



A Vital Triangle: Indonesia and the U.S.-Japan Alliance

By Yumiko Nakagawa

Issues & Insights
Vol. 3 – No. 4

Pacific Forum CSIS
Honolulu, Hawaii
July 2003

Pacific Forum CSIS

Based in Honolulu, Pacific Forum CSIS operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, D.C. The Forum's programs encompass current and emerging political, security, economic/business, and oceans policy issues through analysis and dialogue undertaken with the region's leaders in the academic, government, and corporate areas. Founded in 1975, it collaborates with a broad network of research institutes from around the Pacific Rim, drawing on Asian perspectives and disseminating project findings and recommendations to opinion leaders, governments, and members of the public throughout the region.

Table of Contents

	Page
<u>Executive Summary</u>	v
A Vital Triangle: Indonesia and the U.S.-Japan Alliance	
<u>Introduction</u>	1
<u>Japan's National Interest</u>	2
<u>Japanese Foreign Aid Toward Indonesia</u>	5
<u>The Impact of Sept. 11 and the War Against Terror</u>	17
<u>Conclusion and Policy Implications</u>	19
 <u>About the Author</u>	 23

Acknowledgements

I wish to thank Adm. Lloyd Vasey for his genuine support throughout this project. I am grateful to the supporters of the Vasey Fellowship for their generosity that made this program possible.

I would like to acknowledge Dr. Anthony Smith, Dr. Richard Baker, Mr. Alfred Nakatsuma, and Mr. Yamamoto Takashi for taking the time to talk to me.

Views expressed and conclusions reached are those of the author and do not necessarily reflect the views of the Pacific Forum CSIS, the sponsors of the Vasey Fellowship, or interviewees.

I would like to thank Ralph Cossa, Jane Skanderup, Brad Glosserman, Eun Jung Cahill Che, Vivian Brailey Fritschi, Belinda Long, and Georgette Guerrero Almeida for all their help.

Executive Summary

Japan's foreign aid program in general, and its assistance to Indonesia in particular, can serve to enhance or undercut the U.S.-Japan bilateral relationship, depending on how effectively it is managed. To ensure a positive outcome, the two countries must recognize and carefully manage unavoidable differences in their respective policies. Promoting cooperation and acknowledging these differences can enhance the comprehensive bilateral relationship and maximize their respective efforts to assist Jakarta during a time of extreme need.

Indonesia looms large in the two countries' strategic calculus. It is the largest country in Southeast Asia, has the world's largest Muslim population, and is rich in natural resources. Indonesia borders the Malacca Strait, which is the world's busiest sea lane and Japan's life-line; 80 percent of the oil and 95 percent of the liquefied natural gas consumed by Japan go through the strait. Japan has been Indonesia's largest trade partner and its top aid donor. The strait also borders the deployment route that U.S. forces use when traveling from Asia to the Middle East.

Economic interests have driven Japan-Indonesia bilateral relations. This was possible only within the framework of the Cold War and Japan's export-based economic strategy. Tokyo's ability to link its Southeast Asia policy with its relationship with the U.S. in the 1950s was also critical. While it is difficult to ascertain the impact of Japan's strategy, it is significant that Japanese Prime Minister Kishi Nobuske explicitly set Japan's Southeast Asia policy within the framework of the U.S.-Japan relationship. Japan returned to Asia as a junior partner of the U.S. and took advantage of the Yoshida Doctrine to pursue its national economic interest – as well as the vested interests of the ruling Liberal Democratic Party.

As Japan emerged as an economic power in the 1980s, Tokyo aimed to make its international status equal to its economic status. An increase in influence, presence, and visibility required expanding Japan's role in areas other than economics and developing a policy more independent from that of the U.S. The economic use of foreign aid was harshly criticized; an aid "philosophy" was needed. Gradually, the nature of foreign aid evolved from economic cooperation to development assistance. This process continues, and it has been complicated by the changing nature of the U.S.-Japan alliance brought about by the end of the Cold War.

The continuing promotion of Japan's development assistance policy increases the

chances that the U.S. and Japan will encounter “development friction.” Thus, it is important to recognize that such frictions are not the product of Japan’s desire to replace the U.S. in Asia. Rather they are a result of Japan’s attempt to gain more independence and increase its visibility in the international community. With remarkable economic achievements and substantial financial contributions, the Japanese government and people feel entitled to more credit. The emergence of Southeast Asia as a second front in the war against terrorism has underscored the need for creative thinking in ways to address security threats.

Japan’s foreign aid needs to be appreciated as an important component of the U.S.-Japan relationship. The Japanese government must design a foreign aid strategy that contributes to alliance enhancement. Emphasizing this cooperative aspect does not mean that differences in aid policies between the two countries will necessarily be diminished. Rather, the key is keeping these differences from damaging the bilateral relationship. U.S.-Japan foreign aid cooperation undertaken through shared initiatives will enhance the U.S.-Japan relationship.

For example, while the U.S. can support military training, Japan can focus on police training and reform. Japan can provide economic assistance to address root causes of terrorism – the economic conditions that breed frustration and violence. All such assistance should be scrutinized to ensure that it reaches all Indonesians, and does not serve the interests of a privileged few. The two governments should bring young Indonesians to their countries for education and the opportunity to build links to the next generation of leaders. Track-two and three processes should be utilized to deepen cultural understanding and promote civil society. As a rule, the two governments should institutionalize ad hoc policy coordination across a wide range of concerns, including health care, the protection of human rights, and internally displaced persons.

The changing security situation in Asia means the U.S.-Japan relationship is not bound by a single glue anymore and the *raison d’être* of the alliance is fragmented. Still, the essential national interest of both countries endures. Both want peace and stability in the region. Japan’s foreign aid can be an even more powerful tool to achieve this goal by being more cooperative and better coordinated with the U.S. in some fields. Ultimately, enhancing cooperation while reserving independence in its foreign aid policy is a test of Japan’s independence within the alliance.

A Vital Triangle: Indonesia and the U.S.-Japan Alliance

Yumiko Nakagawa

Introduction

The U.S.-Japan relationship is a critical variable for Japan's foreign aid policy. Linking the U.S.-Japan relationship and Japan's foreign aid policy is natural since the U.S.-Japan alliance and foreign aid are both essential components of Japanese overall foreign policy and potentially impact one another. Yet, Japan's foreign aid policy has been defined mainly by economic interests, and its role within the alliance has been largely ignored. This is especially true in regard to Japan's foreign aid to Indonesia. Identifying and exploiting the linkage between the U.S.-Japan relationship and Japan's foreign aid policy can help ensure the future of the alliance while allowing both countries to maximize their support to Indonesia.

The U.S.-Japan alliance is changing. While it remains as important as ever, it must accommodate changes in the international climate as well as in Japanese domestic politics. The end of the Cold War and decreasing tensions in Northeast Asia increase the importance of alliance management based on common interests, rather than on opposition to a common threat.¹ Within Japan, it is becoming clear that Tokyo seeks more equality with and independence from the U.S., while remaining within the U.S.-Japan alliance framework. As a result, the U.S.-Japan alliance is expanding: a security relationship is expanding to become a comprehensive bilateral relationship.² As Prime Minister Obuchi Keizo and President Bill Clinton proclaimed in 1998, the U.S. and Japan have embraced a "Common Agenda" although the security dimensions of the alliance remain intact. In June 2001, President George W. Bush and Prime Minister Koizumi Junichiro agreed to expand work on these issues through the "Partnership for Security and Prosperity."

At the same time, Japan's foreign aid policy is facing increasing challenges. Public criticism of transparency and inefficiency is mounting. Twelve years of economic stagnation forced the Japanese government to cut the foreign aid budget by 10 percent in 2002. The budget cut and yen depreciation resulted in Japan's fall to second place among

1. Victor Cha, "Values After Victory: The Future of U.S.-Japan-Korea Relations," *Comparative Connections* Special Annual Edition (July 2002, Pacific Forum CSIS) Although Cha focuses on U.S.-Japan-ROK relations, his thesis is applicable to the U.S.-Japan alliance as well.

2. Jane Skanderup, "Japan-U.S. Security Relations Post 9/11: Maintaining the Momentum," *Issues and Insights*, (March 2002, Pacific Forum CSIS)

donor nations. Japan's use of foreign aid as an "alternative to military involvement"³ might change if Japan decides to expand its military contributions. If, on the other hand, Japan's military role remains limited, Tokyo will need to enhance its use of foreign aid to achieve humanitarian and strategic goals.

This paper examines Japan's foreign aid policy as a component of the U.S.-Japan alliance. It acknowledges those aspects of Japan's foreign aid policy that may enhance the comprehensive U.S.-Japan relationship. At the same time, the paper emphasizes the need to recognize unavoidable differences between U.S. and Japanese policies for the sake of better alliance management. Promoting cooperation and acknowledging these differences can enhance the comprehensive bilateral relationship and help realize the mutual goal of assisting Indonesia during its difficult transition to democracy.⁴

In this paper, I identify the elements of cooperation and friction in the U.S.-Japan relationship that have been produced by Japan's foreign aid policy toward Indonesia since 1958. I propose that there be greater equality between the U.S. and Japan within their comprehensive relationship through institutionalization of U.S.-Japan cooperative foreign aid projects and the exploration of joint projects. Specific recommendations for a division of labor and for the appropriate use of resources are provided. Coordination and cooperation can lay the foundation for a largely neglected dimension of the alliance and shorten the odds that Indonesia will enjoy stability and prosperity.

Japan's National Interest

Geopolitical location and constitutional constraints translated Japan's national interests – peace, stability, and prosperity – into the following national objectives: improving Japan's status in its alliance with the U.S. and in the international community, maintaining a harmonious U.S.-Japan relationship, developing the economy, and ensuring access to natural resources.

Since the end of World War II, the U.S.-Japan security treaty and Japan's status in Southeast Asia have been the main means to achieve these objectives. U.S.-Japan

3. Lincoln, Edward, *Japan's New Global Role*, (Brookings, 1993), p. 119.

4. Taking this approach might invite criticism that it views foreign aid as a mere component of the U.S.-Japan alliance. However, U.S.-Japan cooperation will create more efficiency and variety in Japanese foreign aid which should be in the interest of the recipient. Extensive studies investigate ways to make Japan's foreign aid, or Official Development Assistant (ODA), more beneficial to a recipient. See Arase, David, *Buying Power* (Boulder: Lynne Rienner Publishers, 1995); Islam, Shafiqul, ed. *Yen for Development*, (New York: Council on Foreign Relations, 1991); Seisaku Kousou Forum, "ODA No Kokka Senryaku Wo Tukure (To Create National Strategy for ODA)," GRIPS, 2001; Koppel, Bruce, and Robert Orr, eds., *Japan's Foreign Aid: Power and Policy in a New Era* (Westview Press, 1993); and Ohno, Kenichi. "Teigen Oda Nibunron: Ajia No Tame Ni, Sekai No Tame Ni (Dichotomy of ODA: For Asia, for the World)." *Ronza* 2001, 54-63. This paper's focus is the U.S.-Japan alliance.

security ties allowed Tokyo to focus less on ensuring its own national security and concentrate on economic recovery and development. Southeast Asia, which offered markets and natural resources, was an essential part of Japanese economic prosperity. Japan’s status in Southeast Asia – as a leader of the region – helped boost Japan’s status in the international arena.

Japan’s influence in Southeast Asia was exercised through soft power – influence based on non-military power or “ability to achieve desired outcomes … through attraction rather than coercion”⁵ – and was based on its ability to create an industrial power from the ashes of defeat and be the first Asian nation to claim a place at the table of developed countries. Japan’s rise was a model for other “Asian miracles.” At the same time, Japan’s hard power, derived by economic penetration into each Southeast Asian country, became evident, especially in multilateral settings. Compared with the U.S., Japan’s soft and hard power are limited, however.

Foreign Aid⁶ and National Interest. Ultimately, foreign aid policy is a tool to serve the national interest. Targets of Japan’s foreign aid have changed over time. Foreign aid started as war reparations in the 1950s, although the real objective was Japan’s economic recovery using Southeast Asian countries as markets and natural resource providers. In the 1960s, the focus on economics became explicit and export promotion became an official objective. The oil shock of 1972 reemphasized the importance of securing natural resources. At the same time, the anti-Japanese sentiment shown during Prime Minister Tanaka Kakuei’s 1974 visit to Southeast Asia led Tanaka’s successor Fukuda Takeo to pursue “heart-to-heart” relationships with the Southeast Asian countries. In the 1980s, expectations for Japan to play a role as an economic power increased and the economic use of foreign aid was severely criticized. As a result, the Japanese government viewed aid as a component of its international contribution (*kokusai koken*) and based it on a “philosophy.” Efforts to abolish commercialism in foreign aid policy continue to be important according to the principles of the ODA charter announced in June 1996. The change in the nature of foreign aid has also been reflected by changes in the name for foreign aid: in the 1950s it was wartime reparations, in the 1960s it became “economic cooperation,” and today it is known as ODA, Official Development Assistance.

Japan’s Ministry of Foreign Affairs (MOFA) outlines Japan’s current foreign aid policy toward Indonesia as a mixture of strategic, economic, and humanitarian aid.

5. Nye, Joseph Jr. and William Owens, “America’s Information Edge,” *Foreign Affairs*, March/April 1996.

6. Japanese foreign aid is divided into bilateral aid and multilateral aid, which includes contributions to multilateral institutions. Bilateral aid consists of loans and grant. Grants included technology cooperation and financial aid (development and food aid, student exchanges), which includes tied and untied loans. A tied loan is aid that is given with certain conditions, such as to hire Japanese companies for a given project.

MOFA identifies four objectives of Japan's foreign aid to Indonesia: economic foreign aid to its number one trade partner, securing natural resources, strategic foreign aid to the largest country in Southeast Asia, and humanitarian aid for Indonesia's struggle with poverty (especially after the 1997 Asian financial crisis).⁷

In sum, Tokyo's foreign aid policy since the end of World War II shows three trends when examined in the context of the U.S.-Japan relationship: foreign aid as a part of the U.S. Cold War strategy, foreign aid to maintain U.S.-Japan cooperation, and aid as a source of disagreement between two countries.

Indonesia. Indonesia is a country of considerable strategic significance. It is the largest country in Southeast Asia, has the world's largest Muslim population, and is rich in natural resources. Indonesia borders the Malacca Strait, the world's busiest sea lane and Japan's life-line; 80 percent of the oil and 95 percent of liquefied natural gas consumed by Japan go through the strait. Japan has been Indonesia's largest trade partner and its top aid donor. The Strait also borders the deployment route that U.S. forces use when traveling from Asia to the Middle East. Yet this key country has not fully recovered from the 1997-98 financial crisis and its subsequent rocky transition from authoritarian rule to a more pluralistic, democratic style of governance. Indonesia's weakened government has in turn weakened ASEAN, where Jakarta has traditionally played a leading role.

Jakarta has played a key political role internationally as well. It declared its neutrality in the Cold War and chose instead to be a leader of the developing world. It hosted the Bandung Conference in 1955 which called for unity among "third world" countries. Nonetheless, there were fears that the country might have fallen into the Soviet camp. Jakarta received arms from the Soviet Union and the powerful Indonesian Communist Party (PKI) was believed to be under the Chinese Communist Party's influence, especially in the beginning of 1960s. From the late 1950s, Jakarta had condemned non-Javanese business as a part of its post-colonial domestic policy. The Dutch presence was swept away, and Washington feared that the power vacuum might be filled with a Soviet or China presence. Economic growth declined in 1958 by 3.4 percent and inflation reached 54.9 percent in 1957 and 18.0 percent in 1958.⁸ All these factors made normalization of Tokyo-Jakarta relations favorable for Japan, Indonesia, and Washington.

7. http://www.mofa.go.jp/mofaj/gaiko/oda/00_hakusho/eaj/eaj_06.html
http://www.mofa.go.jp/mofaj/gaiko/oda/seisaku/seisaku_3/sei_3f.html

8. Yasunaka, Akio, and Norio Mihira, eds., *Gendai Indonesia No Seiji to Keizai: Suhrato Seikein No Sanjyu Nen (30 Years of Soeharto Government: Its Political and Economic Performance)*. (Tokyo: The Institute of Developing Economies, 1995), p. 197.

Japanese Foreign Aid Toward Indonesia

1950s. Gaining greater equality with the U.S. and economic recovery were the ultimate objectives of Japan’s post-World War II diplomacy. To achieve those goals, Tokyo pursued export promotion, and worked to improve Japan’s status in Southeast Asia and worldwide. Although Japan’s foreign aid toward Southeast Asia was created as a form of postwar reparations, the real intent was to promote exports. Prime Minister Kishi Nobusuke had an additional goal for Japan’s Southeast Asia policy: establishing Japan as “a leader of Asia” so as to claim a more equal partnership with the U.S.

At the same time, the U.S. perceived Japan’s foreign aid as part of its own Cold War strategy. The pursuit of Japan’s economic recovery through the development of Southeast Asian export markets met U.S. objectives of establishing Japan as a bulwark against communism in Asia and preventing the spread of communism in Southeast Asia by ensuring the region’s economic prosperity. The U.S. Cold War strategy allowed Japan to concentrate its national power on economic development: this policy is now known as the Yoshida Doctrine, named by its creator Prime Minister Yoshida Shigeru.

What is currently considered Japanese foreign aid began as World War II reparations in the late 1950s. In 1951, the negotiation of reparations with Southeast Asian countries began and was based on the San Francisco Peace Treaty which required Japan to make wartime reparations. Bilateral peace treaty negotiations with Southeast Asian countries began in 1948.⁹ Reparations were paid in the forms of credit from Japanese banks, manufacturing tools (such as used sewing machines), and other industrial machines. In the first “Blue Book” in 1957, the Ministry of Foreign Affairs articulated three principles that would guide its diplomacy: building a good neighbor relationship, economic diplomacy, and adjustment of the U.S.-Japan relationship.

Japan’s foreign aid to Southeast Asia provided the means for Japanese companies to penetrate Southeast Asian markets, and to build trade ties between Japan and countries in Southeast Asia. Japan’s lack of resources and small domestic market naturally led Japan to export-oriented industrialization. Although in the early 1950s Tokyo gazed hungrily at China, which had been a major trading partner prior to World War II,¹⁰ political constraints blocked official trade relations between Japan and China in 1972.

The outbreak of the Korean War in 1950 promoted Japan’s economic recovery, especially in the area of steel, autos, and electrical machines.¹¹ However, the end of the

9. 1948 Burma, 1955 Thailand, 1956 the Philippines, 1958 Indonesia, Cambodia and 1959 Laos.

10. The A50 Project Executive Committee, ed., *Nihon to America (Japan and America)*, (Tokyo: Japan Times, 2001).

11. Arase, p. 25.

war brought a sharp decline in economic growth and currency reserves fell from \$2 billion in November 1953 to \$600 million in June 1954.¹² The urgent need to promote exports was a final kick to strengthen ties between Japan and Southeast Asia. In 1954, “the year of export promotion,” Tokyo’s effort to promote exports to Southeast Asia include founding the Japan External Trade Organization (JETRO) and the Asia Economic Deliberation Council. Japan joined the Colombo Plan, an aid program that targeted Southeast Asian nations, in October 1954.^{13 14} The economic decline that followed the end of the Korean War prompted the Ministry of Economic, Trade and Industry to argue explicitly that export promotion would underlie Japan’s economic cooperation with Southeast Asian countries in its 1958 White Paper.

The U.S. encouraged Japan’s investment in Southeast Asian markets. The alternative was the Chinese market, which some in Washington feared could lead to Japan’s reorientation as a result of stronger trade ties with China. Reviving the Japanese and Southeast Asian economies through the promotion of Japan’s export-led growth was expected to keep Asia free from communism. The State Department Policy Planning Staff articulated the idea of “employ[ing] [the U.S.] and Japan’s economy as an instrument of political warfare with respect to communist Asia” in a 1948 memorandum.¹⁵ The Truman administration adopted the soft-peace approach toward Japan – emphasizing Japan’s economic recovery to prevent the spread communism in Japan and forgoing demands for heavy reparations.¹⁶ Reparations were recommended as a way to stimulate Japan’s economy rather than to compensate for Japan’s misdeeds and damage caused during the war.

De facto economic cooperation as wartime reparations was welcomed by Southeast Asian countries at the end of World War II and signaled the beginning of the decolonization process for most of them. Decolonization necessitated social reform and the transformation of the colonial industrial structure with limited financial resources. Incorporation of reparation issues into the Cold War strategy and the vulnerability of

12. *ibid.*

13. *ibid.*

14. The Colombo Plan was launched in January 1950 by the British Commonwealth countries. This comprehensive program aimed to promote living standards and economic development in Southeast Asia.

15. Robert W. Barnett to Edwin F. Martin, “Memorandum Regarding Cranking-Up,” Sept. 8, 1947, Box 222, Records of the Far Eastern Commission, RG 43; Barnett to Martin, “Your Comments on Expansion of Crank-Up,” Sept. 10, 1947, *ibid*; Col. R.W. Porter, Jr., to Chief, Civil Affairs Division, Oct. 13, 1948, CAD 014, Japan, sec. 4, Sept. 1948-Dec. 31., 1948, Civil Affairs Division Decimal File, RG 165; Ralph We. E. Reid to Draper and Dodge, Oct. 18, 1948, box 222, FEC Records, RG 43. Quoted in *Reversals of Fortune the United States, Japan, and China, 1948-51 AND 1969-73* by Michael Schaller, University of Arizona http://www.fas.harvard.edu/~asiactr/TR_Schaller.htm

16. The A50 Project Executive Committee, p. 265.

Southeast Asian countries resulted in the neglect of true reconciliation over Japan's acts in Southeast Asia during World War II.

In the late 1950s, Tokyo's Southeast Asia policy and the U.S.-Japan relationship were drawn closely together by Prime Minister Kishi Nobusuke. Kishi proclaimed Southeast Asia policy as one of three key diplomatic principles in the first Ministry of Foreign Affairs (MOFA) "Blue Book." In addition to export promotion, Kishi claimed that Japan would need to demonstrate leadership to win a favorable outcome for Japan in negotiations over the U.S.-Japan security treaty revision. As the first Japanese prime minister to visit Southeast Asia after World War II, he made two trips to the region. He explained the thinking behind his visit to Southeast Asia saying, "I was thinking to go to the U.S. as a leader of Asia."¹⁷ After visiting six nations, Kishi departed to the U.S. to propose the U.S.-Japan joint Southeast Asia Development Fund. It aimed to energize the Southeast Asian economies with \$300 million and Japanese technology. The plan was rejected by Washington.

The use of wartime reparations to promote economic interest was explicit in the case of Indonesia. During his 1957 November Jakarta visit, Kishi proposed \$20 million in Indonesian debt relief and \$20 million reparation payments in "Japanese products and labor" over 12 years, an offer that was accepted by Jakarta. In January 1958, Japan and Indonesia normalized their bilateral relationship. "Japanese products and labor" included building infrastructure – dams, buildings, and factories – and transferring used industrial facilities – from trucks to ships, sewing machines to spinning machinery. The obvious objective was to facilitate Indonesia's industrialization while maximizing Japan's economic interest in the process. Most of the transferred industrial facilities were made in Japan, and they required after-care and supply of parts, and helped Japanese companies enter the Indonesian market. As such, reparations paid through "Japanese products and labor" laid the foundation for economic cooperation. Japanese foreign aid until the 1970s was primarily tied loans, which meant recipients were granted a credit in Japanese banks and could use that credit to place an order at a Japanese company. Most reparation grants were used for construction projects – building infrastructure, including energy plants, roads, and communication facilities. It allowed Japanese construction companies and trading companies to penetrate the Indonesian market as joint contractors with local companies, which almost always meant Indonesian national companies that were connected to President Sukarno and his cronies. Foreign aid helped solidify strong ties

17. Ito, Takashi, Kazuo Yatugi, and Nobusuke Kishi, *Kishi Nobusuke No Kaiso (Kishi Nobusuke Memoir)*, (Tokyo: Bungei Shunjyu, 1981).

between Sukarno, Japanese trading companies, and Japan’s Liberal Democratic Party (LDP).¹⁸

The image of Indonesia as a trade partner and a natural resource supplier for Japan was not a new concept for the Japanese government. During World War II, the Japanese government granted independence to all of the occupied Southeast Asian countries except Indonesia. The Japanese government maintained control over Indonesia to secure access to its rich natural resources – oil, gas, wood, and other minerals. Peace negotiations between the two countries started as early as 1951 – right after Japan won its own independence. Although Indonesia signed the San Francisco Peace Treaty, the National Parliament did not approve the treaty. Only in 1958 was the Japan-Indonesia bilateral peace treaty concluded. Through the negotiation process and after, individual connections between Indonesia and Japan played a significant role. In other words, Japan’s newly forged ties with Indonesia were a continuation of the prewar bilateral relationship.

Kishi’s “real” intention in resuming ties was establishing a network of vested interests that tied Tokyo and Jakarta through the use of foreign aid.¹⁹ Economic cooperation was a lucrative business opportunity for Japanese construction companies and ensured payment from the government. By allowing Japanese firms to penetrate the Indonesian market, Japanese and Indonesian political leaders received kickbacks, which helped secure their own political interests. In the Indonesian context, the “reparations-as-part-of-U.S. strategy” angle was used as a rationale for building politico-economic ties between politicians and corporate interests in Jakarta and Tokyo.²⁰

This web of ties between Jakarta and Tokyo supported the so-called “1955 system” (*55 nen taisei*) in Japan. The “1955 system” was a power structure that allowed the LDP to stay in power from 1955 to 1993.²¹ The 1955 system allowed the LDP to secure votes from major industries – agriculture and construction are the usual supporters – in exchange for LDP advocacy of their interests.

By pouring money into Indonesia, some politicians in Jakarta and Tokyo received kickbacks from Japanese trading companies and Indonesian national companies. Trading companies acted as go-betweens in the Tokyo-Jakarta politico-economic linkage. For

18. Nishihara, Masashi, *The Japanese and Sukarno’s Indonesia: Tokyo-Jakarta Relations, 1951-1966*, Monographs of the Center for Southeast Asian Studies Kyoto University. (Honolulu: The University Press of Hawaii, 1976).

19. Samuels, Richard, “Kishi and Corruption: An Anatomy of the 1955 system,” Japan Policy Research Institute, Working Paper No. 83, December 2001.

20. Nishihara.

21. Samuels.

example, a trading company set up the initial Kishi-Sukarno meeting in Tokyo before normalization. In Japan, the construction industry, which employed 10 percent of the national working population, also benefited from foreign aid projects. Each project cost from \$0.3 million to \$40 million at a time when \$1=360 yen. This provided another incentive for construction companies to support “the 1955 system” through financial support and organizing votes.

In sum, economic interests were driving Japan-Indonesian bilateral relations. However, this was possible only within the framework of the Cold War and Japan’s export-based economic strategy. It was also important that Tokyo could link its Southeast Asia policy with its relationship with the U.S. It is difficult to ascertain the impact of Japan’s strategy; other factors contributed to the successful revision of the security treaty in 1960, such as Douglas MacArthur’s warnings that Japan might seek to void the U.S.-Japan Security Treaty if it was not revised in terms more satisfactory to Tokyo. However, it is significant that Kishi explicitly identified Japan’s Southeast Asia policy within the framework of the U.S.-Japan relationship. Japan returned to Asia as a junior partner of the U.S. and took advantage of the Yoshida Doctrine to pursue its national economic interest as well as the interests of the ruling party, the LDP.

1960s. By the 1960s the Japanese government’s objectives were sustaining economic growth though further export promotion and maintaining good U.S.-Japan relations by supplementing its lack of a military contribution to the alliance with its growing economic power.

Japan’s foreign aid policy shifted: the “wartime reparations” dimension was officially abandoned and the economic cooperation dimension strengthened. As a result, the economic motivation behind Japan’s foreign aid became even more explicit. For example, in 1964, the Bureau of Reparations Development for Asian Affairs was integrated into the Economic Cooperation Bureau. Yen and tied loans rose rapidly and by the mid-1960s economic cooperation was creating growth in Japan and Southeast Asia. The impact of these changes is readily apparent: the percentage of Japan’s exports to Indonesia increased from 16 percent in 1960 to 35.3 percent in 1970 and Japan became the main importer of Indonesian products. In 1970, 63.5 percent of Indonesian exports went to Japan, up from just 4 percent in the 1960s.²²

In 1965, the U.S. deepened its involvement in the Vietnam War by initiating air strikes. President Lyndon Johnson requested Japanese assistance from Prime Minister Sato Eisaku at their January 1965 summit, a month before the air strikes began. Sato expressed reluctance to provide anything more than “moral support,” disappointing

22. Nishihara, p. 16-17.

Johnson. While Japanese political leaders remained faithful supporters of the U.S. war in Vietnam, grassroots protest against the Vietnam War had gained momentum. Constitutional restraints and an increase in anti-U.S. and antiwar sentiment among the public kept Tokyo from providing the U.S. with rear support, such as manufacturing non-military supplies for U.S. forces. In this climate, all Tokyo could offer was indirect support for the Vietnam War.

Japan's most significant support for the U.S. was economic cooperation within the U.S. containment policy in Southeast Asia. The establishment of the Asian Development Bank (ADB) was announced during a Johnson speech in April 1965. The ADB was established to promote economic development in the Asia-Pacific region, which was designed to prevent the spread of communism in the region. Tokyo proposed the Southeast Asia Development Ministerial Meeting and the increase in Official Development Assistance (ODA) to Indonesia, Malaysia, Thailand, the Philippines, and Burma, which brought increases in trade. Although Japan's role was indirect and modest, it was a significant development for the U.S.-Japan relationship.

Around the same time, the U.S. redefined its Indonesia policy as a result of the Sept. 30, 1965 coup in Jakarta. As then U.S. Ambassador to Indonesia Marshall Green observed, the 1965 coup and resulting balance of power in Jakarta made it clear that U.S. influence over Jakarta would be limited, and thus it would be best to "keep [its] posture as low as possible."²³ However, aiding Indonesia's development under new leader Suharto was an urgent concern for the U.S., as Indonesia's economy was on the verge of collapse and the new regime was more friendly to the U.S. Acutely aware of the difficulty of providing direct U.S. aid and cognizant of the importance of multilateral aid, Green insisted that Japan should lead on debt rescheduling and emergency credit, which was essential for Indonesia's economic development.²⁴ It is not clear whether this policy was made in the context of broader U.S.-Japan burden sharing, but U.S.-Japan cooperation was clearly demonstrated in the policy toward Jakarta.

The 1965 coup (also called the Gestapu²⁵ coup or "the 9.30 affair/coup") was in fact a series of events that included a preemptive movement by pro-Sukarno officers against anti-Sukarno army members and a counterstrike by Army Strategic Command (KONSTRAD)

23. Gardner, Paul, *Shared Hopes, Separate Fears* (Westview, 1997), p. 241.

24. *Ibid.*

25. *Gerakan September Tigahpuluhan*, on the September 30 Movement.

head Gen. Suharto.²⁶ This occurred against the backdrop of a power struggle between the Indonesian Communist Party (PKI), which enjoyed President Sukarno's support, and the Indonesian Army, which opposed Sukarno's extreme domestic and foreign policies.

In 1962, Sukarno adopted an aggressive policy against Malaysia's attempt to establish the Federation of Malaysia – the unification of Malaya, Singapore, North Borneo, and Brunei. Sukarno launched both economic and military attacks against Malaysia under the slogan of “Crush Malaysia” in September 1963. The Indonesia-Malaysia confrontation, the so-called “*konfrontasi*,” resulted in Indonesia's international isolation and economic decline. As a result, Jakarta increased its dependence on the People's Republic of China (PRC). At the same time, the “Crush Malaysia” campaign increased Jakarta's economic woes. The U.S. and the International Monetary Fund (IMF) halted aid as early as 1963, and Indonesia's military expenditure increased to 10 percent of GNP by 1965. Economic hardship and the military campaign increased the frustrations felt by the Indonesian public and military.²⁷ Inflation worsened, reaching 592 percent,²⁸ and foreign debt topped \$2.4 billion in 1965.²⁹

The Gestapu coup ended a few days after the death of six army generals, Sukarno was subject to house arrest and Suharto took over. The PKI (and the PRC) were held accountable for plotting the coup, and Suharto banned the PKI in December 1966, which led to the massacre of an estimated 500,000 to 2 million alleged PKI supporters by the Indonesian government.

The Gestapu coup brought drastic policy change to Jakarta. Jakarta terminated its formal relationships with the PRC and the *konfrontasi* policy, rejoined the IMF and the World Bank in 1966, and helped establish the Association for Southeast Asian Nations (ASEAN) as a diplomatic community to ease tensions with its neighbors, especially Malaysia. The Suharto administration's focus was the recovery of Indonesia's economy, which was on the verge of collapse. An obstacle to economic stabilization was the massive budget deficit and hyperinflation, both of which required debt relief. At first, the U.S. was reluctant to provide financial aid to relieve Indonesia's debt because half of the debt was owed to the Soviet Union, and because U.S. domestic law prohibited aid to a

26. The 1965 coup is a controversial topic to this day. There are contradicting accounts of the Sept. 30 affair and details remain unclear. A comprehensive description of the event is beyond the purpose of this paper; one see Gardner, *Shared Hopes, Separate Fears: Fifty Years of U.S.-Indonesian Relations* (Westview Press, 1997) and Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism* (Institute of Southeast Asian Studies, 1994).

27. Gardner, p. 180.

28. Yasunaka, p. 199.

29. Anwar, p. 37.

country in heavy debt.³⁰ In the end, however, the U.S. was the first to offer emergency relief credits of \$59 million.

Japan, Indonesia's second largest creditor with over \$200 million outstanding, hosted a creditors' meeting in Tokyo in September 1966. The creditors' meeting has been held regularly since, and in February 1967, the meeting evolved into sessions to discuss multilateral foreign aid to Indonesia. This later became the Inter Governmental Group on Indonesia (IGGI), which continued until 1991.³¹ Participants included Japan, the U.S., the Netherlands, West Germany, France, England, Italy, and Indonesia. IGGI meetings were held twice a month to review Indonesia's economic status and future needs.

While Japan played a role in debt relief, U.S. private investment was a key to Indonesia's economic recovery. President Suharto's economic team promoted policies to invite foreign direct investment (FDI). During 1966-67, Indonesia approved 129 foreign investment projects, worth \$570 million: 85 were U.S. companies. In addition to U.S. FDI, scholars point to the indirect influence of the U.S. through the so-called "Berkeley mafia" which had a strong influence on Indonesia's economic policy from 1966 to the 1980s.³² The Presidential Economic Advisory Team consisted of Indonesian economists who were educated in the U.S.; five attended the University of California at Berkeley.

Escalation of the Cold War facilitated Japanese efforts to share the burden with the U.S. and Southeast Asia became a new theater in which Japan could play a cooperative role with the U.S. In addition, Japan served as a rear support base for the U.S. war in Vietnam, which made Japan's strategic importance more visible.

1970s. After the 1973 oil shock, ensuring access to natural resource became even more important for Japanese efforts to maintain economic growth. At the same time, anti-Japanese sentiment in Southeast Asia expressed during Prime Minister Tanaka Kakuei's visit made Tokyo realize the importance of further strengthening ties with Southeast Asia. Japan started to deploy foreign aid through multilateral settings to diversify ties with Southeast Asian countries.

Just one month prior to his announcement marking the end of the Bretton Woods system, President Nixon provided the first "Nixon shock" with his surprise visit to China. This stunning move created skepticism regarding the U.S.-Japan alliance in Tokyo. Furthermore, the oil shock in 1973 convinced many of the need for an independent foreign policy that would help Japan pursue its national interest.

30. Gardner, p. 251.

31. Yasunaka, p. 202-203.

32. Gardner, p. 192-199, Yasunaka, p. 200-201.

President Nixon's visit to China was revealed to Prime Minister Sato Eisaku just a few minutes before the president made an announcement to the U.S. public, even though a series of agreements required the U.S. and Japan to closely coordinate on the issue. At the October 1970 summit, President Nixon assured Prime Minister Sato that the U.S. would continue close coordination with Japan regarding China. In June 1971, just a month before Nixon's China visit, Secretary of State William Rogers reassured Foreign Minister Aichi about U.S.-Japan coordination.³³ Thus the "Nixon shock" was perceived as a diplomatic defeat for Tokyo. Japan had eyed the normalization of diplomatic relation with China since the 1950s. Business communities both in China and Japan had maintained trade ties, and Tokyo had been inching toward Japan-China normalization. Thus, Nixon's visit signaled a U.S. "betrayal" in the eyes of many Japanese. It escalated criticism of the Sato Cabinet and made Tokyo somewhat skeptical about Washington's intentions.

Despite the Nixon shock and emerging trade frictions, the overall U.S.-Japan relationship was smooth, especially in the security arena. Japan maintained its support of the U.S. war in Vietnam and the bilateral security agenda was deftly handled: the U.S.-Japan Security Treaty was revised in 1970 and Okinawa reverted to Japan in 1972. However, the 1973 oil shock stimulated Japan to increase its foreign policy independence. In 1973, Japan experienced a sharp drop in economic growth and it generated a balanced payments deficit that remained until 1976. Securing access to natural resources was added to Tokyo's diplomatic guiding principles, and Japan initiated foreign aid to Middle Eastern countries, the world's largest oil producers, to maintain favorable relations with them. Since then, Japan's Middle East policy has been largely independent from that of the U.S.

Japan's main objectives for pursuing multilateralism in Asia were gaining more maneuvering room for its foreign policy and to establishing its status in Asia.³⁴ The latter tendency was emphasized after the riot during Prime Minister Tanaka's 1974 Jakarta visit. Japan's economic presence and the memory of World War II created anti-Japan sentiment in Southeast Asia. The Japanese government realized it needed to improve its relationship with Asia. As a result, Prime Minister Fukuda Takeo announced the "Fukuda Doctrine" in a 1977 Manila speech in which he called for a "heart-to-heart" relationship between Japan and Southeast Asia. Using multilateral financial institutions became essential to this end.

1980s. As Japan became the world's second largest economic power, Japan's new agenda was to make its international status equal to its economic status. An increase in

33. Ogata, p. 70.

34. Sato, Yoichiro, "Modeling Japan's Foreign Economic Policy with the United States," in *Japanese Foreign Policy in Asia and the Pacific*, edited by Akitoshi Miyashita and Yoichiro Sato (New York: Palgrave, 2001), p. 14; Yasutomo, p. 63.

influence, presence, and visibility required expanding Japan’s role in arenas other than economic and crafting an independent foreign policy from that of the U.S.

Differences between the U.S. and Japan became explicit in development aid philosophy. Using its own successful economic development as a model, Japan insisted on the importance of government involvement and regulation in the initial stage of economic development and the need to protect markets before liberalizing.³⁵ The U.S. aid philosophy endorsed just the opposite: Washington called for the liberalization of markets and less government intervention. Japan claimed that an “Asian” model based on Japan’s success would be more suitable to Asian countries than the U.S. or “Anglo-Saxon” model. Japan’s attempt to promote its economic thinking peaked when the World Bank published “The East Asian Miracle: Economic Growth and Public Policy” in 1993, which endorsed Japan’s economic success as an East Asian model.

The differences surfaced in multilateral settings. Japan’s attempt to promote the Asian model at the ADB began in the 1980s.³⁶ It became a source of friction with the U.S. when Japan brought the same issue to the World Bank a few years later.

Although Japan’s commitment to the ADB began in 1966 at its founding, Japan maintained a low profile in the first 10 years of the bank’s history. Japan’s initial motivation for involvement in the ADB was to bring controversial issues, such as trade frictions with the U.S., into a multilateral framework. In addition, involvement in the ADB was intended to increase Japan’s influence in Southeast Asia through multilateral channels rather than bilateral economic relations. Japan saw multilateral institutions as a way to gain approval and support for its policies, diversify aid policy, and fulfill its international responsibility as a growing economic power.

However, Japan’s efforts were not welcomed by the U.S. While Japan sought a presence and influence commensurate with its financial contribution to the multilateral banks and its foreign aid, the U.S. perceived Japan’s financial contribution as a way to promote Japan’s national economic interest rather than as an international contribution *per se*. In 1987, the U.S. Senate requested that Japan increase its ODA to 3 percent of GDP by 1992. Senate Armed Services Committee Chairman Sam Nunn backed this proposal; Nunn insisted that Japan have a 4 percent combined figure (1.5 percent military, 2.5 percent strategic aid).³⁷ Japan’s attempt to compensate for a lack of military force through financial contribution was not only seen as insufficient burden-sharing within the U.S.-Japan alliance framework, but it also failed to increase Japan’s influence.

35. Yasutomo, p. 80.

36. Yasutomo, p. 62.

37. Bloch.

At the same time, Japan's economic use of foreign aid was harshly criticized; the need for an aid "philosophy" increased. The increased need for an international contribution, *kokusai koken*, changed the nature of foreign aid from economic cooperation to development assistance. In February 1981, the Economic Cooperation Study Group of the Ministry of Foreign Affairs defined Japan's motivation for foreign aid as "humanitarian and moral considerations" and "the recognition of interdependence among nations" in its report, "The Philosophies of Economic Cooperation – Why Official Development Assistance?"³⁸ Thus, the 1980s marked the introduction of a humanitarian role in Japan's foreign aid.

1990s to the present. Improving its international status and seeking more independence from the U.S. remained Japan's objectives in the 1990s. In addition, the end of the Cold War increased the importance of U.S.-Japan alliance maintenance. Japan's increased economic power changed the nature of Japan's role in the alliance.

The collapse of communism deprived the "West" of a rallying point for the alliance. The remaining threats – a rising China that might challenge the regional status quo and North Korea – are threats to the U.S.-Japan alliance rather than the entire "West." While the importance of solidarity remained high, the glue – anticommunism – that held the alliance together was lost.

The Persian Gulf War was a wake-up call for Japan, forcing Tokyo to realize the limit of economic/financial aid as a substitute for a military role. Despite \$13 billion in financial assistance and extra taxes, Japan's support for the war effort was criticized as "too little, too late." The need to expand its role outside the economic sphere was strongly felt by the Japanese people.

Foreign aid focused on humanitarian dimensions rather than economic power, and Japan's commitment to multilateral banks was further developed to improve Japan's visibility and status. Peace-Keeping Operations (PKO) and cooperation in nation building/restructuring, as seen in the case of Cambodia and later in East Timor and Afghanistan, became critical parts of Japan's foreign aid.

As Japan promoted an "Asian Model," there were great expectations that Japan would take a leading role in Southeast Asia, especially during the 1997-98 Asian financial crisis. Japan responded to the crisis when it broke. Japan's reaction was motivated by its interests in the region, especially in Thailand. However, as the crisis spread to Indonesia and South Korea and invited U.S. involvement, Japan's response was muted. This was seen as a defeat for the Japanese model.

38. <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

In the case of Thailand, Japan contributed \$4 billion in loans (the largest bilateral rescue package) and raised \$10 billion with other Asian countries to help Thailand meet its payments. Tokyo also saw this as a good opportunity to promote the idea of the Asian Monetary Fund (AMF) that had been proposed in 1995. The AMF was to be a balance of payments support system with a \$100 billion reserve to prevent the recurrence of financial crises in the region.

On the other hand, the U.S. was reluctant to provide financial support for Thailand. The United States Trade Representative (USTR) claimed the IMF gave Thailand sufficient warning. The U.S. perceived the Thai crisis to be an Asian problem and did not extend financial help either through bilateral measures or the IMF.

However, as the crisis spread to Indonesia and South Korea in October and November 1997, the U.S. Treasury and the IMF started to play a significant role and Japan's role became less independent as it cooperated with the IMF and the U.S.³⁹ The U.S. contributed \$3 billion to the IMF Indonesia rescue package. At the same time, Japan dropped the AMF proposal due to strong U.S. opposition. Despite a significant bilateral financial contribution to both Indonesia and South Korea, Tokyo showed much less initiative. In early 1998, when Indonesia refused to accept the IMF remedy, Japan worked with the U.S. to persuade Indonesia to accept the IMF-led solution.⁴⁰ In July 1998, Japan provided a \$130 million yen loan and 50,000 tons of rice aid. As part of the Miyazawa Initiative of October 1998, the Japanese government provided a \$30 billion loan to support Indonesia's debt relief and employment measures.

Closely comparing the three cases, Saori Katada attributes the drastic change in Japan's attitudes toward the Asian crisis to the fact that the Thai crisis did not affect a majority of international creditors other than Japan. In fact, Japan's response to the Thai currency crisis was a product of vested interests rather than a desire to lead in Asia. In other words, Tokyo's handling of the Asian crisis demonstrated Japan's essential attitude toward the U.S.-Japan relationship: Tokyo pursued leadership and an independent policy *within* the U.S.-Japan framework.

Japan's pursuit of an independent policy has continued.⁴¹ Japan's Foreign Ministry held the Initiative for Development in East Asia (IDEA) Ministerial Meeting in August 2002 in Tokyo. IDEA is another attempt to promote the Japanese development model in Asia, this time within the ASEAN Plus Three framework. IDEA emphasizes the

39. Katada, p. 159; Terry, Edith, "The World Bank and Japan: How Godzilla of the Ginza and King Kong of H Street Got Hitched," (Japan Policy Research Institute, 2000), p. 13.

40. Katada, p. 160.

41. Ohno, *ibid.*

importance of human, financial, and monetary development rather than social reform or democratization in development policy.⁴²

The continuing promotion of its development policy increases the chances that the U.S. and Japan will encounter “development friction.”⁴³ Thus it is important to recognize that such frictions are not the product of Japan’s desire to replace the U.S. in Asia. Rather they are the result of Japan’s attempt to gain more independence and increase its visibility in the international community. The effort also underscores Japan’s obsession with achieving equality with the U.S. Its remarkable economic achievements and substantial financial contributions have left the Japanese government and people feeling entitled to more credit. Thus, constructing a Japanese foreign aid strategy that avoids U.S.-Japan confrontation while acknowledging their differences is needed.

The Impact of Sept. 11 and the War Against Terror

The Sept. 11, 2001 attacks and the war on terrorism reconfigured Washington’s Indonesia policy. However, the new priority – combating terrorism in a coalition that included Indonesia – did not substitute for traditional objectives – achieving Indonesia’s political and economic stability through support of its democratization and economic development. During President Megawati’s Oct. 19-21, 2001 visit to Washington in the aftermath of the Sept. 11 attacks, President Bush pledged to expand bilateral military interaction including a security dialogue, an end to the embargo on the sale of non-lethal military items, and the possible resumption of U.S. funding for military and police education. Financial aid to Indonesia’s military stalled as a result of human rights violations by the military (TNI) in East Timor. In January 2003, the Congress finally agreed to include \$400,000 in funding in the 2003 budget for Indonesians to participate in the International Military Education and Training (IMET) program.

The challenge for the U.S.-Indonesia relationship is the Indonesian public. A majority of Indonesians are moderate Muslims who oppose terrorism, but do not necessarily support all U.S. tactics to combat terrorism. As a result, the Indonesian government has been forced to tread carefully to maintain a balance between the U.S. and its domestic constituency. For example, while President Megawati condemned the Sept. 11 attacks, she did not or could not support the U.S. war in Afghanistan. Since Megawati did not enjoy support among a majority of Muslims, she cannot afford to ignore the Muslim majority’s concern – namely that the war against terrorism was a war against

42. <http://www.mofa.go.jp/region/asia-paci/idea0208-4.html>

43. Kawakami, Takao, “21 Seiki Ni Muketa Nihon No Enjyoseisaku (Japanese Foreign Aid Policy for the 21st Century),” *Gaiko Forum*, March 1993, p. 4-15.

Muslims. (Although President Bush repeatedly denied this, skeptical views toward U.S. intentions remain.)

Still, Indonesia's economy and human rights issues continue to concern the Bush administration⁴⁴ and the U.S. objectives in Indonesia remain unchanged. The U.S. government needs to continue efforts to emphasize its broad interest in supporting Indonesia's democratization process. Successful democratization would create the third largest democracy in the world and the largest secular Muslim nation. U.S. military aid to combat terrorism should not be discussed outside this context. Military support needs to be undertaken in a way that will not slow Indonesia's democratization process.

Enhanced nonmilitary aid for Indonesia as an antiterrorism measure would also be important for Japan. Although combating terrorism is a shared interest among the three governments, the methods used to achieve this goal show gaps in perspective. Japan, bounded by its pacifist constitution, cannot provide military assistance. Since ODA cannot be used for military aid, Japan's main policy tool remains economic assistance to combat a root cause of terrorism – poverty – rather than enhancing antiterrorism forces. However, Japan should not view the restrictions as a limit, but as an opportunity to expand Japan's aid to compensate for the absence of a military contribution.

On the other side of the coin, U.S.-Japan joint foreign aid policy should identify antiterrorism as an objective. Terrorism itself will not disappear, but the spread of terrorism can be prevented by reducing poverty and opening the closed social system. By decreasing frustration within society, there will be less support for extreme measures and more help to combat terrorism. U.S.-Japan joint aid program for education and sanitation that can guarantee the well-being of Indonesians will be suitable to this end.

The Oct. 12, 2002 Bali bombing redefined Indonesian thinking about the war on terrorism. It woke Indonesia up to the reality of the terrorist threat at home and working with police from Australia, the U.S., and England proved that cooperation is essential to fight terrorism. Significantly, the Indonesian government charged the Bali bombing suspects with criminal offense, not political crimes.⁴⁵ The detail is significant in defining the Indonesian way of fighting terrorism. As the nation with the largest Muslim population, Indonesia needs to clarify that the enemy in a war against terrorism – terrorists linked to al-Qaeda – is different from other (and the majority of) Muslims. The

44. On Sept. 10, 2002, U.S. Ambassador to Indonesia Ralph Boyce warned U.S. investors in Indonesia to “wait for the government’s announced program of economic reforms to begin to show some signs of being implemented.” Also, on Sept. 4, 2002, U.S. Deputy Secretary of Defense Paul Wolfowitz criticized the Indonesian Army for the apparent lack of will to vigorously prosecute human rights abusers within the armed forces.

45. Shiraishi Takashi, “Minshin meguru tatakai,” (U.S. demands put Muslim nations in awkward ideological situation), *Yomiuri Shimbun*, Feb. 9, 2003.

Indonesian government has tread carefully to ensure that Indonesian Muslims are punished for what they have done, not for who they are.

Obviously, the Bali bombing was a unique case for Indonesia. The bombing targeted and killed many foreigners, mostly Australians and Britons. This made it easy for Australian and other police to join the investigation. Furthermore, from the initial stage, the incident was regarded as linked to al-Qaeda, as President Bush and Indonesia's defense minister assumed as early as two days after the bombing. International aspects of the bombing separated the Bali bombing from other bombings in Indonesia. The government emphasized the bombing was a criminal case, not a political or religious act. These made it easier for the Indonesian government to investigate and arrest a leader of Jemaah Islamiah, Abu Bakar Ba'aysir. Although Ba'aysir was a leader of a Muslim group and was under the protection of an Islamic boarding school until his arrest, the fact that the government treated him as a criminal sent a message to Muslim community that this was not anti-Muslim, but antiterrorism.

U.S.-Indonesia cooperation to combat terrorism requires sensitivity to the Muslim community in Indonesia and mutual understanding between governments. The key to smooth cooperation is obtaining support from Muslims in Indonesia. Attempts to ease suspicions about U.S. intention in its foreign policy would help the Indonesian government conduct a more decisive policy against extremists linked to an international terrorist network, while leaving local terrorists (or separatists) for the Indonesian government to deal with.

Conclusion and Policy Implications

Japan's foreign aid needs to be appreciated as an important component of the U.S.-Japan relationship. The Japanese government must design a strategy so that its foreign aid policy contributes to alliance enhancement. Emphasizing this cooperative aspect does not mean that differences in aid policies between the two countries will necessarily be diminished. Rather, it will keep these differences from damaging the bilateral relationship.

Goals should be set from an Indonesian perspective. The desired outcome is social, economical, and political stability in Indonesia. A stable Indonesia is the key to Southeast Asia's peace and prosperity, which serves U.S. and Japanese national interests as well. To this end, democratization, military reform, economic development, and ensuring the security of Indonesian citizens are crucial.

The U.S. and Japan should institutionalize bilateral cooperation in areas where *ad hoc* cooperation is currently underway. Coordination could occur within the framework

of the U.S.-Japan Common Agenda. Developing bilateral cooperation will increase the efficiency of programs, maximize resources, and enhance the overall U.S.-Japan relationship by opening channels for bilateral interaction.

Although promoting democratization is not the same as exporting the U.S. or Japanese model of democracy, as Dr. Anthony Smith points out, U.S. and Japan can play a role by helping empower individuals to support a change from inside Indonesia.⁴⁶ For example, corruption is an obstacle to Indonesia's democratization process. Corruption can be diminished if Japan and the U.S. examine the distribution of financial aid and ensure that money will not focus on a certain group of people. The U.S. and Japan can co-organize a visitor program for Indonesian government officials and young leaders to both the U.S. and Japan, where they can observe each society and governance. As seen in the case of the "Berkeley mafias," such indirect influence can be expected to take root in a suitable manner to Indonesian society. The U.S. Department of State's International Visitor Program can serve as a model.

Meanwhile, the U.S., Japanese, and Indonesian governments can utilize existing venues, especially informal (or track two and three) processes. For example, the Council for Security Cooperation in the Asia Pacific (CSCAP) can provide an opportunity to deepen understanding between moderate Muslims and non-Muslims by promoting religious and intercultural confidence and security building measures. This process will allow the U.S. and Japan to reach out to more diverse groups in Indonesia. Also, existing exchange/educational program by nongovernmental organizations should be promoted. For example, the Nippon Foundation's Asia-Pacific Intellectual Fellowship Program, an exchange program for several Asia-Pacific countries, can serve as a model of a civil society empowerment tool that promotes international exchange. This process will strengthen and support Indonesian civil society.

There is a glaring need for Indonesian military (and police) reform. There is an appalling record of human rights violations and aggressions toward Indonesian civilians. There are many examples: now-independent East Timor, Aceh, Maluku, and Irian Jaya. Military reform faces obstacles: Jakarta's weak influence on the military, strong opposition within the military to protect vested interests and social status, and a culture of corruption created and sustained by the military's budget – more than half of the TNI (Tentara Nasional Indonesia) budget has to be raised by the military itself. The U.S. and Japan can provide strategy and supplies for the Indonesian military and police.

To promote Indonesia's economic development, the U.S. and Japan can provide scholarships for Indonesian students to obtain MBAs, technical training, and work

46. Interview with Dr. Anthony Smith.

experience. Current exchange programs need to be improved in both the U.S. and Japan. The U.S. government needs to ensure visa status for students from Indonesia no matter what their religion is. After the Sept. 11 attacks, many Indonesian students were denied reentry to the U.S. to continue their academic work. Since prejudice against Southeast Asia persists in some parts of Japanese society, the Japanese government needs to be sensitive to students' needs and educate the public and civil servants to end their prejudice.

Finally, the U.S. and Japan should continue trying to ensure the well-being of the vulnerable in Indonesian society. In addition to providing support for education and sanitation, joint projects to combat HIV/AIDS and other diseases (malaria and polio) will be needed. There is a high probability of a severe rise in HIV/AIDS case in the next decade.⁴⁷

Ensuring the security of civilians in internal conflicts, such as Aceh, Maluku, and Irian Jaya, is a sensitive issue for the Indonesian government. However, there are roles the U.S. and Japan can play. Reconstructing areas where armed conflict has occurred is one example. As seen in the case of Aceh, where there has been armed conflict since 1976, Tokyo hosted the Aceh reconstruction conference on Dec. 3, 2002 which brought together Japan, the U.S., the World Bank, and the European Union. Reconstruction will allow international actors to help ensure human security in the aftermath of conflict. The Japanese government could take a more comprehensive approach by inviting proposals from and encouraging policy dialogues with domestic specialists and nongovernmental organizations (NGO) before the conference. For example, the Japanese NGO Network for Indonesian Democracy, Japan (NINDJA) is internationally known for its insights on the situation in Aceh. However, NINDJA's policy recommendations and requests for dialogue with MOFA were virtually ignored. The Japanese government needs to utilize more specialists outside the ministries.

There is room for work on the international aspect of internal conflict. The U.S. and Japan, along with UN organizations such as the Office for the Coordination of Humanitarian Affairs, can assist the Indonesian government and NGOs to work with internally displaced persons (IDPs). IDP issues are relatively new, yet they are serious issues for the Indonesian government. Washington and Tokyo should encourage Jakarta to work with experienced international organizations on IDP issues.

U.S.-Japan foreign aid cooperation undertaken through shared initiatives will enhance the U.S.-Japan relationship. The changing security situation in Asia means the

47. Monitoring the AIDS Epidemic, *The Status and Trends of HIV/AID/STI Epidemics in Asia and the Pacific*, (Australia, 2001).

U.S.-Japan relationship is not bound by a single issue anymore and the raison d'etre of the alliance is fragmented. Still, the essential national interest of both countries endures: Both want peace and stability in the region. Japan's foreign aid can be an even more powerful tool to achieve this goal by being more cooperative and better coordinated with the U.S. in some fields. Ultimately, enhancing cooperation while reserving independence in its foreign aid policy is a test for Japan's independence within the alliance – and the promise of a bilateral relationship of mutual respect.

About the Author

Yumiko Nakagawa was the 2002 Vasey Fellow at Pacific Forum CSIS. Ms. Nakagawa is a 1999 graduate of Doshisha University in Kyoto and was the Nijima fellow at Amherst College during 1999-2001. During her year at Pacific Forum, she worked on U.S.-Japan relations, Japanese domestic politics and security policy, and nuclear transparency in the Asia Pacific region.