

THE ROLE OF JAPAN IN THE INDONESIAN ECONOMIC DEVELOPMENT

Nopirin

ABSTRACTS

The role of Japan in the development of the Indonesian economy is inevitably getting bigger. Japan is the biggest market for Indonesian exports. As it does in exports, Japan is also the biggest sources of import. From the bilateral sources of debts, it is obvious that Japan is also the biggest sources of loan.

In regard of getting the role of Japan, a certain kinds of awareness should be taken by the Japanese Government to lessen the negative feeling of the society that might rise to that which happened in 1974 will never take place again.

1. Introduction

One of the main factors that affect the development of the international trade and investment of ASEAN countries including Indonesia has been the appreciation of yen since 1985. This was due to the imbalanced trade, especially between the deficit of USA and the surplus of Japan. It has continued to happen up to now.

The appreciation of yen then affected other ASEAN countries. Because of the increasing value of yen, the Japanese exports are declining due to decreasing export competition which is caused by the rising cost of living. Therefore, the import and investment abroad tend to go up. In ASEAN countries, the exports are going up and the Japanese investment is intruding. The balance of trade is getting better. Industrialization helps create job openings and transfer of technology. All this encourages the increasing economic growth of the ASEAN countries that enables them to achieve regional stability.

Professor Kanane Akamatsu stated a theory "Wild geese flying pattern" (Yamashita S., 1991) to the spread of Japanese economic development over the ASEAN countries through the new Industrial Countries (such as Korea, Taiwan,

Singapore). He based his theory on a long term observation on the development of industri in Japan.

Apart from yen appreciation, there are some other factors (domestic) that greatly support the development of ASEAN countries, such as:

1. Government policy on economic deregulation both in trade and investment which enable private sectors to develop more easily.
2. The increasing volume of trade among ASEAN countries.
3. The more establish domestic social politics and security.

Thus, the Japanese investment in foreign countries, especially in ASEAN countries, is supported by the appreciation of yen, the increasing production, the government policy on deregulation, the national stable political condition.

The role of the Japanese joint ventures with the local partners in ASEAN are quite big, mainly in supporting the industrialization to increase exports. They help:

- a) create job vacancies
- b) improve the amount of the foreign exchange
- c) transfer technology
- d) support the development of domestic industries.

Therefore, the governments of ASEAN countries greatly welcome the Japanese Industries, i.e. textile & garments, electronics and automotive industries. Japan also plays important roles in the development of Indonesian economy with its all characteristics as mentioned above. Yet, Japan is even a quite big partner to Indonesia in exports, imports, investment and foreign loans. Before analysing the roles more in details, it is necessary to discuss the chronological development of the Indonesian economy.

2. The Development of the Indonesian Economy

After its fast development in 1970's as a result of the oil boom, the Indonesian economy is suffered a recession of the world economy. The recession which started to happen in the beginning of 1986 and the decreasing price of oil forced the

Indonesian Government to carry out some adjustment policies since oil dominated the Indonesian economy. In the early 1980 the oil exports constituted 82% of the total exports and 72% of the government revenues.

Some various adjustment policies were taken to reform the economy (*Anwar, et. at., 1991*). The first deregulation policy was on monetary in the early 1983 which eliminated the credit ceiling, freed the determination on the level of interest rates and reduced the credit liquidity from Bank Indonesia. From the point of view of fiscal policy, the government saved the budget (Austerity program) by reducing the budget and delaying some government projects. Meanwhile, in 1985 the government reinforced its policy on tax in order to improve the government revenue.

There were also some deregulation on the international trade, i.e. tariff rationalization, the use of tariff system instead of quantitative restriction, improvement on import system and replacement on customs department with foreign consultant (SGS) from Switzerland.

Devaluation was taken a few times (1978, 1983 and 1986) in order to make the exchange rate more realistic and to increase the value of exports. The procedures for exports were simplified, some kinds of incentives were given to the exporters, and imports on raw materials were with zero tariffs when the final products were to be exported.

Some various ways of promotion were carried out to attract foreign investment, such as simplifying the procedures and since 1994 foreign investment may be up to 100% of ownership on certain fields.

In 1988 and 1989 the deregulation on monetary was continued and so was it on capital market. The procedure for the licence was untightened and foreigners were allowed to buy shares of maximum 49% at the stock market in Jakarta.

Those adjustment policies proved to be reliable to modify/change the structure of the Indonesian economy.

3. The Structural Change of the Economy

During the oil boom, the Indonesian economy grew quite fast (7-8% per annum). Yet, the growth was merely because of oil. The Indonesian economy may then be said as an oil economy. With the taken deregulation, the role of oil in the economic growth was decreased. The Cross Domestic Product (GDP) from oil decreased from 17% at the end of 1970 to 9% in 1993; whereas the GDP from agriculture decreased from 25% to 18%. However, the GDP from services increased from 30% to 42%.

The role of oil in exports decreased from 82% in 1980/1981 to 40% in 1992. The government revenue from oil, therefore, went down from 70% to 40%. Thus, it was clear that the structure of the Indonesian economy become more balanced.

4. The Role of Japan

Japan played a quite big role in the growth of the Indonesian economy. This can be seen from its role in trade (exports and imports), investment and foreign loans.

a. Exports

The strategy on industrial development has moved from import substitution to export promotion. The reason is that Indonesia needs foreign exchange to import raw materials and to pay foreign debts. The balance of trade always shows a surplus (X-M), but the current account always deficit since the deficit of the transaction on services is bigger than the surplus of the transaction on goods. The amount of the deficit on the current account on services is caused by the repayment of the interests of foreign loans. Meanwhile, the deficit of the commodities transaction was balanced with the surplus of the transaction on capital which occurs as a result of the foreign loans.

The structure of exports has gone through changes. The role of oil exports in the total exports went down from 82% in 1981/1982 to 40% in 1991/1992. The non-oil exports (mainly manufactured) went up from US\$ 12 billion to US\$ 25 billion in

1992/1993. The main products of non-oil exports are textiles, plywood and rubber products.

Japan is the biggest market for Indonesian exports (see Appendix 1). Indonesia mainly exported oil to Japan and its exports on manufactured products to Japan raised from US\$1.8 billion in 1987 to US\$ 33.7 billion in 1992. Compared to other countries, **Japan is the biggest** market for Indonesia.

b. Import

The composition of imports mainly consists of raw materials and capital goods (about, 70%). The imports are growing in line with the development of industry. **Most of the production of** manufactured goods still uses the import components, like otomotives, electronics and garments (about 65%).

Import is still dominated by capital goods. The growth of import is quite high (16% per year). It is clear, therefore, that Indonesia imports goods with comparative advantage, i.e. goods which are capital and technology intensive. With some various policies on exchange rates which are managed float and the control on inflation, the big capital outflow can be prevented. Up to the present time, the inflation rate can be maintained below 10% and the the exchange rate fluctuate with gradual depreciation.

As it does in exports, Japan is the big source of import, compared to other countries (see Appendix 2). The Indonesian imports from Japan increased from US\$ 4.4 billion in 1987 to US\$ 8.3 billion in 1992 and constituted the biggest source of imports compared to others. The imports generally cover otomotives and electronics.

c. Foreign loans

Although Indonesia basically adopts a free foreign exchange system, the foreign loans (especially for BUMN/government companies and banking) are coordinated. The government by all means guarantees the BUMN loans (PKLN Tesm); and the banking loans with the regulation of NOP (Net Open Position), i.e. a foreign loan of maximum 25% of the capital.

In 1970's the Indonesian foreign loans, which were still relatively little with the Debt Service Ratio of about 14%, were mostly for the government (and very little for private companies). The oil boom of 1972, 1973 and 1974 certainly helped reduce the burden of debt (*IMF*, 1994).

In the early 1980's the world recession which was signalled by the trade imbalance of repayment of the developed countries (the USA's deficit and the Japanese's surplus), there was a move from yen to Dollar. The Indonesian debts increased (the debts were not in dollars but the export-imports were in dollars). The debts increased from US \$ 35.1 billion in 1985 to US \$ 49.5 billion in 1987. The Debt Service Ratio went up to about 30% (Appendix 3).

The Package of October 1988 widened the banking and ceiling of the foreign loans was eliminated. The expansion of monetary caused inflation (over-heating economy). The tight money policy was taken into action so that the domestic funds was tightened and the interest rate increased. This resulted in a condition where the private companies chased for foreign loans. The total Indonesian debts (especially private) increased from US \$ 130 million in 1988 to US \$ 2.6 billion in 1990. The private debts were mostly commercial and for a short term.

The chasing for foreign loans resulted in the increasing rate of interest. The increase with the tightened funds abroad because of the economy reformation in Rusia, China and the East Europe made it worse. From the bilateral cources of debts, it is obvious that Japan is the biggest source of loan (Appendix 3).

In conclusion it can be said that Japan plays an important role in the development of the Indonesian economy.

5. Final Comments

One thing should be noted that the role of Japan in the development of the Indonesian economy is inevitably getting bigger. Therefore, a certain kind of action should be taken to lessen the negative feeling of the society. It may happen that some people feel worried about the Japanese domination and it may create a problem with

the income distribution. The Japanese government and people had better be careful with this so that what happened in 1974 will never take place again.

6. References

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Appendix (1)
Non Oil Export By Country Destination

	1987	1988	1989	1990	1991	1991		1992	
						Nov.	Des.	Jan.	Feb.
AFRICA	149.004	259.367	208.727	139.011	342.939	34.446	25.177	22.704	23.272
AMERICA	1.745.042	1.983.631	2.220.671	2.562.291	3.049.741	305.417	303.841	302.406	313.319
- USA	1.626.907	1.845.712	2.060.905	2.327.547	2.699.838	278.292	264.734	266.352	254.623
- Latin America	26.484	36.883	50.489	97.266	179.676	13.817	20.944	17.927	17.066
- Canada	90.600	97.237	103.503	129.999	162.149	12.500	17.507	17.334	41.042
- Others	1.051	3.799	5.774	7.479	8.078	808	656	793	588
ASIA	4.766.706	6.958.690	8.610.560	8.582.249	10.600.722	903.016	1.039.352	961.137	927.990
- ASIAN	1.347.681	1.950.542	2.465.497	2.190.500	3.038.413	241.659	282.801	257.281	245.371
- Brunei Darussalam	1.978	6.361	7.278	10.301	10.323	949	871	1.091	1.705
- Malaysia	86.109	185.001	217.738	229.196	364.934	27.996	48.205	38.104	31.543
- Philippines	50.742	81.073	113.681	131.594	154.881	9.154	14.786	10.529	16.445
- Singapore	1.123.923	1.536.935	1.896.410	1.626.474	2.290.514	190.335	204.771	192.290	178.773
- Thailand	84.929	141.172	230.390	192.935	217.761	13.225	14.168	15.267	16.905
- Hongkong	434.436	579.541	543.384	675.106	736.088	58.599	86.269	48.796	63.759
- India	56.927	69.127	47.524	59.672	43.551	3.009	5.381	8.716	7.412
- Irak	6.302	10.371	129.272	78.891	3.080	626	418	486	331
- Japan	1.843.887	2.689.164	3.635.216	3.271.591	3.678.152	361.753	353.565	241.370	315.654
- South Korea	131.512	312.202	419.503	463.158	660.237	35.954	67.296	52.914	56.971
- Myanmar	1.827	2.687	3.156	6.978	7.812	915	1.185	547	624
- Pakistan	22.618	40.423	43.656	50.624	60.484	4.285	4.135	5.354	4.285
- RRC	321.035	458.501	327.773	551.772	618.501	56.251	30.053	71.824	55.718
- Saudi Arabia	98.638	175.829	191.965	336.942	490.195	33.869	42.285	42.220	44.366
- Taiwan	301.847	314.169	393.354	380.707	616.978	45.583	50.263	50.979	40.571
- Others	199.996	356.134	409.820	516.308	747.231	60.513	77.701	80.650	92.928
AUSTRALIA & OCEANIA	106.199	146.441	191.851	215.804	273.184	20.360	20.360	22.170	25.978
EUROPE	1.705.248	2.273.113	2.686.913	3.198.339	3.821.972	327.416	432.989	370.233	336.236
- E.C.	1.455.621	2.080.322	2.401.457	2.948.814	3.560.691	302.819	412.831	346.948	316.841
- Netherland	481.643	637.103	696.862	698.089	772.910	69.091	105.788	70.885	68.445
- Belgium	93.590	165.254	162.835	196.781	240.572	18.361	25.381	23.264	70.814
- U.K.	210.489	342.666	454.849	508.047	627.991	50.988	64.483	70.323	61.794
- Italy	173.534	205.803	214.035	252.560	358.017	42.943	45.600	43.968	39.018
- West Germany	380.233	430.645	489.928	727.604	974.965	69.243	94.742	73.196	68.385
- France	100.033	165.870	204.755	27.482	372.594	30.887	41.844	35.207	32.746
- Others	12.999	133.031	178.193	288.151	313.642	21.306	34.993	30.105	25.639
- Uni Soviet	81.000	39.825	94.767	72.561	37.371	516	1.059	4.189	890
- Eastein Europe	85.512	90.611	106.400	72.629	86.922	13.358	3.372	4.535	3.993
- Others	83.115	62.355	84.289	104.335	436.988	10.723	15.727	14.561	14.512
TOTAL	8.472.199	11.621.242	13.918.722	14.757.694	18.088.558	1.591.930	1.821.719	1.678.650	1.325.795

Appendix (2)
Import By Country Origin

	1987	1988	1989	1990	1991	1991		1992	
						Nov.	Des.	Jan.	Feb.
AFRICA	128.067	217.510	207.612	184.541	171.937	8.006	13.897	13.934	12.853
AMERICA	1.304.364	2.225.094	2.726.917	3.238.850	3.825.360	253.218	357.860	282.908	305.839
- USA	1.226.907	1.673.108	2.024.252	2.398.868	2.937.431	199.546	292.868	230.493	215.671
- Latin America	202.872	239.899	297.809	442.730	480.478	25.098	27.940	19.712	31.278
- Canada	255.065	279.448	323.665	324.532	340.466	22.631	30.491	26.318	57.369
- Others	20.168	32.639	81.191	72.720	66.985	5.943	6.561	6.385	1.581
ASIA	6.503.187	6.951.892	7.906.530	10.192.529	13.890.220	950.674	1.207.858	1.046.071	1.053.375
- ASIAN	872.101	1.004.525	1.115.330	1.097.618	1.259.682	118.847	121.602	113.819	161.036
- Brunei Darussalam	45	257	2.203	1.016	181	-	-	66	-
- Malaysia	205.743	227.135	252.291	167.421	187.112	21.571	20.509	17.157	26.065
- Philippines	62.532	51.246	68.793	53.296	33.881	1.749	5.728	3.167	935
- Singapore	535.511	624.642	565.833	686.095	784.396	77.876	68.832	55.470	73.346
- Thailand	69.300	101.345	226.210	189.790	254.112	17.551	26.533	37.959	60.690
- Hongkong	79.942	119.410	156.477	239.171	214.112	26.286	17.976	21.006	16.571
- India	26.464	35.933	82.629	155.614	234.981	17.542	24.420	21.233	35.838
- Irak	580	687	21.793	6.274	554	-	-	205	-
- Japan	4.418.267	4.214.079	4.117.684	5.451.547	8.282.416	435.268	694.126	547.817	498.831
- South Korea	253.053	370.205	552.602	908.606	1.354.625	150.477	135.709	137.039	136.942
- Myanmar	1.229	1.060	1.103	1.510	1.833	197	134	721	2.693
- Pakistan	31.711	55.941	57.114	58.650	46.449	3.188	2.352	3.550	1.652
- RRC	321.036	438.860	466.943	592.827	769.863	61.668	58.595	68.477	52.736
- Saudi Arabia	6.005	5.712	184.657	180.344	143.720	5.571	15.105	15.923	32.824
- Taiwan	389.628	597.373	879.948	1.243.159	1.241.351	99.328	97.689	97.791	88.499
- Others	78.090	107.053	270.250	257.209	340.634	32.302	40.150	18.490	25.753
AUSTRALIA & OCEANIA	500.661	692.077	984.227	1.061.824	1.232.613	110.287	112.339	127.034	82.746
EUROPE	2.776.677	2.646.727	3.059.628	4.748.442	5.515.984	426.928	628.624	479.489	423.258
- E.C.	2.337.184	2.073.817	2.415.334	3.923.569	4.561.116	359.410	530.840	441.409	332.790
- Netherland	224.133	244.594	222.365	526.115	506.420	28.597	124.225	34.693	21.881
- Belgium	103.113	129.212	156.464	255.108	209.664	21.343	20.333	38.123	22.292
- U.K.	259.112	289.937	321.024	423.826	517.258	43.313	69.551	51.303	37.865
- Italy	675.246	334.089	284.204	353.384	540.214	30.737	40.413	45.710	47.384
- West Germany	710.116	751.564	905.070	1.488.642	1.982.044	174.134	216.174	180.202	140.432
- France	284.309	308.567	376.501	590.020	524.078	42.242	46.772	40.041	53.173
- Others	81.155	115.654	149.706	286.474	161.437	19.044	13.372	21.337	9.758
- Uni Soviet	15.028	44.533	46.360	45.277	38.791	6.647	5.333	715	0.012
- Eastein Europe	79.091	79.423	117.762	131.785	136.994	7.603	10.199	8.445	7.792
- Others	345.374	350.944	480.172	847.811	779.028	53.267	62.252	58.720	75.884
- Indonesian	-	-	-	-	55	-	-	200	475
TOTAL	11.012.956	12.235.300	14.884.914	19.426.186	24.636.114	1.749.113	2.320.578	1.343.436	1.878.131

Appendix (3)
External Public Debt Outstanding of December 31, 1990
(US\$ '000)

Type of creditor/ Creditor country	Disbursed	Debt outstanding		Major reported ocw commitments Jan 1 - Dec 31 1990
		Undisbursed	Total	
Bilateral loans				
Australia	273.683	223.242	496.925	188.892
Austria	57.138	28.121	85.259	0
Belgium	100.283	1.378	101.661	0
Brunei	100.000	-	100.000	0
Bulgaria	995	-	995	0
Canada	339.260	76.525	415.785	8.627
China	26.901	-	26.901	0
Czechoslovakia	33.173	-	33.173	0
Denmark	30.710	-	30.710	0
Egypt, Arab Republic of	1.433	-	1.433	0
France	708.888	336.330	1.045.218	45.750
German Dem. Rep.	27.281	-	27.281	0
Germany, Fed. Rep. of	1.947.364	883.476	2.830.740	276.038
Hungary	8.275	-	8.275	0
India	18.651	4.521	23.172	0
Italy	53.616	36.346	89.962	0
Japan	10.821.334	4.398.056	15.219.390	1.640.682
Korea, Republic of	0	12.480	12.480	0
Kuwait	73.582	58.956	132.538	0
Netherlands	1.155.608	161.273	1.316.881	95.790
New Zealand	1.046	-	1.046	0
Other	20.000	-	20.000	0
Pakistan	3.483	-	3.483	0
Poland	46.595	-	46.595	0
Romania	6.680	-	6.680	0
Saudi Arabia	76.109	73.019	149.128	0
Spain	128	33.574	33.702	10.600
Switzerland	286	39.081	39.367	0
United Arab Emirates	5.015	1.713	6.728	0
United Kingdom	49.480	69.680	119.160	0
United States	2.365.039	495.459	2.860.498	113.769
USSR	445.655	-	445.655	0
Yugoslavia	55.849	-	55.849	0
Total bilateral loans	18.853.541	6.933.230	25.786.769	2.380.147
Export Credits				
Austria	139.337	48.090	187.427	35.252
Belgium	118.998	127.088	246.086	5.655
France	854.279	725.285	1.579.564	107.259
Germany, Fed. Rep. of	226.692	49.576	276.268	30.553
Japan	191.353	73.488	264.841	-58.154
Netherlands	275.279	145.548	420.827	7.232
Norway	4.297	-	4.297	0
Singapore	6.143	-	6.143	0
Sweden	179.649	-	179.649	0
Switzerland	70.121	30.315	100.436	0
United Kingdom	772.514	312.096	1.090.610	171.889
Total Export Credits	2.838.663	1.517.486	4.356.147	415.995
Total External Public Debt	44.275.147	20.009.624	64.284.765	5.870.260