

# Indonesia–China Economic Relations in the Twenty-First Century: Opportunities and Challenges

Yuki Fukuoka and Kiki Verico

## 1 Introduction

Under the Suharto regime (1966–1998), which ruled Indonesia for more than three decades, Indonesia–China relations were characterised by mutual hostility and suspicion. Shortly after Suharto’s assumption of power, formal diplomatic relations were declared ‘frozen’ in 1967. It took 23 years for Indonesia to resume ties with China, and this did not immediately translate into substantial changes in bilateral relations. It was only after the fall of Suharto in 1998 that one began to see significant improvements in Indonesia–China relations. Post-Suharto governments reversed the country’s foreign policy and sought to re-engage with China. This re-engagement policy was initially driven by the imperative of economic recovery after the devastating 1997–1998 Asian economic crisis, which severely hit the Indonesian economy. Greater engagement with China, in particular in the economic arena, it was hoped, would facilitate the recovery process. More recently, as stability was restored to the Indonesian economy, particularly under the Susilo Bambang Yudhoyono (SBY) administration (2004–2014), bilateral relations have moved beyond economic cooperation, involving political and security cooperation as well. Thus, Indonesia and

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China established a ‘strategic partnership’ in 2005 which was subsequently upgraded to a ‘strategic and comprehensive partnership’ in 2013.

The growing ties with China, however, have brought not only opportunities but also unique challenges to Indonesia. In particular, increased economic competition with China has driven segments of the Indonesian business sector to demand greater protectionism, which has undermined the government’s effort to strengthen its ties with China. It is argued that despite recent improvements, Indonesia–China relations have not entirely broken away from the difficult past as suspicions and sensitivity continue to characterise bilateral relations (Laksamana 2011; Novotny 2010; Sukma 2009a, b). In this context, the fear of China’s aggressive penetration in the Indonesian market, if combined with the long-standing resentments of Indonesians concerning the economic role of the Chinese minority, could potentially destabilise the bilateral relationship. The implementation of the ASEAN–China Free Trade Agreement (ACFTA), for example, generated political backlash from Indonesian businesses which used the institutions of political party and parliament to demand greater protection for domestic industries from the government which responded by introducing a series of protective measures.

The aim of this chapter is to highlight the opportunities and challenges of Indonesia–China relations in the twenty-first century. The first section looks at the evolution of Indonesia–China relations from a historical perspective. Following Sukma (2009a, b), it emphasises the primacy of domestic politics, particularly the problem of the ethnic Chinese, in the shaping of Indonesia–China relations. The second section looks at the recent improvements in bilateral relations in the post-Suharto era with particular focus on trade and investment relations. Here it is emphasised that while the re-engagement with China has provided Indonesia with expanding economic opportunities from which Indonesian businesses have benefited, by facilitating China’s increasing investment, it also generated the fear of China’s aggressive penetration in the Indonesian market. The rise of the ‘China threat’ is further elaborated in the third section, which pays attention to the way in which Indonesian businesses, which are exposed to greater competition with Chinese products, provoked economic nationalism to preserve vested interests. As is highlighted with reference to the ACFTA, these business interests successfully influenced the political process to make the government implement protectionist measures. Finally, the last section sums up the main findings of the chapter.

## 2 Indonesia–China Relations from a Historical Perspective

As Sukma (2009b, p. 141) points out, managing relations with China has been ‘one of the most difficult challenges to Indonesia’s foreign policy’.<sup>1</sup> More strikingly, Sukma (ibid) argues that those relations were primarily subject to ‘pressure stemming from Indonesia’s domestic political arena’. For example, Indonesia’s first

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<sup>1</sup> The first three paragraphs of this section rely on Sukma (2009a, b).

president, Sukarno, had to maintain a delicate balance between two competing centres of political power, the Communist Party of Indonesia (PKI)—the largest communist party outside the former Soviet Union and China—and Indonesian armed forces (ABRI), to perpetuate his paramountcy. In this context, Indonesia's engagement with Beijing was motivated by Sukarno's desire to balance the military by strengthening the PKI, which received political and financial support from China. Strengthening diplomatic ties with Beijing also served Sukarno's policy of militant confrontation against 'Western imperialism'. The ABRI, on the other hand, were mostly anti-communist and had grown increasingly disturbed by Sukarno's alignment with China. Many in the ABRI leadership believed that Beijing sought to reorient the loyalty of Indonesian Chinese towards China while providing excessive protection for the PKI. Even after the dissipation of the PKI, the apprehension over China and the ethnic Chinese was to remain in the imagination of Indonesian elites and continued to shape Indonesia's relations with China as discussed below.

Indonesia's growing political alignment with China was brought to an abrupt end when an abortive military coup in October 1965 led to a regime change in Jakarta. Sukarno was forced out by Suharto, whose New Order regime charged the PKI as a perpetrator of the coup, allegedly with the assistance of Beijing and the ethnic Chinese in Indonesia, though the precise details of the event remain shrouded in mystery even today.<sup>2</sup> The Suharto regime, at least initially, staked its legitimacy on the claim that it saved the Indonesian state from a communist takeover, accusing China and Indonesian Chinese of complicity in the coup. Thus, in 1967, bilateral relations were declared 'frozen'. The Suharto regime assiduously maintained the presumed linkages between China, the ethnic Chinese and the communists in public memory as they were essential to preserve the basis for its hegemony. Three decades of institutionalised legal discrimination against the ethnic Chinese ensued, in which the racial dichotomy of *pribumi* (i.e. indigenous) and non-*pribumi* (non-indigenous) was rigidly maintained, with the intent continuously to objectify and essentialise the Chinese as 'the foreign Other' and prevent them from being accepted fully as 'Indonesians' says Hoon (2006, p. 152).

In this context, Sukma (2009a, pp. 593–4) argues, 'an early restoration of diplomatic ties with Communist China would undermine the legitimacy claim' of the New Order regime. The logic of the 'triangle threat' (China, the PKI and the ethnic Chinese) had continued to prevent Indonesia from restoring diplomatic ties with China for more than two decades (*ibid*). According to one survey, in the 1970s, two-thirds of the Indonesian elites considered China as a 'serious threat' to Indonesia and more than half pointed to China as 'the principal threat' (Weinstein 1976, p. 93). Positive changes in the regional and international environment from the mid-1970s onwards, especially in the nature of Beijing's relations with non-communist states, failed to alter Indonesia's perceptions and attitude towards China (see Weinstein 1976, pp. 111–125). The dynamics of Indonesia's domestic politics, which still required the employment of anti-communist ideology as the basis of regime

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<sup>2</sup> For an excellent analysis of the 1965 coup, see Anderson and McVey (1971).

legitimacy, ‘continued to underline the paramount importance of domestic political requirements over other considerations in Indonesia’s foreign policy’ (Sukma 2009b, p. 142). Even after China abandoned its revolutionary foreign policy and began to embark on a moderate and peaceful foreign policy of promoting ‘four modernisations’, Indonesian leaders remained largely sceptical of its intentions.

Yet, China’s growing economic power and openness in the 1980s facilitated gradual improvements of bilateral relations, which eventually led to the resumption of direct trade relations in 1985. It should be noted here that by this time the Suharto regime had switched its claim to legitimacy. As Smith (2003, p. 3) points out, ‘Suharto, dubbing himself the “Father of Development”, now staked his reputation on economic progress’. ‘Not only was the anti-communist theme no longer needed’, Smith also argues, ‘but China’s economic potential was also attractive and potentially helpful to underscore the development basis of Suharto’s new legitimacy’.<sup>3</sup> Restoring formal diplomatic ties with China, however, still remained subject to domestic political calculations. Although Indonesia began to recognise the importance of China, deep suspicion towards the ethnic Chinese continued to affect Indonesians’ perception of China as well: Indonesia was still worried about the possible link between the People Republic of China (PRC) and the ethnic Chinese minority (Sukma 2009a).<sup>4</sup> Indeed, despite the resumption of trade relations, it was noted that ‘trade and investment flows between China and Indonesia are expected to remain relatively low in the near future’ (Atje and Gaduh 1999, p. 9).

Thus, it was only after 1998, when the Suharto regime collapsed in the aftermath of the 1997–1998 economic crisis, that one began to see significant improvements in Indonesia–China relations. Indonesia was severely hit by the crisis, and greater engagement with the Chinese economy became imperative for its own recovery. At the same time, eager to impress on the international community that Indonesia was now moving towards a greater democracy, post-Suharto governments, in particular under Abdurrahman Wahid (1999–2001), the country’s first democratically elected president, removed discriminatory measures against the ethnic Chinese. Wahid also made China his first destination for a state visit. President Megawati Sukarnoputri (2001–2004), who replaced Wahid in July 2001, continued to improve ties with China. The policy of re-engaging China continued to occupy the foreign policy agenda of the next president, Susilo Bambang Yudhoyono (2004–2014). In this context, deep-rooted animosity towards the ethnic Chinese based on the triangle threat have slowly, though not completely, been eroded, and most Indonesians no longer see China as ideologically threatening.

Under the SBY administration, Indonesia and China deepened and broadened cooperation in the political and security realms as well. Indonesia signed an

<sup>3</sup> Novotny (2010, pp. 194–200) similarly argues that Suharto’s growing confidence in Indonesia’s stability prompted him to facilitate the ‘defreezing’ of Indonesia–China relations.

<sup>4</sup> It is worth recalling at this point that in preparing for the official restoration of diplomatic relations with China, the then Indonesian president, Suharto, still maintained that Indonesia ‘must remain alert to the possibility of a PKI revival after the normalisation of ties with China’ (*The Jakarta Post*, 27 February 1989).

agreement to establish a strategic partnership with China in 2005 (*The Jakarta Post*, 14 April 2005). In 2013, both countries agreed too on strategic and comprehensive partnerships in various fields that will benefit both countries (*The Jakarta Post*, 2 October 2013). Despite recent improvements in bilateral relations, it needs to be noted that Indonesia has not entirely broken away from the past. Indeed, many Indonesian elites still harbour age-old suspicions concerning China. Novotny (2010, p. 179), for example, argues that ‘though the present Indonesian leaders tend to describe China as a challenge rather than a threat, the substance of their security concern vis-à-vis China has not undergone a significant change’. Wanandi (quoted in Smith 2003, p. 4) similarly notes that to mitigate the uncertainty over China’s role in the region, ‘it would be wise for East Asia to commit China to the web of rules and institutions in the region’. Such a sense of uncertainty regarding China could potentially destabilise the bilateral relationship, if fused with fear of losing out economically to China, which would exacerbate prejudice against ethnic Chinese.

In short, Indonesia–China relations improved significantly after the fall of the Suharto regime, which had portrayed China as a threat to national security. Post-Suharto governments reversed the country’s foreign policy and sought to re-engage with China. This re-engagement policy was initially driven by the need to attract Chinese investment for economic recovery after the 1997–1998 Asian economic crisis. However, as stability was restored to the Indonesian economy, particularly under the SBY administration, bilateral relations have moved beyond economic cooperation, involving political and security cooperation as well. The establishment of ‘strategic partnership’ in 2005 and ‘strategic and comprehensive partnership’ in 2013 reflected such a shift. Yet, the fact remains that the most impressive improvement in Indonesia–China relations has taken place in the economic arena. Also economic opportunities provided by the rise of China will continue to be the primary driver of bilateral relations. The next section thus looks at the expansion of Indonesia’s trade and investment relations with China.

### 3 Trade and Investment Relations

Indonesia’s economic relations with China have improved significantly in the post-Suharto era, particularly under the SBY presidency. The most significant in this respect is the expansion of Indonesia’s trade relations with China (see Table 1). In terms of Indonesia’s export relations, for example, China has emerged as one of Indonesia’s leading trading partners. From 1987 to 1997, Indonesia’s average export value to China was USD1217 million, and China constituted Indonesia’s fifth largest export trading partner (after Japan, the USA, Singapore and South Korea). After the fall of Suharto in 1998, however, Indonesia’s export volume to China grew significantly. During the period of 1998–2007, Indonesia’s average export volume expanded almost four times (USD4480 million) from the previous period. From 2008 to 2012, it reached USD16,685 million. China is now Indonesia’s second largest export trading partner, only after Japan. A similar observation can be made in Indonesia’s import relations. From 1987 to 1998,

**Table 1** Indonesia's direction of trade (million USD) by top 10 trading partners last 25 years (1987–2012)

Direction of trade	Average	Rank	Average	Rank	Average	Rank
	1987–1997		1998–2007		2008–2012	
<i>Exports, total</i>						
1. Japan	10,631.23	1	15,196.33	1	27,190.04	1
2. USA	4780.30	2	8674.05	2	13,935.74	4
3. Singapore	3078.22	3	6659.30	3	14,485.38	3
4. Korea, Republic of	2027.07	4	4960.10	4	12,255.07	5
<b>5. China, People's Republic of</b>	<b>1217.33</b>	<b>5</b>	<b>4480.10</b>	<b>5</b>	<b>16,685.78</b>	<b>2</b>
6. Malaysia	577.13	8	2649.29	6	8976.56	7
7. Australia	715.43	7	2037.93	7	4421.51	9
8. Netherlands	1077.37	6	1871.02	9	4070.94	10
9. Thailand	551.85	9	1644.38	10	4798.69	8
10. India	213.23	10	2028.01	8	10,068.65	6
<i>Imports, total</i>						
1. Japan	6237.48	1	5096.03	2	16,828.63	3
2. Singapore	1842.55	3	5568.70	1	21,926.66	1
<b>3. China, People's Republic of</b>	<b>955.51</b>	<b>6</b>	<b>3653.69</b>	<b>3</b>	<b>21,054.98</b>	<b>2</b>
4. USA	3382.38	2	3429.87	4	9371.31	4
5. Australia	1445.56	5	2073.68	6	4403.02	9
6. Korea, Republic of	1550.66	4	2120.85	5	8868.24	6
7. Thailand	411.59	10	2025.19	7	8052.42	7
8. Malaysia	491.91	9	1897.96	8	9181.76	5
9. India	680.81	7	805.45	10	3407.44	10
10. Saudi Arabia	607.38	8	1843.62	9	4585.52	8

Bold values highlight that China is the important trading partner for Indonesia

Source: Own calculation using ADB Statistics

China was ranked sixth (after Japan, the USA, Singapore, South Korea and Australia) with the average import value of a mere USD955 million. In the subsequent period (1998–2007), it reached USD3653 million, and from 2008 to 2012 it reached USD21,054 million. China has emerged as the second largest partner after Singapore.

The recent increase in trade value could largely be attributed to the implementation of the ACFTA in 2010. Since 1 January 2010, the ACFTA has become fully effective in implementing zero tariffs on 6682 tariff posts in 17 sectors, including 12 in manufacturing and five in the agriculture, mining and maritime sectors. Bilateral trade value increased 42 % from USD25.5 billion in 2009 to USD36.1 billion in 2010. At the same time, however, it should be noted that China has benefited more from the expanding trade relations than Indonesia. This reflects the fact that China enjoys comparative advantage in a broader range of trading products (77 % of the trading products, most notably in manufactured products) than Indonesia (23 %, mostly in primary products) (Table 2). As a result of this,

**Table 2** Product classification Indonesia–China of RCA and net export (2012)

HS2	Product (HS-2)	RCA Ina	RCA Chn	NX Ina Chn	Classification
03	Fish, crustaceans and aquatic invertebrates	2.56	0.98	−8,331,197	Not performed
05	Other products of animal origin	0.15	1.76	−9,167,004	Not performed
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	1.54	1.52	−27,197,682	Not performed
20	Preparations of vegetables, fruit, nuts or other plant parts	0.34	1.07	−85,179,848	Not performed
21	Miscellaneous edible preparations	1.04	0.32	−85,894,020	Not performed
24	Tobacco and manufactured tobacco substitutes	1.76	0.26	−270,245,808	Not performed
<b>36</b>	<b>Explosives, pyrotechnic products, matches, pyrophoric alloys, certain combustible</b>	<b>0.33</b>	<b>1.65</b>	<b>−48,264,710</b>	<b>Not performed</b>
42	Leather articles, saddlery and harness, travel goods, handbags and similar articles	0.45	3.65	−373,428,249	Not performed
43	Furskins and artificial fur, manufactures thereof	0.02	2.28	−3,953,884	Not performed
46	Manufactures of straw, esparto or other plaiting materials; basketware and wickerwork	2.87	5.71	−10,165,150	Not performed
48	Paper and paperboard and articles thereof, paper pulp articles	1.89	0.61	−28,884,209	Not performed
50	Silk, including yarns and woven fabric thereof	0.00	4.42	−20,831,977	Not performed
51	Wool and animal hair, including yarn and woven fabric	0.01	1.48	−56,383,886	Not performed
52	Cotton, including yarn and woven fabric thereof	0.98	1.90	−467,483,252	Not Performed
53	Other vegetable textile fibres, paper yarn and woven fabrics of paper yarn	0.43	2.72	−16,935,728	Not performed
54	Man-made filaments, including yarns and woven fabrics	2.65	2.53	−575,682,385	Not performed
55	Man-made staple fibres, including yarns and woven fabrics	5.29	2.31	−302,544,753	Not performed
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles	0.55	1.27	−102,075,650	Not performed
57	Carpets and other textile floor coverings	0.44	1.33	−32,346,231	Not performed

(continued)

**Table 2** (continued)

HS2	Product (HS-2)	RCA Ina	RCA Chn	NX Ina Chn	Classification
58	Special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery	0.44	3.16	-122,172,858	Not performed
59	Impregnated, coated, covered or laminated textile fabrics; textile articles for industrial use	0.45	2.29	-350,333,161	Not performed
60	Knitted or crocheted fabrics	0.33	3.17	-509,883,155	Not performed
61	Apparel articles and accessories, knitted or crocheted	1.56	3.66	-1,049,498,147	Not performed
62	Apparel articles and accessories, not knitted or crocheted	1.89	2.87	-124,431,770	Not performed
63	Other textile articles, needlecraft sets, worn clothing and worn textile articles	0.60	3.49	-85,544,426	Not performed
64	Footwear, gaiters and the like and parts thereof	2.73	3.36	-192,649,029	Not performed
65	Headgear and parts thereof	0.33	4.27	-19,994,682	Not performed
66	Umbrellas, walking sticks, seat sticks, riding crops, whips and parts thereof	0.06	6.47	-80,475,877	Not performed
67	Prepared feathers, down and articles thereof; artificial flowers; articles of human hair	3.51	6.18	-13,559,114	Not Performed
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	0.29	1.45	-112,651,597	Not performed
69	Ceramic products	0.63	2.84	-372,603,879	Not performed
70	Glass and glassware	0.52	1.73	-264,161,077	Not performed
73	Articles of iron or steel	0.58	1.48	-1,331,554,978	Not performed
81	Other base metals; cermets; articles thereof	0.09	1.56	-29,715,507	Not performed
82	Tools, implements, cutlery, spoons and forks of base metal and parts thereof	0.15	1.61	-215,381,236	Not performed
83	Miscellaneous articles of base metal	0.29	1.85	-343,408,540	Not performed
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.27	1.52	-5,697,801,824	Not performed
85	<b><i>Electric machinery, equipment and parts; sound equipment; television equipment</i></b>	<b>0.49</b>	<b>2.06</b>	<b>-3,717,406,927</b>	<b><i>Not performed</i></b>

(continued)



**Table 2** (continued)

HS2	Product (HS-2)	RCA Ina	RCA Chn	NX Ina Chn	Classification
86	Railway or tramway, locomotives, rolling stock, track fixtures and parts thereof	0.06	2.29	-72,074,141	Not performed
89	Ships, boats and floating structures	0.46	2.04	-723,068,758	Not performed
90	Optical, photographic, cinematographic, measuring, checking, precision, medical	0.12	1.09	-1,023,558,796	Not performed
94	Furniture; bedding, mattresses, cushions, etc.; other lamps and light fittings, illuminated signs, nameplates and the like; prefabricated buildings	0.78	2.97	-772,582,275	Not performed
95	Toys, games and sports equipment; parts and accessories	0.51	3.75	-161,456,641	Not performed
96	Miscellaneous manufactured articles	0.92	3.36	-248,190,824	Not performed
04	Dairy products, birds' eggs, honey and other edible animal products	0.24	0.05	-1,969,914	Not performed
06	Live trees, plants; bulbs, roots; cut flowers and ornamental foliage	0.12	0.10	-267,466	Not performed
07	Edible vegetables and certain roots and tubers	0.16	0.98	-390,933,442	Not performed
08	Edible fruit and nuts, citrus fruit or melon peel	0.39	0.34	-384,421,899	Not performed
10	Cereals	0.01	0.03	-10,792,479	Not performed
11	Milling products, malt, starch, inulin, wheat gluten	0.32	0.27	-27,849,904	Not performed
13	Lac, gums, resins and other vegetable saps and extracts	0.56	0.65	-34,822,079	Not performed
17	Sugars and sugar confectionery	0.34	0.20	-87,148,203	Not performed
22	Beverages, spirits and vinegar	0.11	0.10	-1,136,503	Not performed
23	<b><i>Food industry residues and waste, prepared animal feed</i></b>	<b>0.73</b>	<b>0.32</b>	<b>-23,649,895</b>	<b><i>Not performed</i></b>
25	Salt, sulphur, earth and stone, lime and cement plaster	0.22	0.62	-56,912,602	Not performed
28	Inorganic chemicals, organic or inorganic compounds of precious metals, of rare-earth metals, etc.	0.45	0.97	-495,288,875	Not performed
29	Organic chemicals	0.57	0.76	-272,348,581	Not performed
30	Pharmaceutical products	0.08	0.10	-25,494,194	Not performed

(continued)

**Table 2** (continued)

HS2	Product (HS-2)	RCA Ina	RCA Chn	NX Ina Chn	Classification
31	Fertilisers	0.66	0.80	-442,480,785	Not performed
32	Tanning or dyeing extracts; tannins and derivatives; dyes, pigments and colouring matt	0.37	0.56	-275,396,912	Not performed
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	0.50	0.26	-83,086,191	Not performed
35	Albuminoidal substances, modified starches, glues, enzymes	0.12	0.69	-66,506,374	Not performed
37	Photographic or cinematographic goods	0.00	0.56	-51,068,244	Not performed
39	Plastics and articles thereof	0.39	0.81	-642,136,636	Not performed
<b>45</b>	<b>Cork and articles of cork</b>	<b>0.02</b>	<b>0.07</b>	<b>-59,305</b>	<b>Not performed</b>
49	Printed books, newspapers, pictures and other products of printing industry; manuscripts	0.07	0.65	-20,440,403	Not performed
72	Iron and steel	0.18	0.69	-1,135,039,537	Not performed
76	Aluminium and articles thereof	0.44	0.97	-400,080,797	Not performed
78	Lead and articles thereof	0.10	0.07	-1,074,197	Not performed
79	Zinc and articles thereof	0.04	0.09	-7,037,337	Not performed
<b>87</b>	<b><i>Vehicles (not railway, tramway, rolling stock), parts and accessories</i></b>	<b>0.32</b>	<b>0.34</b>	<b>-891,847,508</b>	<b>Not performed</b>
88	Aircraft, spacecraft and parts thereof	0.11	0.07	-14,111,660	Not performed
91	Clocks and watches and parts thereof	0.02	0.96	-157,811,000	Not performed
97	Works of art, collectors' pieces and antiques	0.10	0.26	-1,994,172	Not performed
01	Live animals	0.26	0.21	209,511	Performed
02	Meat and edible meat offal	0.01	0.07	NA	Performed
09	Coffee, tea, mate and spices	3.89	0.34	20,576,283	Performed
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit	0.20	0.22	96,977,949	Performed
14	Vegetable plaiting materials and other vegetable products	3.75	1.05	36,556,415	Performed

(continued)

**Table 2** (continued)

HS2	Product (HS-2)	RCA Ina	RCA Chn	NX Ina Chn	Classification
15	Animal or vegetable fats and oils and their cleavage products, prepared edible fats	17.03	0.04	4,007,337,655	Performed
18	Cocoa and cocoa preparations	2.07	0.06	47,545,602	Performed
19	Preparations of cereals, flour, starch or milk; bakers' wares	0.85	0.21	30,900,613	Performed
<b>26</b>	<b><i>Ores, slag and ash</i></b>	<b>1.96</b>	<b>0.02</b>	<b>5,418,971,536</b>	<b><i>Performed</i></b>
<b>27</b>	<b><i>Mineral fuels, mineral oils and products of their distillation; bitumen substances</i></b>	<b>2.02</b>	<b>0.09</b>	<b>9,834,953,042</b>	<b><i>Performed</i></b>
34	Soap, waxes, polish, candles, modelling pastes, dental preparations with basis of waxes	1.59	0.42	78,578,713	Performed
38	Miscellaneous chemical products	1.88	0.50	360,408,956	Performed
<b>40</b>	<b><i>Rubber and articles thereof</i></b>	<b>4.13</b>	<b>0.81</b>	<b>1,490,048,470</b>	<b><i>Performed</i></b>
41	Raw hides and skins (other than furskins) and leather	0.40	0.12	10,905,671	Performed
44	Wood and articles of wood, wood charcoal	2.57	0.85	467,038,425	Performed
47	Pulp of wood or of other fibrous cellulosic material, waste and scrap of paper and paperboard	2.95	0.02	1,088,943,570	Performed
71	Natural or cultured pearls, precious or semiprecious stones, precious metals and metal clad	0.47	0.69	13,927,727	Performed
<b>74</b>	<b><i>Copper and articles thereof</i></b>	<b>1.16</b>	<b>0.35</b>	<b>199,389,856</b>	<b><i>Performed</i></b>
<b>75</b>	<b><i>Nickel and articles thereof</i></b>	<b>3.16</b>	<b>0.26</b>	<b>244,653,042</b>	<b><i>Performed</i></b>
<b>80</b>	<b><i>Tin and articles thereof</i></b>	<b>24.35</b>	<b>0.10</b>	<b>365,060,955</b>	<b><i>Performed</i></b>
92	Musical instruments, parts and accessories thereof	7.43	2.16	159,968	Performed
93	<i>Arms and ammunition, parts and accessories thereof</i>	0.06	0.12	6,530	<i>Performed</i>

Bold indicates China's export to Indonesia, products not imported from Indonesia

Italic indicates Indonesia's export to China, products not imported from China

Bold–italic indicates China invest FDI in Indonesia

Source: Own calculation using COMTRADE data

Indonesia has become increasingly reliant on natural-resource sectors for exports to China. Exports from the mining sector, for example, increased to USD5.82 billion or 41.4 % of the total export to China, in 2010, from merely 6.2 % in 2005. The contribution of the manufacturing sector, in contrast, has been in a continuous decline and fell to 56.9 % in 2010 from 91.4 % in 2005 (ICRA Indonesia 2011). This emerging pattern of vertical trade constitutes a major source of Indonesia's trade deficits, which reached an all-time high in 2012: USD7.7 billion (Table 3).

**Table 3** Indonesia's direction of trade (million USD) from 1995 to 2012

Year	NX
1995	246.50
1996	459.91
1997	711.33
1998	925.74
1999	766.72
2000	745.74
2001	357.99
2002	475.58
2003	845.06
2004	503.40
2005	819.49
2006	1706.67
2007	1117.63
2008	-3612.70
2009	-2502.90
2010	-4731.60
2011	-3271.20
2012	-7727.60

*Source:* Own calculation using ADB Statistic

In terms of why Indonesia's manufacturing sector has been losing ground to its Chinese counterpart, it is worth recalling that the Indonesian manufacturing sector experienced a rapid growth from the 1980s, when it was suggested that Indonesia would eventually enter an advanced form of capitalism as witnessed in the 'East Asian Tigers'. East Asian developmental states had successfully nurtured so-called strategic industries to the point where they could compete in international markets. Unlike its East Asian counterparts, however, Indonesia has never been able to produce a competitive manufacturing sector. As Fukuoka (2012) highlights, this is largely because the pattern of state-business relations in Indonesia differed significantly from the East Asian model: firstly, the patrimonial state of Indonesia has been subject to the particularistic demands of predatory business elites able to influence policy-making through clientelistic connections. Secondly, the Indonesian state lacked a capable and coherent bureaucracy to ensure satisfactory policy implementation. In this context, state intervention in the market became an excuse to bestow patronage on politically powerful business groups.<sup>5</sup>

<sup>5</sup> For a concise discussion of East Asian developmental states, see Onis (1991). For example, in the case of preferential bank lending—a key instrument of state-led development in East Asia—while the Indonesian government prepared elaborate lists of priority categories, the Central Bank 'not only had little idea of the purposes to which cheap finance was actually put, but lacked even a clear picture of whether subsidised loans even reached the target groups' (MacIntyre 1994, p. 262).

**Table 4** Proportion by sector (% of GDP) from 2003 to 2012

Sector	Agriculture and mining (%)	Manufacturing industry (%)	Utilities (electricity, gas and water) (%)	Services (construction, trade, transport and communication, finance and public administration, others) (%)
2003	23.5	28.3	1.0	47.3
2004	23.3	28.1	1.0	47.6
2005	24.3	27.4	1.0	47.4
2006	24.0	27.5	0.9	47.6
2007	24.9	27.0	0.9	47.2
2008	25.4	27.8	0.8	45.9
2009	25.9	26.4	0.8	47.0
2010	26.4	24.8	0.8	48.0
2011	26.6	24.3	0.8	48.3
2012	26.2	23.9	0.8	49.1

Source: Own calculation using ADB Statistic

Against this backdrop, Indonesian businesses had enjoyed a comfortable mentality as the state not only financially facilitated them but also protected them against competitors: their success and even survival has continued to depend on patrimonial plunder of state resources. Internationalisation in the sense of producing goods or services for exports was never high on the agendas of Indonesian manufacturers (Habir 1998). Even when the growth of manufactured exports took place, it was led by a relatively few products whose competitiveness was based on low wages and access to natural resources. By the 1990s it was suggested that Indonesia would be vulnerable to competition from countries like China with lower wage costs (Lall and Rao 1995). As Indonesia had failed to achieve the kind of industrial upgrading as observed in East Asia, it was expected that strengthening economic ties with China would ‘do more harm than good’ to local industries, in particular the manufacturing sector (*The Jakarta Post*, 6 November 2002).<sup>6</sup> Predictably, the implementation of the ACFTA has facilitated the process of de-industrialisation, the decline of the already uncompetitive manufacturing sector (Table 5).<sup>7</sup> Novotny (2010, p. 216) argues that the rapid growth of the Chinese economy, combined with the lacklustre performance of the Indonesian economy,

<sup>6</sup> In this respect, the experience of Indonesian footwear producers is indicative. An increasing number of Indonesian footwear firms have changed their businesses from manufacturing products to merely distributing manufactured goods imported from China. According to UN Comtrade, Indonesia was the world’s fifth largest footwear exporter in 1996, with a global market share of around 5 %. It fell to 10th place in 2009, with a 2 % share. During the same period, footwear products from China entered the Indonesian market due to market liberalisation (Standard Chartered 2013).

<sup>7</sup> The industrial sector’s share of Indonesia’s total GDP has declined from 27.8 % in 2008 to 23.9 % in 2012 (Table 4).

**Table 5** Proportion of FDI inflows to total ASEAN FDI inflows and proportion of FDI inflows to total country's FDI inflows (2011)

Home country	% of total intra FDI inflows in ASEAN	% of total extra FDI inflows in ASEAN	% FDI inflows from intra-ASEAN	% FDI inflows from extra-ASEAN	Total (%)
Brunei Darussalam	0	1	6	94	<b>100</b>
Cambodia	1	1	25	75	<b>100</b>
Indonesia	<b>47</b>	12	<b>43</b>	57	<b>100</b>
Lao PDR	0	0	18	82	<b>100</b>
Malaysia	15	10	22	78	<b>100</b>
Myanmar	1	2	10	90	<b>100</b>
Philippines	0	2	-4	104	<b>100</b>
Singapore	24	56	8	92	<b>100</b>
Thailand	3	9	6	94	<b>100</b>
Vietnam	8	7	20	80	<b>100</b>
Total	<b>100</b>	<b>100</b>			

Bold values highlight that Indonesia's share of intra-investment in ASEAN is the highest (47 %) and that it also constitutes a major source of intra-ASEAN investment (43 %)

Source: Own calculation using Table 25 ASEAN

could be translated into a dependency relationship between them. This development generated the perception of the 'China threat' and posed an obstacle to further enhancing bilateral relations.<sup>8</sup>

Still, it should be noted that if a Free Trade Agreement (FTA) succeeds in the creation of an efficient regional production network, it would then encourage more intra-regional investment as well.<sup>9</sup> Thus, to gain a complete picture of Indonesia—China economic relations, it is equally important to measure the extent to which Indonesia has benefited from China's investment.<sup>10</sup> Overall, China's FDI inflows in

<sup>8</sup> For example, in an article that appeared in the country's leading newspaper, *The Jakarta Post*, it was claimed that 'most people are of the opinion that Indonesia's agricultural products and manufacturing goods are extremely uncompetitive against China's'. The same article also suggested that 'instead of seeing the ACFTA as an instrument to strengthen the interdependence of the ASEAN region with China, many Indonesians see it as leading to cut-throat competition that will have negative impacts on the development of Indonesian economic capabilities in the long term' (*The Jakarta Post*, 27 October 2010).

<sup>9</sup> It is worth recalling at this point that previous studies found that in the context of ASEAN Free Trade Agreement (AFTA), trade creation (the replacement of expensive domestic production by cheaper imports from more efficient partner countries) is higher than trade diversion (the replacement of cheaper initial imports from lower-cost producers outside the union by imports from less efficient producers in member countries), thus facilitating increasing investment from more efficient member states to lower-cost members' affiliates as production bases transferred (Urata and Okabe 2007).

<sup>10</sup> This is particularly so given that Indonesia is now the most attractive destination of intra-ASEAN FDI, attracting around 47 % of the total intra-ASEAN FDI (Table 5). This indicates that Indonesia is well placed to attract further investment from China's increasing economic engagement with ASEAN.

Indonesia significantly increased, particularly in the last 5 years, from USD50.8 million in 2009 to USD296 million in 2013, though Indonesia is not yet among the top recipients of China's investment. A brief analysis of China's FDI inflows by sector (Table 6) reveals that China has invested most aggressively in the mining, metal, machinery and electronic, trade and repair, food and rubber and plastic industry sectors.<sup>11</sup> China is among the big ten investors in the fishery, wood, leather goods and footwear, rubber and plastic, non-metallic mineral, paper and printing, metal and machinery and electronic industries. Interestingly, China has also invested in the raw materials of the fishery and mining industries and both the utility sector (electricity, gas and water supply) and service sector of trade and repair, real estate, industrial estate and business activities and transport, storage and communication. It appears that China's investment has been comprehensive as it covers not only tradable sectors but also non-tradable sectors.

It is worth emphasising that China's long-term investment in Indonesia has been directed to Indonesia's comparatively disadvantaged sectors, namely, food, vehicles (not railway, tramway, rolling stock) and their parts and accessories, electrical machinery and equipment and parts, storage and paper and printing. It appears that China's investment in these sectors has largely been aimed at gaining access to Indonesia's large domestic market for these products. At the same time, China's increasing investment in these sectors could potentially enhance their international competitiveness, if such investment is pursued in ways which incorporate them into regional production networks. Another important aspect of investment relations is that China has displayed a strong interest in the fishery, wood and rubber sectors, each of which is identified as a 'priority integration sector' in the context of the ASEAN Economic Community. China's investment in these areas could help Indonesia develop new production bases which could then make an important contribution to the country's future economic growth. These observations suggest that the cost of trade borne by Indonesia has, at least to a certain extent, been compensated for by the benefit of attracting further investment from China.

To sum up, while Indonesia's economic relations with China have experienced a remarkable improvement in the post-Suharto era, the impact has been somewhat mixed. On the one hand, Indonesia has registered growing trade deficits with China, which enjoys comparative advantage in a wider range of products. Due to its failure to nurture a competitive manufacturing sector, Indonesia has become increasingly dependent on exporting primary products, as it deepens its trade relations with China; energy commodities are increasing their share of Indonesia's exports, while the share of non-energy-based manufactured products is declining. At the same time, however, such trade imbalance has, at least to a certain extent, been compensated for by China's investment, which could also help enhance the competitiveness of Indonesian industries. Despite such positive benefits, much of Indonesian public

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<sup>11</sup> China's investment in Indonesia's mining sector is considered to be an important measure to secure a sustainable supply of raw materials required to support China's manufacturing sectors (Kian Wie 2010).

**Table 6** China's FDI inflows in Indonesia (thousand USD) and China's rank among host countries from 2009 to 2013

Sector	2009	2010	2011	2012	2013	Rank among FDI home countries 2013
Fishery	–	–	–	–	1031	3
Wood industry	–	2000	50	–	1999	4
Leather goods and footwear industry	–	–	–	889	1199	5
Rubber and plastic industry	–	2000	10,008	450	35,135	5
Construction	–	–	1950	–	13,394	5
Non-metallic mineral industry	–	–	–	6198	32,233	6
Electricity, gas and water supply	–	3058	–	12,190	24,412	6
Trade and repair	10,510	11,564	17,656	14,394	29,302	6
Paper and printing industry	–	–	500	101	2097	7
Mining	4200	87,004	61,558	42,879	66,642	8
Other industry	–	–	–	–	2156	8
Metal, machinery and electronic industry	29,753	35,352	20,626	32,013	53,736	9
Real estate, ind. estate and business activities	–	–	–	–	3226	10
Transport, storage and communication	–	6072	150	2250	625	10
Food crops and plantation	–	40	3425	11,993	4523	11
Motor vehicles and other transport equip. industry	–	–	300	–	31	11
Textile industry	–	800	–	800	800	12
Food industry	5550	22,463	11,507	9654	12,309	13
Chemical and pharmaceutical industry	–	1484	–	7140	10,512	14
Other services	567	1810	500	–	1298	18
Hotel and restaurant	250	–	–	18	222	25
Total agriculture and mining sector	<b>4200</b>	<b>87,044</b>	<b>64,982</b>	<b>54,872</b>	<b>72,197</b>	
Total manufacturing industry sector	<b>35,303</b>	<b>64,098</b>	<b>42,991</b>	<b>57,246</b>	<b>152,207</b>	
Total service sector	<b>11,327</b>	<b>22,504</b>	<b>20,256</b>	<b>28,852</b>	<b>72,480</b>	
Total FDI inflows of China in Indonesia	<b>50,830</b>	<b>173,646</b>	<b>128,230</b>	<b>140,969</b>	<b>296,883</b>	

Bold values highlight total investment in three major sectors in the economy, which are agriculture and mining, manufacturing industry and service sector

Source: Own calculation using data of BKPM Indonesia <http://www4.bkpm.go.id/contents/p16/statistics/17#.U5kGWM86Tug>



discourse has focused on negative dimensions of Indonesia–China economic relations. In recent years, business elites and political elites alike have provoked the perception of the ‘China threat’, emphasising the negative implications of trade imbalance while conveniently ignoring the positive role China’s investment could potentially play. As discussed below, these actors now constitute a significant obstacle to Indonesia’s engagement with China.

#### 4 Challenges of Managing Indonesia–China Economic Relations

The recent improvements in bilateral relations have brought unique challenges as well as expanded opportunities to Indonesia. In particular, increased competition with cheap Chinese products has driven segments of Indonesian businesses to demand greater protectionism, which has undermined the government’s effort to further strengthen its ties with China. It should be noted at this point that despite recent improvements, Indonesia–China relations have not entirely broken away from the difficult past as suspicions and sensitivity continue to characterise the bilateral relationship (see Laksamana 2011; Sukma 2009a, b). As mentioned earlier, the fear of China’s aggressive penetration in the Indonesian market, if combined with the long-standing resentments of Indonesians concerning the economic role of the Chinese minority, could potentially strain and even destabilise bilateral relations. Indeed, as Booth (2011, pp. 10–11) points out, a pessimistic view of the future suggests that discontent on the part of Indonesian manufacturers over ‘unfair’ Chinese competition could spill over into violence against the Chinese minority, ‘especially if trading companies owned by Indonesians of Chinese origin are seen to be benefiting from sales of merchandise originating from China’.

A good example in this respect is the implementation of the ACFTA in 2010, which generated the perception of the ‘China threat’. In particular, Indonesian manufacturers, who had been nurtured under state protection, ganged up on the ACFTA, provoking the fear that the elimination of trade tariffs would lead to the flooding of China’s low-end manufactured products, resulting in the displacement of domestic industries.<sup>12</sup> The Indonesian Chamber of Commerce (Kamar Dagang dan Industri Indonesia: KADIN) was particularly vocal in demanding that the government protect local industries, calling for a renegotiation of the trade agreement (*Kompas*, 23 April 2011; *The Jakarta Post*, 23 April 2011).<sup>13</sup> However, then

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<sup>12</sup> It was suggested that small and medium enterprises that employ 97 % of the total workforce and contribute to more than half of country’s GDP were particularly hard pressed amidst the ‘invasion’ of Chinese products.

<sup>13</sup> To be sure, their concerns were not entirely without reason. For example, according to the Central Statistics Agency (Badan Pusat Statistik), non-oil-and-gas imports from China surged 55 % to USD2.79 billion within the first 2 months of the implementation of the ACFTA, a steep

Trade Minister Mari Pangestu repeatedly rejected such demands, emphasising instead that Indonesia would enjoy benefits under the agreement, such as increased access to the Chinese market, increased productivity and efficiency, lower prices for the domestic market and greater protection from adverse shocks to the global economy (*The Jakarta Post*, 13 April 2010). Indeed, recent studies conducted by one of the authors (Verico 2012, 2013a, b) identify positive impacts of the ACFTA, suggesting that the establishment of open and non-discriminative regionalism would provide favourable conditions for Indonesian manufacturers to take part in regional production networks while at the same time attracting further investment from outside.

However, as the opposition to the ACFTA intensified, Pangestu found herself increasingly marginalised in the policy-making process. The People's Representative Council (DPR) members flaunted 'national interests' as the reason for their opposition to economic liberalisation, often whipping up xenophobia, when their real interest lies in maintaining state protection to preserve vested interests. It is now 'fashionable for politicians of all parties to say that government's economic policies serve the interests of foreign capitalists rather than those of the Indonesian people' (Sukma 2009, p. 89). Also, Indonesian lawmakers are not even equipped with necessary knowledge on FTAs. This has made it increasingly difficult for post-Suharto governments to pursue economic liberalisation without being accused of selling the country to foreigners. The ACFTA was no exception to this as party politicians were vocal against its implementation. For example, a Golkar politician, Fahmi Idris, who also served as Minister of Industry, said 'we are not ready to participate in the ACFTA as we know that our products cannot compete with Chinese products', suggesting that the government postpone the implementation of the ACFTA (*The Jakarta Post*, 18 August 2009). Eddy Kuntadi, another Golkar politician who sat in DPR Commission VI overseeing industry and trade, similarly said 'we want a delay because it will create massive effects economically and socially' (*The Jakarta Post*, 21 January 2010).<sup>14</sup>

Thus, predatory interests, both inside and outside the DPR, began to mobilise against Mari Pangestu seeking for her removal. Some even made a racially provocative statement alleging that the minister, who is an ethnic Chinese, favoured her ancestors' interests in her policies. Though such a provocation did not result in the rise of anti-Chinese sentiments in Indonesian society, it was an acute reminder that economic grievance could still be expressed in ethnic terms.<sup>15</sup> In this context, Mari Pangestu began to lose the support of President Susilo Bambang Yudhoyono (SBY), who could no longer protect her without sacrificing the stability of his administration. In post-Suharto Indonesia, the president, though still powerful, has

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rise from USD1.8 billion in the corresponding period the year before (*The Jakarta Post*, 3 April 2010).

<sup>14</sup> As Novotny's (2010, pp. 212–218) analysis highlights, such a perception of China's economic threat is widely shared by Indonesian foreign policy elites.

<sup>15</sup> Personal communication with local journalists

to remain attentive to a greater plurality of interests; any failure to do so is subject to serious repercussions (Slater 2004). SBY has proved to be particularly skilful in this regard. While claiming to address the pressing issues facing the country, such as structural reform of the economy, his government never pursued radical reforms that would have undermined the vested interests of the country's oligarchs. While some prominent technocrats committed to liberal economic reform, including Mari Pangestu, were appointed to strategic positions, they were invariably relegated when their reform threatened oligarchic interests (Fukuoka 2013).

In October 2011, SBY reshuffled his cabinet, relegating Mari Pangestu to the minor post of Culture and Tourism Minister. Mari Pangestu was replaced by Gita Wirjawan, who, upon assuming the post, promised a greater protection of local industries. Under Gita Wirjawan, Indonesian trade policy became increasingly protectionist. Responding to domestic pressure, the government has resorted to a distorted trade policy through quota and other non-tariff barriers, which are difficult to monitor and create rent-seeking opportunities for those who are closely politically connected (Nasution 2013). Such a protectionist tendency culminated in February 2014 when the DPR passed a new trade law (Law No. 7/2014), ostensibly aiming to protect local producers from foreign competition while developing higher-value industries. Significantly, this law provides authorities with a legal basis to implement quota policy to restrict exports and imports—a policy that theoretically and empirically has proved to be harmful to economic development as it tends to encourage rent-seeking activities. This law also requires the government to ask for the approval of the DPR for any FTA with extensive impact on the national economy.<sup>16</sup> This development is problematic given the tendency of the DPR to oppose greater economic openness. O'Rourke (2014), for example, argues that this law would 'inevitably create conflicts of interest among state officials, while benefiting vested interests with prowess in lobbying political parties'.<sup>17</sup>

To sum up, the experience of the ACFTA highlights significant obstacles that remain in Indonesia–China relations, by exposing structural weaknesses of the Indonesian economy. As well as exposing Indonesian industries to a greater competition, the ACFTA also provoked long-term fear that while China is striving towards becoming a manufacturing hub of the region, Indonesia is drifting further towards becoming a natural-resource-based economy. Trends in the economic relationship over the past years have reinforced these perceptions as the proportion

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<sup>16</sup> Article 84 (1) of the law states that any trade arrangements (bilateral, regional and multilateral) need to be submitted to the DPR for approval within 90 working days after the signing. The word 'after' indicates that it has the potential to be rejected by the DPR. Indeed, Article 84 (3) states that the DPR decides whether or not a particular agreement requires parliamentary approval within 60 working days. Meanwhile, Article 84 (6) explicitly provides the DPR with the authority to 'reject' (*menolak*) the agreement if it could 'threaten national interests' (*dapat membahayakan kepentingan nasional*).

<sup>17</sup> It was also suggested that the turn towards protectionism was linked to the 2014 parliamentary and presidential elections—laissez-faire economics is unpopular in Indonesia.

of natural-resource-related exports has registered a discernible growth. Instead of addressing such weaknesses through institutional reform, Indonesia has opted for greater protection by stoking fears of China flooding Indonesia with cheap goods, while extracting raw materials. The trade structure is unlikely to shift significantly for some time. The greater political openness in the post-Suharto era has encouraged some politicians to embrace economic nationalism in its more extreme form, with strong anti-Chinese undertones. These elements could exploit resentments concerning the outcomes of the ACFTA, which could present even greater challenges to managing Indonesia–China economic relations.

## 5 Conclusion

Seen from a historical perspective, the recent improvement in Indonesia–China relations has been remarkable. Departing from the Cold War hostility, post-Suharto Indonesia has significantly strengthened its ties with China not only in the economic arena but also in the political and security arena. Looking at the evolution of economic relations, this chapter has highlighted that the growing ties with China have brought expanding opportunities for Indonesia, particularly in the form of China’s investment, while at the same time exposing Indonesian manufacturers to greater economic competition. With reference to the ACFTA, it highlighted that increased economic competition with China has driven segments of the Indonesian business sector to demand greater protectionism, deliberately provoking the perception of the ‘China threat’. In this respect, it was emphasised that despite recent improvements, Indonesia–China relations have not entirely broken away from the difficult past as suspicions and sensitivity continue to characterise these relations. In fact, the perception of China’s aggressive penetration in the Indonesian market, if not managed well, could combine with the long-standing resentments concerning the economic role of the Chinese minority to potentially destabilise the bilateral relationship. Indeed political and business interests intent on preserving the status quo have managed to turn Indonesia in an increasingly protectionist direction, presenting an obstacle to the government’s effort to further strengthen its relations with China.

## Appendix

Based on calculations of RCA of Indonesia and RCA of China and net export of Indonesia and China, this article designs four classifications:

1. If RCA of Indonesia of a particular product is higher than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is positive, then the product is a *performed product of Indonesia*. If RCA of

Indonesia of a particular product is lower than 1 (one) and RCA of China of that product is lower than 1 (one) while Indonesia to China net export is positive, then the product is also classified as a *performed product of Indonesia* compared to China.

2. If RCA of Indonesia of a particular product is higher than 1 (one) and RCA of China of that product is lower than 1 (one) while Indonesia to China net export is positive, then the product is classified as a *performed product of Indonesia* which shows Indonesia's comparative advantage to China. If RCA of Indonesia of a particular product is lower than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is negative, then the opposite of the previous result is true, i.e. this product is classified as a *not performed product of Indonesia* which shows China's comparative advantage to Indonesia.
3. If RCA of Indonesia of a particular product is lower than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is negative, then the product is classified as a *not performed product of Indonesia* which shows Indonesia's comparative disadvantage to China. If RCA of Indonesia of a particular product is lower than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is positive, then the opposite of the previous result is true, i.e. this product is classified as a *performed product of Indonesia* compared to China.
4. If RCA of Indonesia of a particular product is higher than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is negative, then the product is classified as a *not performed product of Indonesia* which indicates that Indonesia needs to pay attention to the probability that her comparative advantage could turn into a disadvantage in the long run. If RCA of Indonesia of a particular product is lower than 1 (one) and RCA of China of that product is higher than 1 (one) while Indonesia to China net export is negative, then this product is classified as a *not performed product of Indonesia*. If RCA of Indonesia of a particular product is higher than 1 (one) and RCA of China of that product is lower than 1 (one) while Indonesia to China net export is negative, then this product is classified as a *not performed product of Indonesia* since this comparative advantage product could not achieve a positive net export to Indonesia.

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