

INDONESIA - JAPAN RELATIONS IN THE FUTURE - A STRATEGIC REVIEW

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Since leadership of the Japanese Government was assumed by Prime Minister Tanaka, Japan has been seeking to establish and has established good political relations with all countries in the world. As in the past, these political relations are used mainly to serve Japan's national economic interests. Japan requires big amounts of raw materials for its industries but has to import almost all its needs. On the other hand, Japan also needs markets for its industrial products and has to find these markets abroad.

In getting raw materials and markets, Japan refuses to be dependent on one or two countries.

Neither does it wish to assume a passive attitude to be certain of the raw material supplies it needs. It vigorously makes investments in many countries to join in acquiring the raw materials. In this way Japan wishes to be assured of the raw material amounts it needs and when to ship these materials to guarantee the uninterrupted operation of its industries.

For example, iron ore is brought in from Australia (30%), India, Peru and Chile. Copper is obtained from the Philippines, Canada and Zambia and manganese from India, South Africa and Australia.

The spur to large-scale investments abroad is provided by the constantly positive development of Japan's balance of payments. Japan's exports have so expanded that the national economy steadily grows positively. In less than 20 years, Japan's exports have gone up from 5% to 20% of the U.S. GNP. The surplus in the balance of payments must be channelled abroad via both foreign aid and

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capital investments. For when they are accumulated, the surpluses will invite pressures from other countries that Japan liberalize its import policy.

There are other factors which encourage Japanese investments. Among other things, it is increasingly difficult to maintain labor intensive industries because of the constantly rising labor costs. It is increasingly difficult to get land for industrial sites and the Japanese people are increasingly sensitive to the pollution of the environment by industries. Also there are fewer opportunities to employ skills and capital. Another very important factor is the pressure of protectionism in the advanced countries which provide markets for Japan's industrial products.

Influence on other countries

Diversification of raw material purchases by Japan has caused many countries to depend on the Japanese market for their raw materials. If it is not the one and only market, it is the major market. This is felt not just by the developing countries but also by advanced countries like Australia. Japan imports 50% of its demand for bauxite from Australia, but this is 80% of Australia's total bauxite exports.

Asia depends for its trade on Japan. In 1955, Japan's share of Asian trade was only 8%, but it grew to 24% in 1969 and will increase to 49% in 1980. This means that Asian exports depend increasingly on Japanese markets.

On the other hand, the dependence of Japan's imports and exports on Asia has been diminishing, which is proof of the success of Japan's diversification policy. Japan's exports to Asia decreased from 35% in 1955 to 26% in 1969 while imports from Asia (excluding the Middle East, the Near East and the Communist countries) decreased from 26% in 1955 to 15% in 1969.

The development is the same with regard to Indonesia. Indonesia's imports from Japan in 1967 amounted to 28%, but in 1971 they rose to 35% and may have increased to 40% in 1972. Indonesia's exports to Japan showed an even greater increase. In 1971 Indonesia's exports to Japan amounted to 29%, rose to 42.5% in 1971 and regarding some export commodities Indonesia depends almost 100%

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on the Japanese market. Ninety percent of Indonesian nickel, 100% of iron dust, 85% of timber, and 87 to 90% of oil go to Japan. Japan's oil imports from Indonesia, it should be noted, amount to only five to 10% of its total oil imports.

It is clear that Japan's political relations with other countries are the result not just of Japan's desire and efforts but also of the desire and efforts of other countries. Japan's economic strength and advance attract other countries to derive profit from them. Australia, for example, approaches Japan because Japan offers a good market for Australian wheat, meat and other agricultural products. Australia has in fact managed to profit from the Japanese people's savings after having got a permit to sell Australian government bonds in Japan. Another advantage is that Australia has obtained Japan's support to join the Group of Ten. Japan has been the one and only member country from Asia/Pacific region in the Group of Ten since it was formed. Australia - Japan relations have so expanded since 1972 that a system of consultations on the ministerial level has been adopted.

Racing to Japan

It may be said that currently the countries in the world are racing to establish good relations with and derive profit from Japan's economic strength. Large-scale Japanese investments abroad have created Japanese industries outside Japan which since the 1960s have joined in producing the so-called "Asian dollars", namely capital which has an increasing share in the development of the countries of Southeast Asia.

Of Japan's total assets abroad which in 1970 were worth US\$ 3.5 billion, US\$ 2.5 billion was found in Asia. With an annual profit of 2%, this capital produces a profit of US\$ 50 million per year. This profit, according to experts, will continue to increase in the years ahead. All these are the result of both direct and indirect Japanese investments abroad.

In the past, the biggest source of Asian dollar was China's investments and industries abroad. Only China, outside the U.S., emerged out of the second world war with the smallest debt.

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After the second world war, Asian dollars continued to flow into the Chinese mainland via financial institutions in Hong Kong. In 1954 it was estimated that 40% of the funds originated from Indonesia. Since China split into the People's Republic of China and Taiwan, the flow of funds has been divided and a large amount has been frozen by their owners in financial institutions in Hong Kong, Macao and Singapore, because the overseas Chinese were reluctant to invest their money because of the narrowminded and discriminative political attitudes in the countries of Southeast Asia, including Indonesia.

Singapore PM Lee Kuan Yew started preparing his country to be the center of Asian dollars in 1960. Now his efforts are evidently successful. Singapore is no longer a transit port and trading country but has emerged as "Southeast Asia's financial center", thanks to the vision of its leaders. Indonesia, on the other hand, has lost a good opportunity because of the short-sightedness and emotional attitude of its leaders, whereas the source of the Asian dollars is largely Indonesia, and Indonesia's financial institutions at that time operated quite efficiently.

New Opportunities and Challenges

After having lost the chance to obtain funds from the Chinese industries outside China, Indonesia is now faced with a new opportunity to take advantage from the Asian dollars produced by Japanese industries outside Japan. Will Indonesia use this opportunity or will it let it pass again ?

Thus far, the important, if not principal, financing source for our development is the aid of the creditor countries associated in the IGCI. But there are already indications that the aid will decrease. The reason is that the aid depends very much on the political structure and developments in each of the creditor countries. Moreover, there are signs that the younger generation in the advanced countries do not feel at all that they have any "moral debt" to assist the poor countries which were colonized by their ancestors.

Developments in the creditor countries oblige us to give thought to other alternatives and one of the alternatives is the use of funds produced by Japanese industries outside Japan. This is a good chance

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but also a serious challenge. Capital from these huge funds can spur national economic growth without national participation, or growth without development. If this happens there will certainly be social tensions which not just brake but nullify the growth itself. This is what we are concerned about and this is what we do not want.

In economic relations with Japan, one factor which must be taken into account is the role of institutions which direct Japan's foreign aid. According to Mitsui, the total volume of Japan's imports and exports in 1972 amounted to US\$ 55,349 million. Of this amount, US\$ 33,336 million was produced by the "big ten", like Mitsubishi, Mitsui, Marubeni, C. Itoh and others. This means that the big ten handle 60.3% Japan's trade.

This also means that exports from many countries and the income of millions of people in the countries which produce raw materials are also determined by the big ten. As a matter of course, Japan's foreign policy is greatly influenced by the managers of the giant companies, because Japan's foreign relations are almost wholly colored by economic and trade considerations.

Is Revival of Japanese Militarism Possible ?

If foreign relations are dedicated to economic and trade interests, is it possible that Japan will build up and use military power to protect the economic and trade interests? The whole world and Japan itself are worried by this question.

After the end of World War II the world realized that if Japan was allowed to build up its military strength, the security of the world and the Asia-Pacific region in particular would not be guaranteed. So America promptly pressured Japan and managed to reach an agreement. Japan may build only defensive weapons and not offensive weapons. In compensation, America will protect Japan against both conventional and nuclear attacks. The essence of this agreement is contained in Japan's constitution.

Thanks to the American nuclear umbrella, Japan has been able to give all attention to the development of its national economy. The result is that within a short time Japan has emerged as a world economic power which even shakes America's economy. With the economic strength, Japan-America relations have developed into

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mutual economic and military relations. Every move by Japan which disturbs the American economy will have effects on Japan's defense, and every move by America which disturbs the stability of Japan's defense will spur Japan to increase its military strength.

In this process, America cannot use the nuclear umbrella as a bargaining tool in solving economic-monetary problems between America and Japan, because that will prompt Japan to make nuclear weapons within a short time. This places America in a great dilemma, because its own economic interests force it to confront Japan.

The recent shifts caused Japan to question the viability of the American nuclear umbrella. Japan feels that America will not risk a nuclear war only to protect Japan. And then what road will Japan take? This is Japan's serious dilemma at this time.

America wants Japan to be prepared to effect a more balanced cooperation and to join in shouldering international security burdens. But this involves various political, psychological, economic and technical aspects which must be settled beforehand. Meanwhile, Japan's reservations about the American nuclear umbrella are growing. Japan has begun to feel that it is left alone and has to seek a new formula for its economic, political and military strategy.

Some Alternatives and Possibilities

Confronted with a serious dilemma in its relations with America, Japan has some options. First, rearmament with the certainty that sooner or later Japan will be a nuclear power. Domestically public opinion is strongly against rearmament. There is a very militant leftist-Communist group which vehemently opposes Japan's rearmament. On the other hand, a section of the community does not consider military strength taboo when necessary. Though banned by the constitution, the formulation is open to extreme interpretations and the constitution itself will not be a major obstacle in the end.

Second, to seek a new alliance with equal parties, namely the Soviet Union, China or Australia. It is not possible to have an alliance with both the Soviet Union and China because these two communist countries are still hostile to each other. It is neither possible with the Soviet Union alone because the Japanese do not like this country.

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Its only attraction is Siberia's natural wealth. It is possible to be allied with Australia but this alliance will not change Japan's position. If extreme choices have to be made, an alliance with China offers the greatest possibility. Though the Japanese people fear China, they admire China's culture.

Third, to seek a new political formula to be friendly with all countries, PM Tanaka is making every effort to apply the principle of "security through diplomacy". This strategy is "safest" for Japan and offers the least danger for the world. Theoretically it is possible, but in practice there are many obstacles so long as there are no radical changes on the part of Japan itself. In the end this strategy will stumble against the special relations between Japan and America, particularly in Japan's efforts to approach the Soviet Union or China. Though militarily the Japan-America security agreement is greatly reduced in significance, politically it is still meaningful because in the event of any trouble or threat from the outside Japan can still rely on it.

PM Tanaka has begun to play a role in the international world by being friendly to all countries. This is a very difficult role. To other countries, including Indonesia, the best way is to be patient and give time to Japan to discover its foreign policy while seeking via diplomacy to help Japan fill that policy. The two extreme alternatives, namely an alliance with China or development of military power, are very dangerous. But once Japan makes a choice, world public opinion can do nothing about it.

How to deal with Japan

When dealing with Japan, we are faced not just with the government but also with the managers of the giant corporations who are very dominant in the formulation of every foreign policy move. They are financially stronger than the Japanese government itself. So they are able to pressure the government to make policy decisions which are favorable to them.

Here we are again faced with challenges and opportunities created by Japanese industries outside Japan, as referred to earlier. They are directly involved with their "parents" in Japan in the formulation of Japan's foreign policy. Compared with Chinese

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industries outside China, the Japanese industries outside Japan are more dangerous. Japan is a homogeneous country. The Japanese industries outside Japan will gradually control Japan's foreign policy decisions and these decisions will be based purely on economic considerations while involving the Japanese government in providing political security. It is seen here how difficult it is to solve problems arising between Japan and other countries, including Indonesia, if we confine ourselves to diplomatical moves between one country and another. We and the Japanese government, too, will face difficulties.

It is obvious that conventional diplomacy will not be able to respond to the challenges arising in the relations between Japan and Indonesia. Indonesia will directly feel the effects of Japan's developments and conduct even though it is not involved in them. The only way out is a diplomacy which is more comprehensive in substance and channels because we deal not just with the Japanese government but also with the Japanese industries outside Japan. So our diplomacy must involve business sectors and research institutions because in today's diplomacy the participation of certain research institutions is no longer a new thing. To be able to involve the business sectors in the diplomacy, we must prepare institutions which can engage in dialogues with Japanese industries.

On the regional level, Indonesia and the other ASEAN members need to adopt a common attitude on diplomacy facing Japan. This attitude involves the formula how Japan can join creatively in shouldering responsibility for the security of the Asia-Pacific region and Southeast Asia in particular. Japan's creative role is in aiding the development of the Southeast Asian countries. Jointly we can convince Japan that even though the formula is also demanded by other developing countries in Latin America, Africa and elsewhere, Southeast Asia and the Asia-Pacific region are more important because Japan is located in Asia and Japan's relations with Asia naturally have a specific character.

With a common stand, ASEAN can embark on an offensive diplomacy toward Japan, but this must be attended by the readiness of ASEAN and the Southeast Asian countries in general to accommodate and divert Japan's aggressiveness.

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Our own preparations

It has been said that the Japanese industries outside Japan are producing Asian dollars from which we can benefit. But these industries are very dangerous if we do not know how to counter-balance them. The funds can undermine our economic growth and without national participation the funds can result in growth without development, which doubtlessly will create social tensions which paralyze or frustrate our development.

How then should we prepare ourselves? It is clear from the foregoing that there must be institutional facilities and readiness in both the economic and social sectors so that we have a countervailing power against Japan. In that way we can derive profit from the relations with Japan and use that profit for development with wide national participation.

We must realize that the Japanese investment funds can in practice be limited if the absorptive capacity of our businessmen and industrialists as well as national institutions has been promoted.

The business structure in our country today is still atomistic, meaning that there are thousands of small and medium businesses which are not well organized while the relations among them are personal rather than businesslike.

It is true, the small and medium businesses have a positive role in the growth of the national economy, but it must be admitted that they cannot be made the countervailing force against the big Japanese companies.

So national participation to derive the greatest possible benefit from the growing Japanese investments must be effected via "national integrated units" in industry, trade and finance, as Singapore has done. The national integrated units can be the countervailing force against all big foreign corporations and are also needed to help our own medium and small businesses.

The national integrated units will not fare well without adequate financing facilities. One, two or three development banks will not be able to serve their need. Even to fulfill the relatively modest demand thus far the few banks are hard pressed.

In this context, a national financial consortium must be created. It should be private in character, or a cooperation between

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Government and private banks with the active participation of private foreign exchange banks, involving at the same time international financial consortiums in order to derive funds from the international money and capital market. Further it must be prevented that the financial consortiums located in Singapore which are ready to operate in the ASEAN countries channel their funds directly here without passing through the national consortium or merchant banks in Indonesia.

Without national financing facilities, there is a danger that the national integrated units would largely be financed by the giant Japanese corporations. If this happens, the national economy will not be strengthened. In this way the national partners of Japan's businesses will purely be "middlemen" as in the colonial days.

Social sector

We can derive profit from Japanese investments abroad not just in the economic field. We must seek to benefit also in the social sector. We can form an Educational Foundation to disseminate elementary technical skills to earn a living for high school dropouts, for example.

The Educational Foundation need not handle the program directly; it can execute it via training centers and government and private institutions which have been operating in this field but have not made progress through lack of funds, facilities and teaching personnel. The Foundation can also give scholarships to bright but poor students, give grants for the translation of textbooks, and so on.

For the above-mentioned purpose, the Foundation must have funds and it can seek to get these funds from the Japanese companies operating in Indonesia. The Foundation should seek to get the funds regularly. If necessary the funds can be exempted from company taxes. What should be avoided is that the funds are given once for all.

With initiatives like this, the presence of Japanese business in our country can produce spreading effects, enjoyed not just by the Japanese themselves or the Indonesians who are employed within the Japanese business environment but by the public at large.

The presence of Japanese business in our country has both positive and negative effects. The Japanese companies can hurt small and medium national businesses and can provoke irritation

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on the part of the people, resulting in the end in political upheavals. But if we allow ourselves to be gripped by fear and do nothing, other countries will have opportunities to profit.

The future is the fabric of the evolution of events and human desires. The evolution which is the result of the whole process of physical and intellectual acts shows that in the future Japan will establish more industries and business enterprises abroad. This process can be stemmed, accelerated and diverted through events that are created consciously.

When the national integrated units in business, the financial consortium and the Educational Foundation are instituted, we must give thought to creating an "Indonesian Corporation" or the close cooperation among the government, business, the bureaucrats and technocrats.

Such a mechanism is necessary to close the gap between the macro and micro sectors as exists today because planning often views things only from the macro aspect and pays little attention to the mechanism which can get the micro sector to attain the set targets or proceed in the set course.

All these demand diplomatic skills for their realization and to get Japanese investments here. In this diplomacy we will be competing with other countries and what we will face is not just the "Japanese government" but quite probably the strategy of the Japanese industries outside Japan pursued via the Japanese government. So we must counterbalance by expanding the unofficial channels of diplomacy such as business institutions, research centers, academic seminars, meetings of intellectuals, and so on.