



## Indonesia- China relations: Challenges and Opportunities

*Rahul Mishra and Irfa Puspita Sari*

*Rahul Mishra is a Researcher at IDSAs. Irfa Puspita Sari teaches at Airlangga University, Surabaya, Indonesia.*

**November 22, 2010**

### **Summary**

During the course of their sixty year-old bilateral relationship, Indonesia and China have gone through many ups and downs. A great part of the formative years of this relationship was marred by mutual apathy, if not distrust. Over the last decade, however, things have started looking up, with massive trade flows and the opening up of new vistas of cooperation in a range of sectors. At the regional sub-systemic level, Indonesia-China relations are, to a great extent, still shaped up by the ASEAN-China relations. However, so long as China does not meddle in Indonesian domestic politics and does not try to fish in the troubled waters of the South China Sea, relations would go on to higher trajectories. So far, Jakarta has been successful in developing good ties with Beijing, while keeping Washington DC in good humour. Yet, maintaining a fine balance would be like a tight ropewalk for Jakarta, which has to keep its association with the US intact on one hand and strengthen bonds with the next-door super power China on the other.

In early November, a high level Chinese delegation made a three day visit to Jakarta. During the visit, it was announced that Beijing would invest US\$ 6.6 billion in the Republic of Indonesia (henceforth Indonesia). The lion's share of this amount would go for infrastructural development.<sup>1</sup> The timing of the delegation's visit and subsequent announcement were interesting as just a day later, on November 9, US President Barak Obama also arrived in Jakarta and flagged-off the US-Indonesia Comprehensive Partnership.

It is apparent now, at least unofficially, that the US is trying to re-engage the countries of the Southeast Asian region. The Peoples' Republic of China (henceforth China), which has extraordinarily improved its ties with Indonesia in recent years, is also jockeying for influence in the region. Both the US and China have realised that they cannot afford to ignore Indonesia - the largest of the ASEAN (Association of Southeast Asian Nations) member economies.

It is important to note here that Indonesia and China are celebrating sixty years of their relationship, which was established in 1950. In fact, Indonesia was the first among the countries of the region to have established diplomatic ties with China. The relationship developed slowly but steadily, and was significantly better during the 'Guided Democracy years'. However, Indonesia gradually became apprehensive of China's linkages with the Chinese diaspora in Indonesia. Owing to such fears, in 1959 and 1960, the Indonesian government promulgated two regulations that aimed at limiting the role of ethnic Chinese in Indonesian politics and economy. As a result, it created livelihood problems for ethnic Chinese, and led to serious disputes between Jakarta and Beijing.<sup>2</sup> The biggest issue in bilateral ties arose in the wake of the coup d'état in Indonesia in 1965, which had an affect on Beijing and the ethnic Chinese. The coup which involved the Partai Komunis Indonesia (PKI) resulted in the fall of Sukarno, the collapse of PKI and the rise of the army.<sup>3</sup> In the

---

<sup>1</sup> Also, on 25 October 2010, cooperation agreements ranging from infrastructure and creative industry to intellectual property rights protection were signed. The two countries signed more than 20 cooperation documents, covering steel, infrastructure, agriculture, high technology, creative industry and intellectual property rights protection. For details, see, [http://www.chinadaily.com.cn/bizchina/2010-10/26/content\\_11457871.htm](http://www.chinadaily.com.cn/bizchina/2010-10/26/content_11457871.htm) (accessed 29 October 2010).

<sup>2</sup> Leo Suryadinata, *China and the ASEAN States: The Ethnic Chinese Dimension*, (Singapore: Marshall Cavendish Academic, 2005), p. 23.

<sup>3</sup> By 1964, political competition in Indonesia had been reduced to the anti-communist army and the PKI, with Sukarno balancing in between. The PKI was the largest communist party outside of the USSR and China. The party, which could boast twenty million supporters, maintained close ties to its Chinese counterpart and had penetrated the military, particularly the air force and marines. Against a tension-filled backdrop of undeclared war, economic failure, local PKI challenges to Muslim interests, and uncertainties about Sukarno's death, the army-PKI conflict bubbling below the surface erupted on 30 September 1965, when PKI-backed leftist military elements attempted a coup. The coup leaders claimed to be pre-empting a planned coup by the army. The army's Strategic Reserve under General Suharto quickly regained control of the situation. A violent nationwide anti-communist campaign was sponsored by the army. The PKI and its associate fronts were wiped out. For details, see *ibid.*, p. 67.

eyes of the Indonesian army, both Beijing and the ethnic Chinese were involved in the coup. Beijing's attitude was hostile towards the new anti-communist authorities. Naturally, anti-Beijing and anti-ethnic Chinese campaigns were launched by the new Indonesian authorities.<sup>4</sup> Clearly, due to issues pertaining to the ethnic Chinese population settled in Indonesia, and the 'Big Brotherly attitude' on China's part, bilateral relations turned sour and eventually led to a complete freezing of relations in October 1967. This situation continued for the next twenty-three years, with relations returning to normalcy only in 1990.<sup>5</sup>

Indonesia was the hardest hit country in the region during the 1997 Asian Financial Crisis. While Indonesia's economy shrunk by 13.7 percent, China was able to maintain a consistent and appreciable level of economic growth. This bolstered the perception in Indonesia that China would emerge as an economic leader in the region. Some also speculated that China would replace Japan as the biggest economy of the region. China's position strengthened due to the apathy on the part of global multilateral institutions as well as the US.<sup>6</sup>

In a matter of just thirteen years, Indonesia-China relations have improved beyond recognition. The Indonesian minister for foreign affairs Marty Natalegawa opines that China has become an important strategic partner of Indonesia and developing a healthy relationship with China should be one of the priorities for Indonesia. From the then President Abdurrahman Wahid's visit to China on 24 July 2000 until incumbent President Susilo Bambang Yudhoyono's, there have been thirteen important high official visits from both sides. Indonesian presidents have visited China six times in these years, which demonstrates that China figures prominently in Indonesia's foreign policy calculus. Chinese president/premiers have visited Indonesia twice. Other than that, leaders of both countries have met thrice on other occasions. During former Indonesian president Megawati's visit to China in March 2004, Zhu Rong Ji had mentioned that Sino-Indonesia relations were at their best. On 5 July 2007, Susilo Bambang Yudhoyono received Chinese foreign minister Yang Jiechi, which was the first foreign visit of Yang Jiechi after being appointed as the foreign minister. It was hoped that the relations would reach new heights after the inking of Indonesia-China Strategic Partnership in 2005. However, some scholars on Indonesia believe that the Strategic Partnership has fallen short of expectations. What

---

<sup>4</sup> *ibid.*, p. 25.

<sup>5</sup> According to Rizal Sukma, "the logic of the "triangular threat" - the PRC, PKI and ethnic Chinese - prevented Jakarta from restoring diplomatic with Beijing for almost 23 years." For details, see Rizal Sukma, "Indonesia-China Relations: The Politics of Re-engagement," *Asian Survey*, Vol. 49, Issue 4, pp. 591-608.

<sup>6</sup> Rizal Sukma states that equally important was China's 'good neighbour' policy, demonstrated in the aftermath of the 1997 financial crisis and during the 2004 tsunami, which further consolidated the bilateral relationship. See *ibid.*, pp. 592-95.

the two countries need to do is strengthen bilateral ties through a more concrete 'Plan of Action' (PoA) as an implementation road map. The PoA is likely to be revised in 2010.

Bilateral trade and mutual economic interests have been the key factors driving the two countries closer. Bilateral trade has reached the \$30 billion mark in 2010. Today, China has surpassed the US and stands as the second largest trade partner of Indonesia, after Japan (Table 1).

**Table 1: Indonesia's top export partners in 2009**

Country	Trade Value
Japan	\$18,574,730,417
China	\$11,499,327,261
USA	\$10,889,078,628
Singapore	\$10,262,665,108
Rep. of Korea	\$8,145,207,923

Source: UN Comtrade Database, United Nations, 2009

So far as the Indonesia-China trade is concerned, it is evident from Table 2 A & B that the increase in Indonesia's imports has been much more than that of its exports. If we analyse the trends since 2005, there was an increase of \$794,033,598 in 2006, reaching up to \$8,159,307,385 by 2009. In the case of exports, from 2005 it has increased by an amount of \$4,836,973,456 by 2009, though there was a marginal decline between 2008 and 2009. This shows that there are still avenues for increasing trade between the two nations.

**Table 2 (A & B): Indonesia's imports and Exports from China**

(A)

Period	Trade Flow	Reporter	Partner	Trade Value
2005	Import	Indonesia	China	\$5,842,862,513
2006	Import	Indonesia	China	\$6,636,895,111
2007	Import	Indonesia	China	\$8,557,875,734
2008	Import	Indonesia	China	\$15,249,200,995
2009	Import	Indonesia	China	\$14,002,169,898

**(B)**

Period	Trade Flow	Reporter	Partner	Trade Value
2005	Export	Indonesia	China	\$6,662,353,805
2006	Export	Indonesia	China	\$8,343,571,337
2007	Export	Indonesia	China	\$9,675,512,723
2008	Export	Indonesia	China	\$11,636,503,721
2009	Export	Indonesia	China	\$11,499,327,261

Source: UN Comtrade Database, United Nations, 2009

Apparently, the implementation of the Free Trade Agreement with China has led to a \$3.61 billion deficit for Indonesia. It is clear that apart from other major sectors, Indonesian trade deficit with China in the non-oil and gas sector is also significant. It dropped from a surplus of \$79 million in 2004 to a deficit of \$7.16 billion in 2008. It is also said that since the signing of the ASEAN-China FTA in 2004, the jump in Indonesia's imports from China has been fuelled by the cut in import duties, among other things.<sup>7</sup> The negative impact of the FTA has been a matter of concern for Indonesia and it has taken up the issue with China recently.

Defence industry is another sector which is looking up in the Indonesia-China bilateral context. Despite the fact that it is at a nascent stage at the moment (Table 3), prospects of cooperation seem high. The July 2005 bilateral Memorandum of Understanding (MoU) on defence technology cooperation was signed during President Susilo Bambang Yudhoyono's state visit to China. Indonesia bought C-802 missiles from China in 2009. The Indonesian navy is also considering purchase of C-705 missiles. Also, in January 2010, Indonesian air force commander Air Marshal Imam Sufaat stated that the Indonesian air force may procure defence equipment from China in the years to come. Moreover, Indonesia and China are working on the possibility of setting up a technology council to be named as the inter-governmental military technology forum (MTF). It would enable China and Chinese state-owned industries to "participate in Indonesia's defence industry development programme, including joint production and implementation of transfer of technology."<sup>8</sup>

<sup>7</sup> <http://www.asean-cn.org/Item/987.aspx> (accessed 14 November 2010).

<sup>8</sup> <http://www.janes.com/articles/Janes-Defence-Weekly-2010/China-proposes-military-technology-forum-with-Indonesia.html> (accessed 30 October 2010).

Table 3

Transfer of Conventional Defence Equipments from China to Indonesia							
Indonesia-Recipient(R)/China-Supplier(S)	No. Ordered	Weapon Designation	Weapon Description	Year of order/License	Year(s) of Deliveries	No. Delivered/Produced	Comments
	3	C-802/CSS-N-8	Anti-Ship missile	2005	2008	3	Part of \$11.2 m deal; for PB-57 (Todak) FAC; for evaluation
	130	QW-3	Portable SAM	2006	2006-07	130	
	15	QW-3	Portable SAM	2007	2007	15	
	20	C-802/CSS-N-8	Anti-Ship missile	2008			For PB-57 (Todak) FAC
	80	QW-3	Portable SAM	2008			Part of \$35 m deal; for TD-200B SAM system

Source: SIPRI Arms Transfer Database.

Nevertheless, the rising bonhomie on economic and trade matters has not translated into a complete disappearance of Indonesia's apprehensions about China especially on the South China Sea issue. Indonesia (along with other Southeast Asian countries) is still wary of China's intentions, its growing military prowess and approach towards territorial disputes in the region. At the regional sub-systemic level, Indonesia's relations with China are, to a great extent, shaped by ASEAN-China relations. Due to domestic compulsions, Indonesia has preferred following the ASEAN in matters concerning China. Indonesia's military leadership has often viewed China as a politically and territorially unsatisfied revisionist power with expansionist designs.<sup>9</sup> Indonesia's vigilance toward China is shown, for instance, on the decision to support the Russian and US entry in the East Asia Summit on 20 July 2010. Russia and the US will be attending the EAS from 2011 onwards. Interestingly, the Indonesian approach on this issue has been remarkably consistent. Even a decade earlier, its concerns were voiced in a similar tone. For example, Juwono Sudarsono, the Vice Governor of Indonesia's national defence think tank *Lemhamnas* stated in August 1996 that Indonesia and ASEAN should prepare for the possibility of

<sup>9</sup> Donald E. Weatherbee, *International Relations in Southeast Asia* (Oxford: Rowman & Littlefield Publishers, Inc., 2005), pp. 70-82.

Chinese intrusion in the South China Sea. These apprehensions exist, till date, at all levels – political elite, media, and think tanks. As General Secretary of Indonesian foreign affairs Imron Cotan notes: “The rising China, India, and re-emerging Japan are the challenges that Indonesia needs to cope up with.”<sup>10</sup> This is one of the reasons why ASEAN decided in Bali Concord II and through Vientiane Action Programme to consolidate itself into an economic, socio-cultural, and security community.<sup>11</sup>

A quick look at the history of Indonesia-China relations tells us that the ethnic Chinese minority has been crucial in keeping them apart. The apprehension about the ethnic Chinese still exists, though it is no longer a popular perception. The popular perception is that it is impossible for 5 per cent of ethnic Chinese to take control of or influence Jakarta, politically or economically. However, one cannot overlook the possibility of an ethnic conflict in a scenario involving economic and political chaos, as had happened in the past; particularly in May and August 1998. Indonesian authorities have realised it well and, therefore, the government has taken steps to bring ethnic Chinese into the mainstream. New regulations have been promulgated that open new vistas for ethnic Chinese to get into public services, and also express their cultural likes and belief freely. The Government has recognised *Konghucu* as a religion, which further contributes to making Indonesia a multi-religious harmonious country.

China has also done its bit in this regard. For instance, in 1998, during the months-long riots against government policies, ethnic Chinese were the worst affected community. Still, the Chinese reaction was not only cautious but also mature and non-intervening. This created a positive atmosphere between the two countries as both the common man and the government of Indonesia could witness, for the first time in 50 years, a de-hyphenation between the ethnic Chinese and China!

Seemingly, the trend set in 1998 has been followed as Indonesia and China follow the policy of non-intervention in each other’s internal affairs. Except on the South China Sea dispute, they have followed the policy of respecting each other’s national unity and territorial integrity. While Indonesia approves of the ‘One China Policy’, China reciprocated the gesture at the United Nations on the East Timor issue.<sup>12</sup>

---

<sup>10</sup> Rizal Sukma, “Indonesia-China Relations: The Politics of Re-engagement,” *op. cit.*, pp. 591–608.

<sup>11</sup> Konsulat Jendral Republik Indonesia Frankfurt, Pidato Imron Cotan di Universitas Gajah Mada. Yogyakarta, 19 April 2008, [http://www.indonesia-frankfurt.de/index.php?option=com\\_content&view=category&layout=blog&id=49&Itemid=167&lang=id&limitstart=10](http://www.indonesia-frankfurt.de/index.php?option=com_content&view=category&layout=blog&id=49&Itemid=167&lang=id&limitstart=10) (accessed 14 November 2010).

<sup>12</sup> Megawati Sukarnoputri, the then Indonesian President, and her government refused Taiwan President’s request to visit Indonesia in 2002, on the ground that Indonesia believed in ‘One China Policy’. The Susilo Bambang Yudhoyono government also concurs with the views of the previous government.



So, what does the future of this relationship look like considering that it has been more off than on, in the past sixty years? According to one view, Indonesia still maintains its longstanding policy of *pancasha*, though it leans closer to Washington, which has been considered a time-tested partner of Indonesia. Also, competition seems to be slowly emerging between the US and China to engage the largest archipelagic nation of the world (and the Southeast Asian region as a whole) and the same has been echoed in the corridors of power.<sup>13</sup> It is believed that while the US is trying to put a check on China's hegemonic intentions in the region, the latter is trying hard to outsmart the US through economic cooperation and by offering a helping hand in times of trans-national regional crises.

However, in the past few years, Jakarta's suspicions about China has been slowly fading away and it is getting closer towards China militarily, economically and politically.<sup>14</sup> Indications are that China's economic success has outweighed the historical baggage and there seems to be a feeling in Indonesia that China would not meddle in domestic affairs in future. It is also appreciated that so long as the South China Sea issue remains peaceful, relations would go on to higher trajectories.

Indonesia has been, to a great extent, successful in developing good relations with both the US and China, keeping its core national interests as the guiding light. Nevertheless, considering the rapid rise of China, coupled with the swiftly changing power equation in the region, one may argue that maintaining a fine balance would be like a tight ropewalk for Indonesia, where it would have to keep its ties intact with the US on one hand and strengthen relations with the next door super power, China, on the other.

---

<sup>13</sup> As Juwono Sudarsono, the former Indonesian defence minister, points out, "we want to maintain a strategic space from the rivalry between the United States and China... We can navigate between that rivalry, from time to time giving out signals that both the United States and China are important to us, because if we align ourselves too closely, it would be detrimental to the core values of Indonesia's foreign policy. For further details see, <http://www.nytimes.com/2010/11/10/world/asia/10indo.html> (accessed 9 November 2010).

<sup>14</sup> For example, in one of the recent intriguing incidents, the Indonesian President skipped the US-ASEAN meeting in New York in September 2010. The meeting was aimed at putting diplomatic pressures on China on the South China Sea disputes.