

CHAPTER II

THE SITUATION OF JAPAN-INDONESIA BEFORE MALARI INCIDENT

A. The Condition of Japan after World War II

After Japan defeat in World War II, various attempt was made by the Japanese government to change and determine its diplomatic direction in the international relations. That in the implementation of its foreign policy Japan often experiences various kinds of change and developments in determining its diplomatic character to be in line with the times in international relations. In general, the changing direction of foreign policy is certainly the influence of the goals to be achieved from Japan's own domestic policy. Because in world history, Japan was once known as one of the countries with strong military power during the world war, so it was not easy task for Japan to change the new image to the International community.



Figure 2. 1 Japan Situations After World War II (Smith, 2015)

After World War II had ended, Japan was devastated. All the large cities (with the exception of Kyoto), the industries and the transportation network were severely damaged. A severe shortage of food continued for several years. The occupation of Japan by the Allied Powers started in August 1945 and ended in April 1952. General MacArthur was its first Supreme Commander. The whole operation was mainly carried out by United States. The remains Japan's war machine were destroyed, and war crime trials were held. Over 500 military officers committed suicide right after Japan surrendered, and many hundreds more were executed a war criminal. (Japan-Guide, 2002)

A new constitution went into effect in 1947: the emperor lost all political and military power, and was solely made the symbol of the state. Universal suffrage was introduced and human rights were guaranteed. Japan was also forbidden to ever lead a war again or to maintain an army. Furthermore, Shinto and the state were clearly separated. (Japan's Diplomatic Activities, 1989)

Japan established five dimensions as an effort to stabilize International relations that took place between countries throughout the international region. The big five are:

1. Paying attention to its national desire, namely seeking solutions from Japan itself.
2. Global participation, meaning that as a developed country Japan has the responsibility to participate in building international cooperation which is not limited to economic problems but also politics.
3. Diplomatic objectives, namely to make Japan a strong country with diplomatic goals that can easily develop strategies to achieve it.
4. United States – Japan Alliance, namely Japan must return to defend the US as a milestone to realize and Japan.

5. The Asia –Pacific region, namely Japan must be admitting the importance of the Asia Pacific region. Where this is a form of Japanese “twin pillar” diplomacy as a member in the Asia – Pacific community and also a group of advanced democratic countries.

According to professor Eiji Oguma from Japan’s Keio University (*Contemporary Japan from the Perspective of Post-War Japanese History, 2008; 1*), explains that Japan after World War II have 3 periods development. That is the period after the first World War II (first post war) from 1945 to 1954, where the current state of Japanese economy was the result of conditions worse than before. Agriculture life, workers, and strategies that existed since the early Meiji era began and in 1945 the number of workers from famous Japanese universities, such as Kyoto university, was only 13%. The meaning is Japan at the time is growing into a developing country in Asia. The second period is the period after the second World War II (Second Post War), namely from 1955, in the period Japan very quickly promoted economic growth from both domestic and foreign policy. This was demonstrated by joining Japan as a member of the Organization for Economic and Development (OECD) in 1963, and Japan was included in the top three countries that had the highest GNP (Gross national Product). During this time Japan had a drastic change from an agricultural country to an industrial country, and from rural communities to urban communities. Oguma explain that the Japanese city community in the period of 1945 was only around 28%, but in the 1970s the population of Japanese cities increase to 72%. Then the third period (Third Post War) is from 1992. Where economic growth only increased by 2% and the number of unemployed increased from 5% to 10%. Japan’s lifetime labor guarantee system began to disintegrate and instead part-time workers rose sharply. In 1965 to the 1980s 86% of the lives of Japanese

people were on average in the middle class, but now the gap between rich and poor is increasing. (Roger, 2007)

The economic diplomacy carried out by Japan since 1980s was a form of Japanese government effort in an effort to awaken the country which was defeated by the war. Japan believes that achieving economic gains has played an important role in carrying out its international diplomacy. For Japan to strengthen its country by increasing economic prosperity, it will be easier for Japan to bargain in an effort to win diplomacy in the international relations. Regarding changes in Japan's domestic conditions after World war II described above, it will certainly affect Japan's foreign policy in the international relations. This conditions the determining factor in the direction of Japanese foreign policy.

B. Japan and Indonesia Relations

In the 1970, Japanese national prosperity level made Southeast Asia nations looks small. For example, Japanese income per capita was ten times bigger with GNP (gross national product) that counts more than combination total of the Southeast Asia nations' GNP at that time. Japanese people who create policy there realized the importance to push Southeast Asia economy and saw ASEAN as a partner, with the result that Japanese was ready to give various advices and helps the nations on this territory after 1970. In the 1971, Japanese focused as big as 15,6% from total foreign investment in ASEAN, and grew bigger until 36,4% for the next 5 years. Japan also imported from Southeast Asia 93% from its needs of tin, 90% rubber, and 40% copper, bauxite, and woods. (James, 2001)

Economic expansion and trade in the early 1970's turned back Japanese position as big economy energy. This makes some flaming in the Southeast Asia nations. When Tanaka came to Indonesia, Thailand, Singapore, Malaysia, and Philippine in the 1974, he faced some demonstration as an anger and accusation of Japanese business that seems arrogant. People that demonstrated criticize if Japan claimed itself as

superior and careless nation to local issues. More than that, they are angry because Japanese government asks for buying Japanese stuffs with foreign assistance on behind these act. This seems as shutting for poor nations that importing stuff with low cost. Investment in Southeast Asia actually was a part of reconstructing Japanese industry and as an effort to integrate with world economy in the end of 1970's. (James, 2001)

Indonesia is a source of important raw materials for Japanese in the post war era. Indonesia provides textiles, forestry product, and fish. But the most interesting is oil supply. In the 1980, Indonesia was the second biggest oil supplier for Japanese and accepted big part of ODA (Official Development Assistance) from Japanese. After war in Vietnam, Japan promoted joint venture in Indonesia to transform them and put them into their economic sphere of influence. In the 1976, Japan invested US\$2,6 billions, with 5 companies that owning the investment manager. These Japanese companies have total control and ask Indonesia for buying manufactured goods and raw materials from Japanese with high price. Japanese investment grows from US\$7 billions to US\$74 billions. On that time, partnership between Japanese and Indonesia seems unbalance. Indonesia was joining US and ASEAN to criticize Japanese government that considered blocking foreign investment to Japan. (James, 2001)

In addition to economic terms, in the 1970's, on Diplomatic Bluebook is found an effort to promote mutual understanding and culture exchanges between Japanese and its relate nations. On Diplomatic Bluebook is stated that culture exchanges and heart-to-heart relationship becomes important on bilateral. On Diplomatic Bluebook also wrote that to reach culture exchange, formed Japan Foundation in the 1972 that will run the culture exchange systematically.

The policy of the New Order government to invite foreign capital back was based on the fact that there was a desire to rebuild the economy only possible with the existence of

capital, namely capital goods and technology needed. This was felt urgent at the end of the Old Order government. At that time, domestic conditions were characterized by high inflation. Unemployment increases, debt increases and the inability to build industries. This condition prompted the Soeharto government to invite foreign capital in various economic sectors by prioritizing capital owners from Western countries and Japan.

Regarding Japanese investment, in the IGGI forum in May 1973, Japan committed to disburse a loan of US \$ 180 million. This value is greater than US capital loans of only US \$ 150 million.¹ Japan's interest in investing in Indonesia is because of the abundance of raw materials and cheap labor, which makes Japan dare to disburse more capital than America⁵. Entering the second semester of 1973, Japan's total investment in Indonesia reached US \$ 467.7 million for 119 projects. A very significant increase, this proves that there is a strong Japanese interest in Indonesia with Japan's total investment in 1973 reaching 147 projects valued at US \$ 611.56. (Indonesian Study, 2009)

C. Japanese and Indonesian Cooperation in Several Fields

The long history of cooperative relations between Japan and Indonesia began with the signing of the Peace Agreement between Japan and Indonesia, and the War Treaty Agreement January 20, 1958 in Jakarta. In the agreement, there were full ruling representatives appointed by the United Nations namely Aiihiro Fujiyama as Japanese Foreign Minister and Soebandrio as Indonesian Foreign Minister to examine the respective power of attorney and sign the agreed agreement. The existence of the agreement, as a sign of the end of the war between Japan and Indonesia, and starting a new relationship that is more beneficial to both parties. Mentioned in Article 6 of the Peace Agreement, if there is a dispute regarding the issue of interpretation or implementation of the agreement, negotiations will be carried out as a solution. However, if this

does not also get an agreement within six months of the agreement being enacted, then one of the parties promises to submit the matter to the International Court of Justice to obtain a settlement. The results of the agreement negotiations that were agreed upon were then ratified through Law No.13 of 1958 dated March 27, 1958 / LN No.31 / TLN 1560. (carapedia.com, 2010)

After the peace agreement was agreed upon, Japan began to actively improve its image as a cruel country at the time of colonization as a country providing development assistance as a form of war compensation in accordance with the 1951 San Francisco peace agreement to 12 countries in Asia including Indonesia. The provision of compensation funds was utilized by Japan to establish foreign economic cooperation while providing strong support for further Japanese development. (Nikkei Asian Review, 2015)

In 1960 to get stronger support and greater influence in the world and in the region, Japan finally joined the DAC (Development Assistance Committee). Through the DAC, Japan was finally accepted as a member of the OECD (Organization for Economic Cooperation and Development). The OECD is an organization that has a mission to promote policies that will improve the economic and social welfare of people throughout the world with a shared commitment to a market economy that is supported by democratic institutions and focuses on the welfare of all citizens. (FÜHRER, 1996)

The acceptance of Japan as an OECD member encouraged Japan to provide foreign aid to developing countries the opportunity to encourage trade liberalization. The form of assistance is in the form of financial and technical assistance needed for socio-economic development. Similarly, support for helping disaster victims, and others. The assistance was given by Japan through the government as the main actor which was later referred to as, Government Development Assistance (Official Development Assistance, ODA)

In the Asian region, Japan intensively provided ODA assistance and especially to Indonesia, a country whose

position was a former colony but rich in mineral resources compared to other Asian countries. This was done by Japan to strengthen the bargaining position as the largest donor country, which he then used as a strategy for his export needs. It was proven in 1960 that Japan provided grant assistance worth 14.28 million US dollars to Indonesia. The grant of the grant was used to help the development of the country and provide an entry point for Japanese cooperation with Indonesia in the economy in the form of the promotion of exports of Japanese products and imports of raw materials, which Japan utilized to support industrial production. Here are some Indonesian and Japanese collaborations:

1. Japan and Indonesia Cooperation in the Economy

Japan and Indonesia have considered the future direction of the cooperation relationship to be moving. Japan-Indonesia economic relations emerged when the two countries realized the importance of investing in an increasingly globalized world economic system and to improve the country's development. Therefore, on July 1, 1961, Japan and Indonesia marked the beginning of their friendship and trade relations with the signing of "Agreement on Amity Relations and Commerce". Then following 1963 Japan and Indonesia opened a flight path between the two to facilitate trade access. Japan and Indonesia economic cooperation relations strengthened after the Indonesian Government enacted Law Number 1 of 1967 concerning Foreign Investment.

In making investments Japan is a very meticulous country to choose productive assets. Usually these assets are in the form of land purchase, factory purchase or construction, licensing, use of technology, and mineral mining. These assets can in the form of full or almost full ownership. So, in 1968 Japan showed a stable surplus and rapid economic growth with a rate of 10.8%. (Nikkei Asian Review, 2015)

2. Japan and Indonesia Collaboration in the Mining Sector

Before Indonesia and Japan collaborated in the mining sector, Japan had provided mining contributions in Indonesia before Indonesia's independence. The presence of Japan in 1942 seized the power of the Dutch East Indies which had already taken control of Indonesia as its colony. The struggle for population, including taking over Mijnbouw (Dienst van het Mijnbouw - Mining Office of the Indies formation

Dutch in 1850) with all the facilities and documents. The Mijnbouw office was later renamed Chisitsu Chosasho. However, the takeover could not last long due to the absence of experts and budgets. Until finally Japan was pushed by allies with its atomic bomb the city of Nagasaki and Hiroshima made Japan quietly removed by the Indonesian people. Since then the office name Chisitsu Chosasho has been changed to Poesat Djawatan Tambang and Geology.

Unlike Soekarno who was very anti-Western, Soeharto was more able to have a broad view. Whereas at that time, Indonesia desperately needed an injection of funds and investments from foreign parties. So that the government issued Law No. 1 concerning Foreign Investment in 1967. With this policy brought "fresh air" to Indonesian economy. The foreign investment began with the opening of an investment in mining which was carried out through a Contract of Work (KK) while in the coal field it was carried out through the Coal Mining Concession Agreement (PKP2B). (Soemardjan & Soenardi, 1964)

Knowing Indonesia issued a foreign investment policy, Japan again "glanced" at Indonesia as its destination for investment in mining after previously operating in 1942 through the company Sumitomo Metal Mining Company, which at that time produced approximately 27,000 tons of nickel and 58,000 tons in 1944. However, this operation has stopped since Indonesia's independence. Then in the early 1950s the Japanese mining company Sumitomo Metal Mining Company began to be interested again in conducting

exploration at Pomala together with Freeport Sulfur Co and Oost Borneo Maatschappij. In 1957 the NV Petro company used the remaining nickel mining production later exported to Japan.

In 1961 NV Petro changed its name to PT Nickel Mining Indonesia, until finally what we know was PT Aneka Tambang (PT Antam). The company produces ferronickel (FeNi I and FeNi II) with a production capacity of 11,000 tons, up to 9,221 tons in 1999. With such production advantages, PT Antam plans to open a FeNi III production project at Pomala in 2003 with an estimated production of 24,000 tons of nickel / year at a cost of US \$ 270 million. (Mudrieq, 2015)

This project attracted the attention of Mitsui & Co. from Japan and Krupp Tyssen Nirosta GmbH from Germany to compete for the tender. The project Indonesia needs to help Indonesia explore and exploit Indonesian nickel that has not yet reached its production target.

According to Indonesia's nickel resource wealth survey data in 2000 reached 8% of the total world nickel with reserves reaching 13 million tons

and managed to explore 71,353 metric tons with the help of PT Inco worth 60,353 metric tons while the rest was by PT Antam. The exploration results are oriented to be exported to Australia and Japan. (Universitas Indonesia, 2018)

In 1968 the Indonesian government opened a tender in the nickel mining sector, some Japanese companies participated. The companies are Kaiser Aluminum, Cematic Corporation, Fuji Iron Steel Co., Sumitomo Metal Mining Co., Nippon Yakin Kogyo Co. Ltd., Pacific Nickel Co. Ltd., and Sumitomo Shoji Kaisha Ltd. But at that time PT INCO succeeded in winning the tender. (Mudrieq, 2015)

Profile of PT INCO

On July 27, 1968 the second generation of nickel companies in the form of PT International Nickel Indonesia had won tenders from three groups large foreign mining company. In PT Inco there are several Japanese companies

that take part in shares, even though 59% of the shares are still owned by Inco Ltd.

However, in 1988, Inco Ltd sold its shares, 20 percent of PT Inco's shares to Sumitomo Metal Mining Co., with a value of US \$ 100 million and there were also several Japanese companies that bought shares. Following is the company description who invested shares in PT Inco.

Table 2. 1 Shareholder Structure of PT Inco

Shareholders	Percentage
Inco Ltd.	58.73
Sumitomo Metal Mining Co.	20.00
Tokyo Nickel Company, Ltd.	0.54
Nissho-Iwa Ltd.	0.14
Sumitomo Shoji Kiasha	0.14
Mitsui & Co Ltd.	0.36
Public	20.00

Sumitomo Metal Mining Co. is the largest Japanese Nickel company which also took part in the Sumitomo Zaibatsu Group. As well as investing in PT Inco, Japan also has 27.56% shares in Nusa Tenggara Mining Corporation³⁴. The large number of Japanese investors who invest in Indonesia makes trade relations between Japan and Indonesia tighter. Even better, considering that Indonesia is Japan's main

import destination in the field of nickel which is used to support its manufacturing industry. (Mining Technology, 2005)

3. Japan and Indonesia Collaboration in the Automotive Sector

PT Astra International started its business on February 20, 1957, and as its founder was Tjia Kian Tie or better known as William Soeryadjaya. Astra's business scope at the beginning of its establishment was engaged in the sale of agricultural products, such as lemongrass oil, cananga oil, spices, and so on.

PT Astra International's Business Development In the New Order era (around the 1960s), changes began to occur in the Astra business sector which was more oriented towards National Development. Astra began to change from the sale of agricultural products (agriculture products) to the trade of machinery and other imported goods, among others as providers of construction equipment, various types of Diesel engines and various types of heavy equipment for government projects. (Prabowo, 2013)

Around the 1970s, Astra began to penetrate into the vehicle industry

motorized including its components, electronic equipment, and heavy equipment, among others: In 1968 imported 800 units of Chevrolet Truck to meet the government's needs in massive development rehabilitation.