

CHAPTER III

INDONESIA BILATERAL RELATIONS WITH JAPAN AND CHINA

Japan and China are recognized as the biggest countries in the world. Both countries have ability to expand their existence globally. Japan which a country that possessed some advanced technology which used in many their industrial sector. Japan is also acknowledged as a country which holding second position on global economy condition with massive capital gain (Yoon & Yeo, 2007). While China is recognized as a new leading country which has vast condition on growing their economy. China also has potential to become the top global on economy in the future (Yoon & Yeo, 2007).

These two countries have huge connection and relations with other countries in the world. Both Japan and China want to spread their influences in other countries. Basically, there are three forms of investment abroad by China and Japan. Those are export and import, foreign direct investment, and also portfolio investment (Yoon & Yeo, 2007).

Japan and China also focus on grow their investment in Indonesia. Both Japan and China already active with their influence in Indonesia since long time ago. This chapter will deliver some types of investment that had been done by Japan and China. In the last chapter will provide a table which compare the relations both countries with Indonesia.

A. Indonesia Relations with Japan

1. Indonesia-Japan Bilateral Relations in General

Bilateral relations between and Japan was officially initiated in 1958. This occasions was commemorated as the first political relations between Indonesia and Japan firstly signed the peace treaty with Indonesia. The peace treaty was created after Japan fully recognized Indonesian Independence. This treaty had an impact between two countries and normalize bilateral relations after World War II (Kesavan, 2013). Indonesia and Japan representative signed a Peace

Agreement between countries that lead further cooperation between two countries (Meiliana, 2017).

The political relations between Indonesia and Japan is strengthened until now. In 1963, Indonesia for the first time opened a flying route and vice versa (Embassy of Japan in Indonesia, n.d.). There were also some bilateral and political visit between Indonesia and Japan. This occasions was officially started in 1998. The first bilateral visit from Japan was attended by the representative of Prime Minister Ryutaro Hashimoto, while from Indonesia was attended by the representative of Vice President B.J. Habibie (Embassy of Japan in Indonesia, n.d.).

Japan started to cooperate with Indonesia actively in 1980-1990s. There are so many sectors that gained by Japan in Indonesia. According to JICA, Japan's foreign bilateral relations especially with developing countries are based on various forms, such as thematic issues, assistances, partnerships and donors, environmental & social issues, and corruption handling (Japan International Cooperation Agency, n.d.). In thematic issues form, there are 20 issues that handled by Japan such as education, health, water resources, governance, peace-building, social security, transportation, ICT, energy and mining, economic policy, private sector development, agricultural, natural resources, fisheries, gender development, urban development, poverty reduction, environmental management, disaster risk reduction and South-South and Triangular Cooperation. While assistance provided by Japan are technical cooperation, loans, civilian participation as volunteer and Emergency Disaster Relief (Japan International Cooperation Agency, n.d.).

Japan has one of program which conducted by Japan's Ministry of Foreign Affairs. This program is called as ODA (Official Development Assistance). ODA is part of Organization for Economy Cooperation

and Development which focusing on liberating the developing country from poverty. ODA with JICA run together to provide foreign aid and loans to developing countries (Ministry of Foreign Affairs, 2012).

The most prominent bilateral relations in Japan-Indonesia are economic and investment sectors. Based on Japan's ODA Data for Indonesia, there are three forms of Japan's aid to Indonesia, such as Loan Aid, Grant Aid and Technical Cooperation. This document provide data of Japan Investment and Aid from 2011 until 2015 timeline. In Japan's ODA Disbursement to Indonesia by Fiscal Year table, it stated that Japan marked up the expenses in total has invest in Indonesia for Loan Aid is around 311 Billion Yen and 8 Billion Yen for Grant Aid. While for technical cooperation Japan in Indonesia is around 41 Billion Yen (Japan Ministry of Foreign Affairs, 2017).

Table 4 3.1 Japan's ODA Disbursements to Indonesia by Fiscal Year
(In ¥ 100 million)

Fiscal Year	Loan Aid	Grant Aid	Technical Cooperation
2011	739,42	10,13	111,58 (92,47)
2012	154,90	60,97	82,91 (61,68)
2013	821,82	10,60	82,23 (60,06)
2014	-	3,19	75,53 (54,08)
2015	1.400,51	2,68	59,70
Total	48.620,21	2.782,19	3.710,51 (3.448,89)

Source: Japan Ministry of Foreign Affairs (2017), Japan's ODA Data for Indonesia, http://www.mofa.go.jp/policy/oda/page_000008.html

This table above was listed by ODA yearly with the Loan Aid and Grant Aid are compiled by agreed terms with measurement of help through shifting of note along the fiscal year. The Grant Aid contain some project based on grant contracts such as Grant Assistance for Japanese NGOs, Cultural Grassroots and

Grassroots Human Security (Japan Ministry of Foreign Affairs, 2017).

According to Investment Coordinating Board of Indonesia, Japan is one of prominent countries that invest in Indonesia below Singapore influence. Since 2010 until 2015, Japan still in top 5 countries which actively invest in Indonesia (Investment Coordinating Board, 2014). Top influence of Japan investment happened in 2013. Japan overtook Singapore influence with amount of investment reach US\$ 4.7 Billion (Investment Coordinating Board, 2014).

Japan has spent approximately US\$14.9 Billion of investment in Indonesia. This was data from 2010 until 2015 based on Investment Coordinating Board of Indonesia statistics. Japan focuses on investing and spread influence in 5 sectors of industrial. Those are transportation, food, metal, machinery & electronics, chemical & pharmaceutical, and housing, industrial & offices (Indonesia Investments, 2015).

The foreign trade relations between Japan and Indonesia is tied by Indonesia-Japan Economic Partnership Agreement (IJEPA). Based on report from Indonesia Ministry of Trade, Indonesia and Japan depend on each other through IJEPA. For Indonesia, Japan is the largest trading partner for Indonesia's exports around 20% and imports around 14% of goods and also as a major source of investment and development loans and assistance. While for Japan, Indonesia is number 5 largest source of market for exports and imports for Japanese goods (Indonesia Ministry of Trade, 2007).

IJEPA focuses on various sectors of trade cooperation and facilitation. In trade facility will improved cooperation & transparency in various fields, such as customs procedures, IPR, competition policy, etc. while for trade cooperation focuses on SME development, HRD, tourism promotion, science &

technology. IJEPAs industrial sector aims for strengthening of Manufacturing Industrial Development Center (MIDEC) in automotive, electronics, textiles, energy conservation, export promotion and SME support. While from agribusiness held several projects such as Distribution Mechanism and Food and Beverages which aim for small farmers and fisherman. IJEPAs also focuses on fisheries sustainability to preserve Indonesia marine resources over the long-run (Indonesia Ministry of Trade, 2007).

In social relations, Japan has community that focusing on cultural exchange between two countries. This community was established in 1977 by Tsunesuke Masuko. However, this community had their first agenda of cultural exchange exhibition in 1979 held at Tokyo Ginza Tamaya Gallery, Japan. The first exhibition also was held on Indonesia at Pasar Seni Ancol, Jakarta in 1988 (Jakarta Globe, 2017). The latest exhibition on Indonesia was called as “11th Indonesia-Japan Cultural Exchange”. This program has a purpose which is to strengthen relations between Indonesia and Japan especially people to people relations. This exhibition showed some activities which involved cultural exchange between Indonesia and Japan artists. In this exhibition, the participant was hoped had an interest to learn both countries’ arts and cultures (Sheany, 2017).

2. Japan FDI in Indonesia

Japan also focuses on invest their influence in infrastructure development in Indonesia. In 2013, Indonesia had at least 45 projects of infrastructure development a. There are 28 projects that cooperatively handled with Japan and categorized as Metropolitan Priority Areas (MPA) and five other projects are top priorities (Sudiaman & Emerald, 2013). There were projects which Japan handled on infrastructure development in Indonesia. First, Japanese government

handled a contract with Indonesia on MRT project that will be built into two phase, Jakarta MRT North-South Line, and Jakarta MRT West-East Line (Sudiaman & Emerald, 2013). Second, the project of Railway Double Tracking on Java South Line Project was established in Kroya-Kutoarjo. This line was upgraded in order to minimalize effort of South Line which already overload because of South Line and Bandung Line intersection (Japan International Cooperation Agency, 2014). Third, since Indonesia categorizes as country which significantly hit by natural disaster, Japan held a program named Urgent Disaster Reduction Project for Mount Merapi and Lower Progo River Area. This program was initiated to increase local economy development in Central Java and Special Region of Yogyakarta which impacted with Mount Merapi 2010 eruption (Japan International Cooperation Agency, 2014).

Japan and Indonesia also handle two types of agreement on infrastructure development. Those are on-going projects and future projects. The on-going projects means that this project was already handled by Japan-Indonesia authority but not officially done. While future projects are type of procurements which categorized with middle-long term projects. First, the prominent on-going project are Japan held projects with focusing on advancing sewage system in industrial zone in Indonesia especially in Jakarta. This sewage system will be given improvement as sophisticated drainage industrial waste technology (Japan Ministry of Foreign Affairs, 2017). This project offers technical support for waste to energy system and also deliver the Japan's experience on establishment waste treatment power plant (Puspa, 2017). Second, the Trans Sumatra Highway was initiated in 2012. The urgency of the project was connecting major cities in Sumatra from Lampung to Aceh Province. Indonesia collaborated

with Japan in this project based on Presidential Decree No. 117 2015. The groundbreaking process was held in last 2017 or at least January 2018 (Stefanie, 2017). Third, the most prominent procurement on Indonesia which constructing new International Harbor of Cimalaya, Karawang, West Java. This project was substantial procurement with improve the economic capacity in West Java especially on water transportation and distribution (Sudiaman & Emerald, 2013).

While for the future projects, Japan already took a contract with Indonesia on constructing Jakarta-Surabaya HSR project. This project initially was the phase 2 of HSR project which the phase 1 was overtook by China. This project will start approximately in 2018 after the latest feasibility report submission (Nababan, 2017). Second, Japan agreed to develop some Outer Islands in Indonesia such as Sabang, Natuna, Morotai, Saumlaki, Moa, and Biak. Part of this project are providing some infrastructures such as harbors, fish markets, and also developing the capacity of industrial and marine commodities (Simorangkir, 2018).

B. Indonesia Relations with China

1. Indonesia-China Bilateral Relations in General

Bilateral relations between Indonesia and China has already begun for more than 65 years or approximately started in 1950s. The first political bilateral relations Indonesia-China was triggered because these countries when President Soekarno invited Chairman Mao to come to Indonesia and attended Bandung Conference 1955. This event became breakthrough for both Indonesia and China to officially open their bilateral relations. On the other hand, the political relations between two countries had been dismissed in 1967 and continued in 1990 (Sriyanto, 2015).

Bilateral relations between China and Indonesia has been noted in Future Direction of Indonesia-China

Comprehensive Strategic Partnership 2013. This partnership was created on the first year of Xi Jinping become President of PRC and on era of Susilo Bambang Yudhoyono as President of Indonesia (Indonesia Ministry of Foreign Affairs, 2013). This partnership was later improvised in 2015 into Joint Statement on Strengthening Comprehensive Strategic Partnership between the People's Republic of China and The Republic of Indonesia. The focus of this improvised-partnership was not totally different with previous version. This document was focusing on strengthen the three main fields of previous partnership agreement (Indonesia Ministry of Foreign Affairs, 2015).

Indonesia-China Joint Statement on Strengthening Comprehensive Strategic Partnership 2015 contains three type of fields which become focus of both countries (Indonesia Ministry of Foreign Affairs, 2015).

a. Political, Defense and Security

In this field, China and Indonesia believes that their countries should be supported by several efforts. Both countries agreed to preserve sufficient relations such as improving communication politics and interaction between Presidents. Both parties will supported each other to eradicate and minimalize any acts of terrorism. Lastly, both leaders confirmed that further cooperation in defense and security such as human trafficking, drugs smuggling, decreasing corruption rate, cyber-security, maintain each borders, and exchange cooperation in surveillance affairs. Both countries also agreed in defense and security by upgrade the Air Defense System that Indonesia was evaluating the purchase of Chinese AF902 Radar/Twin 35mm AA Gun/PL-9C Missile

Integrated Air Defense System (Parameswaran, 2016).

Besides strengthening the political, defense and security relations, Indonesia and China has high tension of border dispute which located in South China Sea-Natuna Sea. China was claimed Indonesian territory, Natuna Sea to become South China Sea Nine Dashed Line. The high tension between two countries when China's fishing vessel accessed illegally in Natuna Sea. In order to protect the Natuna Sea, Indonesia Navy Force did placement on their naval vessel in Natuna Sea (Morris, 2016).

b. Trade, Investment and Economic Development

In trade, investment and economic development field, both country leaders have similar initiative, the 21st Century Maritime Silk Road proposed by President Xi Jinping and the strategy of the Global Maritime Fulcrum initiated by President Joko Widodo. This initiative are highly complementary to each other. In order to maintain these initiatives, both sides agreed to deepen the cooperation in industrial development by supporting the companies that have exports-imports licenses. Both countries also confirmed to facilitate infrastructure development such as, harbor, railways, highways, and airports, and also provided some supporting utility for countries such as electricity power, steel factory, and services depot. Since Indonesia and China are focusing their soil for agriculture, both countries agreed to strengthen partnership in agriculture such as hybrid crops development, technology exchange, edible food consumption free from disease and control, and also explore the feasibility of establishing the Agriculture Cooperation

Industrial Park and the Rice Cooperation Production Park.

c. Maritime, Aeronautics, Science & Technology

In past years, China and Indonesia has agreed to maintain the system of the Joint Committee on Science and Technology which involve China-Indonesia Center for Technology Transfer. This technology transfer include sharing data of satellite and service exchange, cooperation on biology lab, and starting to cooperate on nuclear technology and innovation policies. The two countries had their agenda on maritime cooperation such as China-Indonesia Maritime Cooperation Committee (MCC) and Maritime Cooperation Fund (MCF). These two forms have purpose on further implementation on maritime search and rescue and also maintain technology for ocean and climate, navigation and maritime security, and also scientific research for environmental protection.

In trading sector, Indonesia and China has joint trade agreement called as ASEAN-China Free Trade Agreement (ACFTA). Indonesia officially joined ACFTA in Susilo Bambang Yudhoyono under President Decree 2004 No. 48. ACFTA was created to minimalize and eradicate tariff, tax and customs. The purposes of ACFTA were to simplify trading activity and also increasing the capacity and effectiveness of trade in ASEAN countries and China itself (Rachmayanti, 2014).

In order to preserve social relations, China and Indonesia has program which called as Cultural and People-to-People Exchange Mechanism between Indonesia and China. On the second meeting in 2016, China was represented by Vice Premier of China, Liu Yandong, and Indonesia was represented by Coordinating Ministry of Human Development and

Culture, Puan Maharani. This meeting was established to strengthen bilateral relations in social, especially people-to-people relations. In this meeting discussion contains some cooperation agreement on many fields such as education, health, sports, tourism, youth, media, science and technology, and also culture. This program of people-to-people exchange mechanism should well provide the strong relation between Indonesia and China, assists the development in various areas and also cooperating in development the relations of Indonesia-China as well as with China-ASEAN relations. (Ministry of Foreign Affairs of the PRC, 2016).

2. China FDI in Indonesia

According to Peter Gammeltoft, China was embarked and invest abroad (FDI) in 1979-1983. Firstly, China was trying to spread their investment influence with their state-owned trading and regional-based companies and became MNCs that legal to invest in other countries. After political shifting in China, some of MNCs were privatized and increased their influence in other countries.

Based on Joint Statement on Strengthening Comprehensive Strategic Partnership 2015, China and Indonesia are strengthening the trade, investment and economic development. In this field, both countries agree to be more active supporting each other. Both country leaders are focusing on their initiatives, Xi Jinping with 21st Century Maritime Silk Road and Joko Widodo with Global Maritime Fulcrum. In these occasions, Indonesia and China's are having the similar vision that will create good prospect through maritime, especially for trade, investment and economic development (Indonesia Ministry of Foreign Affairs, 2015).

Table 5 3.2 Top 5 Countries Investment Realization in Indonesia 2017

No.	Countries	Investment Rate (US\$ Million)	Projects
1	Singapore	3.661,4	4.359
2	Japan	2.845,6	2.254
3	China	1.955,1	1.243
4	USA	968,8	442
5	South Korea	901,3	1.984

Source: *Investment Coordinating Board (2017); Domestic and Foreign Direct Investment Realization in Quarter II and January - June 2017*

According to Indonesia Investment Coordinating Board, the position of China (exclude Macau, Taiwan, and Hong Kong) in 2012-2015 was fluctuating below and on top 10 countries which most investment point. At that period the top three were Singapore, Japan and Malaysia (Investment Coordinating Board, 2017).

According to Peter Gammeltoft's data on his article, China was starting to invest in Indonesia on 2006. China saw Indonesia as a great prospect for the market and selling goods. Indonesia's economic condition based on the economic growth was increasing and it attracts more FDI to come to Indonesia. In 2006, China investments value and projects were still low with around US\$32 Million and 11 projects was handled by China (Gammeltoft, 2011). The turning point period for China to penetrate their influence in Indonesia was happened in 2016-2017 yearbook. In 2016, China was able to reach US\$ 2,7 Billion (9,2%) investment in every sector in Indonesia. While 2017, China had invested in total US\$ 2,0 Billion (12,6%).

Based on data above, China has many investment projects on developing Indonesia infrastructure. The prominent projects that have been done corporately with Indonesia. First, the Suramadu Bridge is a bridge

which connecting eastern java, Surabaya, with Madura island. This bridge had spent IDR 4,5 Billions which came from several China's Construction MNCs such as Baosteel Group, Shougang Company Ltd., and Jiangnan Heavy Industry Co Ltd. This bridge was started to build in 2003 and finished in 2010. Second, the Jatigede Dam is located in Sumedang, West Java. This dam was a project which worth of US\$ 467 Million from Exim Bank. The purpose of this dam was to prevent any flash flood and hydroelectric power. Third, Indonesia-China was cooperated to build some electricity generators which worth of a quarter of national energy reserve (Putra, 2017).

The last two projects was focusing on business field investment. Those are the Crude Palm Oil (CPO) and steel factory. The Julong Group is China's company which focus on plantation especially on palm tree from upstream to downstream industry. The production capacity of Julong Group was estimated 3 million tons/year. On the steel company, the selected area to expand the steel companies from China is in Morowali. This is include the exploration and exploitation on nickel, chrome, and coal which can be processed into steel. This investments worth US\$ 4 Billions/year with production capacity reach 2 Million tons/year.

China was agreed to invest in infrastructure development in Indonesia on future prospect and ongoing project. For on-going project that cooperation between Indonesia and China is Jakarta-Bandung HSR project. This project was under China's contract started in 2015. This project worth US\$ 5,5 Billions (Praditya, Perbedaan Proposal Proyek Kereta Cepat China dan Jepang, 2016). Indonesia has offered to China to involve in several upcoming infrastructure development. There are three huge project on integrated economy, connectivity, industry, and tourism corridor

in three regions. In Sumatera Utara, there are procurements of new facility of Kuala Tanjung Harbor, and road restoration in Medan to Sibolga. While on Northern Sulawesi, the connectivity project between Bitung-Manado-Gorontalo which using roads, railways, airports and harbors (Melani, 2017).