

Japan–Indonesia Economic Cooperation: An Overview

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4 Japan–Indonesia Economic Cooperation: An Overview

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This article aims to deepen our knowledge of Japan's foreign policy in the Southeast Asian region and its role in Indonesia's economic development, focusing on their economic cooperation via the Indonesia–Japan Economic Partnership Agreement (IJEPA) and Manufacturing Industry Development Centre (MIDEC) programme. The former has promoted cooperation via a tariff reduction scheme, while the latter facilitates the Indonesian government's aid to micro, small and medium enterprises in the entrepreneurial sector.

JAPAN HAS IMPLEMENTED a grand strategy ¹ to maintain peace and security in the Asia-Pacific region since August 2016 when Japanese Prime Minister Shinzo Abe launched the “free and open Indo-Pacific” (FOIP), cooperating with

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various countries including Indonesia. Japan sees Southeast Asia as a strategic region, especially in supporting its own economy. Therefore, Abe made a state visit to Indonesia while serving as Japan's prime minister in 2017. He had given Southeast Asia top priority in his diplomatic visit, which he hoped would help Japan forge partnership with Southeast Asia in not only the security sector but also the economic sector. In addition, Japan has grave concerns about China, which has a dominant presence in Southeast Asian region, and this explains Abe's motivations for more intense cooperation with countries in Southeast Asia, especially Indonesia.

To strengthen economic cooperation between Japan and Indonesia, Abe led a 30-member delegation of businessmen to Indonesia in 2017. Four major strategic projects, namely the Patimban port, the Jakarta–Surabaya railway, the oil and gas block in Natuna island, and a chemical fertiliser project, were discussed during his visit.¹ Abe's visit is concrete evidence of the gravitas that the Japanese government has given in forging cooperation with the Indonesian government led by President Joko Widodo, popularly known as President Jokowi.

Both countries met on various occasions during the time of Abe and Jokowi, such as at the 35th ASEAN Summit held in Bangkok, Thailand in November 2019. Indonesia seeks cooperation with Japan in infrastructure development because the collaboration is premised on potential technological transfer. Indonesia also seeks to achieve the following outcomes from collaboration with Japan: infrastructure sustainability with institutional reforms and simplified regulations; improved infrastructure that uses modern technology; and human resources development in terms of skills, work capability and organisational culture. Therefore, human resources and infrastructure development always work in tandem to support economic cooperation. As evident in their human resources practices, Japanese companies in Indonesia provide quality training to local workers, benefiting nearly 50,000 Indonesian workers.²

¹ Malcolm Cook, Leo Suryadinata, Mustafa Izzuddin and Hiep Le Hong, "Japan Seeks Stronger Strategic Ties in Southeast Asia". *Perspective*, ISEAS-Yusof Ishak Institute, no. 5, 25 January 2017, pp. 1–9.

² A TMartaon, "Kerja Sama Indonesia-Jepang Dinilai Bantu Peningkatan Kualitas SDM" (Cooperation between Indonesia and Japan Has Helped Improve Quality of Human Resources), 21 October 2020, <<https://www.medcom.id/nasional/politik/dN6AB8RK-kerja-sama-indonesia-jepang-dinilai-bantu-peningkatan-kualitas-sdm>> (accessed 1 February 2021).

Indonesia seeks cooperation with Japan in infrastructure development because the collaboration is premised on potential technological transfer.

This article discusses Japan's foreign policy assistance during the Shinzo Abe era and the assistance that Japan has given to Indonesia. The authors chose the Abe era as the subject of analysis due to close collaboration between Indonesia and Japan in infrastructure development such as Jakarta's integrated highway, and the intense negotiations of the Indonesia–Japan Economic Partnership Agreement (IJEPA). Increasing economic cooperation between Indonesia and Japan continues to benefit both countries, given that Indonesia benefits from technology transfer while Japan gains from lower production costs for its products. Furthermore, Japan, in providing Indonesia assistance to increase industrial competitiveness, could in turn obtain cheap raw materials from Indonesia.

The IJEPA is a free trade agreement that aims at improving diplomatic relations between Indonesia and Japan, and it is the highest form of agreement in global alliance related to economic integration.

This article contributes to the literature in two ways. It enhances existing literature on the study of Japanese foreign policy in Southeast Asia, and Japan's role in Indonesia's economic development. Indonesia–Japan partnership is deemed to have a positive impact on Indonesia. In examining the IJEPA, a form of economic cooperation between Japan and Indonesia, the authors study the effectiveness of such collaboration through the goals set by both sides. In 2007, then Indonesian President Susilo Bambang Yudhoyono and then Japanese Prime Minister Shinzo Abe signed a memorandum of understanding on the IJEPA, which came into force in 2008. The IJEPA is a free trade agreement that aims at improving diplomatic relations between Indonesia and Japan, and it is the highest form of agreement in global alliance related to economic integration. The agreement also provides the Jokowi administration a foundation to build on more intense cooperation.

The Abenomics Programme

Shinzo Abe was Japan's longest-serving prime minister in Japanese history. His policies have certainly improved the interests and development of Japan. Even though Abe had resigned from his post, he still plays an important role in Japan's policies, especially those related to the economy. Abe is known for his Abenomics policies, which have stimulated Japan's economic growth. In addition, he was also lauded for his capability to strengthen Japan's diplomatic relations with various countries such as India, Australia and Britain, as well as to exercise and boost Japan's maritime democracy as a driving factor to reinforce relations with other countries, especially those based on maritime commerce.

Therefore, the actual legacy of the Abe government is related to the identity of Japan. Japan's objective was to establish cooperation and strengthen its diplomatic relations with other countries so that it can play a greater international

role and promote the Abenomics programme to other countries as a recognised strategic approach to rejuvenate the economy.³ Abenomics is a set of economic policies formulated when Abe was in power. The name Abenomics was coined in a similar manner as that of Ronald Reagan's Reaganomics, Bill Clinton's Clintonomics and Barack Obama's Obamanomics when they were presidents of the United States.

Japan–Indonesia Bilateral Cooperation

Indonesia is one of the democratic countries that has close cooperative relations in various fields with Japan, and it has the potential to become one of the largest economies in the world. Indonesia's efforts in strengthening its economy, however, encounter several obstacles. First, Indonesia has inadequate infrastructure, and wide gap exists between the availability and development of infrastructure, thus hampering its economic growth. Second, uneven distribution of capital and investment in infrastructure, e.g. Java enjoys more opportunities than other regions in Indonesia. Such inequality in turn results in regional disparities, thus affecting Indonesia's per capita income. Third, manufacturing in Indonesia is still underdeveloped due to technological and human resource challenges. Fourth, Indonesia has a considerably high unemployment rate of informal workers and this certainly have substantial implications for Indonesia's economic growth.⁴

Therefore, Indonesia needs to cooperate with other countries that could act as a positive stimulus to its economy. It therefore first established collaborative relations with Japan, which views Indonesia as a democracy that has great economic potential and could become one of Japan's strategic partners, especially in developing Abenomics programmes and its maritime diplomacy.

One such bilateral collaboration towards achieving more stable economic growth and development for Indonesia is the Indonesia–Japan Economics Partnership Agreement (IJEPA). The IJEPA, first endorsed by Susilo Bambang Yudhoyono and Shinzo Abe, was fully implemented on 1 July 2008. A review of

...Indonesia needs to cooperate with other countries that could act as a positive stimulus to its economy. It therefore first established collaborative relations with Japan...

³ "As Japan **6** Abe Bows Out, His Economic Legacy Comes Under Scrutiny", Al Jazeera, 28 August 2020, <<https://www.aljazeera.com/economy/2020/8/28/as-japans-abe-bows-out-his-economic-legacy-comes-under-scrutiny>> (accessed 21 April 2021).

⁴ "What Is Holding Indonesia's Economy Back?", Al Jazeera, 31 March 2019, <<https://www.youtube.com/watch?v=RpiK3ucHmgo>> (accessed 21 April 2021).

the progress of the cooperation in 2013, five years after implementation, affirmed that the IJEPA should continue, given the substantial mutual benefits and the improved bilateral relations. Upon a closer examination, it should be noted that the IJEPA collaboration spans both periods of the Abe administration.⁵ In 2008, i.e. Abe's first term in the office, the IJEPA focused on improving the Indonesian economy by increasing investments, and establishing regulations related to free trade and potential cooperation in other sectors. In his second term, the IJEPA was leveraged to develop and further the influence of Abenomics.

...given the multidimensional nature of power, the United States is not in precipitous decline and China is a rising power with many domestic challenges.

The IJEPA covers several fields, including trade in goods (tariff and non-tariff, including regulation and trade recovery), customs procedures, the services trade, investment, individuals, government (BUMN or Indonesian state-owned enterprises), intellectual property rights, competitive policy, standards and conformity, improvement of the business environment, cooperation, and dispute prevention and resolution. The collaboration involves the government and the private sector that supports the industrial development strategy. Through the IJEPA, Japan has an interest in further enhancing the business environment for Japanese companies investing in Indonesia, including those that already had access to the Indonesian domestic market. The IJEPA covers more than 90% of the goods (agricultural and industrial products) that Japan exports to Indonesia. Japan has also exercised increased transparency via the IJEPA in the implementation of customs procedures and competition policies in Indonesia.⁶

Indonesia also advances its interests through the IJEPA, which provides greater assurance for access for Indonesian products and places Indonesia on par with competing countries that already have a cooperative agreement with Japan. As highlighted by Indonesia's Ministry of Trade, the agreement also covers more than 90% of the goods (agricultural and industrial products) that Indonesia exports to Japan, and has enhanced its customs and tax administration and legal certainty that improve Indonesia's business climate.

Both Japan and Indonesia shared similar view that the IJEPA should be accompanied by elements of a free trade agreement in accordance with Article

⁵ Syamsul Hadi, "Indonesia–Japan Economic Partnership Agreement: An Indonesian Perspective", *East Asian Policy*, vol. 6, no. 3, July/September 2014, pp. 114–128.

⁶ Ministry of Trade, the Republik of Indonesia, "Indonesia–Japan Economic Partnership Agreement (IJEPA) and Its Effects on Indonesian and Japanese Economy", 30 November 2007, <<https://www.indonesia-investments.com/upload/documents/Indonesia-Japan-Economic-Partnership-Agreement-IJEPA-Indonesia-Investments.pdf>> (accessed 21 April 2021).

XXIV of the General Agreement on Tariffs and Trade (GATT) to ensure improved market access for trading goods and the elimination and reduction of tariffs. The IJEPA also aims to increase trade and investment between Indonesia and Japan through regional markets via three pillars, namely liberalisation, facilitation and capacity-building. The liberalisation effort is directed more at trade liberalisation, reducing or eliminating trade barriers (import duties), improving investment climate and legal certainty, simplifying licensing and improving business regulations.

Furthermore, the IJEPA's trade facilitation aims to improve standardisation, customs and trade services, as well as benefits equity in trade, particularly in the investment sector. Likewise, Indonesia hopes that the IJEPA could foster a conducive investment climate that boosts Japan's confidence to invest in Indonesia. Japan will mobilise and inject large amounts of resources in capacity-building collaboration, particularly in skills training and education in order to increase Indonesia's competitiveness as a producer.

Indonesia has viewed the IJEPA an effective way to build the country's economy through industrial development and investment originating from Japan. Japan's investment is deemed to give Indonesia a head start in economic rejuvenation. In Japan's perspective, the IJEPA is a tool to strengthen diplomatic relations with democratic states such as Indonesia, to reinforce the role of Japan's economy and to introduce the Abenomics programme, given the economic cooperation's direct and positive impact on Japan's economic growth, and the Indonesian market's importance to Japanese industries.

The IJEPA plays an integral role in the economy of Japan and Indonesia. Due to Indonesia's lack of infrastructure, it has a low probability of attracting foreign investors. However, with the launch of the IJEPA, investment in Indonesia increased to US\$4 billion by 2013. This increase did not take into account the transfer of technology from Japan to Indonesia for infrastructure improvement. Japan also benefits greatly from the IJEPA because of the ease of investing in Indonesia.⁷ Indonesia was Japan's choice of investment destination because Indonesia presents abundant opportunities as market and production bases, and it is also rich in natural and human resources. Indonesia's abundant natural resources include mineral resources, especially oil, coal, natural gas and petroleum resources. In addition, Indonesia is the world's

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⁷ Hadi, "Indonesia–Japan Economic Partnership Agreement".

largest archipelagic country. Its strategic location and scenic landscape and nature have attracted foreign investors including Japan. Indonesia has abundant human resources due to its young and large population growth. Skilled human resources produce workers of productive age who are better prepared for the world of work.

The IJEPAs have also made major contribution to trade and tourism sector of Japan and Indonesia. In terms of trade, the agreement facilitates transactions in that it provides guidelines to setting of import–export tariffs. Hadi’s research

Indonesia–Japan collaboration in the automotive industry aims to develop the industry to transition to the era of electrification or battery-based electric vehicles.

has shown that the increased trade activities between Japan and Indonesia had a direct impact on respective country’s trade balances. In terms of tourism, Indonesia and Japan introduced a visa-free policy in 2015. The primary goal was to increase tourism activities between them, as tourism sector is one of their leading economic sectors. The visa-free policy would encourage the people of Indonesia and Japan to intensively travel to each other’s countries.⁸ In June 2014, Japan announced visa waiver for a maximum of 15 days for Indonesian citizens holding Indonesian passports. This policy applies to e-passport holders (passports that have an identity chip) so that the Japanese immigration system can read them to authenticate users’ identities. The passports must be registered with the Japanese Embassy or the Japanese Consulate General in the Indonesian area.

A Boost to Indonesia’s Manufacturing Sector

In 2019, Indonesia and Japan intensified their cooperation in the manufacturing sector, which was considered a major challenge to Indonesia’s economy due to the lack of new technology/local companies in the electronics subsector, the industrial clusters and renewable energy sector. However, Indonesia’s cooperation with Japan has helped develop Indonesia’s manufacturing sector, which became one of its key economic sectors. The collaboration is mainly related to the automotive and electronics industries because Japan is one of the most influential and prominent industrialised economies in the world.⁹ Indonesia–Japan collaboration in the automotive industry aims to develop the industry to transition to the era of electrification or battery-based electric vehicles.

Indonesia and Japan share mutually beneficial diplomatic relations, as evident in their regular annual meetings and their long-standing diplomatic relationship of

⁸ “Indonesia–Japan to Boost Tourism Through Visa-Free Agreement”, Jakarta Globe, Berita Satu, 25 November 2015, <<https://www.youtube.com/watch?v=hn81NLQGCRU>> (accessed 21 April 2021).

⁹ “Indonesia, Japan to Boost Cooperation in Developing Manufacturing Sector”, CNA, 28 June 2019, <<https://www.youtube.com/watch?v=0Gr4DKryDPs>> (accessed 21 April 2021).

63 years. This demonstrates that the IJEPA has succeeded in bridging Japan and Indonesia via beneficial cooperation and in optimising their economic potential. Indeed, Abe played a pivotal role in the success of the IJEPA and Abenomics to strengthen Japan's economic growth and international cooperation, particularly with Indonesia.

One of the special schemes in this collaboration is the User Specific Duty-Free Scheme (USDFS), which is a zero-tariff reduction scheme for users, which in this case is Indonesia. Japan hoped to receive special accelerated tariffs for raw materials imports via this scheme. To engineer a win-win situation, Japan then assisted Indonesia to increase its production value through the Manufacturing Industry Development Centre (MIDEC) programme, which aims to increase the competitiveness of Indonesia's manufacturing industry in various sectors. The USDFS and MIDEC schemes yield different impacts and benefits—the former benefited Japan in the form of reduced raw material costs, while the latter benefited Indonesia in terms of technology transfer conducted between them.¹⁰

Japan and the Indonesian government performed an evaluation of the MIDEC programme in 2013 to assess the effectiveness of the cooperation between the two countries. The five evaluation criteria are based on guidelines defined in the OECD-DAC (Organisation for Economic Cooperation and Development-Development Assistance Committee), namely relevance, effectiveness, efficiency, impact and sustainability. The relevance criterion assesses the extent to which MIDEC activities and industrial development policies have responded to and addressed the objectives. Effectiveness assesses the extent to which the activities have achieved the desired objectives. Efficiency evaluates the implementation costs and how the activity was completed on time. Impact assesses the extent to which activities conducted through the MIDEC programme have positive or negative effects on the parties involved, i.e. Japan and Indonesia. Sustainability assesses the extent to which the range of activities has continued to yield net benefits with funds injected by donors.¹¹

To engineer a win-win situation, Japan then assisted Indonesia to increase its production value through the Manufacturing Industry Development Centre (MIDEC) programme...

¹⁰ Tirta Nugraha Mursitama, Noerlina and Anastasia Sabrina, "Implementation of Indonesia Japan Economic Partnership Agreement: A Comparison of User Specific Duty Free Scheme And Manufacturing Industrial Development Center Programs", *International Journal of Scientific and Technology Research*, vol. 8, no. 7, 2019, pp. 115–121, esp. 115–116.

¹¹ *Ibid.*, p. 117.

In addition to the aforementioned five evaluation criteria, partnership is another criterion being considered to assess the extent to which cooperation between two parties has resulted in a bilateral relationship. Findings from a study by Mursitama et al. show that language barrier had a significant impact on the MIDEK implementation schedule. The mechanism to overcome the language barrier is to improve skills, particularly in language skills.

The IJEPA covers beyond the MIDEK programme. Through this agreement, Indonesia also negotiated fishery policy with Japan, in particular the import duty rates for tuna. Tuna is one of the main trade commodities that Indonesia exports to Japan. According to data released by BPS–Statistics Indonesia, Japan was the first country to import tuna from Indonesia in 2002. However, Japan set high import tariffs on imports, 3.5% for fresh tuna and approximately 9% for canned tuna. These tariffs were considered inefficient and impacted trade; in 2017, Indonesia lost approximately US\$12 million in revenue.¹² Therefore, the Indonesian

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government committed efforts to minimise these obstacles by providing regular guidance to business actors to boost world market confidence in Indonesian fishery products, and by obtaining certification of global standards for sustainable fisheries for yellowfin tuna and skipjack fish products from the Marine Stewardship Council

In fact, Indonesia and Japan had pledged their commitment to trade their fishery resources to ensure sustainability and to generate mutual benefits. Both sides agreed that the IJEPA should include elements that are compatible with the free trade agreement in accordance with Article XXIV of the GATT, which aims to increase market access for trade in goods and reduce tariffs, both considered as pressing issues. In this regard, Indonesia expressed its interest to eliminate tariffs, especially peak tariffs or increased tariffs, and to formulate no-tariff regulations. Shobaruddin's study highlights that both Japan and Indonesia prioritised tariff reduction to trade of important commodities.

Indonesia's high tariffs or import duties on tuna to Japan, which are even higher than those of other countries that are also suppliers of tuna to Japan, seems to suggest that Indonesia has not been able to maximise the IJEPA as a tool to benefit the tuna trade. Shobaruddin's study highlighted that tuna is Indonesia's main export fisheries commodity to Japan, and this led to Indonesia renegotiating the IJEPA in 2015. The renegotiation was aimed at evaluating and adjusting the current

¹² Muhammad Shobaruddin, "Indonesian Strategy in Negotiating Tariff Duty of Tuna Commodity under Indonesia–Japan Economic Partnership Agreement (IJEPA)", Thammasat University, 2018.

situation to benefit both parties. Indonesia continued its efforts in negotiations with Japan in August and November 2017 held in Bali and Tokyo, respectively. However, both sides did not reach an agreement until the end of 2018. The authors proposed that Indonesia should pay attention to the problem of tuna fishing in Indonesia waters as Japan is deeply concerned and strict about the environmental impacts and consequences of fishery practices of importers. Indonesia has not yet fulfilled the requirement given its exploitative practice of fishing yellowfin tuna. In addition, the selection of raw materials used in tuna canning in Indonesia is still seen as not meeting environmentally-friendly requirements.¹³

Japan's Aid Provision to Indonesia

In 2020, Japan provided Rp 7 trillion in loan assistance and Rp 276 million in grants to Indonesia¹⁴ to tackle the COVID-19 pandemic and to plan for Indonesia's economic development. In this case, Japan seeks to lead the global community in suppressing the spread of COVID-19 and bringing global economic stability, which has suffered severe impacts from the pandemic. Japan's assistance provision to Indonesia highlights their close relationship, and subsequently serves to ensure smooth and stable economic cooperation between them.

Due to the current pandemic situation, micro, small and medium-sized enterprises (MSMEs), and the Indonesian domestic industries have also experienced significant impacts in terms of market supply and demand. The imposition of mobility and direct interaction restrictions due to the pandemic had changed people's consumption patterns.

Although MSMEs and domestic industries have experienced many obstacles, causing some of them to go out of business, Indonesia's Ministry of Cooperatives and Small and Medium Enterprises highlighted that there was an increase in digital MSMEs.¹⁵ This marks the growing trend of digital economy amid the pandemic. This increase was also accompanied by Indonesia–Japan cooperation, facilitated by the convenience of bilateral economic transactions following the finalisation of the second IJEPAs and the setting up of free trade agreement centres in Jakarta, Bandung, Makassar, Medan and Surabaya. MSMEs can therefore obtain better

¹³ Shobaruddin, *Indonesian Strategy in Negotiating Tariff Duty of Tuna Commodity under Indonesia–Japan Economic Partnership Agreement (IJEPA)*.

¹⁴ F Roy, "RI Dapat Utangan Baru dari Jepang Rp 7 T & Hibah Rp 276 M" (RI [Republic of Indonesia] Gets New Loan of Rp 7 T and Grants of Rp 276 M from Japan), 20 July 2020, <<https://www.cnbcindonesia.com/news/20200720175426-4-174096/ri-dapat-utangan-baru-dari-jepang-rp-7-t-hibah-rp-276-m>> (accessed 20 April 2021).

¹⁵ MediaIndonesia, "Kerja Sama RI-Jepang, Peluang UMKM Kembangkan Bisnis ke Jepang" (RI–Japan Cooperation, MSME Opportunities to Develop Business in Japan), 24 January 2021, <<https://m.mediaindonesia.com/ekonomi/379554/kerja-sama-ri-jepang-peluang-umkm-kembangkan-bisnis-ke-jepang>> (accessed 1 March 2021).

information related to consulting and advocacy services, target markets, and business development so that they will be able to better compete in the Japanese market.

Economic Interdependence between Japan and Indonesia

As discussed earlier, Japan, by leveraging the Abenomics, established various economic cooperation agreements with many countries to boost its economy. A case in point is Japan's economic cooperation with Indonesia.

Economics is one of the important aspects in a state's international relations, as it is a benchmark of a state's welfare and progress. Therefore, each state attempts to optimise its economic potential in order to realise its national interests. In addition, a state would tend to cooperate with other countries that are considered

Economic interdependence focuses on how a policy can be implemented effectively to support the economic success of a country compared to its competitors.

to have great economic potential to complement each other's needs, or to compete economically to gain a stronger position in trade, labour, investment and other aspects. Interdependence provides an indication of the actual relationship between countries and whether the parties derive benefits from the relationship. Economic interdependence focuses on how a policy can be implemented effectively to support the economic success of a country compared to its competitors.¹⁶ This means that each country would seek to cooperate economically with other countries to minimise competition, and to drive its economy by examining the potential of its domestic economy and that of other countries.

Currently, there is a shift in modern international political economy towards a more dynamic approach. Due to globalisation, interdependence between countries is an unstoppable trend today. States, companies and other actors have entered into interdependent political-economic processes.

Analysing the cooperation mechanism implemented by Japan and Indonesia, it is noted that both countries have capitalised the momentum of their economic cooperation to support each other's economic stability without having to sacrifice their national interests. Instead, both parties benefited from their cooperation, starting with the transfer of labour and technology, and increasing trade flows and investments. Indonesia and Japan consider their interdependence a key component in the implementation of their economic cooperation that yields enormous benefits.

Indeed, interdependence advocates view the existing international system as a unified entity that is interconnected with each other through cooperation to

¹⁶ Wang Zhiyuan, "Economic Competition, Policy Interdependence, and Labour Rights", *New Political Economy*, vol. 23, no. 6, pp. 656–673.

realise the interests of each party. The concept of interdependence entails equal contribution from two countries to yield benefits from the cooperative relationship which they share without the strong domination of either party. The fundamental premise of interdependence is how each country can cooperate effectively and efficiently without any pressure in pursuit of their common goal of achieving their own interests via mutual relationship. Interdependence, as it develops, is also affected by the globalisation process, which influences a dynamic relationship between international politics and economic processes.

All of these processes have become interrelated with each other due to globalisation, and hence, in response to the dynamic process, countries should cooperate with one another. If countries do not follow the flow of change, they will encounter difficulty in playing an international role. Japan identifies an opportunity and has great ambitions to play a pivotal role in international sphere. Therefore, Japan actively engages with various countries through an interdependence process so that it can acquire more opportunities to become the main pillar of world cooperation and bolster its position through systematic and effective economic cooperation with various countries. Indonesia is one of Japan's targets of economic cooperation as the Southeast Asian country holds great potential and high profitability.

Trade interdependence is a form of economic cooperation that facilitates distribution of goods and international trade flow. While such interdependence may cause conflict if misunderstanding arises among various parties, it can, however, lead to more harmonious trade practices due to mutually beneficial policies.¹⁷ Trade interdependence between Japan and Indonesia is evident in the import-export tariff policies agreed upon by the two countries to support smoother trade flows and minimal barriers.

Japan is an advanced, industrialised country that has achieved rapid, high-level technological development. However, Japan needs resources that it is not able to produce on its own. For this reason, it is essential that

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¹⁷ **9** Sam R Bell and Andrew G Long, "Trade Interdependence and the Use of Force: Do Issues Matter?", *International Interactions*, vol. 42, no. 5, 2016, pp. 750–773.

Japan cooperates with other countries.¹⁸ In its cooperation with Indonesia, Japan provides technology, and Indonesia in turn supplies resources and raw materials to Japan. Such is a clear case of interdependence between Japan and Indonesia.

The authors also examine and review the linkage issue of the application of the User Specific Duty-Free Scheme (USDFS) and the Manufacturing Industry Development Centre (MIDEC) frameworks, especially the 2008–12 tactical linkage. The linkage issue is intended to solve problems related to national interests. In this collaboration, Japan takes on an initiator role to provide proposals for driving the acceleration of four key raw material sectors. Indonesia acts as a linkage that benefits from cheap raw materials to be used in industrial development in Indonesia, in particular the automotive sector.¹⁹ Furthermore, Indonesia had relaxed its trade barriers by eliminating tariffs and non-tariff measures to attract Japan's investment in the industrial sectors.

Conclusion

Indonesia and Japan have encountered challenges in forging cooperation, such as creation of opportunities that could strengthen cooperation. As collaboration requires innovation and skills in information technology to support Indonesia's economic growth, such opportunities could entail the involvement of entrepreneurs, research institutions, non-governmental organisations and the community. Japan's technological transfer has helped the Indonesian government and business actors overcome many such challenges. Meanwhile, Japan has also benefited from Indonesia's vast market opportunities for Japanese products.

Indonesia and Japan have a long-standing bilateral cooperation, and their close economic relations have helped to smoothen out various problems that the Indonesian government and entrepreneurs faced. Japan's increased investment in Indonesia has improved Indonesia's infrastructure connectivity and technological innovation.

Interdependence is a process whereby two countries engage with each other in cooperation to fulfil each other's interests. Such cooperation could be in any form, the most common of which is economic cooperation because economy has an important role as the sustenance of a country. Japan–Indonesia interdependence manifests in their complementary needs to improve their economic stability. As not all countries are able to produce everything independently, forging cooperation with other countries is undoubtedly necessary.

¹⁸ Kaoru Natsuda, "States, Multinational Corporations, and Institutional Arrangements", *Japanese Economy*, vol. 36, no. 3, 2009, pp. 96–127.

¹⁹ Noerlina and Tirta Nurgraha Mursitama, "Implementation of Indonesia Japan Economic Partnership Agreement: A Comparison of User Specific Duty Free Scheme and Manufacturing Industrial Development Center Programs", *International Journal of Scientific and Technology Research*, vol. 8, no. 7, pp. 115–122.

Although Japan and Indonesia are parties to the IJEPa agreement, Japan still imposes high import duty rates on tuna from Indonesia. The authors view Japan's punitive action positively. Japan is deeply concerned about Indonesia's exploitative fishing practice of yellowfin tuna and holds a high standard for ecological preservation and the environmental protection. In this case, if Indonesia wants the tariffs to be reduced, it then must comply with sustainable, non-exploitative fishing method.

Thus, even though Japan and Indonesia shared a bad historical past during the Japanese Occupation, they have managed to engage in cooperation to achieve their respective interests. Cooperation started after the end of World War II when Japan attempted to offer aid to Indonesia out of a sense of responsibility, and this later developed to an economic agreement that has been in force since 2008. ■

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