic and political policies in turn pushes a nation to act more aggressively in looking for a new economic partner.

Indonesia needs to formulate an appropriate policy to create and maintain its economic relationship. Indonesia is full of natural resources potential but it means nothing if Indonesia does not have a good economic relationship with the other country as a beneficial economic partner. Indonesia needs partners in fulfilling its needs. Indonesia needs a trade partner to sell its surplus products and to promote comparative value-based products. On the other hand, Indonesia needs to import the commodity which is not produced in the country or to minimize the cost of production if they are produced in Indonesia. Besides trading, Indonesia also created an economic relationship in term of investment. Big Push Theory says, a developing country needs an external power to cut the circle of poverty such as low education, low work ethic, inefficiency and low saving. The external power is needed to cut the circle by giving investment in the sectors which will give benefits to the economic sectors. It is aligned with Trickle Down Effect Theory. One type of the investment is Foreign Direct Investment. In this type of

investment the investor country considered the level of tax, labor cost, security, regulations and domestic political circumstance before they put their investment. Investor countries will run their investment only in the countries which offer most benefits. Those are economic relationship in term of trade.

There is another kind of economic Relationship that can be made; that is economic assistantship or economic aid. Global economy creates a stratification of nations based on their wealth and put nations in at least three rank-based classes; the developed countries, the developing countries and the under-developed countries. The stratification makes an interdependent circumstance. The developed countries usually need the raw material for their industry and market share to sell their products; meanwhile the developing and the under-developed countries need an economic relationship with the developed countries in trade, investment and economical aid. This case also happens to Indonesia, in that Indonesia received economic aid from some countries and international economic organizations.

In running the foreign economic policy Indonesia tends to see the countries in East Asia. Data show that Indonesia has developed an economic relationship with Japan, Singapore, US, South Korea and China as the big five export partner respectively and Singapore, China, Japan, Malaysia, Thailand and Australia as the big six import partner. Based on global economy stratification, the Indonesia's partner occupy the position of being in the developing and developed countries class. Japan as the first rank of Indonesia's economic partner is a

developed country, and both Indonesia and Japan have economic relationship in terms of cooperation and aid.

Now days , Japan positions the second most powerful country in economy in the world after the US and the third-largest in the the economical trade and investment world after the US and China.<sup>2</sup> These facts show us how important Japan is in the international economy. Since its defeat in World War II Japan focused its attention on the economic recovery, under the reign of Prime Minister Ikeda whose main policies were based on increasing public revenues and domestic product needs. Prime Minister Ikeda tried to fix and develop the investment, infrastructure and supply of the needs product.

In 1960's, Japan gave economic assistantship through JEXIM. JEXIM is a type of Japans official development assistantship for the other countries. The economic assistantship is still continuing align with the trade between Indonesia and Japan. The Government under Prime Minister Kaifu announced that decisions on ODA would be made after reviewing the recipients' performance in four areas: The Military spending, the promotion of democracy, the movement toward the market economy and the human rights enforcement.<sup>3</sup>

The guidelines to consider:

1. the relationship between environment and development
2. the avoidance of aid being used for military purposes or to aggravation of international disputes

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<sup>2</sup> [www.cia.gov/worldfactbook/jpv](http://www.cia.gov/worldfactbook/jpv), accessed on September 9<sup>th</sup> 2007

<sup>3</sup> Richard L. Taylor, *Japan's Foreign Policy for the 21st Century*, From Economic Cooperation to

3. the defense expenditure, the development and production of weapon of mass destruction and missiles: attitude towards export and imports of weapon
4. the promotion of democracy and a market-oriented economy, fundamental human rights, protection of freedom.<sup>4</sup>

The annual data of trade value show, Japan positioned the first rank of export partner and the third of import partner and Indonesia positioned the seventh rank of Japan's import partner. The trade relationship gives considerable economical benefits for both countries as data shown Indonesia received US\$ 19,38 billion by doing export with Japan and received US\$ 22 billion from Japan's import transaction, meanwhile Japan received US\$ 6,93 billion from Indonesia's import.<sup>5</sup> In economical aid through Japan Bank for International Cooperation (JBIC), Japan also gives contributions by funding many governments' projects. Till march 31<sup>st</sup> 2004, the total amount of JBIC's aid in Indonesia is ¥1,670 million for international economic operation and ¥2,317 billion for international economic cooperation. Japans is still the first rank of investor for Indonesia but the Japan's investment in January-November 2006 period only US \$ 430,2 billion or decreased 61,13 percents than the investment in the same period in 2005.<sup>6</sup>

The above data show that Indonesia has a good relationship with Japan indicated by the trade value. It needs to be maintained in order to secure all the

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<sup>4</sup> [www.cia.gov/worldfactbook/jp](http://www.cia.gov/worldfactbook/jp), accessed on September 9<sup>th</sup> 2007

<sup>5</sup> *ibid*

benefit which Indonesia have received. More over, the global economy presents a tight competition among the other "hunter and hunted" nations in reaching their national interest in term of economic wealth. The developed countries play as the hunter nations which seek a raw material and market share for their industry in the developing and the under-developed countries. On the other side, the developing and the under-developed countries need a capital to develop their countries. The capital comes from the developed country in the form of investment, trade and economic assistantship.

Japan is worth to be maintained as the economic partner. Till now, Indonesia received benefits from its relationship with Japan. President Susilo Bambang Yudhoyono said that Japan has contributed to Indonesian trade to the amount of 14,4 percents.<sup>7</sup> Through its ODA Japan funded many governments' projects. The standard of life in Japan put Japan as important partner. With GDP per capita US \$ 33.100, Japan has developed the high standard of living. The amount of GDP indicates that Japan could be a good export partner. With the amount of GDP it is assumed that Japan will be a good buyer for the Indonesia's export. Japans technology is also being an important factor in the economic relationship. The technology has favored Indonesia with electronic and auto mobile stuffs. Some of technology has been transferred to Indonesia, but still less than enough. Indonesia needs to develop the strategy which enable Indonesia to receive the technology. Meanwhile, Indonesia's domestic economy tends need Japan. The unstable in political and social condition shakes the economy. The decreasing of stability has

created a threat for all investors. The threat in turn will unsecure all the investments. Only few investors stay and run their investment. Japan's investment is US \$ 40 million for last thirty-nine years. Japan as one of the investor has reduced its investment in 2002 becomes only US \$ 518 billion. In fact Japan did position as the biggest investor for Indonesia. More over, today Indonesia faces the new competitor in having the economic relationship with Japan. The new competitors try to offer Japan a better relationship. It would threat Indonesian position and will exclude Indonesia as investment target. Those are the reasons why Japan is worth to be maintained as the economic partner for Indonesia.

## **B. Research Question**

“How does Indonesia maintain its economic relationship with Japan after 2007?”

## **C. Theoretical Framework**

### **1. International Cooperation**

There are two kinds of international cooperation based on the number of actors involved; bilateral and multilateral. Bilateral relation is a relation between two nations only. Multilateral is a relations between three or more nations. Both, bilateral and multilateral consist of good and bad relations. Good relations could be cooperation. On the contrary, conflict happens in bad relations.

Most of the transaction and interactions between the countries in our international system are routine and rarely free of conflict. A variety of national

regional, or global problems arise that require the attention of more than one state. K.J Holsti stated that a collaboration or a cooperation is a process when governments approach each other with proposed solutions, bargain or discuss the problem, adduce technical evidence in favor of one or another solution, and end the negotiations with some treaties or understanding satisfactory to both sides.<sup>8</sup>

In this era a cooperation is needed by every nation to get survive. The era presents an interdependent circumstance. The circumstance made nation to choose one of two basic policies. The nation needs to choose whether constructive or destructive action. A nation which has a better position than its counterpart will choose the destructive action. This better position makes the nation act as the superior and will take the lead in the relation. The destructive action implemented by an aggression. The reciprocity is hardly implemented in this type of relation since there is unbalance power.

The last action called constructive action. The nation which has the lack of capability commonly chose this kind of political action. In turn, the constructive action will bring the benefit. The benefit is the result of the cooperative action. The constructive action implemented through cooperation. But today a constructive action is chosen not only by the nation which doesn't have a better bargaining position but also by the stronger nation. To get the benefit is becoming the end of the constructive action. This era offers a nation with many types of constructive actions. The constructive action in turn called as cooperation. The types of the cooperation are economic, politic, military and

security cooperation. The first type of cooperation is the most chosen by the nations. The chosen action will function as mainstream of the nations policy.

In cooperation there is a concept called reciprocity. This is a relationship that commonly happens between two actors. In which each of them plays a code of conduct. It is the rule how the relationship will be run. Reciprocity means that every actor will do the same thing adjectively to its counterpart as the responds to the thing that have been done. The code of conduct guides the actors in giving the responds. The responds is a replay action that functions as compensations. A good thing would get a good responds and on the contrary. If a nation does a deregulation in trading with other, the code of conduct will guides the other nation to do the same thing adjectively.

## 2. Strategy

In pursuing the national interest, an effective policy need to be taken. Before the policy was formulated, the decision maker needs to develop the steps into a strategy. Strategy plays as the frame work in formulating a policy. The strategy would guide the decision maker to formulate the policy.

Indonesia needs to renew its strategy to face Japan. The new strategy should recognize the Japan's demand and fulfill it in one way. The identification is the first step of the strategy. This step tries to collect the data input. The input will give the fact in the older relations. The input will identify the weakness and the aim of a relationship. The next step is improvement. The improvement will be given by offering the demand of the counterpart. The offer would focus the

counterpart. The strategy will be formulated based on the offers and the probability of the new beneficial cooperation.

#### **D. Hypothesis**

Indonesia attempts to maintain the economic relationship with Japan by arriving at a more binding agreement, named Indonesia-Japan Economic Partnership Agreement.

#### **E. Purpose of Research**

The research will describe the Indonesia-Japan economic relationship before the agreement, the contribution to the Indonesia's economy and the declining of the relationship. The research will also identify the Indonesia's economic strategy to maintain Japan as its economic partner

#### **F. Research Scope**

In order to get a precise analytical result, the research scope will be limited to the data of the year 2002 to 2007. The data will also be limited to the economic-based data from both sides, Indonesia and Japan

## **G. Research Method**

The research will be done through the library descriptive method and will use related data from literature such as book, journal, and internet.

## **H. Systematic of Writing**

**Chapter I** : an introduction, consist of the background, the research question, main problem, the theoretical framework, the hypothesis, the research scope, the research method and the systematic of writing.

**Chapter II** : describes the sectors of economy which Indonesia and Japan cooperated with. And also describe the contribution of the economic relationship to Indonesia.

**Chapter III** : describes the causes of the declining in the relationship. The causes would be explained from Indonesian domestic barriers to the economic and from the international circumstance. And also describe the need to maintain Japan as Indonesia's economic partner.

**Chapter IV** : a description of The Indonesia-Japan Economic Partnership

Agreement as Indonesia's strategy to maintain Japan as the