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Driving development: Japanese automotive investment and industrial transformation in Indonesia's New Order era, 1967-1998

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Abstract

This study examines the historical development and implications of Japanese Indonesian cooperation in the automotive sector. While bilateral relations between these nations encompass multiple industries, the automotive sector, particularly passenger vehicles, represents a critical engagement area. The research employs a qualitative, descriptive methodology to analyze this economic relationship. Despite Indonesia's diverse industrial landscape—spanning manufacturing, fisheries, maritime resources, forestry, automotive production, and mining—the automotive sector has emerged as one of the country's top ten export commodities. Japan, a global leader in automotive manufacturing, has actively pursued bilateral cooperation in this sector. However, Indonesia's challenges in meeting established targets have hindered the full realization of planned initiatives. The study reveals an asymmetric relationship characterized by Indonesia's growing dependence on Japan's automotive industry. This dependency is evidenced by several key indicators: escalating imports from Japan, relatively low Indonesian export values, substantial Japanese investment flows, and the dominant market presence of Japanese manufacturers like Toyota and Nissan. As a result, Indonesia has primarily evolved into a significant consumer market for Japanese automotive products rather than developing as an independent manufacturer. Critically, this study finds how bilateral cooperation between Japan and Indonesia, while offering certain benefits, has simultaneously strengthened patterns of economic dependency in the Indonesian automotive sector.

Kata Kunci:

hubungan Jepang-Indonesia; industri otomotif; investasi Jepang; orde baru

Abstrak

Dinamika investasi otomotif Jepang dan transformasi industri di Indonesia pada era Orde Baru, 1967-1998

Studi ini meneliti perkembangan historis dan implikasi kerja sama Jepang-Indonesia di sektor otomotif. Penelitian ini menggunakan metodologi deskriptif kualitatif untuk menganalisis hubungan ekonomi ini. Meskipun lanskap industri Indonesia beragam, sektor otomotif telah muncul sebagai salah satu komoditas ekspor teratas negara ini. Jepang, pemimpin global dalam manufaktur otomotif, telah secara aktif mengupayakan kerja sama bilateral di sektor ini. Namun, tantangan Indonesia dalam memenuhi target yang ditetapkan telah menghambat realisasi penuh dari inisiatif yang direncanakan. Studi ini mengungkap hubungan asimetris yang ditandai dengan meningkatnya ketergantungan Indonesia pada industri otomotif Jepang. Ketergantungan ini dibuktikan oleh beberapa indikator utama: meningkatnya impor dari Jepang, nilai ekspor Indonesia yang relatif rendah, arus investasi Jepang yang besar, dan keberadaan pasar yang dominan dari produsen Jepang seperti Toyota dan Nissan. Akibatnya, Indonesia terutama telah berkembang menjadi pasar konsumen yang signifikan untuk produk otomotif Jepang daripada berkembang sebagai produsen independen. Studi ini secara kritis menemukan bagaimana kerjasama ini, meskipun menawarkan manfaat tertentu, pada saat yang sama memperkuat pola ketergantungan ekonomi di sektor otomotif Indonesia.

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1 Introduction

Japan is a world leader in manufacturing, excelling in various industries. Numerous Japanese firms operate globally in manufacturing, especially in the automotive sector. Japan's highly regarded automotive industry has greatly boosted the country's income through earnings and exports (Prihadyanti, 2010). The Japanese automotive sector is one of the most recognized and most prominent in the world. It is expanding in ASEAN countries, notably Indonesia, where reduced production costs and relatively decent technician earnings make it competitive with developed countries. Abundant resources and natural assets support this benefit, making Southeast Asia an important location for Japanese automotive firms (Jeklin et al., 2016). Japan has continuously placed among the top three countries in total automobile production, overtaking Germany. Initially focused on local usage, Japan's automotive sector has rapidly expanded to global exports. This expansion exceeded that of the United States, with Japan producing up to 13 million automobiles yearly and exporting large numbers. Despite increased output from China and the United States, Japan remains a major industrial producer worldwide, producing 9.9 million cars yearly. Japan's prospects have also contributed to improving the automotive sector in several nations in recent decades (Natsuda et al., 2015).

The Japanese automotive industry emerged during the Taisho era (1912-1926), initially driven by military needs following World War I. Both government agencies and imperial institutions spearheaded the production of military vehicles, laying the foundation for future automotive giants like Toyota and Nissan, which would later evolve into global corporations. The early interaction between Japanese automotive companies and Indonesia occurred during the Dutch colonial period. However, Japan's subsequent military occupation of Indonesia served a dual purpose in the automotive sector: disrupting American automotive operations and displacing Dutch influence, effectively halting existing factory operations. In the immediate post-independence period, Indonesia's automotive industry remained largely dormant due to underdeveloped bureaucratic structures and a limited domestic market, challenges that persisted in the wake of Japanese colonial rule (Jeklin, 2016).

European and American manufacturers dominated the global automotive landscape of this era, serving as Indonesia's primary vehicle suppliers. This environment attracted several Indonesian entrepreneurs to the four-wheeled vehicle sector, most notably Hasjim Ning, a former military officer from Padang, West Sumatra—his entrepreneurial venture, the Djakarta Motor Company, specialized in European automobile distribution. Hasjim's success caught the attention of Transportation Minister Ir. Herling Laoh, leading to his appointment as Executive Director of PT Indonesia Service Company (Pasha & Setiati, 2006). Hasjim further expanded his automotive empire by establishing PT Daha Motor, which focused on assembling Ford and Dodge vehicles. However, his business operations primarily centered on European vehicles, reflecting the continued dominance of European and American manufacturers in Indonesia's automotive market. During this period, Japanese automotive companies had not yet established a significant domestic or international market presence, marking a stark contrast to their future global dominance. This historical background sheds light on how Indonesia's early automotive industry was shaped by the complicated interactions between colonial legacies, business ideas, and how international markets worked. It also sets the stage for how the industry would change under Japanese influence.

When President Soeharto replaced President Soekarno, it led to a significant shift in policy direction. President Soeharto's era was characterized by economic liberalization, which opened up opportunities for foreign countries to enter the Indonesian market. In the automotive sector, manufacturers needed to understand the conditions of the Indonesian market at that time, as this was crucial for developing competitive strategies to gain market share. Indonesian consumers expected automotive manufacturers to pay attention to their interests and needs (Tunggal & Nugroho, 2010). Quality and price played vital roles in the competition within the Indonesian automotive market. These factors also assured investors and foreign automotive manufacturers of their ability to control the market. Initially, vehicles made in the United States and Europe dominated the Indonesian automotive market, replacing Japan's earlier dominance. However, the emergence of Japanese-made vehicles introduced significant competition in the national market. Therefore, the capabilities and needs of consumers heavily influence market competition (Veza et al., 2021).

In Indonesia, the majority of consumers prioritize affordability over convenience when purchasing Japanese-manufactured vehicles. Consequently, the availability of American and European automobiles in Indonesia has been diminished by the introduction of Japanese vehicles, which are priced at a level that is affordable for Indonesian consumers. Toyota Motor Corporation is one of the most prominent Japanese automotive corporations, dominating the Indonesian market. Toyota established its presence in Indonesia by introducing 1,000 units of the Toyota Land Cruiser with a canvas roof, commonly referred to as the Toyota hardtop. The Department of Transmigration, Cooperatives, and Village Community Development acquired these vehicles. The Indonesian government has collaborated with Toyota Motor Corporation to establish production in the country due to Toyota's consistent success in producing reliable vehicles, which has significantly influenced public interest. The hard work of the company and the supportive policies of President Soeharto's government facilitated the establishment of Toyota Motor Corporation in Indonesia. Key figures in Soeharto's administration played crucial roles in fortifying the presence of Japanese automotive companies in Indonesia during the diplomatic process with Japan.

Soedjono Hoemardani played a significant role in fostering positive relations between Japan and Indonesia, including the emergence of the Toyota Motor Corporation in the country. Trusted to lobby Japan due to his proficiency in Japanese, Soedjono Hoemardani was a former military independence soldier who underwent training with the Keibodan groups and served as President Soeharto's assistant at the start of the New Order. He played a crucial role in securing capital from Japan for Indonesia (Lin, 1994). Soedjono Hoemardani also directed the establishment of PT Astra International, which became a distributor of Japanese-made cars in Indonesia. Today, Japan produces more than just Toyota automobiles in Indonesia; several other brands, such as Daihatsu, Honda, Mitsubishi, Mazda, Suzuki, and Nissan, also contribute to the vibrant automotive market in Indonesia. Many Japanese automotive brands initially waited to establish their factories in Indonesia, opting instead to export fully assembled cars to the country, similar to American and European vehicle brands. Over the years, Japan's automotive market share has grown significantly in Indonesia, presenting opportunities and challenges for local entrepreneurs.

This article examines the historical development of Japanese-Indonesian cooperation in the automotive sector, focusing on investment patterns, management practices, and cultural influences. It concludes with an analysis of the implications of this cooperation for Indonesia's industrial transformation.

2 Methods

This research employs a historical research type and a qualitative approach. Creswell et al. (2023) say that the descriptive method is a way to solve problems that looks at the current state of the subject or object of research (a person, an institution, a society, etc.) based on the facts. The qualitative approach is also called a literature-based approach, which involves reading, quoting, and revisiting the rules and principles associated with the discussed issues. According to Moleong (2017), the qualitative method is a research procedure that generates descriptive data in the form of written or spoken words from individuals and observable behavior. Inductive data analysis typically acquires qualitative data. Qualitative research yields hypotheses, constructs phenomena, and comprehends meaning and distinctiveness. This study employs a qualitative research methodology to gain a comprehensive understanding of the phenomena encountered by the research subjects, such as behavior, perception, motivation, actions, and others. It employs various natural methods and uses descriptions in the form of words and language within a specific natural context.

The research aims to mitigate the issues addressed in the study. Ratnaningtyas (2022) says that the research focus is on a central phenomenon, which Ajayi and Laseinde (2023) say is an idea or process looked into in more detail in qualitative research. The emphasis of the study is crucial in qualitative research. The research seeks to limit qualitative investigations by selecting pertinent data and eliminating extraneous material. The data utilized in this investigation are secondary. The objective of secondary data is to furnish corroborative information for additional validation. According to Creswell (2017), literature studies are a way to get data and information from a wide range of trustworthy sources, such as books, documents, journals, news articles, authoritative notes, audiovisual materials like sound recordings or films, and other relevant and trustworthy sources to answer research questions. According to Ishtiaq (2019) and Creswell (2021), literature studies are a method for gathering data or sources pertinent to the subjects addressed in a research study.

Descriptive analytical approaches scrutinize the information by delineating the facts after data collection. Additional investigation of the facts yields adequate knowledge for comprehension and elucidation. Data processing is essential to the scientific method as it imparts meaning and significant value in addressing research challenges. The obtained raw data must be organized, classified, processed, and refined to ensure it is meaningful, addresses the problem, and is suitable for testing hypotheses or research questions.

2.1 Data Compression

This procedure involves selecting, concentrating, simplifying, abstraction, and modifying documents, interview transcripts, field notes, and other empirical materials or findings. Data condensation is the process of transforming existing data into a more compact format. Drawing from the widely recognized reduction methodology in qualitative research, Nursapia (2020) established condensation as an analytical method. The distinction between reduction and condensation lies in the process of data simplification. Condensation modifies all accumulated data without categorization or reduction, while reduction categorizes and selects.

2.2 Data Visualization (Data Presentation)

Data condensation precedes data display. It involves organizing and presenting information in various formats, including text, tables, diagrams, graphs, and photographs. This facilitates the transition to the conclusion-drawing phase by simplifying the process for researchers to comprehend and display the research data.

2.3 Formulation of Conclusion

The final phase of data analysis is the formulation of a conclusion. The researcher concludes by addressing the study's problem formulation and deriving discoveries after analyzing and presenting the acquired data. The author argues that the systematic nature of this study will be improved and comprehension will be facilitated by implementing Creswell's (2015) data analysis methodology.

3 Results

3.1 Development of the Japanese Automotive Industry in Indonesia

The history of motor vehicles in Japan began with the entry of cars in 1898, shortly after the Meiji Restoration, which marked Japan's emergence as a modern nation. At that time, a French-made car with the Panhard et Levassor brand was imported to Japan by David Bruhl, a French merchant who opened a diamond shop in Yokohama. Following the car's arrival, palace nobles and wealthy merchants competed to import motor vehicles from the West as symbols of social status and modernity. Until the mid-Meiji period, motor vehicles were imported directly from the United States and Europe.

The Japanese automotive industry began to develop when Aikawa Yoshisuke (1880-1967), a mechanic and entrepreneur with experience working in the United States, founded Nissan in 1933. Initially, Nissan produced small vehicles and did not aim to compete with Ford and General Motors, whose automotive products were imported from the United States on a large scale. As Japan's political policy shifted toward fascism, Aikawa also shifted Nissan's production from small cars to military vehicles, especially trucks. This change in business strategy allowed Nissan to grow and compete with large conglomerates like Mitsui and Mitsubishi.

Japan began mass-producing motor vehicles in 1933. Nissan's success led to the establishment of new automotive companies such as Toyota, Mitsubishi, Japan Ford, and General Motors Japan. Ford and General Motors dominated the Japanese market until they ceased operations before World War II. The Japanese automotive industry experienced significant development again after World War II, from 1950 to 1980. During the 1950s and 1960s, Japan began mass-producing small vehicles, eventually surpassing the production volumes of the United States and Europe (Adi, 2017).

Nissan and Toyota were the largest Japanese automotive companies, controlling up to 85% of Japanese car production. Several elements contributed to the success of Nissan, Toyota, and other Japanese car manufacturers, including their management characteristics and their relationship with workers after World War II. The reorganization in the 1950s directly impacted manufacturing strategies, worker output, and operational profits.

Additionally, these automotive companies had advantages in terms of productivity, in-house manufacturing strategies, supplier management, production management, and quality control techniques. While technical factors related to production and management systems, especially the relationship between management and unions at Nissan and Toyota, played a significant role in their success, Japanese government policies also influenced the development of the Japanese automotive industry. Government protection and export orientation were key factors in Nissan and Toyota's international success. Having rebuilt its domestic automotive industry after World War II, Japan sought new markets abroad, including Indonesia, where favorable economic policies under President Soeharto created opportunities for foreign investment.

3.2 Japanese Automotive Industry in Indonesia during the New Order Era

The dynamics and development of the automotive industry in Indonesia from 1950 to 1985, as studied by Hale (2000), cannot be separated from the state's role in the industrialization process. According to Chalmers, the issue of state-centered nationalism is intertwined with capitalism, leading to political compromises where state officials also own or manage large companies, thus giving rise to the bourgeoisie and state capitalism in the industrialization process. This is common in third-world countries such as Indonesia. The automotive industry in Indonesia began to grow during the colonial era. In 1927, N.V. General Motors Java Handel Mij built the most prominent car assembly plant in Tanjung Priok. During the first ten years of its production period, this company assembled 47,000 cars, most of which were Chevrolet and General Motors trucks. In 1950, following independence, the spirit of nationalism and economic sovereignty led to the establishment of a state-owned assembly plant, N.V. Indonesia Service Company (ISC). Hasjim Ning, a prominent figure in the automotive industry since the 1930s, took on the role of President Director. Hasjim Ning had extensive access to transnational automotive companies and obtained several licenses to import cars. He distributed some of these licenses to his business partners, including Bachtiar Lubis, owner of PT National Motors, who obtained an import license for Japanese Mazda and Hino cars. Entering the 1960s, the automotive business in Indonesia became increasingly popular, marked by the entry of new transnational companies, especially Japanese automotive companies. To meet the needs of the 1962 Asian Games, the import of Japanese vehicles such as Toyota, Mitsubishi, Mazda, Nissan, Daihatsu, and Bemo was carried out massively, in addition to cars produced by Eastern Bloc countries such as Skoda, Trekka, and Praga. The import of Japanese cars was part of a war reparations payment scheme worth 13.3 million US dollars, which was realized in the form of 3,000 vehicles consisting of four-wheeled vehicles of various types and three-wheeled vehicles for public transportation until 1963. On the other hand, the movement of Japanese transnational companies worldwide began to change the ownership structure of the Indonesian automotive industry. Towards the end of the Old Order, new entrepreneurs emerged who entered the Japanese car import sector, including Lubis (Mazda), Suwarna (Mitsubishi), Yasrin (Toyota), and Markam (Nissan).

The change of power from Soekarno to Soeharto in March 1966 brought about a shift in economic policy that was more open to foreign capital, encouraging growth in the manufacturing sector. Rising oil prices in the 1970s further supported this growth by increasing state revenue. These conditions led to significant growth in the automotive industry sector between 1969 and 1984, despite a policy shift from banning imports of finished vehicles (Completely Built Up or CBU) to assembling completely disassembled vehicle components (Completely Knocked Down or CKD). Motor vehicle imports increased sharply from 33 million US dollars in 1969 to 302 million US dollars in 1978, accounting for 10 percent of the total value of Indonesian imports. By the mid-1970s, 20 assembly plants were operating, and several Japanese transnational automotive companies entered the market by establishing partnerships with local entrepreneurs. Notable partnerships included Mitsubishi Motors with PT Krama Yudha and Toyota Motors with PT Astra International and PT Gaya Motor (Lindblad & Wie, 2002). Between 1971 and 1974, Mitsubishi managed to control 29 percent of the market share and became the brand with the highest sales, increasing from 1,260 units to 17,400 units through small commercial vehicles (minibuses) with the Colt trademark. Mitsubishi's success encouraged Toyota to produce commercial vehicles with the local Kijang trademark, which has dominated the Indonesian automotive market since 1977. Suzuki's commercial vehicles also entered the top three most popular Japanese cars. As the 1980s and 1990s approached, William Soeryadjaja's Astra business group dominated the Indonesian automotive industry (Sato, 1996).

Since its founding in 1968, William, who then controlled the Indonesian government-owned assembly plant PT Gaya Motor, transformed Astra from a small importer into a leading business force through cooperation with Toyota in 1969. In the early days of Astra Holding's Toyota agency, their biggest customers were military agencies and the Army, which ordered 1,000 trucks and Jeeps in 1971. This success led Astra to record sales of more than 5,000 units, far exceeding the target set by Toyota Motor Corp. of 1,700 units. This encouraged Toyota Motor Corp. to further their cooperation by establishing a joint venture company, PT Toyota-Astra Motor, in July 1971, with a share ownership composition of 49% by Toyota Motor and 51% by PT Astra International and PT Gaya Motor.

Astra did not stop there; they also established partnerships with other Japanese transnational companies, including Honda Motors for motorcycles, Fuji-Xerox for photocopiers, Daihatsu for commercial vehicles, and Komatsu for heavy equipment. Over time, the Astra group expanded its business into non-automotive fields such as financial institutions and financing, agribusiness, property, and construction. Entering the 1980s, the Indonesian government gradually issued policies to localize the production of commercial vehicle components, including axles, engines, and gears, from 1984 to 1986.

This policy caused controversy due to the significant investment required to meet the requirements. Japanese transnational companies generally supported this policy because they already had production facilities. Meanwhile, American and European vehicle importers tried to delay the plan's implementation due to the substantial capital needed to comply with the regulations. In 1981, nine transnational companies submitted concrete proposals for engine production. By 1982, seven transnational companies, predominantly Japanese, were planning or building assembly plants: Toyota (US$39.4 million), Mitsubishi (US$141 million), Isuzu (US$29 million), Daihatsu (US$121 million), Daimler-Benz (US$29.5 million), Hino (US$33.3 million), and Suzuki (US$20 million). The ability of most Japanese transnational companies to invest more capital was based on their belief in the potential of the rapidly growing Indonesian automotive market, which they saw as a profitable long-term investment. This belief is one of the factors behind the success of Japanese automotive companies in dominating the Indonesian automotive market today, despite the increasingly tight business competition between them (Chandra, 2010).

Initially dominated by products from America and Europe, the Indonesian automotive industry shifted during the New Order era. Japanese automotive products began to dominate the Indonesian market in the New Order era, which cannot be separated from the progress of the Japanese domestic automotive industry. Japan's ability to rebuild its industry after World War II encouraged Japan to invest abroad. Indonesia, which was encouraging the development of its domestic automotive industry, aimed to establish a national automotive industry. Soeharto, who saw the success of the Japanese automotive industry, provided a vast opportunity for Japan to invest. Japan took this opportunity and began to expand its market to Indonesia. Japan's ability to adapt to Indonesian market conditions made it the dominant player in the Indonesian automotive market. The ambition to establish a national automotive industry capable of producing domestic automotive products led the government to take steps through policies. Table 1 illustrates the dominance of Japanese multinational companies in Indonesia's automotive industry during the 1980s. Notably, Toyota with local brand Kijang and Mitsubishi with Colt controlled significant market shares through strategic partnerships with local assemblers.

Table 1 Major Companies in the Automotive Industry in Indonesia, 1986
Source: The Association of Indonesia Automotive Industries (GAIKINDO)

Brand	Japanese Multinational Company	Sole Agent	Assemblers
Suzuki	Suzuki Motor	PT Indo Mobil Utama	PT Indo Mobil Utama PT National Assemblers
Toyota	Toyota Motor	PT Toyota Astra Motor	PT Multi Astra
Daihatsu	Daihatsu Motor	PT Astra International	PT Gaya Motor
Mitsubishi	Mitsubishi Motor Mitsubishi Corp.	PT Krama Yudha TBM	PT Krama Yudha Ratu Motor PT Krama Yudha Kesuma
Honda	Honda Motor	PT Prospect Motor	PT Prospect Motor

4 Discussion

4.1 Japanese Style Management as Key Success of the Japanese Automotive Industry

In modern times, Japan experienced two significant periods of change: the Meiji Restoration in 1868 and the post-World War II era after their defeat by the Allies in 1945. Japan's emergence as a modern nation was marked by significant changes in politics, economy, and society following the fall of the Tokugawa military government (1603-1867) and the return of political power to the emperor. Under the reign of Emperor Meiji (1868-1912), Japan launched a restoration movement known as the Meiji Restoration, driven by the desire to catch up with and be on par with Western nations. The Westernization and modernization movements were manifested in industrialization, which brought Japan to an economic growth rate of 2.5 to 3.5 percent between 1887 and 1913. This growth continued from 1913 to 1938, at around 3.9 to 4.6 percent, a relatively high rate compared to world economic growth at the time. After World War II, which devastated the Japanese economy, Japan was restored relatively quickly, with economic growth skyrocketing to 9.6 percent per year between the 1950s and 1960s.

The progress of the Japanese economy was due to many factors. However, one standout factor is Japan's determination and ability to incorporate foreign technology and knowledge, especially from the West, by improving and adapting it to Japan's conditions and needs. This approach provided several benefits for Japan, including reduced research costs and the ability to adopt the latest techniques, ensuring they did not fall behind internationally. Moreover, the growth of the Japanese industry was supported by a relatively educated and skilled workforce in technology, which was managed effectively and demonstrated flexibility in facing global developments. The Japanese industry continued to explore, absorb, and pursue technology and organizational know-how from other industrial countries through the synergy of the government and the business sector. In this context, Japan's success lies in creating an integrated system that has enabled it to dominate both the national and international environments. Considering its political, economic, social, and cultural strengths, Japan has succeeded in combining and mobilizing a unique integrated organization (Negara & Hidayat, 2021).

4.2 Characteristics of Japanese Management

After World War II, Japan transitioned from a military-oriented country to an economic one. The Japanese constitution states that one of the state's goals is to ensure that its citizens can achieve a healthy and cultured life. To achieve this national goal, the Japanese government consistently developed its industrial sector, resulting in a relatively high economic growth rate. Cultural factors and unique social relations among members of the organization or society are integral to Japan's industrialization and economic development success. At the business level, Japanese companies and their employees are strongly motivated to achieve economic goals driven by a sense of nationalism and unity among fellow members of the organization, while viewing members of other organizations or nations as "outsiders." In international relations, Japanese companies and their employees are motivated to realize their national goal of becoming a world economic power. This is the primary driving force behind Japan's realization of its ideals (Ichdan, 2024).

In contrast to Western-style management, William Ouchi stated that the management style of Japanese companies reflects more conditions of homogeneity, stability, and collectivity. Western companies tend to employ people who exhibit rigidity, heterogeneity, mobility, and individualism, where employees only relate to each other regarding their respective functions and tasks. Ouchi further described the characteristics of Japanese organizations as follows: a. lifelong employment (*shuushin koyou*) b. Non-specialized career ladders c. Unhurried promotions d. implicit control mechanisms e. collective decision-making f. shared responsibility g. overall involvement.

Through a collective work system over a long period, trust grows reciprocally between superiors and subordinates, and personal refinement and familiarity correlate with increased productivity. Moriyama stated that the strength of a cooperative system distinguishes Japanese management from American management . Japanese companies are seen as subsystems of a larger social unit, highlighting a prominent and fundamental cultural characteristic: social relations among members of the Japanese bureaucracy. Members of the Japanese bureaucracy see themselves not as independent individuals but as members of a large family, with the company headed by a father figure. This creates close family ties between fellow members of the company and its president. These family ties become a natural, solid bond with the company, strengthening the feeling of togetherness among group members (Otsuka et al., 2018). The combination of rational and traditional forms of bureaucratic activity makes Japanese companies move more dynamically and adaptively within specific social systems, where all parts of the social system work harmoniously and without conflict to achieve specific goals.

4.3 Traditional Cultural Values in Japanese Management

The word *kaisha*, which means company in Japanese, connotes "collection" or "community." In everyday life, Japanese people use the word *uchi*, which means "in" or "my residence," to refer to their place of work. In the context of business or work, Japanese people often refer to the company where they work as *uchi no kaisha*, which means "my company." This expression signifies not only the place where they work but also a "home" that they own and maintain.

Moreover, when asked about their profession or work as a source of livelihood, workers or employees of a company generally do not answer directly with their profession. Instead, they first mention their place of work (*shokuba*) and then the profession they are pursuing (Singh et al., 2014). For example, Japanese people might say "employees of the University of Tokyo" (*Toukyou daigaku no shokuin*) or "Toyota technicians" (*Toyota no enjiniaa*), mentioning the name of their workplace before their profession. This practice not only reflects a strong emotional bond with their "home" (*uchi*) or employer but also serves to prevent them from forming deeper relationships with others in the same profession. Early on, Japanese society established hierarchical relationships between individuals, particularly in education. The concept of vertical relationships between superiors and subordinates in education is expressed by the terms *senpai* (senior) and *kohai* (junior). This *senpai-kohai* relationship continues into the workplace, formed based on various factors such as school/university attended, year of graduation, level of education, length of service, rank, or position.

The kanji letters for *kaisha* are written as 会 (*kai*), meaning meeting or gathering, and 社 (*sha*), meaning society or community. *Kaisha* can be interpreted as a business organization, an association, or a group of individuals who work together, each providing a form of capital. This group has a common focus and goal: to gain profit. Nakane Chie calls this vertical relationship *tate shakai no nin'gen kankei* or interpersonal relationships in a vertical society. Nakane sees the superior/subordinate structure of Japanese society based on an egoistic (ego-centered) rank as the primary basis for social order in Japan. This structure shapes attitudes and behavior and protects others, such as character, personality, profession, ability, and achievement. This rank and grouping are social mechanisms deeply rooted in Japanese culture since ancient times. This uniqueness is so inherent in the vertical system in companies or other institutions in Japan that it sometimes closes the possibility for other groups or companies to enter and build relationships. Business relations between companies in Japan generally begin with personal relationships that continuously increase in intensity and degree of closeness, making it challenging for non-Japanese foreign companies to understand them (Palange & Dhatrak, 2021).

4.4 Several Cultural Concepts in Japanese Social Relations

The Japanese are a complex nation in their social life. Their management system reflects this complexity, emphasizing the importance of cooperation in decision-making. For other nations, the Japanese are often seen as a complex and contradictory nation, displaying attitudes full of feelings but also realism, sensitivity, and sociability; cheerfulness and quietness; easily moved but also selfrestrained; full of humor and pleasure; and pleasant but sometimes cruel. These complex and contradictory attitudes are rooted in the complexity of the Japanese social and community system, known as the concepts of *uchi* (inside) and *soto* (outside).

The concept of *uchi-soto* emerged from a kinship system known as *ie* or *kazoku*, which means home or family (Alvarado-Ramírez et al., 2018). Since ancient times, Japan has passed down this kinship system from generation to generation as a form of group life. It has been maintained in Japanese society until now, and its meaning has expanded beyond the family in the context of blood relations and kinship to include corporate groups in the contexts of politics, economics, and social/religious life. Japanese people prioritize groups over individuals, maintaining group harmony and behaving according to the norms and provisions that apply to the group. From this group life, the cultural concepts of *uchi* and *soto* emerged in Japanese society .

The *uchi-soto* concept describes how Japanese people interact with insiders (*uchi*) and outsiders (*soto*) based on kinship, work, or shared interests. People who are members of a particular group in society will call themselves part of *uchi* (in-group/insiders). In contrast, people outside their group will be considered *soto* (out-group/outsiders). The concept of *uchi-soto* is not only applied in the daily lives of Japanese people but is also implemented in the workplace. Implementing the concept of *uchi-soto* is very complex. On one hand, its strict application makes it difficult for individuals to transition from one group or company to another. However, it is also flexible in adjusting to the needs or interests of the group/company. For *instance, the employees of company A and company B maintain strict separation based on their respective identities and interests*. However, in specific contexts, such as working together on a business or project, employees of both companies can become one "house" or *uchi* (García-Alcaraz et al., 2014).

In everyday reality, it is not straightforward for someone to move from one group/company to another because applying the *uchi-soto* concept also has further consequences on how Japanese people should behave and act in interacting with others, both with fellow group members and outsiders. This can be seen clearly in terms of the use of language levels and certain attitudes as part of the typical Japanese manners and etiquette that distinguish them from other nations.

4.5 Basic Concepts of Japanese Society in Social Interaction

Japanese society prioritizes harmony in group life over individualism. In the context of *soto* and *uchi*, loyalty becomes a key concept for the Japanese, serving as a benchmark for creating harmony and solidarity within the group. *Kaisha* (corporation) turns into a small social structure with a parent-child relationship (*oyako kankei*) shown through a seniority system (*nenkou joretsu*) and a duty or loyalty that goes both ways (*shuushin koyou*). One issue is that this system is strictly enforced, making it difficult to switch groups or companies. However, it is also flexible in adjusting to the needs or interests of the group/company (Macpherson et al., 2015). For instance, the employees of company A and company B maintain strict separation based on their respective identities and interests. However, in specific contexts, such as working together on a business or project, employees of both companies can become one "house" or *uchi*. In everyday reality, it is not straightforward for someone to move from one group/company to another because applying the *uchi-soto* concept also has further consequences on how Japanese people should behave and act in interacting with others, both with fellow group members and outsiders. This can be seen clearly in terms of the use of language levels and certain attitudes as part of the typical Japanese manners and etiquette that distinguish them from other nations. Through a long history, the paternalistic ideology based on the concept of *ie* or *kazoku* is still maintained today and is the basis of Japanese-style management systems.

4.6 The Implementation of Japanese Management in the Japanese Automotive Industry in Indonesia

Japan's success in rebuilding its economy after the Allied occupation (1945-1952) through industrialization is inseparable from the application of management systems, one of which is widely known as *kaizen*. *Kaizen* consists of the syllables "*kai* (改)," which means "change," and "*zen* (善)," which means "good or perfect," and can be interpreted as continuous improvement (Imai, 2001). In contrast to Western management, which prioritizes innovation through technological breakthroughs, management concepts, and cutting-edge production techniques that require large costs, *kaizen* emphasizes maintenance and improvement activities starting from small things but carried out continuously over a long period by involving all elements of the organization/company.

By adopting the Japanese management system from its business partners, Astra Group modernized its organizational and control systems. In 1983, Astra Group fully implemented Astra Total Quality Control (ATQC) and the Catur Darma corporate philosophy across its 125 subsidiaries (Pambudi & Djatmiko, 2012). During the 1980s, Astra Group managed to control 40 percent of Indonesia's automotive market share and expanded into supporting industries such as automotive components, machinery, and heavy equipment. Astra Group formed affiliations with Japanese multinational companies. These partnerships helped transform it from a family-owned business into a more open and modern enterprise. Additionally, Astra Group has succeeded in encouraging technology transfer, particularly in organizational and production management. In this case, cultural concepts like *uchi-soto* and *kaisha* reflect the collectivist values that underpin Japanese management practices, fostering loyalty and collaboration within companies operating in Indonesia.

5 Conclusion

Investment is an integral part of a country's economy. Limited domestic capital makes foreign investment necessary to build the country's economy. One investment mechanism is FDI (Foreign Direct Investment). To build the automotive industry in Indonesia, the New Order government opened up vast opportunities for foreign investment through Law No. 1 of 1967 concerning foreign investment. Changes in views on foreign investment occurred after Indonesia entered the New Order era. Opposing views on foreign investment during the Soekarno administration impacted domestic economic development. The lack of capital and the unstable Indonesian government in the early days of independence further hampered economic development through industrialization. Views related to Indonesianization that emphasized cooperation made it increasingly difficult for foreign investors, who were considered liberal, to enter Indonesia. In the end, the Soekarno government left behind significant economic problems. To improve domestic economic conditions through industrialization, the Soeharto government began to open up opportunities for foreign investment.

In the data processing and analysis that had been carried out, specific patterns emerged, showing how Japanese car manufacturers maintained their presence in the Indonesian market. Initially reluctant to follow government policies, Japanese manufacturers gradually complied with the applicable regulations. The desire to maintain the market encouraged Japanese automotive manufacturers to set up factories and produce in Indonesia in cooperation with local companies by implementing Japanese standards and management systems. The application of Japanese-style management, especially *kaizen* production process management is the key to the success of Japanese automotive companies in Indonesia. The application of Japanese management is not only a control tool to maintain product excellence and quality to win a market competition but also motivated by cultural factors, especially the implementation of the concept of *soto* (out-group) and *uchi* (in-group) as well as the *ie* (home/family) system that is still firmly held by the Japanese people.

Moreover, Japanese automotive manufacturers showcased their capacity to adapt to policies implemented by the Indonesian government. They claimed a high percentage of local content in their products to attract public sympathy and obtain protection from the Indonesian government. Additionally, Japanese car manufacturers developed their products with an export orientation. Japan's ability to make the right decisions to adapt to existing policies has kept them leading the Indonesian automotive industry market. Regarding technology transfer from Japan to Indonesia, more comprehensive research is needed, although in the automotive sector, it can be seen empirically from the absence of Indonesian national automotive products until now. This study underscores the enduring impact of Japanese investment and management practices on Indonesia's automotive sector. Future research should explore how these dynamics have influenced other industries and whether similar patterns exist in other ASEAN countries.

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