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## The Transformation of Japan's Foreign Aid Policy to Indonesia: Explaining the Strategic Motives of ODA

Siti Daulah Khoiriati

*Department of International Relations, Universitas Gadjah Mada, Indonesia*

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**Key words:** Transformation of Japan's Foreign aid, Japan's Foreign aid policy to Indonesia, strategic motive of ODA, Japan's ODA to Indonesia, strategic motive of Japan's ODA

**Corresponding Author:**

Siti Daulah Khoiriati

*Department of International Relations, Universitas Gadjah Mada, Indonesia*

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**Abstract:** This study explain changes of motivation in Japan's Official Development Assistance (ODA) to Indonesia from the one motivated by economic interest to the one motivated by strategic interest in defense and security. This transformation is to some extent in line with the international norms embedded in the giving of aid such as human rights, democracy and human development. It is argued that the changes are not only influenced by domestic factors in the donor country but also international factors in the relationship between the donor and recipient countries. Those are the focus of this study. Japan's position as a developed country that has important role in international relations, made it consequently vulnerable to international influence in its Foreign policy, especially those related to economic cooperation with other countries. Furthermore, this study raises the questions of what motivate Japan to pursue strategic purposes related to defense security issues in its ODA policy to Indonesia. And how Indonesia response to the strategic purposes of Japan's ODA.

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### INTRODUCTION

This study explain changes in Japan's Official Development Assistance (ODA) policy to Indonesia from the one motivated by economic interests to be more motivated by strategic interest addressing defense and security issues. This transformation marks a new era in Japan's Foreign policy and its relations with Indonesia as a longtime partner. It is argued that the changes are not only influenced by domestic factors in the donor country but also external factors in the relationship between the donor and recipient countries. Those are the focus of this paper. Japan's position as a developed country that has important role in international relations, made it

consequently vulnerable to international pressures in its Foreign policy (known as "gaiatsu"), especially those related to economic cooperation with other countries. This paper investigates the political aspects of Japan's ODA to Indonesia which is the international context of Foreign aid.

Japan has long been providing Foreign aid to Indonesia, started from the end of the war throughout the New Order government (1967-1997) and continued until now. Japan's Foreign aid policy toward Indonesia primarily motivated by economic interests, more than any other interest. This motive was particularly visible during Japan's economic recovery and economic development after the war (1950-1970's). Japan needed to expand trade

and business to generate Foreign revenue while at the same time needed raw materials for its industries. Indonesia as a supplier of natural resources for Japanese industries and an export market of Japanese products, contributed significantly to Japan's economic recovery. Foreign aid was employed as a mechanism to open up Foreign market and to access the supply of raw materials, where the government led the initiatives through the so-called 'economic diplomacy'. This mechanism successfully generated economic growth in the postwar era through the expansion of Japanese industries.

For Indonesia as a recipient of Japanese aid, although economically became dependent on Japan but politically the government enjoyed political stability generated by a successful economic development with Japan support. However, this did not last long, since Japan's Foreign aid policy has generated economic domination of Indonesia that triggered political riot in 1974<sup>[1]</sup>. Since, then, Japan's Foreign aid policy gradually changed to address non-economic interests which was politics and socio-cultural interests. In 1990s, Japan's Foreign aid policy to Indonesia entered a new era when the Japanese government started to address humanitarian issues and move away from the economic motive in giving aid.

In the post-Cold War era, Japan's Foreign aid policy to Indonesia again experienced significant transformation than the previous eras, to address strategic issues related to human security and peace-building, using non-military instruments, which then turned into military instrument in 2015. At the same time, Japan considers Indonesia no longer as a developing country but an 'emerging economy' that is capable in conducting economic development with less Foreign assistance. However, Japan was still providing aid to Indonesia but with different motive that is for defense and security.

Against the background, this research attempts to answer some particular questions concerning the transformation of Japan's Foreign aid policy to Indonesia as follows: What motivate Japan to pursue strategic purposes related to defense and security issues in its ODA policy to Indonesia? How Indonesia responses to the Japanese proposal for cooperation in defense and security issues through the ODA scheme? To answer those questions, the concept of donor-recipient relationship will be employed to understand the motive of donor in providing ODA and the motive of the recipient in receiving it.

## **MATERIALS AND METHODS**

This research is conducted through library research and desk research to trace the historical development of Japan's Foreign aid policy to Indonesia, before identifying the transformation of the policy during the periods under consideration. The uses of qualitative approach for this

research is considered relevant to describe changes of the policy in Japan's Foreign aid to Indonesia. This research will utilize the concept of donor-recipient relationship, to analyze the factors that contribute to the transformation of Japan's Foreign aid policy to Indonesia. The theory explains the influence of multi actors in the relationship between states that make them connected with each other in a strong ties. Changes in one aspect will not subsequently change the nature of relationship.

## **RESULTS AND DISCUSSION**

**Japan's ODA to Indonesia: a donor-recipient analysis:** The dominant view in the literature concerning Japan's ODA policy is that the motivation that drive Japan's ODA is more on economic self-interest (kokueki). In this context, Japan uses aid as a "diplomatic tool." Foreign aid is closely related to Japan's national interest manifested in its Foreign policy. Therefore, Foreign aid as part of Japanese Foreign economic policy. The main literatures that support the argument are Hook and Arase<sup>[2, 3]</sup>. The two researchers strongly believe that Foreign aid is an important instrument in Japanese Foreign (economic) policy. This argument is supported by Feasel which states that ODA is Japan's main Foreign policy tool<sup>[4]</sup>.

Furthermore, Feasel argues that Japan's ODA is used as a policy tool to reward countries that open their market to Japanese exports or to strengthen bilateral relations in general<sup>[4]</sup>. Japan's national interests is basically economics. However, it is difficult to separate clearly the politics and economic interest in Japan's Foreign aid policy. Since, economic interest should be supported by political efforts in terms of diplomacy towards the targeted government. This is in line with what Arase said that Japan's ODA is unique since Foreign economic policy is the most important context for its Foreign aid<sup>[3]</sup>.

The diplomacy that Japan performed through its ODA basically oriented to strengthen bilateral relationship with its (particularly) trading partner and to help the recipient country develop domestic political stability. This is important for Japan, since, the operation of Japanese capital and Foreign investment require an environment of political stability in the host country. ODA is used to strengthen Japan's relations with its bilateral partner. Closer relationship with Japan's bilateral partner will make it easy (facilitate) for Japan to achieve its national interest in terms of economics and politics.

The uses of ODA to achieve national interest is close to neoclassical realism perspective in international relations. However, in the relationship between Japan and Indonesia, this is not all justified since Japan's effort to achieve its national interest in its relations with Indonesia not necessarily detrimental to Indonesia's interest. In fact, Japan's ODA has been beneficial to Indonesia's economic development. Therefore, there is common interest

between Japan and Indonesia in terms of ODA that shows compatibility of interest between donor and recipient that make the relationship between the two countries interdependence. Japan's Foreign to Indonesia is used and beneficial for promoting good relationship between the two countries, especially to improve Indonesia's perception towards Japan as a friendly country.

Although, many research and literature mention that Japan's interest in giving aid is mostly motivated by economic interest but that is not all justified. Japan's ODA to Asia (especially Southeast Asia) in the Cold War era has closely related to the policy of the United States to contain Communism where Japan is its close ally. Thus, Japan's ODA actually has political objectives. But covered by the policy of *seikeibunri* (separating politics from economics) initiated by Prime Minister Yoshida. The policy was then known as Yoshida Doctrine, which has become an important pillar in Japan's Foreign policy toward Southeast Asia. Under the Yoshida Doctrine, Japan's political interest to Southeast Asia was ruled out by economic interest.

The argument develops by this paper is that Japan's ODA policy to Indonesia is not only set to achieve economic interest but also political and strategic interests in terms of addressing defense and security issues. The political interest was mostly related to the US strategy in Asia and Southeast Asia. The US main interest was to hold Indonesia as a part of the Western Bloc during the Cold War and part of the Capitalist world. Most research see the economics aspects of Japan's ODA which tend to ignore the political factors behind the disbursement of aid. In answering the question of what causes the transformation of Japan's Foreign aid policy to Indonesia, this paper argues that it is due to the changes of Japan's national interest towards Indonesia (and South East Asia in general). The changes is something natural due to the dynamics of international relations or due to the leader's perception (decision maker) in Japan towards the ODA receiver. The perception is related to Japan's national interest. If the partner country shows an indication to threaten Japan's national interests (especially Japan's economic interest in the country) Japan would change its policy. Therefore, Japan's ODA to Indonesia has put some influence on Indonesia-Japan relations.

Japan's ODA to Indonesia was started in the 1950's as a prerequisite for opening up formal diplomatic relationship after the end of Japanese occupation in Indonesia during the Pacific War. The American occupation government in Japan motivated Japan to provide such assistance to Indonesia under the policy of reparation payment. Along with the other Asian countries used to be occupied by Japan, namely Burma (Myanmar), the Philippines and (South) Vietnam, Indonesia received reparation payment amounted about US\$600 million. Seen from American interest, the reparation payment was

motivated by politics to win competition in ideology (between capitalism and Communism) in the era of Cold War. The US strongly intended to protect the Asian countries from falling under the Communist influence.

After the reparation payment was completed in 1965, Japan continued giving economic aid under the policy of economic cooperation (*keizaikyoryoku*). At the same time, Indonesia experienced changes of government of regime from Sukarno to Suharto, following a severe economic and political crisis. The Suharto regime badly needed financial assistance in a huge amount to overcome the crisis and Japan was ready to provide the needed fund. Together with the other Western industrial country (the US and European countries) Japan extended aid to the Suharto government. During the era of 1960-1970's economic interest dominated Japan's motive in providing ODA to the developing countries. The geographical concentration in Asia was basically related to the political interest of the US to make Japan as a supporter of its Foreign policy to contain Communism in the Cold War context. This purpose was successfully achieved.

As a matter of fact, since, the rise of Suharto to power (the New Order government) in 1967, Japan has consistently maintained its support to the Suharto's regime-by providing economic assistance in the form of ODA and private-sector investment-until the demise in 1998. Japan has strongly backed the Suharto government with economic assistance which has placed Indonesia-long with China-as the largest recipient of Japan's ODA. In early 1970s an important change in Japan's ODA to Asian countries-including Indonesia-took place, due to changing in international environment and political upheavals in the recipient countries (particularly Indonesia, Malaysia, Thailand and the Philippines).

**Transformation in Japan's ODA policy: explaining the strategic motives:** What does it mean with transformation in this article is changes in the Japanese Foreign policy objectives that is going to achieve by using ODA as a diplomatic tool. In the context of donor countries (Japan) there is a transformation in the national interest that is going to achieve, from the one for economic purposes toward political purposes such as supporting democracy and democratic values, humanitarian, security and human security. The transformation was started with the enactment of the Japan's ODA Charter in 1992 which. Although, experienced transformation, ODA is still the most accepted instrument of Japanese diplomacy<sup>[5]</sup>. When Indonesia experiences economic crisis in 1997, which ended with the change of the regime, Japan extended a special financial assistance along with ODA to help Indonesia overcome the crisis.

During that time, the Indonesian government has tried very hard to invite more Japanese FDI through a number of investment conferences held in Japan and

Jakarta but with no significant result. Many Japanese manufacturing companies in Indonesia such as Sony, Matsushita stopped their production activities and relocated their factories to other countries (China, Vietnam and Thailand) to gain greater profits. All of these has indicated that Indonesia is no longer an ideal production base for Japanese manufacturing companies due to high economic cost, inconsistent regulations and unsuitable business climate. Indonesia needs to diversify its export to Japan and to reduce its dependence on oil and gas export. It should also develop export of manufacturing and agricultural products while increasing its market share and to continuously receive ODA from Japan. On the other hand, Japan needs to secure its energy supply from Indonesia in terms of its stability of supply in reasonable price and a continuous commitment vis-à-vis other buyers (particularly China). It also needs to secure domestic market for its products in a harsh competition with other countries in the global era.

The experience of overcoming economic crisis has motivated Japan to strengthen its economic cooperation with the Southeast Asian countries and also Indonesia. Japan is still Indonesia's largest trading partner and the first destination of its export. In the year 2001, Indonesia's export to Japan accounted for approximately 22% of the total export. Japan is also the largest source of import with approximately 14%. Japan is a major source of investment and ODA for Indonesia. In 2006 Japan's ODA amounted to 1.034,61 million US dollar. However, Indonesia is not Japan's largest trading partner. In fact, Indonesia ranked the 5th as Japan's trading partner. In the trade relationship, and market share accounted for only 4% (1.7% in oil and gas products, 2.2% in non-oil and gas)-compare to China with 17% market share. Instead of that, Indonesia's export to Japan was mainly in the commodity of: oil and gas products (more than 50%, accounted for approximately 68% of Japanese needs). The amount was approximately 90% of gas export is to Japan. Manufacturing and agricultural products accounted for approximately 40%, accounted for 2.2% of market share.

Meanwhile, Japan's export to Indonesia consisted of manufacturing and industrial products (machinery, steel, electronics and automotive).

In this case, bilateral relations with the US and Japan has been desperately nurtured in order to maximize the flow of financial relief during the period of acute economic distress<sup>[1]</sup>. Foreign policy during this period was used to support economic reconstruction after the crisis. In this context, Indonesia-Japan relations experienced no change, and even more strengthened to cope with the crisis as a common interest. Since 1997, Indonesia's position as the biggest receiver of Japanese ODA surpassed by China, which since the normalization of its relations with Japan received ODA that increased consistently. The first transformation in Japan's ODA policy in 1997 was for supporting democracy in Indonesia. Arase argued that although undergone

transformations in Japan's ODA policy but the traces of its economic interests have not completely disappeared<sup>[6]</sup>. Although, experiences a transformation, Japan consistently maintains its close ODA relations with Indonesia.

In 2003, the Japanese government made another revision to the ODA Charter with the introduction of the New ODA Charter which marked the second transformation. The new charter highlighted the strategic motive in Japan's ODA for the purposes of securing Japan from Foreign threats and increasing Japan's political influence in the recipient countries<sup>[6]</sup>. By the time Shinzo Abe became Japanese prime minister in 2007, the Japanese government started to offer ODA oriented to support defense and security of Japan and the recipient countries. This idea was in line with Japan's Foreign policy of "proactive pacifism" initiated by Abe. Strongly adheres the conservative values, Abe wants to restore Japan as a "normal state" that can participate in international relation using its military capabilities like a normal country. Foreign Minister Kishida Fumio strongly emphasized that ODA is Japan's biggest diplomatic tools towards South East Asian countries<sup>[6]</sup>. However, the domestic politics (the parliament and interest groups) and the people did not welcome the idea.

In 2015, another revision to the ODA Charter to be Development Cooperation Charter (DAC) which marked the ODA policy as "strategic diplomatic tool" in a more assertive ways such as providing ODA for purchasing military equipment<sup>[7]</sup>. There are two significant changes, namely (1) Japan renewed its Foreign policy focus to South East Asia and Japan's ODA is more focused on peace building activities. This has confirmed further the strategic motive of ODA for peace-building activities. Those activities covering four activities as follows: to prevent conflict to provide humanitarian assistance in the midst of conflict as an aid to help end conflict and aid to support post-conflict reconstructions<sup>[6]</sup>.

**Indonesia's response to the transformation:** As a country that has been receiving Japan's ODA for <60 years which has been accumulated to the amount of 5.5 trillion Yen (US\$ 49.5 billion) in 2016, transformation in Japan's ODA policy is surely influence Indonesia's Foreign policy towards Japan.

In particular, that related to the perception of the Indonesian leaders towards Japan's motive in its relations with Indonesia. Indonesia response the transformation with adjustment in its economic policy, and its relations with Japan. Indonesia's response toward the strategic motive in Japan's ODA policy shows the difference between President Yudhoyono (SBY) and President Joko Widodo (Jokowi). In the era of SBY (2004-2014) Indonesia responded positively Japan's ODA policy to address strategic issues related to security, while in the Jokowi era (2014-now), the President shows a less positive attitude toward the policy.

During the SBY government, Japan's ODA policy that strongly motivated by strategic motives correspond with a more assertive Foreign policy not necessarily problematic for Indonesia, since Indonesia's Foreign policy also started to be more assertive. Indonesia welcome Japan's offers to develop cooperation in the areas of security between Japan Ground Self-Defense Force (JGSDF) with the Indonesian Military (TNI). Through the cooperation, Japan offered military cooperation in five fields, namely education and training; human resources; defense industry; counter terrorism and disaster relief management<sup>[8]</sup>. Furthermore, Indonesian Minister of Defense, Purnomo Yusgiantoro actively develop close relations with his Japanese partner (Minister of Defense) through a number of ministerial meetings regularly conducted between the two parties. The meetings held by each party take turn in hosting. So far, there are two times ministerial meetings held during the SBY government.

The positive response from Indonesia toward Japan's strategic motive in ODA to some extent was due to the conformity with the Indonesian motive as a recipient country. Indonesia, during the SBY government showed a more assertive attitude in its Foreign policy towards Japan and other countries as well. The leader and the Indonesian people perception's towards Japan measured through polling by the Japanese Ministry of Foreign Affairs (MOFA) in the year of 2008 by addressing question: "why Japan become a trusted country?" the result showed that about 71% provided answer that "because the two countries have a good economic relations"<sup>[9]</sup> During that time, economic relations between Japan and Indonesia has been tightened with the Indonesia-Japan Economic Partnership Agreement (IJ-EPA) signed by PM Abe Shinzo and President SBY in 2007. Moreover in 2013, similar survey conducted by MOFA showed a significant improvement where 90% of the Indonesian people held a positive perception of Japan<sup>[9]</sup>.

In the era of President Jokowi (elected as president in 2014), there was a change in Indonesia's attitude (although implicitly) towards Japan, although a high percentage of positive perception of the people still prevailed. The event when the Indonesian government chose China instead of Japan as the winner in a bid to build high-speed railway from Jakarta to Bandung has been seen as sign of this changes. Indonesian Foreign policy is seen as shifting from a close partnership with Japan to get closer to China. As a matter of fact, since, the changing of government from SBY to Jokowi, Indonesia's Foreign policy priority changed from "navigating the turbulent water" to the one to make Indonesia as a "global maritime fulcrum." This changing has influenced Indonesia's attitude towards Japan including in receiving ODA. A number of projects that has been planned to be funded by Japanese ODA has been cancelled. Indonesia

diverted the project to be funded by investment from China that is said to be under the B to B (Business to Business) mechanism.

In the context of the uses of ODA as strategic diplomatic tool by the Japanese government, there are differences in the motive between Japan and Indonesia, especially related to the perception on China as a threat to Asian security. Japan has an unharmonious relationship with China, and continuously worrying the security condition in the South China Sea. There is a high expectation of the Japanese government that cooperation with Indonesia could perform as a way and another to contain the possible Chinese domination in the area. However, Indonesia's attitude on the South China Sea issue tends to be ambivalent and indecisive.

Among the reason for this attitude is the close economic cooperation between Indonesia and China. Other than that, the Indonesian government has determined that it will not tie itself in military alliance with other countries. As a consequence, security and military cooperation that have been initiated by Japan during the SBY government was subsequently discontinued (partially halted). Indonesia under Jokowi is only interested in economic cooperation and try to find ways to get economic assistance from Foreign countries in more instant ways (through investment). Unfortunately, this mechanism has sacrificed longtime relationship with Japan which has provided ODA in huge amount for Indonesia's economic development.

## CONCLUSION

Japan's ODA experiences transformation in terms of the objective to achieve in giving ODA as an instrument of Japan's Foreign policy towards the designated country. The transformation was influenced by at least three factors. First, Japan's domestic and international interest. Second, changes of condition in the recipient country. Third, interaction between Japan and the recipient country. In the case of Japan's ODA to Indonesia, all the three above-mentioned factors also significantly influenced the transformation in ODA policy to the later country. In the transformation, it was marked with the changing of ODA Charter 1992 to Development Assistance Charter (DAC). The motive of Japan's ODA changed from the one to achieve economic interest to the other to achieve strategic motive. Japan under the government of PM Abe Shinzo, shows an assertive attitude in Foreign policy and seek to enhance cooperation in defense and security issues with its Foreign partners. His government was determined to make Japan as a "normal state" where Japan has the ability to use its military power in Foreign policy. Although, domestically, the Japanese people are against such idea but the growing tensions in Asia, especially in the South China Sea did not slow his pace to achieve the idea.

**Simple summary:** This research on the transformation of Japan's Foreign aid policy to Indonesia will contribute to the understanding of Japan's bilateral relationship with Indonesia that has been taking place for a very longtime. Foreign aid has been the cornerstone in the relationship between the two countries and will continue to be so in the future, amidst the changes in the policy. However, not so many researchers focus on this issue when they do research on Japan-Indonesia relations. It has been some research on Japan's aid policy to Indonesia in the past but not in the recent years. Therefore, it is considered important to conduct this research to fill the gap in the study about Japan and its Foreign aid policy to Indonesia, by addressing the transformation in the motive of providing aid. The findings of the research have shade light on the motive in determining the disbursement of aid.

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