

# CHAPTER I

## INTRODUCTION

### **A. Background**

Japan is a constitutional monarchy country with parliamentary system, located in the Pacific Ocean and one of the islands in the East Asia countries. Japan is also known as “Land of the Rising Sun”, since it lies in eastward position to the Asian mainland. Japan is an archipelago with 6.852 islands in which has four largest islands, such as Honshu, Hokkaido, Kyushu, and Shikoku (Please, n.d.).

As one of the great countries in the past, Japan had ever involved in several wars. The Sino-Japanese War in 1894 – 1895 explained the conflict of interests in Korea between Japan and China. Then, the conflict between Russia and Japan brought to Russo–Japanese War about conflict of interests in Korea and Manchuria. Both wars were won by Japan. After winning Russo-Japanese War, Japan gained some international respect and succeeded increasing its influence on Korea in 1910 (Please, n.d.). These successes caused Japanese increasing their nationalism and other Asian countries started to achieve their national self-confidence.

Japan was also playing crucial role in the Second World War or the Pacific War in 1941-1945. On November 25, 1936, Japan joined the Axis powers together with Germany and Italy. Three of those states had the same destination and obsession to dominate the world, against the Allied powers. On December 7,

1941, the major US naval in Pearl Harbour, Hawaii, was attacked by 360 Japanese aircrafts. This took lives of 2.300 troops. This attack unified American public opinion to enter the World War II. On the next day of the attack, the Congress declared war on Japan while Germany and other Axis Powers immediately declared war on the United States (History, n.d.).

In the middle of 1943, Allied naval forces started an aggressive counter-attack to Japan with “Island-Hopping” strategy or a series of amphibious assaults that made them closer to their ultimate goal of invading Japanese homeland (History, n.d.). On August 1945, the United States invaded Japan by devastating the atomic bomb on Hiroshima and Nagasaki. The surrender of Japan was announced by Japan on August 15, 1945 and formally signed on September 2, 1945, accepted by the United States General Douglas MacArthur aboard in the USS Missouri in Tokyo Bay.

Two weeks after the Pacific War, Japan was occupied by the Allied Forces of Supreme Commander for Allied Powers (SCAP). SCAP was controlling over everything. All the publications were ruled strictly through a strict censorship and telephone conversations of key figures were considered threatening to the United States, for instances. The commander of SCAP appointed was General Douglas MacArthur (1945 - 1952). A new constitution took effect when the emperor was becoming only a symbolic head of state. The most significance clause in the new constitution was the Article 9, which stated (Akihiko, 2000):

*“Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force*

*means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.”*

This Article 9 could possibly be assumed that, since war was known in the past had been waged as a self-defense; it prohibited war even for self-defense purposes (Akihiko, 2000). However, the use of force as means of self-defense was still permissible among top policy makers.

In 1947, there were two principal policy goals as a guidance to be implemented in as foundation of postwar Japan. The first one was *demilitarization* and the second was *democratization*. Demilitarization was abolishing Japan's armed forces and removing its military industry while democratization meant Japanese obligation to be involved in reforming all the areas of Japanese life that aimed at rebuilding their country. In 1948, the U.S. government reassessed the Containment Policy as its attempt to prevent communism effect from the Soviet Union in Asia. At the same year, George F. Kennan, the chief of Policy Planning Staff (PPS) recommended to alter the *democratization* into *industrialization*. Kennan emphasized more on economic component on his occupation (Jitsuo, 2000).

Japan's first involvement with economic assistance was a recipient. It was due to its lost in Second World War. Japan was the country which received the assistance called ODA, or the Official Development Assistance along with the regulation not to build military power from the United States after losing in the

Second World War. The Official Development Assistance (ODA) can be defined as various forms of economics assistance given to number of developing countries. ODA itself represented a main source of finance. An aid cannot be labeled as ODA unless the grant element of aid reaches 25 percent. This ODA came from the Government and Relief in Occupied Areas (GARIOA) and Economic Rehabilitation in Occupied Areas (EROA) plans in which the United States distributed its funds for postwar reconstruction. Japan used the GARIOA and EROA funds to fulfill Japanese daily needs, such as foods, pharmaceuticals, and other necessities. From 1946 – 1951, Japan received \$2 billion credits from EROA fund (Akiko, 2000).

In 1960, the Development of Assistance Group (DAG) was established by the Organization for European Economic Cooperation (OEEC) to coordinate the donor countries. In 1961, the OEEC was changed into the Organization for Economic Cooperation and Development (OECD), while DAG was reformed to the Development Assistance Committee (DAC). Japan became one of the founding members of DAC with Belgium, Canada, France, West Germany, Italy, the Netherlands, Portugal, the United Kingdom, and the United States. In the next three years, Japan eventually was accepted to be a member of OECD, not only to encourage its aid but also to advocate its trade liberalization in accordance with the codes and rules of the OECD (Akiko, 2000).

Japan kept on expanding its ODA and in 1974 Japan became the second largest donor of OECD's DAC. In the 1960s and 1970s, after getting some criticisms from peer donor members as being too commercial and highly tied,

Japan tried to untie its ODA, allowing the recipients to use suppliers and contractors from any nations beside Japan (Akiko, 2000).

While still in situation of receiving aid, Japan initiated to provide assistance as the form of war reparation to other Asian countries during the Second World War. This was based on San Francisco Peace Treaty in 1951. Japan's first aid to developing countries provided in the form of multilateral aid through its participation in the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific in October 1954 (Akiko, 2000).

Firstly, Japan used its ODA as payment of war reparation over Japan's former-colonized countries for example in Southeast Asian region. Japan's occupation in Southeast Asian region in 1940s, was one of Japan's ambitions to take control the world against western countries during the World War II. Thailand, Indochina (Vietnam, Cambodia, and Laos), Myanmar, Malaysia, the Philippines, Singapore, and Indonesia were the examples of countries which ever being occupied by Japan (Indonesia, n.d.).

Japan expanded its control to Thailand since Thailand was the only nation which was never colonized by European countries. In addition, Thailand's Prime Minister, *Plaek Phibunsongkhram* was really admiring Japan and an anti-colonialist toward western. Passingly, Japan created Indochina territory as its 'puppet state' after defeating France in that territory, other Southeast Asian countries like Singapore, Malaysia, Philippines, and Indonesia were expanded by Japan while being occupied by European countries, like England and the United

States. As the result, Japan had to pay reparation of war damage over its former colonized Southeast Asian countries (Indonesia, n.d.).

The first agreement on reparations and economic cooperation was signed by Prime Minister Yoshida Shigeru with Burma Japan-Burma (Peace Treaty and Agreement on Reparation of Economic Cooperation), followed by the reparation agreement with the Philippines in 1956 and Indonesia in 1958. Burma received US\$340 million (Raymond, 2009). Meanwhile the Philippines and Indonesia received US\$550 million and US\$223 million from Japan's ODA. Laos and Cambodia, then, became the next countries received quasi-reparations (grants in lieu of formal reparation commitments) in 1959 by receiving US\$2.8 million and US\$4.2 million (Takagi, 1999). In 1970, Asia received the total Japan's ODA was 98% of share (Akiko, 2000). The Association of Southeast Asia Nations (ASEAN) seemed to have considerate power and potential, even if the majority was steered by developing countries in Southeast Asia. The role of ASEAN as the international organization was considered strategic by other great powers such as China, the United States, and Japan (ASEAN, n.d.).

Japan-Southeast Asia relations had been established since the Prime Minister Fukuda Takeo opened closer relations with ASEAN by declaring the Fukuda Doctrine as Japan's foreign policy towards Asia. The essences of Fukuda Doctrine were to build closer relations with Southeast Asia by stating Japan would not ever become military unipolar state, Japan wanted heart-to-heart relations with ASEAN, and Japan would cooperate positively with all ASEAN

countries as equal partners. This doctrine was pursued by the Malarie incident of Thailand and Indonesia in 1974 (Er, 2000).

In 1997, the Asian crisis happened. Financial crises which happened to Thailand's Baht in July 2, 1997, had also affected to economic and financial condition toward several Asian countries, such as Indonesia, Malaysia, the Philippines, and Korea, precisely in December, 1997. The whole effects caused by the crises was shocking countries which experienced it, including the declines in equity price, more obstacles in cost of borrowing, scarcity in the availability of international capital, declines in currencies' values and in economic output (Graciela L. Kaminsky, *The Unholy Trinity of Financial Contagion*, 2003).

The crisis worsened the financial condition in most of Asian countries. This crisis did not only affect the financial and economic condition, but also social condition by resulting plenty numbers of riots ASEAN region. As we know, 1997 was one important momentum regarding to the 30<sup>th</sup> year of Association of South East Nations establishment (Er, 2000). It was certainly resulting much expectation from ASEAN member countries to create the more stable and united Southeast Asian nation, as well as to strengthen the political influence of Asian in to the world.

Contrast to the expectation, the reality showed very dilapidated facts that the Asian financial crises almost destructed the unity of Asian region. This could be seen when Indonesia as the most populous state in Southeast Asia countries suffered the fall of Rupiah against US Dollar, causing hyperinflation, food

shortages, anti-government demonstration, the discrimination of Chinese ethnics, and resignation of Soeharto, religious and ethnic violation (Er, 2000).

Seeing this financial crisis phenomenon, Japan gave special attention to take an active move to overcome this crisis in the region. From the table below, we know Japan had contributed the highest number of financial aid compared to other developed countries who donated funds to help Southeast Asia countries handle the crisis (Er, 2000).

This table would show Japan's and other countries financial aid to Southeast Asia countries.

**Table 1.1**  
**Japan's Financial Aid to Southeast Asia Compared to Other Developed Countries**

Borrowers	Lenders (US\$ billion)					
	United States	Germany	United Kingdom	France	Japan	Total
Thailand	4,0	7,6	2,8	5,1	<b>37,7</b>	57,2
Indonesia	4,6	5,6	4,3	4,8	<b>23,2</b>	42,5
Malaysia	2,4	5,7	2,0	2,9	<b>10,5</b>	23,5
The Philippines	2,8	2,0	1,1	1,7	<b>2,1</b>	9,7
Singapore	5,2	38,4	25,2	15,4	<b>65,0</b>	149,2
<b>Total</b>	<b>19</b>	<b>59,3</b>	<b>35,4</b>	<b>29,9</b>	<b>138,5</b>	<b>382,2</b>

**Source: Rizki Valentine, 2008, pg. 29 (data taken from David Arase, 1995)**

Japan's special attention over this crisis was reflected by the number of ODA given especially to Indonesia in the crisis period reached its peak of amount before previous years. Japan's ODA given to Indonesia from 80.3 billion Yen increased up to 230.48 billion Yen in 1998. Besides, Japan courageously proposed the Asian Monetary Fund (AMF) in 1997 in attempt to fix the unstable East Asian



and Southeast Asian economy. Nonetheless, the United States strongly and boldly opposed the proposal, feeling threatened of being undermined by AMF toward the role of the International Monetary Fund (IMF) and Japan would dominate the new organization. In addition to AMF proposal, Japan also released its new policy called “New Miyazawa Plan” (Valentine, 2008).

Prime Minister Miyazawa Kiichi stated that US\$30 billion package ODA was given to Southeast Asia. Through his statement at the G7 meeting he said, “I would like to propose how Japan plans to revive Asian countries, Japan will take the leadership role” (Er, 2000). In reality, the ODA package was given to Southeast Asia reached until US\$ 80 billion through “New Miyazawa Plan”.

In Indonesia case, Japan played role as a “bridging role” between the IMF and Suharto regime, to reform Indonesia market. The Prime Minister Hashimoto flew to Jakarta to persuade Suharto to accept reformation in return Japan would help Indonesia if it accepted the IMF package. Moreover, Japan would offer medical aid and 600 metric tons of rice to Indonesia (Er, 2000).

## **B. Research Question**

**Those explanations have referred to the basic question related to this study:**

“Why did Japan have high attention to take an active role in Southeast Asian countries by offering its ODA in its attempt to overcome the 1997 Asian Financial Crisis?”

### **C. Theoretical Framework**

Theory is the form of explanation to analyze the phenomenon in which answers the question of “why” in the International Relations phenomenon. In order to analyze that phenomenon, the writer used the “Hegemonic Stability Theory”.

#### **Hegemonic Stability Theory**

The term of “Hegemonic Stability Theory” was initiated by Charles P. Kindleberger in his book of 1973 *The World in Depression*. As an Economic Historian, he explained that the proceeds of the great depression in the beginning of 20<sup>th</sup> century was along with the weakness of the Great Britain to stabilize the international system and the unwillingness of the United States to do so.

Finally, Kindleberger concludes that “for the world economy to be stabilized there has to be a stabilizer, one stabilizer (Kindleberger, 1973). Here, there are two elements consisted in this statement concluded by Kindleberger. The first ones are the stabilized ones, and the second one is the stabilizer. The stabilized ones are the countries in the world economy which are in unstable condition or having such crisis (in this case Southeast Asia countries) and which are in needs of the aids given by the stabilizer country. Meanwhile, Japan plays its role as the stabilizer country which tries to stabilize the unstable situation of the countries in the economy world.

Following Kindleberger, Hegemonic Stability Theory was also brought by several politician scientists in the second half of the twentieth century, known as Stephen Krasner, Robert Gilpin and Robert Keohane (Schubert, 2003).

The central idea of “Hegemon Stability Theory” is that the stability of the International System requires a single dominant state to articulate and enforce the rules of interaction among the most important members of the system (Ikenberry, 2001).

Looking back at the central idea of the theory that the international system needs a dominant state to articulate and enforce the rules of interaction among the members in the system, Japan acts as the dominant state in the Southeast Asia regions by giving ODA and also establish such rules and agendas in return as the means of interaction between Japan and member countries of Southeast Asia countries and/or as the fellow members of Southeast Asia nation (Er, 2000).

For example, in the case of Cambodia and Myanmar dispute, Japan created a peace settlement. Through this peace settlement, Japan persuaded Myanmar to reduce its military approach towards its opposition (Er, 2000). Moreover, Japan conducted forum known as the Asian Regional Forum (ARF) to deepen discussion regarding to the South China Sea dispute in which involved mostly from the Southeast Asia countries and China.

In this “Hegemonic Stability Theory”, there are two elements consisting in this theory and it is necessary to be understood first. These two elements are the most significant in understanding how this “Hegemonic Stability Theory” works. These elements relate to each other and one element cannot stand without another one

## **1. Hegemony**

According to Keohane and Nye, hegemony is one particular situation where there is “one state is powerful enough to maintain the essential rules governing interstate relations, and willing to do so” (Keohane, 1984). Eventually, the role of hegemony in the global process is to reinforce the economic growth to hold the system together and stabilize it (Gilpin, *Global and Political Economy: Understanding the International Economic Order*, 2001). However, this stabilization role will not be longer, since the hegemonic system is also limited and will be fallen at the end (Gilpin, *The Political Economy of International Relations*, 1987).

## **2. Hegemon**

Hegemon is the actor in the international economic that is the dominant state in the system. It is considered as the alliance leader. A hegemon must have ability to help its stability and leadership, not only in the pursuant of its economy but also military dominance, as well as material resources dominance, competitive advantages, technological advance, and political control. Thus, hegemon has created a liberal economy to promote its political and military interests (Kohout, 2003).

The role of a hegemon is included facilitating the international cooperation and preventing violation of the regime rules by giving economic sanctions, etc. Besides, a hegemon also has role in guaranteeing stable international currency and military (Taira, 1991).

Reflecting from Japan's past experience of its obsession of being the dominant state during the Second World War era, in this case of Japan's role in Southeast Asia nations, Japan plays role as the hegemon state which dominates the system, along with other states, Southeast Asia countries. Restate that the central idea of "Hegemon Stability Theory" is that international system requires a single dominate state to articulate the rules of interaction among the members of the system. This theory tended to show Japan as the dominate state above Southeast Asia (ASEAN). Japan has also fulfilled criteria as the dominate state (hegemon) by possessing capability to run the rules of system, having such great economy condition, ability to back up military in ASEAN region (Taira, 1991).

Besides that, to be a hegemon, a state is obligated to possess three attributes. They are the capability to enforce the rules of the system, the will to do so, and A Commitment of the System as the Mutual Benefit. In order to perceive these all the attributes, a hegemon must fulfill the characteristics of being a hegemon, as follows (Ferrari, n.d.) :

**a. A Large and Growing Economy**

Firstly, a large and growing economy explains that Japan is no doubt a country which has large economy growth and capability. Even though Japan was the second largest donor of ODA after the United States in 1990, Japan was capable to reach at the top of donor in 1997 and remained until 1997 with the total ODA in 1995 as its peak era was US\$ 14.7 billion (Akiko, 2000).

**b. The Dominance in a Leading Technology**

Secondly, the dominance in a leading technological describes Japan that is known as the leading country with the best of technological development, started by its development of train as transportation model. In order to develop such big transportation system, Japan is very good at learning from its history. In 1968, Japan has been through the Meiji Restoration which reforms the government into the more open system. At this period, the new government is hoped to be able to modernize Japan as European countries and the United States. Japan started to build industry like the railway. The first railway was made after four years of revolution between Tokyo and Yokohama in 1872. In the next five years, almost all the Japanese cities were connected with the railways (Sutjiati, 2012).

**c. The Political Power Backed Up by Projective Military Power**

Lastly, the political power backed up by projective military power which is shown by the existence of Japan's SDF (Self-Defense Forces). This SDF was given by the United States and established in 1954. Its involvements in the Gulf War in April – October 1991 implied six maritime. Through its IPCL (International Peace Cooperation Law), Japan succeeded participating in five PKO (Peacekeeping Operation) missions between 1992 and 1998 in Angola, El Salvador, Mozambique, Golan Heights, and Cambodia (Rose, 2000).

Thus, the existence of Japan as an actor of hegemon in Southeast Asia had pursued Japan to create stability of its own system, in this case was Southeast Asia region. This case would indicatively reflect the Japan's interest in terms of the importance of Southeast Asia region for Japan. The importance of Southeast Asia could be described by its potential natural resources, as well as its geopolitical aspect of Southeast Asia.

In such way, Japan saw golden chance from Southeast Asia countries as a stable region that was only steered by particular numbers of the developing countries before it was hit by the Asian financial crisis. In order to reach Japan's strategic global position as an actor of hegemon, Japan got to stabilize the chaos situation in many aspects, especially the catastrophic economic condition, experienced by these countries as the aftermath of the crisis at that time. So that, it would be getting much easier for Japan to be an actor of hegemon if the economic condition of the countries in its own system could be stabilized well.

#### **D. Hypothesis**

Japan had high attention to take an active role in Southeast Asian countries by offering its ODA in its attempt to overcome the 1997 Asian Financial Crisis because Japan as an economic hegemon state needed to stabilize the condition of Southeast Asia, since Japan had an economic interest in that region.

### **E. Methodology of Research**

In this research, writer used the explanative analysis and qualitative method to answer the question. The data used in this research were secondary data by collecting information from books and media including online or internet research such as publications, journals, articles, reports, and/or news. After collecting data from books or relevant online sources then these data were used as the information to help the writer write in this research.

### **F. Objective of Research**

The objectives of research are:

1. To fulfill and complete one of the subjects in International Relations studies.
2. To understand the significance of Japan's foreign aid called ODA to Southeast Asia regions in 1997 Asian crisis.
3. To understand the motive and significant role of giving foreign assistance to other countries in case of country's interest.
4. To implement the political concept of international relations directly to explain the case that is relevant to the problem.

### **G. Scope of Research**

This proposal used significant data mostly in the end of 1997 and during 2000s, since some of the major phenomena happened in 1997-1998. Even though the majority of the data came from 1997-2010 data, but other relevance sources were also still used from 2010 and beyond. The writer tried to make limitation and



focus on Japan and Southeast Asia region, and Japan's role in international system as the top donor of ODA, 1997 Asian crisis, and Japan's responses toward the crisis happened mostly in Southeast Asia region, especially to the countries of Southeast Asia that were affected because of the crisis.

## **H. System of Writing**

In this section, the writer classified topics into number of chapters related one to another as a united structural topic.

**CHAPTER I** : This chapter explained about the introduction of the proposal, including the Problem Background, Research Question, Purpose of Research, Theoretical Framework, Hypothesis, Method of Research, Scope of Research, and System of Writing.

**CHAPTER II** : This chapter discussed about Japan as the recipient country of ODA and ODA as Japan's foreign policy instrument.

**CHAPTER III** : This chapter discussed about Japan's ODA to Southeast Asia in the 1997 Asian financial crisis

**CHAPTER IV** : This chapter discussed Japan's capacities to become Asian hegemony

**CHAPTER V** : This final chapter provided the conclusion as the result of research of this thesis.