

CHAPTER III

BILATERAL RELATIONS BETWEEN INDONESIA AND THE PHILIPPINES

In this chapter, the author breaks down the explanation into three parts. First, the author begins to explain bilateral relations between Indonesia and the Philippines. Second, economic cooperation between Indonesia and the Philippines and the last part is trade between Indonesia and the Philippines.

A. The history of Bilateral Relations Between Indonesia and the Philippines

Bilateral relations between Indonesia and the Philippines is based on both countries being an archipelagic country and having a composition of ethnic populations who are related to the unity of Austronesian ancestries. The historical relationship between ancient Indonesia and the Philippines began around the 9th century, the Laguna Copper Plate Inscription from 900 AD mentioned the Medang Kingdom in Java and the Srivijaya kingdom. The writing system used was Old Javanese script, while the language used was a mixture of Old Malay, and contains many loan words from Sanskrit and non-Malay vocabulary elements, some from ancient Tagalog and Ancient Javanese. In the 14th century the book *Nagarakretagama* written during the peak of the Majapahit kingdom, it was mentioned that several countries now in the Philippines, namely, Kalka, Saludung (Manila), and Solot (Sulu), indicated that the influence of the Majapahit kingdom had reached the Philippines' island. In the 16th century, both of twi islands was divided under European colonial rule, the Philippines archipelago was controlled by the Spanish Empire while in the south, the Maluku spice island (now the eastern part of Indonesia) was under Portuguese rule, then captured by the Dutch. The European colonials identified the island region as

the Indies, namely the Spanish East Indies and the Dutch East Indies (Setiawan,2017).

Since the proclamation of Indonesian independence on August 17, 1945 and the Philippine independence on July 4, 1946, good relations between Indonesia and the Philippines have been rebuilt. Diplomatic relations between the Philippines and Indonesia had officially established since November 1949. The foundation of bilateral relations between Indonesia and the Philippines was initially set up in the 1950s by top leaders of the two countries through personal arrangements, mutual courtesy visits or meetings of senior officials. In order to strengthen the bilateral relationship, the two countries signed several agreements, most of them related to border management (Ganesan & Amer, 2010).

The Indonesian Consulate General established in Manila became an embassy in 1950. A Philippines Consulate General was also set up in Jakarta in 1949 and became an embassy in 1951. Other consulates were opened in Manado, Surabaya and Balikpapan. Meanwhile, an Indonesia Consulate General was established in Davao City in 1953. To institutionalize relations between the two countries, the friendship agreement was signed on June 21, 1951 which provides that conflicts between the two countries are "to be resolved not by resorting to force but by diplomacy, mediation or arbitration" (Cullamar, 1993). This agreement is a basic relationship between the two countries, which includes several aspects such as maintaining peace and friendship, resolving disputes through diplomatic peaceful means, regulating traffic for citizens of both countries, and activities to enhance cooperation in the several fields including politics, economic problems and security of the two countries.

A landmark agreement was signed in 1956 on immigration and illegal entry to regulate the entry and exit of inhabitants of both countries. To encourage more exchanges in the cultural

field, a Cultural Agreement was forged in 1959, the first cultural pact of the Philippines with any Asian nation. This was followed by the agreements on border crossing, border patrol, and border trade. All these diplomatic-legal agreements, along with the exchange of state visits of the leaders of both countries, laid the foundation for bilateral relations between the Philippines and Indonesia (Cullamar, 1993).

In 1967, the two countries (together with Thailand, Singapore and Malaysia) established ASEAN to ensure peace and stability in the region. The two countries also build increasingly relations in regional and multilateral forums such as APEC, ASEM, East Asia Summit (EAS, East ASEAN Growth Area (BIMP-EAGA). Both countries have commitments to promote peace, security, stability and prosperity, especially in the Southeast Asia and Asia Pacific region (Setiawan, 2017).

Bilateral relations of Indonesia and the Philippines are reflected in the mutual visit of leaders and with high official of the two countries. In Addition, both countries also creat Joint Commission for Bilateral Cooperation (JCBC) which was first held in Manila, Philippines, in 1995. Indonesia-Philippines JCBC is a meeting to strengthen bilateral relations between Indonesia and the Philippines, to discuss several areas of cooperation. Ranging from economics, tourism, socio-cultural, to security. This cooperation has run quite well and has increased with the renewal of cooperation almost every three or four years, and until now it has reached the 6th meeting. The Joint Commission for Bilateral Cooperation (JCBC) is a meeting at the Minister of Foreign Affairs level to strengthen bilateral relations between Indonesia and the Philippines. the sixth meeting was held in Jakarta on February 24, 2014. The meeting, in addition to a progress made following the 5th JCBC in 2011 also produced 2014–2016 Indonesia – Philippines Plan of Action which the bilateral cooperation between the two

countries in various sectors that more targeted and structured (Saragih, 2014).

B. Economic Cooperation between Indonesia and the Philippines

Indonesia and the Philippines are ASEAN member countries and also member of ASEAN Original Signatories of Common Effective Preferential Tariff (CEPT) Asean Free Trade Area (AFTA) which is the main mechanism of AFTA, that signed by ASEAN Economic Ministers. The leaders of ASEAN countries launched the idea of establishing an ASEAN free trade area based on the idea that each country has enormous economic potential, which if facilitated through close cooperation between countries, would certainly bring great benefits to each country. Furthermore, the idea was created to create a free trade area in the ASEAN region, which would minimize barriers (both tariffs and non-tariffs) for each country to conduct trade activities with each other (Aspan, 2011).

In the 1980s and 1990s, when countries in various parts of the world began to make efforts to eliminate economic barriers, ASEAN member countries realized that the best way to cooperate was to open their economies to create mutual regional economic integration. The establishment of the AFTA implies in the form of reducing and eliminating tariffs for many products traded in the region of 0-5% in 2003 and eliminating tariffs for all products in the Inclusive List (IL) in 2010 for ASEAN-6 and 2015 for Cambodia, Laos, Myanmar and Vietnam.

Indonesia and the Philippines as ASEAN member countries are currently preparing themselves to face the ASEAN Economic Community 2015. The ASEAN Economic Community is a more advanced and comprehensive step from the ASEAN Free Trade Agreement. AEC Blueprint mandates trade liberalization of goods that are more meaningful than

CEPT-AFTA. The component of the free flow of goods includes significant reduction and elimination of tariffs and the elimination of non-tariff barriers in accordance with the AFTA scheme. Besides that, it is necessary to increase trade facilities which are expected to facilitate ASEAN trade flows. To realizing this condition, ASEAN member countries have agreed on the ASEAN Trade in goods Agreement (ATIGA) at the 14th ASEAN Summit on February 27, 2009 in Chaam, Thailand and entered into force on May 17, 2010. ATIGA is a codification of the overall ASEAN agreement in the liberalization and facilitation of trade in goods. Thus, ATIGA is a substitute for the CEPT Agreement as well as the improvement of the ASEAN agreement in comprehensive and integrative trade in goods which is in accordance with the agreement of ASEAN Economic Community (AEC) Blueprint related to the movement of goods flows as one element forming a single market and regional production base (Kementerian Perdagangan Republik Indonesia, 2013). ATIGA integrates all ASEAN initiatives related to trade in goods into a comprehensive framework, guaranteeing synergy and consistency among various initiatives. ATIGA will increase transparency, certainty and improve the AFTA-rules-based system which is very important for the ASEAN business community (Kementerian Luar Negeri Republik Indonesia, 2015).

In bilateral cooperation between Indonesia and the Philippines, especially in the economic field, various bilateral agreements in the economic field have been made and these agreements provide a strong foundation for the ongoing relations and economic cooperation between Indonesia and the Philippines. Several bilateral economic agreements owned by Indonesia and Philippines include:

- Air Transport Agreement (1972)
- Trade Agreement (1974)
- Agreement on Forestry (1974)

- Border Trade Agreement (1974)
- Agreement concerning the Promotion and Protection of Investment (2001)
- MoU on Tourism Cooperation (2001)
- MoU on Migrant Workers (2003)

Based on various bilateral agreements in the economic field, the relations and economic cooperation between the two countries continue to show improvement (Kedutaan Besar Republik Indonesia Manila, 2018). In addition, the two countries also conduct periodic meetings within the framework of the Joint Commission or Joint Commission on Bilateral Cooperation (JCBC). At the 6th JCBC meeting, the two countries agreed to strengthen economic cooperation in the fields of trade, investment, fisheries, tourism, forestry and energy. This commitment was further strengthened during the Republic of Indonesia's presidential visit to the Philippines on May 23-24, 2014 and on February 8-9, 2015 (Kedutaan Besar Republik Indonesia Manila, 2015).

The Government of Indonesia and Government of the Philippines have agreed to increase the volume of trade between the two countries to be doubled in 2016. This agreement delivered by President Joko Widodo in a joint press conference with President of the Philippines Benigno Aquino III (Setiawan A. , 2015).

“In terms of economic cooperation, we agreed to increase the trade volume to double by 2016. We also want to invite investment in the field of maritime, fisheries, energy, and wants to encourage cooperation in agriculture, fisheries, agriculture, pharmaceuticals and trade between state-owned enterprise (SOE),”

The agreement was reached at a bilateral meeting in 8 and 9 February 2015, between President Joko Widodo and President of the Republic of the Philippines Benigno Aquino III at

Malacanang Palace, Manila, Philippines. In the bilateral meeting the two heads of state also agreed to strengthen bilateral cooperation in various fields including trade and investment cooperation (Baihaqi, 2015).

C. Trade Between Indonesia and the Philippines

Tabel 3.1 Indonesia's Balance of trade with Philippines

Description	Value: USD Million					
	2012	2013	2014	2015	2016	2017
Total	4.507,3	4.594,3	4.587,5	4.604,7	6.092,6	7.486,5
Export	3.707,6	3.818,9	3.887,8	3.921,6	5.270,8	6.627,2
Import	799,7	777,3	699,7	683,1	821,8	859,3
Balance of Trade	2.907,9	3.039,6	3.188,1	3.238,5	4.449	5.767,9

Source: Kementerian Perdagangan Republik Indonesia, 2018

Indonesia is one of the Philippines' main trading partners. Based on data from the trade ministry, Indonesia's total trade with the Philippines in 2012 reached a value of USD 4,5 billion. The total trade consists of Indonesian exports to the Philippines of USD 3,707 billion and USD 799,71 million. Indonesia's trade surplus with the Philippines in 2012 amounted to USD 2,907 billion. For 2013, Indonesia's total trade with the Philippines reached USD 4,59 billion. The total trade consists of Indonesia's exports to the Philippines in the amount of USD 3,816 billion

and USD 777,38 million. Indonesia's trade surplus with the 2013 Philippines was USD 3,039 billion.

The next period, in 2014, Indonesia's total trade with the Philippines reached a value of USD 4,58 billion. The total trade consists of Indonesian exports to the Philippines of USD 3,887 billion and USD 699,73 million. In 2014 the trade surplus between Indonesia and the Philippines was USD 3,188 billion. For 2015, Indonesia's total trade with the Philippines reached USD 4,6 billion. The total trade consisted of Indonesian exports to the Philippines amounting to USD 3,921 billion and USD 683,08 million. Indonesia's trade surplus with the Philippines was USD 3,238 billion (Kementerian Perdagangan Republik Indonesia, 2018).

The trade value of Indonesia and the Philippines in 2012-2016 showed a positive trend of 6.24%. Indonesia's total trade with the Philippines reached USD 6,09 billion. The export value in 2016 was USD 5,27 billion, an increase compared to 2015 of USD 3,92 billion. While the value of Indonesia's imports in 2016 from the Philippines amounted to USD 821,8 million, so that Indonesia experienced a surplus of USD 4,449 billion (Kementerian Perdagangan Republik Indonesia, 2017). In addition, Indonesia's total trade in the Philippines in the 2017 period was USD 7,48 billion with export value recorded at USD 6,627 billion and imports amounting to USD 859,3 million. Indonesia's trade surplus with the Philippines in 2017 amounted to USD 5,74 billion (Kementerian Perdagangan Republik Indonesia, 2018).

From the development of Indonesian and the Philippine exports and imports that have been described previously, it shows that Indonesian exports to the Philippines are still strong enough to obtain a surplus each year compared to the Philippine exports. Indonesia's Main Export Commodities to the Philippines is:

- Coal
- Copper concentrate
- Cars with a cylinder capacity of 2.500cc
- Motor vehicle parts and accessories
- Coffee and tea instant
- Condensed petroleum
- Insecticides
- Tires

Indonesia's Main Import Commodities from the Philippines

- Vehicle parts and accessories
- Insulation cables
- Medical devices
- Copra
- Lenses, prisms, glass and other optical elements
- Electrical equipment and electric capacitors,
- Printing machines
- Vehicle gear boxes
- Centrifugal sugar
- Milk and cream powder
- Electric machine parts
- Semi equipment conductor.

The Philippines is a target for potential market expansion for Indonesian products. With a population of over 100 million, relatively high purchasing power and the highest economic growth rate in ASEAN, making the Philippines a target for high-value market expansion. This condition is supported by the excellent Indonesia-Philippines bilateral relations, reflected when Indonesia was chosen as the first country visited by Rodrigo Duterte after his inauguration as the 16th President of the Philippines. With its huge potential, certainly not a few business people are interested in expanding to the Philippines.

Indonesia continues to strengthen bilateral relations with the Philippines, not only political relations but also in the economic field including trade. The increasement was proven by Indonesia by continuing to be in a surplus position regarding the export of its products to the Philippines even though it had not yet achieved the wanted target. Furthermore this condition is expected to continue to increase so the positive trend in trade with the Philippines is increasing from year to year.