

Lidya Christin Sinaga *Editor*

Six Decades of Indonesia- China Relations

An Indonesian Perspective



 Springer

The Springer logo features a white chess knight piece on a pedestal, positioned to the left of the word "Springer" which is written in a white, serif font.

Six Decades of Indonesia-China Relations

Lidya Christin Sinaga
Editor

Six Decades of Indonesia-China Relations

An Indonesian Perspective



 Springer

The Springer logo consists of a stylized black chess knight (horse) facing left, positioned above a horizontal line. To the right of this icon, the word "Springer" is written in a black, serif font.

Editor
Lidya Christin Sinaga
Center for Political Studies
Indonesian Institute of Sciences
Jakarta
Indonesia

ISBN 978-981-10-8083-8 ISBN 978-981-10-8084-5 (eBook)
<https://doi.org/10.1007/978-981-10-8084-5>

LIPI PRESS retains the right to market and sell the print version of the Work in English language in Indonesia (ISBN 978-979-799-753-3)

Library of Congress Control Number: 2017964252

Translated and modified from the Indonesian language edition: *Hubungan Indonesia-China dalam Dinamika Petahanan-Keamanan dan Ekonomi di Asia Tenggara* edited by Lidya Christin Sinaga.

© Springer Nature Singapore Pte Ltd. and Indonesian Institute of Sciences (LIPI) Press 2018

This work is subject to copyright. All rights are reserved by the Publishers, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publishers, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publishers nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publishers remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Printed on acid-free paper

This Springer imprint is published by the registered company Springer Nature Singapore Pte Ltd. part of Springer Nature

The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

Editorial Note

LIPI Press, being a scholarly publishing house, is committed to produce highly worth reading scientific publications for civic education. Before making it available for public, this edited book, *Six Decades of Indonesia–China Relations: An Indonesian Perspective*, has been going through a series of standard quality assurance mechanism, including peer review by LIPI Editorial Board as well as editing.

This book examines the dynamics of mutual cooperation between Indonesia and China, particularly in defense security, politics, and economics. This work should be put in the context of continuously and necessarily evaluating bilateral cooperation between both countries that has been long for more than six decades and sometimes involves tensions and fluxes. Moreover, it turns out that China nowadays plays an increasingly significant role at global and regional levels which potentially fits the Indonesia’s interests.

We hope that this edited volume enriches knowledge and insights of its readers by presenting opportunities, challenges, and prospects in Indonesia–China relations, especially through a case study on service and manpower sectors. Finally, we thank all those who made the publication of this work possible.

LIPI Press

Foreword

This book is one of the research works done by Center for Political Studies, Indonesian Institute of Sciences (P2P LIPI), under the scheme of Research Incentives 2011 from the Ministry of Research and Technology, The Republic of Indonesia. This edited book is a result of research activities conducted by the writers who worked in a team preparing a research design, doing literary reviews, collecting data, having regular discussions and interviews with informants, and conducting seminars on issues related to the research focus.

Above all, it is impossible for this edited book to be in our hands now without generous helps and supports from a number of names and institutions. Therefore, we would like to extend our sincere gratitude to all informants from governmental and non-governmental institutions and universities for their supports during our research activities. High appreciation should go also to all the researchers and administrative staff at P2P LIPI for such a conducive academic environment because of which the researchers are able to publish their works. Last but not least, we thank LIPI Press for publishing this manuscript.

Finally, we are fully aware that this book is far from perfect. Therefore, criticism and inputs from all beneficiary readers to fill the gaps in this book are most welcome. We hope the readers can learn something from this book. Enjoy reading!

Jakarta, Indonesia
December 2013

Prof. Dr. Syamsuddin Haris
Head of Center for Political Studies, LIPI

Preface

Despite a long relationship between Indonesia and China, both have been in up-and-down cooperation over the past six decades. Indonesia fully understands that Asia-Pacific region is pivotal and strategic for the national best interests, be it in politics, defense security, or economics. Any political changes in the region will directly or indirectly affect Indonesia's national interests. Accordingly, China's increasing role at the global and local constellations in the region will obviously bring impacts on the Indonesia's national interests. Being the case, it is important for Indonesia to detect and make the best use of opportunities for the sake of its national development benefits. This is, in fact, the background of our research on the issue.

We thank the Ministry of Research and Technology, the Republic of Indonesia, for providing financial support for this research. We address also our gratitude to Center for Political Studies—Indonesian Institute of Sciences (LIPI), and all informants in Banten and Special Region of Jakarta. Special thanks go to Tri Handayani and Prayogo for their generous help along the publishing process of this book. Finally, may this book be useful for its readers.

Jakarta, Indonesia

Lidya Christin Sinaga

Contents

1 The Dynamics of Indonesia–China Relations in Politics, Defense-Security, and Economy in Southeast Asia: An Indonesian Perspective	1
Lidya Christin Sinaga	
2 Indonesia–China Economic Relations Post the 1997 Asian Crisis . . .	17
Adriana Elisabeth	
3 The Dynamics of ASEAN–China Economic Relations	31
Ratna Shofi Inayati	
4 Opportunities and Challenges in Indonesia–China Relations: Service and Labor Sectors	47
Tri Nuke Pudjiastuti	
5 Indonesia–China Relations: A Political-Security Perspective	65
Nanto Sriyanto	
6 The Prospects of Indonesia–China Relations	79
Ganewati Wuryandari	
Index	95

Editor and Contributors

About the Editor

Lidya Christin Sinaga completed her master's degree from the School of International Relations and History, Flinders University, Australia, in 2016 with a thesis entitled "Indonesia's China Foreign Policy Under President Joko Widodo: Projecting the Global Maritime Fulcrum." She has been joining the Center for Political Studies—LIPI since 2006 with a focus on the development of international politics. She is currently a member of ASEAN Research Group, P2P-LIPI (2008–now).

Contributors

Adriana Elisabeth Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Ratna Shofi Inayati Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Tri Nuke Pudjiastuti Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Lidya Christin Sinaga Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Nanto Sriyanto Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Ganewati Wuryandari Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia

Abbreviations

ACFTA	ASEAN–China Free Trade Agreement
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AMM	ASEAN Ministerial Meeting
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BIMP-EAGA	Brunei Indonesia Malaysia Philippines-East ASEAN Growth Area
BRIC	Brazil Russia India China
BUMN	Badan Usaha Milik Negara (State-owned enterprises)
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Company
DCA	Defense Cooperation Agreement
DoC	Declaration of Conduct
EAS	East Asia Summit
ECFA	Economic Cooperation Framework Agreement
FDI	Foreign Direct Investment
G-30S PKI	Gerakan 30 September Partai Komunis Indonesia (30 September Movement/Indonesian Communist Party)
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HAM	Hak Asasi Manusia (human right)
IMS-GT	Indonesia Malaysia Singapore-Growth Triangle
IMT-GT	Indonesia Malaysia Thailand-Growth Triangle
CAA	Konferensi Asia Afrika (Asia-Africa Conference)
KEK	Kawasan Ekonomi Khusus (economic special zone)
KTT	Konferensi Tingkat Tinggi (high-level conference)
KUR	Kredit Usaha Rakyat (People Business Credit Program)
LNG	Liquid Natural Gas

MDGs	Millennium Development Goals
MoU	Memorandum of Understanding
MRA	Mutual Recognition Arrangement
NAFTA	North American Free Trade Area
NEFOS	New Emerging Forces
OLDEFOS	Old Established Forces
PHK	Pemutusan Hubungan Kerja (Termination of Employment)
PLAN	People Liberation Army Navy
PLTA	Pembangkit Listrik Tenaga Air (water electricity power plant)
PM	Prime Minister
PMA	Penanaman Modal Asing (foreign investment)
PoA	Plan of Action
PPP	Power Purchasing Parity
PRC	People Republic of China
RI	Republik Indonesia
SBY	Susilo Bambang Yudhoyono
SDA	Sumber Daya Alam (natural resources)
SDM	Sumber Daya Manusia (human resources)
SIJORI	Singapura Johor Riau
SKA	Surat Keterangan Asal (certificate of origin)
SNI	Standar Nasional Indonesia (Indonesian National Standard)
Suramadu	Surabaya Madura
TAC	Treaty of Amity and Cooperation
TKA	Tenaga Kerja Asing (foreign worker)
TKI	Tenaga Kerja Indonesia (Indonesian worker)
TNCs	Transnational Corporations
TPAK	Tingkat Partisipasi Angkatan Kerja (labor force participation rate)
TPT	Tingkat Pengangguran Terbuka (open unemployment rate)
UKM	Usaha Kecil dan Menengah (small and medium enterprises)
UMKM	Usaha Mikro Kecil dan Menengah (micro, small, and medium enterprises)
US	United States
UU	Undang-Undang (law)
WTO	World Trade Organization

Chapter 1

The Dynamics of Indonesia–China Relations in Politics, Defense-Security, and Economy in Southeast Asia: An Indonesian Perspective

Lidya Christin Sinaga

Abstract Indonesia and China officially started their diplomatic relations on June 09, 1950. However, the movement on September 30, 1965, led by Indonesian Communist Party (PKI) marked the darkest period in their relationship, resulting in a diplomatic dissolution in 1967. It took 23 years for the two countries to resume their diplomatic relations, which was in 1990 precisely. Since the normalization, their relations were politically and economically stronger and reached a peak as they signed a Declaration of Strategic Partnership in 2005. There is no doubt that China's rising power in the current economic marketplace has also affected its relations with Indonesia. Put in Indonesian perspective, this section will examine six decades of Indonesia–China relations (1950–2010), particularly after the economic crisis in 1997. Furthermore, discussions on the current relations between Indonesia and China cannot be separated from the Southeast Asia's dynamics since Indonesia continued to get China actively engaged in a multilateral relationship with the Association of Southeast Asian Nations (ASEAN).

Keywords Indonesia–China diplomatic relations · Indonesian perspective
ASEAN

1 Introduction

Indonesia and China officially started their diplomatic relations on June 09, 1950. However, the movement on September 30, 1965, led by Indonesian Communist Party (PKI) marked the darkest period in their relationship, resulting in a diplomatic dissolution in 1967. It took 23 years for the two countries to resume their diplomatic relations, which was in 1990 precisely. Since the normalization, their relations were politically and economically stronger and reached a peak as they signed a Declaration of Strategic Partnership in 2005. There is no doubt that China's rising power in the current economic marketplace has also affected its relations with Indonesia. Put

L. Christin Sinaga (✉)

Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: lidya.bosua@gmail.com

© Springer Nature Singapore Pte Ltd. and Indonesian Institute of Sciences (LIPI) Press 2018

L. Christin Sinaga (ed.), *Six Decades of Indonesia-China Relations*,
https://doi.org/10.1007/978-981-10-8084-5_1

in Indonesian perspective, this section will examine six decades of Indonesia-China relations (1950–2010), particularly after the economic crisis in 1997. Furthermore, discussions on the current relations between Indonesia and China cannot be separated from the Southeast Asia's dynamics since Indonesia continued to get China actively engaged in a multilateral relationship with the Association of Southeast Asian Nations (ASEAN).¹

2 Six Decades of Indonesia–China Diplomatic Relations

Indonesia is the first Southeast Asian country that officially opened diplomatic relations with China in 1950. In November 1953, Indonesia and China signed a trade agreement for the first time in Beijing.² On April 26–28, 1955, Prime Minister Zhou Enlai was attending Asia-Africa Conference (KAA) in Bandung where he also signed an Indonesia–China's dual citizenship treaty proposed by the Indonesian Government. Soon after, the two countries have exchanged diplomatic visits. Soekarno's regime had enjoyed intimate friendship with China until the Indonesian Communist Party's uprising on September 30, 1965, ruined it. Accusing China of its interference in the revolt, the Indonesian Government eventually brought the diplomatic relations to an end on October 9, 1967.³ The Indonesian Government finally closed its embassy office in Beijing on October 23, 1967, and the Chinese embassy did the same thing a week after. From 1967 to 1990, Indonesia–China diplomatic relations had been suspended during the period of which the Cambodian Embassy in Beijing and the Rumanian Embassy in Jakarta were assigned to act, respectively, on their behalf.⁴

On February 24, 1989, when attending the Caesar Hirohito's funeral ceremonies in Tokyo, President Soeharto and Ministry of Chinese Foreign Affairs, Qian Qichen, talked about possible normalization of the two countries' severed diplomatic ties. On October 4, 1989, Ali Alatas, who was the Indonesian Ministry of Foreign Affairs, and Qian Qichen hold a follow-up meeting in Tokyo. The two ministries of foreign affairs finally signed a Common Communiqué "The Resumption of the Diplomatic Relations between the Two Countries" in Beijing, July 03, 1990.⁵ Prime Minister of China, Li Peng, made an official visit to Indonesia on August 6, 1999, and had a talk with President Soeharto. They both agreed to improve bilateral cooperation between each country on the basis of Five Principle of Peaceful Coexistence and

¹Rizal Sukma, "Indonesia's Response to the Rise of China: Growing Comfort amid Uncertainties" in Tsunekawa (2009, p. 143).

²Gudadi Sasongko, "Kronologi Hubungan RI-RRC 1950–2008" in Wibowo and Hadi (2009, p. 293).

³Rizal Sukma, "Indonesia-China Relations: The Politics of Re-Engagement," in *Asian Survey* (July/August 2009, pp. 591–608).

⁴Gudadi Sasongko, *op.cit.*, p. 294.

⁵*Ibid.*

Ten Principles of Bandung Conference. On August 8, 1990, Indonesia and China, represented by each minister of foreign affairs, signed a Memorandum of Understanding (MoU) on Resumption of Diplomatic Relations, which officially marked the resumption of diplomatic relations between Indonesia and China. On November 14–19, 1990, President Soeharto in return visited China and signed a Joint Committee on Economy, Trade, and Engineering Partnership.⁶ There have been frequent reciprocal visits between two countries afterward.

It took many years, i.e., twenty-three years, for Indonesia to recover its diplomatic relations with China for some reasons. Firstly, China's alleged interference in the previous coup d'état made Indonesia ceaselessly question China's motives. Secondly, there was a concern from the Indonesian Government that restoring relations with China would possibly provoke unruly anti-Chinese protests. Knowing that Indonesia was its important trading and political partner, China understood it and waited to see the Indonesia's response in this case.⁷

On May 1998, there was a riot in Jakarta that led to the downfall of Soeharto's regime. The biggest numbers of victims came from ethnic Chinese. The Chinese Government was very much concerned about the riot and accordingly demanded more serious attempts from the Indonesian Government to protect ethnic Chinese in the country. Post-New Order regime provided a more open political climate where ethnic Chinese had a better opportunity in politics. China had a privileged position in Abdurrahman Wahid's foreign policy (1999–2001). It was the first country visited by the president after his presidential inauguration. President Wahid's official visit to China, on December 1–3, 1999, marked a new era for a more intensified bilateral partnership between the two countries. One example was that Beijing agreed to give financial aids and credit facilities to Indonesia. They agreed also to cooperate in various fields, including monetary, technology, fishery, tourism, and countertrade in energy, i.e., exchange of Indonesian LNG with Chinese products.⁸ Megawati Soekarno Putri, the successor of President Wahid, carried on such a close relationship with China. During her visit to Beijing, on March 24–27, 2002, both countries showed their commitments to strengthen partnership in economy and politics.

Indonesia–China relations reached its peak after the signing of the Declaration of Strategic Partnership in Jakarta, April 25, 2005, when the President of Republic of China, Hu Jintao, was attending the 50th anniversary of Asia-Africa Conference in Bandung. The strategic partnership included mutual cooperation in politics and security, economy and development, sociocultural as well as other alliances. This joint declaration enhanced further relations between the two countries. In economy, for example, The Indonesian Government successfully realized the 2010 targeted trade volume, i.e., US\$30 billion in 2008. In 2010, President Susilo Bambang Yudhoyono

⁶*Ibid.*

⁷Aimee Dawis, Ph.D., "How Does the ASEAN-China Free Trade Agreement Prepare Indonesia to Become a Global Economic Player?" in *The Indonesian Quarterly* Third Edition (2010), pp. 313–314).

⁸Syamsul Hadi, "Hubungan Indonesia-Cina di Era Pasca-Orde Baru: Perspektif Indonesia" in I. Wibowo and Syamsul Hadi (ed.), *op.cit.*, pp. 56–57.

Table 1 Six decades of Indonesia–China relations (collaborated by the author from Storey 2011 and R. Sukma, “Hubungan Indonesia-Republik Rakyat Cina: Jalan Panjang Menuju Normalisasi,” in B. Bandoro, *Hubungan Luar Negeri Indonesia Selama Orde Baru*, CSIS, Jakarta, 1994)

Soekarno (August 1945–March 1966)	1950: Indonesia–China diplomatic relations In 1960s, China was held as an ideological ally
Soeharto (March 1966–May 1998)	October 9, 1967: the suspension of Indonesia–China diplomatic relations due to September 1965 movement July 5, 1985: memorandum of understanding on direct trade relations between Indonesia and China July 3, 1990: the resumption of the diplomatic relations between the two countries
Habibie (May 1998–October 1999)	Ending discrimination against Chinese ethnic in Indonesia
Abdurrahman Wahid (October 1999–July 2001)	“Look toward Asia” policy aimed to pursue closer relations with Asian neighbors, including China
Megawati (July 2001–September 2004)	Reopening Bank of China branch in Jakarta Starting cooperation in energy sectors, especially gas and oil
Susilo Bambang Yudhoyono (September 2004–October 2014)	April 25, 2005: declaration on building strategic partnership

(SBY) launched a new target of US\$50 billion for the next five years (2010–2015). During a bilateral meeting, which was held in between APEC (Asia Pacific Economic Cooperation) Economic Leaders Meeting in Singapore, November 2009, President SBY and President Hu Jintao declared 2010 as “Year of Friendship between Indonesia and China.”⁹ Table 1 briefly illustrates Indonesia–China relations during the past six decades.

Indonesia–China relations have been growing rapidly in various fields, particularly in economy. Trading activities between Indonesia and China during period January–June 2010 reached an amount of US\$19.5 billion or an increase of 66.27% compared to that in the same period of the previous year, which was US\$11.72 billion. Accelerated import and export activities between Indonesia and China which were higher than those in the same period of the same year contributed to such an increase in trading. This was evidence from China’s export price to Indonesia which reached US\$9.83 billion or a 60% increase, and China’s import price from Indonesia which touched US\$9.66 billion or a 73.18% increase. Indonesia is numbered 20 in the list of PRC’s export destination countries with a trading value 1.39% out of PRC’s total world exportation, which is US\$705.18 billion. Indonesia is also ranked 16th

⁹Penandatanganan Plan of Action Deklarasi Bersama Kemitraan Strategis RI-RRC (2010).

in the list of the PRC's import destination countries with a trading value of US\$9.66 or 1.4% out of PRC's total world importation, which is US\$649.41 billion.¹⁰

Meanwhile, China is one of the Indonesia's biggest export destination countries after the European Union (EU), Japan, and USA. Indonesia's total exportation of other than gas and oils to China increased from 6.1% in 2004 to 9.1% in 2009. Meanwhile, Indonesia's exportation to EU, Japan, and USA began to decrease. Importation sector showed a similar trend. China is the second biggest import destination after ASEAN. Indonesia's importation from China rose significantly from 7.9% in 2004 to 19.77% in 2009. Export commodities from Indonesia to China were consecutively dominated by industrial products, then mining, and agricultural sectors. However, mining sector had the highest export growth in 1999–2009, which was related to China's increasing demands for energy as an inevitable consequence of its booming economy, particularly its oil sector. Indonesia–China Energy Forum, which was established in 2002 to be a legal basis for China's investments on energy in Indonesia, contributed also to the growth.

In addition to trading sector, China invests also in financing development of infrastructures in Indonesia. China was the fifth biggest investor in Indonesia until 2008. Among Chinese companies that made an investment in Indonesia are CNOOC, Petro China, Alcatel Shanghai, CITIC, Haier, Konka, Huawei Technology, ZTE Corporation, and China Railways Engineering Corporation. China also facilitated a loan scheme called Preferential Export Buyer's Credits, i.e., US\$800 million, to finance a number of infrastructural projects in Indonesia such as Labuhan Angin Steam Power, Surabaya-Madura (Suramadu) Bridge, Jatigede Dam, and Parit Baru Steam Power. In June 2010, the Indonesian Government holds a business meeting with some PRC's construction and electronic companies in Shanghai offering them US\$ billions projects on infrastructures which were expected to overcome growth bottleneck in Indonesian economy. More than thirty high-rank executives from PRC's global companies, such as China Railway Engineering Co., China Industry Investment International, State Grid International Development, and China Road and Bridge Corp., attended the meeting. The Indonesian representative requested also PRC investors to take part in some construction projects, including highways, ports, geothermal power plant, and railways, in West Java, East Kalimantan, and Riau. China's investments being realized in Indonesia is shown in Table 2.

In addition, business to business (B to B) and people to people (P to P) partnership between the two countries are increasingly synergi-zing and expanding within a framework of enhancing partnership among sister-cities/provinces.¹¹ The inter-provinces partnership between the two countries was manifested in a Letter of Intent Friendship Cooperation signed by Banten Province and Zhejiang Province on August 20, 2010. The two provinces agreed to cooperate in seven sectors, i.e. investment, trading, tourism, agriculture, education, culture, youth and sport, as well as any other possible sectors.¹² West Java Province also signed a Letter of Intent that contains a

¹⁰Data is from the Ministry of Trade, Republic of Indonesia, 2011.

¹¹China's Global Hegemony and Opportunities for Indonesia (2008, p. 77).

¹²*Laporan Kunjungan Kerja ke Provinsi Zhejiang (2010).*

Table 2 Realisation of China's Investments in Indonesia, January 1, 2005–December 31, 2009 (site based)

Year	Project site	Investment value (US\$. 000)
2005	West Sumatra	12,853.0
	Banten	23,814.0
	DKI Jakarta	8,207.4
	East Java	0.0
	Bali	177.0
2006	Riau Islands	10,640.4
	Lampung	750.0
	Bangka Belitung	219.8
	Banten	8,722.2
	West Java	7,000.0
	Central Java	2,250.0
	DKI Jakarta	780.0
	East Java	168.5
	South Kalimantan	1,000.0
2007	West Java	14,866.0
	Banten	8,078.1
	DKI Jakarta	3,915.0
	East Java	1,470.0
	East Nusa Tenggara	400.0
	East Kalimantan	160.0
	South Sulawesi	59.5
2008	Lampung	63,274.2
	Riau Islands	1,000.0
	Bangka Belitung	0.0
	DKI Jakarta	43,530.0
	Banten	7,200.0
	West Java	5,653.9
	East Java	2,620.0
	Bali	250.0
	Papua	13,845.3
2009	Riau Islands	5,100.0
	Banten	35,002.9
	DKI Jakarta	10,542.2
	West Java	7,700.0
	East Java	4,970.4
	Bali	160.0
	Central Sulawesi	800.0
	Papua	1,200.0

Source Capital Investment Coordinating Body of the Republic of Indonesia, 2011

commitment of partnership with three provinces in PRC, i.e., Shandong, Henan, and Heilongjiang. Those provinces are committed to work together in a number of sectors such as economy, trading, education, culture, agriculture, tourism, and technology.¹³

In defense sector, cooperation between Indonesia and China is built upon the Indonesia's national interests to improve defense power and to cope with security issues between the two countries. On April 25, 2005, presidents of each country signed a RI-PRC Joint Statement on Strategic Partnership which includes, among others, cooperation in security issues. Following this strategic partnership, RI-PRC Bilateral Defense Dialogue was held in Jakarta, July 2006, discussing many security issues in the region. The strategic partnership serves also as a media of communication for each country to be in the same page on global and regional security issues as well as to foster conflict resolution in Asia Pacific region. In Beijing, November 7, 2007, Indonesia and PRC's ministers of defense signed a defense partnership agreement between the two countries.¹⁴ China was expected to take part in the Indonesia's development programs of defense industries, including joint production and implementation of Transfer of Technology (ToT). Partnership between the two ministries of defense most likely will bring multiple benefits to both countries, especially in establishing stability in the region given that they share a common interest of safeguarding Malacca Strait and Sea Lane of Communication. It benefits them also in securing energy supplies from and to Middle East as well as transfer of commodities and products from industrial countries to Asia and Europe.

Indonesia–China relations in politics, defense-security, and economy are strategic considering China's position as being a newly world main power, not only in terms of economic but also military growth. China's economic growth is currently almost equal to any other developed countries.¹⁵ Moreover, China is now a country to which many countries in Southeast Asia, including Indonesia, ask for financial aids. It also provides financial aids in form of technical cooperation to many countries in the world, including Latin America, Central America, Middle East, and Africa. In addition, many countries nowadays are modeling China's successful economic development, i.e., a system of socialist economic markets which combines partly free and authoritarian markets and results in an economic growth.¹⁶

Equipped with more sophisticated military forces, China's power in defense is undeniable. If comparison is to be made, China is at the top list of Asia Pacific countries with a great number of army personnel, i.e., 1,600,000 soldiers. This number is understandable if compared to China's wide territory and its population which is more than one billion people. China's armaments such as tanks, Armored Combat Vehicle (ACV), and artilleries should not be underestimated as well. According to Bakrie, China's tanks are 8,850 units, the second biggest in Asia Pacific region after

¹³FGD Transcript (2011).

¹⁴*Buku* (2008, p. 148).

¹⁵Bantarto Bandoro, "Hegemoni Cina dan Kepentingan Indonesia" in *Hegemoni Global Cina dan Peluang Kemanfaatan bagi Indonesia*, *op.cit.*, p. 84.

¹⁶I. Wibowo, "Hegemoni Cina di Dunia Analisis atas Dasar 'Soft Power'" in *Hegemoni Global Cina dan Peluang Kemanfaatan Bagi Indonesia*, *op.cit.*, pp. 100–103.

Russia. With 1,700,000 artilleries, China is one of five countries, along with Russia, North Korea, India, and South Korea that have more than 10,000 units of artilleries. China's submarines are also the third biggest in number in Asia Pacific, i.e., 69 units. This includes submarines that are equipped with guided missiles, the model of which in Asia Pacific belongs only to China and USA. In battleship category, China is ranked the third in Asia Pacific region for having 63 Principal Surface Combatant (PSC) units, i.e., destroyer and frigate types, and 301 Patrol and Coastal Combatant (PCC) units, as revealed by Bakrie. Chinese navy's battleships are also superior in number with 961 units. China's Air force is no exception. Chinese fighter aircrafts are number one in Asia Pacific with 3,421 units, and its bombers are number two with 225 units. Supported with strong aircrafts, China, Russia, and USA share the strongest air force in Asia Pacific region.¹⁷

Looking at China's increasingly important role at regional and global levels, it is important to conclude that China has transformed itself into a world's emerging power that will also determine the political constellation of the world, Southeast Asia in particular and Asia Pacific in general. Moreover, China is vigorously expanding its soft power through economy and culture. There are different interpretations on whether China's revival and progress means opportunities, threats, or hegemony. After all, questions on how to deal with China as an emerging global power will always be about policy matters.¹⁸

Indonesia–China relations that have been growing for the past six decades are pivotal and strategic for both countries. Being one of the largest countries in the world, China attracts Indonesia's national interests to take a benefit from strategic partnership between the two countries. For Indonesia, such a relation is in line with the Indonesian Constitution that demands the country's participation in world peace efforts. Relations with foreign countries are meant to improve national progress and welfare. Therefore, it is necessary to carefully examine and make sure that Indonesia–China relations meet all those objectives and that foreign relations do not alter Indonesia's self-reliance.

Put in such a context, this work attempts to strategically figure out what the progress, challenges, and opportunities that Indonesia–China relations bring forth in the aspects of politics, defense-security, and economy, and what policies that Indonesia needs to take in order to benefit much from such a bilateral cooperation.

3 Indonesia–China Post 1997: Toward Enhancing Bilateral Relations

The revolt led by Indonesian Communist Party in 1965, as mentioned earlier, disrupted Indonesia–China relations. Soeharto's New Order regime, who took over the government from the Soekarno regime, accused China of being involved in the upris-

¹⁷Bakrie (2007, pp. 157–202).

¹⁸Bantarto Bando, *op.cit.*, p. 84.

ing and, therefore, froze its diplomatic relations with China. Public perceptions of China are always a significant factor in Indonesia–China relations. These perceptions were shaped by two factors: anti-communism and long-standing animosity toward Chinese Indonesians.¹⁹ They were very influential during the Soekarno and Soeharto regimes. Under Soeharto’s New Order regime, especially the Indonesian military, saw China as a threat for national security or, to borrow Rizal Sukma’s term (1999), a “triangle threat” which included China, the Indonesian Communist Party, and ethnic Chinese. For the regime, these three entities are allegedly interconnected to each other. The “communist threat” was a basis for regime legitimacy during the Cold War and because of which Indonesia–China relations had never been resumed for almost 23 years.²⁰ Domestic politics strongly determined Indonesian foreign policy at that time.

Even though Indonesia–China relations were finally presumed in 1990, ties between the two countries were not yet strong enough. Suspicion and sensitivity continued to affect Indonesia’s attitude toward China. Indonesia was inclined to take cautious and wait-and-see approach in its new relationship with China. Until early 1998, the Indonesian Government gave a much more attention to economic sectors rather than bilateral relationship with China that was mainly confined to trade and investment.²¹

The Indonesia’ economic crisis in 1997 led to the fall of the New Order regime under Soeharto in May 1998, which was preceded by an anti-Chinese riot. The Chinese Government expressed its concern but, being fully aware of the sensitive nature of the issue, it deemed the riot as Indonesia’s internal matter and did not interfere. It is only since 1998 that, following power transition from the New Order regime to Reformation Era, bilateral relations between Indonesia and China were expanding to the sectors of security and defense as well as energy. This chapter focuses on Indonesia–China relations during this period, post-1997 up to 2010.

Post-1997 marked not only the expansion of cooperation in a number of sectors, but it also witnessed China’s growing significance in Indonesia’s foreign policy and ethnic Chinese in Indonesia’s domestic politics. This development cannot be separated from the fact that regime change in Indonesia in 1998 has paved the way for significant advances in Indonesia–China relations.²² There were two important drivers for this development: the military’s progressive removal from power²³ and imperative for the national economic recovery in the aftermath of the 1997 economic crisis.²⁴ President Abdurrahman Wahid, who was elected in October 1999 and was enthusiastic to build a closer tie with China, began his presidential international tours by first visiting China at the beginning of his reign. The economic crisis that struck

¹⁹Storey (2011, p. 54).

²⁰Rizal Sukma in Jun Tsunekawa (ed.), *op.cit.*, pp. 141–142.

²¹*Ibid.*, pp. 142–143.

²²Nabs-Keller (October 2013).

²³Storey, p. 200.

²⁴Y. Fukuoka, K. Verico, “Indonesia–China Economic Relations in the Twenty-First Century: Opportunities and Challenges” in Kim (2016, p. 53).

Indonesia since 1997 made the Wahid government focus on economic recovery. Wahid expected that a good relationship with Beijing will scale up supports from ethnic Chinese in Indonesia. Although there is no real evidence on the relationships between ethnic Chinese in Indonesia and those in Beijing, Abdurrahman Wahid was at least showing to ethnic Chinese in Indonesia and abroad that his presidency is not anti-ethnic Chinese.²⁵

Abdurrahman Wahid was a motor for ending regulations that are unfriendly to ethnic Chinese in Indonesia. He called off Presidential Instruction No. 14/1967 that restrains religious and cultural practices of ethnic Chinese. Alternatively, he issued a Presidential Instruction No. 6/2000 which allows the celebration of Chinese New Year. Megawati, who succeeded him in July 2001, continued what has been laid down by the previous government. She officially announced that Chinese New Year is observed as a national holiday, starting from February 1, 2003. Similarly, Susilo Bambang Yudhoyono, who came to power in 2004, published Presidential Instruction No. 12/2006, which prohibits any discrimination toward native Indonesians, especially ethnic Chinese in Indonesia.

Indonesia's domestic politics this time treated China much better than that at the early days of the presumption of Indonesia–China relations. In this period, China was no longer considered a threat to Indonesia's national ideology, rather an economic opportunity due to its strongly growing economic power.

During Megawati Era, the scope of Indonesia–China partnership expanded further to energy sector. It is clearly evidenced by the fact that there are currently three China' national oil companies operating Indonesia.²⁶ First, China's National Petroleum Company (CNPC) that runs in Indonesia for the first time in 2002 through its subsidiary company, i.e., PetroChina, with the acquisition of Devon Energy in Indonesia. In 2004, PetroChina held 25% rights of ownership and operation in Sukowati oil field and currently possesses a number of oil and gas refineries in Indonesia, such as in Jabung (Jambi), Salawati (Papua), and Tuban (East Java). Second, China Petroleum and Chemical Company (Sinopec) joined into Indonesia's oil and gas industry in July 2005, following the signing of partnership agreement on oil exploration in Tuban (East Java). Sinopec's presence in Indonesia was represented by Sinopec International Petroleum E & P Co. that is responsible for Production Sharing Contract (PSC) in Binjai Block, North Sumatera. Third, China National Offshore Oil Corporation (CNOOC) that in November 28, 2002, officially bought shares of Repsol YPF in Indonesia after which CNOOC South East Sumatra (SES) was established in cooperation with six energy companies. CNOOC SES Ltd. currently owns five out of seven Repsol YPF's oil fields locating throughout the northern offshore of West Java, southwest Sumatera, western Madura, Poleng, and Blora.

The government of Susilo Bambang Yudhoyono witnessed expanding cooperation in a defense-security sector as the Declaration of Strategic Partnership was signed in 2005. Indonesia and China agreed to establish Mechanism of Dialogue between the Ministry Coordinator of Politics, Law, and Security and State Councilor in July

²⁵Rizal Sukma, *op.cit.*, pp. 145–146.

²⁶Mursitama and Yudono (2010, pp. 117–137).

2005; Consultation Forum of Maritime Partnership in December 2006; Agreement on Partnership in Defense Activities in December 2007; and Extradition Treaties in July 2009. In addition, during the Second Dialogue between the Ministry Coordinator of Politics, Law, and Security–State Councilor in Jakarta, January 21, 2010, the two countries signed a Plan of Action (PoA) of Declaration of Strategic Partnership between Indonesia and China. The PoA specifies tangible program activities in order to implement terms of agreement stipulated in the joint declaration for the next five years (2010–2015).

Post-1997 is an important period as where we can observe the dynamics of Indonesia–China relations in the context of the ASEAN-China Free Trade Agreement (ACFTA). Even though this trade agreement was signed in 2002 and preceded by an Early Harvest Program (EHP) in 2004, it officially went into effect in 2010. However, it did not receive warm responses in Indonesia as there were protests and rumors of boycotts by business sectors in Indonesia as reported in national news headlines. The Indonesian Government reacted to such a situation by appealing for a renegotiation. Discussions were then held among the Chamber of Commerce and Industry (KADIN), the ASEAN Secretariat, and the Ministry of Economy, Industry, and Commerce, which resulted in a decision to pass on the Ministry of Industries' requests of renegotiating 228 tariff line with its Chinese counterpart.

In response to the requests, the Chinese Embassy collaborated with KADIN Indonesia in holding a dialogue between the Chinese Ambassador, i.e., Madame Zhang Qiyue, and the Indonesian business communities on March 18, 2010. During the discussion, Madame Zhang Qiyue talked about possible win–win solutions between Indonesia and China. She also asserted that Indonesia was not the main target of China's exportation, and therefore, the ACFTA should not be considered a threat. Shortly after the talk, China's Minister of Trade, Chen Deming, was sent to Indonesia on April 2, 2010, to hold the 10th Indonesia–China Joint Commission Meeting with the Indonesia's Minister of Trade, Maria Elka Pangestu, in Yogyakarta, April 3, 2010. China was, nevertheless, standing ground to the ACFTA's planned schedule, which is understandable given the fact the ACFTA is a multilateral, not bilateral, and therefore, was not allowing China to make concessions with individual ASEAN countries alone. The way China dealt with the dispute by sending its high public official to Indonesia in order to maintain a good relationship (*guanxi*) and not to let the issue go wild, to some extent showed its respects and sensitivity toward Indonesia.²⁷

4 From Interdependence to Regionalism

It is important to consider Indonesia–China relations after normalization as a complex interconnection between several factors, including history, domestic politics, and regional considerations. A more than two decades suspension of diplomatic relations will always be sensitive issue, particularly to China in nurturing further

²⁷ Aimee Dawis, *op.cit.*, pp. 315–319.

relationship with Indonesia. As mentioned before, in the early phase of normalization, Indonesia tended to be cautious and passive in its relationship with China. Rather than developing a bilateral partnership with China in politics and security, Indonesia preferred to engage with China in framework of a multilateral cooperation, both through ASEAN and ARF (ASEAN Regional Forum). For Indonesia, ASEAN is a more effective instrument to manage its relations with China. For policy makers in Indonesia, ARF could ensure that China respects norms of international relations and becomes more committed and active in multilateral security efforts in the region.²⁸

Bilateral relations between Indonesia and China within the ASEAN multilateral framework are in fact a mode of interdependence economically and politically, heading to a strengthened regionalism. As we already knew, globalization has exposed us to the simultaneous phenomenon of multilateralism, regionalism, and bilateralism. Technological revolutions in transportation and communication made it possible for services, humans, and other production factors to move more freely due to increasingly blurred geographical and administrative borders.²⁹ Regionalism and regional interdependence are directly linked by a greater inter-reliance among the actors in a particular region. Therefore, it can be seen that the process of regionalism in Asia Pacific region, especially within the ASEAN–China framework, requires a collective management as economic interdependence is growing rapidly in the region. Regional cohesion is attained when countries keep strengthening their relations despite of newly more challenging and complex problems.

Bilateral relations between China and ASEAN are increasing as China resumes its relations with Indonesia in July 1990. China then established diplomatic relations with Singapore on October 3, 1990. China was also more serious in its attempts to open an official relationship with ASEAN. Being invited by the Malaysian government, the Minister of Foreign Affairs of China, Qian Qichen, was attending the 24th opening of AMM (ASEAN Ministerial Meeting) in Kuala Lumpur, July 19, 1991, where he expressed China's interests to cooperate with ASEAN. Since then, China became an ASEAN's dialogue partner.

China–ASEAN relations were going stronger after China's membership in ARF in 1994. Finally, at the 29th AMM in Jakarta, July 1996, ASEAN accorded China a full dialogue partner status. In December 1997, President of China, Jiang Zemin, and all the leaders of ASEAN had an informal summit (ASEAN+1) and released a joint declaration to form a good neighboring and a mutually trustworthy partnership in facing twenty-first century. In 2001, China proposed ACFTA focusing on agriculture, technology-information, human resource development, investment, and cooperation in Mekong River Basin. During the 6th ASEAN-China Summit in Cambodia, November 4, 2002, a Framework Agreement on The Comprehensive Economic Cooperation between the ASEAN and The People's Republic of China was signed. The Indonesian Government ratified this agreement through a Presidential Instruction No. 48/2004.

²⁸Rizal Sukma, *op.cit.*, pp. 152–153.

²⁹Shalendra D. Sharma, "Asian: Economic Crisis and the IMF," *Survival* Vol. 40 No. 2, Summer 1998, p. 27 in Sungkar (2005, p. 8).

ASEAN–China relations continued to grow rapidly as Joint Declaration of the Heads of State/Government of the ASEAN and the PRC on Strategic Partnership for Peace and Prosperity was signed during the 7th ASEAN Summit in Bali, October 2003. In the same year, China became the first ASEAN’s dialogue partner that signed Treaty of Amity and Cooperation (TAC), i.e., a code of conduct in Southeast Asia’s international relations. In addition to it, China previously signed a MoU Between the Governments of the Member Countries of the ASEAN and the Government of the PRC on Cooperation in the Field of Non-Traditional Security Issues in Bangkok, January 10, 2003, and Declaration on the Conduct of Parties in the South China Sea (DoC) in 2002.

In mid-1990s, China projected itself as an emerging power which wanted to build relationship with its neighboring countries, particularly ASEAN. Indonesia warmly welcome China’s growing interest and commitment toward ASEAN. “Indonesia’s growing comfort in dealing with China has also been the function of a significant shift in China’s overall approach toward Southeast Asia since the mid-1990,” said Rizal Sukma.³⁰ China continued to prove itself as a “responsible power.” Monetary crisis that hit many Asian countries, including Indonesia, became a path for China to show its good intentions toward the region; it offered aids and loans with low interests to several ASEAN countries, including Indonesia. Similarly, China kept making a good impression when in December 2004 Tsunami struck Indonesia and some countries in the Indian Ocean. China showed a quick response by delivering aids for the victims as well as for the reconstruction process.

China’s attitudes toward ASEAN represented its broad perspective, i.e., treating ASEAN as one of the pillars that sustains a multipolar system. China gave credit to ASEAN for its important role in ARF, APEC, and other regional forums. China’s initiative to strengthen relations in ACFTA was mainly meant to be a confidence building measure in order to assuage ASEAN doubts to China. This also provided an incentive for China to scale up its emerging power regionally and globally as well as to compete with USA and Japan. ACFTA is strategic for ASEAN countries not only in terms of economy but also politics and defense. It is hoped that economic integration with China will possibly bring its interests closer to the region and accordingly China will share a common interest to maintain security, stability, and welfare among the ASEAN countries. It is hoped also that because of this agreement, China will restrain itself when dealing with bilateral problems.³¹

Seemingly, China is fully aware of the fact that Indonesia becomes a major economic power in Southeast Asia and plays a significant role in regional stability. Indonesia and Southeast Asia have been an integral part of China’s interests and long-term strategies.³² Therefore, there is no wonder why China was “willing to wait” for almost two decades before it resumed its diplomatic relations with Indonesia. Indeed, initial talks on establishing ACFTA had been begun after normalization in

³⁰Rizal Sukma, *op.cit.*, p. 150.

³¹Inayati (2006, pp. 14–15).

³²Bantarto Bando, *op.cit.*, p. 88.

1991. In addition to that, ACFTA was the first free trade agreement that China signed with a group of countries in the world. Southeast Asia had been a target for China to expand its soft power through its economy and cultures. Having a promising market place due to its huge population, trading routes, and resources, Southeast Asia is not only economically valuable to China, but also politically significant in terms of regional stability.

Therefore, Indonesia's responses to China's increasingly emerging power should be understood not merely within a bilateral perspective, but also within a wider context in regard to its regional implications. Indonesia and other Southeast Asian countries obviously do not want China to be a dominant player in the region. Rather, they prefer situating China in competition with other global forces. Indonesia clearly asserted its position with China when proposing that the membership of East Asia Summit (EAS) should not be only confined to ASEAN Plus Three (APT), i.e., ASEAN Plus China, Japan, Korea, as suggested by Malaysia; rather, it should also embrace Australia, India, New Zealand, USA, and Russia, whose first presence in EAS was in November 2011.

5 Conclusion

Indonesia–China relations have been going for many years, including six decades of ups and downs. Indonesia understood well the strategic significance of Asia Pacific region for its national interests in politics, security-defense, and economy. Political tide in the region will affect directly and indirectly Indonesia's national interests. China's emerging power in global and regional constellations, of course, will give direct impacts on Indonesia. In addition, China's emerging power should be considered opportunities for Indonesia's national developments. Nevertheless, it is undeniable that there are also obstacles, including unwanted impacts that ACFTA would possibly bring in the Indonesian industry, a topic that will be discussed in the following chapters. Therefore, goodwill between the two sides to perform a more mutualistic relationship will determine where their partnership will be leading to.

References

- Asian Survey*. 2009. Vol. 49, issue No. 4. United States: University of California Press.
- Bakrie, Connie Rahakundini. 2007. *Pertahanan Negara dan Postur TNI Ideal*. Jakarta: Yayasan Obor Indonesia.
- Buku Putih Pertahanan Indonesia*. 2008. Department of Defense of the Republic of Indonesia, Jakarta.
- FGD Transcript on "Hubungan Indonesia-Cina dalam Dinamika Politik, Pertahanan-Kemananan, dan Ekonomi di Asia Tenggara". 2011. The Amaroossa Hotel-Bandung, Aug 22.
- Hegemoni Global Cina dan Peluang Kemanfaatan Bagi Indonesia*. 2008. Bureau of International Relations, Deputy of Politics, Secretariat of Vice President of the Republic of Indonesia, Jakarta.

- Inayati, Ratna Shofi (ed.). 2006. *ASEAN-China FTA: Akselerasi Menuju East Asia Community (EAC)?* Jakarta: LIPI Press.
- Kim, Y.-C. (ed.). 2016. *Chinese Global Production Networks in ASEAN, Understanding China*. Switzerland: Springer International Publishing.
- Laporan Kunjungan Kerja ke Provinsi Zhejiang, RRT pada Acara Signing Letter of Intent Friendship Cooperation antara Pemerintah Provinsi Banten dengan Pemerintah Provinsi Zhejiang, RRT on August 19–22, 2010*. Bureau of Government, Secretariat of Province of Banten.
- Mursitama, Tirta N., and Maisa Yudono. 2010. *Strategi Tiga Naga Ekonomi Politik Industri Minyak Cina di Indonesia*. Jakarta: Kepik Ungu.
- Nabs-Keller, G. October 2013. *The Impacts of Democratisation on Indonesia's Foreign Policy*. Thesis, School of Government and International Relations, Griffith Business School, Griffith University.
- Penandatanganan Plan of Action Deklarasi Bersama Kemitraan Strategis RI-RRC. <http://www.deplu.go.id/beijing/Pages/Print.aspx?ListName=EmbassiesNews&IDP=12&CID=id-ID>. Accessed 16 Aug 2010.
- Storey, I. 2011. 'Indonesia and China Ambivalent Relations', *Southeast Asia and the Rise of China: The Search for Security*. London: Routledge.
- Sungkar, Yasmin. 2005. *Strategi ASEAN dalam Perluasan ASEAN+3*. Jakarta: LIPI Press.
- The Indonesian Quarterly Third Edition*. 2010. Vol. 38, No. 3. Jakarta: CSIS.
- Tsunekawa, Jun (ed.). 2009. *The Rise of China: Response from Southeast Asia and Japan*. Japan: The National Institute for Defense Studies.
- Wibowo, I., and Syamsul Hadi (eds.). 2009. *Merangkul Cina Hubungan Indonesia-Cina Pasca Soeharto*. Jakarta: PT Gramedia Pustaka Utama.

Author Biography

Lidya Christin Sinaga completed her Master's degree from the School of International Relations and History, Flinders University, Australia, in 2016. She has been joining the Center for Political Studies-LIPI since 2006 with a focus on the development of international politics. She is currently a member of ASEAN Research Group, P2P-LIPI (2008–now).

Chapter 2

Indonesia–China Economic Relations Post the 1997 Asian Crisis

Adriana Elisabeth

Abstract Indonesia and China have been in bilateral economic relations earlier. However, since the 1965 movement, Indonesia and China have experienced suspicion-colored diplomatic relations although they were economically dependent on each other. After the Asian economic crisis in 1997, China emerged as a “rising player” in the regional and bilateral economy. Despite different views on China’s economic power and its impacts, both directly and indirectly, on the national and regional interests, China’s global economic power is characteristically linked to China’s free trade, market expansion strategy at all levels, and economic diplomacy. Due to different national interests as well as political and economic systems, Indonesia and China were not always “equal” in their relations. Indeed, Indonesia seemed to be relatively unable to make the best use of China’s rising economy. In other words, China is an economic entity whose existence is almost always taken into consideration in the development processes of Indonesia (nationally and bilaterally) and ASEAN (regionally, subregionally, and multilaterally). Nonetheless, the ACFTA is likely unfavorable for Indonesia’s economic actors, especially entrepreneurs, traders, and manufacturers.

Keywords Indonesia–China bilateral economic relations · China’s economic power · ACFTA

1 Introduction

Since the beginning of Deng Xiaoping’s reforms, China’s economy was growing and expanding dramatically from the late 1970s and even stronger now. From 2001 to 2009, China’s economic growth reached 10.7%, although in the first quarter of 2009, it began declining to 6.1% because of the global economic crisis.¹ China, India, and

¹Wong (January–March 2011, p. 13).

A. Elisabeth (✉)

Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: adriana.elisabeth@gmail.com

Indonesia play key roles in Asia's economic growth. In 2010, the three countries were undergoing the fastest economic growth in Asia. China achieved an economic growth of 8.7%, India 6.8%, and Indonesia 4.6%.²

Indonesia and China have been in bilateral economic relations earlier. Since the 1965 movement, however, Indonesia and China have experienced suspicion-colored diplomatic relations although they were economically dependent on each other. Due to different national interests as well as political and economic systems, Indonesia and China were not always "equal" in their relations. Indeed, Indonesia seemed to be relatively unable to make the best use of China's raising economy.

Being the members of the World Trade Organization (WTO), Indonesia and China are implementing a liberal economic system and its main indicator is national economic growth. As the global economy gained its dominance, Indonesia and ASEAN had agreed to establish ASEAN Free Trade Area starting from 1992. To foster regional economic growth, ASEAN and three non-ASEAN countries (South Korea, Japan, and China) agreed to enact ASEAN Plus Three (ASEAN+3). In 2002, ASEAN and China signed the ASEAN-China Free Trade Agreement (ACFTA) which came into effect in January 2010.

In other words, China is an economic entity whose existence is almost always taken into consideration in the development processes of Indonesia (nationally, bilaterally) and ASEAN (regionally, subregionally, and multilaterally). Nonetheless, the ACFTA is likely unfavorable for Indonesia's economic actors (entrepreneurs, traders, and manufacturers).

China's economic rise has caused alarm not only among the Asian countries, but also for the United States (US). It is mainly because of the fact that China's economic power would strengthen its national defense industry and, accordingly, its military power. China's economic and defense profile has transformed the country into a major power. However, China refuted the claim and asserted that China is not a rising power that other countries should feel threatened of. This is also the reason why China made an intensive campaign for China's peaceful rise. The fact, nevertheless, showed that China demonstrated its strong military power in the border area of the South China Sea. Chinese military presence in the disputed area provoked an angry response from the claimant countries, especially the Philippines and Vietnam.

Pros and cons around the rising China never ceased to become a subject of discussions, especially related to its impacts on the security, political stability, and national and regional economies of ASEAN. The current conditions and dynamics of bilateral economic relations between Indonesia and China are closely associated with the two countries' strategies in fostering their economic growth and competitiveness. This dynamics of Indonesia-China economic relations is analyzed in the context of globalization or free trade based on the characteristics of globalization, such as the mobility of freely traded goods and services, capital, and labors. From the perspective of a regionalism approach, particularly economic integration, Indonesia and China, as trading partners (and in the context of ASEAN+3 and ACFTA as well), share a common ground of national interest-based economic cooperation. Economic

²Wirjawan (2010, p. 343).

integration is aimed at creating and improving regional efficiencies and well-being (economic integration) in order to realize national interests.

2 A Glance at Indonesia–China Relations

Although Indonesia and China gained independence after World War II, the two countries started their economic cooperation in 1953. Their bilateral economic relations had been growing well until a political tragedy was staged by the Indonesian Communist Party (PKI), a Beijing (the Chinese Communist Party) politically oriented party, in 1965 or so-called September 30th Movement. Since then, Indonesia–China political and economic relations were no longer going smoothly even though they are mutually dependent on each other, especially in economy.

Since the beginning of China’s membership in the WTO in 2001, the country’s economy continued growing rapidly and surpassed United States and Japan, making it as an emerging economic force. China is also a dialogue partner of ASEAN and a member of ASEAN+3. Economic and political situation in the region also contributed to the increasingly pivotal role of China, especially in trade and investment related to regional development. Nevertheless, ASEAN countries responded differently to China’s rising economy, especially with regard to the fulfillment of their respective national interests.

It seemed that China, being a WTO member, successfully exploits the global market opportunities to foster its national economic upturn. Indonesia, although embracing pro-market macroeconomic policies, remains economically less competitive in Asia, particularly against China. Higher prices of commodities and higher costs of production due to lower wages in China are two major causes for Indonesia’s far less competitiveness against China.

Many had predicted the superiority of China over Indonesia in the global economic competition, which was unbelievable, given that both countries share common socioeconomic problems, such as developmental gaps, unemployment, poverty, environmental issues, and global climate change. The two countries have a common paradoxical condition; however, the only difference was that China successfully moved forward its economic growth (Gross Domestic Product or GDP) to the fourth world ranking in 2010.³ On the contrary, Indonesia was left behind in spite of its more potential natural resources and region than China’s.

The impacts of China’s economic growth and “dominance” in the region became more apparent as the ACFTA was enacted in January 2010. Although the ASEAN countries have agreed to impose AFTA in 1992, and signed a free trade agreement with Japan, it turned out that ACFTA did not bring positive impacts on Indonesia’s economic progress. In other words, China enjoys more economic benefits than Indonesia, as expressed by most economic actors, both at local and national levels.

³Hongkong and Taiwan also played important roles in fostering the Chinese sectors of economy, trade, and investment.

Nevertheless, low-income people and lower consumers still prefer China's relatively cheaper but low-quality products, including unhealthy foods and toys.

After the Asian economic crisis in 1997, China emerged as a "rising player" in the regional and bilateral economy. China's trade and investment expanded not only in Asia but also to Africa. Economic reforms have been intensified in China since the early 1992. Then, at the 14th National Congress in October 1992, Deng Xiaoping set up a "socialist market economy"⁴ strategy, which was then packaged in an integrated economic reform, starting from the introduction of changes in fiscal and financial sectors.⁵ China's economic reform aims to overcome the country's economic bankruptcy because of inefficiencies (including corruption), the closure of small companies resulted in an increasing number of layoffs and unemployment.⁶

Socialist market economy, which is the basis of China's economic strategy, was translated, among others, into tax sector reforms and privatization of state enterprises. It allowed foreign companies or investors to buy the shares of China's national companies.⁷ In short, China's successful economic reforms have bestowed the country with a very significant economic growth in the world. However, it also made China no longer able to absorb and manage the Foreign Direct Investment (FDI) coming into the country.

Seemingly, China was very aggressive in expanding its economy into various regions. Lenient requirements helped China penetrate successfully almost to all of the world economic areas, including Africa. China's closed relationship with Africa began as the Vice President of China, Hu Jintao, was visiting Africa in 1999. In the late of 2008, China–Africa Fund made investment in 20 projects which worth US\$ 400 million and will expand it further with a total value of US\$ 5 billion. In addition, to help the food crisis recovery in Africa, China built 14 agricultural technology demonstration centers starting in the late 2009.⁸

In addition, China's international aids are now as equal as those of United States and EU countries, two developed and rich powers that are well known as donors for development programs in developing or poor countries. This current development means that China's political and economic dynamics have also influenced the perspectives of global development and equity.

Fred Bergsten said that it is plausible here to call China as a global economic superpower because it already met all the criteria of the following definition: (1) it must be large enough to significantly affect the world economy; (2) it must be sufficiently

⁴"Socialist Market Economy", or "Ekonomi Pasar Sosialis" in Indonesian language, is an integration of socialist and liberalist economies. China gives a priority to the state roles in managing the needs of its citizens, including in economy (John Locke), while in the same time, embracing the principles of division of labors, economic interdependence (Adam Smith), and comparative advantages (David Ricardo).

⁵Sheridan (1998, p. 296).

⁶Ibid., p. 297.

⁷Ibid., pp. 297–298.

⁸Naisbitt and Nasbitt (2010, p. 166).

dynamic to contribute meaningfully to global economic growth; (3) it must be open enough to trade and capital flows to have a major impact on other countries.⁹

No matter what the definition and criteria of a ‘global economic power’ are, it is important to look at China’s rapidly growing economy from so-called China’s “scientific development concept.” In simple terms, the concept refers to the basic instructions for a balanced, sustainable, people-centered development as well as unbiased developmental plans.¹⁰ China’s economic target in the twenty-first century is “to turn China from the workshop into the innovator of the world.” China’s biggest challenge is not only on how to maintain its economic growth, but also to implement its eco-friendly development as planned.¹¹ The fact showed that China has not been successful yet in its eco-friendly sustainable development, which is particularly evidence from the frequent floods and landslides in the region of mainland China. Even though China is economically more beneficial in its bilateral relations with Indonesia, it still cannot match the latter in terms of potential and rich natural resources, territories, and market potential. Therefore, it is of high relevance to see Indonesia–China economic relations from multi-level approaches and issues. In the global era, relations between countries are determined by inter-related issues rather than one single issue, or applicable to multi-level layers rather than one single layer.¹²

On the global development issues, especially in regard with poverty reduction programs, Indonesia–China global development targets by 2015 emulate the Millennium Development Goals (MDGs), i.e., reducing the poverty rate by 50% since the agreement was signed in 1990. The MDGs target is also relevant in the context of ASEAN where various socioeconomic problems, such as poverty, unemployment, and development gaps between regions or countries, are still high.

As the ASEAN paradigm has shifted from state security toward human security, developmental programs in the region now focused on ASEAN community building or ASEAN people-centered developments in which poverty and unbalanced development are the most relevant issues. Unfortunately, Indonesia and China have not yet made a significant progress in realizing community-oriented development that considers the interests of their citizens as sovereign individuals. Violation against fundamental human rights of their citizens in socioeconomic and democratic principles is still commonly found in Indonesia and China. In other words, the global agreement on a free trade area does not likely go in linear with state obligations, both in Indonesia and China, to meet and ensure the well-being of individual citizens (human security).

⁹Ho and Wong (2011, p. 97).

¹⁰John Naisbitt and Doris Nasbitt, op.cit, p. 82.

¹¹*Ibid.*, p. 84.

¹²See *World Politics*, p. 11.

3 Chinese Economy Post-1997

In 1979, China established economic ties with the US, which marked a new era in the two countries' bilateral relations. In 1980, China started its national economic reforms by declaring Shenzhen as a pilot region for its new reform system. Along with its economic reforms, China's regional development was built upon the approach of growth triangle cooperation. This new approach of cooperation was then modeled in the Southeast Asia's regional development, later known as IMS-GT (Indonesia Malaysia-Singapore Growth Triangle)—formerly SIJORI (Singapore Johor Riau) in 1990; IMT-GT (Indonesia, Malaysia, Thailand-Growth Triangle) in 1992; BIMP-EAGA (Brunei, Indonesia, Malaysia, Philippines-East ASEAN Growth Area or EAGA Qua-drangle) in 1994; and the Greater Mekong/Mekong Basin in 1996. All these subregional cooperation still exist but grow insignificantly because of different economic systems, not to mention also different political and economic institutions between the subregional countries, as well as political and social conflicts taking place in some collaborating regions, such as Mindanao (southern Philippines), Poso (Central Sulawesi), Ambon (Maluku), and Papua.¹³

Meanwhile, China's strategies in the global cooperation, i.e., Transnational Corporations (TNCs), according to the Asia Monitor Resource Center (2011), focused on the areas of: (1) Trading companies; (2) Manufacturing enterprises; (3) Oil and Mining Companies; (4) Financial institutions; and (5) Construction companies.¹⁴ On a global scale, China's FDI flows ranked the sixth among the world's 20 economic entities during 2008–2009, after the US, France, Japan, Germany, and Hong Kong. In the period between 1980 and 1990, China's investment growth average was only US\$ 1 trillion. However, China's investment growth reached its peak between 1992–1993, increased significantly since 2004, and amounted to US\$ 46.3 trillion in 2005. This figure is far ahead the FDIs of India and Brazil, as well as South Africa (US\$ 38.5 trillion) and South Korea (US\$ 36.4 trillion).¹⁵

In 2005, a growing number of big countries were worried about the impacts of China's globally rising economy. It was partly because China has successfully recovered from the financial crisis faster than those developed countries such as the US, Germany, France, Canada, and Italy. The post-crisis China also won the markets of big countries, especially by creating job opportunities and investments in many countries. The concerns on China's economic rise were also because of China's currency policies that are in favor of the country's industry and exports, as felt by Japan, South Korea, Germany, and Italy.¹⁶

¹³Indonesia is the country with the largest BIMP-EAGA or I-EAGA memberships, which extends to all provinces in eastern Indonesia. South Kalimantan and North Sulawesi, however, are the most beneficiary provinces in this subregional cooperation.

¹⁴Yu and Li (2011, p. 3).

¹⁵*Ibid.*, p. 4.

¹⁶BBC Indonesia. See BBC survey on the impacts of Chinese economy after the crisis, March 28, 2011 (Accessed on September 18, 2011).

On the contrary, Chinese investment and trade brought positive impacts on the economies of African countries, such as Nigeria and Kenya, particularly in the sector of mining and natural resources exploration like energy and metals.¹⁷ Moreover, Chinese investment opened up job opportunities and set up new infrastructures. Nevertheless, there was also an opinion that China's investments were meant to control the natural resources in Africa.¹⁸

In 2010, China reached a trade surplus. China successfully overcame the negative impacts of the global crisis in 2008, reducing its inflation to the lowest level among the four emerging economies, i.e., Brazil, Russia, India, and China (BRIC). China's inflation rate was less than 6% below Brazil, Russia 7%, and India 11%.¹⁹

China's economic growth after the crisis in 2008 had shifted the global economic gravity toward East Asia. Potent economic recovery and rapid economic growth enabled China to easily cope with the problem of unemployment. In addition, China's economic stimulus programs, which are running successfully, developed housing business and increased spending on social security programs. Based on the indicators of Purchasing Power Parity (PPP), China's total GDP made the country replace Japan as the world's second largest economic power after the United States by the end of 2010.²⁰

Although China attempted to keep the currency at a low level for optimum profits in the sectors of industry and export, it could not depend solely on the US market; rather, it should also create ties with other markets in other countries. For this purpose, China changed the direction of its trade policy by lowering or cutting import tariffs and launching simpler regulations for the importers.²¹ The Vice Minister of Commerce of China, Zhing Shan, asserted that the policy was changed because the main purpose of China's international trade is not only to achieve a trade surplus, but also to maintain trade balance. In January 2010, China reached a trade surplus of 57 trillion rupiah or US\$ 6.5 trillion approximately.²²

Since the implementation of its economic reforms, the Chinese Government made some policy changes at the national level, including the *hukou* system, i.e., a family registration program to improve facilities in rural and urban areas alike. Chengdu was the pilot area where this system is being implemented. The system was launched because the rural areas are less advantageous than the urban areas in terms of facilities and services. Because of the system, the villagers can now easily come to the towns. Consequently, population growth in China's urban areas, such as Beijing, is likely high. To overcome this high urbanization, the Beijing government issued a policy to limit the flows of migrant workers from rural to urban areas.²³

¹⁷*Ibid.*

¹⁸*Ibid.*

¹⁹John Wong, *op.cit.*, p. 17.

²⁰*Ibid.*, p. 15.

²¹BBC Indonesia (2010).

²²BBC Indonesia (2010).

²³BBC Indonesia, "Beda Kota dan Desa Cina," March 7, 2011.

Despite its paradoxical condition (i.e., major power versus poverty and development gaps), the beginning of transition in China was characterized by a rich, middle-class power that determines the political, social, economic, and domestic stability of China. It also posed challenges for the country to meet the needs of its consumers in China, including in the services sector.²⁴ The Chinese Government decided to increase the estate taxes in order to overcome poverty in the country; however, the middle class in China refused this policy.²⁵

In addition to poverty, there were also other issues that hindered China's economic growth, including (1) fragile monetary system and state-owned enterprises; (2) economic effects of corruption; (3) clean water and air pollution issues; (4) possibly lower FDI; (5) HIV/AIDS and other infectious diseases; (6) consumption and energy prices; and (7) Taiwan political issue.

China's foreign policy (i.e., One China Policy) resulted in political isolation of Taiwan by China at the international level, although domestically Taiwan was the largest investment sources in mainland China, i.e., approximately 60% of the total investments in the Country of Bamboo Curtain. Following the signing of the economic agreement between China and Taiwan under the Economic Cooperation Framework Agreement (ECFA) in June 2010, China finally admitted Taiwan's increasingly significant economy at a global level. But at the same time, China had a greater access to "monitor" Taiwan's economic diplomacy maneuver that consistently and aggressively seeks to establish bilateral economic cooperation with ASEAN countries, including Indonesia.

It makes sense that Taiwan has considerable advantages of which Indonesia can benefit for the development of its national economic and trade sectors for some reasons. First, Taiwan set up standards of products and technology that are more advanced in quality than Indonesia, both in the agricultural, automotive, and electronic sectors as well as human resource development. Second, Taiwan has the financial management system and the empowerment of small and medium enterprises (SMEs) that are running optimally. Third, Taiwan's human resources (HR) are skillful in advanced technology and foreign languages.

4 Indonesian Economy Post-1997

This section refers to the recommendations presented in the previous chapter on strategies to boost Indonesia's economic growth with a focus on securing the domestic market and strengthening the global competitiveness of exports in the country. It will also discuss the dynamics of Indonesia–China bilateral relations and the impacts of China's economic rise on Indonesia. Despite different views on China's economic power and its impacts, both directly and indirectly, on the national and regional

²⁴See P2P LIPI–CIER TASC Joint Report, September 2011.

²⁵Prasso (2011).

interests, China's global economic power is characteristically linked to China's free trade, market expansion strategy at all the levels, and economic diplomacy.

The death of China's great leader, Deng Xiao Ping, in February 1997, did not change the nature of China's economic policy and foreign trade with Indonesia. The Chairman of the Institute for Indonesia–China Economic, Social, and Cultural Cooperation, Sukamdani S. Gitosardjono, said to *ANTARA* that this is particularly because Deng has prepared his cadres since the beginning of the economic reform and he has also laid a new foundation for China's economic system in the 1980s. Sofyan Wanandi and Marie Elka Pangestu said the same thing. According to a global ratings agency, Standard and Poor's, even though Deng's death caused quite stock market activities in Hong Kong, it did not hinder the flows of investment from China into Taiwan.²⁶

Indonesia is of high importance to China due to a considerable number of its economic potentials, especially in its energy sectors (mining and minerals) and its promising market, which was enjoyed by China since the implementation of ACFTA in January 2010. Since then, commodities from China were flooding the Indonesia's domestic market, the result of which was increasingly marginalized local products in the domestic market. Nonetheless, the former Minister of Trade, Marie Elka Pangestu, still believed that by improving their quality, Indonesia's local products still have a chance to compete Chinese products. The challenge is that to improve the quality of local products or the competitiveness of the domestic market in general, there are still some works to be done and developed. First, local products and market access-related technologies should be advanced. Second, SMEs should be empowered and developed to bring a significant contribution to the national trade; in this case, trade diversion and trade creation are mostly relevant. Third, cooperation between research centers and industrial sectors should be enhanced to produce trade innovations.

Outside of ACFTA, the Indonesian trade and investment policies against China tended to be very open; for example, Chinese investment has dominated most of the Indonesian energy sectors, including in Papua, Indonesia's most eastern region where physical infrastructure is very limited. Likewise in the infrastructure sector, China was also adequately a dominant player in moving the sectors of bridge construction and textile factories. However, China's infrastructure projects in Indonesia are lower in quality compared to those in other countries such as in Europe and Australia. However, this quality gap is partly due to lack of strict standards by Indonesia, both in the quality of materials and labors. It is at least observable from the workers brought in from China and employed in Indonesia. It seemed that cultural differences between Indonesia and China remain unchallenged, including China's preference to negotiate through workers or brokers of Chinese nationality or at least Chinese origins who are communicating well in Mandarin.

Politically speaking, Indonesia adopts a democratic system of state governance as opposed to China's communist one. These different systems of government affected also bilateral agreements in economy and trade between the two countries.

²⁶Suara Pembaruan Online (2007).

Meanwhile, China always involves its national companies. Meanwhile, Indonesia, adhering to pro-market policies and the state roles in the economic sector, does not always take the state interests into account through its state enterprises (BUMN) in all the trade agreements. Indonesia also opens opportunities available for private companies.

5 Indonesia's Interests in Economic Relations with China

Indonesia's macroeconomic policies are likely to be pro-markets or investors rather than workers or consumers. This policy is in accordance with the free market principles widely adopted by many countries, especially the members of the WTO. Indonesia–China bilateral trade has been going for long before China was officially joining the WTO. Although Indonesia and China are both members of the WTO, their policies are different. While China has been running a “Socialist Market Economy” and a communist system since 1949, Indonesia adheres to an economic neoliberalism, which combines market power and state intervention, and a democratic system.

Understanding the dynamics of economic and trade relations between Indonesia and China will require an analysis on several sectors directly and indirectly related to the role of China in Indonesia. These sectors include, most importantly, mining or energy, infrastructure, and poverty reduction programs.²⁷

Another influential factor in the dynamics of Indonesia–China relation is the fact that Indonesia is currently listed as a ‘low middle-income country.’ It means that Indonesia is now one of the G-20 members. What does it mean to China? Economically, it would be irrelevant to question Indonesia's membership in the G-20, in spite of the country's ‘low middle-income country’ status. However, this status has a significant meaning in a political term. Being the ASEAN largest country and a democratic country with a strategic position in the region, Indonesia is an asset for political and security interests of the United States, especially in the face of the rising China.

5.1 Indonesia's Economic Interests in ASEAN

Under the pillars of the ASEAN Economic Community (AEC), which are establishing the ASEAN single market, equitable economic growth, and maintaining a stable global economy, ASEAN has signed a number of free trade framework agreements within non-ASEAN countries, including China. In addition to ASEAN+3 (Japan, South Korea, and China), ASEAN has also established a free trade agreement with China (ACFTA).

²⁷Held and Mephem (eds.), *Progressive Foreign Policy Chapter 4* “Development and Equity,” Polity, Cambridge, 2007.

Regardless of China's intensive trade and investment in ASEAN through the ASEAN+3, it turned out that ACFTA raised problems or complaints, especially from Indonesia. In practice, the ACFTA has caused a conflict of interests among the local traders or manufacturers who must compete with relatively more affordable products from China in the domestic market, especially for the local consumers who are economically disadvantaged. The invasion of China's products into the domestic market means a more option for consumers to buy goods within their purchasing powers. However, it means also that those consumers have to purchase low-quality, and sometimes harmful-to-health products.

Because the free trade agreement is now unavoidable, the Minister of Trade of the Republic of Indonesia, Marie Elka Pangestu, suggested that manufacturers should improve the quality of their local products in order to be competitive with China.²⁸ This includes technology developments by which high-quality and consumer-friendly products can be produced. Nonetheless, the problem is how to increase people's purchasing power that will enable them to buy safer products. The fact has shown that a free market or trade is like two sides of the same coin: it provides opportunities for the economic players to get benefits as much as possible, but at the same time it hurts the ones who are less accessible to the capital and, therefore, economically less competitive.

5.2 *Indonesia's Economic Interests in APEC*

Indonesia's interests in APEC are linked to Taiwan's membership in the forum as an economic entity because Taiwan (Chinese Taipei) is part of China. For Taiwan, its presence in the APEC is important because it implies international recognition, even though in the terminology of APEC and WTO, Taiwan is still referred to as an economic power, not a state.²⁹

Since its establishment in 1989, APEC was meant to be a consultative forum and a partnership body without a structure and with a limited program, i.e., inter-sectoral cooperation. For China, APEC is a vehicle to join the WTO and to demonstrate its economic power, including its economic authorities over Taiwan and Hong Kong.³⁰ This strategy helped China become the most appealing destination for foreign investments (FDI).

²⁸Minister of Trade of RI (2011).

²⁹Indonesia, which belongs to One China Policy, considers Taiwan a China's domestic issue. Indonesian relations with Taiwan are purely economic. Taiwan plays an increasingly significant role at the global level, both as a member of WTO and an economic entity in partnership forum of APEC. Besides, Taiwan is ahead of China in some economic aspects, such as the quality of products and the wage system for migrant workers. Taiwan develops a higher standard and quality than China. In short, Indonesia can foster sectoral partnerships with Taiwan in a more practical term while at the same time maintaining diplomatic relations with China.

³⁰Lok Sang Ho and John Wong (eds.), *op.cit.*, p. 4.

The records of China's success in stimulating the growth of its own economy as well as driving its economic power toward the world's top ranking showed the country's successful diplomacy. Because of its much greater potentials in wealth and natural resources, Indonesia is very strategic and significant to China. Therefore, China is concerned much to maintain and improve bilateral relations with Indonesia; in the energy sector, for example, China's demands on energy, particularly for industry and transportation, are continued to increase.

6 Conclusion

It is not possible to deny the fact that China is now the world's emerging economic power. However, being an economic player in the region as well as a member of the G-20 Indonesia is an economic power that should not be undermined. At the regional level of ASEAN, Indonesia is still influential enough to determine where the regional economic developments should be leading to. However, to be more competitive both in the regional and global levels, Indonesia should take some necessary steps. These include mastering and developing necessary technologies, management systems, and innovations on the development and modification of trade products as well as expanding market access by first strengthening the domestic market and the quality of local products.

It is necessary for Indonesia to make some following changes in order to be able to compete openly with China's economy. First, Indonesia should shift the mindset and the direction of its national macroeconomic policies, i.e., from a mere pro-market (pro-growth) to pro-people (pro-jobs) as well as pro-environment. Thus, potential and rich natural resources should be managed first and foremost according to the best interests of the Indonesian people. Second, Indonesia should develop a more competitive national economy by prioritizing and improving the quality of Indonesian products, i.e., cultivating and utilizing modern, advanced technologies. Third, trade and investment should be integrated and accelerated along with research and innovation developments.

References

- BBC Indonesia. 2010. China Ubah Kebijakan Perdagangan. 4 Mar. BBC Indonesia. 2011. Beda Kota dan Desa Cina. 7 Mar.
 BBC Indonesia. 2011a. 28 Mar.
 Held, David, and David Mephram (eds.). 2007. *Progressive Foreign Policy*. Cambridge: Polity.
 Ho, Lok Sang, and John Wong (eds.). 2011. *APEC and the Rise of China*. Singapore: World Scientific.
 Joint Report P2P LIPI–CIER TASC. Sept 2011.
 Naisbitt, John, and Doris Nasbitt. 2010. *China's Megatrends, 8 Pilar yang Membuat Dahsyat Cina*. Jakarta: Gramedia Pustaka Utama.

- Prasso, Sheridan. 2011. China in Transition. <http://www.strategy-business.com/article/00088?/>. 19 Sept. Accessed on 21 Oct 2011.
- Presentation by the Minister of Trade of The Republic of Indonesia at the Jakarta Post Anniversary Discussion, Hotel Dharmawangsa, Jakarta, May 2011.
- Sheridan, Kyoko (ed.). 1998. *Emerging Economic Systems in Asia, a Political and Economic Survey*. St. Leonards NSW: Allen & Unwin.
- Suara Pembaruan Online. 2007. Hubungan Ekonomi Indonesia-Cina Pasca Deng Xiaoping Tetap Baik. 21 Feb. Accessed on 18 Sept 2011.
- Wirjawan, Gita. 2010. Indonesia's 21st Century Growth Story. *The Indonesian Quarterly* 38 (3).
- Wong, John. 2011. China's Economy 2010: Continuing Strong Growth, with Possible Soft Landing for 2011. In *East Asian Policy, an International Quarterly*, vol. 3, no. (1). East Asian Institute, National University of Singapore, Singapore.
- Yu, Au Loong and Kevin Li, March, 2011, "Preliminary Report on China's going Global Strategy: A Labor, Environment, and Hong Kong Perspective," *Capital Mobility Research Paper Series* No. 3, Asia Monitor Resource Centre.

Author Biography

Adriana Elisabeth is currently a researcher at the Center for Political Studies-LIPI with a research area of specialization on regional development in Southeast Asia, particularly on sub-regional economic partnership in ASEAN. She received her Bachelor's degree in International Relations from FISIP, Jayabaya University in 1987, and her *Master of Social Sciences in International Relations* from the University of Tasmania in 1995. In 2008, she obtained her Ph.D. from the Department of History and Politics, University of Wologong. She has been actively involved in research on ASEAN since 1995.

Chapter 3

The Dynamics of ASEAN–China Economic Relations

Ratna Shofi Inayati

Abstract ASEAN and China made a breakthrough step by establishing a free trade area called ASEAN–China Free Trade Agreement (ACFTA). Despite optimism that the FTA will be fruitful in the long term, it turned out that some industrial products have been negatively impacted in the short term. There are also some concerns that the ACFTA may slow down the process of ASEAN Free Trade Agreement (AFTA). All these facts raised questions on whether China’s motivation is towards economic domination or integration. This concern became more apparent when China, on the one hand, demonstrated a clear strategic goal, while ASEAN, on the other hand, did not yet have a clear picture on how to situate itself against the rising China. This chapter focuses on the dynamics of ASEAN–China relations in economy, especially in the context of ACFTA. Although ACFTA scheme contains the word ASEAN, bilateral agreements are given more emphasis in its relations-building efforts, such as agreements between China and Indonesia, China and Malaysia, China and Singapore and so forth. Furthermore, although the ACFTA is an inter-regional phenomenon, this is still an FTA whose characteristics are like other regionalism and the analysis, therefore, should use a regional approach. Whether or not the impacts of the ACFTA are well-anticipated is another question and, therefore, it is interesting to answer, especially in the context of Indonesia which tends to have comparative advantages.

Keywords ASEAN–China economic relations • Free trade agreement • ACFTA

1 Introduction

ASEAN and China made a breakthrough step by establishing a free trade area called ASEAN–China Free Trade Agreement (ACFTA). Despite optimism that this FTA will be fruitful in the long term, it turned out that some industrial products such as textiles, toys and motorcycles have been negatively impacted in the short term. Although China is a relatively new member of the World Trade Organization (WTO),

R. S. Inayati (✉)

Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: inayati.rs@gmail.com

it already became a dominant player in global market. As the quota system was annulled in January 2005, China's textile and garment products were flooding the world market. The Indonesian market was no exception. Chinese products, which are much cheaper, soon overwhelmed the Indonesian market. Indonesian textile industry, which was not yet recovered from the devastating economic crisis in 1997, now had to deal with the onslaught of Chinese products.

There are also some concerns that the ACFTA may slow down the process of ASEAN Free Trade Agreement (AFTA). There was fear that the free trade agreement offered by China could possibly disrupt the AFTA's core business. All these facts raised questions on whether China's motivation is towards economic domination or integration. To let China's really attractive economy distract, the process of AFTA means to render ASEAN with obstacles in achieving its economic integration. This concern became more apparent when China, on the one hand, demonstrated a clear strategic goal, while ASEAN, on the other hand, did not yet have a clear picture on how to situate itself against the rising China.

Although ACFTA scheme contains the word ASEAN, bilateral agreements are given more emphasis in its relations-building efforts, such as agreements between China and Indonesia, China and Malaysia, China and Singapore and so forth. This chapter focuses on the dynamics of ASEAN-China relations in economy. Furthermore, although the ACFTA is an inter-regional phenomenon (namely China and ASEAN are situated in different geographical areas), this is still an FTA whose characteristics are like other regionalism and the analysis, therefore, should use a regional approach. Whether or not the impacts of the ACFTA are well-anticipated is another question and, therefore, it is interesting to answer, especially in the context of Indonesia which tends to have comparative advantages. In the context of ACFTA, investment into and out of the country provides promises and detriment which are the two sides of the same coin. Indonesia with all its potentials is challenged to survive and strengthen its position in the world trade and investment. However, there are still pros and cons among Indonesian societies on whether investment laws in Indonesia are mature enough and capable of facing this ACFTA's version of free trade era.

2 Preparedness Towards Facing Free Trade Era

Developed countries failed to explore new sources of growth in the near future; however, China emerged as a new locomotive of the world economy.¹ For both parties, ACFTA is an important vehicle to strengthen their economic ties in order to accelerate the flows of their trade, investment, and goods and services. Nonetheless, while China is well-prepared towards liberalization, particularly in agriculture, ASEAN still needs to synchronize and coordinate their steps towards the ACFTA.

From 1993 to 2003, trading activities between ASEAN and China reached an average growth rate of 20.8%. Similarly, mutual investments between the two par-

¹ISEAS (2004, p. 26).

ties were also increasing. From 1991 to 2000, ASEAN investments in China grew at a yearly average rate of 28% and in 2001 reached 6.6% out of the total foreign investment in China. On the other hand, Chinese investments in ASEAN increased sharply, although still relatively small, in 2001, i.e. 7.7% out of the whole investments outside China.² It has been estimated that the ACFTA would increase ASEAN exports to China and vice versa, i.e. 48 and 55%, respectively.³ Although this model of estimation does not expose both export prices to the world market, there is a belief that the ACFTA would also accelerate ASEAN and China's exports to the world market. Economists are optimistic that with the support from the Chinese Government and the ACFTA, Chinese companies' investments in ASEAN will also increase. Some Chinese companies may prefer to establish Research and Development (R&D) centres in some ASEAN countries with advanced technology and some others to invest in natural resource development projects in ASEAN countries with abundant natural resources.

With its investment-driven economic growth and domestic consumption strength, a major challenge that Chinese economy should tackle in the future will be an urgent need to build institutions that are practical, transparent, effective and capable of establishing and implementing rules necessary for a well-functioning market economy. On the other hand, China's increasingly appealing economy would seemingly degenerate ASEAN position. Therefore, despite optimism described above, there is also an opinion that it is too early to ensure substantial achievements out of the free trade agreements. It is not always true to say that ASEAN countries accepted wholeheartedly Chinese approaches and offers to further improve cooperation, regardless of approvals at the leadership level. China's economic initiatives cannot ignore the fact that China and almost all ASEAN countries are, in fact, competing to each other in the world export markets.

Furthermore, ASEAN knows well its rivalry with China in attracting foreign investments. The problem is that there is a widespread belief that many investors turned from ASEAN to China. Although reports on declining foreign investments in ASEAN are somewhat exaggerated, the flows of foreign investments into China have been perceived to have negative impacts on the nearby areas in Southeast Asia. This negative perception stimulated a sense of threats in nearly all Southeast Asia's regions. Even though it is believed that ACFTA will scale up trading, a huge range of free trade areas could be costly in regard to rules of origin of goods, supervision and procedural administration. Furthermore, it could possibly create complexity when some members of ASEAN are engaged with China in a number of separate and overlapping free trade agreements. Thus, commitments to improve cooperation should, in fact, come along with awareness of challenges that may arise from the establishment of a free trade area between ASEAN and China. Given that the two share a similar industrial structure, each domestic market will be more competitive as well. The removal of trade barriers, which is the creative mechanism of a free trade area, also resulted in a loss of tariff revenues and endangered domestic industries.

²Ibid., p. 27.

³ASEAN–China Expert Group on Economic Cooperation (2001, p. 31).

3 ASEAN's Strategic Positioning Towards China

Relations between ASEAN and China have been well-established since the 1990s or since China's recognition of ASEAN as an economically promising community. Although their relations were built merely upon bilateral agreements between China and ASEAN's individual countries, China has successfully laid a strong foundation for its economic activities. China was quite often invited to attend or to be a consultant in ASEAN's economic activities. This strategy helped China's existence of being an active participant in the development of ASEAN's international trade. Because of its trading experience in Southeast Asia as well as ASEAN's warm welcome, it is reasonable if China encouraged a free trade with ASEAN countries for easier investments.⁴

Stirred by determination to strengthen its economy, China showed a greater interest in building closer relations with ASEAN. China's gross domestic product (GDP) in 2000 was US\$1.08 trillion, far less from Japan's and the USA, which were US\$4.14 billion (2001) and US\$8.35 billion (1999), respectively. However, China was passionately targeting to match Japan's GDP within the next 20 years, i.e. US\$5 billion. China's GDP growth of 8–9% per year showed its persistence and determination in achieving the desired GDP target. To make its target come true, China made various policies and took any necessary measures to anticipate both internal and external factors, one of which was to maintain good relations with other countries. As Tan Weiwen pointed out,⁵

China's foreign policy is built upon five principles of a peaceful coexistence as contained in the Asia Africa Conference in 1955. China's international diplomatic relations always belong to this principle. Actually, China and Indonesia share a common principle of foreign relations, which is free and active, and peace-oriented.

China became a partner of the ARF in 1994 and a dialogue partner of ASEAN since 1996. In 2001, China put forward a proposal on the establishment of a free trade area between China and ASEAN under an ASEAN–China Free Trade Agreement (ACFTA), which was targeted to be realized in 2010. The ACFTA agreement was jointly signed at the ASEAN Summit in Vientiane, Laos, in 2001.

During the whole process of the agreement, from the drafting to the signing process, it seemed that China was more enthusiastic and hoping for benefits from the ASEAN–China agreement. This implies that ASEAN is more strategic for China and not vice versa. In fact, China was the first country outside ASEAN that signed the Treaty of Amity and Cooperation (TAC) in 2003, after which Japan and South Korea then followed. This impression was confirmed by China's decision to soften its stance on the matter of the South China Sea by signing the Declaration on the Conduct (DoC) of Parties in the South China Sea in Cambodia in 2002.⁶ Previously,

⁴Forging Closer ASEAN–China Economic Relations in the twenty-first century, a report submitted by the ASEAN–China Expert Group on Economic Cooperation, October 2001, pp. 5–7.

⁵Interviews with Tan Weiwen, Counsellor for Trade and Commerce, The Embassy of the People's Republic of China, Jakarta, 2006.

⁶Yong (2005, p. 21).

China took a firm, rigid stand when dealing with other countries on the matter of the South China Sea in order to avoid a direct conflict with the USA.

On the other hand, an internal factor was that Chinese leaders successfully transformed its modalities into opportunities by encouraging the country's elites and communities to be productive and stick to international standards in their ways of doing things. Therefore, China hosted a various number of international events, such as the Asian Games in 2003, the Olympic Games in 2008 and the World's Fair in 2010. Chinese people are hard-workers, making this country of one billion people look like a giant factory where everyone is industriously and diligently producing goods. China is now the world's most productive country as shown in the world market. Besides, Chinese products are attractively designed and priced goods and, therefore, they can compete with other countries' products. Chinese products are flooding all the countries around the world, including Indonesia. Lower priced Chinese products, such as motorbikes, air conditioners, textiles, are challenging their competitors in every corner of the Indonesian market. The invasion of Chinese goods is adversely threatening local business.

However, there is no doubt that China's current demand for supplies of energy and raw materials will not end in the near future due to its huge production. It is obvious that China needs more markets for selling their products as well as getting more supplies of energy and raw materials. This is why ASEAN is a strategic partner that can accommodate China's interests.

China's rapid development is valuable to ASEAN as it demands for supplies of raw materials and energy from ASEAN countries. Similarly, China is also a potential market for the products of ASEAN. However, ASEAN's real demands for supporting economic integration and free trade are seemingly not as evident and powerful as China's. ASEAN countries take advantage from being the suppliers of raw materials and energy, while China being the producers of manufactured goods.

China's rapid growth attracted much attention of many countries whose analysts (especially in East Asia and Southeast Asia) are constantly studying the long-term impacts of the new rising power. Business communities are also making proper adjustments with this change in the hope of benefiting from the establishment of the ASEAN–China FTA. Despite its predicted negative impacts, the main focus nowadays is on great opportunities brought about by the China's economic growth. Anyhow, China's rising economic power is undeniable phenomenon. Together, China and ASEAN expect to mutually benefit from their relations.⁷

4 ASEAN Welcoming Partnership with China

There were China's economic conditions that, in general, attracted ASEAN's interests to accept China's proposal on FTA. Firstly, with an area twice bigger than ASEAN and a population of 1.3 billion, China was a potential market for ASEAN. China's

⁷Ibid, p. 277.

stronger purchasing power and freer market provided good opportunities for ASEAN exports to get rid of difficulties that it has been facing due to the low level of intra-ASEAN trades. Secondly, ASEAN economy is more complementary to Chinese economy rather than with inter-ASEAN one. In fact, China's industrial system is almost perfect. China's participation in the global economic community will enable ASEAN to play a part in the Chinese supply chain. In return, the China's rising economy demanded for more energy and minerals that ASEAN countries, which are rich in both, can fulfil. Thirdly, ASEAN could benefit from the China's rising economy in which its domestic market performance is matching its export growth. China is now an increasingly significant trading partner for Asian countries. For instance, China replaced the USA to become Japan's major trading partner. China's growing economic power was expected to stimulate ASEAN's economic awakening, in the same way as Japan's economic growth did a few years ago.

"The Plus Three Countries" (Japan, South Korea and China) have indeed studied the possibility of having a FTA with ASEAN. Since China was considered well-prepared than the other two, ASEAN decided immediately to go with China. There are two reasons why ASEAN left Japan and South Korea. Firstly, Japan was indeed qualified enough to tighten its economic ties with ASEAN. Although the Japanese economy was in an unfavourable situation in the last ten years, Japan's gross domestic product (GDP) still ranked the second highest in the world and some of its industries were still leading in the global market. The 1997 economic crisis, nevertheless, slumped Japan's economic conditions resulted in withdrawal of its investments in some Asian countries and also devaluation of its currency in order to overcome the dilemma in its domestic economy. In such a situation, Japan was gradually losing its leadership in leading and boosting Asian economies. People became more realized that Japan is no longer capable of bearing a big responsibility to integrate Asian economies. Secondly, it is true that when the financial crisis hit, South Korea was recovered faster than any other countries. South Korea was also gradually overcoming the problems related to its economic structure, banking system and corruption. However, this is still not enough for South Korea to be able to lead the integration of Asian economy due to its relatively small economic scale.

In addition to economically motivated considerations above, changing policies among the Southeast Asian countries towards China were also driven by political factors. They were: (1) China's engagement was of importance in coping with possible intraregional conflicts; (2) balance of power was necessary to counterbalance two current dominant powers in the region, i.e. the USA and Japan; and (3) stronger voting rights were needed in international forums, especially when ASEAN and China share a common view.

In the context of the ACFTA, one important question to address is whether or not complementarities will outperform competitions between them. The free trade area was created to make the best use of the existing complementarities. While it takes a long time to come with any definite answers on the question, for the time being, at least we can see that trades between ASEAN and China are leading to an indication of the significance of FTA. Trades between ASEAN and China are growing rapidly nowadays, even though they are not as big and important as those between

ASEAN and the USA or Japan. The 1997 economic crisis did not even dampen the trades between the two.⁸ As Chinese diplomacy was successfully building a good relationship with Southeast Asia, ASEAN countries became more welcome with the presence of China. Moreover, China was able to quickly survive in the global arena despite its more challenging atmosphere.

Following the declaration of ACFTA as an integral part of the ASEAN–China economic relations in the future, the next question is to what extent this initiative is beneficial. How ASEAN will cope with China’s economic dominance as well as the fact that China’s population rate, GDP and trade are higher? The FTA will be the world’s largest free trade area in terms of the total population and differently developing countries that are involved. In principle, FTA implies that the removal of tariff barriers would increase the trades because of lower costs and greater economic efficacy.

5 A Mutually Beneficial Relationship

As the financial crisis hit Asia in 1997, ASEAN countries were striving to recover from the crisis by restoring their domestic economies and strengthening their regional economic integration. However, ASEAN economic integration was hard to achieve alone from within considering the burdensome impacts that each country should bear from the crisis; therefore, a leverage from outside was necessary. In addition, ASEAN is still struggling with its own various limitations, such as its growth rate which is lower than that of NAFTA (North America Free Trade Arrangement) and the European Union. In 2000, ASEAN’s GDP was US\$581.58 billion, while NAFTA and the European Union were US\$11,059.93 billion and US\$7,894.52 billion, respectively.⁹ Singapore, the leading economy in ASEAN, was not able to leverage the economic growth of ASEAN as a whole. It is not to mention also intra-ASEAN’s small markets and low trades. For comparison, in 2000, intra-ASEAN trade rate reached only 24.1%, lower than NAFTA’s and the EU’s which touched the levels of 47 and 60.4%, respectively.¹⁰ Another disadvantaged factor was low complementarities in the ASEAN’s economic profile. Lack of industrial diversification among the ASEAN countries made it hard to benefit from regional economic complementarities. Internally, similar economic structures and resources disabled ASEAN countries to develop mutually profitable trades and investments. For example, the fact that ASEAN countries have common dependence on agricultural sector discouraged demands for agricultural products among them. Rather, they have to compete with each other in seizing foreign markets. All these economic barriers showed us that ASEAN countries (or ASEAN) as a whole are hardly to become a driving force for regional economic recovery. Therefore, ASEAN has no choice but to integrate

⁸Yong 2004.

⁹The World Bank World Development Indicators (2000).

¹⁰WTO International Trade Statistics (2001).

with regionally wider and economically stronger countries in East Asia. In this case, China, who is actively approaching ASEAN and proposing an FTA, is on the top list, followed then by Japan and South Korea.

Moreover, China's domestic conditions have certain advantages. The Asian financial had little impacts on China instead of corruption and crony capitalism that deeply infected the country. What was China's potent recipe then?

While other Asian countries had no choice but to raise their interest rates during the crisis, China without any hesitation cut its interest rates. By doing so, China would not worry about currency devaluation because it relied much on a fixed exchange rate system being implemented in the country. Accordingly, the Chinese Yuan was not convertible against the US dollar. The fact that applying a procedure of exchange rate control would possibly open a lot of room for corruption did not preclude China to launch policy manoeuvres that were absent in other Asian countries when dealing with the crisis. Meanwhile, the ability to freely manoeuvre policies was indeed a prerequisite to rebuild the Asian economy at that time.

Apparently, China's economic reform is running smoothly and quite successfully so far. It is interesting to note how China's economic reform does not necessarily alter the country's political system. As China is becoming more open, investments are coming from all over the world. Companies like Oracle, Microsoft, IBM and Intel established their research centres in China and recruited Chinese technicians to work on their long-term product developments. In terms of technology, it is well known also that China is ahead of other Asian countries. China also claims to be leading in other particular fields, such as digital media, voice-recognition and voice-synthetic technology.

China's stronger magnet for foreign investors concerned much ASEAN countries in their competitions to attract capital. China responded to it positively by proposing a free trade zone between China and ASEAN. Finally, in 2001, ASEAN and China agreed to establish a free trade plan of action within the next ten years.

To follow up the agreement, an ASEAN-China summit was held in Nusa Dua, Bali, in October 2003, the result of which was a Joint Declaration on Strategic Partnership for Peace and Prosperity signed by Chinese Prime Minister Wen Jiabao and all the ASEAN's ten member countries.¹¹ The declaration says that politically the two parties are committed to deepen understanding and friendship between the peoples of ASEAN and China and to promote dialogues and consultation mechanisms at various levels. Economically, both agreed to strengthen their markets and maintain the rapidly growing momentum in the ASEAN-China economic and trade relations. Furthermore, ASEAN-China Free Trade Zone became a key pillar for economic cooperation towards its establishment by 2010 as agreed in Vientiane, Laos, in 2004.

Indonesia should be well prepared in order to be competitive in and benefit from the ASEAN-China cooperation. Despite all the advantages enjoyed by China, there must be shortcomings that can be possibly transformed into opportunities by Indonesia in order to create a balanced, rather than a China-dominated cooperation. Moreover,

¹¹Swee-Hock (2005, pp. 1–30).

the current dynamic environment makes it impossible for a single country to stand strong without interdependencies.

The idea to establish the ASEAN–China Free Trade Agreement (ACFTA) was first launched during the ASEAN+3 informal summits in Singapore in 2000. All the leaders of ASEAN countries were concerned at that time about the impacts of China’s entry into WTO. They thought that China will be more competitive in attracting foreign investments, and ASEAN should compete head-to-head with China for export markets. The Prime Minister, Zhu Rongji, was the first leader who expressed such a concern and at the same time proposed a collaborative study on the impacts of China’s entry into WTO.¹² Zhu Rongji even further proposed a feasibility study on the possibility of establishing a free trade between ASEAN and China. His proposal was based on the consideration that by becoming a member of WTO, the Chinese market will be more open. Meanwhile, it is not impossible for ASEAN, who is currently implementing the AFTA, to conduct trade arrangements between the two sides. On the one hand, ASEAN can benefit from China’s liberalization and high growth. On the other hand, China can expand the scope of its relationship with ASEAN by employing AFTA mechanisms for future market expansion and investments. Hence, Zhu Rongji’s official proposal on the ASEAN–China FTA at the ASEAN+1 Summit in 2001 received a positive response from ASEAN.

China’s rapidly and sustainably growing economy demands for sufficiently available supplies of energy and raw materials for which ASEAN countries, which are rich in natural resources, are considered the key suppliers. Both ASEAN and China are under pressure from the deeper and more expansive economic integration in Europe and America. The EU’s economic integration seems to become stronger as it receives an increasing number of new members from time to time. The same applies to America who persistently strives to extend its continental integration into the North America and South America under the NAFTA framework. These endeavours by the two regions towards deeper and wider economic integration, if successful, would possibly bring discrimination against non-participating countries and regions. Therefore, it is possible that China will experience a discriminatory export. Moreover, foreign investments will flow into the two regions and enjoy the advantages of special tariffs and economic scales for a wider and integrated market of production.

In addition to the economic motivation, political and security considerations were also part of China’s strategy in building a stronger relationship with ASEAN. Knowing that there is a certain suspicion from many neighbouring countries of the China’s rise and the ups and downs in the US–China relations, Chinese leaders launched a policy of maintaining good and friendly relations with neighbouring countries. They realized that however strong China is, any aggressive strategies would have a counter-productive impact, namely a risk of being excluded by its neighbours. Therefore, China preferred to launch friendly strategies towards the neighbouring countries in the region due to which it then enjoyed a safe and strategic regional environment.

¹²Panitchpakdi and Clifford (2002, p. 25).

Table 1 ASEAN–China trade balance

	2006	2007	2008	2009
ASEAN	926.5	4,028.4	1,855.7	4,536.6
China	31.5	28.9	139.6	65.5

Source The Ministry of Commerce of the Republic of Indonesia, 2009

In practice, China’s exports often encounter non-tariff barriers in the USA and the EU’s markets regardless China’s new membership in the WTO. Thus, China reduced the risk by, through its strong manufactures, expanding its export markets where ASEAN became its increasingly important target. In 1993, China was the fifth largest import origin of ASEAN with 1.9% of the ASEAN’s total imports. In 2000, China was the fourth by taking 5.2% of ASEAN’s share of imports.¹³ ASEAN–China trade balance was increasing in 2009 as illustrated in Table 1.¹⁴

On 1 January 2010, China and ASEAN constituted as “the world’s biggest free trade area” with a total GDP of US\$6.6 trillion. The intraregional trade in the region grew by 20% annually. ASEAN–China trade with the rest of the world has reached US\$4.3 trillion, which is equal to 13.3% of the world trade. The total market was 1.9 billion of consumers, and the per capita income was US\$2000–5000 on average. The changing trend was because of the growing middle class in the “emerging markets” (i.e. an income category between US\$6,000–30,000). China was the ASEAN’s first largest trading partner, ahead of the USA. Within three to five years, China will likely become the first largest one, beating Japan and Europe.

6 Indonesia Facing ACFTA

Since ACFTA was officially going into effect on 1 January 2010, ASEAN–China trades were growing. However, the ACFTA agreement gave an asymmetric impact on the trade balances in ASEAN countries, particularly the ASEAN-5 which consisted of Indonesia, Malaysia, Thailand, Singapore and Philippines. Indonesia was the only country that experienced a trade deficit with China.

ACFTA was established to fulfil several objectives: (1) strengthening and improving economic cooperation, trade and investment among the member countries; (2) progressively liberalizing and promoting trade in goods and services, creating a transparent system, and facilitating investment; (3) exploring new areas of cooperation and developing proper policies within the framework of economic cooperation among the member countries; (4) facilitating a more effective economic integration among ASEAN’s new members (Cambodia, Laos, Myanmar and Vietnam-CLMV)

¹³ASEAN Statistical Yearbook (2001).

¹⁴The Ministry of Trade, 2009.

and bridging the economic development gaps among the member countries.¹⁵ In addition, the ACFTA provides market access as wide as possible so as to give more/ less equal benefits to both sides through a request-and-offer-based negotiation process. Before making a deal, both sides certainly wanted to make sure that their interests are fairly accommodated during the negotiation process. Therefore, when the ASEAN countries began to negotiate with China, in-depth studies have been conducted to answer questions such as to what extent the benefits would be, in what areas gains and loss would be, and to which ASEAN countries the greatest gains or losses would be. It is not enough to see China as a huge potential market but most importantly also the possibility to move forward exports in it. An analysis of Revealed Comparative Advantage (RCA)¹⁶ is also inadequate because of two reasons. Firstly, this kind of analysis is static and, therefore, enables us only to observe a certain position in a certain year or in a comparative static at best. Secondly, although Indonesia, for example, could export oil palm to China, it does not mean that it has a comparative advantage over China. China does not grow oil palm due to its unsuitable climate for the plants. Moreover, exporting only raw materials would give Indonesia fewer profits because of its low value-added activity. Rather, Indonesia should strive to export its high value-added products of industry. Imports of raw materials that are nationally unavailable are not subject to tariff (i.e. zero tariffs). A free trade agreement, therefore, is fruitless for a lower or zero tariff goods. Also, an integral part of this agreement is The Agreement on the Early Harvest Program in the agricultural sector, which has been implemented since 1 July 2003.

The ACFTA's asymmetric impact also impinged on Indonesia wherein some regions in the country suffered losses, especially those industrial areas in Java that are producing China substitute goods. Meanwhile, some areas outside Java enjoyed the benefits from the ACFTA for being a centre of primary products for mining, agriculture, fisheries, forestry and others. In general, Indonesian products are unable to compete with imported products from China; as China and Indonesia have relatively similar industrial structures, both countries produce similar goods. Besides, Indonesia's export dependence on lower value-added primary commodities, such as cocoa, coffee, seaweed, is relatively high compared to imported goods from China which are dominated by high value-added products such as electronics, machinery and textiles.

Currently, the proportion of imported fruits from China to Indonesia tends to increase, i.e. 51% of the total fruit imports from all countries. The main goods that Indonesia imports from China include machine applications (20% of the total imports from all countries), electronics (40% of the total imports from all countries) and textile products (10–60% of the total imports from all countries). Meanwhile, major imports from ASEAN include application (22%), motor vehicles (38%) and textile products (5–50%). Many agricultural products have been free of import duties since 2004 and almost all agricultural products were subject to no import duties in

¹⁵ASEAN–China Document: Plan of Action to Implement the Joint Declaration on ASEAN–China Strategic Partnership for Peace and Prosperity. Article 5.

¹⁶Ibid.

2010. Textile products, machineries and electronics will be free of duties gradually from 2010 to 2018.¹⁷

Chinese products, which have been flooding the world market for almost 20 years, are no match for those of other developed or developing countries, particularly due to their far cheaper prices. China, who was previously hidden from view behind “the Bamboo Curtain”, now turns into a country with a more open economy. It is hardly possible to answer thoroughly what made Chinese products so inexpensive, phenomena that no any other country in the world can fight for.¹⁸ Chinese products, which are often referred to as a threat to the local products of the ASEAN’s countries, such as textiles, fruits and vegetables, are not in fact produced by large enterprises in China. Textile products, for instance, which are overflowing most of ASEAN countries, including Indonesia, are imported by traders with no long-term business commitment. These traders’ business approach certainly will injure the credibility of Chinese products.

When first entering into the Indonesian market, products of Chinese origin such as electronics, motorcycles, and even cars immediately win the hearts of consumers. However, the consumers soon realized that those products are very low in quality. In addition, no after-sales service networks are provided by the traders who are more interested in making big profits in a short time. Consequently, Chinese products are no longer able to compete with Japanese products whose after-sales service networks have been working effectively.

It should be noted that any attempts to establish a distribution system of exported goods require knowledge of any possible challenges. There are two channels through which a country can export its products to another country. The one is official (also known as “honest distributors”), and the other one is unofficial (known also as “dishonest distributors”). In the Indonesian market of information and technology (IT), for example, there is what the so-called a parallel import (PI), which refers to high-tech products purchased overseas and brought into the Indonesian market with free taxes. This PI is different from those products imported through official logistics transportations and large enterprises. An official importing channel would automatically increase the selling prices of the imported products because they are inclusive of value-added tax (VAT) and after-sales service.

Most of Chinese products, both high-tech and labour-intensive ones, including fruits, are imported through unofficial channels. This is why their selling prices in the market are reasonably low and, therefore, are endangering the local products. In short, trades between Indonesia and China in the ACFTA framework are characteristically occupied by intermediary traders, i.e. those who are trading products from one country to another, rather than the manufacturers (Fig. 1).

Although China has been able to produce a various kind of manufactured goods, they are still behind those of other developed countries in terms of quality, sophistication and precision. China is not necessarily superior in all areas as well; some of its products are even powerless in the Indonesian market. When the monetary crisis hit

¹⁷The Ministry of Commerce of the Republic of Indonesia (2009).

¹⁸Tarmidi (2010).

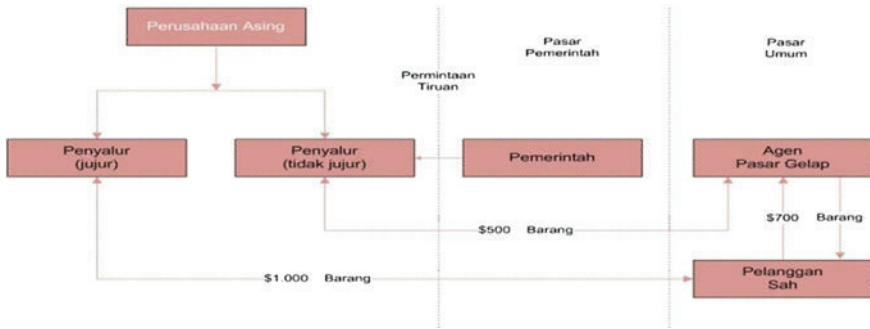


Fig. 1 A distribution system of exported goods. Source KPMG, data processed

Indonesia, for instance, China’s enormously cheaper motorcycle was invading the Indonesia market. There were more than 100 motorcycle brands that assemble and distribute their products in Indonesia; now, there is only a few of them that survive though in a very small production. Since a few years ago, there were local companies that assemble Chinese cars such as Geely, Cherry, Great Wall and Foton trucks but their production is still small. It is also somewhat difficult for televisions, refrigerators and air conditioners made in China to enter the Indonesian market through official channels.¹⁹

Another problem that Indonesia should encounter in being ready for the ACFTA is to provide orderly investment regulations. As the ACFTA had opened the door to a free trade, it is hoped that Indonesia will smoothen the path for investments in Indonesia. It would become a clear-cut parameter given that Indonesia has been long known by the investors as, regardless of the country’s potentiality, applying inhibitive investment regulations, especially its very strict requirements that are highly vulnerable to corruptions.

Among the Indonesia’s common investment barriers are inefficient permit procedures, bureaucrats’ negative behaviours, business restrictions, and unfavourable infrastructures for investments, absence of legal certainty and law enforcement and poor tax facilities. Taken as a means of investment enhancement, the ACFTA provides fuel for Indonesia to reform its investment regulations and, whenever possible, make necessary changes that are friendly with the interests of investments in the country.

Since the ACFTA agreement was signed, Indonesia’s domestic industries, i.e. those would be most likely affected by the agreement, had not yet done any necessary preparations in order to be competitive. Likewise, the government’s policies also failed to provide optimal supports for the domestic industries to be ready in the ACFTA’s competitive trade era. Up to now, in spite of significant changes as the result of economic development process, the contribution of non-primary sectors, especially the manufacturing industry, to the Indonesia’s GDP and diversification of

¹⁹Tarmidi and Gammeltoft (2008).

production in the manufacturing industry is still relatively small compared to that of other ASEAN countries. Looking at the industries that are vulnerably affected by ACFTA, such as steel, textiles and footwear, we can say that no significant progress has been made since the initial development of manufacturing industry in Indonesia. Thus, it is quite urgent now to prioritize the domestic industries, especially manufacturing, so that they are strongly competitive.

7 Conclusion

When ASEAN and China started talking their plan to establish a free trade area, they were aware of a fully uncontrollable global system that they would encounter. A rapidly growing advanced technology could also put pressure on the system of values, and accordingly, endanger the social stability, in each region. Thus, ASEAN and China felt an urgent need to integrate their social, political and economic goals and to reduce as best as possible any political differences that could ruin their cooperation. There are, of course, challenges that need to be resolved and anticipated during the process of ACFTA, including homogeneous export products, rationalized industry and enterprise, adjustments for small and medium enterprises, possible trade diversion, economic costs and lower tariff revenues.

There are possible steps to be taken if Indonesia wants to improve its position in the already signed agreement, regardless of its seemingly lesser impacts, such as improving the Indonesian products' efficiency and competitiveness by more infrastructures. Such efforts will take longer time, while fierce competition has begun. Indonesia needs to reduce its interest rates or increase efficiency and competitiveness that are necessary to face its competitors. This recipe will work also when Indonesia is going to implement FTA with India, Europe, Japan, America, South Africa and any other countries. Nevertheless, competition with China is an exception because far cheaper goods from China will remain unchallenged by any other countries, including Indonesia. The important question is whether it is a short- or a long-term domination of Chinese products. Whatever the answer is, it seems that Chinese products will likely continue their domination over the medium term, i.e. between five to ten years. While ASEAN countries will be able to enjoy the fruits of FTA on the long run, many of their domestic companies are already collapsed. Thus, ACFTA is a real threat to Indonesia. To be more competitive in attracting foreign investments, including from China, Indonesia should seriously improve its bureaucracy (one-roof service) and investment regulation, labour regulation, law enforcement and provide proper infrastructures. Therefore, an effective government and an efficient private sector and businessman are needed.

References

- ASEAN-China Expert Group on Economic Cooperation. 2001. *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century*, October 2001, a report submitted by the ASEAN-China Expert Group on Economic Cooperation.
- ISEAS. 2004. *Developing ASEAN-China Relations: Realities and Prospects*, 2004. A Brief Report on the ASEAN-China Forum, ISEAS, Singapore.
- Panitchpakdi, Supachai, and Mark L. Clifford. 2002. *China and the WTO*. Singapore: Wiley.
- Swee-Hock, Saw. 2005. *An Overview of ASEAN-China Relations*. Singapore: ISEAS.
- Tan, Weiwen. 2006. Counsellor for Trade and Commerce, the Embassy of the People's Republic of China, in Jakarta.
- Tarmidi, L.T. 2010. *ACFTA Sudah Terlanjur*, 22. Januari: Kompas.
- Tarmidi, L.T, and P. Gammeltoft. 2008. The characteristics of China's multinationals in the manufacturing sector operating in Indonesia. In *A paper presented at the Conference on "Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies,"* held by Copenhagen Business School, Copenhagen, October 9–10.
- The Ministry of Commerce of the Republic of Indonesia. 2009. *Studies on Regional Economy of Jakarta*, Quarter IV.
- Yong, O. K. 2004. *Comprehensive Integration Towards The ASEAN Community*. A speech by the General Secretary of ASEAN at the APEC Ministerial Meeting, Santiago, November 18.
- Yong, O. K. 2005. *Securing a Win-Win Partnership for ASEAN and China*. Singapore: ISEAS.

Documents

- ASEAN Statistical Yearbook, 2001.
- ASEAN-China Document: Plan of Action to Implement the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity. Article 5.
- The World Bank World Development Indicators, 2000.
- WTO International Trade Statistics, 2001.

Author Biography

Ratna Shofi Inayati is currently a researcher on the development of international politics at the Centre for Political Studies, LIPI, with a focus on Southeast Asia and Indonesia's Foreign Policy. She received her master's degree in International Management from the Southeastern University, Washington, D.C., USA. Her research focus includes the dynamics of ASEAN partnership and Indonesia's role at the regional, international and global levels.

Chapter 4

Opportunities and Challenges in Indonesia–China Relations: Service and Labor Sectors

Tri Nuke Pudjiastuti

Abstract Free-trade agreement (FTA), which is basically an economic cooperation between countries, is practically indispensable from each country's political development. A number of bilateral and multilateral FTAs were meant to foster trade and economic relations among the members with the hope that each country member will be more competitive in the international and regional levels. However, the FTA brings lots of consequences on regulation, infrastructure, and all the things necessary to meet the agreed standards, which usually include the traffics of goods, investment, finance, and services. The coming of foreign investment and products brings both positive and negative impacts on Indonesia. Among the political and security issues that Indonesia should deal with is its weakening control to manage the presence of foreign products. It includes, particularly, service products by foreign workers as well as their harmful effects on the domestic products. The question is whether Indonesia can utilize the agreement to fulfill its national and develop its labors' skills. If not, Indonesia is at the risk of losing its sovereignty in service and labor sectors due to its inability to safeguard its national interests. This chapter attempts to answer the extent to which Indonesia's interest in its relationship with China in the context of service and labor sectors. This paper begins with a general assessment on the needs and interests of Indonesia and China in the service and labor sectors.

Keywords ACFTA · Foreign investment · Indonesia's interest
Service and labor sectors

1 Introduction

Free-trade agreement (FTA), which is basically an economic cooperation between countries, is practically indispensable from each country's political development. In pursuit of its national growth, Indonesia has made extensive efforts to attract foreign

T. N. Pudjiastuti (✉)
Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: tnukep@gmail.com

investment into the country. However, the coming of foreign investment and products brings both positive and negative impacts on Indonesia. Indonesia's sovereignty, in a broader sense, is now under a serious challenge. Among the political and security issues that Indonesia should deal with is its weakening control to manage the presence of foreign products. It includes, particularly, service products by foreign workers as well as their harmful effects on the domestic products.

Indeed, Indonesia has begun a bilateral FTA since its initial membership in ASEAN, following Singapore who had signed agreements with some developed countries. This regional and bilateral FTA continued to grow and finally gave birth to some agreements between ASEAN and developed countries, one of which is the ASEAN-China Free Trade Agreement (ACFTA). A number of bilateral and multi-lateral FTAs were meant to foster trade and economic relations among the members with the hope that each country member will be more competitive in the international and regional levels. The FTA brings lots of consequences on regulation, infrastructure, and all the things necessary to meet the agreed standards, which usually include the traffics of goods, investment, finance, and services.

Therefore, Indonesia pays a serious attention and is actively involved in negotiations on foreign economic cooperation under the FTA. It is understandable since Indonesia considers the ASEAN framework cooperation as a priority in the country's foreign policy concentric circle. Accordingly, the FTA, which was opted to facilitate the improvement of bilateral economic relations between Indonesia and China, is in fact an integral part of the ASEAN framework.

When the President Megawati signed the ACFTA in Bandar Sri Begawan, Brunei Darussalam, November 6, 2001, it was said that Indonesia has a very good opportunity to attract more investment from China. There was a great expectation that the agreement will scale up the economic cooperation in, among others, the service sector where Indonesia can make significant improvement in capacity building, transfer of technology, and workers' managerial skills.

The question is whether Indonesia can utilize the agreement to fulfill its national and develop its labors' skills; if not, Indonesia is at the risk of losing its sovereignty in service and labor sectors due to its inability to safeguard its national interests and, in the long term, it will gradually destabilize its political-security atmosphere. This chapter attempts to answer the question on to what extent is Indonesia's interest in its relationship with China in the context of service and labor sectors and also its impacts on political and security instability in Indonesia. This paper begins with a general assessment on the needs and interests of Indonesia and China in the service and labor sectors.

2 Liberalization of Trade in Services Within the ASEAN Framework

Macro-economic and labor developments are equally important issues for Indonesia. The statistics showed that the open unemployment rate (TPT) in Indonesia is 7.41%,

lower than in August 2009, which was 7.87%. Whereas the Indonesia's total number of labor force is 116 million people, an increase of 2.17 million compared to August 2009 and 2.26 million compared to February 2009. Similarly, the employment rate was up to 2.54 million in February 2010 as compared to August 2009. A large number of workforce with education in elementary schools (55.31 million people or 51.50%), diplomas (only 2.89 million or 2.69%), and undergraduate and graduate levels (only 4.94 million people or 4.60%) were related to the high unemployment rate. The falling unemployment and the rising employment rates had accelerated the labor force participation rate (LFPR) to 0.23% over a year. It is important to note that this figure excluded half-open unemployment, i.e., people who are working less than 30 hour per week.¹ The Indonesia's relatively high unemployment rate should be addressed by preparing skillful human resources with specialized competence. It is realized that there are other issues to be tackled with in order to overcome unemployment. This is apparent from the labor market activities which usually meet only half of the requirements.²

In an increasingly competitive market, trade in services becomes a high value-added source. Data showed that the service sector plays a significant role in ASEAN. It contributes to an average of 40–50% of GDP in ASEAN countries, and 46% of the total GDP in the Indonesian economy in 2007. There is faith that liberalization in this sector will bring some positive impacts, such as enabling service users to freely choose their proper providers as well as service products, stimulating a flight-to-quality that will foster a fair and well-ordered competition, and creating a good corporate governance. The liberalization in service sector will also open more job opportunities for professionals and skilled labors, set path for external capital inflows, and foster technology and information development as well as better management at the global level.³

Nonetheless, liberalization can have negative effects to the member countries like Indonesia if they fail to meet the required standards in the quickest possible way. At the international level, Indonesia is a member of the World Trade Organization (WTO) that has listed sectors and sub-sectors in the schedule of commitment (SoC) under the general agreement on trade in services (GATS)⁴ and also has agreed the following basic principles of the GATS⁵:

¹Statistics Press Release No. 33/05/Th. XIII, Mei 10, 2010.

²As addressed by the Minister of Manpower and Transmigration of the Republic of Indonesia, Muhaimin Iskandar, in his speech at the opening of Nakertrans Expo 2011, Center for Business Promotion and Information, City of Tegal, Central Java. Kompas, June 21, 2011.

³Directorate of Balance of Payment and International Economic Cooperation (2004)

⁴The service sector is considered a new issue. The Uruguay Round of the GATT has already been negotiated, leading to the establishment of the WTO (a new name for a GATT's institution, i.e., a general agreement on trade in services or GATS), in Marakkesh, Morocco. The schedule of commitment (SoC) refers to a commitment for trade in services that are open for and accessible to providers in other member countries; it indicates also the degree to which the service market is open for other members. Each country's SoC is an integral part of the GATS.

1. The GATS covers all internationally traded services;
2. Most-favoured-nation treatment applies to all services, except for the one-off temporary exemptions;
3. All member countries should have transparent regulations and inquiry points. The GATS requires all the members to publish their relevant regulations;
4. Regulations should be objective and reasonable;
5. There should be no restrictions on international payments;
6. Individual countries' commitments should be negotiated and bound;
7. Progressive liberalization should be negotiated further.

By signing the agreement, Indonesia should subject itself to those principles. This becomes seriously problematic now because Indonesia has not yet administered and managed its regulations in a proper manner. In many cases, Indonesia is far left behind in providing necessary infrastructures for such trade in services, such as training and apprenticeship programs.⁶

At regional level, Indonesia has agreed the ASEAN's liberalization of trade in services. The agreement was stated in the Bangkok Summit Declaration of 1995, and the ASEAN Framework Agreement on Services (AFAS) in the Fifth ASEAN Summit in Bangkok, December 15, 1995. The creation of AFAS is to eliminate fundamental barriers in trade in services among the ASEAN countries, particularly through the fulfilment of demands for efficient and competitive suppliers and users in the ASEAN region.⁷ The AFAS is expected to provide guidance for improving and fostering market access and national treatment for service suppliers and users among the ASEAN countries. There are four different modes of trade in services

1. Cross-border supply (CB)
2. Fulfilment of consumption abroad (CA)
3. Commercial presence (CP)
4. Movement of natural personnel (MNP)

Out of the four modes of trade in services, the first three is less problematic to Indonesia because of the already available arrangements and regulations. However, the last mode is somewhat contradictory with regulations on foreign workforce in Indonesia as stipulated in Law No. 13 of 2003 on Manpower Affairs. In fact, some ASEAN member countries have set up a number of regulations that impose restrictions on the coming of MNP into a country. For example, Singapore and Malaysia have strict arrangements and requirements for the coming of highly skilled MNP and have limited the numbers of foreign workers brought in by foreign investors in order to protect their local workforce.⁸ The only difference is that Indonesia implements its

⁵Directorate of Balance of Payment and International Economic Cooperation, *Ibid.*

⁶Professionalism issues and challenges under the AFAS (ASEAN Framework Agreement in Services) are mostly apparent in many agreed sectors, such as health and sea transportations where foreign businessman and educated workers are dominant in these two fields.

⁷"Introduction To ASEAN Framework Agreement on Services (AFAS)", <http://www.aseansec.org/>, accessed on August 24, 2010.

⁸Directorate of Balance of Payment and International Economic Cooperation, *Ibid.*

regulations less strict than the two countries. In addition, Law No. 13 of 2003 which regulates the mobility of foreign workers is still very closely related to the company ownership. That is, permission for a foreign investor to invest into a company or open a new company will mean also permission to employ its foreign workers as stipulated. However, demands for foreign workers come not only from foreign companies or institutions, but also national and local ones for which the corresponding regulations are still weak.

Since the AFAS was signed, Indonesia has proposed and agreed six packages of commitments in services liberalization during the 13th ASEAN Summit in Singapore, November 2007. The Summit has ratified the six packages as a continuation of the services liberalization under the AFAS. The principles, strategies, and modalities of the above services liberalization are meant to translate into practice the ASEAN free flow of trade in services as a channel to the establishment of an integrated “ASEAN Economic Community” in 2015. The implementation of an integrated ASEAN trade in services is built upon the blueprint for the creation of ASEAN Economic Community agreed by all the ASEAN leaders during the summit. Besides, the ASEAN Multilateral Agreement on the Full Liberalization of Air Freight Services and the ASEAN Multilateral Agreement on Air Services have been signed during the Fourteenth ASEAN Transport Ministers’ Meeting in November 2008.

After long negotiations on each member country’s internal problems and interests pertaining to the liberalization of trade in services, all the ASEAN members finally reached six packages of agreement, including:

1. Services in Business: such as services in information technology, accounting, auditing, law, architecture, engineering, and market surveys;
2. Services in Construction: such as services in commercial building construction, civil engineering, work installation, and construction equipment rentals.

A research by the LIPI’s ASEAN team found that the agreement sought to provide an incentive to the government in building coordination and cooperation internally and externally with various parties in order to realize the free movement of trade in services.⁹ These efforts have been translated into mutual recognition arrangement (MRA), which includes, among many others, gradual removal of all restrictions on market access. As a consequence, skilled professionals and labors are now moving freely in the ASEAN region.

If we look it more carefully, it turned out that the scope of services liberalization in any regulations developed under the AFAS goes beyond that have been set up and implemented under the GATS scheme. Therefore, it is reasonable to say that AFAS was set to be agreed by the members of GATS, or to be what the so called GATS-Plus.¹⁰ However, it is important to note that each ASEAN country has its autonomy in making internal arrangements as long as they do not contradict the AFAS’ regulations; such autonomy gives strength to each country in maintaining its services trade

⁹Elisabeth (2009) and see also Sungkar (2009, pp. 13–14 and pp. 140–141).

¹⁰“Introduction To ASEAN Framework Agreement on Services (AFAS)”, <http://www.aseansec.org/>; see also Hew (2007, p. 7).

market. This provision, as well as demands for easier movements of services such as labors in the ASEAN region, has stimulated efforts for professional recognition that can facilitate labor mobility in the region. Compared to trade in goods, trade in services is still in need of more negotiations and agreements considering that all the countries want also to protect their respective labors. For this purpose, there are 13 steps that are being undertaken at the ASEAN level:¹¹

1. Remove all restrictions on trade in services in four priority sectors, including air transportation, e-ASEAN, healthcare, and tourism in 2010, and the fifth priority sector, i.e., services in logistics, in 2013;
2. Remove all restrictions to trade in services in other priority sectors by 2015;
3. Undertake liberalization steps through consecutive rounds timed every two years until 2015;
4. Schedule a number of new sub-sectors in each round: ten sub-sectors in 2008, 15 in 2010, and so on;
5. Schedule a package of commitments in each round according to certain parameters;
6. Set the parameters of liberalization for national treatment limitations;
7. Schedule commitments according to agreed parameters for national treatment limitations;
8. Complete an inventory list of barriers in August 2008;
9. Allow flexibility in sub-sectors that are not included in the liberalization and sub-sectors in which not all the parameters are met;
10. Complete the MRAs that are still under negotiation, such as services in architectures, accountancy, surveying qualification, and medical practitioners in 2008 as well as dental practitioners in 2009;
11. Implement quick and efficient MRAs according to each requirement;
12. Identify and develop MRAs for professional services in 2012 and complete it in 2015;
13. Strengthen human resource development (HRD) and capacity building for service sector.
14. Nowadays, seven sectors of services have been agreed

Seven sectors of services have been currently agreed to be traded at the ASEAN level. They are air transport, business services, construction, financial services, maritime transport, telecommunications, and tourism.¹² In principle, whenever ready, one member country can start liberalizing its certain sectors and others may join later.

Furthermore, to facilitate the mobility of professional services, seven sectors of services have been agreed within the MRA framework. They include services in

¹¹ASEAN Economic Blueprint (2009, p. 26).

¹²This agreement will be gradually implemented. Five sectors (i.e., air transport, business services, construction, financial services, and maritime transport) have been realized by 2007. The sectors of telecommunications and tourism were just agreed in December 2008.

engineering (2005), nursing (2006), architecture and surveying qualification (2007), accounting, medical and dental practitioners (2009).

Trade in services in the internal and external ASEAN market is in fact growing steadily and adding the components of value added to each member country's gross domestic product (GDP). Unfortunately, compared to Singapore, Malaysia, and the Philippines, Indonesia derived only about 40% of it.¹³ However, from the export–import side, the Indonesia's service sector shows a positive trend from year to year. In 1998, for example, the service export reached US\$ 153.2 billion in 2007 as opposed to US\$57.4 billion in the previous year. Similarly, the service import, which was only US\$66.5 billion in 1998, reached US\$176.3 billion in 2007.¹⁴ The trend suggests that the ASEAN countries are attractive destinations for the professionals outside ASEAN countries.

Later, the Coordinating Committee on Services (CCS) was formed to follow up the AFAS agreement. The committee was assigned to prepare the modalities necessary for managing negotiations on services liberalization under AFAS. The services liberalization includes eight sectors, i.e., services in air and sea transport, business, construction, telecommunications, tourism, finance, health, and logistics.

In addition, represented by its Minister of Economy, Indonesia has signed the MRA framework on accountancy services, MRA on medical practitioner, and MRA on dental practitioners. MRA framework on accounting services becomes the basic principles and the framework for bilateral or multilateral negotiations. Meanwhile, MRAs on medical practitioners and dental practitioners are supposed to facilitate the mobility of qualified medical and dental practitioners. Other MRAs have been signed also in the USA, including services in engineering, architecture, nursing, and surveying; there was also an urge for renewed efforts by the related professional bodies to implement the MRAs. Meanwhile, MRA on tourism professionals was expected to be signed during the ASEAN Tourism Ministers Meeting in January 2009.

3 Services Liberalization Under ACFTA

One article in the ACFTA stipulates that negotiations of progressive services liberalization and elimination of all substantial discriminations and/or restrictions on trade in services between ASEAN and China should be completed as soon as possible. It also allows the two sides to extend the scope and the depth of their trade in services beyond substantial sectors covered by the WTO's general agreement of trade in services (GATS).

During the implementation of the ASEAN–China FTA in services, China had made requests for ten service sectors to Indonesia, including business services, communications, construction and engineering services, distribution, education, envi-

¹³ASEAN Statistical Yearbook 2007.

¹⁴WTO Trade Statistica 2007.

ronment, finance, health and social services, sport services, cultural services, and transport services. In relation to this, there was also an agreement that the base offers for the sectors in the first commitment of the ASEAN–China FTA on trade in services will include business services, telecommunication, construction, air travel, and tourism-related services (AFAS-4), plus maritime services, education, specialized financial insurance, health, all of which have been included in the AFAS-5.¹⁵

However, during the second round of negotiations, ASEAN countries and China decided to reopen the request and offer negotiations in order to deepen and scale up the scope of the commitment of ASEAN and China. The two sides showed a strong commitment to participate in the request-offer negotiations in order to complete the second-round package of negotiations by July 2008.

For this reason, Indonesia speeds up the liberalization of its service sectors through the Fiscal Policy Office, the Ministry of Finance. The office leads the service coordination team in all forums and sectors, such as managing the sectors of non-bank financial services and professional ones (accountants and appraisers).

4 China's Labor Mobility Due to Domestic Pressures

China's labor mobility among their professionals and mid-to-low level workers is increasing in numbers from time to time. This is evident from the high mobility of China's workers to other countries, including Indonesia. This phenomenon is indispensable from the domestic conditions in China where more than 1.3 billion people, or approximately one-fifth of the world population, live in the country. Therefore, China is currently facing serious pressures of population and labor force. Since the early 2000s, China has been classified as a surplus labor country. Unemployment problems have been haunting China since the late 1970s.¹⁶

In general, the unemployment rate is higher in the urban than rural areas. The agricultural sector in the rural areas can absorb a lot of workers due to abundant arable land. In China, unemployment is a complex issue that occurs in multiple sectors. An analysis by Hu Angang and Sheng Xin in 2003 suggested that the unemployment rate in China continues to increase above 7%, which is an alarm given that it never reaches above 5% (or about 16.48 million) in the preceding years.¹⁷

Similarly, China's investment banks and research center, China International Capital Corporation (CICC), indicated that China will likely face a high unemployment rate in 2011 as millions of temporary positions will complete a 4 trillion yuan (US\$585 billion) stimulus package from the government. The Beijing-based bank also stressed that according to a research by the National Development and Reform Commission, the stimulus has opened up 5.6 million new positions and nearly

¹⁵<http://www.kemlu.go.id/Documents/Kerjasama%20Ekonomi%20ASEAN.doc>, accessed on August, 2011.

¹⁶Webber and Ying (2007, p. 17).

¹⁷Angang and Xin (2007, p. 37).

50 million temporary jobs during the construction project. In 2011, the labor supply in the market might rise 39 million, which consists of 7.58 million higher education graduates, 6–7 million rural surplus labors moving into cities, and 25 million of temporary workers who will lose their jobs following the termination of the stimulus package. As a result, there will be only about 8 million new positions projected, leading to a 31 million rise in unemployment, with a forecast that China's economic growth will slow down to 7.5% in 2011.¹⁸

The trend in China, as a result of comparison between the current and the early 2000s' unemployment rates, will obviously force the Chinese government to make serious efforts in opening job opportunities for its people. These efforts were made both at the national and international levels along with the China's investment abroad.

China's rapid investment into other countries, especially ASEAN, is closely linked to the country's economic growth (above 10% on average) since its national reforms in the early 1980s. As a consequence, China becomes the third world's largest economy, after the US and Japan, with a GDP of US\$4.3 trillion approximately. While the rest of developed countries suffered an economic recession during the global financial crisis, China's economy expanded around 7%. At the sectoral level, China's manufacturing industry, which contributed 60% to the total GDP, sustained the country's rapid economic growth. China's industrial sector was growing partly because of the country's capital flows that are rising significantly regardless of the financial crisis. In terms of the government expenditure, investments, and exports are the main contributors of China's economy, i.e., 40% of the total GDP equally.¹⁹

5 China's Labor in Indonesia

The presence of foreign workers in Indonesia is linked to the influx of foreign investment into the country.²⁰ Since 1967, Indonesia has embraced an open-door policy toward foreign investment, most of which was in the natural resource sector. In the

¹⁸<http://id.ibtimes.com/articles/1756/20100617/cicc-Cina-mungkin-menghadapi-tingkat-pengangguran-tinggi-pada-2011.htm>, June 17, 2010, accessed on October 23, 2011.

¹⁹Juoro (2009).

²⁰Indeed, regulations on foreign countries have been taking place since 1958, which is apparent from such as Law No. 3/1958 on the Placement of Foreign Workers. The Law clearly gives a green light for the coming of foreign workers into the Indonesia's workforce market, subject to all the restrictions that are meant to protect the Indonesian labors. Following the Law No. 3, 1958, a Presidential Decree No. 23, 1974 on the Restriction of Employment of Expatriates, was released under the mandate of the Provisional People's Consultative Assembly (MPR) No. IV/MPR/1973 on the importance of wider employment opportunities for the Indonesians. The decree also mandates the recruitment of Indonesian labors as many as possible in the development projects and other business activities in Indonesia, both in the context of international or national investments and project or technical assistances. The regulation or decision level the President and the Minister successive published works to anticipate the development of the use of foreign workers in certain sectors. All those consecutive regulations or presidential and ministerial decrees were imposed to anticipate the development of foreign employment in particular sectors.

new order, foreign investment continued to grow significantly and became a driving force of the Indonesia's economic development.²¹ It does not cease to grow in the recent times regardless of the stricter market competition. As part of trade in services, the hiring of foreign workers has a quite high value added.

As clearly stated in Law No. 13/2003, recruitment of foreign workers in fact is an attempt to protect and expand job opportunities and expertise for the Indonesian labor. The presence of foreign workers has been expected to channel the transfer of knowledge and technology that helps the Indonesian workers develop their expertise and skills. To this effect, the hiring of foreign workers is an opportunity. However, it becomes a serious challenge when the employment of foreign workers is away from the original objective, such as the case of China's workers in Indonesia.

The numbers of China's workers in a particular country are mostly contingent on the economic and political changes in the country. In Indonesia, for example, the numbers of workers from foreign countries in general, and from China in particular, tended to be increasing since 2005. Before the reform era, their numbers were decreasing significantly because of the financial crisis in 1998 and the political changes following it. It was in 2005 that investments in Indonesia resumed its rise. Data from the Ministry of Manpower and Transmigration showed that in 2001 the number of foreign workers in Indonesia was 24,319 people but it declined dramatically in 2003 where only 18,138 people were recorded and most of them are non-Asian foreign workers. The trend returned higher in 2005.

Data from the Center for Data and Information of the Ministry of Manpower (*Pusdatinaker*) showed that foreign workers in Indonesia are coming from more than 163 countries. Based on the percentage of foreign workers by country of origin in the past three years, Japan was dominating the labor market in 2007 (10.307%). However, China took the lead in 2008 (16.35%) and in 2009 (19.23%) as compared to Japan (12.62% in 2008, and 8.62% in 2009). A significant number of foreign workers from China were also linked to the opening of economic relations between Indonesia and China, leading to the enactment of the ASEAN-China FTA (ACFTA) on January 1, 2010. On the other hand, the number of migrant workers from America, Europe, and Australia was largely unequal. Another factor of the rising number of foreign workers was demands, as sounded by Malaysia and supported by Indonesia and Singapore, to attract investors from intra-ASEAN countries. Since the signing of the ASEAN Investment Area (AIA) in 1998, Indonesia became more open to intra-ASEAN investment (Table 1).²²

The data in 2009 showed a decreasing number of Chinese foreign workers in Indonesia. The Director of Foreign Labour Development, Directorate General of

²¹It was legally based on the Act Number 1/1967 on foreign investment, which was then amended by Law Number 25/2007 on investment. The Law was then reinforced by the issuance of Law No. 7/1994 which ratified the agreement establishing the WTO in November 1994. These three laws gradually liberalize the Indonesian economy. Economic liberalization, on the one hand, was believed to have improved the Indonesian welfare. But on the other hand, it has also marginalized some members of societies, especially low-income people. Even though it has been present for decades in Indonesia, foreign investment remains a controversial issue in the country.

²²Pudjiastuti (2009).

Table 1 Employment of foreign workers by country of origin and number

No.	Non-ASIA	19,115	25.6	20,845	24.9	13,699	23.0
1	US	4,504	6.02	5,062	6.05	3,306	5.55
2	Australia	5,219	6.98	5,699	6.81	3,488	5.86
3	The Netherland	1,053	1.41	1,113	1.33	824	1.38
4	England	3,937	5.26	4,237	5.06	2,850	4.78
5	Germany	1,290	1.72	1,404	1.68	976	1.64
6	Canada	1,412	1.89	1,476	1.76	1,026	1.72
7	France	1,700	2.27	1,854	2.22	1,229	2.06
	ASIA (non-ASEAN)	33,219	44.4	38,619	46.1	26,111	43.8
1	China	9,851	13.17	13,678	16.35	11,455	19.23
2	India	5,126	6.85	5,760	6.88	3,688	6.19
3	Japan	10,307	13.78	10,557	12.62	5,133	8.62
4	South Korea	6,072	8.12	6,683	7.99	4,438	7.45
5	Taiwan	1,863	2.49	1,941	2.32	1,397	2.35
	ASEAN	16,146	21.6	17,127	20.5	12,452	20.9
1	Philippines	4,531	6.06	4,313	5.15	2,675	4.49
2	Malaysia	6,163	8.24	6,582	7.87	4,408	7.40
3	Singapore	3,715	4.97	3,744	4.47	1,763	2.96
4	Thailand	1,737	2.32	2,488	2.97	3,606	6.05
1	Other Countries	6,308	8.43	7,091	8.5	7,306	12.3
	Total	74,788	100.0	83,682	100.0	59,568	100.0

Source Data processed from Pusdatinaker, 2010

Manpower Employment (*Binapenta*), the Ministry of Manpower and Transmigration (*Kemnakertrans*), said that the global financial crisis in 2008 contributed to the declining number of foreign workers in Indonesia. The trend continued in 2009 and accordingly changed also foreign workers' job placement. Despite a decrease in number, the Chinese workers in the Indonesia's labor market had shifted from the majority of semi-into highly skilled workers. The shifting trend was in fact a threat to the protection and job opportunities for the Indonesian workers. Therefore, foreign workers should not fill clerical and blue-collar jobs or, if any, they are hired only for a short period of time. Technical and clerical positions, for which a large number of higher and multilevel educational institutions have been established to prepare the human resources, should be occupied by the Indonesian workers after receiving a transfer of knowledge and technology (Table 2).

The data above showed also that foreign workers from China were present and relatively dominant in all sectors and, therefore, made the challenge even more serious. Foreign workers from China were mostly attracted to the manufacturing industry but should tightly compete with those from Japan and South Korea who share a

Table 2 Employment of foreign workers by country of origin and field of work

No.	Origin	Farming, forestry, hunting, and fishery	Mining and digging	Processing industry	Electricity, gas, and water	Construction	Restaurant trading and accommodation service	Transportation, warehousing, and communication	Financial institution, real estate, rental, and company service	Social and individual services	Total number
	Non-ASIA	105	914	835	1,210	925	2,005	371	953	2,497	9,815
1	US	21	178	130	502	135	306	68	194	1006	2,540
2	Australia	22	540	207	187	364	539	64	295	457	2,675
3	The Netherlands	12	11	70	8	63	199	50	78	127	618
4	England	35	128	146	354	235	372	79	223	576	2,148
5	Germany	7	9	160	8	39	236	48	43	218	768
6	Canada	1	20	4	19	4	16	9	13	24	110
7	France	7	28	118	132	85	337	53	107	89	956
	ASIA (Non-ASEAN)	610	1,370	8,709	734	2,751	5,338	606	1,328	1,395	22,841
1	China	317	884	2,361	495	1,486	2,134	37	377	529	8,620
2	India	23	323	991	96	334	786	103	352	203	3,211

(continued)

Table 2 (continued)

No.	Origin	Farming, forestry, hunting, and fishery	Mining and digging	Processing industry	Electricity, gas, and water	Construction	Restaurant trading and accommo- dation service	Transportation, warehousing, and communication	Financial institution, real estate, rental, and company service	Social and individual services	Total number
3	Japan	77	65	2,531	132	806	909	181	404	190	5,295
4	South Korea	70	93	2,067	9	114	1,295	223	177	324	4,372
5	Taiwan	123	5	759	2	11	214	62	18	149	1,343
	ASEAN	1,278	692	1,777	262	1,050	1,820	512	538	858	8,787
1	Philippines	56	83	420	56	359	318	162	170	631	2,255
2	Malaysia	607	154	775	115	415	891	136	251	85	3,429
3	Singapore	11	50	470	65	183	409	109	108	133	1,538
4	Thailand	604	405	112	26	93	202	105	9	9	1,565
	Other Countries	81	303	585	426	514	1,055	308	260	1006	4,538
	Total	2,074	3,279	11,906	2,632	5,240	10,218	1,797	3,079	5,756	45,981

Source Data processed from Pusdatinaker, 2010

common interest in this sector. The foreign workers also showed high preference in construction services, trade, restaurant, and accommodation services.

The Indonesia's commitments on the employment of foreign workers was in fact based on an economic need test, i.e., assessments on the foreign employment in question. The specification of each sector is in alignment with its needs described clearly in certain tasks and positions allowable for foreign workers to fill. Conceptually, the presence of foreign workers in the Indonesian economy was meant to channel a transfer of knowledge to the local workforce by which later becomes more competent and skillful in the future.²³ In reality, nevertheless, there was very little or no knowledge being transferred.

Interestingly, the Head of the National Professional Certification Board (*BNSP*) said that no bilateral or regional agreement has been made on the opening of labor market. All the members of FTAs treated their foreign workers according to their own regulations. Furthermore, the service sector in foreign workers is the most problematic manpower issue in all countries, including Indonesia. The FTA agreements with ASEAN and other partner countries do not explicitly deal with the employment of foreign workers.

The cases in Indonesia implied that a large number of sectors and regions hiring foreign workers have created unavoidable problems. In the recent years, for instance, the Indonesian government has deported a lot number of undocumented foreign workers.²⁴ Therefore, it is not false to conclude that under the FTA Framework Agreement or not, Indonesia is still facing some fundamental problems related to foreign workers, which are:

1. Unclear degrees of urgency for the employment of foreign workers at foreign, national, and local institutions (foundations and companies, for example);
2. Standards of competence and qualifications in spite of the existing sectoral arrangements;
3. Unclear employment terms of migrant workers from the work permit process until employment termination, and unclear distinction for foreign workers brought in by a company under an MNP status;
4. Pressure and sanctions for non-compliance with the employment procurement of domestic labors in companionship/apprenticeship programs aimed to transfer knowledge and technology;
5. A non-discriminatory reward mechanism between equally qualified foreign and domestic workers;
6. Work extension mechanism of foreign labor employment and the use of domestic labors previously in companionship/apprenticeship programs;

²³Law No. 13/2003 on Manpower, Article 45, Paragraph (1)

²⁴Most of the cases were due to visa abuse and overstays, in addition to illegal entry into Indonesia, such as in Kaiana, West Papua. In Batam, there are at least four thousand foreign workers at 3,216 companies, most of whom, according to the immigration, are allegedly without working permits. See <http://www.tempointeraktif.com/share/?act=tmV3cw=&type=UHI>, <http://www.riasaptarika.web.id/index.php/2008/09/10/tka-berladang-di-balik-paspor-wisata/> and http://www.riau.go.id/index.php?mod=isi&id_news=4367, accessed on April 16, 2010.

7. Clear central–local government relations on foreign workers;
8. Clear supervision and social protection for foreign workers;
9. Clear mechanisms of job contract termination and severance.

Failure to find immediate solutions for all the above issues will make the foreign workers questionable in terms of their legality, selectivity, safety, and efficacy. This is particularly so in the services' labor market that tends to be more open in 2015 under the FTA and the AEC framework agreements. Therefore, Indonesia needs to take necessary steps in regard to its foreign and domestic manpower; otherwise it will face a bigger problem, which is termination of domestic labor employment. This could possibly happen if Indonesia cannot develop more competitive local labor markets.

The numbers of regulations on the employment of foreign workers were not always effective in their implementation. Decentralization and regional autonomy are two issues that color the political atmosphere in Indonesia. The changing political system in the country was not accompanied with decentralization and regional autonomy and, consequently, it only worsened the problems such as the employment of foreign workers in the Indonesian regions. As a result, the process of foreign labor permit extension, legally mandated to provincial, regent/city administration, was often too bureaucratic and time consuming, while the work permit is valid only for one year and renewable for maximum of two years on the same position.

6 Negative Impacts on the Indonesia's National Interests

The data released by the Ministry of Industry in 2010 listed a number of labor-intensive industries severely injured by the implementation of ACFTA, including industrial textiles and textile products (TPT), footwear, electronics, rattan and wood furniture, toys, machinery, iron and steel, food and beverage, as well as herbal medicine, and cosmetics. It was predicted that the implementation of ACFTA would reduce industrial production by 25–50%, sales in the domestic market by 10–25%, and profits by 10–25%. In addition, the reduction of workforce was estimated at 10–25%.

The problems become more and more pressing now because in Indonesia the continuing influx of foreign workers, such as those from China for instance, has also negatively affected the working individuals. In addition, the decline in production has also reduced the number of employees, most of whom are lower class working people. In fact, as mentioned above, more than 50% of the Indonesian workers are classified as less-skilled workers. Forum for Peasant's Advocacy claimed that labor unions resisted the implementation of ACFTA because it will open the door to massive terminations of employment. Furthermore, according to the Confederation of all Indonesian Workers' Union, foreign investment in Indonesia is also accompanied with the invasion of cheaper priced but low-quality Chinese products which give

a major impact on the domestic market and kill off the local products.²⁵ That is, the ACFTA will slowly but surely turn off companies and, consequently, make a large number of Indonesian workers lose their jobs. At a rough estimate, there will be around 2.5 million workers deprived of their jobs in the clothing and leather sectors as well as agricultural industry. Even worse, around 1 trillion rupiah must be expended to pay large claims for termination of employments.

The Ministry of Economic Affairs of the Republic of Indonesia has anticipated such a situation by renegotiating the agreement, imposing Indonesian National Standard (SNI) as well as monitoring and detecting over layoffs. However, it turns out that these efforts are still far from expectations. The negative impacts of looser restrictions for foreign workers in Indonesia have made both lower class and highly skilled workers lose their job opportunities.

The lost opportunities for the Indonesian workers will eventually have multi-dimensional effects. In addition to a heavy burden of unemployment and poverty vulnerability that should be taken on by the state, people's inability to meet their needs may limit their access to education and health and also increase crime rate in Indonesia. If such a circumstance occurs nationally, the MDGs 2014 progress will be surely far below expectations.

Knowingly or not, the Indonesian government has undermined its own national interests. The state's inability to maintain its national interests in meeting the people's needs and welfare has contributed to a growing number of vulnerable societies where the potential for serious conflicts increases. At least, big waves of layoffs and labor demonstrations in industrial areas have caused a great loss due to interrupted production. According to data from the Ministry of Manpower and Transmigration, it is true that the number of laid-off people was on the decrease (i.e., 1,432 cases or 16,393 people) in 2010 as opposed to that in 2009 (i.e., 4,979 cases or 30,181 people). Nevertheless, it is important to recall that there are still many unfinished cases in 2009 until now. Meaning to say, even though there is a decrease in number, the actual cases are still high. Such vulnerability is an inevitable.

7 Conclusion

Indonesia–China relations under the ACFTA, especially in the services and labor sectors, are underway and inevitable. Among the ASEAN countries, the fact is not only a bilateral but also a regional issue. However, China's highly qualified and abundant human resources, being developed toward the world manufacture base, provide an opportunity for Indonesia to transform its human resources through a learning process. Moreover, the fact that there has been a set of related regulations in Indonesia is another advantage. That is, the state is responsible to make substantial arrangements

²⁵Around twenty labor union organizations held a press conference in Jakarta, convinced by the Revolutionary Command (KOBAR), where they declared their rejection of the ACFTA. See Lim and Phillipp (2010, pp. 64–65).

in the political and economic aspects as well as to take measured interventions in all aspects related to the people's common needs as part of its mandated duties to protect and meet the national interests.

China's economic expansion into ASEAN countries, particularly Indonesia, is irresistible. Indonesia's failure to manage and enforce its national laws would mean that under the ACFTA the country would become an easy prey for countries like China.

References

- ASEAN Economic Blueprint. 2009. *Roadmap for an ASEAN Community 2009–2015*, ASEAN Secretariat, Jakarta.
- Angang, Hu and Sheng Xin. 2007. Urban unemployment in China: A background analysis (1995–2003). In *Unemployment in China: Economy, human resources and labour markets*, ed. Grace O. M. Lee and Malcolm Warner. London: Routledge.
- Directorate of Balance of Payment and International Economic Cooperation. 2004. *Perkembangan Jasa-Jasa dan Posisi Indonesia dalam Perundingan GATS ke Depan*. Jakarta: Bappenas.
- Elisabeth, Adriana (ed.). 2009. *Menuju Pembentukan Komunitas Ekonomi ASEAN*. Jakarta: LIPI Press.
- Hew, Denis (Ed.). 2007. Introduction: brick by brick—The building of an ASEAN Economic Community. In *Brick by brick—the building of an ASEAN Economic Community*, ed. Denis Hew. ISEAS, Singapore.
- http://www.riau.go.id/index.php?mod=isi&id_news=4367. Accessed on 16 Apr 2010.
- <http://www.tempointeraktif.com/share/?act=tmV3cw=&type=UHJ>. Accessed on 16 Apr 2010.
- <http://www.riasaptarika.web.id/index.php/2008/09/10/ta-berladang-di-balik-paspor-wisata>. Accessed on 16 Apr 2010.
- <http://www.kemlu.go.id/Documents/Kerjasama%20Ekonomi%20ASEAN.doc>. Accessed on 2 Aug 2011.
- <http://id.ibtimes.com/articles/1756/20100617/cicc-Cina-mungkin-menghadapi-tingkat-pengangguran-tinggi-pada-2011.htm>, June 17, 2010. Accessed on 23 Oct 2011.
- Introduction to ASEAN Framework Agreement on Services (AFAS). <http://www.aseansec.org/>. Accessed on 24 Aug 2010.
- Juoro, Umar. 2009. Arah Investasi Cina Di Indonesia, August 20, 2009. <http://www.tabloiddiplomasi.org/previous-isuue/36-juni-2009/107-arrah-investasi-Cina-di-Indonesia.html>. Accessed on 23 Oct 2011.
- Law No. 3/1958 on Placement of Foreign Workers.*
- Law No. 1/1967 on Foreign Investment.*
- Law No. 13/2003 on Manpower.*
- Law No. 25/2007 on Investment.*
- Law No. 7/1994 on Ratification of Agreement Establishing the World Trade Organization.*
- Lim, Ivan and Phillipp Kauppert. 2010. Dilema Politik Dalam Menghadapi CAFTA: Apa Pilihan untuk Indonesia? *Jurnal Sosial Demokrasi* 8(3).
- Pudjiastuti, Tri Nuke. 2009. Kepentingan Indonesia dalam Komunitas Ekonomi ASEAN. In *Menuju Pembentukan Komunitas Ekonomi ASEAN*, ed. Adriana Elisabeth, 188–189. Jakarta: LIPI Press.
- Statistics Press Release, No. 33/05/Th. XIII.* 2010, May 10.

- Sungkar, Jasmin. 2009. Isu Perdagangan Bebas Barang dan Jasa dalam Komunitas Ekonomi ASEAN. In *Menuju Pembentukan Komunitas Ekonomi ASEAN*, ed. Adriana Elisabeth. LIPI Press, Jakarta.
- The Provisional People's Consultative Assembly Number IV/MPR/1973* on the importance of wider employment opportunities for the Indonesians *Kompas*, 21 June 2011.
- Webber, Michael and Zhu Ying. 2007. Primitive accumulation, transition and unemployment in China. *Unemployment in China: Economy, human resources and labour markets*, ed. Grace O.M. Lee and Malcolm Warner. London: Routledge.
- WTO Trade Statistics*, 2007.

Author Biography

Tri Nuke Pudjiastuti is currently a researcher at the Center for Political Studies-Indonesian Institute of Sciences (P2P-LIPI). She received her Ph.D. from Department of Criminology-Faculty of Social and Political Sciences, University of Indonesia and her Master's degree from the University of Adelaide, South Australia, in international migration, which remains her current research interests. She is also a member of ASEAN Research Group P2P-LIPI (2008–now).

Chapter 5

Indonesia–China Relations: A Political-Security Perspective

Nanto Sriyanto

Abstract This chapter will discuss Indonesia–China relations in security issues. During the long period of time, the relationship between two countries was in ups and downs. Although the relationship between Indonesia and China in the Reform Era or post-Soeharto Era has been growing significantly, a number of security matters are still of high significance amid the development of the two country’s bilateral relations and important issues in the region. Threat perceptions from both the sides that have been evolved since the restoration of their diplomatic relations in the 1990s will be the starting point. An analysis covering such a prolonged time will provide a comparative overview of the two countries’ relations from the time when it has been first established, under the New Order regime, and up to the Reform Era. This chapter also addresses the two countries’ relationship at the regional level with a focus in a number of regional security issues. Although China has been involved in regional partnerships, such as ASEAN Regional Forum (ARF) and other forums, its increasingly assertive power, particularly in territorial issues, has inevitably made some countries consider that China’s rise is an important factor, if not a threat, that should be controlled. Since this chapter examines the issues within an Indonesian perspective, it situates China as a “static partner” or it does not talk much about the Chinese perspective in some aspects.

Keywords Indonesia–China security relations · The New Order regime · The Reform Era · ARF · Territorial issues

1 Introduction

Indonesia and China have commenced their bilateral relationship since 1950 after Vice President Mohamad Hatta officially sent a diplomatic cable to Beijing in 11th of January. The Indonesia–China relations, however, were disrupted after the September 30, 1965, Movement due to allegedly China’s interference in it. The diplomatic

N. Sriyanto (✉)

Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: nantosriyanto@gmail.com

relationship between the two countries was finally frozen¹ in October 1967 and resumed in 1990. In 2010, twenty years after the normalisation, the two countries celebrated the sixty years of their bilateral relations for which they launched The Indonesia–China Friendship Year. During the long period of time, the relationship between the two countries was ups and downs and even reached its nadir when Indonesia suspended its diplomatic relations with China. Until now, the economic relations between the two countries have been growing very swiftly as shown in their mutual export–import figures. Oil and non-oil export from Indonesia to China during 2006–2010 increased from US\$ 8.34 million to US\$ 15.69 million, while imports from China to Indonesia also rose from US\$ 6.64 million to US\$ 20.42 million.² The trade figures showed that Indonesian exports and imports are swelling almost equally. The two countries, being represented by President Yudhoyono and President Hu Jiantao, have signed a strategic partnership on April 25, 2005.

In security sector, Indonesia–China relations have been also developing in a number of crucial issues. Although the relationship between Indonesia and China in the Reform Era or post-Soeharto Era has been growing significantly, a number of security matters are still of high significance amid the development of the two country's bilateral relations and important issues in the region. The issue of ethnic Chinese in Indonesia is still relatively important even though it has drastically changed since the 1990s when the New Order government was still in power in Indonesia. Some said that China's self-proclaimed peaceful rise is a potential source of regional security tensions in the future and, therefore, should be anticipated. This is particularly related to territorial disputes in the South China Sea involving China and some ASEAN countries.

In The Reform Era, Indonesia has shifted its security perception to the inclusion of a number of non-traditional security issues as written in the Defense White Paper released by the Ministry of Defense. In addition, the paper also listed a number of territorial issues that remain a threat to the Indonesia's national integrity. Although the Indonesian defense policy makers do not formulate external threats as foreign invasion, border issues with some neighboring countries are considered security concerns in terms of protection of natural resources, border safeguards, and border violations. In this case, the power shifts in the regional security architecture of East Asia are also a source of concern for Indonesia.³ Consequently, it is worth saying that the Indonesia's foreign policy for a decade after the Reform Era is aligned to four main objectives, i.e., (1) supporting economic development and recovery; (2) strengthening territorial integrity and national security; (3) consolidating democracy; and (4) improving the Indonesia's diplomatic posture regionally and internationally.

¹The term “frozen” was coined by Adam Malik as Indonesian Foreign Minister at the time due to an absent of proper diplomatic term that could characterize diplomatic tension between the two countries (Williams 1991, p. 146).

²http://www.kemendag.go.id/statistik_neraca_perdagangan_dengan_negara_mitra_dagang/.

³Sukma (2010, p. 152).

In regard to foreign policy perspective, it could be said that several countries are considered important for Indonesia to meet these foreign policy objectives.⁴

On the other hand, supply of raw materials and market availability for domestic industry, among many others, are crucial security issues for China. Adopting a state-centric approach to its energy security, China sought to bring closer energy-producing countries through its economic and security appeals. High demands for energy in China are important aspect of her domestic industrialization which has been growing rapidly since the 1990s. China's economic revival has been also accompanied by its increasingly powerful armed force through military modernization programs. This has induced concern among several countries notably because of China's lack of transparency surrounding its military development. Although China has been involved in regional partnerships, such as ASEAN Regional Forum (ARF) and other forums, its increasingly assertive power, particularly in territorial issues, has inevitably made some countries consider that China's rise is an important factor, if not a threat, that should be controlled.

Based on the aforementioned background, this chapter will discuss Indonesia–China relations in security issues. Threat perceptions from both sides that have been evolved since the restoration of their diplomatic relations in the 1990s will be the starting point. An analysis covering such a prolonged time will provide a comparative overview of the two countries' relations from the time when it has been first established and under the New Order regime until the Reform Era. This chapter will discuss security issues and their opportunities in Indonesia–China relations. It will also address the two countries' relationship at the regional level with a focus in a number of regional security issues, such as claims for maritime boundaries, maritime, and non-traditional security issues. Because this chapter examines the issues within an Indonesian perspective, it situates China as a “static partner” or it does not talk much about the Chinese perspective in some aspects.

2 Indonesian Perceptions on Security and Foreign Policy in the Post-Reform Era

The reform in Indonesia has caused major changes in the country's domestic political and foreign policy structures. In the domestic sphere, there have been numerous shifts in the power of presidency vis-à-vis the other high state institutions. The president's power becomes less dominant than in the Soeharto's authoritarian regime. There have been also changes in the Indonesia's foreign policy structure. First of all, the Indonesian diplomatic posts have been reduced in number due to Asian economic crisis in 1997. Indonesia has been also shaken by escalating separatist movements following the regime change during these years. From a big and influential country in the region, Indonesia turned into a state that was having a far more difficult time in dealing with its domestic security. The Post-Reform regime has also shown an

⁴Anwar (2009).

inclination toward the weakening of Indonesia as well as its less importance at the international level.⁵

Separatism became one of the issues to which Indonesia focused its attention after East Timor gaining its independence following referendum granted by Indonesian government in 1999. This rather traumatic historical experience is one of the reasons for the Indonesia's territorial integrity-oriented foreign policy. In the early decades of the Reform Era until the first half of the twenty-first century, Indonesia has given priority to international relations that can support its national integrity. In addition, the financial crisis in Indonesia also forced the country to put forward an economy-driven foreign policy, particularly in the post-crisis regional economic growth. Engagement in the regional free trade and demands for foreign investment are key drivers in the Indonesia's interests to achieve economic stability and national security.

Indonesia retrieved its active roles at the international forum after sustaining a good performance of its democratic transition in the post-Soeharto regime. For Indonesia, ASEAN is a cornerstone of her foreign policy and the main instrument for tackling the dynamic of regional issues, such as security issues in the South China Sea.⁶ Indonesia also relies on the UN, which should be on the frontline of today's global challenges, such as terrorism following the 11/9 attacks against the USA. President Megawati, for example, emphasized this sort of multilateralism during her visits to Russia. Indonesia implicitly concerned with unilateral actions by the world's superpowers in dealing with complex, multidimensional problems. Therefore, Indonesia seeks to promote multilateral approaches and regional institutions to resolve regional issues, especially as the tensions are heating up in East Asia. Indonesia considered regional institution could provide big and small countries in the region with a common solution through socialization in those organizations.⁷

During Abdurrahman Wahid to Susilo Bambang Yudhoyono (SBY) administrations, Indonesian has been inclined to a politically free-and-active foreign policy. Despite various interpretations of its implementation, Indonesia in principle attempts to build relationships as independently and widely as possible with other countries. The Indonesia's tendency to link with non-Western countries became strikingly apparent during the Abdurrahman Wahid era. President Wahid made his first state visit to the People's Republic of China (PRC) and a number of other official trips to countries in the Middle East and Latin America.⁸ Similarly, President Megawati's state visit to Beijing in 2002 resulted in a number of cooperations, particularly in agriculture and energy, which also strengthen the relationship between the two countries. Novotný (2004) said that in its relations with major countries in the region and the world, Indonesia now considers the emerging threats from the superpower countries. Novotný also asserted that there has been a shift in Indonesia's threat perceptions of China and the USA, for example. Indonesia–China relations have been recovered in

⁵ Anwar (2010, p. 39).

⁶ Sukma (2010).

⁷ Rizal Sukma, "Indonesia's Response to the Rise of China: Growing Comfort Amid Uncertainties", *op.cit.*

⁸ *Ibid.*

the Post-Reform Era as China was providing economic supports to the crisis hit Asian countries. China's financial aid to Indonesia concretely helped to build the China's image as a great power country supporting the Indonesian interests. On the contrary, Indonesia holds a negative perception of the USA and Western countries that seemed to be indifferent or take advantage of the East Timor's separation from Indonesia, not to mention their allegations of human rights violations considered by most of the elites in Jakarta as interference in the domestic political affairs.⁹ Explanation on the domestic situation above leads us to another important factor to discuss, i.e., the dynamics of regional security in Indonesia–China bilateral relations.

3 Regionally Political and Security Dynamics in the Twenty-First Century

The dynamics of the Asia-Pacific region in the twenty-first century was characterized by the countries' economic awakening. Meanwhile in the late 1990s, these countries have been shaken by an economic turmoil which even led to regime changes in several of those countries.

The prevailing economic issue was closely linked to the China's economic rise. Because of its tremendously growing economy, China was increasingly to be reckoned as economic powerhouse, not only in the region but also in the world. In this regard, the question was whether China would be an equal match for the USA or, with its economic force, a driving factor for the stabilization and prosperity in the region.

China's rise as a threat and an opportunity is always a central issue in the discussions of the foreign policy behaviors of the bamboo curtain's country. To assert its foreign policy direction in the region, China develops bilateral relations with South-east Asian countries. After considering the development of the issue as well as its domestic conditions, China set up the so-called peaceful development grand strategy (*heping fazhan*) combined with the Hu Jintao's "World Harmony" concept. The grand strategy receives a further emphasis in the Chinese defense's White Paper released in December 2005 under the title China's Peaceful Development Road. The doctrine of China's peaceful rise is built upon on the development of bilateral and multilateral relations that have been enacted since the late 1990s. China's bilateral relations with ASEAN countries cover One China policy, reciprocal visits and consultations between high-ranked officials, economic partnership, energy security (i.e., supplies and shipping lanes), as well as non-traditional security issues, including cooperation on disaster management. China's relationship with ASEAN countries gained its momentum with the signing of strategic partnerships between China and ASEAN as collective organization of the countries in the region in October 2003.¹⁰

⁹Novotný (2004).

¹⁰Thayer (2008, p. 7).

Until 2006, China–ASEAN relations have produced 28 multilateral partnership frameworks, including consultations between high-ranked officials on political and security cooperation, annual conferences for ministries of foreign affairs, and ASEAN–China leaders’ summits. They were also of great success in developing strategic partnership with a number of ASEAN countries, including Indonesia. During the Vice President (VP) Jusuf Kalla’s visit to Beijing, Indonesia and China signed a trade agreement of bilateral partnership in energy security, infrastructure, agriculture, fisheries, and health.¹¹

China’s increasingly active involvement in international forums in the region was partly stirred by its domestic changes that affected China’s threat perceptions in the post-Cold War. While Beijing in the Cold War enjoyed an advantage of Washington–Moscow tensions during the Carter Era running a *Ping-Pong* diplomacy, it witnessed in the post-Cold War Moscow’s lack of political importance in the eyes of the USA which accordingly changed the political constellation in the region. Therefore, Beijing perceived Moscow differently and began to consider Japan a serious competitor in the regional interactions. Taiwan issue was also another threat to China. Taiwan independence is a sensitive issue for the China’s people. Consequently, Beijing becomes rather assertive in the strategic issues that it considers a problem of sovereignty and territorial integrity.¹²

Externally, China’s rise was marked by a widespread perception of China’s threat among other countries. Yan Bai, as quoted by Jian Yang, said that there are four waves of the China’s threat “theories”. The first wave began with the presence of Ross Munro’s article “Awakening Dragon” published in 1992. The second wave took place as a crisis hit Taiwan Strait in 1995–1996 as presented in article “The Coming Conflict with China.” The third wave followed a few years later (1998–1999) after the publications of *the Cox Report* on the case of the spy Wen Ho Lee as well as the continuation of the US financial campaign against China, and *Year of the Rat and Red Dragon Rising*. The fourth wave, which occurred between 2005 and 2006, was the most substantive threat to China as shown in a number of publications voicing China’s threat such as the Pentagon annual reports to the US Congress on China’s military power on July 19, 2005. The reports were other publications such as *the US-China Economic and Security Review Commission’s Annual Report* issued in early November 2005, *The 2006 Quadrennial Defense Review*, and articles by US media like *The Weekly Standard* and *The New York Times*.¹³

The China’s threat being touted was also inseparable from the country’s aggressive energy sector. China’s industrial development demands for the security of energy supply for which China answered by making massive expansion in the energy sector. This energy demand also requires China to be more active in pursuit of energy sources from the Middle East to Africa. Indonesia is a source of energy supply for China. In addition to securing its energy supply sources, China is also concerned with guaranteeing the safety of its energy transportation. Consequently, China found it

¹¹ *Ibid.*, p. 8.

¹² Yang (2010, p. 144).

¹³ Jian Yang, *op cit*, p. 145

necessary to actively oversee the security of maritime shipping lanes through which the industrial oil and gas supplies in the mainland China are mainly transported. The energy issue also encouraged China to modernize its navy or the so-called People Liberation Army Navy (PLAN).¹⁴ The presence of PLAN in a number of hazardous routes was an effort to build a powerful navy in the deep water. The plan was partly stirred by the instruction of Admiral Liu Huaqing in 1988 who set up a long-term development plan for PLAN. The instruction itself consists of the concept of three island chains. The first phase instructed that in 2010 PLAN should be able to show the power of its deepwater presence ranging from Japan and Taiwan to the Philippines. The second chain targeted development from the western Aleutian to the Mariana Islands in the eastern Island of Papua in 2025, while the third chain will be reaching the Antarctic supposedly in 2050.¹⁵

China's economic and military development, threat issues, and attempts to show sincere intentions are important factors in the dynamics of regional security. Some issues related to the China's rise involve also the issue of territorial claims in the Spratly Islands. Overlapping claims in the islands created tensions between China and ASEAN countries as well as Taiwan. For example, China has been in open conflicts with Vietnam and the Philippines.¹⁶ China and Japan were also in territorial disputes over islands in the East China Sea.¹⁷ The tensions that may burst into direct conflicts put the opportunities and threats to regional security and stability at stake. An alternative solution to avoid such conflicts is the mechanism of multilateral institutions such as the ARF established by ASEAN for the purpose of, among many others, situating China in the framework of regional norms.

4 Security Perceptions in the Indonesia–China Bilateral Relations

As described in the sub-chapter on the Indonesia's foreign policy above, it is no doubt that Indonesia's bilateral relations with China are growing stronger. An increase in bilateral trade relations between the two countries and a warning to the sensitivity of the issues like ethnic Chinese in Indonesia confirm the idea.

The presence of ethnic Chinese in Indonesia is an important factor in Indonesia–China bilateral relations. How Indonesia treated its ethnic Chinese had been an obstacle in their relationship, leading to diplomatic tensions between the two countries. Fortunately, the development of the two countries' bilateral relations showed common awareness from the two countries to put the presence of the ethnic Chinese in Indonesia under terms of mutual respect that will not interfere with their diplomatic ties. Rizal Sukma depicted the case by comparing the responses of two countries to

¹⁴Clarke (2009, p. 8).

¹⁵Jian Yang, *op.cit.*, hlm. 145.

¹⁶The Jakarta Globe (2011).

¹⁷Drift (2008).

two riots (i.e., one was in Medan, April 1994, and the other was in May 1998) that inflicted casualties on the ethnic Chinese in Indonesia. There were different responses in both cases, showing how the two governments located the issue of ethnic Chinese in their bilateral relations. In the first case, in response to memorandum of concern from the Chinese government, the Indonesian government warned China for having interfered with its domestic affairs. The current tensions, which were only four years after the normalisation of the two countries' diplomatic relations, even raised the issue of re-suspending the ongoing bilateral relations. In the May 1998 riot, on the contrary, both the Indonesian and Chinese governments restrained themselves from releasing memo related to the uproar taking place just before the regime change in Indonesia. Even though the Chinese government then issued memorandum of concern, it repeatedly asserted that the issue belongs to the Indonesia's domestic affairs. The Indonesian government also did not specifically replied to the memo. Then Foreign Minister (FM) of Indonesia, Ali Alatas, responded that the memo will not resolve the problem of ethnic Chinese in Indonesia. In this case, the two governments successfully managed the tensions caused by such a sensitive issue.¹⁸

Indonesia–China relations have been growing very rapidly in the early decades of the twenty-first century. Trade between the two countries is increasing and so is the Chinese investment in Indonesia. Indonesia's bilateral relations with China set up a distinct record compared to that with the USA. Just prior to Obama's visit to Indonesia in November 2010, Wu Bangguo, the head of the National People's Congress (NPC), has toured Jakarta and signed an investment agreement in infrastructure worth to US\$ 6.6 million. It implies that Indonesia's bilateral relations with China are more economically profitable in a concrete sense than that with the US as a superpower.¹⁹

Indonesia's intensified bilateral relations with China in the Post-Reform Era was partly driven by the Indonesia's dissatisfaction over the attitudes of Western governments, especially the USA. The Western spotlight on the human rights violations in Indonesia and the issue of territorial integrity related to the loss of East Timor raised suspicions among the political elites in Jakarta. Indonesia's relationship with China is part of the Indonesia's balancing strategy and affirmation of the free-active principle, in addition to the preservation of territorial integrity. Furthermore, Indonesia has been enjoying the benefits of economic developments, especially in investment and finance, from its relationship with China since the 1997 Asian financial crisis. China also provides a much-needed fresh fund for Indonesia with easier and simpler procedures and terms of condition than that offered by the international financial institutions (IFIs).

Indonesia and China also have been developing bilateral partnership in non-traditional security sectors since the tsunami disaster in December 2004. China provided financial assistance and promised investment to rebuild the infrastructures damaged by the devastating earthquake and tsunami. Prime Minister Wen Jinbao said that a sum of US\$ 3 million has been disbursed by China in January 2005.

¹⁸Rizal Sukma, "Indonesia's Security Outlook, Defense Policy and Regional Cooperation", *op.cit.*, pp. 142, 144.

¹⁹Brown (February 3, 2011, p. 3).

In April 2005, the aid has been increased to US\$ 30 million after the Minister of Commerce Bo Xilai provided an additional US\$ 2 million. China's disaster financial assistance was also followed by a joint effort to combat the epidemic that threatens the affected areas in the early twenty-first century. It means that Indonesia-China relations also take human security into account.²⁰ This human security issues could foster the future relations for both countries especially in people to people relations.

Security cooperation between Indonesia and China also covers the energy sector. This included exploration license for the Chinese oil company (CNOOC, PetroChina) in Indonesia agreed during the President Megawati's visit to Beijing in 2002. In addition, China also takes part in the development projects of much-needed power generation in Indonesia. The signing of the strategic partnership on April 25, 2005, by Prime Minister Wen Jinbao and the President SBY marked the peak of bilateral relations between the two countries. In energy sector cooperation between two countries, Indonesia became China second largest coal exporter. In 2009, the statistics showed that Indonesia exported 35.4 million tonnes of coal to China and exported 3 million tonnes of liquified natural gas (LNG) every year which directed to China port in Fujian Province. In responding to that, China also supported in investment of Indonesia much-needed power plant project, oil–gas fields and coal mines.²¹ Energy sector seems remarkably the critical aspect of bilateral relations of the two countries since for Indonesia energy export has become the source of foreign exchange while for China, it is the much-needed goods for her domestic industrialization. While for energy transportation, China will have to consider Indonesia as her strategic partners since the stability of Indonesian waters will ensure the safety of much-needed oil import which comes through Indonesia waters like Malacca Strait, Sunda Strait and Lombok Strait.²²

Indonesia's democratic development where the ethnic Chinese are given more room to express their identities also has become one of contributing factors to the growing partnership between the two countries. A greater freedom of expression for the Indonesia's ethnic Chinese under the era of President Abdurrahman Wahid helped to reduce one of the sensitive factors in Indonesia–China relations. Easier exchanges of public and high-level official visits between the two countries also boosted their relationship. In the Post-Reform Era, such exchanges helped to build better understanding and, therefore, good perceptions, among the public and officials of the two countries.²³

Although Indonesia–China relations have been improving well, it does not mean that there are no challenges and potential tensions. The China's economic and military rise is one crucial issue that may lead to tensions between the two countries. Some in Jakarta argued that unbalanced trade figures between China and Indonesia would put the latter in a weaker position. The China's growing military power, accompanied by natural resources-driven territorial claims, has created regional and bilateral tensions.

²⁰Rizal Sukma, "Indonesia's Security Outlook, Defense Policy and Regional Cooperation", p. 151.

²¹Global Times China (2010).

²²Nabbs-Keller (2011, pp. 33–34).

²³*Ibid*, p. 149.

The China's U-shaped map published in 2003 is an example. The map claims some areas of the Natuna Islands as part of the China's Exclusive Economic Zone (EEZ). In addition, potential threats within the maritime domain have increased China's levels of alertness to the security of shipping in the Malacca Strait, which have raised concerns also from other countries such as the USA and Japan. In such cases, Indonesia persists to protect its national sovereignty by refusing the presence of foreign fleets in managing the security of the waters located between Indonesia, Malaysia, and Singapore.²⁴ China's presence is another issue in the regional balance of power and security partnership. The next section will discuss China's factor in multilateral cooperation.

5 The China's Rise and Multilateral Cooperation in Southeast Asia

The China's rise has been going along with an increase in both bilateral and multilateral relations with the Southeast Asian and East Asian countries. China is actively engaged in strategic dialogues with ASEAN as an organization comprised of ten of Southeast Asian countries. China and ASEAN had limited bilateral relations before 1990. China started its relations with ASEAN with the status of a dialogue partner to the organization, represented by the presence of Foreign Minister Qian Qichen at the 24th ASEAN Ministerial Meeting in Kuala Lumpur, July, 1991. Qichen was attending the meeting as a guest of the Malaysian government and China served only as the ASEAN's consultative partner at the time. Following the visit, the ASEAN Secretary General Dato Ajit Singh paid a visit to Beijing 1993. In 1996, China received the status of a full dialogue partner of ASEAN, along with Japan, USA, Australia, and South Korea, at the 29th AMM in Jakarta. ASEAN-China security cooperation also extended to the issue of South China Sea which began by discussing the draft of the Code of Conduct in the South China Sea in May 2000. The draft on the Declaration on the Conduct of the Parties in the South China Sea was signed in November 2002. ASEAN-China security partnership gained a momentum with the signing of the Treaty of Amity and Cooperation (TAC) in 2003.²⁵

It can be said that the signing of the TAC has been relatively able to convince some other countries in the region to foster a more open relationship with China. The evidence was that China's relations with Vietnam on the issues of land border and maritime boundaries in the Gulf of Tonkin have been developed into more cooperative manner; China's relations with the Philippines have also grown with the President Arroyo's visit in 2004. As a consequence, China's posture in the region is increasing along with its two-track diplomacy to the South China Sea security issues under the ARF partnership.²⁶

²⁴Jessica Brown, *op.cit.*, p. 7.

²⁵Swee-Hock et al. (2005, p. 2).

²⁶Thayer (2000, p. 65).

ASEAN-China security cooperation and China's membership in the ARF were part of the Jakarta's attempts to bind China to international and regional norms. Similarly, Jakarta saw that it would be more proportional to place China within the framework of multilateral rather than bilateral cooperation. It was assumed the ASEAN Way solution to regional tensions would reduce uncertainty over the China's future foreign policy in the region. In this case, Indonesia sought to make ASEAN and ARF as open as possible for the involvement of other major powers under the ASEAN norms. In other words, Indonesia does not want ASEAN to become the basis for China to counter the presence of other world powers.²⁷ Rather, Indonesia gives a wide-open opportunity for foreign forces to participate in a "healthy" regional architecture of powers.

In this sense, Indonesia acknowledged the important roles of other forces in the regional security architecture. In South China Sea issue, for instance, to maintain the institutional balancing in the multilateral forums, Indonesia accepted the role of the US State Secretary, Hillary Clinton, as a mediator in pursuit of solutions to the territorial claims.²⁸

6 Conclusion: Pros and Cons in Indonesia-China Security Cooperation

Indonesia–China relations in the context of security cooperation showed an increasing trend as the economic cooperation between the two countries has grown rapidly. China's economic rise and the Indonesia's fast-growing economy are the driving engine for the security cooperation issues between the two countries. The economic growths in the two countries has reflected in the development of energy security cooperation in the form of China's raw materials export and energy investment in Indonesia. Security relations between the two countries also outreached traditional security sectors, such as defense industry development, although the momentum has been lost, according to one opinion.²⁹

Bilateral relation between the two countries also covered the maritime security sector and the South China Sea issue. These opportunities for partnership departed from China's growing demands for energy. Maritime cooperation in the Malacca Strait is pivotal for China because its trade as well as its oil and gas supply are mainly flowing through the strait, and the other two straits, Lombok Strait and Sunda Strait which fully under the territorial water of Indonesia. The South China Sea issue is also linked to its potential oil and gas reserves which connect to those straits as the main route of oil and gas transportation to mainland China.

²⁷Rizal Sukma, "Indonesia's Response to the Rise of China: Growing Comfort Amid Uncertainties", *op.cit.*, p. 153.

²⁸Jessica Brown, *op.cit.*, p. 12.

²⁹Storey 20 February (2009, p. 7).

Responding to the prospects of cooperation in both issues, Indonesia set out multilateral diplomacy instruments within the ASEAN framework. An attempt to ask all the involving parties to respect the common norms in the TAC is one of the normative foundations underlying the ASEAN diplomacy, including Indonesia. On the other hand, creating a “institutional balancing” by allowing other major countries to take part within the TAC framework is a challenge for the Indonesia’s efforts to situate China under the regional norms.

References

- Anwar, Dewi Fortuna. September 2009. *A Journey of Change: Indonesia’s Foreign Policy*. http://www.globalasia.org/V4N3_Fall_2009/Dewi_Fortuna_Anwar.html. Accessed on 13 Mar 2011.
- Anwar, Dewi Fortuna. 2010. Foreign policy, Islam, and democracy in Indonesia. *Journal of Indonesian Social Sciences and Humanities* 3.
- Brown, Jessica. 2011. Jakarta’s Juggling Act: Balancing China and America in the Asia-Pacific. *Foreign Policy Analysis* No. 5.
- Clarke, Ryan. 2009. Report on Chinese energy security and the role of the PLAN. *Culture Mandala: Bulletin of the Centre for East-West Cultural & Economic Studies* 8 (2).
- Drift, Reinhard. 2008. Japanese-Chinese Territorial Disputes in the East China Sea—Between Military Confrontation and Economic Cooperation. *Asia Research Centre Working Paper* 24.
- Global Times China. 2010. *Indonesia look to expand energy cooperation*. <http://www.globaltimes.cn/content/583675.shtml>. Accessed on 13 Mar 2011.
- http://www.kemendag.go.id/statistik_neraca_perdagangan_dengan_negara_mitra_dagang/.
- Nabbs-Keller, Greta. 2011. Growing convergence, greater consequence: The strategic implications of closer Indonesia–China relations. *Security Challenges* 7 (3).
- Novotný, Daniel. 2004. Indonesia’s Foreign Policy: In quest for the balance of threats. In *A paper presented at the 15th Biennial Conference of the Asian Studies Association of Australia in Canberra*, 29 June–2 July 2004.
- Storey, Ian. 2009. China and Indonesia: Military-Security ties fail to gain momentum. *China Brief*, IX (4).
- Sukma, Rizal. 2010. Indonesia’s Security Outlook, Defence Policy and Regional Cooperation. In Chapter 1 NIDS Joint Research Series No. 5, *Asia Pacific Countries’ Security Outlook and Its Implications for the Defense Sector*, The National Institute for Defense Studies, Japan.
- Swee-Hock, Saw, Sheng Lijun, Chin Kin Wah (eds.). 2005. *ASEAN-China Relations: Realities and Prospects*, Institute of South East Asian Studies (ISEAS), Singapore.
- Thayer, Carlyle A. 2000. China-ASEAN relations: China consolidates its long-term bilateral relations with Southeast Asia. *Comparative Connections a Quarterly E-Journal on East Asian Bilateral Relations*, 2(2), Second Quarter.
- Thayer, Carlyle A. April 2008. Southeast Asian reactions to China’s peaceful development doctrine: Indonesia, the Philippines, and Thailand. *NBR Analysis*, 18 (5).

- The Jakarta Globe. 2011. Indonesia Stresses Maritime Security at Summit. <http://www.thejakartaglobe.com/news/indonesia-stresses-maritime-security-at-summit/479350>. November 18.
- Williams, Michael. 1991. China and Indonesia make up: Reflections on a troubled relationship. In *Special issue on the Indonesia: The Role of the Indonesian Chinese in Shaping Modern Indonesian Life*.
- Yang, Jian. 2010. China's Security Challenges: Priorities and Policy Implications. In *The National Institute for Defense Studies. Asia Pacific Countries' Security Outlook and Its Implications for the Defense Sector*, NIDS Joint Research Series No. 5, Japan.

Author Biography

Nanto Sriyanto is currently a research member on international political developments at the Center for Political Studies (P2P), LIPI. He completed his Master's degree from the School of Political Science and International Studies, Queensland University, Australia. His major research interests include development of international security, particularly non-traditional security and foreign policy issues. He has been working at P2P-LIPI for more than ten years during which he is actively involved in research activities on issues such as energy security, ecology and non-traditional security, and Indonesia's foreign policy. The dynamics of regional security in Indonesia–China relations are also part of his research interests on international hegemony.

Chapter 6

The Prospects of Indonesia–China Relations

Ganewati Wuryandari

There lies a sleeping giant. Let her sleep. For when she wakes, she will shake the world.

(Napoleon, A quote from “Fear of The Dragon,” *Far Eastern Economic Review*, 13 April 1995, p. 24.)

Abstract Since the Reform Era in the end of 1990s, Indonesia and China showed a closer relationship. However, it did not mean that there were no obstacles at all. A number of economic and political-security issues such as trade, labor, and service, as well as maritime borders, could be potential threats to the cohesion of the bilateral relations. These problems are still the major challenges in efforts to improve Indonesia–China relations and will be more complex in the future. The changing power configuration among the major countries in the region after the Cold War has increased China’s global influence in the realm of politics, security, economic, and military. The development of China’s impressive power influence has attracted many people’s attention, ranging from policy makers, businessmen, and defense planners to academicians. In Indonesia and other countries in the region, some consider that China’s rapidly growing influence could be a serious challenge. The growing influence of China presents opportunities and threats to the sustainability of economic development and security. Therefore, in response to these developments, Indonesia needs to formulate a scalable foreign policy, i.e., one that can achieve Indonesia’s national interests maximally. The main pivotal question posed in the context of their bilateral relations is how Indonesia should address China’s current development.

Keywords China’s global influence · The future of Indonesia–China relations
Indonesia’s foreign policy

G. Wuryandari (✉)

Center for Political Studies, Indonesian Institute of Sciences (P2P-LIPI), Jakarta, Indonesia
e-mail: ndari_ganewati@yahoo.com

1 Introduction

Indonesia–China bilateral relations are not always easy. Their relations, which began since early 1950s, have been ups and downs. During the Soekarno’s presidency, they enjoyed a relatively warm relationship, but it finally ended up with the suspensions of their diplomatic relations in 1967. The 23 years suspension of diplomatic relations was subsequently resumed following the normalization of Jakarta–Beijing relations in 1990. Since the Reform Era in the end of 1990s, Indonesia and China showed a closer relationship. However, it did not mean that there were no obstacles at all. A number of economic and political-security issues such as trade, labor, and service, as well as maritime borders, as mentioned in the previous chapters, could be potential threats to the cohesion of the bilateral relations. These problems are still the major challenges in efforts to improve Indonesia–China relations.

Relationship between Indonesia and China, which always has its hardship, will be more complex in the future. The changing power configuration among the major countries in the region after the Cold War has increased China’s global influence in the realm of politics, security, economic, and military. Some even believed that China will likely grow into a superpower country in the future challenging the US unilateralism. This is quite possible especially since, there has been currently a shift in power and economic growth from the West (Atlantic) to East Asia where China becomes the second largest economic power after the United States of America.¹ The development of China’s impressive power influence has attracted many people’s attention, ranging from policy makers, businessmen, and defense planners to academicians. In Indonesia and other countries in the region, some consider that China’s rapidly growing influence could be a serious challenge. The growing influence of China presents opportunities and threats to the sustainability of economic development and security. Therefore, in response to these developments, Indonesia needs to formulate a scalable foreign policy, i.e., one that can achieve Indonesia’s national interests maximally. The main pivotal question posed in the context of their bilateral relations is how Indonesia should address China’s current development?

2 The Dynamics of Indonesia-China Relations

Indonesia–China relations, which were built six months after the Dutch surrender of its sovereignty in December 1949, have always been characterized by recurrent instability. During Soekarno’s administration, for example, relationship between the two countries was relatively close. Indonesia’s foreign policy, being heavily influenced by the struggle between Old Established Forces (OLDEFOS) versus New Emerging Forces (NEFOS) and the implementation of political confrontation against West Irian and Malaysia, has subsequently “isolated” the country from the international arena. This situation severely impinged Indonesia’s foreign policy. It was accordingly slid-

¹Jemadu (2011).

ing into China's orbit. They came to agreement to establish a strong relationship despite their troubled alliance in the past, which were mainly due to the Indonesian army policy in 1959 prohibited Chinese merchants to conduct retail trade outside major cities. This new commitment was evident from the willingness of Indonesian government to ratify the dual nationality treaty with China in 1960. In August 1961, the government also ratified the Treaty of Friendship between China and Indonesia. The good relationship between the two countries was also reflected in the exchange of visits by high-ranking officials of both countries and the economic assistance provided by the Chinese government to Indonesia amounted to US\$ 41 million in 1958. In 1959, China also provided a special aid fund to help the construction of the Asian Games building. Indonesia and China reached the peak of their warm relationships when Soekarno in his speech on August 17, 1965, launched what the so-called Peking-Jakarta Axis.²

However, their cordial relationship did not last very long, partly due to the Indonesia's Communist Party (G30S/PKI) coup attempt in 1965. Following the incident, Soeharto, who replaced Soekarno as the President of Indonesia in 1967, disbanded PKI and then unilaterally suspended Indonesia's diplomatic relations with China on October 23, 1967. This country was strongly believed to support G30S/PKI in Indonesia.

All of the events above and also the New Order's anti-Communist stance under the former President Soeharto have, in fact, affected the Indonesia–China relations for two and a half decades. The dynamics of domestic politics where China was perceived as a major threat to Indonesian security, especially in its subversive form carried out through the former members of PKI and the ethnic Chinese, seemed to be the biggest obstacle in the effort to normalize relations between the two countries. This is evident from the fact that it took 23 years for Indonesia to finally agree to normalize its relations with China in August 1990. Although Indonesia–China diplomatic relations have been restored, in reality, the two countries did not show an increasingly solid alliance. ASEAN member countries began to establish stronger bilateral relations with China in the early 1990s, while Indonesia preferred an indirect approach to deal with China through multilateral forums such as the Association of South East Asian Nations (ASEAN), ASEAN Regional Forum (ARF), and ASEAN+3.³ This multilaterally indirect approach implies Indonesia's prudent foreign policy, which originated from suspicion and fear of China's intervention in Indonesian strong domestic politics. This perception seemed to continue until Soeharto stepped down from his presidency on May 21, 1998.⁴

The fall of Soeharto ended thirty-one years of authoritarian rule and began a new chapter in Indonesian politics with a government system based on democratic values. This political transformation provided a new room for the improvement of Indonesia–China relations which were largely uncondusive during the Soeharto era. The

²For further analysis on the background of China-oriented foreign policy under Soekarno's Era, see Wuryandari (Wuryandari 2007, pp. 92–108).

³See Sukma (2009a, p. 143).

⁴For further information, see Sukma (1999).

four consecutive presidential eras, i.e., B.J. Habibie, Abdurrahman Wahid, Megawati Sukarnoputri, and Susilo Bambang Yudhoyono, showed more serious efforts to normalize the two countries' relations. Indonesia's fear of Chinese communist ideology that was strong during Soeharto administration was decreasing.⁵ Indonesia turned its foreign policy direction to China from a seemingly hesitant into a gradually cooperative one. A wave of cooperation, especially in economy and military, was also increasing as clearly shown in the previous chapters. This certainly indicated that the two countries' began a new chapter in their diplomatic relations.

However, Indonesia's foreign policy during the Habibie administration did not show significant results to China. Although one main pillars of the current foreign policy was aimed to Indonesia's economic recovery in the wake of 1997 economic crisis, his administration mainly focused on domestic political affairs, particularly on issues related to the threats of national integration and the problems of East Timor. Both issues became the highest national interest of the Habibie's government. At that time, the government deemed that national political stability is an important prerequisite for the recovery of Indonesian economy that was affected by the 1997 Asian financial crisis. In addition, during the very short period of Habibie administration, i.e., one year and eight months, there was no opportunity for the government to carry out its foreign policy in a more comprehensive manner, including on the issue of Indonesia–China relations.⁶

Different to Habibie, Abdurrahman Wahid (1999–2000) clearly showed strong desire to strengthen Indonesia–China relations. China was the first country that he visited after being elected as the new president. The presidential visit marked a new chapter in the improvement of relations between the two countries resulted in China's willingness to provide financial aid, loans, cooperation in the areas of finance, technology, tourism, and countertrade in the energy sector, i.e., exchange of Indonesian Liquid Natural Gas (LNG) with Chinese products.⁷ There was also a significant change in the Indonesia's domestic policy on China as Abdurrahman Wahid repealed discriminatory laws against the Chinese and declared a Chinese New Year as a national holiday. In his attempts to embrace China, he also initiated a "Southwest Pacific Forum" which also included India and other Asian countries. The establishment of the forum, which did not last long, was in fact stirred by President Wahid's dissatisfaction with the dominance of Western countries in international relations. US and Australia's involvement in the Indonesia's experience of losing East Timor encouraged him to embrace China and other Asian countries in order to "fight" the influence of Western countries through the establishment of the forum.⁸

President Megawati, who replaced Abdurrahman Wahid in 2000, continued the efforts to improve Indonesia–China relations that have been built in the preceding

⁵Sukma (2009b).

⁶An analysis of Indonesian foreign policy toward China in the post-Soeharto presidency, particularly in economic cooperation, is shown in <http://fullthink.blogspot.com/2011/04/analisa-politik-luar-negeri-indonesia.html>.

⁷Hadi (2009).

⁸Sukma (2009a, p. 146).

era. The relationship was tightened by exchanged visits between officials of both countries, such as the Prime Minister (PM) Zhu Rongji's visit to Jakarta in 2001 and President Megawati's trip to the People's Republic of China (PRC) on March 24–27, 2002. Relations between the two countries were still focused on economic cooperation, especially in mining and energy. Indonesia–China relations went to the next level as both sides signed a Memorandum of Understanding (MoU) on the establishment of Indonesia–China Energy Forum on March 24, 2002. This agreement was important because it provided legal protection for Chinese investment in the energy sector. Indonesia has been supplying natural gas since 2002 for Fujian Province, despite the controversy that the selling prices, particularly Tangguh gas, were far lower than those in the world market.

Susilo Bambang Yudhoyono (SBY) continued the policy to further strengthen the relationship between Indonesia and China by seemingly widening and deepening the quality of cooperation. As shown in the previous chapters, the two countries rapidly grew their economic cooperation. The import–export activities between the two countries showed a significant growth. Since the establishment of the Indonesia–China's Strategic Partnership in 2005, for example, the trade volume between the two countries has increased to US\$ 31.5 billion (2008) and slightly decreased to US\$ 28.3 billion (2009) due to the global financial crisis.⁹ However, their trade volume increased again to US\$ 36.1 billion in 2010. Indeed, Indonesia holds its national interests to gain its benefit from China's fast economic growth by targeting its bilateral trade volume to US\$ 80 billion in 2015.¹⁰

Indonesia and China also expanded their scope of partnership in other fields of economy, such as in sociocultural, defense, and security sectors. A more comprehensive relationship is clearly visible in the “Strategic Partnership Agreement” between the two countries which was signed during the President China Hu Jintao's visit to Indonesia on April 25, 2005. Through a Strategic Partnership, the two sides agreed to strengthen political and security cooperation, to deepen economic collaboration and development, to improve social and cultural exchanges, and to expand non-governmental relations. The Strategic Partnership Agreement covers three areas, including political and security cooperation, economic cooperation and development, as well as sociocultural cooperation.¹¹ With this framework of agreement, the two countries have subsequently signed e. Defense Cooperation Agreement (DCA) and carried out numerous cooperation in the areas of, defense industry, maritime, research, and technology development, education, and economic cooperation development. It also included loans from China amounted to US\$ 1.8 billion for infrastructure projects, 40% of which was for the construction of Suramadu Bridge and 60% for 10,000 MW power plants.¹²

It is clear from the above explanation that the Indonesian governments from Habibie to SBY seemed to be more comfortable in building relationship with China, as

⁹Astuti and Perkasa (2010, p. 6).

¹⁰Imron Cotan, *The Jakarta Post*, May 31, 2011. See also *Hubungan Indonesia-RRT* (2011).

¹¹Djafar (2008, p. 126).

¹²Cotan (2011).

reflected by a various number of expanding scopes of cooperation. The political changes that characterized the process of democratic reform following the fall of Soeharto have provided a more space for the post-New Order's leaders to break-out from the ideological threat perception in dealing with China, especially when this country has become the world's new economic power. The post-New Order government considered this new reality as an opportunity to restore and to enhance national economy which was hit hard by the 1997 Asian economic crisis and its impact of which has been lasting for several years afterward. The need to establish a closer relationship with China came also from another fact, i.e., 1.3 billion of China's population is no doubt as a driving force for the future economic partnership.

3 The Challenges to Indonesia-China Relations

Despite the constructive progress of the Indonesia–China relations in the post-New Order above, it should be admitted that the biggest challenge to their relations lies in domestic factors. It is undeniable that their economic relations have grown significantly. To mention some, trade volume between the two countries reached US\$ 31.5 billion in 2008 and it was predicted to be US\$ 50 billion in the next five years.¹³ This significant increase in trade value was achieved following the rapidly growing economic relations between the two countries, which covers not only trade in goods and services, but also other investments, such as hospitality and other services. The improvement of their bilateral economic relations is indispensable from the establishment of free trade agreement between ASEAN and China (ACFTA) which was signed on November 4, 2002, and entered into force since January 2010. This partnership provides additional incentives for businessmen to maximize their trade potentials. The rewards of such cooperation could be enormous given the huge population in each country, which are 1.3 billion in China and 230 million in Indonesia. Meanwhile, the total population of ASEAN is around 500 million. The huge population in this region has the potential to be a very large market.

Nevertheless, the growing bilateral economic relation between Indonesia and China is in fact unbalanced. Although Indonesia has an enormous economic potential and becomes a tempting “market” for Chinese products, it exhibits to play its role as a good consumer rather than a strong competitor in the trade opportunities between the two countries. This condition is reflected, among other things, in the quite large trade deficit between the two countries. Indonesia–China trade balance in the January–May 2011 period reached the deficit of US\$ 2.7 billion, an increase of 30.2% over the same period last year.¹⁴

It seemed that the imbalance of economic bilateral relations between Indonesia and China is due to internal rather than external factors. Indonesia's unpreparedness was one of the major factors. Indonesian stakeholders from the government insti-

¹³Astuti and Perkasa (2010).

¹⁴Bappenas (2009).

tutions to businessman have not been able to make the best use for over ten years since the signing of the free trade agreement between Indonesia and China until its implementation in January 2010. It was reflected in a heated debate shortly after the establishment of the partnership. Some insisted that Indonesia should review the free trade agreement between ASEAN countries and China. This debate would not arise if Indonesia had prepared well because the talks on the agreement had taken place ten years earlier. As a matter of fact, the debate came from internal concern that Indonesia is not ready yet to compete with China. Lack of integrated and synergic planning among all the stakeholders in the wake of the free trade agreement seemingly has aroused such concern. The government, for example, has not yet optimally provided guidance and incentives for the businessman establishing trade and investment ties with China. This condition became worse as the businessman had limited human, technology, and capital resources that made their products less competitive against the Chinese products which have lower prices and better designs. Another obstacle was the complementarity between Indonesian and Chinese products.

However, the influx of China's imports arouses new concerns. Some said that even though China's investment and trade could possibly boost the Indonesian domestic economy, the strong penetration of China's economy in the domestic market posed potential threats to the resilience of the labor market.¹⁵ As mentioned in the previous chapters, factories and service industries established through China's investment in Indonesia tended to use labors of Chinese origin, such as in the project of Hydropower Station in Jati Gede, West Java, and bridge construction in Suramadu, Surabaya–Madura. This is possible because in any aid or loans from China to Indonesia always entails pra-condition to employ Chinese workers.¹⁶ Without any revision of this stipulation, it will certainly harm to the Indonesian workers, which the government actually has an ultimate responsibility to provide first job opportunity's priority to the Indonesian workers. In addition, the strong invasion of Chinese goods would also potentially endanger the resilience of domestic products, such as food, beverages, fruits, and garment industry. The massive production of charmingly designed and lower-priced Chinese *batik* printing in 2008–2009 is the most obvious example. It had become a serious threat to the survival of Indonesia's small- and medium-scale *batik* business. The rise of China's economic power has led a serious concern in Indonesia, especially since China could possibly grip the Indonesia's domestic economic power and eventually make it vulnerable. In this regard, China could use its economic power to impose its political interests on Indonesia. Abraham Denmark said that there is concern among political elites in the region that China's economy will create a window for Indonesia's increasing vulnerability to political pressure from Beijing.¹⁷

Despite the above challenges to Indonesia–China relations, it is an undeniable fact that China's rising economy remains to be seen as a potential economic opportunity for Indonesia. As Juwono Sudarsono, the former Minister of Defense, noted, fears

¹⁵Sukma (2009a, p. 152).

¹⁶This statement came out during the FGDs on Jemadu (2011).

¹⁷Brown (2011, p. 3, 11); "China Struts Larger on World Stage," *The Jakarta Post*, Mei 25, 2011.

of China should not undermine China's remarkable success.¹⁸ It is true that imbalance economic relations pose a serious challenge to Indonesia–China relations. This condition has subsequently raised serious concerns for the Indonesian resilience on its economic security and national politics. However, it is evident that such concerns have been well managed so far as not to disturb warm relations between the two countries. As explained in the beginning of this chapter, the economic relations between Indonesia–China continue to develop. On the other hand, it should be admitted that there is also an increasing trend in the political-security relationship between Indonesia and China in the post-New Order era. This relationship seems to be even stronger when the two countries signed the Strategic Partnership Agreement in 2005, which includes also an agreement to strengthen political and security cooperation. This agreement is a concrete form of growing mutual trust, which had been absent for decades, between the two countries. Threat perception of China, which had been persistent in the 1960s especially after the G-30S/PKI seemed to be gradually fading away from Indonesia's domestic politics. "A priori" attitude toward the Chinese minority, which almost dominates the national economic life, has been also improved. Discriminatory laws against them in social, cultural, and political spheres being imposed by the Soeharto government had been also revoked during the reform era, especially during the Abdurrahman Wahid's reign.

Indonesia is able to take its advantage of the significantly growing political-security relations with China for the sake of its wider national interests. Indonesia makes use of its good relations with China as a political vehicle to counterbalance of strong influences from another superpower country, i.e., United States of America (USA). Syamsul Hadi, in an interview with *The New York Times* (2010), said that "[t]he Indonesian government felt that the US was putting too much pressure on Indonesia and other ASEAN nations to choose sides."¹⁹ For its wider national interests, Indonesia does not have to choose between the two superpower countries. According to the Directorate of East Asia and the Pacific Region, Ministry of Foreign Affairs of the Republic of Indonesia, Indonesia's closer relationship with China should not be contrasted with its connection with the US.²⁰ The reason is that Indonesia wants the US to act as a balancing power to China, while at the same time it expects China's growing economic and political power to be a middle course when facing a deadlock in or pressures from the US global power. In this sense, Brown (2011) illustrates that Indonesia plays a "juggling" game in order to balance struggles for influence between China and US over the country. Strategically, this game is not only for the sake of Indonesia, but also for wider interests, especially security and peace in the Asia Pacific region.²¹

Indonesia is very much concerned with China in regard to regional security and peace issues. Indonesia found that the balance of power between China and the US is

¹⁸Higgins (2010).

¹⁹Onishi (2010).

²⁰Cotan (2011).

²¹Brown (2011), hlm 3 dan hlm.11; "China Struts Larger on World Stage," *The Jakarta Post*, May 25, 2011.

a significant factor in sustaining peace and security stability in the region. The East Asia Summit (EAS) in Bali, November 2011, under the leadership of Indonesia as the chair of ASEAN in 2011, gave a real example. The membership of EAS is no longer limited to ASEAN+3 as originally initiated by Malaysia, but it also includes the USA, Russia, Japan, New Zealand, and India. In this sense, Indonesia being the Chair of ASEAN has sought to put ASEAN, rather than the US or China, as a center that determines the direction of the security political architecture in the region.

While Indonesia seemed to be more enjoyable in its security relations with China at the bilateral level, the case was not so at the regional level. It would not happen if China did not employ an increasingly assertive stance in its foreign policy toward its neighboring countries. China's desire to increase its military power as a result of its improved economic progress has raised concerns on the stability and peace in the region. The strengthening of China's military power, on the one hand, should be put in the context of protecting the country's economic interests, which is to ensure the safety of international sea lanes for global commerce. China has a strong interest to secure the shipping lanes in the international waters partly because it depends much on foreign energy supplies to fuel its economic development.

On the other hand, in addition to sustaining its territorial integrity, China exercised its growing military force to assert its territorial claims over the islands disputed with its neighboring countries, such as the South China Sea with North Korea, Japan, Indonesia, and Taiwan. History showed that China has never been hesitant to deploy its military power to support its territorial claims. In the 1950s and 1960s, for example, China was known as a country who supported and facilitated a number of communist movements and revolts in several countries in the region, including Indonesia. In addition, out of 15 military operations that China launched since the formation of the country in 1949, only two cases, i.e., the Korean War and China's incursion into Vietnam in 1979, were claimed to be acts of military aggression to the territory of another state. The rest, such as the takeover of the Paracel Islands from Saigon in 1979 and part of the Spratlys Islands of Hanoi in 1988, was declared by China as military acts to regain the sovereignty its territories that have been occupied illegally by other countries.²² Even though most countries in the region saw those acts as military aggression, China maintained an opposing perspective. According to Beijing, those military operations were mere efforts to defend its territories. The China's defensive attitude was apparent, among others, in the statement of Commander of the People's Liberation Army (PLA) of China, General Chen Bingde, as quoted by the *Jane's Defense Weekly (JDW) Magazine*, July 20, 2011. Responding to the concerns from other countries in the region on the development of China's military power, General Chen stated that the modernization of China's military power, such as anti-ship ballistic missiles of Dong Feng DF-21D and Soviet Union modified submarines, was solely for defense purposes. "Those missiles and submarines will (only) be used as weapons to defend, not to attack," said General Chen.²³

²²Fear of the Dragon (1995, p. 24).

²³Jepang: Cina Makin Meresahkan (2011, p. 8).

China's position in maintaining its increasing military power is certainly understandable because it is an inherent right for any country to defend its territorial sovereignty from external aggression. However, concerns from countries in the region, including Indonesia, on the development of China's military power is also plausible. It is mainly related to the historical records of China's military actions and its increasingly assertive foreign policy toward the neighboring countries, particularly on its unilateral claims over some disputed areas as mentioned above.

In addition to its unilateral claims over some areas in the region, China's unclear military budget is also a source of concern among the countries on the China's growing military power.²⁴ China's defense expenditure is figured in the Defense White Paper issued by the Beijing government. However, many argued that the "validity" of the actual military budget in the annual Paper is still dubious and allegedly only half of the overall budget. The Defense Annual Report or White Paper issued by Japan on August 2, 2011, for instance, reflected concerns from the countries in the region. This report clearly states, "This unopened defense policy and military movement is a source of concern from the countries in the region, including Japan, as well as the entire international community. We need to examine it more carefully."²⁵ Thus, this report underlines the concerns from the neighboring countries on the growth of China's military power.

Being depicted as "The Rising Regional Threat" in the region, China has strived to counter it by launching a pacifist policy that portrays itself as a "benign power." In addition to reduce tensions with its neighboring countries, this policy is also intended to build political confidence and to implant the "benign intentions" in the region.²⁶ China's participation in a number of multilateral cooperation in the region, such as the ASEAN+3, ARF and EAS, confirmed the changes in China's foreign policy. Anita Pertiwi noted that China's multilateral engagement is in fact a positive trend that shows China's eagerness to promote security and stability in the region.²⁷ Moreover, China also agreed to sign a Declaration of Conduct (DoC) in its efforts to resolve the territorial dispute over the South China Sea in 2002. Amid this process, Indonesia, being the Chair of ASEAN in 2011, put forward the initiative to settle the territorial dispute through multilateral forums instead of bilateral arrangements as previously used by China and other claimants. In this sense, Indonesia hopes that the claimant countries over the South China Sea would accept the Code of Conduct (CoC) which was one of the agenda in the EAS meeting in Bali in November 2011.

Although China has changed its perspective at the policy level in dealing with strategic issues in the region, to what extent it will actually comply with all the agreements reached is another issue that needs a more careful examination. This is particularly the case when it comes to the issue of territorial sovereignty for which China would seemingly never be hesitant to use its military force. China, for example, has threatened to use its military force over Vietnam if the latter continues to give

²⁴Fear of The Dragon (1995, p. 24).

²⁵Jepang: Cina Makin Meresahkan (2011, p. 8).

²⁶Mingjiang (2007, p. 3).

²⁷Pertiwi (2007, p. 86).

India's oil companies rights for exploration in the disputed Spratly Islands in September 2011. China has accused Vietnam of infringing its territorial sovereignty.²⁸

4 Jakarta–Beijing's Future Relations Based on Equal Footing

Indonesia–China relations are not taking place in a vacuum. The development of global, regional, and national levels influences the dynamics of the relations between the two countries. It is indisputable that economic growth and power have been shifted from the West (Atlantic) into East Asia where China emerged as the world's second largest economic power after the United States. China's rapidly growing economy and military during the past few years to some extent have been shaking the US unilateral power in the post-Cold War international and regional power configuration. According to the *Euromonitor International* in its article "Top 10 Reviews largest economies in 2020," July 7, 2010, China is even predicted to have replaced the US as the world's largest economic power by 2020. Quoting a study by a global market research group, the article said "by 2020 there will be a major shift in the global balance of economic power compared to 2010. Emerging economies will rise in importance and China will have overtaken the USA to lead the list of the world's Top Ten Reviews largest economies by GDP measured in PPP terms."²⁹

The power shift in global economy to East Asia and China's rising economic and military power would be certainly determining the dynamics of Indonesia–China relations in the future. At the geostrategic level, Indonesia is no doubt aware of the importance of continuously taking advantage of economic opportunities in China's rise. Considering its rapidly growing economy and being the largest population in the world, relationship with China "is too important to be ignored."³⁰ Indonesia should be keen enough to exploit every opportunity in trade and investment with China, which now legally become easier with the establishments of ASEAN-China and Indonesia–China free trade agreements. For instance, due to its tremendously growing economy, China would certainly depend on resource-rich countries, including Indonesia, to supply its energy needs, such as oil, natural gas, coal, minerals, wood, and others for its industry's long-term survival. It is not to mention also Indonesia's close relationship with China today. Potentially becoming the world's new superpower because of its economic and political power, China could serve as a middle path for Indonesia when facing a deadlock with the US global power. Therefore, Indonesia's close relationship with China should not be diametrically confronted with the USA³¹; rather, it should be a means to fulfil the national interests in foreign policy terms.

²⁸Jepang: Cina Makin Meresahkan (2011, p. 8).

²⁹Jemadu (2011).

³⁰Cotan (2011).

³¹Ibid.

China seems to be fully aware of the significance of its relations with Indonesia. For China, Indonesia has not only geopolitical and strategic importance, but also good opportunities for trade and investment. China has been aggressively pushing more investments in Indonesia, including in mining industry and electrics to secure its energy supply. Indonesia's very strategic geographical position, which is between two continents (the Asian and the Australian) and two oceans (the Indian and the Pacific), is pivotal for China's use of international shipping lanes for its trade and energy security. In addition, China considers Indonesia as a very potential market for, among many others, a variety of agricultural products, motorcycles, textiles, garments, pharmaceuticals, and defense industry products.

Indonesia–China relations, which are built upon the pillars of interdependence above, should underline also cooperation between the two countries. Jakarta and Beijing are essentially depending on each other in their efforts to sustain their respective long-term development. Based on this understanding, Indonesia should not feel “inferior” in the face of China's growing influence. Indonesia certainly has a bargaining position in its diplomatic relations with China. For example, Indonesia could benefit from its rich energy sources in its economic diplomacy with China particularly given that the latter relies much on outside sources, including Indonesia, for its energy needs. Thus, the government needs to set out a model of economic diplomacy to prevent a recurrence of national loss as exemplified by the case of Tangguh gas supply. Indonesia's loss in its sales contract with China over 25 years is estimated at US\$ 4 million per year and this is also the strong reason why the government needs to renegotiate the selling price. It is also necessary for the government to conduct an investigation on the Tangguh gas sales agreement because, according to the Director of the Center for Petroleum and Energy Economic Studies, Kurtubi, selling the gas below its actual market price is clearly a “fraud” and, therefore, a crime.³²

Even though conflicts are unavoidable in different aspects of national interests in the bilateral relations between Indonesia and China, the two countries have been so far able to resolve and manage them well. The Reform Era, for example, has successfully suppressed the widespread escalation of such conflicts. Bilateral relations between the two countries in economic and defense cooperation have been growing stronger. The ability of both countries to manage the problems in their bilateral relations seemed to be one of the key factors that sustain the warm relationship between Jakarta and Beijing during the Reform Era.

Based on the fact above, it is no exaggeration to say that how the two countries resolve differences between them will largely determine the course of their bilateral relations in the future. Indonesia has to anticipate any potential problems, especially with China's current inclination to use its economic power as a “weapon” when conflicts happen between the two countries. Dispute between Indonesia and China on food and toys security issues in August 2007 is a good illustration. The issuance of warning by the Indonesian government on unhealthy food and toys imported from China received an immediate response from the Chinese government by banning

³²*The Jakarta Globe*, September 1, 2011.

seafood from Indonesia.³³ If this “retaliation” model of dispute settlement continues to happen, potential turbulence would remain wide open in Indonesia–China relations in the future. Therefore, Indonesia should take any necessary measures to anticipate, and be ready for, possible retaliation responses from China.

Indonesia should be as clever and wise as possible in its measures of anticipation so as to avoid the possibility of damaging its relations with China. Considering China’s current economic and military power, breaking off good relations with China because of a wrong policy will disadvantage Indonesia. Indonesia’s foreign policy, which has long adhered to the “One China Policy,” is no exception in this sense. One-China policy in the international community is pivotal in fostering good relations with China, which is very sensitive to the views that acknowledge Taiwan as a sovereign state. Beijing would be very unfriendly with any country that recognizes Taiwan as another “China.” China’s strong attitude in maintaining its territorial claims over Taiwan is no more than preventing its integrity from the “domino effect” of territorial separation that may occur if Taiwan receives recognition as a sovereign state. This is understandable given that China is now under threats of disintegration from Tibetans and Uighurs who demand for independence.

Meanwhile, in terms of economic relations, it should be admitted that China’s economic rise certainly provides great opportunities for Indonesia. Nevertheless, Indonesia has not made the best use of trade and investment opportunities necessary to improve economic relations with China, especially after the ACFTA. Indonesia, which was seemingly ready when struggling for free trade with China in negotiation forums, turned to be “coming loose” when the agreement came into force in January 2010. It is clear enough that Indonesia is not well prepared to compete in the free market. This condition is shown, for example, in its wider trade deficit with China and also the disagreement between the Ministry of Industry and the Ministry of Trade, who are the main stakeholders in Indonesia–China economic relations, on the export of rattan products. In addition, Indonesia’s export growth rate to China is also in fact far behind that of other ASEAN countries, including Singapore whose population is only about 1.5 million people.³⁴ To answer the economic opportunities and stringent competition offered by the ACFTA, Indonesia would need in the future a grand design that provides a roadmap toward the optimization of economic relations with China. The grand design should not only address the institutional factors and the stages of achievement, but most importantly also the management of coordination, synchronization, and synergy, which has not been optimal so far, among the stakeholders.

³³“Indonesia Seeks Explanation from Cina over Seafood Ban,” *Antara News*, <http://www.antara.co.id>, August 27, 2007.

³⁴Jemadu (2011).

5 Conclusion

Indonesia will continuously take the advantage of China's rapid economic and security-defense growth for the sake of its national interests. However, it should be noted that a number of obstacles can potentially hamper the two countries' warm relationship in the future. These include not only Indonesia's unpreparedness in the face of open competition between ASEAN and China, but also China's uncertain foreign policy, particularly on the overlapping claims over a group of islands in the South China Sea, the disputes on Taiwan's sovereignty, and the border conflicts with some neighboring countries, such as Japan and South Korea.

Considering China's current enormous economic and military power, the impairment of good relations with China as a result of improper policy, for instance, will disadvantage Indonesia. Nevertheless, it does not mean that Indonesia is "inferior" in its diplomacy with China. Indonesia's geostrategic location and its abundant natural resources provide not only modalities, but also a bargaining position to strengthen its economic diplomacy that the recurrence of loss as in the case of Tangguh gas supply can be avoided. Indonesia-China relations should be built on an equal basis because the two countries are essentially in need of each other to maintain their sustainable developments. To further strengthen its position against China, Indonesia's diplomacy would need to have an integrated grand design that supports the creation of strong economic and political bases in the face of China's seemingly unstoppable economic and military power.

References

- Astuti, Dewi and Anugerah Perkasa. 2010. Hubungan RI-Cina Harus Bebas Unsur Politik. *Bisnis Indonesia*, July 6.
- Bappenas. 2009. Hubungan Ekonomi Indonesia-Cina Terus Meningkat. <http://www.bappenas.go.id/node/116/2468/hubungan-bilateral-indonesia—Cina-terus-meningkat-/>, December 3, accessed on September 28, 2011.
- Brown, Jessica. 2011. Jakarta's Juggling Act: Balancing China and America in the Asia Pacific. *Foreign Policy Analysis*, The Centre For Independent Studies, No. 5, February 3.
- Djafar, Zainuddin. 2008. *Indonesia, ASEAN & Dinamika Asia Timur, Kajian Perspektif Asia Ekonomi-Politik*. Jakarta: Pustaka Jaya.
- Fear of The Dragon. 1995. *Far Eastern Economic Review*, April 13.
- Hadi, Syamsul. 2009. *Merangkul Cina: Hubungan Indonesia-Cina pasca Soeharto*. Jakarta: Gramedia Pustaka.
- Higgins, Andrew. 2010. Some in Indonesia Praise, Seek To Replicate China's Fight Against United States. *The Washington Post*, March 29.
- Indonesia Seeks Explanation from China over Seafood Ban. 2007. <http://mangroveactionproject.org/indonesia-seeks-clarification-over-china-seafood-ban/>, accessed on April 16, 2010.
- Jemadu, Aleksius. 2011. Hubungan Indonesia-Cina Dalam Dinamika Politik, Pertahanan-Keamanan dan Ekonomi di Asia Tenggara. *A power point presented in a Focus Group Discussion organized by Indonesia-China Research Group*, P2P-LIPI, Jakarta, October 4.
- Jepang: Cina Makin Meresahkan. 2011. *Kompas*, August 3.

- Mingjiang, Li. 2007. “The Origins of China’s Proactive Regional Strategy”, the Conference Report on the Dynamic Interactions Between Regional States and China, organized by The S. Rajaratnam School Of International Studies (RSIS), Singapore, March 8–9.
- Onishi, Norimitsu. 2010. Indonesia Is Courted by Obama and China. *The New York Times*, November 9.
- Pertiwi, Anita. 2007. Pergeseran Kepimpinan Jepang ke Cina di Asia: Studi Ekonomi Politik Internasional (Periode 2002–2005). A B.A. thesis, the Faculty of Social and Political Science, University of Indonesia, Depok.
- Sukma, Rizal. 1999. *Indonesia and China: The Politics of a Troubled Relationship*. London: Routledge.
- Sukma, Rizal. 2009a. Indonesia’s Response to the Rise of China: Growing Comfort Amid Uncertainties. In *The Rise of China: Responses from Southeast Asia and Japan*, NIDS Joint Research Series No. 4, National Institute for Defense Studies, Tokyo.
- Sukma, Rizal. 2009b. Indonesia-China Relations: The politics of re-engagement. *Asian Survey* 49 (4): 591–609.
- The Directorate of the East Asia and the Pacific Region, the Ministry of Foreign Affairs of the Republic of Indonesia. “Hubungan Indonesia-RRT”, a power point presented in a Focus Group Discussion organized by Indonesia–China Research Group, P2P-LIPI, Jakarta, October 4. *The Jakarta Globe*, September 1, 2011.
- The Jakarta Post*, May 31, 2011.
- Wuryandari, Ganewati (ed.). 2007. *Politik Luar Negeri Indonesia di Tengah Pusaran Politik Domestik*. Yogyakarta: Pustaka Pelajar.

Author Biography

Ganewati Wuryandari is currently a researcher at the Center for Political Studies (P2P)-LIPI. Her educational backgrounds include a Bachelor’s degree from the Faculty of Social and Political Sciences, Gadjah Mada University (1987), an M.A. in International Relations from the Department of Politics, Monash University (1994), and a Ph.D. in Discipline of Asian Studies, the University of Western Australia (2006). Her major research interests focus on the Asia-Pacific Region, Australia–Indonesia, Timor Leste, border areas, Indonesia’s international politics, and contemporary issues in international relations. Some of her latest works are *A Case of Forget and Forgive? Human Rights in Australian Foreign Policy in East Timor and Papua* (2014, Graha Ilmu) *Politik Luar Negeri Indonesia di Tengah Arus Politik Domestik* (2008, Pustaka Pelajar, editor), *Isu Keamanan di Perbatasan Indonesia-Timor Leste: Permasalahan dan Solusi Pemecahannya* (2009, Pustaka Pelajar, editor), *Politik Luar Negeri Indonesia dan Isu Lingkungan Hidup* (2015, Penerbit Andi, editor), “East Timor’s Membership in ASEAN: Prospects and Challenges (2011, ASEAN Outlook, Taiwan) and “Indonesian Diplomacy in the Digital World” (2017, Suvannabhumi).

Index

A

ACFTA, 11–14, 18, 19, 25–27, 31–34, 36, 37, 40–44, 48, 53, 56, 61–63, 84, 91
Alatas, Ali, 2, 72
APEC, 4, 13, 27
ARF, 12, 13, 34, 67, 71, 74, 75, 81, 88
ASEAN, 2, 5, 11–14, 18, 19, 21, 22, 24, 26–28, 31–42, 44, 48–60, 62, 63, 66–71, 74–76, 81, 84–89, 91, 92
ASEAN Economic Community, 26, 51
ASEAN Framework Agreement on Services (AFAS), 50, 51, 53, 54
ASEAN Investment Area (AIA), 56
Asia-Africa Conference, 3
Asia Pacific, 4, 7, 8, 12, 14, 69, 86
Australia, 14, 25, 56–58, 74

B

Bangguo, Wu, 72

C

China, 1–14, 17–28, 31–44, 48, 53–58, 61–63, 65–76, 80–92
China's labor, 54
Chinese Communist Party, 19
Chinese investment, 23, 25, 72, 83
Chinese products, 3, 25, 32, 35, 42, 44, 61, 82, 84, 85
Chinese workers, 57, 85
CNOOC, 5, 10, 73
CNPC, 10
Code of conduct, 13, 74, 88
Communist, 9, 25, 26, 81, 82, 87

D

Declaration of Conduct, 88

E

East Asia Summit, 14, 87

East Timor, 68, 72, 82

Economic cooperation, 4, 12, 18, 19, 24, 38, 40, 47, 48, 75, 83

Economic crisis, 2, 9, 17, 20, 32, 36, 37, 67, 82, 84

Energy cooperation, 4

Enlai, Zhou, 2

Ethnic Chinese, 3, 9, 10, 66, 71–73, 81

European Union, 5, 37

F

Financial crisis, 22, 36, 37, 55–57, 68, 72, 82, 83

Foreign Workers, 48, 50, 51, 55–58, 60–62

G

GATS, 49–51, 53

H

Habibie, 4, 82, 83

Hatta, Mohamad, 65

I

Indonesian Communist Party, 1, 2, 8, 9, 19

J

Japan, 5, 13, 14, 18, 19, 22, 23, 26, 34, 36–38, 40, 44, 55–57, 59, 70, 71, 74, 87, 88, 92

Jiabao, Wen, 38

Jintao, Hu, 3, 20, 83

K

Kalla, Jusuf, 70

Korea, 8, 14, 18, 22, 26, 34, 36, 38, 57, 59, 74, 87, 92

L

Lombok Strait, 73, 75

M

Malacca Strait, 73–75
 Maritime Cooperation, 75
 Megawati, 3, 4, 10, 48, 68, 82
 Mutual Recognition Arrangement (MRA),
 51–53

N

NAFTA, 37, 39
 New Order, 3, 8, 9, 55, 66, 67, 84, 86
 Normalisation, 66, 72

P

People's Liberation Army (PLA), 87
 People's Liberation Army Navy (PLAN), 71
 Philippines, 18, 22, 40, 53, 57, 59, 71, 74

Q

Qichen, Qian, 2, 12, 74

R

Reform Era, 56, 66–69, 72, 73, 80, 86, 90
 Rongji, Zhu, 39, 83

S

Security cooperation, 70, 73–75, 83, 86
 Soeharto, 2–4, 8, 9, 66, 68, 81, 82, 84, 86
 Soekarno, 2–4, 8, 9, 81
 South China Sea, 13, 18, 34, 35, 66, 68, 74, 75,
 87, 88, 92

South East Asia, 7, 8, 13
 Spratly Island, 71, 89
 Strategic Partnership, 1, 3, 4, 7, 8, 10, 11, 13,
 38, 66, 70, 73, 83, 86
 Sukma, Rizal, 9, 13, 71
 Sunda Strait, 73, 75
 Susilo Bambang Yudhoyono, 3, 4, 10, 68, 82,
 83

T

Taiwan, 24, 25, 27, 57, 59, 70, 71, 87, 91
 Tangguh, 83, 90, 92

U

United States, 5, 8, 13, 14, 18, 23, 26, 34–37,
 40, 53, 68–70, 74, 80, 82, 86, 89

V

Vietnam, 18, 40, 71, 74, 87–89

W

Wahid, Abdurrahman, 4, 9, 68, 73, 82, 86
 WTO, 18, 19, 26, 27, 31, 39, 40, 49

X

Xiaoping, Deng, 17, 20

Z

Zemin, Jiang, 12