

### **Chapter III**

#### **The Development of Indonesia-China Trade Relation**

The system and policy of state could change along with the event or other things that influence the policy that would be taken, as well as Indonesia. System and policy of Indonesia also change along with time. The close relation of Indonesia and China also has role in influencing the Indonesia's government system and policy. The relation of Indonesia and China has been established since a long time ago, however it does not mean that the relation between both states always run in harmony. Both states ever have the diplomatic severance, caused by China interventions of Indonesia's domestic problem. However, finally both states able to solved the problem and reopen the diplomatic relation and also reopen the trading relation.

In order to examine the case, this chapter would be divided into five sub-chapters. The first sub-chapter would discuss about the process of Indonesia's changing economic policy. The next sub-chapter would examine about the history of Indonesia-China relation and the diplomatic severance between both states. The following sub-chapter would discuss about the normalization and the reopening of diplomatic relation between both states. The fourth sub-chapter would discuss specifically about the trading of Indonesia-China before the implementation of

ACFTA. For the final sub-chapter would discuss about the government steps to face the ACFTA.

#### **A. The Development of Indonesia Trading Policy**

Liberalism thought that international economy relation has to be in harmony and give benefit for whom that involve insides.<sup>1</sup> So if the international trade been freed from boundaries and government rules, every actor that involve could get benefit according with goods and service, so the wealth would increase. The developed states feel that the widening of trading system coverage is very important. There are three basic reason, namely: 1) competitiveness factor in international trade depend on service usage that getting bigger and also the advance technology, 2) the prospect to sell the service and export goods with high technology component to the developing states , and 3) the need of investment chance from developed states to developing states.<sup>2</sup>

Since the forming of World Trade Organisation (WTO) at 1995, the development of world trading experienced a rapid growth. The production network is globalized and China rise as a state with strong production and trading. This changing

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<sup>1</sup> Dr Mas'ud, Mohtar. *Ekonomi-Politik Internasional dan Pembangunan*, Pustaka Pelajar, Yogyakarta, 1994, page 42.

<sup>2</sup> Jhamtani, Hira. *WTO dan Penjajahan Kembali Dunia Ketiga*, Yogyakarta: INSISTPress, 2005, page 18.

pattern of world trading also influence the Indonesia trading performance. The international trading environment which change rapidly where the power of globalization trading and the capital flow is very strong, so the policy that been made also has to consider the domestic interest

The Success of trading reformation dan deregulation is strongly decided by some factors among them are the emphasize on the tight competition or gradually approachment. At a glance, the development of Indonesia trading policy could be seen on Table 3.1, as follow;

**Table 3.1. The Development of Indonesia's Trading Policy**

<b>Period</b>	<b>Policy</b>
1948 -1966	Economy nationalist, nationalization of Holland company
1967 -1973	Slightly trading liberalization
1974 -1981	Import substitution, booming of primer commodity and oil
1982-present	Trading liberalization and export orientation

Source: Nurhemi, Kerjasama Perdagangan Internasional, 2007

On the post independence era at 1948 until 1966, President Soekarno conducted a lot of nasionalization of Holland assets, the development of investment and economy relatively hasn't been really well, and in 1967 up to 1974, this period signed with the changing of order, and it was also change the Indonesia's economy to be more open, which is oriented on economy and free trade. Entering 1974 up to 1981, this era been marked by the booming of some primer commodity, such as

wood, rubber, etc. And also gas and oil commodity in Indonesia. At the same period, Indonesia imported a lot of capital goods. Meanwhile at the same time at 1982 up to present still apply the open economy and trading liberalization with also focusing the orientation of non oil and gas export.

#### **B. The History of Indonesia-China Relation And The Diplomatic Severance**

The development of international trade is forwarding to more be free and along with all kind of bilateral, regional, and multilateral cooperation form. One of the international trade main goal is trying to reduce or eliminate the trade barriers. World trade liberalization with international cooperation pattern is expected could give positive implication toward world economic growth. At the middle of 1980s, Preferential Trading Arrangements (PTA) growth as the complement of international cooperation. It's different with international cooperation, PTA involved two or more states. Based on PTA theory, the effect of two or more states that create the custom unions is the increasing of wealth from states that join to the union and do not cause the welfare decrease of states outside the union.

The more developing PTA pattern is the elimination of trade barriers or known as Free Trade Agreement (FTA). And also with Indonesia that has conducted the trading cooperation, either bilateral, regional, or international. Eventhough the role of Indonesia in all kind of trading cooperation give a chalengge toward domestic

product, the goal of those agreement are giving the positive effect toward the economy of states that involved and especially for Indonesia's economy. Related with regional area, Indonesia includes in ASEAN Free Trade Area (AFTA) that been signed on 28 January 1992. On the progress, the cooperation been widened by involving another states outside ASEAN, namely China which is known as ACFTA.

The relation between Indonesia-China actually has been started since centuries ago. The both states ever experienced a tidal relation because of the social and politic difference. Especially about trading realtion between Indonesia and China, previously been run through some connector state, such as Singapore and Hong Kong. After China opened their self in international trade then it was chnage and direct and open trading gradually conducted.

The position of China shifts into industrial state, which is getting closer to the advance of Japan and South Korea. Indonesia should advantages the economic growth and industrialization in China, which require a lot of industrial industry material, such as CPO, rubber, wood, and another raw material. Another sectors which require by China are sector of food, mine, and cultural products.

The China's economic growth at the last decade grown so fast, give a chance and also chalengge toward Indonesia. And also the enormous amount of China's citizen cause the national high consumption. This thing that becomes chance and

challenge and also economy strategy for Indonesia. China imported a lot and need raw material and also the supporting material to hold its rapid growth. The China's economic growth is above of 8%<sup>3</sup>. Even though with the recently global crisis lowered the China's growth to 6%. This thing give a big chance to Indonesia to market all kind of its natural resources to fulfil the China's neccesity. Ratification of China's growth as the economic powerful states in one side and international politic dynamic in the other side has given chance and attractive point for Indonesia to join the cooperation to form the regional architecture that could open the chance for their citizens to pursue the goal of peace, stability, and welfare. As the global power which has wide and strong economic range. Since the re-opening of economy and trading between China and other states, include Indonesia, China came as startegic partner for Asia region, and also for Indonesia for trading and investment cooperation sector.

The form of bilateral cooperation that ever been done between Indonesia and China absolutely can not be separated from the policy of both states. as known that political system is all action that more or less directly related with the policy making that bound the citizen; and every single social action that not consist of those

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<sup>3</sup> *Ekonomi China Tumbuh 10, 3%, Tercepat Setelah Krisis Finansial*, in <http://finance.detik.com/read/2011/01/20/110855/1550404/4/ekonomi-china-tumbuh-103-tercepat-setelah-krisis-finansia>. retrieved at March 19, 2011.

characteristic is not including in political system, and automatically would be viewed as external variable in that circumstance.<sup>4</sup>

The diplomatic relation between Indonesia-China has been running since 1950, but the beginning of this relation hasn't given a productive relation because the domestic situation in Indonesia and China that been busied by reconstruction process in the era of revolution. The diplomatic relation between Indonesia and China ever been frozen at October 1967 after the G30S/PKI, that caused by the role of China that supported PKI at that time. The China's struggles to reopen the diplomatic relation with Indonesia started to appear at 1985-1988. But the stance of Indonesia at that time was not directly give respond toward the struggle of China, because the G30S/PKI still left political hesitation for Indonesia to conducted the normalization of relation between both states.

The reopening of Indonesia-China diplomatic relation signed by the official visit of China Prime Minister to Indonesia at 6-10 August 1990 with the signing of Memorandum of Understanding (MoU) draft about the recovery of diplomatic relation, and also with the signing of economic and trading sector agreement draft between both states. The bilateral relation of Indonesia-China in economic sector,

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<sup>4</sup> David Easton, *Perbandingan Sistem Politik*, Gadjah Mada University Press, Yogyakarta 1993.

trading and engineering cooperation in the period of 1990/2000 is generally increasing.

### C. The Normalization of Indonesia China Relation

In the first year of economic and investment relation agreement was open, the trading value of Indonesia-China at 1999 experienced a rapid growth compare to previous year at 1998 namely rose 33, 1%.<sup>5</sup> According to central statistical agency (BPS), China's export to Indonesia at 2000 as much as US\$ 3, 06 billion, increase as much as 60% compare to previous year which is US\$ 906 million. The balance of Indonesia-China trading so far shown surplus for Indonesia namely with amount of US\$ 1,34 billion at 2000, where at 2000, Indonesia was the 14<sup>th</sup> state as the China's export destination state, and at 13<sup>th</sup> state as import source of China.<sup>6</sup>

With the economic growth that getting higher, it triggered to continue the trading relation the trading relation 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

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<sup>5</sup> Koesmawan. *Penentuan Jenis Komoditas Ekspor Indonesia ke China: Pemanfaatan Hubungan Perdagangan Indonesia-Cina*. Jurnal Ekonomi & Bisnis No.2 Jilid 7, Tahun 2002, page 7. In [www.repository.gunadarma.ac.id:8000/492/1/Koesmawan\\_86-95.pdf](http://www.repository.gunadarma.ac.id:8000/492/1/Koesmawan_86-95.pdf). Retrieved at March 19, 2011.

<sup>6</sup> Ibid. Page 8.



aim to strengthening and increasing the economy, trading, and investment cooperation between member states.

#### **D. Indonesia-China Trade Relation Pre-ACFTA**

The good trading relation between Indonesia-China has been built before the implementation of ACFTA ratification formed. Cooperation between both states also tend to increase in each years. this thing could be seen from the export-import sector from both states. the value of China's export to Indonesia at 2000 as big as US\$ 3,06 billion and at 2001 the export value became to US\$ 2,12 billion which mean decrease 6,19%. Meanwhile the export-import Indonesia to China of the gas and oil sector and the non oil and gas will be explain further in Indonesia-China trade balance in period of 2000-2003 as follow:<sup>7</sup>

**Table 3.1**  
**Indonesia- China Export – Import 2000-2003**

Year	Proteleum & Natural Gas				Non Proteluem & Natural Gas				Total Volume	
	Export	%	Import	%	Exports	%	Imports	%	Exports	Imports
2000	14,367	23,13	6,019	17,96	47,757	76,87	27,495	82,04	62,124	33,515
2001	12,636	22,44	5,472	17,67	43,685	77,56	25,490	82,33	56,321	50,962

<sup>7</sup> Huda, Nurul & Zulihar. *Perdagangan Bilateral Indonesia-China periode 2000-2009*, Dikta Ekonomi Volume 6 No. 3 December 2009. Page 188.

2002	12,113	21,19	6,526	20,86	45,064	78,81	24,763	79,14	57,159	31,289
2003	13,651	21,83	7,630	23,06	48,876	78,17	25,490	76,94	62,527	33,086

Source: central statistical agency

The trading that conducted by Indonesia with China for oil and gas industry or non oil and gas industry in the period of 2000-2003 experienced trading surplus, where the biggest surplus at 2003 as big as US\$ 29.441.000. Oil and gas import experienced a significant rise namely from US\$ 6.019.000 at 2000 became US\$ 11.732.000. the development of non oil and gas export in period of 2000-2003, there is only one Indonesia's export period to China that experienced decrease namely at 2001 with value of US\$ 47.757.000, meanwhile the following non oil and gas export period to China experienced increasing up to 2003.

At the period above is the period when ACFTA hasn't been implemented yet between ASEAN member states with China in cooperation of tariff reduction or elimination in export-import trading sector. Even though at that time the normal tariff still applied in sector of export-import between states, the trading balance between Indonesia-China keep experiences a significant increasing from year to year, even Indonesia experienced surplus from export to China.

**Table 3.2**  
**Indonesia China Export – Import 1990-2003**  
**(In Million US\$)**

Year	Indonesia Statistic		
	Total	Export	Import
1990	182.0	834.4	652.4
1991	355.9	1,190.9	835.0
1992	644.9	1,396.4	751.5
1993	386.0	1,250.0	864.0
1994	-47.3	1,321.7	1,369.0
1995	146.6	1,641.8	1,495.2
1996	459.9	2,057.5	1,597.6
1997	711.3	2,229.3	1,518.0
1998	925.8	1,832.0	906.2
1999	766.7	2,008.9	1,242.2
2000	745.8	2,767.7	2,021.9
2001	358.0	2,200.7	1,842.7
2002	476.0	2,903	2,427
2003	846.0	3,803	2,957

Source: central statistical agency

In the table above also shown that the trading between Indonesia and China still show the balanced trade. Start from the 1990, which is the first year of the re-opening of Indonesia-China relation, include the trading relation. The table above shown the trading activity before the ACFTA is applied and it shows 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 state.

#### **E. The government steps to face the ACFTA**

At 2001, in the meeting between China and ASEAN in Bandar Sri Begawan, Brunei Darussalam, China offer a proposal of ASEAN-China Free Trade Area for 10 years term. In the process, that negotiation continued through some steps. One year later, namely at 2002, the head of ASEAN was ready to signing the agreement frame of Comprehensive Economic Cooperation (CEC), which contain discussion about Free Trade Area (FTA). There is no doubt that the proposal that been offer by China was very interesting because China and ASEAN commonly see a big chance for the more significant economic growth through that agreement. The idea to cooperate in economy development came from China (Dewitari dkk, 2009).

China's economy development seems can't be stopped to be the one of the biggest economic power in the next two or three decades. Affordable product and a lot number of variation and the full support from China's government make other state hard to compete with them. According to international trade theory, the economy between states is strongly related, the economy condition in a state rapidly and easily spread to other states. In this current situation, the business and economy

advantage are no more based on strategy of comparative advantage, but lied on competitive advantage. Globalization changes the world economic structure fundamentally. Economic interdependency of states also strongly related, this strong related interdependency is not only happen between developed states, but also between developing states and developed states.

Export is one of foreign exchange source which is very required by state or region which has open economy characteristic such as Indonesia, because widely export to all states possible the increasing amount of production amount which trigger the economy so it expected could give a big role toward the economic stability and development. More over Indonesia just awake from the economy crysis and multi dimension crysis, and it makes Indonesia always try to develop its export and hold the economic recovery through the increasing of economic development by the entering of investment which also supported with the guarantee of spread, stability and certainty of law.

Developmet relatively require massive capital. But in other side, the ability of state to serve the capital in order to fastening the development is very limited. So one of the aspect in developing state development policy need to conduct some struggles to gain more fund. One of them is the increasing of investment either from domestic or foreign states.

Based on capital source which would be used for development, the capital source could be differentiated toward the domestic source and foreign source. Almost all of developing states is insufficient to funding the plan program and to gain the specific development level. This lack of capital could be fulfilled from foreign capital, either in form of foreign investment or foreign aid.

The foreign aid could be from government, international organization or private. The advantage of this foreign investment is possible the state to gain its development goals. So, if the required capital to conduct the planned development is bigger than capital that could be used for domestic development, the struggle of investment from foreign states is necessary to be conducted. The another advantage from foreign investment is been followed by the modern technology transfer and the flow of expertise worker. This factor could fasten the modernization process in sectors which accept the foreign capital and fill the require expertise. So, the foreign capital not only overcome the lack of capital to fund the development, but also to increase the development efficiency.

Related with government steps to face ACFTA, some struggle has to be run as soon as possible especially to protect the domestic seller and small to middle industry. The government of Indonesia has to recover the industrial sector supporting services especially in infrastructure recovery and supporting policy about that industrial sector. That step could be in form of decreasing the electricity tariff for industry to

push the production cost and also the enable of income tax for foreign products which has potency to kill the industry, and the government aid for small to middle industry, etc.

The government has duty to push the company which able to won the competition, and give the solution and alternative for company which loose in the competition and the worker is jobless (Kompas, 3 Februari 2010). The government need to give the stymulus in form of fiskal intencive to push the industry, namely the tax tariff is lowered or burdened by the government. The give of tax facility or DTP income tax need to conducted selectively by considering the facility toward the growth of industry. The government also could give the budget in form of subsidy toward the business actor or give the interest subsidy for the industry that fragile toward the negative impact of free trade (Suara Merdeka, 21 January 2010).

The other struggle that could be done by the government is cutting the tax for domestic industry, against the extortion toward industry, and give aid and bigger subsidy toward the business people, especially the small to middle business people in order to keep and developing their company. The government also has to encourage the people to love and buy the national product. That thing is very important because we have a big consumption potency. If it is been forwarded to local products, it could help the national industry and economy in generally. This thing should be supported with creation, innovation and local product quality, so it could be the priority of local consumer.