

# CHAPTER I

## INTRODUCTION

### 1.1 Background

At the end of The World War II, economy globalization happened to be increase in a fast pace. It could be seen from the high and increasing rate of economy activity around the world, especially in International Trade and Foreign Direct Investment or FDI<sup>1</sup>. But in the practice of International Trade, there are several problems which become a deterrent factor for countries who involved in it. This problem could be restriction of FDI, tariff barriers, quota and other export and import preferences. Later on, there is a new concept that appear to solve this problem which is called Free Trade.

Nowadays, Free Trade Agreement has become a major option for countries in order to have a relationship with other country. A Free Trade Agreement (FTA), is a regional or bilateral agreement among two or more groups of countries that have agreed to eliminate or reduce tariffs, quota and preference on goods that they trade, and liberalizes trade in service within the region. Generally, Free Trade Agreement has an aim to give each country an access to other country's market by lowering or abolish the border restriction or protection such as border taxes and imports<sup>2</sup>.

---

<sup>1</sup> Shujiro Urata, "Japanese Foreign Direct Investment in East Asia with Particular Focus on ASEAN," *Conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos, and Vietnam*, 2002.

<sup>2</sup> IMC- Economic Research & Training Foundation, "FREE TRADE AGREEMENT," n.d.

Since then, many countries around the world began to have a negotiation and established Free Trade Agreement among them. One of the country that negotiate, and established FTA is Japan. Japan's interest on establishing Free Trade Agreement or Economic Partnership Agreement was started at the end of 1990s. It was started when PM Koizumi proposed an idea called "Initiative for Japan – ASEAN Comprehensive Economic Partnership" in January 2002.

It is stated that this Comprehensive Partnership Agreement will cover broad area as well as trade and investment scope area<sup>3</sup>. It is marked by their first Free Trade Agreement with Singapore which signed on November 2002. Following this FTA, Japan began to negotiate and established an FTA within the ASEAN region such as Thailand, Malaysia, Indonesia, Brunei, Philippines, India, and Vietnam. Japan also negotiate with other country outside of ASEAN region such as Mexico, Switzerland, Chile, Peru, and Australia<sup>4</sup>.

After their loss in World War II, it is not only Japan's country physics that has been destroyed but also their economy. In this period of time, Japan went on an economy crisis. But in the mid-year of 1960 until 1970, Japan undergo a quite significance enchantment in their economy. It is started with the ratification and signing of San Francisco Peace Treaty on 1952 which bring back Japan's sovereignty<sup>5</sup>. Since the signing of this Treaty, Japan's export

---

<sup>3</sup> Nippon Keidanren, "Urgent Call for Implementation of the Initiative for Japan-ASEAN Comprehensive Economic Partnership," 2002.

<sup>4</sup> Mitsuyo Ando and Shujiro Urata, "Impacts of Japan's FTAs on Trade: The Cases of FTAs with Malaysia, Thailand, and Indonesia" (Japan, 2015).

<sup>5</sup> Ministry of foreign Affairs of Japan, "San Fransisco Peace Treaty," *Joint Compedium of Documents On the History of Territorial Issue between Japan and Russia* , 2001, <https://www.mofa.go.jp/region/europe/russia/territory/edition92/period4.html>.

number increase for about 10%, as the result, Japan's economy increased for about 13.2% in the mid of 1960<sup>6</sup>. Japan becomes one of the largest donor countries for developing country, such as Indonesia.

As a member of ASEAN region, Indonesia becomes a "target" for Japan's Free Trade Agreement / Economic Partnership Agreement (FTA/EPA). But before this FTA/EPA was established in Indonesia, Japan and Indonesia has begun to develop a good relationship. It was started on 20 January 1958 when Japan and Indonesia sign a peace treaty. Since then Japan tend to focus on developing Indonesia's market and economy. It is marked by lots of economy aid that given by Japan to Indonesia, by abolishing and taking care of Indonesia's debt, as Indonesia's donor country, Japan also contributing and play an important role in Indonesia's economy development by providing Indonesia with a financial and technology assistance, also gave humanitarian aid for Indonesia's natural disasters' victims<sup>7</sup>. These aids were called by Japan Official Development Assistance (ODA)<sup>8</sup>.

Even though Japan and Indonesia have begun their economy relationship from 1958, but the two countries have never had a discussion and established a Free Trade Agreement. On 1 July 2008, a Free Trade Agreement which later

---

<sup>6</sup> William. G. Beasley, *The Japanese Experience: A Short History of Japan* (Japan: Weindenfeld & Nicolson, 1999).

<sup>7</sup> Embassy of Japan In Indonesia, "Official Development Assistance (ODA) from Japan to Indonesia," 2011, <https://www.id.emb-japan.go.jp/oda/en/index.htm>.

<sup>8</sup> "Ministry of Foreign Affairs - 2018: RI-Japan Will Celebrate the 60th Anniversary of Diplomatic Relations," 2017, <https://www.kemlu.go.id/en/berita/berita-perwakilan/Pages/2018-RI-Japan-Will-Celebrate-the-60th-Anniversary-Of-Diplomatic-Relations.aspx>.

called by Japan – Indonesia Economy Partnership Agreement (JIEPA) was established and become effective<sup>9</sup>.

Looking back from the beginning of Japan's aid to Indonesia up until now, Japan's contribution in Indonesia can be reviewed from the three aspects. The first is trading aspect (including export and import), second is investment aspect, and the third is economy cooperation. Between the period of 1976 until 1980, Japan has become one of the largest investors that gave Foreign Direct Investment to Indonesia in the scope of non – energy area<sup>10</sup>.

It is stated that Japan hold 41% of foreign investment in Indonesia<sup>11</sup>. According to *Badan Koordinasi Penanaman Modal (BKPM)* and *Bank Indonesia (BI)* the total of Japan Foreign Investment is about USD 2.8 billion. In 2018, the total of Japan foreign Investment is increasing for USD 3.8 Billion. Most of Japan investment is in project area. Up until now, there are 2.731 projects in total that has been handled by Japan<sup>12</sup>.

The relation between the two countries shows a high interdependency rate. For Indonesia, Japan as a developed country is a very potential country that can help them in their economy scope area. Japan is one of the biggest

---

<sup>9</sup> Indonesia Investments, "Indonesia-Japan Economic Partnership Agreement (IJEPA) Reviewed | Indonesia Investments," 2015, <https://www.indonesia-investments.com/news/todays-headlines/indonesia-japan-economic-partnership-agreement-ijepa-reviewed/item5244?>

<sup>10</sup> Rahmat Herutomo, "Indonesia - Japan EPA: What Indonesia Can Expect?," *Globe Asia* I (2007).

<sup>11</sup> Syamsul Hadi, Jerry.S. Manuel, and Dominikus Dolet, *Strategi Pembangunan Mahathir Dan Soeharto: Politik Industrialisasi Dan Modal Jepang Di Malaysia Dan Indonesia* (Jakarta: Pelangi Cendekia & Japan Foundation, 2005).

<sup>12</sup> World Bank Group Staff, "PERKEMBANGAN TERBARU PEREKONOMIAN INDONESIA," 2011.

export and import partner for Indonesia. In fact, Japan is the second export destination country and the third import country for Indonesia<sup>13</sup>.

According to Indonesian trade statistics issued by the BPS Statistics Indonesia, Indonesia's export to Japan is worth USD 23.6 Billion, while Indonesia's import from Japan is worth USD 6.5 Billion, it is 19.06% of export and 13.07% of import in 2004<sup>14</sup>. Beside export and import area, Japan is important for Indonesia because Japan is one of Indonesian's largest creditor with loans around IDR 186.38 Trillion or around USD 20.3 Billion<sup>15</sup>.

While from Japan's perspective, Japan sees Indonesia as an important country as well. Indonesia is an archipelago country that blessed with rich natural resource such as gas, oil and other energy and mineral resources, also lots of human resources that can be useful for Japan's industries, these things practically become a base why Indonesia become an important country for Japan<sup>16</sup>. It is stated that 70% of Indonesia's fuel, metal and mineral supplied to Japan in the last three decades<sup>17</sup>. Japan needs human resources for their industries. With Japan's increasing economy rate, it is means that there will be an increasing rate of man power. But because Japan is one of the country that

---

<sup>13</sup>Ministry of Trade, "Factsheet Indonesia-Japan Economic partnership agreement (ijepa)" (indonesia, 2018), [http://ditjenppi.kemendag.go.id/assets/files/publikasi/doc\\_20180515\\_fact-sheet-indonesia-japan-economic-partnership-agreement-ijepa1.pdf](http://ditjenppi.kemendag.go.id/assets/files/publikasi/doc_20180515_fact-sheet-indonesia-japan-economic-partnership-agreement-ijepa1.pdf).

<sup>14</sup> "Japan-Indonesia Relations (Basic Data)," 2018.

<sup>15</sup> David. Adam Stott, "The Japan-Indonesia Economic Partnership: Agreement Between Equals? | The Asia-Pacific Journal: Japan Focus," *The Asian - Pacific Journal* 6, no. 7 (2008), <https://apjjf.org/-David-Adam-Stott/2818/article.html>.

<sup>16</sup> Sho Maruyama, "Signing of the Japan - Indonesia Economic Partnership Agreement," *Institute for International Studies and Training*, 2007, [https://www.iist.or.jp/wf/magazine/0560/0560\\_E.html](https://www.iist.or.jp/wf/magazine/0560/0560_E.html).

<sup>17</sup> Stott, "The Japan-Indonesia Economic Partnership: Agreement Between Equals? | The Asia-Pacific Journal: Japan Focus."

have a high rate of aging society, with lots of unproductive age people, the cost of human resources in Japan is increased<sup>18</sup>. Thus, Japan needs human resources from Indonesia. These facts are the things that drive Japan to act as Indonesia's donor country – the goal is to help Indonesia with their economy development and to keep a stable resources supply from Indonesia.

Up until 2016, Japan have already established or made 15 agreements with several countries within ASEAN region and outside ASEAN region that has been signed and have been on force (Free Trade Agreement / Economic Partnership Agreement). There are also 6 other agreements that still on the stage of negotiation. The agreement between Indonesia and Japan which later called by Japan – Indonesia Economic Partnership Agreement (JIEPA) is one of the agreement that has been signed on 20 August 2007 and has been on force on 1 July 2008<sup>19</sup>.

The establishment of Indonesia – Japan Economic Partnership Agreement (IJEPA) was start when Japan's PM Joichiro Koizumi proposed the idea to Indonesia's President, Megawati Soekarno Putri in her visit to Japan on 22 until 25 June 2003. The result of this meeting stated in "Joint Announcement by the Prime Minister of Japan and the President of the Republic of Indonesia on the Possibility of the Economic Partnership Agreement Between Japan and Indonesia" and announced on 24 June 2003. The result stated that Megawati

---

<sup>18</sup> David Arase, *Buying Power: The Political Economy of Japan's Foreign Aid* (London, UK: Lynne Rienner Publisher, 1995).

<sup>19</sup> Ministry of Trade, "FACTSHEET INDONESIA-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (IJEPA)", Op. cit.

and Koizumi agreed to have a negotiation to establish an EPA by having a discussion between the country regarding this FTA/EPA<sup>20</sup>.

On 8 September 2003, Japan and Indonesia went on discussion about the idea of EPA in Tokyo<sup>21</sup>. But on this first discussion, Indonesia does not respond to it right away because that time, Indonesia thought that, unlike multilateral agreement, bilateral agreement will not give any benefit to them. In that time, Indonesia's Economy Minister thought that in this FTA/EPA it looks like Indonesia doesn't have any importance in the part of the agreement, thus Indonesia will get less benefit than the donor country who propose the FTA/EPA or in this case is Japan<sup>22</sup>.

Two years later, in Susilo Bambang Yudhoyono's era, Japan's head of Nippon Keidanren, Hiroshi Okuda visit Indonesia with the intention to conclude all agreement between Japan and ASEAN region countries, and Indonesia is one of them. According to Okuda, President Yudhoyono assure that Indonesia will take an initiative action to continue the discussion of this EPA which already started in Megawati's era<sup>23</sup>.

Susilo Bambang Yudhoyono's words to Okuda is proven during APEC Summit meeting on November 2004, when He stated the importance of Japan

---

<sup>20</sup> Ministry of Foreign affairs of Japan, "Joint Announcement by the Prime Minister of Japan and the President of the Republic of Indonesia on the Possibility of the Economic Partnership Agreement between Japan and Indonesia," 2003, <https://www.mofa.go.jp/region/asia-paci/indonesia/meet0309.html>.

<sup>21</sup> Ministry of Foreign Affairs of Japan, "The Preparatory Meeting on Japan - Indonesia Economy Partnership Agreement," 2003, <https://www.mofa.go.jp/region/asia-paci/indonesia/meet0309.html>.

<sup>22</sup> Bantarto Bandoro, *Mencari Desain Baru Politik Luar Negeri Indonesia* (Jakarta, 2010).

<sup>23</sup> The Japan Times, "Indonesia Stays Committed to FTA with Japan," 2004, <https://www.bilaterals.org/?indonesia-stays-committed-to-fta>.

– Indonesia FTA/EPA as it could be a tool to promote a better economy relation between the two countries to Japan’s Prime Minister, Junichiro Koizumi<sup>24</sup>. Following up President Susilo Bambang Yudhoyono’s statement to Koizumi, Japan and Indonesia held a discussion between Japan Minister of Economy, Trade and Industry, Shoichi Nakagawa, and Indonesian Coordinating Minister of Economy, Aburizal Bakrie. The meeting is discussing about next plan of establishing the EPA and the offering of investment incentives that has addressed to President Yudhonyono beforehand<sup>25</sup>.

In response to this discussion, Japan economy PM Nakagawa met Indonesian Trade Minister that has been assigned by Indonesia government, Mari Elka Pangestu in Jakarta on 16 December 2004. In this meeting, Mari Elka Pangestu share a view that they need to launch a joint study group between Japan and Indonesia that will aimed to study about the agreement, trade sectors that will be included in the agreement, all trade barriers, tariffs, and other things regarding to EPA. In short, this Joint Study Group have to do a full-scale assessment upon the upcoming EPA<sup>26</sup>.

Two years after the establishment of Joint Study Group and several rounds of meeting and discussion, in 2005 Japan and Indonesia agreed to have a negotiation regarding to this FTA/EPA. Before Indonesia – Japan Economic Partnership Agreement is established in 2007, the negotiation between the two

---

<sup>24</sup> “JAPAN-INDONESIA ECONOMIC PARTNERSHIP AGREEMENT JOINT STUDY GROUP REPORT” (Japan, 2005).

<sup>25</sup> Rendi. A. Witular, “Japan, RI Plan New Investment, Trade Deal,” *The Jakarta Post*, 2004, <https://www.bilaterals.org/?japan-ri-plan-new-investment-trade>.

<sup>26</sup> “JAPAN-INDONESIA ECONOMIC PARTNERSHIP AGREEMENT JOINT STUDY GROUP REPORT”, *Ibid*.

countries did not went well. Both Japan and Indonesia which have their own national interest, have a high refusal in some aspect and scope area of the Agreement. After seven rounds of negotiation, Indonesia – Japan Economy Partnership Agreement went on force in 2008. This agreement covers a wide range of economy partnership, such as establishing Free Trade Area, investment, and agreement in the energy scope area<sup>27</sup>.

The establishment of Indonesia – Japan Partnership Agreement (IJEPA) also have a connection with the need of Balance of Power from Japan in managing the new emerging power in the Asian region, such as the new Four Asian Tiger, and The Rising of China. Based on the research facts, Japan has become a powerful and dominant country in the Southeast and Asian region, especially in the economy and political scoop area. But with the new emerging power in the Asian region, Japan felt that these two new power are a threat for their dominance. Japan thought they need to balance their power with the new power, by proposing the idea of Indonesia – Japan Economic Partnership Agreement (IJEPA) as their tools<sup>28</sup>.

This topic is chosen to be the research topic is because based on the chronological historical background of the establishment of Indonesia – Japan Economy Partnership Agreement, the researcher wants to know the historical

---

<sup>27</sup> Ministry of Trade, “FACTSHEET INDONESIA-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (IJEPA )”, *Op. cit.*

<sup>28</sup> Levi CS Gocklas Sri Sulasmiyati, “ANALISIS PENGARUH INDONESIA-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (IJEPA) TERHADAP NILAI PERDAGANGAN INDONESIA-JEPANG (Studi Pada Badan Pusat Statistik Periode 2000-2016),” *Jurnal Administrasi Bisnis (JAB)/Vol,* vol. 50 (Malang, 2017), <https://media.neliti.com/media/publications/188892-ID-analisis-pengaruh-indonesia-japan-econom.pdf>.

background of how the idea of this FTA/EPA proposed, and being established from 2008 until 2018. Moreover, the main reason of choosing this topic is to see the reason of why Japan proposed the idea of FTA/EPA with Indonesia, what is Japan's motive behind the establishment of Indonesia – Japan Economy Partnership Agreement. Besides, this topic is chosen to see how Indonesian perspective see the establishment of IJEPA in Indonesia. Furthermore, this topic is chosen to see how is the emerging of new power and the need from Japan to balance their power with the establishment of IJEPA in Indonesia.

### **1.2 Research Question**

This research will be bounded and focused to discussing the reason why Japan establish FTA/EPA which later called by Indonesia Japan Economy Partnership Agreement in Indonesia, this research will discuss about Japan's interest and intention towards Indonesia. Also, to see how the implementation of Indonesia is – Japan Economy Partnership Agreement alongside with the benefits that both signatories get from the FTA/EPA. Based on the boundary that has been stated, the research questions for this research are:

1. What is Japan's motive in proposing and establishing FTA/EPA in Indonesia?
2. Does Indonesian motive towards Japan in signing the IJEPA align with Japan's motive towards Indonesia?
3. What is the connection between the establishment of IJEPA with the need for Balance of Power from Japan?

### **1.3 Research Purpose and Objective**

#### **1.4 Research Objective**

Every activity has at least one particular objective or goal that want to be achieve. This research also has some particular objective or goals. The objective or goal of this research are:

1. To give an explanation of the background history of the establishment of Indonesia – Japan Economy Partnership Agreement.
2. To study and understand all aspects that covered in Indonesia – Japan Partnership Agreement.
3. To study and understand what is Japan's reason or intention towards Indonesia in making or establishing the Agreement?
4. To study and review Indonesia – Japan Partnership Agreement (IJEPA) from Indonesia's perspective
5. To see how the new emerging power in the Asian region affecting Japan's idea on proposing IJEPA in Indonesia.

#### **1.5 Research Purpose**

In hope, this research will be useful for researcher, also for the reader of this research and for another researcher who wants to study the topic:

1. For the researcher: researcher have the knowledge about Free Trade Agreement between Indonesia and Japan, and the

reason for Japan to made and establish this Agreement in Indonesia.

2. For the reader and other academic people: all readers and other researcher can get more knowledge about Indonesia – Japan Partnership Agreement, the establishment of the Agreement in Indonesia, the real reason or intention from Japan to Indonesia on why they are establishing the Agreement in Indonesia, also to get more insight of the benefits that Indonesia get from being one of the signatories for the Agreement. Hoping that this research could be useful for a reference for other research or study in the relatable field of study.

## **1.6 Structure of Writing**

The Structure of writing of this thesis, is written as:

### **CHAPTER I INTRODUCTION**

In this chapter, the author is discussing about the historical background between Indonesia and Japan especially in the economy and political sectors. The author also explains about the Indonesia – Japan Economic Partnership Agreement (IJEPA) from the beginning of the discussion between Japan and Indonesia up until when the agreement is being implemented on both Japan and

Indonesia from 2008 until 2018. Furthermore, the author also gives an insight on how and what is Japan's motive towards Indonesia that become a strong base on why Japan proposed and established IJEPA in Indonesia. Also, in this chapter the author formulates the research question for this study. The first research question is "What is Japan's motive in proposing and establishing FTA/EPA in Indonesia?" the second is "How is Indonesian perspective towards the establishment of IJEPA in Indonesia?" and the last research question is "What is the connection between the establishment of IJEPA with the need for Balance of Power from Japan?". the author also stated the objective, and the purpose for this research on this chapter. Lastly, the author explains what the outline of the research in the structure of writing is.

## CHAPTER II FRAMEWORK OF THINKING

In this chapter, the author gathered several journals and books and stated those journals and books into the literature review, and theoretical framework. The literature review in this research will be classified in three sections. The first section is all journal that discussing about the relationship of Japan and Indonesia, alongside with Japan's economy recovery after the World War II. The second section of the journal will be discussing about the implementation of FTA/EPA between Japan and other countries. The third section of

the journal will be discussing about the motives between donor country and country that received donors.

### CHAPTER III RESEARCH METHODOLOGY

This chapter will describe and explain the research method that used by the author in this research, it will also explain what data collection technique and analysis that used by the author to fulfill the objective of the research. The purpose of this research will be a descriptive research, and in conducting thus research, the author use the analytic – inductive method, and qualitative research method with secondary data collection, lastly for the analysis technique, the author use content analysis method.

### CHAPTER IV ANALYSIS AND DISCUSSION

In this chapter, the author stated all data that has been gathered and analyzed to answer all three research questions. The first section of chapter 4, the author explains the Japan and Indonesia bilateral relations historical background. The second section of this chapter, the author explains more about detail of the Indonesia – Japan Economic Partnership Agreement (IJEPA). In the section three and four, the author explains about Japan's economy and political motive towards Indonesia and how Indonesia see the agreement with their perspective. Moreover, the author explains the

need for Japan to balance their power in order to managing the effect of the new emerging power from the rising of China and the new Four Asian Tiger.

#### CHAPTER V CONCLUSION

In this chapter, the author concludes all the analyzed data from chapter four, also, the author gives some suggestion for the next research within the similar research area.

