

CHAPTER 1

INTRODUCTION

A. Background

Indonesia is a country in Southeast Asia that located between Asian and Australian continents, and between the Pacific Ocean and the Indian Ocean. The total area of Indonesia is 7.81 million km² and Indonesia has 17,499 islands, so it is called the largest archipelago country in the world (Kementerian Kelautan dan Perikanan, 2017). Because of its geographical location, Indonesia is in the trade route and transportation route for other countries in the world. As a country that lives on the route of world economic activity, Indonesia's participation will be a strength and opportunity of the Indonesia in order to increase economic productivity and increase funding sources for national development.

With the ability to explore and utilize existing natural resources, Indonesia will have a large selection of products that can be developed as trade commodities, both for local markets and international markets. Furthermore, in the effort of Indonesia to encourage economic growth and bring prosperity of its people, Indonesia involve in international trade and do export and import to other countries. Trade creates profits by providing opportunities for each country to export goods whose production uses most of the abundant resources that available in the country and importing goods whose production uses scarce resources in the country (Krugman, 1993).

To improve the trade balance, Indonesia does trade cooperation with countries in the world. The realization of the results of negotiations and international trade cooperation was obtained from all international trade negotiation which contain

several agreements on bilateral, regional and multilateral trade cooperation that reflected efforts to increase export market access and capacity building. The Results of negotiations which including a Free Trade Agreement (FTA). Free Trade Agreement (FTA) is an agreement between two or more countries to form a free trade area, where trade in goods, services and investments between them can cross the borders of their respective countries without being subject to tariff barriers or non-tariff barriers. Indonesia has implemented a number of free trade agreement with countries and regions around the world one of them ASEAN Free Trade Area, AFTA (Kementerian Perdagangan Republik Indonesia, 2015).

Table 1.1 Indonesia's Balance of Trade with ASEAN

No	State	Value: USD Million				
		2012	2013	2014	2015	2016
	Total	-11.833,1	-13.221.1	-11.057,8	-5.222,8	-886,7
1	Singapore	-8.952,2	-8.895,2	-8.457,3	-5.390,3	-2.687,3
2	Malaysia	-965,2	-2.655,9	-1.125,4	-903,8	-79,3
3	Thailand	-4.803,4	-4.641,2	-3.997,9	-2.576,1	-3.272,9
4	Philippines	2.907,9	3.039,6	3.188,1	3.238,2	4.449,1
5	Vietnam	-321,3	-321,8	-966,5	-421,4	-182,8
6	Myanmar	338,1	483,2	444,8	455,3	502,3
7	Cambodia	280,6	294,6	397,1	408,6	401,6
8	Brunei Darussalam	-338,0	-522,7	-494,0	-40,2	0,9
9	Laos	20,5	-1,7	-46,7	6,9	1,7

Source: Kementerian Perdagangan Republik Indonesia, 2017

Although there is ASEAN Free Trade Area, Indonesia's balance of trade with countries in the region often recorded a deficit, or in other words the import value is much greater. This condition is unfortunate to Indonesia, Indonesia as the largest country with the largest population in ASEAN has not been able to master the trade. In 2012, of the nine ASEAN member countries, Indonesia's trade was only a surplus against the Philippines, Myanmar, Cambodia and Laos. One of the causes

of Indonesia's trade balance deficit with countries in the ASEAN region is the low competitiveness, especially of manufactured manufacturing products (Syadullah, 2017). The ASEAN market is actually still quite promising for Indonesia, especially for ASEAN member countries which Indonesia has recorded a trade balance surplus. One of them is the Philippines.

The total value of Indonesia trade with the Philippines continues to increase with the surplus on the Indonesian side. Indonesia's total trade with the Philippines in 2012 reached a value of USD 4,5 billion while in the 2017 period was USD 7,48 billion. Balance of trade to the Philippines in the 2012 period was USD 2,9 billion and in 2016 USD 4,4 billion. Meanwhile, the balance of trade to the Philippines in the 2017 period was USD 5,76 billion. Surplus Indonesia increasing from USD 2,9 billion in 2012 and 5.76 billion in 2017 (Sekretariat Nasional ASEAN-Indonesia , 2018).

Since 1980's, the Philippines has become strategic partner for Indonesia through ASEAN as platform. However, this positive trend in terms of commerce and trade between these countries urge Indonesia to always maintain its bilateral relations. But then, in the other fact, the trade between Indonesia and the Philippines for some commodities seems fluctuate in recent years, whereas the export of Indonesia product in some commodities showing unstable increasement. This is become one of reason for Indonesia to seek a way to increase trading between two countries. In addition, both Governments keep committed to increase the trade between two countries. In Joko Widodo era, The Government of Indonesia and Government of the Philippines have agreed to increase the volume of trade between the two countries to be doubled that delivered by President Joko Widodo in a joint press conference with President of the Philippines Benigno Aquino III (Setiawan A. , 2015).

Diplomatic relations between the Philippines and Indonesia established since November 1949. But even before

the establishment of formal relations, the friendly relations already created between Indonesia and the Philippines. Both countries have established embassies in each capital, Indonesia has their embassy in Manila and consulate in Davao City, while the Philippines has their embassy in Jakarta and consulate in Manado and Surabaya. Bilateral cooperation Indonesia and Philippines is through the framework of a joint commission for bilateral cooperation (JCBC) (Kedutaan Besar Republik Indonesia Manila, 2015).

With political conditions of the Philippines that are relatively stable and high economic growth, that conditions open huge opportunities for Indonesia to maximize cooperation in the economic sector and increase the trade and investment volume of both countries. In addition, the population of the Philippines which reaches 100 million people with high population growth rates and the tendency of its consumptive people is a potential market for Indonesian products (Kedutaan Besar Republik Indonesia Manila, 2015). Therefore, it is important to find out and discuss about Indonesia's strategy to increase trade with the Philippines.

B. Research Question

From the explanation of the background above, the research question can be taken, namely: "How did the Indonesia's strategy to increase trade with the Philippines in 2012-2017?"

C. Theoretical Framework

Economic Diplomacy

Export activities become a strategic role in economic development in many countries, but increasing export performance is not easy to do. Economic diplomacy approach is one instrument that can be used to increase market access for export commodities. According to Pavol Baranay, economic diplomacy is an official diplomatic activity that focuses on the

objectives of a country's economic interests at an international level. This includes efforts to increase exports, attract foreign investment, and work participation in various international economic organizations (Baranay, 2009). The other definition according to Kishan S. Rana, economic diplomacy is defined as:

“Economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional, and multilateral dimensions, each of which is important”.

By looking at the definition above, economic diplomacy can be interpreted as a dynamic process which in the implementation always has variations in accordance with the parties involved in the process, in order to maximize the achievement of a goal or interest in building and developing economic activities. From the definition, it can also be illustrated that international trade and investment are a major concern in the economic diplomacy. Economic Diplomacy consists of the Ministry of Foreign Affairs and the Ministry of Trade, diplomatic and commercial services, as well as non-state actors so as to create dynamic economic partnerships (Rana K. , 2007).

Economic diplomacy is carried out by holding meetings between exporters and their trading partners, to explain and formulate priorities and show which aspects are beneficial if export-import activities are carried out. Furthermore, other functions are to facilitate and support international trade activities, lobby the interests of domestic companies abroad, political and trade assistance, effective mobilization of external resources for development purposes, and most importantly to maintain favorable conditions of international economic cooperation which is able to encourage and improve the level

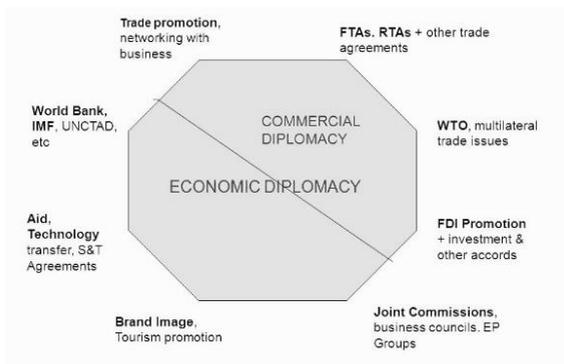
and quality of people's lives. Kishan S. Rana which reveals that there are six important factors so that economic diplomacy can work successfully:

1. Foreign economic relations not only involve government agencies such as the Ministry of Foreign Affairs, the Ministry of Trade, and the Ministry of Industry, but must involve all business circles in the country concerned, starting from the Trade and Industry Association, the financial sector, business research institutions, domestic actors, to stakeholders.
2. The Ministry of Foreign Affairs and institutions that regulate the external economy must have an integrated structure and be aligned. For example, the Scandinavian countries have integrated the promotion of trade and investment as well as trade and foreign aid policies into the Ministry of Foreign Affairs.
3. Make a double priority on economic diplomacy between the promotion of exports and the mobilization of foreign investment. This export promotion can be in the form of assistance to domestic companies seeking foreign markets, business delegation visits, and participation in international trade meeting.
4. Framework for trade regulations that have been determined by the government and is a joint thought with business actors and policy-making institutions and academics to increase trade and investment in the country.
5. Must be able to distinguish economic diplomacy that operates in the national capital and in the field through networks in both the state and consular.
6. There are differences in the effectiveness of economic diplomacy in each country and diplomatic missions

carried out by relevant professional staff can provide the power and influence of the country they represent.

If the six factors above continue to exist within the corridor and the responsibilities of each party, then economic diplomacy will run successfully with the involvement of all parties who work together and coordinate each other (Rana K. , 2007). Economic diplomacy not only covered the state entities but also engage in more dynamic partnership with the non-state actors. To give a depth-understanding about this concept, the writer provides the model that proposed by Rana and Chattarjee about economic diplomacy. Please look at the model below:

Figure 1.1 Economic Diplomacy and Commercial



Source: Rana and Chatterjee, 2011

The figure above shows a plural set of practices which each categories aimed at improving the home country's external economic interest (Rana & Chatterjee, 2011). Furthermore, the model explained that commercial diplomacy is part of the instrument of economic diplomacy, while economic diplomacy does not always mean commercial diplomacy.

The writer used economic diplomacy to analyze the case study because this theory is an official diplomatic activity that focuses on the objectives of a country's economic interests at an international level. As we know that it is suitable with the activity of Indonesia in order to increase trade with the Philippines. Indonesia's economic diplomacy towards the Philippines entered into bilateral level diplomacy which means economic diplomacy between the two countries. The goal of the economic diplomacy process undertaken by Indonesia is to maximize economic benefits in bilateral relations with the Philippines. Furthermore, to improve economic diplomacy, the Government of Indonesia through actors related to trade cooperation began an intensive approach. In order to increase trade to the Philippines, Indonesia conduct the trade promotion through joint agreements and cooperations and Brand image through trade exhibition to create the Philippines interest to Indonesia.

D. Hypothesis

In addressing the research question based on the background and theoretical framework above, thus the hypothesis of this research on the Indonesia's strategy to increase trade with the Philippines in 2012-2017 are:

1. Trade promotion through cooperation between Indonesia and the Philippines governments to increase and facilitate Indonesia's trade to the Philippines
2. Brand image through trade exhibition and exposition.

E. Research Objectives and Research Benefits

1. Research Objectives

The objectives of this scientific research are:

- a. To find out Indonesia's strategy to increase trade with the Philippines in 2012-2017.

b. To fulfill academic requirements at the level undergraduate at the University of Muhammadiyah Yogyakarta, Faculty of Social and Political Sciences, Department of International Relations.

2. Benefits of Research

a. Provide an overview of Indonesia's strategy to increase trade with the Philippines in 2012-2017.

b. Provide information and input to researchers who will examine the research in accordance with the title of the research author.

c. Adding scientific knowledge and literature within the scope of international relations science.

F. Research Methods

1. Analysis Unit

Taking from the object of analysis, the unit of analysis of this research is economic cooperation which in this study is trade between Indonesia and the Philippines.

2. Types of Research and Data Types

This type of research is a qualitative research that uses an approach with a wide range of domains, with the aim of making a systematic and accurate description, explanation and description of the facts, properties and relationships analyzed. The data collected is secondary data or data arranged in an indirect form. The data is presented in verbal form and emphasizes contextual concepts.

3. Data Collection Techniques

In the preparation of this thesis, the data collection technique used by the author is library research. With this

literature study, the authors hope to find data or facts that are relevant to the problems being studied. Literature data that the researcher use comes from various literature related to research, in the form of books, scientific journals, newspapers, media reports, and articles related to the research object being studied.

4. Method of Analysis

The method of analysis used by the authors to analyze this research is descriptive or explanatory

G. Scope of Research

After the subject matter is determined, the next step is to limit the extent and provide firm information on the issue. This is very necessary to avoid the extent of the discussion of the object under study and facilitate the writer in conducting research. Thus, the research chaos and the blurring of the problem area can be avoided and make research objects more clear and specific. Because of that, data in this writing is limited from 2012 to 2017. However, to background or clarify the discussion there is a possibility of the author adding material before and after that period.

H. Writing Systematics

There is also a systematic writing consisting of five chapters, and each chapter will contain the following:

CHAPTER I Introduction which consists of: first, the background to the problem which explains at a glance the condition of the Indonesian and Philippines economy, and the interests of Indonesia to cooperate with the Philippines. Second, the problem formulation is based on the background of the problem. Third, the basic framework of thought. Fourth, the hypothesis is based on the basic framework used. Fifth, the purpose and benefits of

research. sixth, research method. seventh, the scope of research. Finally, the systematic writing that explains the details of the writing of the five chapters incorporated in this study.

- CHAPTER II In this chapter the author discusses the international trade of Indonesia. This chapter included the cooperation between Indonesia and other international trade actors and Indonesia's trade activities.
- CHAPTER III Discusses bilateral relations between Indonesia and the Philippines. This chapter included economy cooperation of Indonesia and the Philippines and trade between Indonesia and the Philippines.
- CHAPTER IV Discusses economic diplomacy of Indonesia to increase trade with the Philippines in 2012-2017.
- CHAPTER V This is the last chapter that is the conclusion to answer the problem formulation and prove the hypothesis that is made.