

CHAPTER III

THE DEVELOPMENT OF INDONESIA – CHINA TRADE RELATIONS

Trade relations between Indonesia and China are complementary relationships. Relations between the two countries are harmonious and need each other. Relations between Indonesia and China are clarified through trade cooperation relations before and after the ratification of the ACFTA (ASEAN China Free Trade Area), China's market expansion for industries in Indonesia and Indonesia's market potential for China.

A. The Development of Indonesia Trading Policy with China

(Mas'ud, 1994, p. 42) Defined that liberalism teaches that International economy relation must be harmony a give benefit to the whom states that involved. So, the International trade been freed from boundaries and government rules, every actor that involved could get benefit with good and service. So, wealth would increase. The developed state feel the widening of trading system coverage s very important. Because 1) Competitiveness factor in international Trade depends on service usage that getting bigger and also the advanced technology. 2) The prospect to sell the service and export goods with high technology component to developing the state. 3) The need for investment chance from a developed state to a developing state (Jhamtani, 2005, p. 18).

The form of bilateral cooperation between Indonesia and China is inseparable from the political policies of the two countries. In deciding political policies, there needs to influence the country's political system as we know that a political system is a unit formed from several elements or

elements. Many of these elements, components, or parts are in a relaxed and functional relationship. Each of them is cohesive with each other so that the totality of the unit is fully realized. The political system is a system of various systems that exist within society (Fadli, 2017, p. 21).

On 1995, since the forming of the World Trade Organization (WTO). The international trading environment which changes rapidly where the power of globalization trading and the capital flow is extreme, so the policy that been made also has to consider the domestic interest as we know that the development of world trading experienced rapid growth and China rise as a state with strong production and trading.

On June 9, 1950, Indonesia officially established diplomatic relations with China. The opening of diplomatic relations was carried out several months after the formation of the People's Republic of China. The opening of Indonesia's diplomatic relations with China was the beginning of various agreements and various kinds of cooperation between the two countries. In November 1953, Indonesia's trade agreement with China was first signed in Beijing. Moreover, when the Asian-African Conference (KAA) was first held in Bandung on 18-24 April 1955, China participated in this conference and was immediately attended by the then Chinese Prime Minister, Zhou Enlai. During this visit, Zhou Enlai also signed a two-state agreement between Indonesia and China. This diplomatic relationship continues and is characterized by mutual visits between the government (Rusydati, 2014).

On September 30, 1965, there was a rebellion of the Indonesian Communist Party (PKI) which made relations between Indonesia and China tenuous, culminating on October 30, 1967, when the two countries suspended diplomatic relations. The freezing of diplomatic relations between Indonesia and China at that time was also influenced by Indonesia's domestic political conditions, where after the PKI rebellion there was a change in the president of Indonesia with Suharto as the new Indonesian president. The freezing of diplomatic relations between Indonesia and China lasted for

23 years (Kustia, 2001). The reason for the freezing of diplomatic relations between the two countries was because China supported the coup attempt carried out by the Indonesian communist party in 1965 (Syamsul & I, 2013).

Normalization of Indonesian and Chinese diplomatic relations began in 1989, where on October 4, 1989, discussions related to the normalization of relations between Indonesia and China were carried out by Foreign Ministers Ali Alatas and Qian Qichen in Tokyo. Moreover, on July 3, 1990, the two foreign ministers signed the text "The Resumption of the Diplomatic Between The Two Countries" in Beijing. The normalization of diplomatic relations is also marked by the text of the agreement on cooperation relations in the economic and trade fields between the two countries.

In the first year after the economic relations agreement between Indonesia and China was opened, the value of Indonesian China's trade in 1999 experienced significant growth compared to 1998, which rose by 33,1% (Koesmawan, 2002). According to BPS data of China's exports to Indonesia in 2000 amounted to 3.06 billion US dollars, up by 60% compared to the previous year amounting to 906 million US dollars. For 2001 to September, 2, 12 billion US dollars fell 6, 19%, compared to the same period in the previous year of 2, 18 billion US dollars. The Indonesia-China trade balance has shown a surplus for Indonesia, which in 2000 reached a value of 1.34 billion US dollars. In 2000, Indonesia was ranked 14th as China's export destination, and 13th as China's import source (Koesmawan, 2002).

With the economic growth that was getting higher, it triggered to continue the trading relationship between both states to create a market which is expected to increase the economic level between both states, as the aim of both states which include in regional free trade agreement, ACFTA. Which is among them has aimed at strengthening and increasing the economy, trading and investment cooperation between member states.

B. Trading Relations Between Indonesia and China Before ACFTA Implementation

The good trading relation between Indonesia and China built before the implementation of ACFTA ratification formed. Cooperation between both states also tends to increase in each year. The data export-import sector value of China export to Indonesia in 2000 as big as US\$ 3,06 billion and at 2001 the export value become US\$ 2,12 billion which mean decrease 6,19%. The export-import Indonesia to China of the gas and oil sector and the nation il and gas will be explained in the trade balance 2001 – 2003 (Huda & Zulihar, 2009, p. 188).

Table 2 3.1 Table II. Export-Import Indonesia to China 2000 – 2003 (million US\$)

Year	Protelem & Natural Gas				Non-Protelem&Natural Gas			
	Exports	%	Imports	%	Exports	%	Imports	%
2000	14,367	23,13	6,019	17,96	47,757	76,87	27,495	82,04
2001	12,636	22,44	5,472	17,67	43,685	77,56	25,490	82,33
2002	12,113	21,19	6,526	20,86	45,064	78,81	24,763	79,14
2003	13,651	21,83	7,630	23,06	48,876	78,17	25,490	76,94

Year	Total Volume	
	Exports	Imports
2000	62,124	33,515
2001	56,321	50,962
2002	57,159	31,289
2003	62,527	33,086

Source: Badan Pusat Statistik

In Table II above is a period of not yet underway the ACFTA agreement between ASEAN member countries and China in the collaboration of reducing and eliminating tariffs in the import and export sector of goods. So, if average tariffs

still apply, the trade balance between Indonesia and China has increased significantly from year to year, even Indonesia has a surplus from exports to China.

In the data above, it is explained that trade relations between Indonesia and China during the 2000-2003 period experienced a trade surplus. The most significant surplus occurred in 2003 amounting to the US \$ 29,441,000. The development of non-oil exports during the 2000-2003 period, only in the 2001 period did Indonesia's exports to China decline with a value of US \$ 43,685,000 previously worth the US \$ 47,757,000. The table above shown the trading activity before ACFTA is applied and the table showed that Indonesia still able to balance the trading with China, it shows from the surplus from the export-import that has been done by both states

In the above period is the period in which the ACFTA agreement has not been held with ASEAN member countries with China in cooperation in reducing or eliminating tariffs in the export-import trade sector. However, even though in that period normal tariffs were still applied in the field of export-import of goods between countries, the trade balance between Indonesia and China continued to increase significantly from year to year, even Indonesia experienced a surplus from exports to China.

C. China Market Expansion for Domestic Industries

The full implementation of the ACFTA took effect on January 1, 2010, before the ACFTA was implemented and many Chinese products had flooded the domestic market. As we have seen, the prices of Chinese products are lower compared to domestic products.

If viewed from the existence of domestic businesses, with the flood of products from China, it is feared that it will threaten domestic businesses. This is because entrepreneurs Indonesia lose in competition. In addition to the standard price factor, Chinese products have properties that are easily

obtained such as short supply chains. This is an important issue for the Indonesian government to rebalance trade relations with China.

ACFTA has the potential to influence the national economy which is very clear when we look at the trade balance pattern between Indonesia and China. Regarding trade patterns between the two countries, Indonesia's products after ACFTA ratification are lower than Chinese products. This can be seen in the development of exports and trade balance imports between Indonesia and China.

Table 3 3.2 Trade Relation Between Indonesia and China (2004-2012)

Trade Relation Between Indonesia – China 2004-2012(thousand US dollars)				
Year	Export	Import	TradeBalance	Total Trade
2004	4,297,233	4,101,331	195,902	8,398,564
2005	6,662,354	5,842,863	819,491	12,505,217
2006	8,343,571	6,636,895	1,706,676	14,980,466
2007	9,675,513	8,557,877	1,117,636	18,233,390
2008	11,638,504	15,247,169	-3,610,665	26,883,673
2009	11,499,327	14,002,171	-2,502,843	25,501,498
2010	15,692,611	20,424,218	-4,731,607	36,116,829
2011	22,941,005	26,212,187	-3,271,182	49,153,192
2012	21,659,503	29,387,074	-7,727,571	51,046,577

Source: Badan Pusat Statistik, Processed by Ministry of Trade

In implementing the ACFTA, it is feared that it will encourage more Chinese products to enter the Indonesian market. Because through the ACFTA, trade barriers between the two countries are diminishing and indicating the key to competition is determined by the ability of competitiveness between products.

The number of Chinese products flood in the Indonesian market, because, Chinese entrepreneurs, who can

read the Indonesian market situation, are not developing their small industries, which are considered to be one of the developments of a new hegemony, to produce sufficient commodities for overseas export markets. This has become a separate problem that has been exploited by China, to target the Indonesian market, which is judged by China, Indonesia is still experiencing the economic income of its people. So that an image of the consumption of new markets, created by China, to seek its advantages from the effects of the state of Indonesia whose average population has a small per capita income, in its economic statistics.

So by looking at the structure and pattern of Indonesia's trade with China above, a strategy that is serious in facing competition is needed and balancing trade relations with China so that the national industry and economy increases.

D. Indonesia Government Steps Face to ACFTA

China economy development seems cant be stopped to be one of the most significant economic power in the next two or three decades. Affordable product and a lot number of variables and the full support from China government make another state hard to compete. According to International trade theory, the economy between state rapidly and quickly spread to other states. In this current situation, the business and economic advantage are no more based on the strategy of comparative advantage but lied on competitive advantage. Economic interdependency of state strongly related; this strongly related interdependency is not only happened between developed states but also between developing states and developed states. Its call globalization changes the world economic structure fundamentally.

Export is one of foreign exchange source which is very required by state or region which has an open economy characteristic such as indonesia because widely export to all states possible the increasing amount of production amount

which triggers the economy, so it expected could give a significant role toward the economic stability and development. Indonesia for the economic crisis and make Indonesia always try to develop its export and hold economic recovery through increasing economic development by entering of investment.

Indonesia and China agreed to conduct more intensive cooperation in several fields such as Agriculture; Information Technology; HR Development; Investigation; Development of the Mekong River; Banking; Finance; Transportation; Industry; Telecommunication; Mining; Energy; Fishery; Forestry; Forest Products, etc.

There is a need for socialization that the inclusion of Chinese products in addition to threats is also an opportunity for Indonesia to increase the competitiveness of its products. Indonesian entrepreneurs are required to continue to improve their competitiveness. They are not grumbling because of the large number of Chinese goods entering. The main problem in the case of a flood of Chinese products is the need to improve the quality of national products and the need to improve the quality of Indonesian human resources. There needs to be a real role from the government to solve the problems mentioned earlier, such as the issuance of clear regulations regarding these matters. The best solution to the dominance of Chinese products is that the government protects the domestic market and empowers domestic traders to compete locally.

Also, China's dominance in Indonesia's economy is due to the rise of the Chinese economy in all world markets. The rise of China as an essential player in the global market promises new benefits to world consumers and new opportunities for established companies that can provide the right response and do it well. So that China feels it has power over countries that depend on China, one of which is Indonesia. Indonesia cannot deny that China is a strategic partner in the bilateral relations of the two countries. However, Indonesia must also be smart in conducting cooperative relations with China, especially in economic cooperation,

because China's dominance in Indonesia's economic cooperation can turn off the national market. For this reason, efforts are needed so that Indonesia does not always depend on China. Indonesia is expected to be able to pay attention to its domestic economy, especially in the small economy so as not to compete with Chinese product products, and to improve living standards for Indonesian citizens so as not to get worse by the dominance of Chinese products spread in the Indonesian market.

The challenges that must be faced are: Indonesia must be able to increase efficiency and effectiveness of production so that it can compete with Chinese products, Create a conducive business climate in order to increase competitiveness, Implement investment rules and regulations that are transparent, efficient and friendly to the business world, and Increase ability in mastering information and communication technology including marketing promotion and lobbying.

The government steps to face ACFTA is recovering the industrial sector supporting services especially in infrastructure recovery, and supporting policy in the industrial sector. That step could be in the form of decreasing the electricity tariff for the industry to push the production cost and also the enable of income tax for a foreign product which has the potency to kill the industry, and the government aid for small industry, etc.

The other struggle that could be done by the government is cutting the tax for domestic industry, and give aid subsidy toward the business people, especially the small to the middle industry in order to keep developing company. The government has to encourage people Indonesia to love with the local product. It could help the national industry and economy in general to rebalancing trade relation. This thing can be support with innovation, creation, and local product quality.