

CHAPTER II

INDONESIA'S RELATIONS WITH ASIA-PACIFIC

To explain how are Indonesia effort in the set of foreign policy making process on joining Trans-Pacific Partnership, this chapter will talk about specifically about Indonesia and Asia-Pacific itself. This chapter will explain the general representation and economic condition of Indonesia and explain the Asia-Pacific potentials for Indonesia economic growth or Indonesia's contribution in Asia-Pacific Economic Cooperation.

A. The Basics of Indonesia's Foreign Policy in the Era of Joko Widodo

During this time, the Indonesia's foreign policy shows the correlation of domestic issues that are difficult and complicated. This is clearly seen in the Indonesia's domestic conditions in which many issues have involved, one of which is the issue of corruption which can hamper the capacity of Indonesia to take part in the international world. In addition, there are three main problems which Indonesia is facing (KPU, 2014).

First, the decline of state writeryity is when the government has no power to provide security to all citizens, not able to detect threats toward sovereignty of the territory allowing human rights violations, weak law enforcement, and helpless management of social conflicts. The writeryity of the country is also increasingly violated when the state binds a number of international agreements that harm the

character and meaning sovereignty and is more profitable for individuals, groups, and multinational companies rather than the national interest.

Second, the nation's weak economic fundamentals look of unresolved problems of poverty, social inequality, disparities between regions, environmental damage due to the excessive exploitation of natural resources, and dependence in terms of food, energy, finance, and technology. Countries are unable to capitalize on the wealth of nature which is, well embodied (tangible) and non-physical (intangible), for the welfare of its people.

Third, intolerance and national identity crisis, political uniformity have eroded the characters of Indonesia as a tolerant nation, eclipsing solidarity, and the nature of mutual cooperation. The failure of the management of diversity is related to the problem of injustice in the allocation and redistribution of national resources that exacerbate national gaps.

On that basis, taking into account the main problems of the nation, President Jokowi is carrying the vision of his government: the change of Indonesia into a sovereign state, independent, and personality based on mutual cooperation (KPU, 2014). By reaffirming the ideology, because ideology as a guide, ideology as a driver, ideology as a unifying struggle, and ideology as referring star. That ideology is *Pancasila* June 1, 1945 and *Tri Sakti*. (KPU, 2014). Where, translation *Tri Sakti* namely: political sovereignty, self-sufficient in the field of economy, culture, and personality. It is becoming a focus of President Jokowi in formulating foreign policy.

Sovereignty in the political field is the most important trait for a sovereign state. Sovereignty in the field of politics, is the ability to maintain the independence and actualize its independence in all aspects of life of the state. Self-reliance in the field of economy manifested in the development of economic democracy that puts the people as sovereign in the management of state finances and the main perpetrators of the establishment of production. While personality in culture is manifested through character development and cooperativeness, based on the reality of diversity and maritime as the potential power of the nation in realizing the implementation of political democracy and economic democracy in Indonesia of the future.

Pancasila and *Tri Sakti* are seen as the ideology for guiding, driving, and unifying struggle. *Pancasila* becomes the basic foundation of the nation and the state, while *Tri Sakti* becomes a basis in the development of national character and national policy platform of the future. *Tri Sakti* provides an understanding of the basis for restoring national pride in the relationships between nations, equal and dignified. *Tri Sakti* road as bases in the construction of national character and national policy platform, which is translated into three aspects of the life of the nation, namely: sovereignty in politics, self-sufficient in the field of economic, and cultural personality.

An operational basis in Indonesia's foreign policy is the principle of free and active. According to Hatta, the political "Free" means that Indonesia is not in the second block and chooses its own path to solve international problems. The term

“Active” means an attempt to work harder in order to maintain peace between the two blocks (Windiani, 2013).

Nonetheless, the concept of free and active course from Hatta is not fully done at this time because the context is different when Hatta issued the free and active. The context has changed and there must be a reinterpretation of the principle of free and active to fit the needs of Indonesia at this time because the challenge has also changed. The first revolution era when Hatta issued a free and active foreign policy, domestic and international situation was different at the time, so it needs to be a new reinterpretation of the principle of free and active.

As Indonesia’s efforts towards political sovereign, self-reliant in the economic field, and personality in the culture, President Jokowi set nine strategic agenda of government called NAWACITA, (KPU, 2014), namely:

1. Bring back the state to protect all the people and provide security to all citizens, through the implementation of a free and active foreign policy;
2. Make the government is not absent by building clean governance, effective, democratic, and reliable;
3. Build Indonesia from the periphery to strengthen these areas and villages within the framework of a unitary state;
4. Refuse to be a weak country by reforming the system and law enforcement corruption-free, dignified and reliable;
5. Improve Indonesian human life quality;
6. Improve people’s productivity and competitiveness in the international market;

7. Realize economic independence by moving the strategic sectors of the domestic economy;
8. Revolutionary character of the nation; and
9. Strengthen Unity (*Bhinneka Tunggal Ika*) and strengthen social restoration of Indonesia

From the nine NAWACITA above, there are two agendas related to foreign affairs, namely: related to economic independence, by moving sectors of the domestic economy which make the most of the potential of the resources owned by Indonesia, for example natural resources and human resources.

Indonesia's natural resources can be fully utilized, so that the country can meet the needs of its people without any dependence on other countries, and involve economic actors in the country to partner with Indonesia on improving state of Indonesian economy. In addition, dealing with issues in other countries which brings back the role of the state to protect all the people and provide security to all citizens, through the implementation of free and active foreign policy.

B. The Economic Condition of Indonesia in the Era of Joko Widodo

Global economic developments impact significantly on the economy of Indonesia. In recent years, following the severe crisis enough, the economy of the United States in mid-2014 began to improve. However, the economy of some other developed countries have not shown sufficient improvement. European Area recovery is still slow, China's economic growth continued to decline, and the Japanese economy is still in recession (BPPN, 2015). In the same period, the decline in world demand was followed by a decline in international commodity prices,

including oil prices that fell sharply. The Indonesia's economy is also faced with the increasingly difficult world liquidity policy in line with the reduction/ cessation of bond purchases (tapering off) conducted by the Central Bank of US. With this development, in 2014 the global economy grew only 3.4 percent, but with a good economy increasingly driven by the US, other developed countries and emerging markets, the 2015 global economic growth is expected to continue to improve, and grow by 3.5 percent.

Table 1. Indonesia's Economic Growth in 2010—2015



Source:

<http://bisniskeuangan.kompas.com/read/2016/02/07/182803626/Pertumbuhan.Ekonomi.2015.Terendah.dalam.Enam.Tahun.Terakhir>

In line with the movement of the global economy, national economic growth in 2014 slowed to 5.1 percent in 2014, lower than in 2013 in the amount of 5.8 percent (Dewi, 2015). On the external side of the slowdown caused by the decline in global demand, the decline in international commodity prices, and government

policies relating to restrictions on the export of raw minerals. In terms of domestic demand, the slowdown caused by still slow investment growth which are caused by the decline in global commodity prices, and also their budget savings in government spending. However, despite the slowing economic growth in Indonesia is quite high compared to other countries, which is mainly supported by growth in private consumption is quite high.

In the midst of global economic slowdown, the balance of payments improved in 2014. The current account deficit decreased from 3.18 percent of GDP in 2013 to 2.95 percent of GDP in 2014, driven by improvements in manufacturing exports and decline in imports, especially oil and gas imports decreased in line with the reduction in fuel subsidies. The capital and financial account had a surplus, which is supported by the FDI, which grew by 24.2 percent, and investment portfolio grew by 137.3 percent. With these developments, foreign exchange reserves increased to USD 111.9 billion in December 2014 (December 2013 was USD 99.4 billion), equivalent to 6.4 months of imports and government foreign debt payments (over the adequacy of international standards, there is 3 months of imports) (Indonesia-Investments, 2015).

Table 2. Indonesia's Inflation in 2014—2015

Bulan Tahun	Tingkat Inflasi
Desember 2015	3.35 %
Nopember 2015	4.89 %
Oktober 2015	6.25 %
September 2015	6.83 %
Agustus 2015	7.18 %
Juli 2015	7.26 %
Juni 2015	7.26 %
Mei 2015	7.15 %
April 2015	6.79 %
Maret 2015	6.38 %
Februari 2015	6.29 %
Januari 2015	6.96 %
Desember 2014	8.36 %
Nopember 2014	6.23 %
Oktober 2014	4.83 %
September 2014	4.53 %
Agustus 2014	3.99 %
Juli 2014	4.53 %
Juni 2014	6.70 %
Mei 2014	7.32 %
April 2014	7.25 %
Maret 2014	7.32 %
Februari 2014	7.75 %
Januari 2014	8.22 %

Source: <http://www.bi.go.id/id/moneter/inflasi/data/Default.aspx>

In terms of stability, inflation in 2014 under pressure from the high price of goods is determined by the Government (administered prices) and foodstuffs whose prices volatile. Inflation in 2014 was recorded at 8.36 percent, is above the inflation target has been set at 4.5 ± 1 percent. However, the inflation is still slightly lower than inflation in 2013 in the amount of 8.38 percent. The increase in the inflation is

mainly caused by the impact of increasing in subsidized fuel prices and the impact of domestic food price volatility at the end of 2014 (Djumena, 2015). The increase in subsidized fuel prices has significantly pushed up prices in general, whether it is caused by the direct impact and the continuing impact (second round effect). In addition to fuel, price adjustments administered goods also occurred throughout 2014, such as electricity and LPG. However, core inflation remained under control of 4.93 percent. Controlled inflation in 2014 cannot be separated from the improving inflation control policy coordination between the government (both central and local) with Bank Indonesia. Compared with the end of the fourth quarter of 2014, a decline in inflation is quite large. If in the previous quarter annual inflation exceeded 8.36 percent in December 2014, then in the first quarter of 2015 inflation is at a position of 6.38 percent in March 2015 (BI, 2015). The decline in inflation is the impact of the decline in world oil prices which had impact on the decline in prices of fuel oil (BBM) by 2 (two) times in January 2015. The decline in fuel prices dragged down the prices especially of transportation and groceries. This had an impact on deflation in January and February 2015 respectively, 0.24 percent and 0.36 percent (BI, 2015).

However, in March 2015 increase in fuel prices is doubled happened twice which impact on the level of inflation to 0.17 percent, it is still in the boundaries controlled inflation rate. Meanwhile, the rupiah in 2014 experienced significant depreciation against the US dollar, but noted the appreciation of the currencies of other major trading partners. The rupiah depreciation is considered by the strong appreciation of the US dollar against almost all major currencies in line with the

release of the data the US economic recovery and the planned increase in the interest rate the US central bank (Fed Funds Rate) of the termination of the issue of tapering-off in October 2014. In point to point, the rupiah weakened 1.78 percent during 2014 to a level of IDR 12.388 per US dollar. The rupiah also weakened during the first quarter of 2015, in which the exchange rate at end of March 2015 to Rp 13.074 per USD (BPPN, 2015). Meanwhile, against other currencies including the Japanese Yen and the Euro, Rupiah has appreciated fairly high, although still quite competitive compared to trading partner countries.

C. The Potential of Asia-Pacific for Indonesia's Economic Growth

Region of Indonesia is in a strategic position of the Asia-Pacific region. Indonesia is precisely located at the East Asia and Southeast Asia the region with the most dynamic growing economy. Indonesia is also one of the countries which has a rapid economic growth in the world (Herianto, 2016).

Many people in the world believes (even some of the leaders of the State) that the political position of Indonesia is best to bridge the East and West, North and South. The Asia Pacific region also happens to be a reflection of the encounter between East and West, North and South.

There are some potentials for economic cooperation for the Asia-Pacific Indonesia (Tjokroamidjojo, 1994), such as the functioning of market mechanisms to encourage growth by implementing a market driven economy. The thrust of economic growth is driven by the expansion of trade and investment.

In addition, the government created the macro-economic policies with the intention of creating a macro-policies. Intervention policies are intended to correct market distortions and improve the way the market mechanism. Government facilitating role on the healthy and stable economic development can provide certainty for long term investment. In addition it can also be done with unilateral deregulation or liberalization which creates a conducive climate to economic vitality, especially trade and investment. So in fact the economic progress in the countries of Asia-Pacific region has been developed by the private sectors. This fact coincided with a tendency to shift the primary role of development of the government sector to the private sector.

All of this is the driving force of economic growth, even higher growth. Increasing per capita income and effective demand also created a market in the country. So that it can evolve with the advent of the domestic market. Such growth can overcome the problem of equity in the results of poverty data (China-Indonesia) and also indirectly influence stability.

There is also the development of the growing economic interdependence among countries in the Asia-Pacific region. Experts even mention the development towards more economic integration among the economies of the Asia-Pacific region. Both in the impact of economic policy of a State against another State, or in the currents of trade, investment, and even transportation, telecommunications, information, and technology among countries in the Asia-Pacific region (Tjokroamidjojo, 1994).

Indonesia has benefited from regional cooperation in Asia-Pacific, Asia-Pacific Economic Cooperation (Kemlu, 2015), as follows:

1. As a means to build trust and mutually beneficial relationships with countries/ economies Indonesia strategic partners in the region;
2. As a means to enhance the capacity and competitiveness of Indonesia, through projects for technical training and capacity building and sharing of best practices;
3. As a means to ensure that the Asia-Pacific market remains open for Indonesia's main export products. There was an increase in total trade between Indonesia and other APEC Economies, which amounted to US\$ 276,589.1 billion in 2013 compared to US\$ 29.9 billion in 1989 when Indonesia helped establish APEC; and
4. As a means of enhancing investment. In 2012 recorded total investment portfolio into Indonesia from other APEC members amounted to US\$ 245,200.5 billion compared to US\$ 45.7 billion in 2001.

The above description may be taken advantage of an Asia-Pacific economic cooperation is in the field of expansion of trade and investment in particular through the concerted effort of trade and investment liberalization.