Japan, Indonesia, and Policy Leadership in the Pacific: Economic Crisis and Foreign Policy Opportunities

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Typically, when people think of Japan’s foreign policy and Japan’s place in the Pacific region, the focus of attention is on its relations with the United States, China, Russia, and to a lesser extent the two Koreas. That this should be so is very understandable since the primary issues affecting Japan’s security are bound up in the complex of relationships among these countries. Far less attention is given to Japan’s relations with Indonesia and the various countries of Southeast Asia, and much of the discussion that is devoted to this proceeds with the comfortable assumption that these countries are bound by so many economic ties to Japan as to be largely beholden to Tokyo’s core preferences.

This essay explores Japan’s relationship with Indonesia, as seen from the Indonesian end. It argues that commonly held ideas about Indonesia (and other Southeast Asian countries) being inescapably in Japan’s orbit are seriously exaggerated. Further, I focus on the likely impact of the current regional financial crisis on Japan’s relations with Indonesia, suggesting that there are now real opportunities for Tokyo to increase significantly its policy leverage in Jakarta on the basis of its massive financial rescue program. On the other hand, I also argue that there is a cross-cutting likelihood that US investors will substantially increase their foothold in the Indonesian market, relative to that of Japanese investors. In broad terms, this suggests an environment which is receptive to the idea of Japan beginning to play a regional policy leadership, but which will also be marked by substantial and diverse ties to the United States.

There are already quite a number of general and issue-specific studies of Indonesian foreign policy. As yet, however, there has been remarkable little serious analysis of the bilateral relationship with Japan. This essay represents an initial foray in that direction. I
begin by offering a brief overview of the main features of Indonesia’s foreign policy over the past three decades. Next, I survey the nature of relations between Japan and Indonesia. And finally, in somewhat speculative fashion, I reflect upon the likely implications of the regional financial crisis for this relationship over the coming years.

I Overview of Indonesian Foreign Policy

Since the late 1960s, foreign affairs has been a policy area of only moderate political significance in Indonesia.¹ Only on occasion have foreign policy issues commanded sustained high-level political attention. There are clear reasons why this should be so. First, for roughly the first two decades after Suharto took power, the overwhelming policy preoccupations have been domestic in nature: internal security and economic development. In the wake of the political and economic chaos on the mid-1960s in Indonesia, Suharto and his key supporters in the military focussed administrative resources and political energy on securing the position of the regime by suppressing opponents and co-opting others at the same time as fostering rapid economic development. Second, reinforcing this heavy domestic focus, was the fact that country’s external strategic environment has long been quite benign. As the largest country in Southeast Asia by a very large margin, Indonesia has been relaxed about the possibility of a serious security threat coming from within its immediate region. The Cold War conflict in Vietnam was of some concern to Suharto’s staunchly anti-communist regime, but the possibility of external threat from either China or the Soviet Union was remote compared to the potential threat to the state from domestic opponents.

More recently, despite the international systemic changes associated with the passing of the Cold War, and separately, the re-emergence of China as a regional force, Indonesia’s strategic circumstance have remained relatively benign. The rise of China is certainly a source of quiet but real concern to Jakarta, though it does not exercise the attention of the country’s political elite to nearly the same extent that it does in, say, Hanoi, Manila, Seoul, or Tokyo. If we move beyond these broad generalizations, we can roughly

¹ In the much more fluid political environment of the earlier 1960s and 1950s, however, foreign policy was a both high profile and keenly contested politically.
differentiate three phases of Indonesian foreign policy since the late 1960s. The first stretches from the foundation of Suharto’s regime until the mid 1980s, the second continues up until the onset of the regional financial crisis of 1997, and the third covers the current transitional politics under new president B.J. Habibie following the fall of Suharto.

The key international priority during the early period of the Suharto regime was to nurture relations with Indonesia’s creditors – particularly the United States and Japan – as part of the struggle to rehabilitate the country’s economy. An important component of this endeavour was the rebuilding of relations with its neighbours in Southeast Asia as a means for again earning the trust of the major western powers. This was a primary initial motive behind Jakarta’s sponsorship of the formation of the Association of Southeast Asian Nations, ASEAN (Anwar 1994; Leifer 1983). For the most part, however, from the mid-1960s into the 1980s, Indonesia’s attention was primarily directed inward.

From around the mid-1980s this picture began to change as Indonesia came to assume an increasingly outward-looking and active diplomatic posture. As part of this, Indonesia also came to exhibit much stronger interest in multilateral cooperation – something it had previously avoided in its desire to minimize international alignment and alliance entanglements. The first step in this direction was the increased value Jakarta came to place on ASEAN, above and beyond the initial regional fence-mending objectives. There were several reasons for this. First, Indonesia had come to feel very comfortable within ASEAN. While not actually leading the grouping, Jakarta clearly had strong veto rights and a position akin to first among equals. Second, in substantive terms, Indonesia (like the other members of the group) came to the conclusion that by acting in concert with its neighbours it gained a level of international recognition that it could not obtain on its own, and also that the collective provided the best hope of balancing the bigger powers in the Pacific. With ASEAN as its foundation, Jakarta became involved in increasingly ambitious foreign policy undertakings, obtaining leadership of the Non-Aligned Movement from 1992 to 1995 and, of more enduring significance, supporting the
expansion of multilateral frameworks for regional economic and security cooperation through APEC, the ASEAN Regional Forum, and the Asia-Europe summit meetings (Djiwandono 1994; Vatikiotis 1995; Suryadinata 1996).

Lying behind this more active and self-assured foreign policy stance were important domestic and international changes. Domestically, both the personal position of Suharto as president and that of the regime more generally had become much more politically secure. With the prospect of a credible challenge to its position increasingly remote, the government became more willing to devote attention to international issues. Also contributing to this result, as well as underpinning the emerging interest in multilateralism, was the liberalization of the Indonesian economy from the mid-1980s onwards. As the country’s economy opened up and became increasingly integrated into the wider regional economy, interests and problems shared with other Asian countries pointed to the growing utility of regional cooperation. And, of course, the end of the Cold War played a part here as well. However rather than being a primary causal driver, this international systemic change served more to reinforce the growing interest in regional cooperation which grew out of earlier economic changes.

Finally, in the current transitional period, one can quickly see that the collapse of Suharto’s regime amidst the Asia-wide financial crisis of 1997-98 has inevitably had a major bearing on the country’s foreign policy posture. Although the new Habibie government has remained nominally committed to the various multilateral frameworks for regional cooperation, in practice these have fallen sharply as priorities. Once again, severe internal economic and political problems have forced most foreign policy issues into the background. And, more concretely, the radical depreciation of the rupiah has meant that the dollar-cost (or other currency-cost) cost of maintaining established diplomatic missions as well as ad-hoc ventures has risen to punishing heights. As a result, Jakarta has been forced to curtail severely foreign ministry outlays (Jakarta Post, 12/30/1998). The principal exception to this has been the desperate need to nurture
bilateral relations with Washington, and particularly Tokyo, to maximise the flow of financial relief during this period of acute economic distress.  

II Japan and Indonesia

If these are the broad outlines of Indonesia’s foreign policy posture over the past three decades, how has Japan fitted into Indonesian foreign policy calculations? How does Indonesia view Japan and Japan’s role in the wider Pacific region? Inevitably, the starting point of any discussion of Japan’s relationship with Indonesia – as with Japan’s relationships with most other Asian countries – is recognition of the strength and depth of bilateral economic relations. Simply put, Japan looms very large in the Indonesian economy. Japan has long been Indonesia’s most important trading partner, being (prior to the current economic crash) both its largest export market (principally, oil, gas, and timber) and its largest supplier of imports (principally manufactures). Similarly, Japan has also long been in Indonesia’s largest foreign direct investor. Indeed, if we look just at the manufacturing sector, Japan massively outstrips other countries as a source for foreign investment into Indonesia. (Though, if we also include investment in the capital intensive resource-extractive industries, principally oil and gas, then the US emerge also emerges as key source of foreign capital – though still somewhat smaller than Japan (Hill 1988).) Japan has also dominated OECD bank lending to Indonesia. And finally, Japan also has also long outstripped all other providers of official development assistance (ODA) to Indonesia. And, as we shall see, in the aftermath of the current financial crisis Japan has assumed an even more important role as a supplier of ODA. Table 1 summarizes the situation at the end of 1996 – the eve of the financial crisis. In broad terms, then, for Indonesia Japan represents a key source of capital and to some extent technology. For Japan, Indonesia represents an important emerging market in Southeast Asia and a key supplier of oil and gas.

Table 1
Aggregate Economic Ties: Indonesia, Japan, and Other Selected Partners

2 The other notable foreign policy endeavour during the current crisis has been the government’s declared willingness to allow East Timor to leave the republic if it does not wish to accept a government proposal for enhanced regional autonomy.
If we look beyond the aggregate numbers to content, in broad terms it is evident that for Indonesia, Japan represents a key source of capital and to some extent technology. For Japan, Indonesia represents an important emerging market in Southeast Asia, a key supplier of oil and gas, and a useful production platform to other markets in North America and Europe. Given the density of these economic ties and the asymmetries between the two the countries, it is not surprising that much of the literature focusing on Japan and its position in the region tends to portray Indonesia and the rest of Southeast Asia as passive subjects in the tight and not altogether happy embrace of giant Japan (Hatch & Yamamura 1996; Arase 1995; Kojima 1996; Fallows 1994). Reflecting on Japan’s importance in terms of trade, investment, and aid, to Indonesia and other countries in the region T.J. Pempel (1997: 71) declares that “Such economic leverage over the entire national economy of so many of these countries clearly puts Japan in an exceptionally powerful position within the region.” He goes on to add that “Japan stands in a uniquely superior position to the rest of the countries of Asia.” This may be the way things appear from Tokyo, or perhaps to outsiders focusing on Tokyo, but viewed from Jakarta, the relationship appears rather different.

Although, to be sure, Indonesia periodically worries about the possible dangers of excessive economic dependence upon Japan, for the most part there has been remarkably
little concerned attention focused on the bilateral relationship. One does not encounter among Indonesian policymakers, military officers, businesspeople, intellectuals, or journalists a sense that Tokyo is constraining or influencing the policy choices of the Indonesian government, or indeed, that Tokyo is even pursuing an effective or meaningful regional leadership role. Certainly it is well-understood that Tokyo seeks to support Japanese corporations in their pursuit of narrow commercial interests, but this stands apart from the wider question of Tokyo pursuing a coherent and consequential broadly-based foreign policy. Japan’s economic presence in Indonesia has yielded much less policy leverage than one might expect. The United States, which has fewer economic ties to Indonesia and does very much less for Indonesia in terms of providing development assistance, nonetheless features very much more prominently in Indonesian thinking. Indicative of this is that if one reviews the scholarly literature on Indonesian foreign policy, there is very little focussed discussion of the significance of Japan to Indonesia. The most recent book-length synoptic study of Indonesian foreign policy devoted less than two and a half pages to Indonesia’s relations with Japan (Suryadinata 1996). More broadly, there has been remarkably little attention in the Indonesia foreign policy literature to the bilateral relationship; it simply hasn’t commanded the wider policy attention that strong economic ties might lead the distant observer to expect.\(^3\)

Why is it that Japan does not command more attention in Indonesia – in the way, for instance, the United States does in Mexico? At the simplest level, one element in the explanation for this is that the bilateral relationship between Japan and Indonesia is in fact surprisingly thin. There are remarkably few substantive areas of interaction between the two countries beyond commercial exchange and aid programs (unlike Mexico and the United States). Revealingly, when asked about this in a recent interview with Indonesian journalists, the Japanese ambassador could point only to government-sponsored cultural and friendship festivals, government-sponsored educational fellowships, and Japanese tourists holidaying in Bali as evidence of wider non-commercial connections between the

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\(^3\) There are several essay-length studies which deal at last partly with Indonesia-Japan relations (Anwar 1990; Soesastro 1993?; Hardjosoekarto 1993; Samad & Muhammad 1997; Sudo 1996; Foot 1996).
two countries (Jakarta Post, 12/3/1998). Despite the steady efforts of the Japanese government since the launching of the so-called Fukuda Doctrine in 1977 (when Japanese prime minister Takeo Fukuda visited Southeast Asia declaring Japan’s determination to build ‘heart-to-heart’ relations, not just economic relations) the reality is non-economic ties remain remarkably slender. Not only is there is little substantive bilateral interaction on either political or security issues, even on the socio-cultural front, the interconnections are much less extensive than the economic linkages would suggest. Tellingly, despite strong efforts by Tokyo to fund more Indonesians to study in Japan, the proportion of those Indonesians studying overseas who choose Japan has scarcely grown over the past decade. In both absolute and relative terms, the number of Indonesians going to Japan for education lags well behind not just the United States, but also Australia and Germany, and probably, Malaysia and the Philippines.

<table>
<thead>
<tr>
<th>Host Country</th>
<th>Number of Students</th>
</tr>
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<tbody>
<tr>
<td>USA</td>
<td>12,820</td>
</tr>
<tr>
<td>Australia</td>
<td>2,716</td>
</tr>
<tr>
<td>Germany</td>
<td>2,107</td>
</tr>
<tr>
<td>Japan</td>
<td>1,077</td>
</tr>
<tr>
<td>UK</td>
<td>936</td>
</tr>
<tr>
<td>Netherlands</td>
<td>601</td>
</tr>
<tr>
<td>Canada</td>
<td>502</td>
</tr>
<tr>
<td>All Countries</td>
<td>22,136</td>
</tr>
</tbody>
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Thinness of bilateral ties is one factor, but deeper forces are also at work. Simply put, notwithstanding the economic importance of Japan to Indonesia and the economic asymmetries between the two there is little sense that Japan causes Indonesia to adjust its policy settings to accommodate Tokyo’s preferences to any significant extent. We can see this illustrated on several levels. At the most elemental level, Jakarta does not worry about Japan as a security threat. Lingering sensitivities arising from WWII are now largely a thing of the past (unlike in China or Korea). It goes without saying Indonesia would indeed worry were we to witness the re-emergence of strongly nationalistic
politics in Japan and an expansionist foreign policy, but as is widely understood such conditions have simply not pertained in Japan since WWII and continue to appear quite improbable for the foreseeable future. From what we know of Indonesian defence planning, Japan simply does not appear in any of the significant threat scenarios Indonesian defence planners work with (Dupont 1996: 278-9). Unlike China then, Japan is simply not a source of significant strategic concern to Indonesia.

Nor does Japan threaten or even inconvenience Indonesia diplomatically on political issues such as human rights. While Jakarta does have to worry about the United States and many other large and small western countries periodically subjecting it focussed criticism on human rights and labour rights issues, Japan eschews such action. Thus, for example, when prime minister Hashimoto visited Jakarta in January 1997 he specifically assured president Suharto that not a single Japanese government official would even meet with Nobel peace laureate East Timor activist, Jose Ramos Horta, who was visiting Japan in a bid to bring pressure to bear on Jakarta (Jakarta Post, 1/10/1997).

Similarly, unlike other western governments and particularly the United States government, Tokyo very rarely takes punitive trade diplomacy measures against Indonesia. It took an extraordinarily egregious breach of WTO rules by Jakarta – the awarding of exorbitant privileges to a car assembly joint venture between a Suharto son and the Korean Kia group in 1996 – and, moreover, an act that flagrantly struck at core Japanese corporate interests in the Indonesian automotive sector, to trigger serious policy counter-measures from Tokyo. Following protracted efforts by MITI to persuade the Indonesian government to reconsider its position and a declared preparedness to take the matter to the WTO, not only did Jakarta not accede, in April 1997 Suharto bluntly rebuffed the entreaties and ordered that the project in fact be accelerated (Japan Times Weekly, 6/24-30/1996; Business Times, 4/22/1997). These were scarcely the actions of a government fearing significant bilateral sanctions.

More broadly, if we look beyond strictly bilateral ties and consider Indonesian views of Japan’s regional behaviour and positioning, a similar picture emerges. There is little
sense in Jakarta that Tokyo is pursuing a grand strategic policy reshaping the region or projecting its own policy preferences on others. Of course it is clearly understood that Tokyo supports the expanding network of Japanese corporations, but from Jakarta it does not appear that Tokyo is actively shaping the regional policy agenda or playing a regional leadership role. The attempt in January 1997 to launch the so-called Hashimoto doctrine for regular Japan-ASEAN summits and separate but parallel bilateral dialogues on regional security matters was greeted politely but with what could only be described as lukewarm interest (FEER 1/30/1997, Inoguchi 1997). Indeed, if asked, many members of the Indonesian foreign policy community would quietly say that Jakarta demonstrated greater verve and leadership in handling of the 1994 APEC summit in Bogor than Japan did the following year with the Osaka meeting. Much the same would be said of Japan’s actions during the first twelve months of the regional financial crisis. Although Tokyo was prompt and generous with financial assistance, many in Indonesian policymaking circles were despairing of the possibility of Tokyo playing a truly effective role in dealing with the crisis. The frustration in Jakarta focused not so much – as some might have expected – on the fact that it was Japanese banks that were the primary lenders of the short terms funds that flooded into the country during the boom of the mid-1990s or on the fact that Japanese banks were the least willing (among foreign lenders) to renegotiate the structure of the debt once the financial collapse had taken place, but rather on the unwillingness or inability of Tokyo to do anything other than throw aid money around. Specifically, not only was Tokyo unwilling to accede to longstanding calls from Indonesia (and other Asian countries) to allow more exports into the Japanese market, more fundamentally, it seemed incapable of rekindling solid growth in the Japanese economy – without which the task of rehabilitating the battered economies of Southeast Asia would be very much more difficult. And Tokyo’s hasty retreat in the face of US and Chinese opposition to its proposal in September 1997 of a US$100 billion Asian Monetary Fund to tackle the region’s financial problems only reinforced Jakarta’s perception that Japan was incapable of providing effective regional leadership, even in a time of crisis. As one leading Indonesian foreign policy commentator (Wanandi 1998: 3-4) put it: “There is a feeling of a real lacuna in Japan’s leadership in this crisis, which after all is an economic one and is happening in East Asia and therefore should be of
great concern to Japan. This suggests that Japan really has to prepare herself and to get her act together now in order to play a leadership role for the future developments of the region.” Or as one normally cautious member of the Indonesian foreign policy community pithily summed up widespread exasperation, saying of Japan: “Helpless and hopeless!” (author interview 9/8/1998).

It is important to recognize that the fact that Jakarta has not felt pressured or constrained by Tokyo or does not view Tokyo as playing a significant leadership role does not necessarily imply that Tokyo itself is anything less than happy with the status quo. This state of affairs may suit Japan well. Indeed, as has been widely discussed in the literature on Japanese foreign policy, the whole logic of the post-World War II foreign policy framework put in place in the early 1950s by Yoshida Shigeru was that Japan would forgo traditional security and political foreign policy goals, and focus instead more narrowly on economic and social ties. A range of factors underpinned this: Japan’s domestic political configuration; it’s limited resource endowments; the determination of the United States to guard against a militarily and politically independent Japan in the wake of WWI; and the systemic imperatives of the Cold War. Moreover, as David Arase (1995) has persuasively argued, Japan’s ODA has been deliberately and effectively harnessed for the purpose of supporting the expansion of Japanese corporate networks throughout Asia.

None of this is at issue here; my purpose is not to offer an assessment of the purposes or effectiveness of Japan’s foreign policy towards either towards in Indonesia in particular, or in more general terms. Instead, the proposition advanced here is that contrary to the popular image of Japan as an economic juggernaut rolling through Asia, at least as viewed from Jakarta, Tokyo appears curiously passive and sometimes even timid rather than overbearing or formidable. The United States and China, with much smaller economic presences in Indonesia (especially in the case of China), figure far more prominently in Indonesian foreign policy thinking.
III Economic Crisis and the Potential for Diplomatic Transformation

The burden of this essay thus far has to be argue that despite Japan’s great economic presence in Indonesia, it has exerted remarkably little policy influence on Indonesia or, put differently, Jakarta has been largely unconstrained by Tokyo. This applies both to the purely bilateral relationship and, more broadly, to Indonesia’s view of Japan’s position within East Asia and its unobtrusive – even diffident – regional behaviour. In the discussion that follows I take a more forward-looking and speculative stance, reflecting upon the potential for significant change in Indonesia’s relations with Japan in the aftermath of the regional financial crisis. For Indonesia – and much of Southeast Asia – the current financial crisis constitutes a major watershed: many economic and domestic political changes are flowing from it. It seems unlikely that it will not also have significant consequences for the way in which Indonesia interacts with other countries, most notably Japan. I focus on two key issues here. First, the possible foreign policy implications of the financial rescue of Indonesia that is currently underway, and second, the possible foreign policy implications of changes in the profile of foreign investment in Indonesia. I deal with each in turn.

As is well understood, having enjoyed strong economic growth for many years, Indonesia is now in an extremely deep economic crisis. Rather than expanding by 6% or more per year (as it had been through much of the preceding decade) in 1998 the economy contracted by a massive 14%. Reputedly, this has been the most radical economic reversal suffered by any country since the Second World War. Closely associated with this collapse in output has been the rapid outflow of capital, with both foreign and local investors shifting resources out of the country. Faced with a severe economic contraction and massive capital flight, an enormous burden falls on government spending to help recussitate the economy. And here international assistance has been crucial, for the government’s own budgetary position has inevitably deteriorated radically with sharply reduced tax receipts and sharply increased debt-service obligations. Simply put, the economic crisis has rendered Indonesia desperately dependent on external assistance to cover a gaping hole in government finances.
In 1998 the IMF covered this fiscal shortfall, releasing nearly US$8 billion to Indonesia for budgetary supplementation (Kompas, 1/2/99). However, the IMF funding was heavily front-end loaded and is scheduled to taper off quickly in 1999, just as the country enters a very precarious economic and political juncture. By the second half of 1998, it was becoming apparent that the key multilateral financial institutions – the IMF, the World Bank, and the Asian Development Bank – were all approaching the limits of their ability to continue extending large-scale financial assistance to Indonesia. Further, neither the United States nor Europe appeared likely to extend more than modest additional bilateral assistance. Against this bleak backdrop, Japan’s sudden announcement in October 1998 of a bold and large-scale financial assistance program for the region – the Miyazawa Plan – was especially welcome news. The US$30 billion package, to be spread across five struggling Asian economies, held out the promise of desperately needed additional financial assistance, without the strict policy reform conditions attaching to US or IMF assistance. Further, the announcement of the Miyazawa Plan suggested that Tokyo – much criticised for indecision and immobilism during the first twelve months of the crisis – might indeed now be willing to take on a more substantive regional leadership role. Indeed, at least at the regional level, perhaps Tokyo was at last willing to play something other than just the part of a supporter to Washington (Inoguchi 1986).

One has to go back to the late 1960s and the severe economic and political turmoil surrounding the implosion of the Sukarno regime to encounter a crisis of the magnitude now gripping Indonesia. Then, as now, massive foreign financial assistance was an essential component of the country’s rehabilitation. Then, however, it was the United States which played the leading financial and political role in constructing the wide consortium of countries and multilateral agencies which came to Indonesia’s aid. Times have changed. The United States has long since become a trivial provider of ODA to Indonesia (and the rest of Asia). Even at the height of the regional economic crisis in 1998, although the United States was centrally involved, the level of assistance it was offering was small in per-capita terms when compared with countries such as Singapore
and Australia, to say nothing of Japan. The question that thus arises is whether Japan is now poised to step into the shoes once occupied by the United States.

Plainly, Japan is not about to take on all the regional roles the United States has performed as there are cross-cutting security and economic dimensions. Military capabilities, among other differences, fundamentally separate the positions of Japan and the United States in the international system. While recognizing this, one can nonetheless see that the regional financial crisis is creating a window of opportunity for Japan to step-up to a position of much greater influence within Indonesia and Southeast Asia more broadly. The Miyazawa money is part of a multifaceted assistance Japan has provided since the outbreak of the regional financial crisis, however it assumes pivotal significance because of the acute need for supplementary budgetary support during the process of economic rehabilitation. In a situation where there is so little private investment yet flowing back into the country – as in the late 1960s – ODA once again becomes critical. This points strongly to the potential for Japan to obtain increased policy leverage within Indonesia.

Whether the Miyazawa initiative will in fact translate into substantially increased policy influence for Tokyo in Jakarta will depend heavily on two considerations: how the money is used, and whether Tokyo is willing and able to exploit the opportunity. As to the first of these considerations, the key issue is extent to which Tokyo seeks to tie the Miyazawa funds closely to the commercial interests of Japanese firms as opposed to allowing Jakarta greater flexibility to allocate the funds to priorities of its choosing. If the former, while it will be of some economic benefit to Indonesia in so far as it will at least be stimulating some economic activity, it will be unlikely to generate major policy leverage for Tokyo simply because such undertakings are unlikely to be of high political value to the Indonesia government. Conversely, if the funding can be used for spending initiatives of major importance to the Indonesian government, then the government will of course be loathe to lose it.
At this stage the signals are ambiguous. In an initial tranche, in early February 1999 Japan pledged US$2.4 billion to Jakarta, with the prospect of more to come. Although Jakarta had been hoping for a larger injection from Japan, this represents a very substantial chunk of the funding necessary to close the fiscal gap. Initial reports suggest that, in practice, at least some of the funding will indeed be narrowly tied to infrastructure projects and must be carried out through Japanese construction companies and using Japanese imports (Jakarta Post 1/16/1999). How strictly this will be enforced (there have already been complaints in Indonesia that building new highways is scarcely a priority in the present circumstances) and whether it will apply to subsequent tranches of the Miyazawa money remains to be seen. If the Miyazawa Program turns out to be little more than the familiar pattern of Japanese assistance that is really intended as a transfer to Japanese corporations, nothing will have changed. However, if Tokyo is in fact willing to allow resources to be used in ways that the Indonesian government (and other regional governments) value most, then a real window of politico-strategic opportunity will be opened for Japanese foreign policymakers.

Closely related to the question of how the Miyazawa funds are used is a second: whether Japanese foreign policymakers seek to, and are able to, exploit this possible window of opportunity. In Indonesia, along with Thailand, Malaysia, and the Philippines, there are real opportunities for Japan to use its largesse to begin to secure significant foreign policy leverage. Simply put, because these countries are financially desperate, supporting a Japanese foreign policy initiative – say, the development of an Asian Monetary Fund or a

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4 For the 1999/2000 budget (which will begin in April 1999), Jakarta will need to finance more than 35% of its spending with foreign assistance. In dollar terms, this is roughly US$10.3 billion. The Consultative Group on Indonesia (CGI), the multimember consortium comprising much of the OECD and several multilateral agencies that has long coordinate financial assistance to Indonesia, agreed in 1997 to provide Indonesia with US$4 billion in additional 1999/2000. The World Bank and the Asian Development Bank (themselves members of the CGI) have agreed to provide a further US$1 billion each. Together, this sums account for US$6 billion of the estimated US$10.3 billion that will be required. When the Miyazawa US$2.4 billion is added, the remaining shortfall shrinks to US$1.9 billion, which Jakarta is now scrambling to raise from Japan, the multilateral agencies, and the other large CGI members (Jakarta Post, 2/10/1999; Dow Jones, 2/16/1999)
revitalization of the still-born Hashimoto Doctrine of 1997 – would appear a small price
to pay for flexible and generous financial support, especially against a backdrop of
America’s irksome combination of financial tight-fistedness and policy heavy-
handedness in Asia. Is Tokyo ready to assume a more substantive leadership role in
Asia?; to assume a more “normal” foreign policy posture that frees it from what Johnson
(1993) has called the “smothering” effects of the alliance relationship with the United
States? Here too the signals are mixed. The literature on Japanese foreign policy points
to a range of formidable obstacles to an active, independent, and broadly based or normal
foreign policy posture (Inoguchi 1996; Johnson 1993; Mendl 1995; Rix 1993; Curtis
1993). In addition to the constraints associated with the US alliance, as Calder (1996:
192) puts it: “Japan clearly lacks the institutions to support an activist foreign policy at
present. Yet there are also clear forces for change in the Japanese policy process and in
the broader political economy.” And, in addition to there being forces for change within
Japan itself, changes to the regional environment – most notably the need to balance a re-
emergent China and fluctuations in US approaches to China – provide powerful incentive
to contemplate forging stronger politico-strategic ties with Southeast Asia.

This is not the place for a sustained dissection of the forces for and against a more activist
Japanese foreign policy. Other chapters in this volume set out the arguments
comprehensively (contrast, the chapters by Inoguchi and Drysdale). The contribution of
this chapter is to illustrate how the question sits in the context of Japan’s relationship
with Indonesia. And here the situation is fairly clear: although Japan has had much less
influence in Indonesia than its economic involvement and some academic literature might
suggest, the process of economic rehabilitation in the wake of the regional financial crisis
has created a substantial window of opportunity. Whether Tokyo will be able to take
advantage of this remains to be seen.

If one potential ramification of the regional financial crisis is a major opportunity for
Japan to assume a greater regional leadership role and increased leverage in Indonesia,
the second pulls in a quite different direction. The focus here is on likely changes in the
pattern of foreign investment in Indonesia (and East Asia more generally) in the wake of
the crisis. Prior to the crisis Japan was of course the dominant foreign investor in Indonesia and throughout East Asia. And, in proportional terms, the surge of Japanese investment from the 1970s and particularly from the mid-1980s came at the expense of the United States. The United States did in fact remain an important foreign investor in Indonesia, but this was primarily in the oil and mining sectors. And although US investment began to make something of a comeback in the mid-1990s through the newly liberalized capital markets, as elsewhere in East Asia, overall, and particularly in the high profile manufacturing sector, Japanese investment was overwhelmingly dominant (Hill 1988; Hill & Athukorala 1998; Dobson 1992). This seems likely to change in the aftermath of the crisis.

Several factors point to this conclusion. First, and most obviously, the severe contraction in the Indonesian economy and, in particular, the crushing debt of many Indonesian companies caught by the radical currency devaluation, has meant that very many of Indonesia’s big corporations are being forced to sell assets in an effort to keep their creditors at bay and to stave-off complete collapse. Leaving aside those Indonesian companies that were never much more than crony rent-collecting operations (such as those of the Suharto children), since late 1998 a growing number of the most impressive Indonesia corporate empires are being forced towards asset divestiture. Indicative of what is to come are the current discussions between the once mighty Salim group and Ford over the possible purchase of Salim’s automotive arm (Wall Street Journal 3/23/1999). The corporate fire-sale in Indonesia parallels what has been happening elsewhere in Asia over the past year, though it has been proceeding very much more slowly in Indonesia because of ongoing political uncertainty and the protracted nature of foreign debt negotiations. However, sooner or later, as foreigners overcome their short term wariness of the Indonesian market and as Indonesia companies run out of options for delaying a reckoning with their creditors, the pace of foreign acquisition of Indonesian firms will pick up – just as it has in Korea, Thailand, Japan itself (Financial Times 6/15/1998).
As this comes to pass, the likely pattern is that it will be American rather than Japanese investors who consume the lion’s share of the opportunities on offer. Quite simply, few Japanese firms are in a position to be contemplating new investments in Indonesia, both because of the prolonged recession in Japan itself and because many Japanese investors already present in Indonesia have also been suffered heavy losses from the economic collapse and are themselves likely to be forced into asset divestiture. Outbound foreign investment from Japan has fallen sharply, and a substantial portion of the private capital that is still flowing from Japan to Indonesia is to help prop-up existing Japanese investments in Indonesia (Business Times 9/14/1998; Financial Times 8/19/1998). For at least the next few years, there is unlikely to be much significant new Japanese private capital flowing into Indonesia. By contrast, US companies and financial institutions are now cashed-up and in a very strong position to pick and choose among the investment opportunities that are becoming available. It seems very likely that as foreign capital returns to Indonesia over the next 12-24 months it will be US investors who will be at the forefront and the most likely sectoral targets will be financial services, real-estate, and some areas of manufacturing. Certainly this has been the pattern elsewhere in Asia over the preceding 12 months (FEER 8/20/1998).

Such an outcome would carry a number of remarkable ironies. First, having been widely criticized (inter alia Encarnation 1992; Fallows 1994; Hatch& Yamamura 1996) for being left behind in Asia by Japan in the 1980s and early 1990s, the United States is now poised to begin closing the gap. Secondly, along with differences in the Japanese and American business cycles (Japan was buoyant when America was in the economic doldrums, and now the tables have been turned), the very fact that America did largely miss the Asian investment boom in the 1980s and early 1990s has meant that it has not been badly burned by the crash of the late 1990s and is now poised to take advantage of this. Although it is premature to be speculating about the possible implications of a reversal in the composition of private investment inflows for the international relations of the region – after all, the influx of US capital has yet to take place in Indonesia – it does seem
reasonable to assume that at minimum such an outcome will result in heightened US
foreign policy interest in and attention to Indonesia and Southeast Asia more generally.\textsuperscript{5}

To summarize the discussion in this section, the Asian financial crisis seems likely to
have two main and cross-cutting implications for Japan’s relations with Indonesia and, by
extension, its position in Southeast more broadly. First, the severe financial problems
confronting the Indonesian government point to a window of opportunity for Japan to
acquire broader foreign policy leverage in Indonesia. Should Japan be willing and able to
move in this direction in Indonesia (and elsewhere in Southeast Asia) there is
considerable scope for it to assume a position of greater leadership in setting the agenda
and possibly shaping the framework for regional cooperation. Second, as against this, the
severe difficulties being confronted by the Indonesian private sector, together with,
respectively, the recessed and buoyant conditions of the Japanese and US economies,
suggest that it will be US rather than Japanese capital that dominates the private
investment flows into Indonesia (and other parts of the region) over the next several
years. Quite apart from the consequences this will have for the domestic political
economy of Indonesia, it is likely to heighten US interest in developments in Indonesia.

\textit{Conclusion}

Relations between Japan and Indonesia are at something of a crossroad. Indonesia is in
the midst of deep economic and political upheaval. Japan too is in the grip of a
prolonged and perhaps mindset-changing economic recession. Both countries are located
in a region characterized by important geopolitical changes, most notably the ascendance
of China and fluctuations in the way in which the United States approaches China. The
central thrust of this essay has been to suggest that while Japan has wielded much less
policy influence in Indonesia than commonly assumed, there is now an historic opening
for Tokyo to forge much deeper and broader policy connections with Jakarta. If this
comes to pass, it will very much facilitate the prospects for Japan playing a more active
and effective role in shaping the terms of regional engagement. Plainly Indonesia is of

\textsuperscript{5} For an early discussion of US interests in Asia after the crisis, see Harrison and
much less moment to Japan than China or Russia, to say nothing of the United States. Nevertheless, it remains the case that Indonesia, and by extension ASEAN, are likely to prove valuable foreign policy partners for Tokyo. Not only do they possess an effective veto on virtually all major proposals for regional cooperation (by virtue of ASEAN being the one coherent collective in Asia), but more broadly, a coalition with ASEAN may well be Tokyo’s an useful option for seeking to carve out a path for itself between the two truly big powers in the Pacific, China and the United States.

One should not pretend that such a scenario is anything less than still a good distance away. The powerful domestic political obstacles to a more active and independent posture that have been persuasively documented in the specialist literature on Japan’s foreign policy cannot be ignored. Equally, we cannot ignore the longer term consequences of the United States increasing its economic presence in Indonesia and the region more broadly at the very time when Japan may be seeking to strengthen its policy presence. Suffice to say then, that the changes underway in Indonesia, in Japan, and in the region at large point to greater foreign policy flux over the next 5-10 years than we have seen for several decades.
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The primary responsibility for the Japanese foreign policy, as determined by the 1947 constitution, is exercised by the cabinet and subject to the overall supervision of the National Diet. The prime minister is required to make periodic reports on foreign relations to the Diet, whose upper and lower houses each have a foreign affairs committee. Each committee reports on its deliberations to plenary sessions of the chamber to which it belongs. Special committees are formed occasionally to consider Nationalism was linked with an imperialist foreign policy as Japan took over other Asian territories in pursuit of its nationalist goals. Nationalism in Japan also became linked with militarism because Japanese expansion was dependent on the military taking action and making political decisions. Japan had its first contact with the West in the second half of the 19th century. The USA, Britain, France and Japan were to confer if there was a crisis in the Pacific. A growing economic crisis: The economic boom of the war years lasted only until the middle of 1921, when Europe began to revive and take back lost markets. There was a large divide between the cities and rural areas, and farmers suffered from the falling price of rice caused by good harvests and cheap imported rice. Indonesia and ASEAN’s formulation is different from the U.S.-Japan Free and Open Indo-Pacific (FOIP) vision. The Forum thus provides a chance for ASEAN to take regional politics, security, and economic development back into its own hands. As Anbound Malaysia has pointed out in the past, strong Indonesian leadership in ASEAN’s affairs is one of the two criteria that will strengthen the Southeast Asian bloc as a whole (the other is proactive leadership from the ASEAN secretary-general). By courting the South Pacific island nations, as demonstrated in the Indonesia-South Pacific Forum last March, it is clear that Jakarta’s ambition is to connect both the South Pacific and Indian Ocean via its vast territory of islands in Southeast Asia. Shinzo Abe expended much of his political resources on promoting the Indo-Pacific concept. For him, achieving a qualitative shift in the Russia-Japan relations was one his priority. At the same time, Abe’s unfilled intentions in foreign and defence policies should probably be considered not in themselves, but as part of a large plan aimed at freeing Japan from its regional and global image as a power that was defeated in World War II, but then got away scot-free. A special term, “proactive pacifism,” was even proposed. The crisis in Indonesia has significant implications for Australia because Indonesia is now a major strategic and economic partner for Australia. Indonesia has an important role in the Asia-Pacific region where Australia's crucial interests lie. The Australian Government has provided emergency assistance to Indonesia and financially supported the IMF program as well as attempting to assist overcome disagreements between Indonesia and the IMF. Introduction. This year was certain to be one of some political tension in Indonesia because the country was due to go through the five-yearly process of