

**INDONESIA- CHINA RELATIONS IN THE POST- SUHARTO PERIOD,  
1998- 2010**

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MASTER OF PHILOSOPHY**

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## **PREFACE**

This dissertation is an analysis of Indonesia China relations with India in the background. Indonesia's relations with China have been a matter of scholarly attention and debates for a long. A careful study of Indonesia's relation with China amply demonstrates that China has played a role not only in its foreign policy but also in its domestic policy and politics. The study of Indonesia's relations with its biggest neighbour has gained more critical importance to scholars of international relations for following reasons: the geographical boundaries of the region are increasingly losing importance as not only the global power USA has become the local actor in Southeast Asian regional politics but countries such as China, India and Japan are also making a significant impact on the region. In Southeast Asia, there is no security architecture in place, which can establish a structural framework of security in the region. Nonetheless, the emerging pattern of multilateralism and fluidity in regional integration of Southeast Asian countries does stand a chance to affect the region and shape the strategic future of the region. However, the most striking feature that makes the study interesting is the rise of China as a dominant power. The rise of China certainly is the great geo-political challenge of the 21<sup>st</sup> century with profound implications for the Southeast Asian region, and indeed the world. The post-Cold War foreign policy of Indonesia particularly emphasised upon the economic globalisation aspect and towards that end Jakarta reconfigured many of its bilateral relationships, particularly with countries in the neighbourhood. This study has found out why China has assumed such a critical position in Indonesia's foreign policy matters. Since a systematic and comprehensive work on China- Indonesia relations is lacking, this research is an attempt to fill up that void.

The introductory chapter has traced the purpose of undertaking this research and its general framework. This chapter attempts to present the essence of the entire research work by setting out a broad framework the latter has followed. It has introduced the subject and discusses Indonesia's perceptions of China. This has been done in the context of them being

prominent player in the Southeast Asian region, and more importantly in the context of views and perceptions of ASEAN (Association of Southeast Asian Nations) in economic, political and strategic context. This chapter, at first, briefly talks of the evolution of Indonesia's engagement with China. It then describes initial attempts made by both Indonesia and China to engage each other. The chapter finally reflects upon the transition in the Sino-Indonesia relationship in the post Suharto period. The second chapter has given an overview and analysis of main facets of Indonesian foreign policy. As is known, Indonesia and China engaged with each other not only bilaterally but also at regional levels. Three institutional engagements can be identified through which both Indonesia and China have been proactively engaged with each other and with other important stakeholders of the Southeast Asian region including ASEAN. These include the ASEAN Plus Three (APT), ASEAN Regional Forum (ARF) and the East Asia Summit. This chapter attempts at describing the debates about such engagements. Subsequently, it takes up the importance of regional groups in providing such a platform. While doing so, this chapter has taken different perceptions and schools of thought into consideration. This chapter, thus, has theoretical leanings. The Third Chapter is a survey of ethnic Chinese in Indonesia and their role in facilitating relations with China. The variables used for such an analysis is to trace the role of ethnic Chinese in trade, investment, tourism and people to people ties with China. The Fourth Chapter reflects upon the economic rise of Indonesia and China and subsequent evolution of Indonesia-China and ASEAN-China economic relations. The primary focus of the chapter is to bring to fore the reasons and consequences of politico-economic engagement between the two nations.

Towards the end, the dissertation has explained the evolving and changing trends of politico-economic engagement in the relationship. This chapter has focused on specific events of relevance, and the concluding chapter has focused on the nature of Indonesia's engagement with China at bilateral and regional level. The effort has been made to evaluate what roles Indonesia and China are playing in the region and how far they have been successful in forging the felling of partnership. Essentially, this chapter

includes a summary of the research to derive theoretical and policy conclusions.



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## DECLARATION

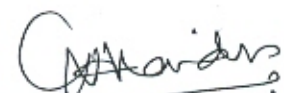
I declare that the dissertation entitled "Indonesia- China Relations in the Post Suharto Period, 1998- 2010" submitted by me for the award of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.




RASHMI SINGH

## CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.



Prof. G V C Naidu  
Chairperson, Centre Acronym



Prof. Ganganath Jha  
Supervisor

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# **Chapter- I**

## **INTRODUCTION**

Being the largest country of the Southeast Asian region, Indonesia has been a prime focus of scholarly debates on regional politics of the region. Indonesia's position on matters of international importance has always attracted world's attention. This is particularly important due to the fact that about 88 percent of Indonesian population is Muslim, and the country has the distinction of having world's largest Muslim population(<https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>). Indonesian leaders such as Sukarno and Suharto, in their own ways, have put Indonesia at the international stage in a prominent fashion.

In sixty-seven years of its independent existence, Indonesia has tried, and to some extent achieved, the goal of being a regional stakeholder with an autonomous foreign policy. In recent times, during two continuous terms of Susilo Bambang Yudhoyono, Indonesia has tried to reorient its foreign policy goals to emerge as a responsible power in the Southeast Asian region. The past two decades, in particular, have given a new direction to Indonesia's foreign policy in numerous ways. Sukarno and Suharto, the iconic leaders of Indonesia, had pursued contrasting approaches and power affiliations in every possible way. Sukarno was keen on projecting himself as the undisputed leader of Non-Aligned movement (NAM) but favourably inclined towards the socialist world. His successor Suharto formulated his foreign policy by toeing the US line to a large extent. Considering the emerging trends in Indonesia's foreign policy, one may argue that it has become an unique amalgamation of the two schools of thought and policy of adaptation to changing geopolitical and geo-strategic compulsions. Indonesia being the world's largest archipelago with the biggest Muslim population is again trying to gain the leadership position in the region through constructive and cooperative gestures and balanced bargaining between major powers. The nation is rising through participative democratization by reforming various institution and processes. Indonesia is being observed by the global community as an example of secular credentials and adopting a positive stance against terrorism. In the context of domestic and international challenges, Indonesia is a nation that is re-awakening.

Indonesia's contemporary foreign policy slogan is '*a thousand friends- zero enemy*' for the best of national interest, which was projected by the Ministry for Foreign Affairs in a statement released in January 2010 (Pushpitasari, 2010). It clearly articulated that it would improve relations with every nation through bilateral ties and multilateral institutions. It also aspires to promote justice and order in the international arena, better investment policy for economic development, democracy and consolidation in regional integration, protecting Indonesian nationals, particularly migrant workers, maintaining national unity, and striving for a more effective foreign policy mechanism (Sriyono, 2010). This slogan and the strategy that goes with it is a post-1998 crisis evolution (Pushpitasari, 2010). The process to reach there is difficult. Any nation would face serious problems when the rule maintained for more than three decades were to be suddenly transferred.

Indonesia's relations with the outside world have always been friendly, but relations with China have been cordial and often hostile. There are many issues of convergence and divergence between the relations of the two and an effort is made to analyze them in this research work. China, officially called as the People's Republic of China (PRC), is the most populous country in the world, with over 1.3 billion population and the world's second-largest country by land area. The People's Republic of China is a single-party state governed by the Communist Party of China. China has become the world's fastest-growing major economy, and the world's largest exporter and second-largest importer of goods (CIA fact-book 2011). China has made its relations with its Asian neighbours stable during the last decades of the 20<sup>th</sup> century. It has contributed to the stability in the Korean Peninsula, cultivated a more cooperative relationship with members of the Association of Southeast Asian Nations (ASEAN) and is an active member in the ASEAN Regional Forum. In 1997, the ASEAN member nations and the People's Republic of China, South Korea and Japan agreed to hold yearly talks to further strengthen regional cooperation, the ASEAN Plus Three meetings. In 2005, the "ASEAN Plus Three" countries together with India, Australia and New Zealand held the inaugural East Asia Summit (EAS) (Aseansec.org 2006). A territorial dispute with its Southeast Asian neighbors over islands in the South China Sea remains unresolved, as does another dispute in the East China Sea with Japan (Mishra, Rahul and Pushpitasari Irfa 2010).

China, which has rapidly become the preponderant economic power in Asia as well as at the world stage, has also become a major focus of Indonesia's foreign and economic policies. China has long regarded itself as the natural leader of Asia. Its US\$ 5 trillion economy is 10 times the size of Indonesia's. Its newfound wealth has enabled China to rapidly increase its military expenditure to nearly US\$ 100 billion in 2009, making it the second largest defence spender in the world after the US (SIPRI year book 2011). In contrast, Indonesia spent about US\$ 5 billion on its military in 2009. Indonesia and its Southeast Asian neighbours have become wary of the point that as China develops its capabilities, it may be able to extend its authority over the rest of the region. China's rise also provides a conundrum for Indonesia because it is cognizant of the fact that its own economic prospects are largely dependent on China. This stands relevant at the level of ASEAN as well due to the fact that trade between China and ASEAN grew at an average of 19 percent annually between 2005 and 2009. China became ASEAN's largest trading partner in 2009, up from the third position in 2008 (*Aseansec.org* 2010). China recognizes this, too. Over the past decade, it has courted Southeast Asia with a diplomatic 'charm offensive,' giving development aid, increasing its role in multilateral forums, and improving ties by setting up language and cultural centers, called 'Confucius Institutes,' throughout the region (<http://www.chinese.cn/>).

In terms of Indonesia's foreign policy and relationship with neighbouring countries, China holds a significant position (*Communiqué of the government of the People's Republic of China and the government of the republic of Indonesia on the resumption of diplomatic relations between the two countries*, 2004). In fact, Indonesia's relationship with China has been intriguing in a number of ways. China is not only the biggest neighbour of Indonesia, but it also has influenced Indonesia's domestic and foreign policy behaviour in a number of ways. Interestingly, Indonesia was the first Southeast Asian country that established diplomatic ties with China in 1950. During the course of their sixty year-old bilateral relationships, 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. In fact, from October 1967 till August 1990, Indonesia-China relations were frozen. 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.

China and Indonesia established diplomatic relations on April 13, 1950, which was suspended on October 30, 1967, due to the occurrence of the September 30 incident of 1965. The Thirtieth of September Movement (Indonesian: *Gerakan 30 September*, abbreviated as G30S) was a self-proclaimed organization of Indonesian National Armed Forces members who, in the early hours of October 1, 1965, assassinated six Indonesian Army Generals in an abortive *coup d'état*. At a later stage, the organization declared that it was in control of media and communication outlets and had taken President Sukarno under its protection (Weinstein 1976). By the end of the day, the coup attempt had failed in Jakarta. Meanwhile in Central Java there was an attempt to take control over an army division and several cities. By the time this rebellion was put down, two more senior officers were dead.

In the days and weeks that followed, the army blamed the coup attempt on the Indonesian Communist Party (PKI). Soon a campaign of mass killing was underway, which resulted in the death of hundreds of thousands of communists and PKI members (Weinstein 1976). The group's name was more commonly abbreviated "G30S/PKI" by those wanting to associate it with the PKI, and propaganda would refer to the group as *Gestapu* (for its similarity to "Gestapo", the name of the Nazi secret police).

The bilateral relations began to ease in 1980s. China's Foreign Minister Qian Qichen met with the Indonesian President Suharto and State Minister Moerdono of Indonesia in 1989 to discuss the resumption of diplomatic relations of the two countries. In December 1989, the two sides held talks on the technical issues regarding the normalization of bilateral relations and signed the Minutes. Foreign Minister Ali Alatas of Indonesia visited China on invitation in July 1990. The two sides issued the Agreement on the Settlement of Indonesia's Debt Obligation to China and the Communiqué on the Resumption of Diplomatic Relations between the two countries. The two countries also issued the "Communiqué on the Restoration of Diplomatic Relations between the Two Countries".

Premier Li Peng visited Indonesia on invitation on August 6, 1990. In his talks with President Suharto, the two sides expressed their willingness to improve relations

between the two countries on the basis of the Five Principles of Peaceful Co-Existence and the Ten Principles of the Bandung Conference. On August 8, China and Indonesia signed the Memorandum of Understanding on the Resumption of Diplomatic Relations. The two sides also declared the formal resumption of the diplomatic relations between China and Indonesia.

After resuming ties with China on August 8, 1990, Indonesia too put in lots of efforts to normalize the relations. As a result, the bilateral relations developed gradually and diplomatic ties between the two countries got a fillip due to a number of visits paid by the leaders of the two sides. From the Chinese side the then President Yang Shangkun (in 1991), Chairman of NPC Standing Committee Qiao Shi (in 1993) and Vice Premier Zhu Rongji (in 1996); Vice President Hu Jintao (in 2000) of China visited Indonesia. From the Indonesian side a number of visits were paid to bring warmth in the bilateral relationship. For instance, the Indonesian President Suharto (in 1990), Speaker of Parliament Suhud (in 1991), Vice President Sudarmono (in 1992) and Chairman of the Supreme Advisory Council Sudomo (in 1997) visited China. President Jiang Zemin of China paid a state visit to Indonesia in November 1994 after he attended the second APEC Leaders' Informal Meeting. In December 1999, President K.H. Abdurrahman Wahid of Indonesia paid a state visit to China, during which the two countries issued a joint press communiqué. In July 2000, Vice President Hu Jintao visited Indonesia at the invitation of Vice President Megawati Sukarnoputri. In November 2001, Premier Zhu Rongji paid a visit to Indonesia. In March 2002, Indonesian President Megawati Sukarnoputri paid a state visit to China. In April, President Abdurrahman Wahid of the Indonesian People's Consultative Assembly visited China (Novotny Daniel, 2010). In September, Chairman Li Peng of the NPC paid an official friendly visit to Indonesia (Novotny Daniel, 2010).

Additionally, starting from 1991, the foreign ministries of the two countries set up a consultation mechanism and it has held several times of consultations. In March 2002, the two countries exchanged notes in regard with the setup of Indonesian consulates general in Guangzhou. Indonesia has its Consulate-General in Hong Kong. In the years that followed the resumption of ties, relations improved by all means. The year 1998 is particularly important in this context. As it was only after 1998 that Indonesia- China relations begun to show significant signs of improvement and closer

cooperation. Such positive developments coincided with dramatic changes in Indonesia's domestic politics since May 1998 and China's changing policy toward Southeast Asia, especially on the ethnic Chinese issue (Sukma 2009).

Equally important, China's good neighbourhood policy toward Southeast Asia- as demonstrated in the aftermath of the 1997 crisis and during the 2004 tsunami- has further consolidated the bilateral relations (Sukma 2009). There are a number of reasons to believe that the Indonesia-China relations improved due to a number of pressing situations and the responses thereof. According to Rizal Sukma, China's responses to the 1997 economic crisis, the May 1998 riots in Indonesia, and the 2004-tsunami disaster are three cases of particular importance.

There is no amount of doubt that managing relations with China has been one of the most daunting tasks for Indonesia. From the outset, relations had been marred by Beijing's policy of actively seeking political and financial support from the ethnic Chinese domiciled in Indonesia and of providing political and financial support to the Indonesian Communist Party (Partai Komunis Indonesia/ PKI) (Fitzgerald, 1972). Because the position of both ethnic Chinese and the PKI in Indonesian domestic politics had been problematic, China's meddling served as a source of repeated tensions and upheavals in the bilateral relations (Justus M. Van derKroef 1970).

In contrast to its ambiguous attitude towards the United States Indonesia's relations with China in the early 21<sup>st</sup> century have displayed an overall upward tendency. While a decade ago an Indonesian leader asserted "if you (the Chinese) see you as being weak, they will eat you alive" (*The Wall Street Journal* 2006), the China threat is conspicuously missing in the contemporary Indonesian politics (Kompas 2004). Since the diplomatic relations between the two countries were re-established in 1990s, Jakarta has sought increasingly close economic, strategic partnership agreement on the sidelines of the Asian- African Summit in Bandung in April 2005 was hailed in Jakarta as a " really significant...opportunity to engage China and initiate a strategic cooperation" (*Media Indonesia* 2005).

For Indonesia, China's revolutionary foreign policy of actively supporting communist insurgencies in Indonesia and other Southeast Asian countries only served

to confirm China's determination to export communism and instill instability in non-communist states of the region. The New Order government, especially the Indonesian military, portrayed China's subversion, to be carried out via the remnants of the PKI and the ethnic Chinese minority, as the main threat to Indonesia's national security.

It was the logic of triangular threat- the PRC, PKI and the ethnic Chinese- that prevented Jakarta from restoring diplomatic ties with Beijing for almost 23 years (Sukma 1999). Diplomatic relations between Indonesia was finally restored in August 1990. The decision to restore diplomatic relations with China was in fact taken in February 1989 when President Suharto met Chinese Foreign Minister Qian Qichen in Tokyo while they were there to attend the funeral of Japan's Emperor Hirohito. However, this didn't mean a complete break from the old pattern. In fact, for Indonesia, the newly restored relations did not point to the opening of a complete new chapter. In the years immediately following restoration, Indonesia- China relations didn't improve significantly. It took a while for both sides to adjust themselves to the reality that the new relationship would continue to be overshadowed by the unhappy history of their past. Four main characteristics of the relationship can be identified during this period:

First, the resumption of diplomatic relations did not immediately remove the thorny issues between the two countries. Suspicion and sensitivity continued to characterize Indonesia's attitude towards China. Indonesia's government accused China of interfering in its internal affairs and warned that China should better mind its own internal affairs. This is in close connection with the points raised by Weinstein who argued that two-third of his respondents saw China as a real threat and more than half of them pointed to China as the principal threat to Indonesia. All in all, China was seen as a greater threat than any other country, including the US and Soviet Union (Weinstein 1976).

Interestingly, in November 2010, 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 (ibid. no. 5. P. 72). 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 (Novotny 2010).

The timing of the delegation's visit and subsequent announcement were interesting as just a day later, on November 9 2010, 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 (Mishra & Pushpitasari 2010).

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 (Suryadinata 2005). 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. 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 (Suryadinata 2005).

In the 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 (Suryadinata 2005). 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 (Suryadinata 2005). According to Rizal Sukma, "the logic of the "triangular threat"- the PRC, PKI and ethnic Chinese - prevented Jakarta from restoring diplomatic ties with Beijing for almost 23 years (Sukma 2009).

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. There were some intellectuals who 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 (Sukma 2009). 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 (Sukma 2009).

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 demonstrate 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 Rongji 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 the two countries need to do is to strengthen bilateral ties through a more concrete 'Plan of Action' (PoA) as an implementation road map. The PoA was likely to be revised in post 2010 period. Bilateral trade and mutual economic interests have been the key factors driving the two countries closer. Bilateral trade has reached the \$74.2 billion mark in 2010 ([http://www.china.org.cn/business/2011-05/01/content\\_22473185.htm](http://www.china.org.cn/business/2011-05/01/content_22473185.htm)). Today, China has surpassed the US and stands as the second largest trade partner of Indonesia, after Japan.

So far as the Indonesia-China trade is concerned, 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 (Mishra & Pushpita Sari 2010).

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 (<http://www.asean-cn.org> 2010). 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, prospects of cooperation seem high (Mishra & Pushpita Sari 2010). 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 defense 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 defense industry development programme, including joint production and implementation of transfer of technology (<http://www.janes.com> 2010).

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, ASEAN-China relations shape Indonesia's relations with China. 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 (Johnston & Ross 1999). 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 (Weatherbee 2005). 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 the 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." (Sukma 1999). 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 (Novotny 2010).

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 recognized 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. 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 (Novotny 2010). 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 have been slowly fading away and it is getting closer towards China militarily, economically and politically (Novotny 2010). 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 (Johnston & Ross 1999).

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. 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 (Mishra & Pushpita Sari 2010). 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.

## **REVIEW OF LITERATURE:**

As is evident from the above, the concept of an independent and active foreign policy served as a way of sustaining domestic priorities designed to overcome economic, social and administrative shortcomings. It catered also for a national mood coloured by the recent experience of national revolution and, as such, was regarded as a strict standard of conduct by which governments could be judged. Accordingly, intense competition between political parties of divergent views and constituencies' encompassed foreign policy issues, which were drawn into the domestic process (Leifer, 1983). The same applies in the case of Indonesia's relations with China owing to deep ethnic linkages between Indonesian Chinese and their roots in China. Presence of large number of ethnic Chinese has always been a determining factor in Indonesia's relationship with China. In that regard it can be said that central to China-Indonesia relationship was a major domestic problem, namely, the status of the resident Chinese community in Indonesia. Their conspicuous and influential economic role under the Dutch and since independence has long been the object of envy and suspicion. Apprehension that they might serve as an alien fifth column had been sustained by China's retention of traditional nationality laws which employed the concept of *jus sanguine* whereby racial identity defined citizenship (Leifer 1983). The Indonesians had also been disturbed by the refusal of a significant proportion of the resident Chinese community to take up citizenship after independence, and were keen to deny dual nationality and loyalties. Accordingly, they responded to a general invitation to negotiate on this issue from the Chinese government.

Subsequently, the talks begun in Beijing in November 1954 and continued in Indonesia in prior to and during the course of Bandung Conference. On 22 April 1955 Premier Chou En-Lai and foreign minister Sunario signed a treaty in which the doctrine of *jus sanguinis* was renounced and Chinese residents of Indonesia who had

not acquired citizenship were accorded the right to choose between the two nationalities within two years (Fitzgerald 1972). The dual nationality treaty marked a practical step in the development of a new relationship but did not eradicate basic Sino-Indonesian tensions over the resident Chinese community. Ratification of the treaty was delayed until December 1957 because of domestic opposition to the procedure of acquiring citizenship. Moreover, legislation passed in Indonesia in 1958 contravened both the letter and spirit of the treaty, while attendant measures to exclude 'alien' Chinese from retail trade in rural areas had political repercussions that marred Indonesia's relationship with China. It was only with Sukarno's effective assertion of dominance over foreign policy at the turn of the decade that Sino-Indonesian relationship progressed in political terms (Leifer, 1983). Therefore, it is evident that the ethnic factor has played a key role in Indonesia's relationship with China.

A closer look at the tradition of Indonesian foreign policy practice, particularly with regard to the Indonesian policy making elite, tells us that where the foreign policy elite of an underdeveloped country perceives the world as hostile, intense political competition will lead the country toward a foreign policy that puts independence first, while a less competitive situation will permit a policy that accords priority to search for aid' (Weinstein 1976). Though the context has changed over a period due to the systemic, sub-systemic and domestic political factors, the fact remains that though Indonesia is a rapidly developing economy now, the dilemma of dependence still persists. These dilemmas play a key role in determining the Indonesian approach towards China and its approach towards the country.

There are no two views on the point that that the Post-Cold War debates over the appropriate policy response reflect a dilemma faced by leaders throughout history- how to respond to a rising power in a manner consistent with both their countries' short-term parochial national interest and their instrumental and/or normative interests in global order, particularly the absence of power war. Throughout history, the emergence of great powers has been a turbulent process and diplomats and policy makers have long grappled, usually unsuccessfully, with developing constructive policy responses. The literature on history of nations amply demonstrates the relationship between the rise of new powers and a major war, and the diplomacy



aimed at managing great power conflict. One of the major aspects of Indonesian foreign relations in the past two decades has been the Indonesian attempt to try and seek a balance between China and the US. It is widely believed that so far as the US-China power game is concerned, rise of China, to a great extent, is welcome insofar as it provides a sense of security to Indonesia.

*The end of the Cold War, one of the most significant debates in international relations has been the question of whether the rise of China as a major economic, political and military power will be a force for stability or instability in the international system and the East Asian region (Lee and Story 2002). It is therefore pertinent to examine the perceptions of the 'China threat', and governments' policies in response to the perceived threat in a wide range of countries, including the US, Russia, Europe, Japan, South Asia, Southeast Asia and the Middle East, as well as the perceptions of the Chinese themselves (Lee & Story 2002). It can therefore be said that as the Sino-US relations are getting increasingly tense, the issue is dominating the security agenda in the Asia-Pacific region, and now poses the biggest foreign policy challenge of the twenty-first century.*

Interestingly, changes in Indonesia's policies towards China were more a manifestation of various changes in domestic politics than a reflection of changes in elite and public perceptions (Sukma 2000). They also served as a function of change in China's policy, especially on the question of the ethnic Chinese minority, and its policy towards Southeast Asia in general. Sukarno's diplomatic alliance with China in 1963-65, for example, was motivated by Indonesia's foreign policy interests in challenging the existing international order, those foreign policy interests were a function of revolutionary domestic politics. The subsequent breakdown of diplomatic ties under President Suharto resulted from significant changes in Indonesia's domestic politics and served to strengthen the legitimacy of his regime. When the basis of that legitimacy changed, Suharto also changed his policy towards China by restoring diplomatic ties in 1990. The shift in Wahid's policy has also been shaped more by changes in Indonesia's domestic politics and requirements than by significant changes in perceptions of China. The core of this argument is that the future course of Indonesia-China relations, despite recent improvements, will continue to be subject to changes in Indonesia's domestic political arena. Judging from current trends in

Indonesian politics, the challenges to Indonesia-China relations will likely to come from the unresolved problem of the ethnic Chinese minority, the democratization process, the nature of civil-military relations, the growing role of Islam, and Jakarta's perceptions of China's regional policy in Southeast Asia.

It is important to note here that an understanding of domestic forces in Indonesian policy towards China is of paramount importance to any understanding on how bilateral relations will develop in the years to come. However, the uncertainties rising out of China's rise have become a major factor in China's relations with its Southeast Asian neighbours, particularly Indonesia.

Another interesting aspect of Indonesia-China equation is Indonesia's management of its relationship with both China and the US. An attempt, therefore, holds relevance to understand the pressures that policy-makers face as the world moves into a new age of two great powers after the collapse of the Soviet system and a generation of unchallengeable U.S. dominance.

In fact, there indeed is the focus on how an Asian century and world's largest Muslim country, yet with a powerful Chinese minority, finds its way between the US and, its friend since 1960s, and a growingly powerful China, keen to asserts its ascendancy in its region. The questions that arise are about how foreign policy is made; to what extent are the policies of modern states dictated by their material facts of life- their geographical boundaries, the richness of their economies, the ethnicities of their people? Or do foreign policies get made by small elites who constantly balance their own interests, prejudices, and long-term judgments against the pressures of domestic politics?

It is therefore important to get at the mind of a bureaucracy and a state's elite as they formulate policy towards the world outside their political boundaries. Though it is important to focus on China and the United States, Indonesia's relations with its ASEAN partners can never be ignored, because as the largest country in ASEAN, Indonesia has the potential to exert greater influence in world affairs. One of the tests for its policy-makers is to make this advantage work effectively, both to enhance Indonesia's national interests and those of Southeast Asia and ASEAN generally. One

cannot therefore overlook the peculiarities and complexities of the Indonesian experiment that have tended to be overlooked (Novotny 2010). Taking cues from the point such as that of the threat perceptions of Indonesian elites in what they regarded in the 1990s and 1970s as a hostile world (Novotny 2010). One must not forget here that world continues to look threatening from an Indonesian perspective but that elites are more divided than they once were about where the most serious threats came from. There is agreement, however, that internal disarray, encouraged by outside ill wishers, rather than outright attack on the country's borders, poses the greatest threat. Apparently, though the diplomatic relations was resumed in 1990, it took Indonesia eight more years to look at China as a friend. Three peculiar cases can be emphasized upon here such as: China's responses to the 1997 economic crisis, the May 1998 riots in Indonesia, and the 2004 tsunami disaster (Sukma 2000).

China's relations with ASEAN member countries have a matter of scholarly argumentation. This is for a variety of reasons. China was the country against which the very basics of ASEAN were formulated. ASEAN was established against a possible Chinese communist threat in 1967. Cold War ended in 1991, so did the hostility between the neighbours, interesting however it is to note that China has developed such good relations with its neighbours within a matter of one and half decade (Saw Swee-Hock, ShengLijun & Chin Kin Wah 2005). The global implications of China's rise are nowhere more evident than in its relations with ASEAN. To the growing mountain of literature on ASEAN-China relations, this conference volume adds the authoritative views of thirty scholars, policy experts, and government officials from China and almost every country in ASEAN, including the ASEAN Secretary-General, and senior representatives from China's Ministries of Foreign Affairs, Defence, Commerce, and the Chinese Academy of Social Sciences. The ASEAN-China Programme of the Institute of Southeast Asian Studies (ISEAS) convened the conference in June 2004 as part of an ongoing study of ASEAN-China relations (Saw Swee-Hock, ShengLijun and Chin Kin Wah 2005).

At the outset, the editors provide a very useful and well-organized chronology and overview of ASEAN-China Relations that serve as an executive summary for the book. Twenty-four chapters explore two main themes, regional security (ASEAN Regional Forum, ASEAN + 1, ASEAN + 3, maritime security) and economic

integration, in particular, through CAFTA, the China-ASEAN Free Trade Agreement. Of all the bilateral and sub-regional FTA's that have been implemented or are under negotiation in East Asia, CAFTA is the most influential one with the largest growth potential, involving the most members. It will compose a unified market with 1.8 billion people, US\$2 trillion of GDP, US\$1.7 trillion total trade volume and more than US\$600 billion of foreign reserves. What effects will CAFTA have on domestic economies? Will it accelerate a hollowing out of ASEAN industries? Zhang Xiaoji (2005) examines how CAFTA can help avoid damage from the trade diversion effects of the European Union and the North American Free Trade Agreement. Japan is by far the most powerful economy in East Asia; however, the author asserts that its weak political status, mercantilist policies, and conservative agricultural policies have prevented Japan from playing a core role in the region. He details how national growth capabilities can be enhanced by expanding intra-regional trade; for example, in IT products and components. He cautions, however, that ASEAN's consensus decision-making principle requires "ten separate negotiations with ten ASEAN countries.

ASEAN has made a strategic readjustment to increase both American and Japanese security and military influence in Southeast Asia in an effort to balance China's increasing economic influence (Lin 2007). A 'resurgence of tension', which can hardly be about ornithology and tourism (Rosenburg 2005). It is largely about China and Japan's growing need to secure control over natural resources, especially offshore oil and gas. Joint development programs have been proposed but not yet implemented. There are many pointers with regard to ASEAN and China's regional security: step up naval training exercises with counter-terrorism and anti-piracy components, and expand participation in the US-led Cobra Gold military cooperation exercises. China could further diffuse tensions, he suggests, by abandoning its broken-line maritime boundary claim and freezing its activities concerning disputed areas.

The South China Sea territorial disputes, once seen as potential flashpoints, have been substantially mitigated by the 2002 Declaration on the Conduct of Parties, according to Gao Zhiguo (2007). China has a substantial stake in making the

agreement effective, as it limits the internationalization of the disputes; i.e., no involvement by non-ASEAN parties such as the U.S. or Japan.

According to the optimal standard of progress toward common goals of regional security and economic integration, ASEAN-China relations must contend with three formidable challenges: how to cope with a rising China when it becomes a superpower in its own right; in an East Asian region with – for the first time – both a strong China and a strong Japan; and with a United States which aims to maintain its sole superpower status. Toward this end, China's foreign policy reorientation and post-Cold War global market forces have opened an extraordinary window of opportunity for strengthening ASEAN-China relations. The idea of constructing a security community to meet up the challenges facing the region has also been suggested by scholars (Acharya 2002). However, such a possibility is still weak, as the region security mechanisms are not effectively being utilized.

Political history tells us that the rise of a Superpower has rarely been frictionless and often entails violence accompanied by changes in the very core of power politics. Projecting our past experiences into future, it can very well be argued that uncertainties posed by rising China might lead to a rupture in existing balance of power politics. This might turn violent, as was the case with rise of Germany in 1914 or Japan in 1930's. China still has unsettled territorial and maritime disputes with its neighbours. DiaoYadao and the South China Sea dispute and the territorial disputes with Indonesia still pose a challenge to China's 'Peaceful Rise'. There are several challenges and stumbling blocks on the road, as maritime borders pose a specific challenge to the Chinese government as with other states which have liberalized their economies with export orientation as the important aspect with China's maritime trade increasing as a proportion of its overall GDP figures in the last more than a decade, any controlled conflict over sovereignty issues of island could affect drastically trade figures. In addition, for fuelling economic growth rates, China started importing oil and gas with such imports reaching about 130 million tons in 2005 (Kondapalli 2009). As some of these islands such as those in South China Sea and vicinity of DiaoYudao have reported potential energy resources, China's shift in attention towards these islands is natural. On the contrary, land borders with Indonesia have not indicated any strategic reserves. Nevertheless, this dispute, if

unresolved or not controlled, could also affect the rise of China in several ways (Kondapalli 2009).

The Indonesian response to this unfolding strategic scenario in Southeast Asia and coherence of underlying objectives has been a matter of scholarly argumentation. Plurality of expert opinion, with some generalization makes it clear that no single strand of argument encompasses the moves Indonesia has made in the past. Evidently, stated explanations are simplistic to an extent as foreign policy making is rarely based on a single agenda. A number of objectives guide the shaping of long-term policy. Nevertheless, a logical prioritization/gradation of objectives is indispensable, if strategic choices are to be consistent and coherent. An important motive of the proposed study is to unravel this gradation of Indonesian objectives with respect to the Southeast Asia; and construction of an analytical-model based on broader objectives of Indonesian foreign policy to explain, and if possible, to predict Indonesia's strategic behaviour in the region. How the countries of the region are responding to this engagement will also be scrutinized.

Seemingly, one cannot rule out the possibility of China's potentially violent behavior and the possibility of conflict in the region. It helps build the premise of the study, that current approaches by policy makers increase the likelihood of conflict and the strategy to build enduring regional security framework should be adopted (Tow 2001). Yahuda's approach could further give us inputs on the issue from a historical perspective tracing the politics of Asia-Pacific since the end of Second World War. Though, the revised edition tangentially deals with the issues such as globalization and the rise of China, it fails to properly address the new realities of the post Cold War world. The shortcoming in majority of these works is that an important player of the region- Indonesia and its role in the region has not been given due attention (Yahuda 2006).

The proposed study is of critical importance to scholars of international relations for following reasons: the geographical boundaries of the region are increasingly losing importance as not only the global power USA has become the local actor in Southeast Asian politics but countries like India and China are also making a significant impact on the region. In Southeast Asia, there is no security

architecture in place to create a structural framework of security. Additionally, the regional consultation mechanisms in the region are weak, if not non-existent. (Chellaney 2006) Nonetheless, the emerging pattern of multilateralism and fluidity in regional integration of Southeast Asian countries does stand a chance to affect the region and shape the strategic future of the region. However, the most striking feature that makes the study interesting is the rise of China as a super power. The rise of China certainly is the great geo-political challenge of the 21<sup>st</sup> century with profound implications for the Asia-Pacific region, and indeed the world. The post-Cold war foreign policy of Indonesia particularly emphasised upon the economic globalization aspect and towards that end Jakarta reconfigured many of its bilateral relationships, particularly with the ASEAN. However even as it does so, Jakarta has realized that in large part its rise as a great power will be the sum of its influence in the Asian continent. Therefore even as greater attention is being given to Europe and the US, China too has begun to feature prominently on Indonesia's strategic radar. Therefore, arises the rationale of the study.

Assuming that there is, indeed, a set of coherent objectives, which shape the Indonesian policy towards the ASEAN region, and more importantly towards China. An interesting question arises regarding the range and efficacy of feasible instruments for Indonesia to carry out these objectives.

Since a systematic and comprehensive work on the issue discussed above is lacking, a systematic study of Indonesian engagement with China and Chinese engagement with the ASEAN region has the potential to produce fruitful research and make a major contribution to existing literature. This underscores the centrality of this research work.

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## **Chapter-2**

## MAINSPRINGS OF INDONESIAN FOREIGN POLICY

Ever since Indonesia achieved its independence, it has been striving to maintain an independent foreign policy, which remains clear of the dictates of big powers. Maintaining a fine balance in foreign policy has not been an easy task, however. Evidently, the Indonesian foreign policy has always considered situations within a series of circles (Anwar, 1994) in which it plays a geo-political and geo-economic role: the world at large, the Asia-Pacific region; the Indian Ocean Rim region; the South Pacific, East Asia and Southeast Asia or the ASEAN region. In addition to this, the domestic factors have also played a key role in determining the foreign policy practice of Indonesia. This is particularly true in case of Indonesia's relations with its immediate neighbours. It can, therefore, be safely argued that the interactions in all of these geographic circles are major factors in the shaping of Indonesian foreign policy, including and especially the Indonesian domestic situation. This chapter suggests that it is the domestic factor that determines Indonesia's foreign policy aspirations and capability more prominently although historical, economic, geographical, ideological and strategic factors are also important.

Looking at the historical factors, Indonesia-China relations faced difficulties regarding the Chinese minority issues. From Dutch colonization era, ethnic Chinese enjoyed privilege treatments and dominated retail trade in overall Indonesia regions. This caused domestic movement and influenced the anti-Chinese sentiment. Indonesia government then on 1959 enacted trade policy that bans foreigners to be a retailer in rural district. Furthermore, ABRI (Angkatan Bersenjata Republik Indonesia/Indonesia Military Force) pushed Indonesian Chinese to move from village and caused chaos. Chinese government protested this policy and suggested the Indonesian Chinese to resist (Agung 1973). This intrusive action in Indonesia domestic affairs was better understood as its strategy to get Chinese overseas support regarding Taiwan. It was widely known that Chinese overseas in Southeast Asia and Indonesia in particular was a significant funding source for Taiwan. Hence winning their support means the financial support for Taiwan can be eliminated (Mozingo and Tucker 1976).PKI, however, supported Indonesian Chinese because during that time China government using the Chinese overseas to spread communism. Therefore the dispute with ABRI

became more intense. Soekarno, however, was trying to balance the power between ABRI and PKI to favor China as its support remained important for Indonesia. Nevertheless, on 1965 PKI (Partai Komunis Indonesia/Indonesian Communist Party) was accused in committing coup to ABRI with China as its initiator. This was the reason which led Indonesia to break its diplomatic relations with China on 1967, even though China's involvement was still unclear.

China's changing policy as well as changing condition in international order in 1970s made possible for Indonesia to reassess its relation with China. By then, Deplu (Departemen Luar Negeri/ Ministry of Foreign Affairs) had been trying to restore Indonesia relations with China. In addition, KADIN (Kamar Dagang dan Industri Indonesia/Indonesia Chamber of Commerce and Industry) sent its delegation to visit China for trade exhibition and to meet China high officials to discuss about Indonesia-China trade relations and the possibility of resumption its direct trade link. Nevertheless, ABRI and Soeharto still insisted to block the idea because they argued that China ideology was a threat to internal security and stability (Sukma 2004:90-92). Indonesia finally restored its trade relations in July 1985 because of the needs to expand non-oil export market and the fact that indirect trade link benefited the third party but became barriers for businessman in doing transactions (Sukma 2004:143-145) The trade opportunities that Indonesia might achieved for resuming relations with China was considered as a bridge between domestic entities in Indonesia, namely ABRI and Soeharto, to finally agree on the resumption of full diplomatic ties with China in 1990. During the early years of normalization, however, the relations were still influenced by a nuance of suspicious of China's actions. Indonesian government and ABRI in particular still carefully assessed any possible threat from China that might threat Pancasila as the state's principle.

Geographical factors also forced China to shape its diplomatic relations with Indonesia, as Indonesia is not only a resourceful country but also strategically located and has regional and international reputation. Nowadays, Indonesia is the largest palm oil producer in the world, the second largest coffee and rubber producer, the third largest cocoa producer and the fourth largest capture fisheries producer with vastly diversified products. Furthermore, Indonesia also has the largest estimated geothermal energy reserves in the world at approximately 27 GW or 40% of the global total. In

addition, Indonesia has a huge potential population as the majority (60%) of its 240 million populations consists of people aged less than 29 years old. Its growing middle-class people also made Indonesia market more promising for other countries.(Burson-Marsteller Indonesia. 2012), (Coordinating Ministry for Economic Affair 2011). Indonesia is also strategically located in the heart of East Asia as the fastest growing region in the world. The Malaccan Straits, which is one of the busiest international sea lanes, enables Indonesia to have straight access to the center of world's economic growth. This proximity location, give an absolute advantage for Indonesia. The required time to reach China as the promising country only takes 5 (five) hours travel (Coordinating Ministry for Economic Affair 2011:18). Cheaper transportation for production input -raw material and energy- will reduce production cost which means cheaper price or higher profit.

Indonesia also has a critical role in regional and international cooperation. Regarding Indonesia's relations with China particularly with ASEAN plus three which has been credited as forming the basis for financial stability in Asia, the lack of such stability being a contributing factor to the Asian Financial Crisis. The group's significance and importance was strengthened by establishing the Chiang Mai Initiative to bailout the countries of Southeast Asia out of the crisis. China particularly helped Indonesia during the Asian Financial Crisis by way of quickly offering aid packages and low-interest loans. For example, China contributed 400 million US dollars in stand-by loans as part of an IMF rescue package for Indonesia. Beijing also provided export credit facilities amounting to 200 million US dollars. China agreed to sell 50,000 tons of rice to Indonesia and provided 3 million US dollars grant of medicines (Sukma 2009). Indeed, as Shambaugh has noted, China's policy and assistance to the countries hit by Asian Financial Crisis "punctured the prevailing image of China in the region as either aloof or hegemonic and began to replace it with an image of China as a responsible power." As a result, the Indonesian government itself was grateful for this help.

China's image as a responsible and benevolent major power was further proved during the Tsunami disaster that struck Indonesia and other Indian Ocean countries in December 2004. China responded rapidly to provide relief for victims of the tsunami disaster and announced initial emergency aid of 3 million US dollars. On January 5,

2005, Prime Minister Wen Jiabao arrived in Jakarta to attend the Special ASEAN Leaders' Meeting on the Aftermath of Earthquake and Tsunami, and pledged over 60 million US dollars in aid for the affected countries, especially for Indonesia. He also promised that China would be committed to reconstruction and long-term development of tsunami-hit areas in Indonesia (Sukma 2009). Therefore, the Asian financial crisis in mid-1997 provided an opportunity for China to put its new diplomacy of friendship & soft power into concrete action by the Chiang Mai and APT initiative, and consequently boosted its positive image further in the region and particularly in Indonesia.

An important influence on Chinese foreign policy that had especially affected China's interpretation of Indonesia has been its ideology, both Marxist-Leninist and Maoist. The ideological components of China's foreign policy, whose influence varied over time, had included a belief that conflict and struggle were inevitable; a focus on opposing imperialism; the determination to advance communism throughout the world, especially through the Chinese model; and the Maoist concept of responding with flexibility while adhering to fundamental principles. Perhaps because of the belief in struggle as necessary for progress, for most of its history after 1949 China considered world war inevitable. This changed in the 1980s, when Chinese leaders began to say that the forces for peace in the world had become greater than the forces for war.

On the other hand, at the beginning of the twenty-first Century, the primacy of domestic context on Indonesia's foreign policy has shaped its course. It has specifically resulted from a changing and fluid situation in the international affairs and Indonesia's domestic crises. For instance, Indonesia's economic and political crises since mid 1997, the East Timor Referendum in 1999 as well as social, economic and political upheavals have impacted the foreign policy making in Indonesia. The nature of the problem relates to the search for an explanation of Indonesian foreign policy at the point at which influences arising in the international system cross the domestic arena and at which domestic politics is transformed into international behaviour. Indonesian foreign policy is uniquely affected by domestic events and actors. Indonesia's foreign policy reflects the beliefs and actions of policymakers at the bureaucratic institutions who are influenced, in varying

degrees and ways, by the society and the international system in which they operate. This interaction results in a politics of continuity but also change in foreign policy. In this regards, foreign policy refers to the scope and collection of goals, strategies, and instruments that are selected by governmental policymakers to respond abroad to the present and future international environment.

The concept of change refers to foreign policy phenomena that experience broad alteration, ranging from more modest shifts to major foreign policy restructuring. Continuity refers to broad patterns in foreign policy that tend to persist over time, encompassing more micro and incremental changes. 'Change cannot be discerned or assessed unless it is analyzed in the context of previously constant or continuous behaviour'(Rosenau,1978). Continuity and change are thus conceived to be two sides of a coin.'(Rosenau, 1990) Foreign policy change, in sum, tends to reflect changes that take place in the structures, beliefs, and politics of society and the state within a dynamic systemic or international context. A period of political instability and transition may produce such changes, which result from the nature and timing of events and crises in triggering change (Broesamle, 1990). In examining the range of likely foreign policy patterns resulting from a period of transition, four outcomes are possible:

- Intensification: No or little change – the scope, goals, and strategy of foreign policy are reinforced,
- Refinement: Minor changes in the scope, goals, and strategy of foreign policy,
- Reform: Moderate changes in the scope, goals, and strategy of foreign policy,
- Restructuring: Major changes in the scope, goals, and strategy of foreign policy (Hagan, 1989).

To reiterate, politics during a time of instability and transition may produce a range of foreign policy outcomes from little change at all (where foreign policy continuity prevails) to foreign policy restructuring (most visible and intense). The concept of scope refers to the arena where a nation-state is perceived to behave, such as a regional orientation or a global orientation; goals refers to the general direction for day to day actions and policies; and strategy refers to the means of



pursuing a goal. On the basis of the generalities presented above, as a starting point, it can be eventually concluded that at the beginning of the 21<sup>st</sup> century Indonesia has been facing new challenges and opportunities in its international relations, both bilateral and multilateral, and will react to them. Indonesia will seek to improve its foreign policy behaviour by means of both bilateral and multilateral approaches to other countries. More importantly, in accordance with the two approaches suggested above, Indonesia has developed and applied certain strategies designed to capitalize on the opportunities available and minimize the problems in its foreign relations, and will continue to do so for the sake of its national interests.

Second, in the reformation era there have been remarkable changes and challenges in the broader Indonesian political sphere. One of the most noteworthy aspects of Indonesian foreign policy in the reformation era has been the extent to which it has been shaped by domestic factors. Specifically the political climate following the fall of Soeharto impacts on the foreign policy process in the following ways:

- (i) It opens up greater public scrutiny and criticism ;
- (ii) It increases the number and weight of foreign policy actors;
- (iii) Domestic political and economic imperatives influence the choice of priorities and their implementation. Apart from these challenges, the implementation of Indonesian foreign policy has had to contend with a rising demand for greater transparency, a demand expressed through the views of civil society, and within the government's legislative and executive branches.

Third, the ultimate role of re-emerging Indonesia in international relations will be shaped as much by the vicissitudes of its domestic politics and economics as by the more visible changes in the country's place in the international order. In view of these developments and challenges, Indonesia has had to take a good second look at what is called as Indonesia's free and active foreign policy and to make a number of necessary adjustments. Indonesia is one of many interesting cases of a government undertaking to reorient its foreign policy. This chapter is concerned with a type of foreign policy behaviour where the Indonesian government seeks to change the pattern of its external relations. Changes usually happen both in patterns of

partnerships and in the types of activity. Changes, in brief, are in both geographic and functional sectors. In this respect this study has as its genesis an interest in particular aspect of foreign policy, namely foreign policy change (East, et.al., 1978; Holsti, 1982). It focuses on a particular type of foreign policy change in terms of alterations of a nation's pattern of external relations. This study examines this important foreign policy phenomenon, a type of political behaviour that has been largely neglected in international relations theory, except in analyses of Third World states' foreign policies (Singer, 1972; Shaw and Heard, 1976). Moreover, this chapter intends to examine crises and challenges to Indonesian foreign policy in the years following the end of Soeharto's New Order. The main concern here is Indonesia's political and economic crises resulting from the Asian financial crisis since mid-year 1997 and therefore their impacts on Indonesia's foreign policy post-Soeharto will be examined. It is assumed that Indonesia's foreign policy begins in the domestic domain and that Indonesia's foreign policy always has been and still is subject to domestic political developments and priorities.

The conduct of foreign policy in Indonesia is accorded on a basic principle called as *bebasaktif* (independent and active) – thus officially and commonly it is known as the independent and active foreign policy. In the history of the Indonesian international relations, this principle serves as the unchallengeable doctrinal basis for its foreign policy (Weinstein 1976). The independent and active foreign policy finds its first expression in the policy statement issued by President Sukarno on 1 November 1945, which constituted policy principles: peaceful co-existence, non interference, cooperation with all nations, and compliance with the United Nations Charter (Alami 2007).

Formal expressions of Indonesian foreign policy values can be found in the first and fourth paragraphs of the preamble of the 1945 Constitution mentioning that Indonesia commits to abolish colonialism that violates the rights of every nation for freedom as well as the dignity of humankind. Further in the fourth paragraph, it is stated that Indonesia is obliged to be active in creating world order on the ground of eternal peace, social justice, and independence (Singadilaga 1970). Although the 1945 Constitution does not explicitly affirm what independent and active principle means to Indonesian foreign policy, the expression of which, including anti-colonialism,

peace and social justice becomes the core values of Indonesian conduct of diplomacy.

Only after former Vice President Mohammad Hatta - who was also Prime Minister - delivered his historic speech entitled *Mendajung Antara Dua Karang* (*Rowing Between Two Coral Reefs*) on 2 September 1948, it became more obvious that the Indonesian government was aware of external situations faced by the newly born state, in which the international system was divided by the two rival blocs, capitalists and communists. At the time, before the working committee of the provisional parliament, Vice President Hatta made the following policy statement emphasizing on the meaning of the independent and active foreign policy (Hatta 1953):

“...have the Indonesian people fighting for their freedom no other course of action open to them than to choose between being pro-Russian or pro-American? Is there no other position that can be taken in the pursuit of our own national ideals? The Indonesian Government is of the opinion that the position to be taken is that Indonesia should not be passive in the area of international politics but that it should be an active agent entitled to decide its own standpoint....the policy of the Republic of Indonesia must be resolved in the light of its own interests and must be in consonance with the situations and facts it has to face....the lines of the Indonesian policy cannot be determined by the bent of some other country which has its own interests to service....”.

Such a formulation by Hatta, according to Rizal Sukma (1995), suggests pragmatism for Indonesian conduct of diplomacy with reference to some universal values, namely independence, primacy of national interests, as well as impartiality towards either ideological bloc that had developed between the USA and the USSR.

Hatta (1958), however, did acknowledge that Indonesia was not prepared to participate in establishing the third bloc functioned as a counterpoise to the two giant blocs. Nonetheless, the independent and active foreign policy was not a policy with a neutral orientation. As former Prime Minister Wilopo stated that this independent and active foreign policy was of a positive position in that when a problem or an incident occurred due to the controversy of the two blocs, Indonesia would persist to base its attitude on an independent action, taking into considerations international law of the

United Nations Charter, and more importantly the Indonesian national interests (cited in Hatta 1953).

As Indonesia is a postcolonial state, the independent and active foreign policy, according to Subandrio (1964) – former Indonesian Foreign Minister in the 1960s, brings with it a direction to expand friendships between Indonesia and all other nations who wish to develop friendly relations with Indonesia, regardless of what their social or political system is. In addition, to Subandrio's mind, an active policy suggests goodwill by the Indonesian government to pursue partnerships with states that have not had such policies toward Indonesia. By implementing an independent and active foreign policy, Indonesia has attempted to introduce its own national ideology, which does not follow in either liberalism or socialism, yet consistent with anti-colonialism and anti-racialism.

In this chapter, Indonesia's pattern of foreign relations from Soekarno era up to the current Indonesian government- the Susilo Bambang Yudhoyono government is discussed. It is also used as a comparative study to indicate the degree of change through the actions taken by the Indonesian governments, specific agencies, and political elites to establish new patterns. Indonesia's foreign policy is a reflection, extension, and continuation of domestic policy. It reveals that from Indonesia's independence in 1945 up to the current time, domestic imperatives such as commitment to economic development and need to stabilize domestic politics, which were influenced by nationalism emerge as the dominant factors in accounting for change and continuity in Indonesia's foreign policy-making.

Nationalism not only forged a united Indonesian nation out of the multitude of ethnic groups but, equally important, it remains a major guiding force in the country's relations with the outside world. Indonesia's nationalism does not manifest itself in a desire to assert the country's superiority over all others. Instead, its nationalism tends to be inward-looking in nature, primarily designed to build a sense of oneness among the peoples and to maximize the country's independence in the international arena. In order to underline some of the findings arising from the main body of this study, it may be useful to focus on the composite picture of change

and continuity of Indonesia's foreign policy since its independence in 1945 up to the Reformation Era.

**Table1:**

**Indonesian Foreign Policy: Change and Continuity**

Governments	The Primacy of Domestic Context			Performance of Foreign Policy	External Orientation
	Nationalism	Economic Development	Domestic Politics		
<b>SOEKARNO (1945-1965)</b>	Struggle for independence	-socialism -self-sufficient	-multi-party system -liberal democracy -guided democracy	-free & active based on East-West Conflict. -non-alignment as a political weapon of competing political forces	High Profile but erratic
<b>SOEHARTO (1965-May1998)</b>	-national building (internal stability and economic development)	-capitalism (1967-1997) -regional crisis (1997-1998)	-single-majority party system -pancasila democracy -dual function of ABRI -centralized authoritarian rule -human rights Abuses	-free & active based on economic-oriented -pseudo-non-alignment -advancing domestic Political interests of the ruling regime.	Low Profile and consistent High Profile but erratic
<b>HABIBIE (1998-Oct1999)</b>	-disintegration -East Timor's exit	-deepening crisis	-multi-party system -pancasila democracy	-foreign aid diplomacy -under pressure of the international community	Low Profile and consistent
<b>ABDURAHMAN WAHID (1999-July2001)</b>	-separatism -disintegration -ethnic conflicts	- a crippled Indonesia	-multi-party system -transition era to civic democracy	-disorientation -mismanaged Foreign policy	High Profile but erratic
<b>MEGAWATI SOEKARNOPUTRI (2001-Oct2004)</b>	-separatism -disintegration -ethnic conflicts	-the awakening Indonesia	-multi-party system -democratic consolidation -introduction of Regional autonomy -the emergence of Islamic political forces -new military role	-free & active based on economic-oriented -Reformation on foreign policy management	Low Profile and consistent.

<b>YUDHOYONO (2004–now)</b>	-separatism -disintegration -ethnic conflicts -national building	-a confident Indonesia	-multi-party system -civic democracy -the implementation of regional autonomy -competing of Islamic versus nationalistic pol. forces	-free & active based on navigating in a turbulence of ocean -constructive mindset -connectivity -reflect true brand of Indonesian nationalism	High Profile and consistent
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Source: Yani, Yanyan Mochamad (2007), Change and Continuity in Indonesian Foreign Policy, (Indonesia: Padjadjaran University).

**Table2: Periods of Indonesia’s Foreign Policy**

Governments	Foreign Policy		
	Scope	Goals	Strategy
<b>SOEKARNO (1945-1965)</b>	globalist	1.struggle for independence  2.anti-colonialism 3.economic stability	1. negotiation 2.Militaryforce 3.containment  1.foreign aid 2.self-sufficient
<b>SOEHARTO (1965-1998)</b>	regionalist(1965-1992) globalist(1992-1997)	1.economic stability and promote liberal economy 2.political stability and security	1.privateinvestment 2.foreign aid diplomacy 3.freeTrade 4.military force 5.regional resilience
<b>HABIBIE (1998-Oct1999)</b>	regionalist	1. economic stability  2. political stability and security	1.privateinvestment 2.foreign aid diplomacy 3.free trade 4.militaryforce 5.democratization of Political system
<b>ABDURAHMAN WAHID (1999-July2001)</b>	globalist	1.economic stability  2.political stability and security	1.private investment 2.foreign aid diplomacy 3.free trade 1.international support 2.regional autonomy 3. democratization of political system
<b>MEGAWATI SOEKARNOPUTRI (2001-Oct2004)</b>	regionalist	1.economic stability  2.political stability and security	1.private investment 2.foreign aid diplomacy 3.free trade 1.international support 2.regional autonomy 3. democratization of political system

<b>SUSILO BAMBANG YUDHOYONO (2004–now)</b>	regionalist	1.economic stability  2.political stability and security	1.privateinvestment 2.foreign aid diplomacy 3.freetrade  1. international support 2.regional autonomy 3. democratization of political system
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Source: Yani, Yanyan Mochamad (2007), *Change And Continuity In Indonesian Foreign Policy*, (Indonesia: Padjadjaran University).

As is evident from the Table 1 and Table 2, the Indonesian foreign policy has undergone a number of foreign policy changes while maintaining the flavour of continuity. For instance, during Soekarno’s time the performance of foreign policy was dependant on a number of things including: the maintenance of a free and active based on East- West conflict, non –alignment, and as a weapon of competing political forces. So far the external orientation is concerned it was aimed at being high-profile but erratic. On the other hand, Soeharto’s period was highlighted by facets such as: free and active foreign policy based on economic ties, it also manifested the pseudo-non alignment in its foreign policy. So far as the Yudhoyono’s time is concerned, it relied on -free and active based on navigating in a turbulence ocean, -constructive mindset, -connectivity, reflect true bran of Indonesia.

Interestingly, as depicted in Table 2, though the foreign policy goals have not transformed with the change in governments, and have mostly remained two fold viz. economic stability and political security. However, the scope has received a major transformation over the years. For example, while during Soekarno and Abdurahman Wahid’s term in office, the foreign policy scope was globalist, where as Habibie, Megawati Soekarnoputri, and Sushilo Bambang Yudhoyono’s terms had a more or less regionalist foreign policy approach.

Soekarno became the first President of Indonesia and committed the country to a free and active foreign policy. Indonesia's approach to foreign policy has been influenced heavily by the country's experiences in securing its independence from the Netherlands in an armed struggle and then needing to maintain that independence in a world of superpower competition. Foreign policy under Soekarno

(1949-1966) was radical, characterised by his self-styled role as revolutionary leader of the developing countries. The new Indonesian Republic committed itself in 1948 to pursuing a 'free and active' foreign policy. Indonesia's early foreign policy concentrated on opposition to colonialism and to securing an international position apart from the prevailing Cold War competition between the United States and the Soviet Union. The hosting of the Bandung conference of non-aligned countries in 1955 and support for the Non-Aligned Movement after its inauguration in 1961 was a major reflection of these priorities. From the late 1950s, Indonesia's foreign policy in the era of the Soekarno government's guided democracy' became much more assertive, with anti-colonial rhetoric increasing and an attempt made to oppose the development of the Federation of Malaysia from 1963. The period of 'Confrontation' of Malaysia raised tensions both among Indonesia's immediate neighbours and other countries in and near Southeast Asia, including Australia which deployed combat forces to support Malaysia. In addition, any understanding of the Old Order foreign policy should recognize that its place in domestic politics was both similar yet different to the New Order era. It is similar in the sense that foreign policy continues to reflect various impulses in domestic politics and served domestic requirements. But it is different in the sense that under the Old Order government competing political forces sought to discredit opponents by using foreign policy issues, such as in the period of guided democracy when Indonesia's foreign policy direction under Soekarno was influenced by the delicate balance of political forces within Indonesia.

Soekarno was caught between the contending forces of the army and the Communists (Partai Komunis Indonesia, PKI). Soekarno saw foreign policy as a way of diverting attention from pressing domestic issues in the interests of promoting national unity. During the early 1960s, Indonesia's foreign policy became increasingly radical, perhaps suggesting that the political balance was shifting toward the left. Soekarno proclaimed Indonesia to be a leader of the New Emerging Forces (NEFOS) in opposition to the Old Established Forces (OLDEFOS), and Indonesia was linked to other radical Asian states in a Jakarta – Phnom Penh – Hanoi – Beijing – Pyongyang axis. This was also the time that Soekarno launched konfrontasi against Malaysia. Soekarno's foreign policy had taken Indonesia on a left-ward course with his Jakarta-Phnom Penh-Hanoi-



Pyongyang-Pekong Axis which had put Indonesia at odd with the whole Western world, culminating in Indonesia's exit from the United Nations. Meanwhile in the New Order era foreign policy was no longer permitted to be used as a political weapon.

After Soekarno's overthrow and replacement by the 'New Order' government of President Soeharto a new era of Indonesian foreign policy began. Indonesia now concentrated on economic reconstruction, supported by international assistance coordinated through the Inter-Government Group on Indonesia (IGGI), established in 1967. Indonesia now generally eschewed assertive stances in foreign relations (with the major exception of its strenuous efforts to secure the end of Dutch rule in West Irian) and emphasised the rebuilding of regional cooperation and regional resilience through the Association of Southeast Asian Nations (ASEAN - inaugurated in August 1967). These steps indicated the regionalist era in Indonesia's foreign policy had begun. From the mid 1980s, a third phase in Indonesian foreign policy has been emerging. Indonesia has retained its close focus on ASEAN relationships but has also moved to adopt a wider foreign policy role. Indonesia's record of sustained economic growth has given its leaders increased confidence about their country's international standing.

Indonesian economic policy from the mid 1980s also began to increase efforts towards deregulation and encouraging a more open involvement in the wider regional and international economy, for instance, Indonesia thus became increasingly interested in regional economic cooperation and joined the Asia Pacific Economic Cooperation (APEC) in 1989. With the end of the Cold War in 1989 Indonesia had an opportunity to launch a higher profile foreign policy, and reaffirm its commitment to the free and active doctrine. The new international focus on economic development and cooperation, replacing the earlier focus on ideological conflicts, gave Indonesia a new opportunity to pursue the free and active foreign policy principle. Despite having major diplomatic problems in its dealing with other countries, Indonesia also displayed positive foreign behaviour. For instance, Indonesia hosted the tenth summit of the Non-Aligned Movement (NAM) in Jakarta in 1992 and led the movement for the period 1992-1995. And Indonesia was the Chair of APEC for 1993-1994, and hosted the APEC meetings of

ministers and economic leaders in Jakarta and Bogor in November 1994. To cap that, Indonesia was also elected into the United Nations Security Council as a non-permanent member from Asia for 1995-1996. This meant a widening of Indonesia's foreign policy focus from ASEAN and its Dialogue Partners to a more global orientation.

Thus, under Soeharto (1966-May 1998), the orientation of Indonesia was high profile. Indonesian foreign policy was characterised by an emphasis on stability, with Indonesia developing a leading role in ASEAN, APEC and the Non-Aligned Movement but also maintaining good relations with the West. It was, however, attended with neglect of domestic development (erratic). Despite achieving good results in the implementation of its foreign policy at home, Soeharto marred its foreign policy by human rights abuses, centralized authoritarian rule, the weakening of the non-executive branches of government, increased military involvement in politics and business, corruption and the violent annexation of East Timor in 1975/76. The primary objectives of Soeharto's foreign policy during the New Order era were to mobilize international resources to assist in the country's economic rehabilitation and development, and to ensure a secure regional environment that would allow Indonesia to concentrate on its domestic agenda. Therefore the foreign policy of Soeharto's New Order was directed to achieve the twin objectives of internal stability and economic development. The New Order government fostered good relations with the Western countries, especially the USA, Europe, and Japan. These countries have played an important role in Indonesia's economic transformation by providing aid, loans, investment, market access, technology transfer, and other economic assistance.

During the New Order era, Soeharto delegated most foreign policy-making to the military and smaller share to the Ministry of Foreign Affairs (MoFA). The military had 14 overshadowed the functions of MoFA in executing foreign policy-making (Suryadinata, 1996). This was believed to be in accordance with general trend of the military's influence over every function in public policy, governance or bureaucracy. The superiority of the military over the bureaucrat (MoFA) was obvious (Sukma, 1997: 206-249), for example, in the questions of East Timor, the problem of external threat and – to some extent – Indonesian position

toward ASEAN (Anwar, 1994). Equally important were Indonesia's relations with other neighbours, especially Australia, and some major powers such as the United States of America, Japan, and the European Countries. Indeed in a country where politics has been dominated by considerations of security and stability since the start of the New Order, it is not surprising that the military should play a substantial role in foreign policy.

However, when Indonesia's economy declined sharply in 1997 this rapidly eroded the legitimacy of the New Order regime. This was not surprising, since economic growth through political obedience was the great promise of Indonesian autocracy. On the other, an unprecedented increase in foreign debt forced Indonesia to go to the IMF for international assistance. The stage was set for a primacy of economic over political reform. National salvation and rehabilitation became the central need of Indonesia. In this respect, the end of the Soeharto New Order era provided Soeharto's successors with new opportunities and constraints in the conduct of Indonesia's foreign policy. In the post-Soeharto New Order era the changes in the domestic scene resulted in a more diverse and pluralistic domestic environment, for example, there is a trend to an open democratic political system. Under these political conditions, domestic and foreign policies became highly transparent. Due to these unstable transitional domestic political conditions, the performance of Indonesia's foreign policy fluctuated.

In the transitional administration of B.J. Habibie it seemed that Indonesia's foreign policy was the second in importance to domestic concerns. Domestic problems clearly continued to dominant, particularly as the Habibie government faced the severe challenges of overcoming the economic crisis, managing political transition and restoring public security. In addition this Indonesian transition government was also under pressures from international community to move Indonesia toward comprehensive and total economic and political reforms. Under these circumstances it seemed that rational domestic concerns were bound to dictate the direction of foreign policy. In this respect in order to secure international assistance for Indonesian economic recovery and international support for Indonesian democratization programs the Habibie administration continued to maintain good relations with the International Monetary Fund (IMF), and the West in general. It

could be stated that in the Habibie period the external orientation of Indonesia was low profile and consistent to domestic development.

Moreover during the period of the Abdurrahman Wahid government, a transition era to civic democracy, Indonesia was dominated by a number of domestic critical challenges, including the threat of territorial disintegration, mass violence in different parts of the country and the problems of law and order in general, the continuing economic crisis as well as the lack of national capacity to consolidate democracy and to achieve good governance. This difficult atmosphere for Indonesia was worsened by the vacillation of Indonesia's foreign policy during the period of Abdurrahman Wahid government which resulted from mismanaged foreign policy. In the Abdurrahman Wahid period the external orientation of Indonesia was high profile but erratic (neglect of domestic development). Despite the extensive overseas trips covering 90 countries during President Abdurrahman Wahid's twenty-one months tenure, there was no blueprint which clearly outlined the primary objectives of Indonesian foreign policy or the countries and organisations which were seen as of vital importance to Indonesia for promoting its primary economic and political needs, particularly when it had limited resources. Throughout that time President Wahid's foreign policy lacked coherence and a clear focus. Thus, under two successive presidents, Habibie and Abdurrahman Wahid, Indonesia was unable to regain international respect. Consequently, among the economies devastated by the Asian financial crisis (World Bank's research publications, 1993, 1998, and 2000) of 1997-1998, Indonesia has suffered the full brunt of the social, economic and political impact of that crisis, and has been sluggish in recovering from that debacle. In this regard Indonesia has been forced to keep a low profile in the international community, as the country's credibility in the international fora has deteriorated. However, when Megawati Soekarnoputri assumed the country's presidency in July 2001, traces of respect and credibility began to trickle back.

Indonesia, under the Megawati government, tried to regain its international stature by using foreign policy to address many domestic problems, calling the initiatives intermestic policy (the intermingling of international and domestic politics). Domestic issues, particularly economic recovery and maintenance of

Indonesia's national unity, were priorities for President Megawati's administration. Indonesia was still saddled with multi-dimensional crises, but at the same time was making the transition to a more fully democratic and reformed system. International confidence in the government's ability to resolve the country's multifaceted problems had slowly increased. In the period of the Megawati government Indonesia was in the process of reforming the national political system, Indonesian leaders chose a rather drastic form of decentralization, from a highly centralized government to a system devolving political power to over 400 districts. They took bold steps when the People's Consultative Assembly endorsed several amendments to the 1945 Constitution: the adoption of a system of direct popular election of the President and Vice President; the adoption of a bicameral system of legislature; and the abolition by 2004 of the 38 appointed seats reserved for the military in Parliament. These decisions reflected the sensitivity of public officials, particularly legislators, to trends in public opinion. The Megawati government had a strong commitment to win back international confidence. Indonesia aimed to achieve a strong foreign policy and diplomacy; develop foreign economic cooperation; and engage in bilateral, regional and global/multilateral cooperation. To reach these goals, Indonesia laid down the following objectives: restored Indonesia's international image; boost the economy and public welfare; strengthened national unity, stability and integrity, and preserved the nation's sovereignty; developed bilateral relations, particularly with countries that could support Indonesia's trade and investment and economic recovery; and promoted international cooperation that helped Indonesia build and maintain world peace.

In addition considering that the solution to many of its domestic problems and the success of its national development efforts depended to a large extent on the existence of a conducive international environment, and in view of what it could contribute to the improvement of the state of affairs on the regional and global scene, in the period of the Megawati government Indonesia consciously categorized its priorities in the implementation of foreign policy. Indonesia enhanced its objectives first within bilateral, then the sub-regional, then regional, and finally international organizational and functional relations. A significant change in Indonesia's foreign policy direction was anticipated under Megawati's administration. In this respect, Indonesia's foreign policy management was reformed. Indonesia reviewed,

reoriented, and restructured its foreign policy to cope with the needs of the “new Indonesia” in the 21<sup>st</sup> century.

In the era of Susilo Bambang Yudhoyono (SBY) administration Indonesia is still struggling in a period of democratic rivalry among its political centres/power, which theoretically could end with the return to the authoritarianism or moving towards the democratic installation (Casper and Taylor, 1996). Indonesia is in the throes of a giant transition from a centralistic, authoritarian government to a more democratic and decentralised administration. The shift is partly caused by the political change started in 1998, following the resignation of Soeharto from the presidency. Since then, the Indonesian authoritarian system has been, to some extent, replaced with a more democratic system, and the Indonesian government could assert the supremacy of civil over the military. New political parties and interest groups have emerged. Civil society, academia and the media can be depended on to support the reform process.

The present Indonesian leadership recognizes the many challenges facing the country not only in the economical, but in political, social, cultural and foreign policy fields as well. It is likely that foreign policy making in the post- New Order era becomes more diffused than before. This happens also because of stronger demands from the public to have a greater voice in decision-making generally, including in foreign affairs. In Yudhoyono’s first foreign policy speech before the Indonesian Council on World Affairs (ICWA), 20 May 2005, Yudhoyono stated that Indonesia had safely passed the two reefs. He used the metaphor navigating a turbulence ocean to describe the challenge faced by Indonesian foreign policy today. Yudhoyono outlined an interpretation to the meaning of independent and active foreign policy of Indonesia for the Cabinet of what might properly be called the first rough sketch of the President’s grand foreign policy design for the coming five-years period. First, Yudhoyono added the necessity of a constructive approach in the conduct of independent and active foreign policy. Indonesia’s independence and activism must be combined with a constructive mindset. It denotes an ability to turn adversary into friend, and to turn friend into partner. Constructivism helps Indonesia to use its independence and activism to be a peace-maker, confidence builder, problem solver, and bridge builder.

Second, independent and active means that Indonesia will not enter into military alliances. Indonesia has never engaged in a military pact with a foreign country, and Indonesia will continue its policy of not allowing any foreign military bases on Indonesian territory. Third, an independent and active foreign policy is all about connectivity. It calls Indonesia to find ways to plug into the globalised world. In other words it compels Indonesia to have an active and healthy engagement with its neighbours, with the major powers, and emerging powers, with the regions of the world, and with international institutions and a whole range of non-state actors. Fourth, independent and active foreign policy should project Indonesia's international identity. Indonesia is the fourth most populous nation in the world, the world's largest Muslim population, and the world's third largest democracy. Indonesia is also a country where democracy, Islam, and modernity go hand-in-hand. Fifth, independent and active foreign policy should reflect Indonesia's brand of nationalism that is open, confident, moderate, tolerant, and outward looking. This brand of nationalism must be at the root of Indonesia's internationalism. This way, Indonesia's independent and active policy becomes relevant both to Indonesia's national interests and to the international community.

This Yudhoyono's speech provided a clear and coherent foreign policy of Indonesia which should be implemented into priorities and agendas to be a guidance for every Indonesian diplomat and widely known by Indonesian society. This especially concern with the fact that the foreign policy making in the Reformation era of Indonesia has changed. In terms of foreign policy formation and decision-making this study reveals that in the post-New Order era the number and weight of foreign policy actors increased. The centre of decision-making in Indonesia rests with the president as mandated to the President by the People's Consultative Assembly (MPR), which is the highest body representing the people. It means that in spite of the existence of a wide range of institutions interested in foreign policy issues, the president remains at the centre of decision-making in the field. The question is whether this process will continue into the future. In the Reformation era the president does not automatically inherit a strong decision-making position as during the New Order era. A stronger role for cabinet ministers cannot be ruled out in the future, for instance, a mechanism for coordination

between the economic ministers and the foreign ministers, which in the New Order era rests solely with the president, need to be developed. Decision-making in the field of foreign affairs also rests with the president with the advice of the foreign minister, who is responsible for the implementation of such policy.

In addition to the foreign minister, the president receives information and other inputs to policy-making from the commander in chief of the armed forces, especially in areas directly affecting the country's security. The role and involvement of the armed forces in the formation of foreign policy are considered consistent with its defense function. In the area of foreign economic relations, the president mainly relies on economic ministers under a coordinating minister. The role of the House of Representatives (DPR), through its Committee in charge of foreign and defense affairs, in the formulation and implementation of foreign policy is limited. Its function is to provide feedback and support to government policies through the institution of hearings. DPR's role in general is more important and effective through the institution of legislation, but this is seldom employed in the field of foreign affairs. Other sources for feedback are the mass media and public opinion. In line with the views raised in the DPR, public opinion and mass media have been rather critical of government stances on foreign affairs. Research and academic institutions also have a role to play in providing the intellectual input to foreign policy-making. These institutions have been in the forefront in gathering up to date information and analyses through exchanges of research works and publications and through international meetings. Apart from these challenges, the implementation of Indonesian foreign policy has had to contend with a rising demand for greater transparency, a demand expressed in the views of civil society towards not only the legislative branch, but the executive as well.

Bringing foreign policy into the domain of public debate and effective parliamentary scrutiny constitutes one of the most challenging tasks for any state seeking to become a democracy. The Reformation era governments stressed the importance for Indonesia of fostering a role for public discussion and parliamentary scrutiny that would secure a balance between professional executive management of foreign policy and democratic oversight. Public participation in the process of decision-making in Indonesia has



increased greatly since the fall of Soeharto in 1998, public awareness of the right to demand accountability from government seems to have spread, including in the field of Indonesia's foreign relations. There are growing pressures from among the public and the parliament, the mass media, and academic circles for Indonesia to take a more active, assertive, and higher profile stance in the implementation of its foreign policy. At least there are three main groups of Indonesian Domestic Actors in the Reformation Era who involve in the Indonesia's foreign policy-making. They are the politico bureaucrats (the President, Department of Foreign Affairs, Department of Defence/the Army, the Economic Ministries, the National Parliament, Local Governments, Local Parliaments, and the Technocrats/Bappenas), the business actors (the Indonesian Chamber of Trade and Commerce/Kadin, Local Business Community), and other domestic actors (the Ruling Party, the other Political Parties, the Press, Think Tank Institutions, Academia, Islamic Organisations, Labour Unions, and Non-Governmental Organizations/NGOs). In the Reformation era the involvement these Indonesian domestic actors in the Indonesia's foreign relations (bilateral relations, regional multilateral relations, and global multilateral relations) is very significant.

In addition, Indonesia considers that a major pillar of its foreign policy is still the Association of Southeast Asian Nations (ASEAN). Just beyond that region Indonesia likewise gives importance to promoting relations with its southern and eastern neighbours, prompting Indonesia to be engaged with Australia, East Timor, the Pacific Islands Forum (PIF), and the Southwest Pacific Dialogue. In the opposite direction is the ASEAN + 3 (the three being Japan, China and South Korea) initiative. Beyond that, Indonesia puts a premium on its relations with the United States and the European Union, both of which are major economic partners of Indonesia. At the same time, Indonesia also puts new energy into its foreign relations with Russia and China, countries with potential to help Indonesia enhance its national interests in the 21<sup>st</sup> century.

In compliance with the 1945 Constitution Indonesia also gives importance to working with like-minded developing countries. That is why Indonesia is still deeply involved with the Non-aligned Movement (NAM), the

Organisation of the Islamic Conference (OIC). Also at the global level, Indonesia hopes to strengthen multilateralism through World Trade Organisation (WTO) and the United Nations (UN). Indonesia sought to change the pattern of its external relations. The changes usually occurred both in pattern of partnerships and in the type of activity. The changes, in brief, were in both geographic and functional sectors. Indonesia has sought to create new or essentially changed patterns of relations in both sectors. This can be seen in Indonesia's foreign relations with other countries both in terms of bilateral and multilateral relations. This chapter thus reveals that since the fall of Soeharto, Indonesia's foreign policy has been facing successive crises. Indonesia's diplomacy was called upon to play a substantive role in meeting an array of challenges in the economic, political and social fields that threatened the unity, integrity, and sovereignty of the Republic.

Juwono Sudarsono, former Indonesian defence minister and professor of international relations at the University of Indonesia, sums up the Indonesian view that 'lingering suspicion of China is still present but this is offset by admiration for China's successes.' Rizal Sukma argues that this thawing in relations must be seen in two separate contexts: bilateral and regional. Within the bilateral context, Indonesia has become increasingly comfortable dealing with China, a manifestation of which is evident in the expansion of cooperation between the two countries since 1998 and especially since 2004. Within the East Asian context, however, Indonesia's attitudes and policy are still shaped by a degree of the feeling of uncertainty regarding the long-term implications of the rise of China for the regional order. In the regional context, there are still some lingering concerns in Indonesia about the bilateral relationship with China, there is outright anxiety about China's strategic role in the region. Sukma sums up Indonesia's fears: The concern with China relates first and foremost to the question of how China is going to use its new stature and influence in achieving its national interests and objectives in the region. Indonesia, like any other ASEAN member states, would not want to see China seeking to dominate the region. Jakarta's wariness means that strategic cooperation between Indonesia and China—while improved since the days of Suharto—has not progressed the same way as the economic relationship. The 2005 'strategic partnership' on security issues has not translated into action. Indonesia has signalled its keenness to sell 'non-

weapon military supplies' to the huge Chinese army, promising to buy Chinese weapons in return. In all likelihood, Indonesia just wants to cash in on the economic opportunity rather than build closer strategic or military links with China.

Also, as an archipelagic state, Indonesia is especially wary of China increasing its maritime presence. Indonesia accepts America's military presence in Southeast Asia because the United States has a history of being a benign power that will keep the peace. But China has no such track record. As an external power, the United States is unlikely to make territorial claims in the region; China has stated its territorial ambitions beyond its current borders. It is this possibility of Chinese security dominance that largely drives Indonesia's security worries. In June 2010, Indonesian Defence Ministry spokesman Wayan Midhio confirmed that the Malacca Strait, along with the South China Sea and the Andaman and Nicobar Islands in the Indian Ocean, are Indonesia's top three Strategic cooperation between Indonesia and China.

Jakarta believes that keeping these waters free from external domination is the key to preserving its own security and sovereignty. If a foreign power were to gain a foothold in any of these waterways, it could be in a position to deny access to commercial and naval shipping. Unfortunately, other regional powers also consider these three areas as strategically important. Beijing has affirmed both its strategic interest in the Malacca Strait and its readiness to use naval force to ensure safe passage of its ships if other powers were to deny it access. And while China spent many years playing down its long-standing territorial claims against Indonesia, the Philippines, Vietnam and Taiwan, in March 2010 it indicated it would elevate the South China Sea to the level of 'core interest,' putting it on a par with Taiwan and Tibet. Although China may have since backed away from this statement, the situation is deeply worrying for Indonesia.

In 1993, China quietly made a territorial claim over the waters surrounding Indonesia's Natuna Islands. While the Indonesian government (under Suharto) did not formally respond to the claim, fearing that to do so would legitimize

it, Chinese maps of its South China Sea claims now include an area north of the Natuna Islands that falls within Indonesia's Exclusive Economic Zone. Although China has never acted on its claim, but it evades questions regarding Indonesia's sovereignty over the Natunas. The dispute bubbled over in 2009 when Indonesia detained 75 Chinese fishermen operating in the area. The Natuna Islands are both strategically and economically important for Indonesia. Located between peninsular Malaysia and Borneo, the islands provide a geographical gateway between the South China Sea to the north and the Java Sea and the Malacca Strait to the south. Whoever controls the islands commands access to these sea lanes, as well as Indonesia's main islands of Java and Sumatra. Lying under the sea bed surrounding the Natunas is one of Indonesia's largest liquefied natural gas reserves. These largely unexploited reserves may hold up to a quarter of Indonesia's recoverable gas supply. Jakarta is worried that China might see the Natunas as quite a prize. This is in close connection with the points raised by Weinstein who argued that two-third of his respondents saw China as a real threat and more than half of them pointed to China as the principal threat to Indonesia. All in all China was seen as a greater threat than any other country, including the US and Soviet Union (Weinstein 1976).

Indonesia is also anxious about China's interest in the strategically significant Andaman and Nicobar Islands on its Western tip. The islands, which form a barrier between the Malacca Strait on one side and the Indian Ocean and Bay of Bengal on the other, belong to India but lie only 200 kilometers off Indonesia's Sumatra province. Both Indonesia and India wish to keep the islands safe for shipping. The possibility of Chinese security dominance drives Indonesia's security worries. Indonesia's most sensitive security issue is the Malacca Strait. Jakarta is unequivocal in barring any foreign power from gaining a foothold in the strait. Indonesia, along with its close neighbours, is responsible for securing the strait and ensuring the safe passage of more than half the world's commercial maritime traffic through it. In 2007, then Indonesian defense minister Juwono Sudarsono asked Japan, China and South Korea for technical assistance to help secure the strait. However, Indonesia is loath to accept more than technical help. So far, it has rebuffed advances from America, India, Australia, Japan, and China to help secure the waterway. Indonesia does not

want to give any of these states—especially China—the impression that it (along with its neighbours) can't manage the strait. Despite severe funding constraints, Indonesia is working assiduously to professionalize its navy and improve its capacity, particularly through the purchase of submarines.

Since 2004, it has joined with Malaysia and Singapore to coordinate security patrols in the area—a previously unprecedented level of security cooperation. While there is no doubt that Indonesia, along with its neighbours, sees piracy and the potential for terrorism in the strait as a serious security threat, these patrols also send a clear message to China that, should it be looking for an excuse to flex its muscles, the Southeast Asian nations are in control. Indonesia sees its leadership of ASEAN in 2011 as a way to engage China in the region. As Abdul Khalik says in the *Jakarta Post*, Indonesia will not allow the region to fall 'into a Cold War-like environment of mutual suspicion and hostility while striving to maintain an absence of a preponderant power.' China is a member of the ASEAN Regional Forum, the region's only formal multilateral security dialogue, and the East Asia Summit, Jakarta believes that maintaining relationships with China is the best way to ensure regional peace and stability.

By hosting an annual leadership dialogue by ASEAN and bringing China into it, Indonesia hopes it will be more inclined to adhere to ASEAN's rules and negotiate disputes with the region as a whole rather than picking off the relatively powerless Southeast Asian states one by one. Indonesia was also one of the more vocal proponents of the United States joining the East Asian Summit, which it did in July 2010. Most analysts interpreted this as an attempt to moderate China's growing influence and balance its disproportionate size. As the *Jakarta Post* summarised, 'Now that the US has been admitted into the East Asia Summit, Washington and Jakarta [can] collaborate on building a new regional architecture that guarantees peace and prosperity for all countries in the region.' In 2007, Australia, India and New Zealand joined the summit following lobbying from Jakarta.

Indonesia has long regarded itself as the leader of the ASEAN, but its interest faded as it became caught up in domestic turmoil at the end of the 1990s. Now, despite some suggestions that Indonesia is 'outgrowing ASEAN,' Jakarta

wants to claim its historical place at the centre of the group. However, ASEAN's track record in managing security disputes is patchy at best. Moreover, some of its members such as Laos, Myanmar and Cambodia have become increasingly close to China. Indonesia is concerned that ASEAN alone cannot effectively manage regional security in the future, and is simultaneously pursuing bilateral relationships with regional powers (as well as the United States) to hedge against this possibility. Indonesia's foreign policy outlook will be increasingly dominated by strategies to balance China's rising influence in the region. Jakarta is extremely wary of potential Chinese naval expansion into Southeast Asia, especially in the South China Sea, the Andaman and Nicobar Islands, and the Malacca Strait, which it views as its core—almost existential—security concerns. Even if strategic competition between America and China were to emerge, Indonesia would put off 'choosing sides' for as long as possible. But, fundamentally, Jakarta does not trust Beijing. It will hedge its bets by pursuing cooperative relationships with both the United States and China.

Indonesia's interests are largely aligned with America's. Neither country would like to see China increase its military power in Southeast Asia. However, Indonesia will maintain a staunchly independent outlook: its relationship with America will be a marriage of convenience rather than an enduring alliance. Despite Indonesia's ongoing antipathy towards what it perceives as meddling from any major power, Indonesia is far more likely to accept the United States as a benign hegemony than it is to accept China in such a role. The Pentagon's renewed relationship with the Indonesian military—despite ongoing problems exemplified in the latest human rights scandal—shows that Washington is aware of this as 'Soft Power' Ambition in Asia (John Lee, 2009)

Indonesia's foreign policy objectives derive from the country's three critical national priorities: maintaining territorial integrity, preserving social calm, and stimulating economic development. With colonially-defined borders extending over some 13,000 islands and a diverse though largely Muslim population of more than 250 ethnic groups, Indonesia faces significant challenges to its basic stability from secessionist movements and religious and ethnic violence. These stress points are perceived to be highly vulnerable to outside meddling

and there is some justification for this view; the cataclysmic internecine violence that claimed at least 100,000 lives in 1965 was triggered by an aborted Communist coup supported by China.

The first priority of Indonesian foreign policy has therefore been to prevent outsiders from exacerbating the country's flashpoints. This goal has led Indonesia to support the creation of the Association of Southeast Asian Nations (ASEAN), an organization designed to maintain the territorial status quo of all member nations and build regional stability. More generally, the view that foreigners can exacerbate internal tensions has increased vocal support for the policy of non-interference in the affairs of sovereign states. For much of the 1990s, Indonesia was a leading opponent of universalism in human rights, arguing that Western governments and human rights organizations should not make prescriptions for Asia, where, it was argued, a fundamentally different set of values prevail. This fear of outside criticism intensified as a result of Indonesia's disastrous occupation of East Timor. Indonesia invaded the former Portuguese colony in 1975, claiming that the newly-liberated East Timorese preferred Indonesian citizenship to independence. International condemnation of the invasion intensified after the December 1991 massacre of independence protestors in the capital city of Dili.

In 1990s, Indonesia found itself increasingly on the defensive over its repressive occupation of East Timor and its refusal to allow a referendum on self-determination. This criticism reinforced the belief within the Soeharto administration that outsiders were out to discredit and undermine the Indonesian state. Offsetting this isolationist tendency has been Indonesia's intense focus on economic development, which has led the country to engage with the world in order to gain access to technology, investment capital and export markets. These goals have turned Indonesia's attention to the financial centers of Europe and the U.S.

Indonesia has also sought to anchor its economic growth within Asia. Japan has been a major investor in Indonesia, and the country has close economic ties with Malaysia, Singapore, Hong Kong, and increasingly with China. These two impulses of Indonesia foreign policy --self-protective isolationism, on the one hand, and economic engagement, on the other--reflect the "independent and

active” (bebasdanaktif) policy that has guided the country’s foreign relations since independence in 1945. On balance, Indonesia has tended to favor the “independent, “or isolationist, side of this equation, which helps explain why Indonesia’s influence externally has been inconsistent with the country’s size and strategic significance. It bears reminding that Indonesia has the world’s fourth largest population, significant military capability, oil reserves, and a strategic position astride major international shipping lanes. Yet from 1992 to 2002, the country made little use of its potential to influence others, aside from its effort to build ASEAN as a kind of solidarity group in support of “Asian values” and the doctrine of non- interference. The domestic political context for this foreign policy framework has shifted with Indonesia’s own democratic transition, which in a few short years has transformed the nation’s constitutional structure and political dynamic.

The democratic transition has affected Indonesia’s foreign policy in complicated ways. First, and most positively, democracy in Indonesia has brought an end to the country’s rejection of universal norms in human rights. Foreign Minister Hassan Wirajuda noted this in a briefing to foreign journalists in October 2001: “For a long time, the Indonesian public did not quite see human rights in the same way that the international public did. This discrepancy in perception became a constraint in the development of our foreign relations. We will do our best to remove that perception gap.” At the same time, democratization in Indonesia has coincided with, and to some extent contributed to, an intensification of the country’s key stress points. Challenges from secessionist movements, particularly in Aceh, and from religious and ethnic rioting have intensified since 1997. These problems affect foreign policy in two ways. First, they deepen the fear that the unity and social stability of the country are at risk, which intensifies the country’s self-protective isolationism. Second, they focus all attention inward, keeping on hold the question of how a newly democratic Indonesia will conduct its foreign policy. President Megawati, in her August 2002, State of the Union Address to Parliament, had almost nothing to say about foreign policy except to restate a commitment to ASEAN and to an “independent and active foreign policy.” Part of Indonesia’s challenge in formulating a post-transition foreign policy vision stems from a new factor that has entered the scene: Islamic politics. The Soeharto years were marked by a strict separation between mosque and state, which



imparted a degree of religious neutrality to the country with the world's largest Muslim Defending Democracy. In the new electoral dynamic, Islamic groups in Indonesia are beginning to recognize and exercise the strength of their numbers. At the same time, the emergence, since the attacks on the World Trade Center, of a global Islamic terrorist threat has suddenly rendered Indonesia a critical player in global anti-terrorist efforts. Given the intense preoccupation with domestic crises and internal stability, and the difficult balancing act around Islamic issues, it is likely that in foreign policy Indonesia will default to the familiar position of emphasizing non-interference in the affairs of sovereign states.

The rapidly changing dynamics of Indonesian foreign policy goes on to tell us that seeking a fine balance in terms of maintaining an independent and enlightened stand on matters of international concerns have been important. This is particularly true of Indonesia's relations with China and the US. China has managed the makeover of its image in the past several years that its policy toward Indonesia has been characterized as well executed. Consequently, neither Indonesia, nor its neighbours, seems to be considerably alarmed by the dramatic rise of its power and influence. By contrast, the US policies principally defined by unilateralism and war on terrorism often aroused suspicion, irritation and concern among the regional states. This unfavorable image, it is assumed, has instigated adverse effects for the US security policies and business interests in Southeast Asia and thus is in danger losing its influence in the region (Tow: 2004).

It could be argued that the preceding findings offer an insight into the future dynamics of interstate relations in Asia. Indonesia's thinking about international relations envisages the existence of a distinct balance of power system to some extent resembling the bipolar Cold War conflict in which main poles will be the US and China. Indonesia, being the largest and most powerful state of the Southeast Asian region, is keynote countries that will in the future be courted vigorously by China not to mention the US, whereby China and the US have and will try to seek influence in Jakarta. However, Indonesia has, to a great extent, kept autonomy and independence in its foreign policy intact. A more detailed discussion of the China-Indonesia aspect will be dealt with in the subsequent chapters.

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## **Chapter-3**

## **Ethnic dimension of Indonesia's approach towards China**

This chapter addresses three inter-related issues. The first concerns the discrimination that the Chinese in Indonesia face today. Why is it that the Chinese are continuously being targeted by their fellow Indonesians and made scapegoats whenever there are problems, whether economic, political, or social, in the country. On the same note, why is it that younger indigenous Indonesians still discriminate against the Chinese, given that they had no experience of the colonial rule of the Dutch, where the Chinese supposedly colluded with the colonial government, and were also not brought up during the early years of the Suharto regime? Why are the Chinese seen by other non-Chinese and the state as a separate and “special” ethnic group, given the fact that there are over three hundred other ethnic groups that may not claim to be Indonesian per se, but they are actually ethnically Javanese, Sundanese, Papuan, Acehnese, or Dayaks?

The second issue concerns , what is it that makes a Chinese in Indonesia, Chinese. This must be seen in the historical context where the state, especially in the 1960s, during the Suharto regime, tried to erase all markers of Chinese identity through what one of my informant calls, a process of cultural genocide. Since Chinese schools, Chinese organizations, Chinese newspapers, Chinese media, and Chinese cultural festivals were either banned or restricted for thirty years, what is the nature of Chineseness today? What markers do the Chinese use to define their identity?

The third central issue that needs to be explored is whether there is still a notion of a Chinese community in Indonesia today. This has to do with the Chinese community's relationship with the state over the years, and is in many ways linked to the two preceding issues concerning discrimination and ethnic identity. What separates the Chinese from the rest of the Indonesian population? Why and how do the Chinese maintain a sense of community in the absence of institutions such as schools, clan associations and newspapers? This chapter explores the changing nature of Chinese ethnic identity in Indonesia, from the early arrival through the Dutch colonial period till modern day Indonesia.

It is not clear when the Chinese first started living in Indonesia however, reports by Fa Hsien, a Chinese traveler in the fifth century, wrote about the presence of Chinese in Indonesia (Toer, 2007: 197). Several main phases of Chinese population growth can be identified over the last fifteen hundred years or so. During the first phase, between about the tenth and sixteenth century A.D., traders were visiting various Southeast Asian ports, remaining temporarily or assimilating individually but rarely establishing permanent Chinese communities. In the second period between mid 1500s and 1800, Chinese trading quarters in the major cities such as Manila, Ayutthaya/Bangkok and Batavia became large and permanent. The third phase between 1800 and 1860 saw the numbers of Chinese in the region increase gradually. By 1860, there were an estimated 222,000 Chinese, two thirds of whom lived in Java (Coppel, 1983: 1). The fourth period from the 1860s till the onset of the 1930s Depression saw a large influx of Chinese from China (Mackie, 1996: xxii–xxiv).

The number of Chinese in Indonesia increased from about 600,000 around 1900 to 1.2 million by 1930. On either occasion, the Chinese Indonesian population was distributed in a roughly equal fashion between Java and the so-called Outer Islands. In 1930, inhabitants of Chinese descent accounted for about 2 per cent of the colony's total population of 60 million people (Boomgaard and Gooszen, 1991). For several decades to come, crude extrapolations from the 1930 census formed the sole basis for estimates of the size of the Chinese Indonesian population as Indonesian censuses failed to differentiate by ethnic origin. An estimate in the early 1960s suggested a share of 2.7 per cent which would have implied a higher than average growth for this population. Later estimates based on even less solid information, produced figures such as 3 per cent or even 3.5 per cent. Strikingly, however, the Indonesian census taken in 2000 reported only 1.8 million Chinese Indonesians corresponding to less than 1 per cent of the country's total population. This figure is almost certainly far too low, and it reflects above all the reluctance among Indonesians of Chinese descent to be officially registered as such. The anti-Chinese violence in Indonesia in May 1998, which occurred shortly after the country was hit by the severe Southeast-

Asian financial crisis, was fresh in memory when the census officials came around (Mackie, 2005).

But before the large scale migration of the Chinese in the seventy years following 1860, the Chinese arrivals tended to be male. The early Chinese migrants, who were mostly traders, often married the local women and this resulted in a strong mixed race of local born Chinese called Peranakans. The Peranakan community developed into a distinctive creolized culture with syncretised languages, cuisine and clothing and was accepted as a local culture, rather than a foreign culture of migrants (Wee et al., 2006: 366). According to Salmon (1996: 183) many of the early Peranakans had undergone a process of acculturation in various parts of the Archipelago so that the Peranakan societies were composed of two segments: a “visible” one that retained traits of the Chinese culture and an “invisible” one which was in the process of merging into the local societies. This acculturation process evoked the resentment of some peranakan circles, resulting in an earlier movement of resinicization that occurred by the mid nineteenth century in certain cities of Java and in Makassar with the founding of ancestral temples for ancestor worship and of voluntary associations aimed at reviving Chinese culture (Salmon, 1996: 193–194).

Due to the increased demand for labor, the nature of the Chinese community and divisions between the foreign born *totok* and the local born Peranakan became visible. The *totok* Chinese remained distinctly Chinese in their outlook and saw China as their home and had less social interaction with the locals or the Peranakans. Occupational roles also tended to differ on the men’s origins. Peranakans were likely to be self employed, principally as merchants while Singkehs, lacking capital or credit were obliged to work as wage earners (Williams, 1960: 12).

Often the Peranakan and the *totok* communities despised and looked down on each other. The Peranakan who were generally from a higher socio-economic background looked down on the newcomers. The *totoks* on the other hand had a sense of cultural superiority over the Peranakans who they believed had little knowledge about China, their ancestral home towns and the Chinese language

(Twang, 1998: 21). In fact, according to Greif (1988: 3) the social, economic and cultural differences made the *totoks* and Peranakans as unlike to each other as they were from the native pribumi community. The cracks which formed between the different ethnic groups also grew deeper as the racialized policies of the Dutch became entrenched in Indonesian society and created clear divisions between the indigenous, the ethnic Chinese and the European.

Dutch exploitation of tin mines and the establishment of plantations in the nineteenth century created a demand for coolie labor, and attracted many Chinese from the South of China which had been plagued by problems such as political unrest, overcrowding and famine. About 40% of the arrivals settled in Java while the remaining 60% inhabited the outer islands – mainly in the east coast of Sumatra, Bangka and Belitung (Twang, 1998: 19). After 1930, the wave of immigrants receded, and the growth of the Chinese population was due mainly to natural increase. By the 1930s, about two thirds of the population was locally born. By the late 1950s, the figure had risen to nearly 80%.

Most of the Chinese tended to congregate in the towns. When the Dutch arrived and colonized the archipelago, they found it convenient to maintain the residential segregation of the Chinese. Such segregation caused social and structural divisions between the Chinese and the native population and also eased the administrative burden of the Dutch as the Chinese could be easily managed under the leadership of the Dutch-appointed Chinese officers. These officers were appointed by the colonial government and were the instruments of Dutch administration but were not properly part of it- they were merely servants of it (Coppel, 1976: 23). The Dutch created strict class boundaries, based on their racialized policy. The Chinese were placed between themselves at the top, and the natives at the bottom of the social ladder. The Dutch considered the Chinese as good business partners, gave them opportunities to control medium size domestic trading companies and allowed the Chinese room to operate their commercial ventures as long as they did not jeopardize their monopoly over the indigenous products (Fernando, 1992: 1). Many of the Chinese officers held government licenses as retailers of opium and were revenue farmers in other fields, such as running gambling houses or ferries. Many were also involved in money lending and the



supply of rural credit (Coppel, 1976: 24).

Early in the Dutch colonial era, the distinctions between the Europeans, Chinese and the local population was openly manifested on clearly defined lines. They were either European, native, or Chinese. One's legal racial status determined where one could live, the taxes one paid and the laws which one was subjected to. In everyday life, it also determined what a person could wear. A native could not wear European clothes; neither could a Chinese male cut off his queue. These racial distinctions were constructed openly in Dutch colonial society. However, as will be seen in the following section, the rising tide of nationalism which swept through the Netherlands Indies in the early twentieth century led to a growing sense of ethnic awareness. There was an awakening of the Chinese as "Chinese" and of "natives" as natives and racial distinctions were becoming deeply ingrained in the minds of the natives and the Chinese, which was an even more effective means of segregation than the open, physical division (Shiraishi, 1997: 205).

The rise of modern politics swept across the Netherland Indies and propelled the country into a deeper awareness of its social divides. The Dutch who had administered the country with a deliberate divide and rule policy also became increasingly aware that the nationalistic fervor among the Chinese and the natives could take on a strong anti-colonial form. In order to prevent this, they adopted several policies to deepen the racial division between the ethnic groups and maintain their authority and economic dominance over the Netherlands Indies. In 1901, a new Ethical Policy was announced by the Dutch. This ethical policy highlighted the moral duty of the Netherlands to the people of the Dutch East Indies and introduced further government involvement in economic and social affairs. Already in the late nineteenth century, the Dutch colonial authority had begun centralizing its control over the Netherlands Indies. Opium farms, many of which were previously under license to the Chinese, were replaced by a government opium monopoly on Madura in 1894 and in East Java in 1896. The wealthiest Chinese invested heavily in opium farms, pawnshops and other licensed enterprises, but by early 1900s as a result of the termination of revenue farming, many well established Chinese businesses were forced to close, and many hundreds of Chinese who were employees of the farmers were made jobless (Williams, 1960:

26–27).

While the Ethical Policy included improvements to education, health care, and irrigation, most of these changes were aimed at meeting the needs of Dutch capital in Indonesia, rather than genuinely advancing the Indonesian society. However, the Ethical Policy was the first serious effort to create programmes for economic development in the tropics. It differed from the "civilizing mission" of other colonial powers in emphasising material welfare rather than a transfer of culture. The educational component of the Policy was mainly technical; it did not aim at creating brown Dutchmen and women. The Policy foundered on two problems. First, the budgets allocated to the Policy's programmes were never sufficient to achieve its aims, with the result that many colonial officials became disillusioned with the possibility of achieving lasting progress. The financial stringencies of the Great Depression put a definitive end to the Policy. Second, the educational programmes of the Policy contributed significantly to the Indonesian National Revival, giving Indonesians the intellectual tools to organize and to articulate their objections to colonial rule. As a result, many in the colonial establishment saw the Ethical Policy as a mistake that was counter to Dutch interests. Also, new political changes began and this served to worsen the position of the Chinese. The Chinese were considered to be the main obstacle to the economic advancement of the native population and thus new regulations had to be put in place to limit the Chinese from encroaching on the native population (Toer, 2007: 139). This policy had the effect of joining the Dutch and the indigenous Indonesians in an anti-Chinese prejudice. There was a tendency to make the Chinese scapegoats for poverty or for the absence of a significant entrepreneurial class amongst the indigenous population when, in actual fact, much of the native economy was stunted by the large Dutch corporations. (Coppel, 2004: 22).

The Dutch ethical project, which sought to manage the socio-economic situation from the top and the growing nationalism amongst the native population from below, were the driving forces in the creation of a new order. By the early twentieth century, the position of the Chinese had changed drastically. They were no longer needed as financiers or tax collectors. They were vulnerable to the violent wrath of the native population because they were deemed to be economically more

prosperous. But despite their wealth, they had no political power as the Indonesian society became firmly set along racial lines, with the Chinese as a minority race (Shiraishi, 1990: 190).

Due to dissatisfied by the treatment by the Dutch and heavily influenced by the political events in China, the Chinese nationalism movement gained momentum in the beginning of the twentieth century. Chinese associations, newspapers, and schools became active in promoting Chinese nationalism. In addition, the large number of China-born migrants and the prevalent nationalistic fervor in China infused a growing sense of national pride among the Chinese in Indonesia. There was a renewed interest in Confucianism, the Chinese language, history, customs and current events in China (Coppel, 1976: 25). In a show of unity, the *totok* and some Peranakan communities formed several cultural, business, social and political organizations.

The Chinese growing consciousness of the Chinese business community led to the establishment of Chinese Chambers of Commerce (*Sianghwee*) in 1908 which could function as representatives of Chinese business interests. These chambers of commerce organized boycotts of European firms to protect Chinese interests and also performed political and quasi consular functions to link the overseas Chinese to their homeland (Coppel, 1976: 26). To some degree, broad appeals based on culture and nationalism did succeed in bringing some of the diversified segments of the Chinese population closer to each other. Yet basic differences between the *totok* and the Peranakan were still very much present when further divisions were created by new Dutch policies in response to the awakening Chinese nationalism (Twang, 1998: 21).

The fervor of Chinese nationalism which gripped the Chinese in the Netherlands Indies was not enough to unite the various groups of Chinese. The nationalist pattern of activity was probably more widespread among the *totoks* and in areas where the Chinese were Chinese-speaking than among the *peranakans*. The chief characteristics of the nationalist pattern were the rejection of involvement in local Indies politics and a high degree of political orientation towards China. Even among those whose politics were China-oriented, there were also divisions which followed the

lines of cleavage of the politics of China itself – between the Kuomintang and the Communist Party (Coppel, 1976: 28). Some Chinese also shunned Chinese traditions and preferred to adopt a western lifestyle because of the privileges it entailed. In 1917, European legal status was offered to Chinese. These “European” Chinese represented one extreme of alienation from the rest of Chinese community because their different status had social and economic privileges. Politically, this group of Chinese who were mainly the elite among the Peranakan, was antagonistic to the *totok* and even to other Peranakan political groups (Twang, 1998: 23–25).

Despite the efforts to contain the nationalistic fervor, Chinese nationalism grew and sparked off the latent sense of nationalism among the native Indonesian population. Better education had already produced a small urban middle class of professionals who were exposed to the ideas of politics and nationhood. The formation of Budi Utomo (Noble Endeavour) movement is often considered the beginning of Indonesian national awakening. Founded in 1908 by Dr. Sutomo and students of the Batavia Medical School, its main aim was promoting the advancement of native people (Pramoedya, 2007: 228).

By the 1920s, the modern Indonesian nationalist movement was born and the Indonesian nation or *bangsa Indonesia* was conceived out of the desire to wrest independence from the Dutch and establish the Indonesian nation state. Suryadinata argues that since the Chinese nationalism developed before the Indonesian nationalism, the Chinese in colonial Indonesia were not part of the indigenous Indonesian nationalist movement. The Chinese were perceived as originating from a different “nation” (*bangsa*) and hence were excluded. Moreover the racial politics created by the Dutch contributed to the exclusion of the Chinese in the Indonesian nation-state. Society in colonial Indonesia was divided along racial lines and not surprisingly, the population was race conscious, and the concept of an Indonesian *bangsa* was race-based (Suryadinata, 2004: 7).

However, it is probably an over statement to say that all Chinese were excluded from the political process during the Indonesian nationalist movement. Dutch laws regulating political activity determined that only Netherlands subjects were permit-

ted to participate in local political organizations (Coppel, 1976: 30). This effectively marginalized the foreign born totok Chinese, many of whom were more aligned to nationalist political activity. Among many of the totok Chinese and the Peranakan Chinese there was a growing realization that their political interests were different (Coppel, 1976: 30); even among the Peranakan Chinese political views differed. Some of the Indies-born Peranakan Chinese were active in the political scene.

In 1932, a rival party, the Partai Tionghoa Indonesia (Indonesian Chinese Party, PTI) was established. The PTI opposed the pro-Dutch CHH which was made up exclusively of the very rich Chinese. It sought dominion status for Indonesia and citizenship for all people irrespective of race but it advocated retaining the cultural identity of the Chinese community. However the party had little support. The PTI's support for Indonesian independence merged with an anti-colonial sentiment which brought them in harmony with the Chinese nationalists for a while but this was short-lived as the PTI's concern for the special interests of the Peranakans alienated the two groups (Coppel, 1976: 35). It also did not get the support from the Indonesian nationalist political parties because of the strong racial division between the Chinese and the pribumi nationalist leaders (Greif, 1988: 5).

The press in Indonesia also contributed to the awakening nationalist movements of the Chinese as well as the native population. The Malay and Chinese language press kept pace with the nationalistic fervor of the early twentieth century. The change was reflected in the names of the newspaper, for example the *Kemadjuan Hindia* (Progress of the Indies) which changed its name to *Kemadjuan Indonesia* (Progress of Indonesia). The leading nationalist newspaper, *Sin Po*, was issued on 1 October 1910 as a weekly. By April 1912, it became a daily newspaper and launched a campaign in 1919 to draw the Chinese back to the "motherland" by rejecting Netherlands subject status (Lohanda, 2002: 81). *Sin Po* was the first paper to openly publish the text of "Indonesia Raya". This was a song composed by Wage Supratman at a youth convention in 1928 and encapsulated the ideals of the nationalist movement in Indonesia. It was chosen as the national anthem when Indonesia proclaimed its independence on 17 August 1945.

After the war, Indonesia underwent a period of political instability. Soon after

Independence was proclaimed in 1945, there was a power vacuum during which time the Chinese were subjected to looting and robbing (Twang, 1998: 155). The vulnerable position made many Chinese flee, while others awaited the arrival of the Allied forces with the hope of protection against the looting and anti-Chinese violence. In the immediate post war period, the struggle for Indonesian independence from the Dutch was a critical period for the formation of Indonesian nationalist attitudes towards the Chinese. Many Indonesians assert that the Chinese gave no support to the Indonesian independence cause. This was not strictly accurate. Although the Chinese community remained divided in their political orientation, several Chinese made their views heard during the preparation for Indonesian independence.

The issue of citizenship for the Chinese was tackled in the early years of the independence. The racial groupings which were created by the Dutch were broadly replaced by two categories: citizens and aliens. When the 1945 Constitution was drafted and the first citizenship law was enacted, Indonesian citizens were defined as “native Indonesians” (*orang orang Indonesia asli*) and those of other races (*orang orang bangsa lain*) who were confirmed as citizens by law. Citizenship was conferred automatically on indigenous (*asli*) Indonesians but only available to the other ethnic groups if they fulfilled certain conditions. The term *asli* meant indigenous, native and original, but it also had the connotation of “authentic” or “genuine”. Thus Coppel (1983: 3) argues that the wording and the substance of the constitution and citizenship law had already implied that “real” Indonesians were indigenous and that other members who received Indonesian citizenship did so as a favor of the Indonesian nation.

The Communist takeover in China affected the position of the Chinese in Indonesia. Many of them saw a Communist China as less attractive than an independent Indonesia. Those who were born in Indonesia and whose parents were domiciled under the Dutch administration were regarded as citizens of the new Indonesian state (Purdey, 2006: 8). However, as Lindsey notes (2005: 48) the ethnic Chinese, whether citizen or alien, continued to be singled out as a separate group.

Although most Chinese received Indonesian citizenship, they were still marked

out and referred to as WNI (Warganegara Indonesia- Indonesian of foreign descent), even though some of them are descended from families who have been in Indonesia for centuries. The WNI tag served as a euphemism for ethnic Chinese, as opposed to indigenous Indonesians.

While extending the benefits of citizenship to the Chinese seemed to be a generous and accommodating gesture on the part of the government, in reality Twang (1998: 132) asserts that such a citizenship law was a prelude to discrimination. As Indonesian citizens, Chinese businesses were subject to Indonesian law, but they did not receive the same treatment as the indigenous Indonesian businesses. One of the first discriminatory measures installed was the *Benteng* system which was introduced in early 1950, after the short-lived establishment of the Republic of the United States of Indonesia (RIS). The government announced that it would protect Indonesian “national importers” so that they could compete with foreign importers. The national importers were defined as indigenous Indonesians importers, or import firms whose capital was 70% indigenous. Thus, the Chinese importers would not enjoy any privileges directly. However, the Chinese businesses managed to get around the discriminatory policy by establishing “ali baba” companies. This consisted of indigenous Indonesians setting up offices as a front to obtain licenses and permits, while their silent Chinese partners managed the business (Suryadinata, 1992: 132).

However, matters were further complicated by the issue of the dual nationality of Chinese Indonesians: Chinese by blood-line, Indonesian by birth-place. This issue remained unsettled until the very end of the 1950s. By implication, even Chinese Indonesians whose forefathers had lived for generations in the archipelago were eligible for treatment as foreigners. Increasing economic nationalism saw two especially ugly manifestations. One was the *Assaad* movement, named after a nationalist businessman- cum- politician, who in 1956 mobilized indigenous businessmen and parts of the government apparatus against competitors of Chinese descent. There was a great deal of commotion but after a while the movement simply evaporated. The other manifestation was the infamous PP 10 (after *Peraturan Pemerintah*, ‘Government Regulation’), issued in late 1959, which banned all trading

activities in rural areas conducted by foreigners, including those of Chinese descent who had not yet officially renounced their Chinese nationality. Implementation caused a serious disruption of economic life in rural Indonesia and also a massive exodus of traders leaving for China (Mackie and Coppel, 1976: 9–15; Mackie, 1976: 82–97).

Despite the explicit discriminatory actions, many Chinese traders did manage to build their business by co-operating with the government. After the Japanese occupation, the Republican government found themselves with the onerous task of rebuilding the economy which was destroyed during the revolution and Dutch occupation. Through the nationalization of the economy, they had control over the economic resources, but did not have the business experience. The indigenous businessmen were unable to provide sufficient capital or expertise. Thus began the complementary relationship between the power-holders and the Chinese business- men. The mostly totok Chinese businessmen who had by this time supplanted the Peranakan Chinese, were seen as financial resources that could be called upon to finance Indonesian organizations, including those of the military. They were also utilized as intermediaries for the import-export trade. Several Chinese traders utilized their government connections to smoothen their business deals. Trading licenses for the Chinese were difficult to obtain without some measure of official Indonesian connection. As Twang points out during the post-war period, some Chinese businesses that had established connections with the Indonesian power holders and were willing to take risks made immense profits, especially in the smuggling of opium and weapons (Twang, 1998: 284).

For most of the Japanese occupation and during the struggle for independence, many Chinese remained politically neutral because of the economic and political turmoil in the country (Purdey, 2006: 7). However, the discrimination towards the Chinese led them to realize the need for greater political involvement. In the face of the growing instability, the political group of BAPERKI (Badan Permusyawaratan Kewarganegaraan Indonesia, Consultative Body for Indonesian Citizenship) was formed in 1954. It was open to all Indonesians regardless of race, although the members were mostly Peranakan Chinese. The aim of the organization was to strive for equality among all Indonesian citizens, regardless of their ethnic origin.



BAPERKI also demanded the cultural rights of the Chinese minority group (Suryadinata, 2001: 504). BAPERKI was the largest active Chinese-Indonesian organization during the 1960s (Lane, 2007: 17). It became aligned with then President Sukarno and became increasingly dependent on his support. One of the first battles which the BAPERKI fought was to oppose the draft citizenship law which would have severely restricted citizenship for the ethnic Chinese. As a result of their vocal opposition, the draft citizenship law underwent substantial modification before it was adopted by Parliament in 1958 (Coppel, 1983: 36).

From its inception, BAPERKI was fundamentally integrationist (as opposed to assimilationist) and showed its commitment by establishing BAPERKI schools which were open to all races although they were attended by predominantly WNI and WNA Chinese. It also opened a University in Jakarta with a branch in Surabaya. These educational institutes used the Indonesian language as the medium of instruction but included teaching on Chinese culture and politics (Greif, 1988: 9). While some of the *totok* joined BAPERKI, most of them were still China-oriented and had their own clan organizations, commercial and cultural associations.

By the 1950s, the system of parliamentary democracy which was in place after the transfer of sovereignty in 1949 came under attack. After several mini-coups by local military commanders in several regions of Sumatra and East Indonesia, the government of Ali Sastroamidjojo resigned in early 1957 and President Sukarno abandoned the parliamentary system and declared martial law. As a result the army acquired extensive administrative and political powers. Apart from its expanded political role, the army gained an important foothold in the economy. When in December 1957, the vast network of Dutch business enterprises in Indonesia was taken over by local trade union actions in defiance of cabinet instructions, then Army Chief of Staff General Nasution ordered them to be placed under military supervision.

For his part, President Sukarno was not happy with the figurehead presidential role assigned to him by the provisional constitution of 1950 (Coppel, 1983: 31–32). Instead Sukarno espoused his ideas of “Guided Democracy” under which he became the ultimate arbiter in all matters concerning political ideology

(Coppel,1983: 33). For the Chinese, overt expressions of anti-Sinicism and violence was fairly well suppressed during the Sukarno period. This was perhaps due to his close relationship with Peking as well as his personal ambition to remain in power. According to Suryadinata, Sukarno espoused unity among the races mainly because he believed that a country afflicted by ethnic discord would weaken his power. Sukarno's concept of a multi-racial state however was not accepted by the majority of the indigenous Indonesians (Suryadinata, 2004: 8). However, the Chinese were not totally spared from discrimination. A head tax was imposed on aliens in 1957 and in 1959 a ban on retail trade by aliens outside the capitals. The retail ban which was comprehensively implemented in West Java severely disrupted relations between Indonesia and China and caused an exodus of more than 100,000 Indonesian Chinese to China. It also seriously disrupted the Indonesian economy since national businessmen and co-operatives were in many cases not well prepared to take the place of the alien retailers. The WNI Chinese, although not directly affected by the measures were unsettled by them. They had to give proof of their Indonesian citizenship if they were to avoid the economic restrictions and many WNI Chinese feared that the restrictions may extend to them (Coppel, 1983: 37–38).

By 1963, the ethnic Chinese had settled into a less tenuous status in Indonesia. Under the nationality treaty between the Indonesian and the Chinese government, provisions were made for the ethnic Chinese with Indonesian citizenship to be released from Chinese citizenship. Implemented in 1962, around 390,000 ethnic Chinese chose Indonesian citizenship and rejected their Chinese status (Purdey, 2006: 9). The rights of the alien Chinese to continue their residence in Indonesia was not challenged. In fact they were welcomed as relations between Indonesia and Peking were good. Thus Coppel (1983: 39) claims that citizenship in effect was not a major issue in Indonesian politics during the later part of the Guided Democracy period.

On the Chinese part, the late years of the Guided Democracy era were a period of accommodation. The Chinese schools had high enrolments, the Chinese language newspaper was revived and the Peranakan Chinese became increasingly involved in the political scene with the BAPERKI becoming one of the largest

Chinese socio-political organizations in Indonesia. While the BAPERKI leadership was mostly left-wing, Greif (1988: 9–10) claims that its rank and file members as well as its financial backers were not. These members used the BAPERKI as a means of defense against anti-Chinese reactions and as a channel to Sukarno's inner court. However, in the eyes of the native population, communism became associated with all Chinese. This was exacerbated by the close support given by President Sukarno who became increasingly close to the Indonesian Communist Party (PKI). While Sukarno was in power and the relations with mainland China were close, this identification was actually beneficial for the Chinese community (Coppel, 1983: 50). However, the conditions proved short lived as Sukarno was overthrown in a military coup and the anti-Communist campaign in Indonesia meant that the Chinese became prime targets of violence. Many ethnic Chinese were killed, attacks were made on Chinese consulates and Chinese schools were seized and closed. BAPERKI was also implicated in the Communist coup and banned (Suryadinata, 2001: 501).

Under the Suharto regime (1966–1998), the Chinese population came under a great deal of pressure. Suharto's anti-Communism purges in 1965–1966 resulted in the massacre of about a million people (Lane, 2007: 14). However, most of the people who were killed were mostly Javanese and Balinese rather than Chinese. If anything the ethnic Chinese were under-represented in the massacres which were directed against members of the PKI and its affiliated organizations in which the Chinese were also under-represented. Lane argues that the main reason for the Suharto's elimination was to wipe out any opposition to his regime. During the 1950s and 1960s, political and social movements were very active. The leading mass activist organizations, the Indonesian Communist Party as well as its associated mass organizations were thus seen as a threat to Suharto's power and hence were crushed by the mass violence. Other mass organizations such as the Indonesian National Party and its affiliates were not banned but they saw thousands of their members killed and imprisoned (Lane, 2007: 14).

Suharto also put in place policies which led to deal with the so-called "Chinese problem" (masalah Cina). The Chinese were continually portrayed as "the enemy" and ethnic problems (instead of economic ones) were touted as the root of the

problem in Indonesia. Ethnic differences between the Chinese and the pribumi were depicted as the cause of the widening economic inequality and not the class contradictions produced by the rapid industrialization in society. The media was used to manipulate and perpetuate the stereotype that all Chinese belonged to the affluent upper class that was enjoying their wealth at the expense of the majority pribumi population. Thus by manipulating deep seated inter-ethnic suspicion and emphasizing ethnicity, Chua (2004: 469) argues that the Suharto regime prevented queries which may have challenged their “capitalist oligarchy” and knee-deep involvement with the Chinese tycoons.

The Chinese were marginalized and were pressured into assimilation by the *pembauran total* (complete assimilation) policy because Chinese cultural differences were deemed to be a threat to the national unity of Indonesia and was a stumbling block to achieving ethnic peace (Chua, 2004: 470). Thus, beginning in 1966, the government attempted to eliminate all forms of Chinese-ness and attacked the three pillars of Chinese culture – namely the Chinese language press, the Chinese medium school and the ethnic Chinese organizations. Suharto closed all Chinese newspapers except one. This was a half-Chinese, half Indonesian daily newspaper which was run by the government and controlled by the military (Suryadinata, 1994: 2).

Even the use of Chinese media, language and writing were banned. All Chinese associations were dissolved and the Chinese language schools were closed. Indonesians of Chinese descent were “encouraged” to replace their Chinese names with Indonesian-sounding ones to “accelerate the assimilation process” (Chua, 2004: 471). The public practice of Chinese religions and customs, including the celebration of the Chinese New Year were forbidden. The discriminatory policies were ostensibly to extinguish Chinese culture and assimilate the Chinese with the majority population. The concept of assimilation, based on the indigenous “sons of the soil” or pribumi was used as the Indonesian model. All Indonesian ethnic groups were declared to be indigenous as their homeland was within the boundary of Indonesia. Since they lay claim to the land, they should have more rights than the immigrants, such as the ethnic Chinese who originated from China and hence were foreigners. Thus, if they wanted to become Indonesians, the only acceptable way

was to assimilate into the indigenous population. In other words, the Chinese were expected to give up their Chinese cultural characteristics and assume indigenous cultural characteristics (Suryadinata, 2004: 3).

The legal status of the Chinese presented a dilemma for the New Order regime. The Suharto government had a long standing policy to treat the ethnic Chinese as a group apart from the indigenous Indonesians. Thus it would be contrary to its official policy to naturalize the alien Chinese (Lindsey, 2005). The alien Chinese were mostly those who were not born in Indonesia or were Indonesia-born but had rejected Indonesian citizenship following independence in 1945. However the Cold War anxieties made Suharto fearful of a possible fifth column among the non-citizen Chinese. Thus the regime compromised by setting up a process by which aliens could obtain a citizenship certificate (the SBKRI) from the head of the regional administrative sub districts. These certificates would become the basis of a naturalization process. However the SBKRI system also created opportunities for corruption, especially at the local level of officials. In some places, the unofficial cost of obtaining the SBKRI was 7.5 million rupiah (around US\$885). The exorbitant bribes meant that some Chinese could not afford to obtain the SBKRI and remained in a state of legal limbo (Lindsey, 2005: 49). For those who did obtain the SBKRI, it became an essential evidence of citizenship. Combined with a special code for ethnic Chinese on their identity cards, Lindsey (2005: 51) likened it to the restrictive pass system utilized by the Dutch to single out the Chinese during the colonial era.

Thus Chua (2004: 472–473) argues that in reality the government did not seek to resolve the “Chinese problem” but wanted to politicize the ethnic difference between the ethnic groups to ensure the antagonism between the pribumi and the Chinese persisted, thus covering up the class nature of social conflicts in the country (Chua, 2004: 472). Working against the official policy of assimilation were various measures which ensured that the Chinese would also be kept distinct from the general population. Beside the special codes on their identity cards, there were also many restrictions on the Chinese, such as limiting vacancies in state universities for Chinese and restricting certain occupations from Chinese. This resulted in many of the Chinese gravitating towards the business field. Such restrictions tended to push

the Chinese population and their apparent differences into the lime- light. Various government policies were implemented to undermine and eradicate what was deemed to be “Chineseness”, yet the Chinese were not integrated into the Indonesian population because they were still branded as “Chinese” by their religious preferences, in official identification forms, and perceived as such by bureaucracy, employment and university admissions.

Their Chineseness was not only kept visible, it was also re-defined. Chineseness lost its cultural connotation but was infused with a negative meaning. This negativity was further emphasized by the 1967 ruling to label the Chinese derogatively as “Cina” instead of the neutral “Tionghua”. The use of “Tionghua” was banned from public use and “Cina” was used to remove the feeling of inferiority on the part of our people, while on the other hand removing the feeling of superiority on the part of the group concerned (Aguilar, 2001: 505). The government policies thus legitimized the pariah status of the Chinese and anti-Chinese sentiment and attacks became “justified” since there were no legal and few moral consequences of such attacks since the Chinese were the outcasts who had no rights or means of defending themselves (Chua, 2004: 473). Tan (2004: 56) also contends that the combination of labeling and the implementation of discriminatory laws and regulations has led to the formulation of an attitude that condones and justifies disparaging or despising anything that is Chinese or Chinese related.

Under the circumstances, it became necessary for the Chinese minority to seek protection from the political bureaucrats. This paved the way for the symbiotic relationship between the government officials and the Chinese businessmen. This was an echo of the Sukarno government’s relationship with the Chinese during the late Guided Democracy period. The *cukong* (Chinese businessmen who were in alliance with the powerful Indonesian bureaucrats) used their connections with the military elite to obtain preferential treatment for contracts, licenses and credit in return for a share of the profits (Coppel, 1983: 153). The opportunities open to the rich Chinese entrepreneurs were subject to much criticism especially by the indigenous businesses. However, Chua (2004: 475) points out that the Chinese conglomerates were only junior partners among the more powerful politico-bureaucrats because they were still stigmatized as Chinese.

The status of the Chinese was the biggest barrier towards them translating their economic prowess into political power. Hence it was the aim of the government to ensure the Chinese tycoons remained as social pariahs as this made them the perfect silent partner to rule and exploit the wealth of the country. Although working in co-operation with the Chinese tycoons seemed contradictory to the official protectionistic policy of improving the wealth distribution to the pribumi, in actual fact it benefited the ruling elite to ensure the economic backwardness of the indigenous population. The growth of an economically strong pribumi middle class could become a threat to the powerful politico-bureaucratic elite as they would have the moral right and the numerical superiority to speak out against the military regime (Chua, 2004: 475).

Purdey (2006: 32) claims that it would be simplistic to attribute the anti-Chinese violence to economic or class competition. While these are influential factors, they are not central to the why the violence takes place. In her view, violence towards the Chinese took place because of multiple reasons: namely disputes over sacred space (fears of Christianization), scape goating during economic hardship, political power struggles, racialized state violence and justice-seeking. During Suharto's reign, the state was complicit in creating a context which seemed to condone anti-Chinese sentiment. The New Order regime constantly questioned the position of the Chinese, their citizenship and their "belonging" to the Indonesian nation. This presented the context for the government as well as the masses to view the discrimination, prejudice and acts of violence against the Chinese as justifiable. In fact, Chua (2004: 475) claims that some of the riots may have been instigated by the military themselves. Perhaps, the antagonism between the Chinese and the pribumi was evidence of the successful policies engendered by the regime.

On May 13, 1998, Indonesia exploded in mass disorder when large scale riots broke out, firstly in the capital city, Jakarta, which then quickly spread across many provincial towns in Java. While there have been intermittent riots against the Chinese in Indonesian history, the riots in Jakarta were unprecedented because of the scale of the destruction of property which was arguably left unchecked by the police and the military, and by the fact that it received "live" world wide media

attention and coverage. The rioters, who were mostly indigenous Indonesians, pribumi, did not confine themselves to simply looting and burning. The Chinese became increasingly terrified when word spread that many Chinese women were being gang-raped and subsequently killed. Looting and mass destruction caused widespread fear amongst the Chinese community, and thousands of Chinese rushed to the airports and fled the country.

It is popularly known that the 1998 riots were sparked off by the poor economic position that Indonesia had found itself in when the “bubble” burst in Thailand. The “Asian contagion” and currency crisis affected Indonesia, which led to a rapid decline in the value of the rupiah, and a sustained economic crisis. However, the sociological question is why, in the face of the crisis, the Chinese were targeted and became the scapegoat for the economic woes of the country?

Before proceeding to analyzing the three central issues stated earlier, it would be useful to provide a brief overview of some of the studies that have been conducted on the ethnic Chinese in Indonesia. Most studies tend to promote the view that the Chinese in Indonesia have remained a separate ethnic group with their own cultural peculiarities and practices. Willmott, for example, noted that “there is virtually no ambiguity about who is to be considered Chinese.” Likewise, Skinner mentioned that thousands of ethnic Chinese in Java had consciously maintained their own ethnic identity and could even trace their ancestral descent for as many as twelve generations. Go (1968: 47) wrote that the “Chinese who have remained and settled in Indonesia . . . have continued to exist as a separate group with a cultural pattern [that is] distinct from that of the Indonesians, but also from that originally brought from China.” The (1966) suggested that the anti-Chinese riots in Indonesia can be traced to the polarization of economic tension between the Chinese and Indonesians. The emphasis on economic motivations is further discussed by Willmott (1961), who noted that the Chinese became known as parasites because of their domination of the commercial sectors, which could be traced back to the early years of the twentieth century when the Chinese acted as middlemen for the Dutch and were moneylenders, charging high interest rates to the local Javanese population (see Bonacich, 1973; Hirshman 1988; and Zenner, 1991 for examples of the middleman minority thesis that characterized colonial and post colonial period in Southeast



Asia. See also Rush, 1991 for a discussion of the Chinese role as moneylenders in colonial Java.).

Most recently, Chandra (2002) applied economic theories to analyze the causes of anti-Chinese sentiments, and concluded that it started during the early years of the twentieth century when relative wages between the Chinese and the pribumi revealed “a rapid increase in wage inequality” (p. 110) in the Netherland East Indies. Chandra concluded that the relative wages were thus an important criteria for explaining political unrest in plural societies. These economic theories base their argument on the observation that the problems between the Chinese and the pribumi stem from either jealousy on the part of the latter towards the former, or simply the dynamics of Dutch colonial social structure which saw the Chinese, as Foreign Orientals, occupy a higher position as middlemen compared to their native counterparts in the highly stratified society. Significantly also, it should be remembered, is that most of these studies (other than Chandra, 2002; Rush, 1991; The, 1993) were either conducted prior to or just after the 1965 military coup in which General Suharto had assumed the presidency and launched his New Order regime. Suharto’s highly centralized, authoritarian regime that sought to suppress all forms of Chineseness has been replaced, at least officially, by a democratic and more open leadership under President Megawati Sukarnoputri, who declared Chinese New Year a national holiday in February 2003, as well as subsequent Presidents. Other scholars have drawn attention to the political dimension that inevitably includes the role of the state, and certain global forces that aim at determining ethnic Chinese Indonesian identity (see Somers, 1964; Williams, 1966).

Most of these scholars, however, have stressed individual reasons and have, in my view, over-emphasized a single factor, whether economic, political, linguistic or religious, to account for the differences between the ethnic Chinese and the pribumi, which subsequently act as barriers towards integration or assimilation of the Chinese. These studies thus tend to be unilineal and causal in their explanations of the position of the Chinese in Indonesia. As such, Mackie criticized many earlier studies for failing to take into account the multi-layered, or overlapping character of so many of Indonesia’s most crucial socio-economic problems (1982: 120),

precisely because they were “over-simplified, excessively deterministic or mechanistic in establishing causal connections.” He further suggest that one of the problems with previous studies is that they tended to use either structural or class variables only, or ethnic and cultural variables only, to explain position of the Chinese. This chapter argues that an understanding of the Chinese in Indonesia requires a multi-faceted explanation, taking into account various factors, including economic, political and cultural variables.

An understanding of the Chinese in Indonesia needs to be cognizant of the multiple nature of Chinese in Indonesia, and ethnic identity, and the expression of that identity is dependent on the local context and the historical and environmental conditions that the Chinese migrants find themselves in. Even on the island of Java, it is possible to argue that there are regional differences. The Chinese in Cirebon, for example, exhibit different attributes of their ethnic identity compared to those in Jakarta. As one informant noted, “The place you come from plays a big part. The Chinese in Java are totally different from the Chinese in Medan, or Bali. The Chinese in Jakarta are different from the Chinese in the outskirts of Java. It is totally different – your dialect, your mentality, is different. For example, my friend said that the Chinese in Medan are famous for being conmen; but that is a stereotype and I don’t buy that argument. They are known as ‘chi-med’. If you want to see them you should go to Pluit, very close to the airport and very exclusive.” There are towns in West Java where the Chinese look like pribumi, but will not attempt to speak Bahasa Indonesia.

While there may be differential Chinese, and they are just one of a multitude of ethnic groups in Indonesia, when it comes to state policies, or inter-ethnic relations between the “Indonesians” and the Chinese, the latter is often viewed as, and dealt with, as a homogenous group. This is especially so when we examine the issues of ethnic discrimination and ethnic prejudice in Indonesia, which will be analyzed both at the level of the discourse of everyday life as well as at the level of the community and the state. It shows that, in daily life, the Chinese in Indonesia experiences a high degree of ethnic discrimination. As one informant noted, “When you are walking around, especially in small groups, they will say, cina, cina, what are you

doing here.” The discrimination is most obvious when dealing with the bureaucracy.

In the face of formal and informal stereotyping and discrimination, the Chinese have to situate their ethnicity and identity to survive. These personal experiences shape the discourse of Chinese identity in Indonesia. For example, many of the informants indicate that in public, they rather identify themselves as Indonesians rather than as Chinese, in the hope of avoiding discrimination. At the personal level, this is possible to a certain extent. However, when it comes to dealing with the bureaucracy, what a person identifies himself or herself as makes little difference. The Chinese are dealt with as a separate and distinct group. It is really about being between a rock and a hard place. For some of the Chinese who chose to identify themselves as Indonesian, and to assimilate into Indonesian society, they are not allowed to do so, and they continue to be discriminated against. For those who choose to retain and display their Chineseness, they are viewed as unpatriotic, and parasites of the Indonesian economy. As one informant succinctly puts it, “the policies towards the Chinese were very paradoxical, on the one hand they have to give up their Chineseness, and on the other hand, they are restricted from becoming full Indonesians. Stupid.”

It is important to understand ethnic discrimination in Indonesia from both a micro and macro level. At the macro level, many writers have drawn attention to the fact that the roots of discrimination against the Chinese in Indonesia started with Dutch colonial rule (see Chandra, 2002; Coppel, 2002; Cribb and Brown, 1995; Lohanda, 2002; Rush, 1991, van der Kroef, 1950. See Kahn (1982) for several concepts on Indonesian social structure during colonial times. See Maier (1993) for the specific development of the Malay and Dutch languages during colonial times). The year 1830 has been marked by the historian Ricklefs (1981: 114) as the benchmark from which the “truly colonial period of Javanese history began” because they were in a position to “fully *exploit* and control the whole of the island.” Many thus believe that this anti-Chinese sentiment, which had been caused either directly or indirectly by the Dutch, is related to the historical context in which the Chinese and the pribumi belonged to. The Dutch, as a trading company, sought economic profits to bolster the “deteriorating financial position in the Netherlands” (Ricklefs, 1981: 114). By imposing their three-strata system on Indonesian society, economic

differences and racial differences indirectly became conjoined more than three hundred years ago. It will therefore take many generations before such racial stereotypes are erased from the mindset of the people.

Understanding this historical period under the Dutch is crucially important, because one will then realize that the Chinese and the pribumi were thrust into positions that they did not necessarily accept. Furthermore, this separation accounts for the historical roots of the discrimination in colonial Indonesia, because economic differentiation was, in many ways, equated with racial or ethnic differentiation. If the Dutch separated Indonesian society into three racial groups and caused discrimination between the Chinese and the pribumi, then Suharto has been accused on several occasions of worsening that tension, firstly through his assimilation program, and secondly through his policy of economic nationalism (Anderson, 1990; Robison, 1997; The, 1994). By banning or restricting the three pillars of Chinese culture in Indonesia, Suharto made it known that he officially discriminated against the Chinese minorities. However, his contradictory policies seemed to have an adverse effect on the Chinese as a whole, because they felt that they were given “special treatment”. Suharto’s “special treatment” of the Chinese made them more wary of their status as second-class citizens, and although he succeeded in some ways in lessening the display of Chinese culture in Indonesia, he created latent hostility towards his own government and aroused stronger Chinese ethnic sentiments because not all Chinese shared his visions for an “assimilated” Indonesia that had no traces of Chinese culture.

It is here that many commentators have drawn attention to the historical context of the 1960s in post-independence Indonesia. At that time, Indonesia was recognized as having the third largest communist party, after Russia and China. Anderson (1990: 109) noted that Suharto’s New Order regime is best seen in the light of the “resurrection of the state and its triumph vis-à-vis society and nation”, in which the basis of this triumph lay in the “physical annihilation of the PKI and its allies and the removal of President Sukarno as an effective political force.” Once Suharto achieved unlimited power in the country, he immediately sought to destroy communist influence, and was strongly supported by the American government in his quest to subvert any traces of communist activities (Scott, 1985).

So there existed two basic political groups amongst the ethnic Chinese then – the right-wing assimilationists that comprised members of the LPKB, who wanted the Chinese to “assimilate” with the rest of Indonesian society by losing all traces of their Chineseness; and the left-wing integrationists that comprised the BAPERKI and the PKI, who wanted the Chinese to be recognized as a separate ethnic group (*suku*) with equal rights and privileges as their indigenous Indonesian counterparts (see Tan, 1991). Many Chinese still feel that by subverting the three pillars of Chinese culture, Suharto gave the impression that he discriminated against all Chinese in general. Thus, he may have gone too far in his efforts, so much so that young ethnic Chinese today think that they are being discriminated simply because the word “Chinese” is stated on their identity cards.

Reformasi (reform) has brought about significant changes in the way the Indonesian government conducts itself and none more so than in its attitude towards the ethnic Chinese community. Then President Megawati had installed an open, more democratic society that in theory was aimed at representing the interests of the people. This replaced Suharto’s authoritarian government, where the military had played a prominent role in all socio-political aspects of the country (Crouch, 1975). The public Chinese New Year celebrations in February 2003 also saw the president and some other “non-Chinese” politicians adorn traditional Chinese costumes in an obvious display of support for the Chinese community. Several informants suggested that after Gus Dur opened Indonesia up to democratic rule, state policies have strongly favored the Chinese, such as the lifting of the ban on Chinese publications. As Hoon (2006: 154) argues, even though the competence or familiarity with the Chinese language no longer reflect the “Chineseness” of most Chinese Indonesians, the revival of Chinese language publications is still perceived as an acknowledgement of the culture and identity of Chinese Indonesians (Hoon, 2006: 154).

However, it is clear that there is still a sense of caution and weariness. Thus, despite efforts at reform, many ethnic Chinese Indonesians still feel that the one problem that is holding the country back is the corruption factor. It is in this area that have indicated the most amount of discrimination towards the ethnic Chinese,

so much so that it is “legalized” or “constitutionalised”. To them, corruption at the government or bureaucratic level is in itself a form of discrimination. The state has a crucial and decisive role to play in lessening discrimination against the ethnic Chinese, since much of the discrimination is actually in the form of corruption at the bureaucratic or government levels. Most of them agree that the Chinese are now in a more advantageous position, but they would rather have the government scrap all forms of policies and regulations that differentiate between the Chinese and the pribumis and give everyone equal opportunities to live their lives as Indonesian citizens in the current climate of democracy. Also, most of the people who acknowledge the increased “power” of the Chinese minority are usually business people, thus indicating that the current political climate is strikingly reminiscent of the 1960s, when Coppel (2002) predicted that there were overwhelming opportunities for Chinese businessmen to succeed.

The final issue concerns the notion of a “Chinese community” and the extent to which there is a sense of a community amongst today’s Chinese Indonesians. If Suharto had attempted to assimilate everyone into a single Indonesian community in the form of an Indonesian nation, and if many Chinese Indonesians prefer to call themselves “Indonesian” rather than “Chinese”, then how useful are the Chinese today as a social, political, and economic entity? Is there a point in calling Chinese Indonesians Chinese anymore? Also, can the Chinese still be divided into various groups like the totoks and the peranakans? Or are there different distinctions or groups of Chinese Indonesians? The first obvious finding is that Chinese Indonesians, like all their other Southeast Asian Chinese counterparts, are an extremely heterogeneous group of people. The data suggest that Chinese in Jakarta are probably the most “assimilated” Chinese in Indonesia based on the fact that most of them were more comfortable speaking either in English or Bahasa Indonesia. But there are many other sub-groups of Chinese who may not have “assimilated” over the years, and who still retain most of the traditional markers of ethnic Chinese identity. Regional distinction is again a critical difference amongst the Chinese, and their identities vary over space (from region to region) and over time (historical factors). That being the case, how can we characterize the Chinese into their various groups?

Mely Tan (1991) wrote that the Chinese could be characterized along a continuum with the totoks at one end, the Indonesia-oriented group at the other end, and the peranakans in the middle. The Chinese can be divided *broadly* into three groups: the more culturally Chinese-oriented totoks who speak Mandarin or other dialects regularly; the extremely diverse peranakans who generally speak Bahasa Indonesia or their local languages, and who have acculturated at different rates depending on regional variation; and the Indonesia-oriented group who do not speak Chinese at all and who identify themselves solely as Indonesian. These distinctions are useful in so far that they are *general*, but even *within* the various groups, there are several differences that set each peranakan apart from another peranakan, for example.

The last verbatim may offer a clue as to what holds the Chinese community together, in the face of the loss of what are regarded as traditional markers of identity, such as language, education, community organizations and religion. The new imagined community of Chineseness rest not on cultural markers, but on economic ones. In a sense, it can be termed “economic ethnicity”, where identification with other Chinese is based on economic networks. It is thus strategically advantageous, in certain situations, to be identified as a community to ensure survival in Indonesia. In general, Chinese businessmen hold a general distrust towards “outsiders, preferring to do business with other Chinese. *Guanxi* is fundamental to Chinese economic transaction” (Tong, 1998). Thus, maintaining Chineseness and an imagined community facilitate economic survival for the Chinese in Indonesia.

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## **CHAPTER- 4**

## **Politico-Economic aspects of Indonesia- China relationship**

‘The economic relations between China and Indonesia’ is old academic studying field on one hand, but it is always a new field attracting scholar’s attention on the other hand. The economic relations between them have been in transition with the change of politics and economy in these two countries and the change of regional and global relationship. So it is always imperative to study the economic relation between China and Indonesia in response to the change of respective economy and international relationships. This Chapter will focus on four areas: 1) China’s economic relations with Indonesia since 1950s; 2) the complementarity and competitiveness of economic relations between China and Indonesia; 3) The impact of China’s entry into WTO and establishment of China-ASEAN free trade area on economic relations between China and Indonesia; 4) Chinese investment in Indonesia.

### **China’s economic relations with Indonesia since 1950s**

China and Indonesia finally became nation state after World War II, but followed different social-political systems which had implications on economic relations. Together with the influence of international political order in the period of Cold War, the economic relations between China and Indonesia had not been smooth. Economic relations between Indonesia and China are closely related to the political relations between the two countries. As the political relations have been up and down, so have been the economic relations.

China and Indonesia established diplomatic relations on 13 April 1950 and signed first bilateral trade agreement in 1953. Afterward, the trade between them had been increased, the total trade value between them moved from US\$ 7.38 million in 1954 to US\$ 129 million in 1959 (**Almanac of China’s Foreign Economic Relations < Trade 1984**). Even in 1965, China once became the second trade partner of Indonesia which Indonesian import and export value from China occupied 11 percent of the total value of Indonesian import and export. But following the ‘30 September’ incident in 1965, the diplomatic relations between two countries were

suspended (Sukma, 2009). This had a significant negative impact on the economic relations between Indonesia and China. Direct trade link between them therefore stopped and indirect trade had been taken through Hongkong and Singapore. Until 1980s, relations between China and Indonesia were far from normal. In July 1985, the Indonesian Chamber of Commerce and the China Council for the Promotion of International trade (CCPIT) signed a memorandum of understanding (MoU) for the reestablishment of a direct trade link between the two countries. Five years later, it was on 8 August 1990 while Premier Li Peng was visiting Indonesia, the Chinese and Indonesian foreign ministers signed the Memorandum of Understanding on Restoration of Diplomatic Relations on behalf of their governments, and declared Sino-Indonesian diplomatic relations was officially restored as on that day. After that, the economic relations between the two countries had been normalized, Sino-Indonesian relations have seen all-round progress and developing rapidly. Average annual growth rate of trade reached 14.7 percent during 1990-2000.

Entering 21st century, the relations between the two countries have been in best time. In May 2000, Foreign Minister Tang Jiaxuan and Indonesian Foreign Minister Alwi Shihab signed in Beijing the Joint statement on the Course for Future Bilateral Cooperation between the People's Republic of China and the Republic of Indonesia, and Memorandum of Understanding on the Joint Committee of Bilateral Cooperation between the People's Republic of China and Republic of Indonesia, which was the guideline of developing the relations between two countries in 21st century. This showed that the two countries reached consensus on establishing and developing all-round cooperative relations based on long-term stability, mutual trust and good neighbourliness.

Overview of the history of economic relations between China and Indonesia since the establishment of diplomatic relations in 1950, the development of economic relations between two countries may be divided into three stages:

1. Slowly development in the period of 1950-1966. The trade relations between them were characterized as small in volume and simple in structure of trade.

**Table 1 \* Chinese trade with Indonesia during 1950-1966 (Unit: US\$ ten thousand)**

<b>Year</b>	<b>1950-1955</b>	<b>1956-1960</b>	<b>1961-1965</b>	<b>1966</b>
Export	11.75	206.28	236.99	0.33
Import	22.56	191.98	225.20	16.39
Total	34.31	398.26	462.19	16.72

**Source: Almanac of China's Foreign Economic Relations < Trade 1984.**

2. Indirect trade through Hongkong and Singapore in the period of 1967-1984. The normal economic relations between China and Indonesia had been stopped for nearly 20 years because the diplomatic relations between two countries suspended in 1967. The trade between them took place in term of indirect trade through Hongkong and Singapore. In 1970s, about 30 percent of Indonesian import goods from Hongkong were made in China and 14 percent of Indonesian export goods to Hongkong had been transferred to China at same time.

**Table 2 \* Chinese indirect trade with Indonesia via Hongkong during 1967-1984 (Unit: million US dollar)**

<b>Year</b>	<b>1978</b>	<b>1979</b>	<b>1980</b>	<b>1981</b>	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>
Import	8	28	45	33	42	34	-	-
Export	94	134	203	238	256	227	195	165
Total	102	162	248	271	298	261	195	165

**Source: Hongkong's Foreign Trade 1978 ' 1979 ' 1980 ' 1982 ' 1984 ' 1985.**

3. Restoration and rapid development since 1985. China and Indonesia finally restored direct trade which ever suspended for nearly 20 years. The economic relations between these two countries developed rapidly after the normalisation of diplomatic relation in 1990. The economic relations between China and Indonesia in this period has been steadily increasing. We can see this trend from below table. The trade value between China and Indonesia goes up sharply since 1985

except in 1998 and 2001. According to the data of China, Indonesia's trade with China by value increased nearly 100 times from US\$ 108.7 million in 1985 to US\$10.2 billion in 2003 and is planned to reach US\$ 15 billion with Indonesia's trade surplus most of years.

**Table 3: The trade balance between China and Indonesia during 1985-2003 (Unit: US\$ million)**

Indonesian Statistics			Chinese Statistics		
Years	Total	Export	Import	Total	Export
1985	333.1	84.2	248.9	108.7	69.0
	39.7				
1986	476.1	139.0	337.1	285.0	102.2
	182.8				
1987	751.0	343.0	408.0	432.2	142.1
	290.1				
1988	930.5	491.8	438.7	522.7	170.4
	352.3				
1989	1,095.9	568.5	527.4	441.9	141.9
	300.0				
1990	1,486.8	834.4	652.4	545.7	220.0
	325.7				
1991	2,025.9	1,190.9	835.0	1,884.5	481.1
	1,403.4				
1992	2,147.9	1,396.4	751.5	2,025.7	471.4
	1,554.3				
1993	2,114.0	1,250.0	864.0	2,160.3	691.7
	1,468.6				
1994	2,690.7	1,321.7	1,369.0	2,640.1	1,051.7
	1,588.4				

1 This table shows there is big gap between Indonesia statistics and Chinese statistics because smuggling exists in Indonesia side. So the figures of Indonesia are smaller than that of China.

1995	3,137.0	1,641.8	1,495.2	3,490.2	1,438.2
	2,052.0				
1996	3,655.1	2,057.5	1,597.6	3,708.4	1,428.0
	2,280.4				
1997	3,747.3	2,229.3	1,518.0	4,514.2	1,840.6
	2,673.6				
1998	2,738.2	1,832.0	906.2	3,627.9	1,171.2
	2,456.7				
1999	3,251.1	2,008.9	1,242.2	4,829.8	1,778.9
	3,050.9				
2000	4,789.6	2,767.7	2,021.9	7,463.9	3,061.9
	4,402.0				
2001	4,043.4	2,200.7	1,842.7	6,724.6	2,836.5
	3,888.1				
2002	5,330	2,903	2,427	7,928.3	3,426.9
	4,501.4				
2003	6,760	3,803	2,957	10,229.0	4,481.0
	5,748.0				

**Source: Almanac of China’s Foreign Economic Relations < Trade (Different Years), Statistics Indonesia (BPS)**

The phenomenal increase in trade occurred as the Asian financial crisis in mid-1997 provided an opportunity for China to put its new diplomacy of friendship into concrete action, and consequently boosted its positive image further in the region and particularly in Indonesia. In addition to refraining from devaluing its currency, China quickly offered aid packages and low-interest loans to Indonesia. For example, China contributed 400 million US dollars in stand-by loans as part of an IMF rescue package for Indonesia. Beijing also provided export credit facilities amounting to 200 million US dollars. As mentioned earlier, China agreed to sell 50,000 tons of rice to Indonesia and provided 3 million US dollars grant of medicines (Sukma, 2009). Indeed, as Shambaugh has noted, China’s policy and assistance to the countries hit by Asian Financial Crisis “punctured the prevailing image of China in the region as either aloof or hegemonic and began to replace it with an image of China as a



responsible power.” As a result, the Indonesian government itself was grateful for this help.

China’s image as a responsible and benevolent major power received further boost during the Tsunami disaster that struck Indonesia and other Indian Ocean countries in December 2004. China responded rapidly to provide relief for victims of the tsunami disaster and announced initial emergency aid of 3 million US dollars. On January 5, 2005, Prime Minister Wen Jiabao arrived in Jakarta to attend the Special ASEAN Leaders’ Meeting on the Aftermath of Earthquake and Tsunami, and pledged over 60 million US dollars in aid for the affected countries, especially for Indonesia. He also promised that China would be committed to reconstruction and long-term development of tsunami-hit areas in Indonesia. During the meeting, Premier Wen reportedly remarked that China would provide “unselfish assistance within our capacity and have no added conditions.” For China, the participation in the relief efforts reflected “the friendliness of the Chinese government and people towards the governments and people of the disaster-hit countries.” During his meeting with President Yudhoyono in Jakarta, Premier Wen Jiabao also promised Jakarta that in addition to sending epidemic prevention experts and medical teams, China was also ready to help build roads, bridges and power stations. In April 2005, China’s Minister of Commerce Bo Xilai announced that China would provide another 2 million US dollars worth of cash and goods for Indonesia, bringing the total Chinese tsunami aid to Indonesia to around 25 million US dollars (Sukma, 2009). During the emergency relief operations, China also sent medical teams, built temporary medical facilities and helped in the evacuation of bodies of the victims. China also promised to collect around 30 million US dollars from China’s private companies, non-governmental organizations and civil institutions. Such a display of solidarity and support by China was clearly met with a degree of gratitude by Indonesia. Minister of Trade Mari Elka Pangestu, for example, stated that “the commitment from China has been very generous and China is helping in many ways, not just in funding, but in more specific areas.”

Indonesia’s Foreign Ministry Spokesman Yuri Thamrin also acknowledged that Indonesia thanked China for its help and said that China was an example of “a friend in need is a friend indeed.” Coordinating Minister for People’s Welfare Alwi

Shihab also maintained that the relationship between Indonesia and China would be further strengthened in the face of the tsunami, and cooperation between the two countries will be even closer in the future. Indeed, providing aid has been an important part of China's "charming diplomacy" in Southeast Asia. In the event of the devastating earthquake that hit Java in 2006, China was also quick in providing 2 million US dollars in cash aid, together with the dispatch of a 44-person team of medical and earthquake experts to Java (Sukma, 2009)

In terms of trade, China's principal export commodities to Indonesia are industrial finished products and semi-manufactured goods and some agricultural goods such as electrical machinery and apparatus, chemical materials, tobacco, rice and maize, China's principal import commodities are resource-intensive goods like crude oil, plywood, wood and its products, pulp, rubber and chemical materials. Of China's total exports to Indonesia, primary commodities accounted for 23 percent and industrial finished products accounted for 77 percent in 2001; by contrary, primary commodities accounted for 51 percent and industrial finished products accounted for 49 percent of China's total imports from Indonesia at the same year (Xu 2002).

In engineering projects and labour services aspects, development is quick, but value is still small. China and Indonesia began cooperation in this area in 1989 and signed contract value of US\$ 810 thousand in that year. Although contract value of engineering projects and labour services between them have increased and even reached over US\$ 100 million in some years, but most of years until now are below that level. According to China's data, the total contract numbers of engineering project and labour service between China and Indonesia added up 1074 units with the accumulative contract value of US\$ 988 million and the accumulative turnover of US\$ 579 million until the end of 2002. As Indonesia estimated, the contract value of engineering projects for foreign countries is estimated about US\$ 10 billion one year, but China only accounts for small percentage of it. China's biggest engineering project was that Chinese Cheng Da Engineering Corporation built 20×30 kilowatt Cilacap power station in central Java worth US\$ 510 million beginning on 29 December, 2003. At same year, CHEC (China Huadian Engineering Company), one of the largest general contractors in China's power sectors, signed an agreement on

establishing about 30 power plants in Java with Indonesia companies PT Dana Mulia Sukses and PT Radu Pratama (Almanac of China's Foreign Economic Relations □ Trade (Different Years)).

The cooperation between two countries in energy has made great progress. The Energy Forum has been set up in November of 2001, which shows the two countries will deepen energy cooperation in future. In September of 2002, Indonesia signed a 25-year contract to supply US\$ 8.5 billion worth of liquefied natural gas (LNG) to China's Fujian province from the Tangguh LNG plant in Papua. CNOOC (China National Offshore Oil Corporation) will start building an LNG terminal in 2004, while the first LNG supply from Tangguh is expected to arrive in Fujian by 2007. The supply will amount to 2.6 million tons per year. (Almanac of China's Foreign Economic Relations □ Trade (Different Years))

China also provided credit worth US\$ 0.4 billions for helping finance the construction of the cross-sea Suramadu bridge linking Java and the island of Madura, double-track railroad connecting Cirebon-Kroya and the construction of 200 Megawatt Labuhan Angin power plant in Sibolga in 2002 (Setiogi 2003). Moreover, China also provided Indonesia with export credit facility and grant for food and medicine in 1998 and 1999 respectively. Besides cooperation above mentioned, China and Indonesia have developed cooperation in agriculture, forestry, fishing, mining, transportation, finance, tourism, and other areas. In 2001, agriculture, fishing, energy, resource exploration, infrastructure construction as well as tourism was set by both countries as key sectors for economic cooperation. Mutual investment also will be the important area to be developed by both sides in future and will be discussed in last part of this paper. Generally speaking, the economic relations between China and Indonesia had been steadily and all-roundly developed in past decades. The reasons why the economic relations between China and Indonesia had been steadily and all-roundly developed since 1985 are as follows.

First, international relations changed in 1950-70s, the world was in the period of Cold War, conflict and rivalry are major terms of international relations. ASEAN countries treated China as a rival or threat in the middle of 1960 and the early of 1970. With the improvement of relations between China and America after

American former president Nixon visiting China in 1972, ASEAN countries justified foreign policy toward China and tried to improve the relations with China. Especially, The Cold War lasting 40 years turned out to be over in 1991 with the disintegration of former Soviet Union. Therefore, the international relationship greatly changed peace and development as well as competition and cooperation replaced conflict and rivalry.

Second, the foreign and domestic policy in China and Indonesia began to change respectively with the background of international relations above mentioned. China began domestic economic reform (namely market economic reform) and carried out outward-looking economic policy from 1978. Establishing friendly relations with neighbouring countries around China is included into China's import foreign policy. Indonesia as a big country in Southeast Asia was in the nature of things considered by China as one of China's most important neighbours with whom it should normalize bilateral, political and economic relations. During 1980s, Indonesia also undertook significant economic policy changes in terms of deregulation or liberalization. Indonesia pursued outward-looking and export substitution policy instead of inward-looking and import substitution policy in the period of 'oil prosperity'. Trade contributed more and more to GDP in these two countries. From Indonesian perspective, China was also considered as having a large economic potential and could no longer be ignored. As Atje and Gaduh (1999) wrote: 'it was in such political and economic environments in China as well as in Indonesia that the rapprochement between the two countries took place'. The process began at the time when both countries were entering new phases of their respective economic reforms. The establishment of a direct trade between the two countries in 1985 and the improvement in economic relations between the two countries afterwards might be regarded as parts of their efforts to integrate their economies with the emerging global economy. Third, the two countries pay more attention to develop their bilateral relation by means of frequently leader visit each other since establishment of diplomatic relation in 1990.

Fourth, China's rapid economic development provides the strength of economic relations between China and Indonesia with more opportunities. With China's high growth rate since 1980s, China enlarges demands for Indonesia products, resources,

investment and economic cooperation on one hand, China's enterprises begin to invest in Indonesia under the 'going out' policy on the other hand. In terms of complementarity and competitiveness of economic relations between China and Indonesia, it is argued that the complementarity of economic relations between China and Indonesia is less than competitiveness of that (Atje and Gaduh 1999). They think Indonesia and China are developing economies, with more or less the same levels of development, and lack economic complementarity that is necessary for extensive trade between them to take place. So it is necessary to review this point from theoretically and practically.

From one view of traditional trade theory----Factor Proportion Theory, difference of factor endowment fundamentally results in international division and then international trade. Furthermore, the more difference of factor endowment, economic level and industrial structure between two countries, the more economic complementarity between them, and vice versa ((Atje and Gaduh 1999). So it is easy to conclude that China and Indonesia lack economic complementarity because Indonesia and China are developing economies with more or less the same levels of development. Nevertheless, Factor Proportion Theory only explains one of reasons why international trade happen, but not all. In fact, some new trends appear in the process of economic globalization. On one hand, production factors multiply. Technology, information and system as new production factors contributes more to production as well as traditional production factors such as earth, capital and labour; on the other hand, international flow of production factors brings about transfer of comparative advantage internationally and intra-industry trade. Factor Proportion Theory only explains why inter-industry trade takes place, but Intra-Industry Trade Theory explains why intra-industry trade happens. Exchange of differentiated products and intermediate-products of same industry between two or more countries is called as intra-industry trade. From the view of Intra-Industry Trade Theory, products differentiate and economies of scale are at the bottom of intra-industry trade. Furthermore, international trade also happens in the two countries with similar factor endowment, similar industry structure and similar economy. Therefore, it is possible to strengthen the economic complementarity of two countries with similar factor endowment by means of enlarging intra-industry trade. Intra-Industry Trade Theory as dynamic trade theory

brings to light possibility that the two countries with similar industry structure and factor endowment develop extensive trade, so do China and Indonesia.

Generally speaking, the economic complementarity of China and Indonesia are relatively limited at present, but we can't conclude that they lack economic complementarity which is necessary for extensive trade between them to take place. In reality, there are intra-industry trades between them as well as inter-industry trade. First, China and Indonesia have differences of factor endowment, so they have economic complementarity. China rich in population, resources and broad area of earth covering areas of tropics, subtropics, temperate zone and frigid zone. Indonesia is a big country in Southeast Asia and abounds with natural resources in agriculture, mineral, forestry and ocean.

Additionally, China's entry into WTO and establishment of China-ASEAN FTA will promote increasing intra-industry trade between China and Indonesia. It was proven by Balassa and Bauwens (1987) that intra-industry trade and joining regional economic organization like FTA are positive related. In other words, the establishment of regional economic organization will contribute more to increase intra-industry trade within this region. Third, steadily increase of foreign trade between China and Indonesia since 1985 strongly proves that the economic complementarity lies between them. Of course, we can't deny the China-Indonesia economic competitiveness, which is mainly on third country markets and attracting foreign investment.

In order to assess the impact of China's entry into WTO and establishment of China-ASEAN free trade area on economic relations between China and Indonesia in an increasingly integrated world economy, it is utterly insufficient to analyze China-Indonesia economic relations in isolation from the two countries respective relations with the rest of the world. China's entry into WTO and establishment China-ASEAN FTA will affect the development of China-Indonesia economic relations. One word is often used to assess the impact of China's accession to WTO on ASEAN and China that Challenges and opportunities coexist. The challenges for Indonesia from China's entry into WTO may be generalized as

three dimensions: 1) China's products compete in Indonesia domestic market. As a WTO member, China is entitled to enjoy the same rights as other WTO members, and Indonesia should provide with same preference to China like open domestic market. 2) China's products compete with Indonesia's products in third country market such as USA, Japan and EU are the three major export markets of both China and Indonesia. China's products will enter these markets as other WTO members and compete with Indonesian products, especially those products which China has obvious comparative advantage such as unskilled labour-intensive products, technology intensive products, and human capital-intensive products. 3) China will compete with Indonesia in attracting FDI. As we seen, FDI that flows to Indonesia had decreased sharply after Asian financial crisis because of Indonesia's bad political and economic environment.

Even until now, FDI outflow from Indonesia still happens. According to Economic Intelligence estimated, Indonesian domestic capital outflow reached about US\$ 660 million and FDI outflow reached about US\$ 57.9 billions during 2001-2003 (International Daily (Indonesia), 15 May 2004). Some of FDI outflow from Indonesia may turn to China, Vietnam, Cambodia and Myanmar. China's accession to WTO provides opportunities for Indonesia at the same time. China is responsible to open its domestic market for WTO members and has mandate to liberalize regulations related to trade and investment as it enjoys the rights, which inevitably increase Indonesia exports and investment to China. First of all, China should cut import tariffs and eliminate non-tariff barriers. China promises average import tariff rate will be cut to 10 percent that is a little bit lower than average level of developing countries by 2005. From 1 January 2002, China began to cut average import tariff rate from 15.3 percent to 12 percent with covering 5300 products. Of them, import tariff rates of seafood, crude oil and petroleum products refined, wood, paper and articles of paper, chemical products, electronic products had been cut by 25 percent. Those products are Indonesia major exports to China. Without question, it would enlarge Indonesia exports to China. Secondly, the openness of all sectors, especially service sectors, and liberalization of economy will enlarge mutual investment and economic cooperation between China and Indonesia.

In addition, China's entry into WTO has one meaning beyond economy for Indonesia. It is that China's membership may improve their bargaining power as a developing country vis-à-vis developed countries (Atje and Guduh 1999) and struggle more benefits for developing countries. In fact, China's entry into WTO provides challenges and opportunities not only for Indonesia, but also for China. In order to reduce challenges from China's entry into WTO for China and ASEAN and reinforce China's and ASEAN's competitive capacity in the process of globalization, China and ASEAN finally agreed to set up China-ASEAN FTA within 10 years in 2002.

In order to analyze the impact of establishment of China-ASEAN FTA on economic relations between China and Indonesia, theoretically speaking, FTA will benefit member countries by means of two ways: static effect like trade creation and dynamic effect like enhancing labour productivity and accumulating capital. FTA between China-ASEAN not only includes liberalizing trade, but also includes the liberalization of technology and investment and economic cooperation. So China and ASEAN FTA will take positive effects on GDP and welfare. Capital outflow will reach US\$ 368 million this year (International Daily (Indonesia), 15 May 2004) of China and Indonesia as well as their trade.

The simulations conducted by the ASEAN Secretariat using the Global Trade Analysis Project (GTAP version 4) suggest that an ASEAN-China FTA will increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55.1 percent. Among the ASEAN countries, the biggest gainers in exports are Singapore, Malaysia, Thailand and Indonesia, whose export value rises by US\$ 36.39 billions, 32.07 billions, 29.07 billions and 26.56 billions respectively. The biggest gainers for ASEAN by sectors are textiles and apparel, electrical appliances and machinery and other manufactures. Indonesia's exports of other manufactures to China will rank first which rise by US\$ 1.3 billions. At same time, the biggest gainers for China are also textiles and apparel, electrical appliances and machinery and other manufactures. China's exports of other manufactures to Indonesia also rank first which rise by 528 million.



**Table 4: Changes in exports and GDP with China-ASEAN FTA**

	Exports (US\$ million)	GDP (US\$ million)	
		Absolute increase increase	Percentage (%)
<b>China</b>	2656.09	2214.9	1.12
<b>Indonesia</b>	1371.60	2267.8	0.27

**ASEAN-China Export Group on Economic Cooperation (2001: 150–152)**

Another simulation conducted by Chinese Professor Zhang Bowei and Li kungwang (2003) using GTAP version 5 and Computable General Equilibrium (CGE) made same conclusion that all members countries including China and Indonesia can get positive benefit in trade, GDP and welfares. The removal of trade and investment barriers will certainly lower transaction costs, raise economic efficiency, upgrade product quality, increase economies of scale and scope etc. All of these will help improve external competitiveness in third country market. The (net) trade creation effects could be substantial, and so are the bigger flows of trade-related investment. Productive activities and industries will have to upgrade and move on to a different level of comparative advantage – through comprehensive trade and investment liberalization and, on the other hand, through economic growth, social development and a rising standard of living over time. Such a movement will make room for others to fill up the vacant economic space.

In one words, China-ASEAN FTA is a win-win arrangement that will benefit China and Indonesia as a whole. One thing should be mentioned here that some sectors and enterprises will face big challenges and even suffer loses like textiles and shoes in short term, but this is just results of FTA. During the process of FTA, reasonable intra-industry division in those sectors after competing each other will form finally with torture. China's entry into WTO and FTA between China and ASEAN are positive response for China and ASEAN to face the challenges from economic globalization. It will be helpful to develop economic relations between

China and Indonesia in long run. As for China and Indonesia respectively, it is clear that they need to formulate a strategic response to challenges and find niches, complementary opportunities and benefit from China's entry into WTO and FTA between China and Indonesia.

Although the economic relations between China and Indonesia had made big progresses comprehensively in last decades, bilateral trade had been occupied big portion and mutual investment remains relative small in the size of their economic relations, nay, developed non-symmetrical. Indonesia's investments in China are nearly 20 times more than China's investments in Indonesia. Indonesia began investing in China in 1984. According to Chinese government statistics, Indonesia's investments in China totalled up to 970 contract numbers with contract value of US\$ 2.024 billions till March of 2003. On the other hand, China has opened in Indonesia 60 non-trading joint ventures and enterprises under joint management, with their investment totalling US\$ 0.27 billions, which Chinese investments reach US\$ 0.163 billions till March 2003 including 18 service enterprises with value of US\$ 0.105 billions, 39 processing enterprises with value of US\$ 34.92 million, and 3 fishing enterprises with value of US\$ 23.31 million (Ministry of Commerce of the People's Republic of China 2004). Total Chinese investments this year is about US\$ 1.5 billion. Previously, it was only US\$ 300 million (*Indonesia: Tempo*, no.46/IV/ 20-26 July 2004). In June of 1996, the Chinese People's Insurance Company opened a branch in Jakarta. In April of 2003, Bank of China reopened its branch and business in Jakarta.

China's investments in Indonesia are mainly resources-oriented and market-oriented investments (Zhan Xiaoning, a senior official in investment with UNCATD). For China, Indonesia are natural resources supplier and big potential market because Indonesia is with 0.21 billion populations and abundant in natural resources such as oil and gas, mineral, wood, palm oil and so on which are badly needed by China. China is more and more shortage of natural resources with rapidly economic growth. Petroleum, in particular, is becoming a cause for concern. China's oil consumption last year hit 245 million tones, making it the world's second biggest consumer of oil after America. In 2020, it is expected to become the world's biggest oil importer, with foreign oil resources making up 60 per cent of its total

consumption. To supplement its diminishing resources, China should look towards South-east Asia, a precious land where China can obtain rich resources. Indonesia, for instance, has rich mineral and forest resources, as well as oil reserves amounting to about 120 billion barrels. In resources-oriented investments aspect, there are huge mainland China's invests in oil and gas exploration. CNOOC Ltd is a state-owned China National Offshore Oil Corp., China's third largest oil producer after No.1 Petro China and No.2 Sinopec. In January of 2002, CNOOC, which has been expanding aggressively outside China, inked its largest overseas deal worth \$585 million for the Indonesian oil.

Zhan Xiaoning, a senior official in investment with UNCATD, classifies Chinese overseas investment as four types: resource-oriented, market-oriented, efficiency-oriented and technology-oriented investment. It makes CNOOC the largest offshore oil producer in Indonesia. In February of 2004, CNOOC succeeded in buying 20.77 percent of British BG's shares in Muturi Ltd at price of US\$ 9.81 million and CNOOC became the biggest stockholder of Muturi Ltd whose share in Mutri Ltd rose from 44.0 percent to 64.77 percent and whose share in Tangguh LNG plant in Papua rose from 12.5 percent to 16.96 percent (*Indonesia: International Daily*, 4 February 2004). In April of 2002, China's largest oil company, Petro China made its first overseas purchase in Indonesia worth \$216 million for American Devon Energy Corp.'s oil and gas operations in the country. So the increase in investment in recent years has taken place in the oil and gas sectors, valued at about US\$ 1 billion. In market-oriented investments aspect (in terms of processing manufacture), mainland China's light industry such as household electrical appliances and motorcycles faces big challenge of relative overcapacity of productivity, but has strong competitiveness in terms of price. These enterprises have to find foreign markets to satisfy their overcapacity and Indonesia is just suitable market. For instance, in electronic sector, many well-known brands in China, like Cang Hung, Kang Cia and TCL, are marketed and invest in Indonesia. Bicycle manufacturers have also opened spare parts plants in Indonesia, like Jia Ling, Lif Fan, Chen Zhen and Pian Ma.

Indonesian-Chinese businessmen welcome investments from China and want to play important role in the process of China's investment in Indonesia.

Overseas ethnic Chinese who attended The Third Overseas Chinese Forum Worldwide (Overseas Chinese Affairs Office of the State Council) held in Beijing on 15-18 July 2004 expressed their willing that they want to act as a good partner and play bridge role in establishment of China-ASEAN FTA and in the process of Chinese enterprises 'going out'. Famous Chinese-Indonesians like Mr. Lin Wenjing (president director of SALIM GROUP), Mr. The Ning King (Chairman of ARGO MANUNGGAL GROUP) and Mr. Alim Markus (president director of MASION GROUP) attended this forum. Mr. Lin Wenjing made a speech on Ethnic Chinese businessmen Advantages in the Process of Establishment of China-ASEAN FTA. He said that ethnic Chinese businessmen posses four advantages as follows: first, having strong economic capacity; second, having deep influence in local and internal; third, interested in taking part in FTA; fourth, having more experience in domestic and international investment. In fact, many overseas Chinese businessmen invest in mainland of China in one hand and act as cooperate partner of China's enterprises in Indonesia. For instance, MASION GROUP once built a plant in hometown Fujian province, and established three joint ventures that are Pt. Shanghai Masion Oleo Chemical Industry, PT. Shanghai Masion Tooth Paste Industry and PT. Shanghai Maspion Printing Ink Industry with Chinese enterprises. To succeed in overseas market, Mr. Oei Hong Leong suggested five steps for Chinese firms to take: establish a domestic presence first as a back-up; groom daring and visionary corporate leaders; seek overseas partners, cooperate with other Chinese firms instead of engaging in price wars; and integrate the efforts of overseas Chinese firms locally when China's investments go out abroad (Chan 2004).

Although Chinese investment in Indonesia is still small, there is tendency to increase. That is because: 1) apart from the need for resources, Chinese firms may promote cooperation with Indonesian counterparts in the areas of agriculture, technology, finance, communications, trade and services. As UNCATED stated, China is not only a major receiver of foreign direct investment but also is gradually turning into an exporter of capital. Statistics from UNCATD show that China's direct overseas investment exceeded US\$ 35 billion in 2003, covering more than 160 countries and regions. 2) China's openness enters a new stage that the model of capital flow changes from single-way inflow of capital to double-way

flow of Capital. Moreover, China are upgrading its industrial structure and integrate its economy into globalization, more and more enterprises including state-owned and private enterprises go abroad to investment for seeking resources, market, efficiency. 3) The establishment of China-ASEAN FTA will be helpful to promote China's investment in Indonesia. FTA requires member countries to simplify FDI application and liberalize FDI system. It makes mutual investment between China and Indonesia easier and increase.

Indonesia begins to pay more attention to attract China's investments. Indonesia hosted a trade fair in Beijing from 30 August to 3 September in 2004. The five-day event will focus on Indonesian enterprises that work in sectors including oil, gas, mining, tourism, agriculture, fishery and papermaking. It is worth to note for China's investments that there are many obstacles in Indonesia that are political uncertainty, labour law, corruption, lagging infrastructure. Labour law and corruption, in particular, are be strongly blamed by Indonesia entrepreneurs and foreign entrepreneurs, which is one reason why FDI in Indonesia transfer to invest in other countries. In addition, China should pay attention to the negative impact on Indonesian Chinese enterprises during the process of strengthening the economic relations between China and Indonesia and FTA between China and ASEAN. When Chinese products, mainly labour-intensive products like shoes, apparel and home appliance, pour into Indonesian market, it may make some enterprises close and workers loose their jobs. Now we can hear many voices from Indonesia that China's products have flooded in Indonesia and complain about their low quality. Any way, mutual investment between China and Indonesia will be more and more import in the economic relations between two countries.

The relation between China and Indonesia is always an up to date topic for scholars. The economic relations between China and Indonesia had not been smooth since diplomatic relation established in 1950. The economic relations between two countries experienced three stages, namely slowly development in the period of 1950-1966, indirect trade in the period of 1967-1984 and restoration and rapidly development from 1985 to up to now. The trade between China and Indonesia includes not only inter-industry trade but also intra-industry, and intra-industry trade is tendency to increase. The trade value between two countries is rising

rapidly since 1990. Moreover, mutual investment, engineering project and labour service, tourism and economic cooperation in agriculture, energy, infrastructure and resource exploration between them have been increasing. There are large potency for China and Indonesia to develop bilateral economic relations.

China's access to WTO and the establishment of China-ASEAN FTA are two important events that exert big impact on China, Indonesia and their economic relations. The positive impact of these two events on China-Indonesia's economic relations is more than the negative impact of that in long term. Moreover, China's access to WTO and the establishment of China-ASEAN FTA bring about opportunities as well as challenges. China's investment in Indonesia is so far lower than Indonesia's investment in China, but it appears rapidly developing trend. China's capital outflow is the result that Chinese economic development enters into a new stage and China integrates itself into economic globalization. China's investments in Indonesia are mainly resources-oriented and market-oriented investments. Chinese-Indonesian businessmen welcome investment from China and want to play important role in the process of China's investment in Indonesia.

In fact the years from 2004 to 2010 have seen considerable improvement in Indonesia's export performance. Between 2003 and 2010, Indonesian exports more than doubled in terms of nominal dollars (Table 3). Part of this increase was due to price increases for important exports such as oil and gas and vegetable oils, but part was also the result of quantity increases. Only 20 per cent of the increase in export value between 2003 and 2010 came from oil and gas, and another 23 per cent from other mining products, including coal. Much of the rest of the growth came from manufactures including processed vegetable oils. Over these seven years, Indonesian exports to China grew more rapidly than total exports, and accounted for around twelve per cent of the total growth in dollar terms. By 2009, coal was the most important single export, followed by palm oil, gas, crude petroleum, and crumb rubber. Together these five products accounted for around 58 per cent of total exports to China in value terms in 2009. In common with other ASEAN countries, Indonesia exports fell in dollar terms in 2009, as the full effects of the global

downturn were felt both on prices and on demand, but there was a strong recovery in 2010.

Indonesian exports to China were only slightly lower in dollar terms in 2009 than in 2008, and there was some growth in 2010 (Table 3). By 2009, China had become Indonesia's second largest export market after Japan, and had overtaken Singapore. On the import side, growth between 2003 and 2010 was also very rapid, with only a slight decline in value terms in 2009. By 2010, Chinese imports to Indonesia in dollar terms had overtaken those from both Singapore and Japan. They far outstripped imports from both the EU and the NAFTA countries. The balance of trade between Indonesia and China, which had been running in Indonesia's favour in the earlier part of the decade had turned in China's favour after 2008. What was Indonesia importing from China? In 2009, around half of Chinese imports were in the machinery and transport equipment category; the second largest category was other manufactures, followed by chemicals. In these three categories, China was running a large trade surplus with Indonesia. Imports of machinery were dominated by power generating and telecommunications equipment. It is probable that Chinese imports in these types of machinery were associated with the investments made by Chinese firms in the power and gas sectors. Some machinery imports might also have displaced imports from more advanced countries such as Japan or Germany. In this sense, they can be seen as a net gain to Indonesia, rather than displacing local production. But the pattern of trade with China which had emerged by 2009 was clearly one of exchanging unprocessed or semi processed primary products for imports of manufactures. The implications of this are discussed further below.

The rapid growth in Indonesia's export and import trade with China over the 2000s has been mirrored in China's trade with other ASEAN country. Between 2004 and 2008, bilateral trade between China and the ASEAN countries as a group more than doubled, and was estimated by the ASEAN Secretariat to have reached US\$ 231.12 billion by 2008, although there was some contraction in 2009, given the overall decline in world trade in that year. By 2009, China had become the largest trading partner of the ASEAN-10, overtaking the EU, Japan and the USA. In that year the ASEAN-10 accounted for 8.8 per cent of China's exports and 10.6 per cent of

imports, although the percentage for Indonesia were much lower at 1.2 per cent and 1.4 per cent respectively. (National Bureau of Statistics of China 2010: 238)

In the years from 2005 to 2010 amounted to 9.8 billion dollars, which made Indonesia the eight largest recipient of Chinese non-bond investment over these years, after Australia, the USA, Nigeria, Iran, Brazil, Kazakhstan and Canada. It received more investment than any other ASEAN country, including Singapore. Much of this outward investment in all the recipient countries was in the mineral, oil, gas and power sectors. This was certainly the case in Indonesia where the largest investors from China were power, gas, energy and steel companies. By 2009, the flow of Chinese investment into Indonesia appeared to have slowed; in that year Indonesia was not in the top twenty recipients of Chinese investment. (Salidjanova 2011)

The balance of trade between the two countries from 1996 to 2000 consistently showed a surplus for Indonesia. The balance of trade on non-oil commodities, however, had always manifested in a deficit for Indonesia, except in 1998 and 1999. In 1999, the balance of trade had a surplus of US\$ 0.77 billion for Indonesia; a decrease of 17.34% compared with that of 1998 which was US\$ 0.93 billion. In 2000, the balance of trade was US\$ 0.75 billion, decreasing by 2.75% compared with that of the previous year. In 1999, the total trade between Indonesia and China was US\$ 3.25 billion, an increase of 18.73% compared with 1998, which was US\$ 2.74 billion (Li 2000), it was US\$ 4.79 billion, an increase of 47.32% compared with that of the previous year. In 1999, Indonesian export to China totaled US\$ 2.01 billion, an increase of 9.66% compared with the 1998 export, which totaled US\$ 1.83 billion. In 2000, the Indonesian export to that country reached US\$ 2.77 billion, an increase of 37.77% compared with that of 1999. Indonesian main export to China are, among other things, pulp and waste paper; paper and paperboard, veneer; plywood; improved or reconstituted wood; fixed vegetable fats and oils, solid, crude, refined/fractionated: carboxyl acids and their anhydrides; fish, fresh, chilled, or frozen; wood manufacturing; textile yarn; and natural rubber latex. (Ministry of Trade of the Republic of Indonesia (n.d.a))



In 1999, Indonesian import from China reached US\$ 1.24 billion, 37.06% more than that of 1998, which was US\$ 0.91 billion. In 2000, Indonesian import was US\$ 2.02 billion, 62.77% more than that of 1999. Indonesian import from China were mainly rice; tobacco; fertilizer; cotton; unmilled maize; sugar, molasses and honey; electrical machinery and apparatus. In 1999, China is number 5 in the list of Indonesia's export countries, and number 7 in that of its import. Until the end of July 2000, China has invested in 84 projects, worth US\$ 395.4 million, which is the 28th among investors in Indonesia. The projects cover mainly the following sectors: basic metal industry, fishery, real estate, chemical industry, and non-metal mineral industry. (National Report, Indonesia, 2001)

The MoU on counter purchase trading has been agreed on and signed between the Indonesian chamber of commerce and industry and the China Native Produce and Animal Byproduct Import and Export Corporation (TUHSU). MOFTEC Director General Hu Guocai and his delegation visited Jakarta on 25 November 1998 to discuss in detail counter purchase trading with the Department of Industry and Trade. Until now, its implementation has not been realized. On 12 October 2000, Indonesia established a working committee for this purpose and obtained the support of Bank Ekspor Indonesia, Bank Mandiri, and Bank BCA. The government expects the three banks together with Bank BNI to facilitate the scheme. On 23-25 October 2000, the Indonesia-China Joint Commission held its fifth meeting in Beijing. Minister of Industry and Trade Luhut B.Panjaitan led the Indonesian delegation, while MOFTEC Minister Shi Guangsheng led the Chinese delegation. The result of the meeting was, among other things, agreements on the following: Cooperation in trade and investment, comprising the increase of the Chinese quota on the import of CPO, cooperation in the development of the aircraft industry of the CN 235 and N 250 types; the follow-up of the MoU on counter purchase trading, and the increase of the two countries' investment. Cooperation in the fields of finance and technology, covering the plan to establish a Bank of China branch in Indonesia, the export credit facilitation, the evasion of double taxations; the offer of LNG from Irian Jaya oil fields, and the development of projects, covering power, transportation, telecommunication and infrastructure, agriculture and fishery.

The two sides also agreed to implement grants provided by the Chinese government, totaling RMB 40 million (equal to US\$ 4.6 million). The Indonesian side was expected to submit a list of needed goods. As the follow-up of the Indonesia-China Joint Commission's fifth meeting and the discussion between the Minister of Industry and Trade with Chinese officials, the China sent a delegation, including Chinese entrepreneurs, to Indonesia on 20-30 November 2000. During the visit, the delegation met with Indonesian businessmen, and conducted surveys in the fields related to Cooperation in the wood and bamboo industries (producing chopsticks), Cooperation in the Karimun island ship yard, Cooperation in agriculture between CITIC and PT. Agro Manunggal in South Sulawesi, Cooperation in developing a toll road in Central Java, Cooperation in developing electric power stations. (National Report, Indonesia, 2001)

Despite the fact that it has implemented economic reformation, since it opened the country to the outside world in 1979, China still put into effect non-tariff regulations for 35 Indonesian commodities. It is applying the quota and license regulation for the import of commodities. To import commodities in this category, the importer must submit an application to the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in Beijing or in the provinces to acquire the "import license" by referring to "the General Commodity Import Certificate Quota" which is signed and issued by the Central Development Planning Department. The thirteen kinds of commodities that fall under the quota and license system are: (1) processed oil; (2) wool; (3) polyester; (4) acrylic fiber; (5) polyester chips; (6) natural rubber; (7) tires; (8) sodium cyanide; (9) processed sugar; (10) chemical fertilizer; (11) tobacco and its related products; (12) cellulose diacetate fiber tows; (13) cotton. There are fifteen kinds of machine and electronic products in this category, which are: (1) car and its main components; (2) motorbike, its engine and frame; (3) color-TV and tube; (4) radio, tape recorder and their module; (5) refrigerator and its compressor; (6) washing machine; (7) equipment of video recorder and their main components; (8) camera and its frame; (9) wrist-watch; (10) air conditioner and its compressor; (11) copy equipment for audio tape and video; (12) automobile cranes and its chassis; (13) electronic microscope; (14) air-flow looms; (15) electronic color separation. There are seven kinds of commodity, quota of which is not regulated, but fall under

the import license regulations. They are: (1) cereal; (2) vegetable oil; (3) alcoholic drinks; (4) color sensitive material; (5) supervised and control chemicals; (6) chemicals that are easily used for producing drugs; (7) equipment for producing CD and VCD.

MOFTEC and the State Development Planning Commission (SDPC) are to arrange the implementation of the quota and license regulations. At present, there are six corporations which receive licenses to import Indonesian palm oil, namely: China Grain & Oils Groups (CGOC), China National Native Product and Animal Byproducts Import & Export Co., China National Cereals, Oils and Foodstuff Import & Export Co., China National Nanguang International Import & Export Co., China Resources Group & China Guwuliangfeng Co. China's application of the import tariff for palm oil is still high, namely 9% for CPO (HS 151111000) and 10% for other kinds of palm oil (HS 15119000), provided the quota is not exceeded. If the quota is exceeded, the tariff is 30% for all HS 1511. Until now, the Chinese government is not transparent in deciding the total amount of the quota under the pretext that China is not a member of the WTO. According to information, the quota for palm oil is 1.5 million tons a year.

Despite the overwhelming attention given to the competitive effect of Chinese products vis-à-vis Indonesia's (Zain, 2011), the latter should not lose sight of the longer-term strategic objectives of this trade agreement. Firstly, in light of China's growing importance as the world's second-largest economy and the largest in Asia, it will be very difficult for Jakarta to ignore Beijing. Secondly, embracing China is also strategic, as it allows both Indonesia and ASEAN as a whole to better manage their relations with other major powers. At the same time, however, although renegotiation of the terms of the ACFTA is not only difficult, but might also take a long time, the voices of domestic pressure groups matter. In its effort to attain developed-country status, although China has made a lot of mistakes, it also seems willing to learn from them. Therefore, the key question is how Indonesia and ASEAN are able to exploit Beijing's willingness to adjust its position so as to enable fully mutual economic benefits for all involved.

**Table 5: Total trade between Indonesia and China, 2006–2010 (USD billion)**

	2006	2007	2008	2009	2010	Trend (%)
Total trade	14.9	18.2	26.8	25.5	36.1	23.31
Oil and gas	4.0	3.6	4.1	3.0	2.3	11.55
Non-oil and gas	10.9	14.6	22.7	22.4	33.7	30.68
Exports	8.3	9.6	11.6	11.4	15.6	15.44
Oil and gas	2.8	3.0	3.8	2.5	1.6	12.31
Non-oil and gas	5.4	6.6	7.7	8.9	14.0	24.41
Imports	6.6	8.5	15.2	14.0	20.4	31.53
Oil and gas	1.1	6.0	0.299	0.510	0.736	9.77
Non-oil and gas	5.5	7.9	14.9	13.4	19.6	36.04
Indonesia's trade balance with China						
	1.7	1.1	-3.6	-2.5	-4.7	0.00
Oil and gas	1.7	2.4	3.5	2.0	0.875	14.18

**Source: Ministry of Trade of the Republic of Indonesia (n.d.a)**

Since the full implementation of the ACFTA in January 2010, trade between Indonesia and China has been on the rise. Total trade between the two sides had, in fact, risen significantly since ASEAN and China agreed on the implementation of the EHP, which took effect in early 2005. Indeed, while in 2003 trade between Indonesia and China reached only USD 3.8 billion, the total trade figure rose to USD 14.9 billion in 2006. Between 2006 and the end of 2009 trade between Indonesia and China increased by USD 10.5 billion. Although prior to EHP implementation total trade between the two countries favoured Indonesia, since 2006 the gap between the country's exports and imports vis-à-vis China had narrowed. Indeed, while in 2006 Indonesia experienced a trade surplus of USD 1.7 billion with China, this figure was reduced to USD 1.1 billion in the following year. By 2008 total trade between the two countries began to shift in favour of China, which had a USD 3.6 billion trade surplus with Indonesia. This figure was USD 2.5 billion in 2009. **(Ministry of Trade of the Republic of Indonesia (n.d.a))**

Furthermore, China has also been one of Indonesia's key major trading partners in recent years, serving as the country's largest export and import market. In terms of total non-oil and gas exports, China stood as the third-largest destination for

Indonesian export products in 2006 behind Japan and the United States, a trend that lasted until the end of 2009. By 2010, however, China had managed to overtake the United States as Indonesia's second-largest trading partner. Indeed, Indonesia's non-oil and gas exports to China more than doubled in the period 2006–2010. While in 2006 Indonesia's non-oil and gas exports to China stood at USD 5.4 billion, in 2010 this figure reached USD 14.0 billion. Moreover, in terms of the overall trend of non-oil and gas trade, Indonesia's exports to China have also showed a most promising outlook, rising by about 24.4 per cent, in contrast to Japan and the United States, exports to which increased by only 5.28 per cent and 3.72 per cent, respectively (refer to Table 5). Similarly, China is also becoming Indonesia's most important source of imports. For example, non-oil and gas imports from China rose from USD 5.5 billion in 2006 to USD 19.6 billion in 2010. During the same period, the overall trend of non-oil and gas imports from China to Indonesia also showed a significant increase of around 36.04 per cent, which is higher in comparison to other major sources of Indonesian imports, including Japan (30.56 per cent) and the United States (23.42 per cent). **(Ministry of Trade of the Republic of Indonesia (n.d.a))**

**Table 6: Indonesia's major export destinations, 2006–2010 (USD billion)**

Rank	Country	2006	2007	2008	2009	2010	Trend (%)
1.	Japan	12.1	13.0	13.7	11.9	16.4	5.28
2.	China	5.4	6.6	7.7	8.9	14.0	24.41
3.	United States	10.6	11.3	12.5	10.4	13.3	3.72
4.	India	3.3	4.8	7.0	7.3	9.8	29.44
5.	Singapore	7.8	8.9	10.1	7.9	9.5	2.80

**Source: Ministry of Trade of the Republic of Indonesia (n.d.b)**

From China's perspective, since 2010 ASEAN as a whole has become its fourth-largest trading partner after the European Union, Japan and the United States. Among ASEAN member countries, Indonesia was China's fourth-largest trading partner, which, according to data as of May 2010 from the Ministry of Commerce of the People's Republic of China, amounted to USD 12.4 billion, after Malaysia (USD 22.2 billion), Singapore (USD 17.9 billion) and Thailand (USD 15.7 billion). Between May 2009 and May 2010 the Department of Asian Affairs of the Ministry of

Commerce of the People’s Republic of China also noted that, despite a trade deficit of USD 5.95 billion, China saw a 57.7 per cent increase in the value of its exports to Indonesia and a 92.1 per cent increase in the value of its imports from that country.

**Table 7: Major sources of Indonesian imports, 2006–2010 (USD billion)**

Rank	Country	2006	2007	2008	2009	2010	Trend (%)
1.	China	5.5	7.9	14.9	13.4	19.6	36.04
2.	Japan	5.4	6.4	14.8	9.8	16.9	30.56
3.	Singapore	3.7	3.9	11.0	9.2	10.0	32.86
4.	United States	3.9	4.7	7.7	7.0	9.2	23.43
5.	Thailand	2.9	4.1	6.2	4.5	7.4	21.20

**Source: Ministry of Trade of the Republic of Indonesia (n.d.c)**

Despite growing trade between Indonesia and China, Indonesia is increasingly under pressure in this area. Indeed, as of May 2011, the Indonesian Central Statistics Agency announced that the country’s trade surplus slid to USD 1.81 billion, in comparison to USD 2.4 billion in the preceding February and USD 1.91 billion in January (Jakarta Post, 2011). The decrease in Indonesia’s trade surplus was mainly due to the widening of its trade deficit with China. Whereas in February 2011 Indonesia’s trade deficit with China reached USD 1.34 billion, the figure went up slightly to USD 1.37 billion in the following month. Although other factors, such as the appreciation of the Indonesian rupiah against the dollar, have contributed to a sharp increase in imports, Indonesia’s increasing trade deficit with China has been the Indonesian media’s main focus of attention.

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## **CHAPTER- 5**

## Conclusion

This is true that managing its relations with the People's Republic of China (PRC) has been one of the most difficult challenges in Indonesia's foreign policy. The relationship between the two countries since the establishment of diplomatic relations in 1950 has been characterized by a history of a difficult beginning, close friendship, turbulence, and mutual hostility and suspicion. More strikingly, those relations were primarily subject to pressures stemming from Indonesia's domestic political arena. From the beginning, relations had been marred by Beijing's policy of actively seeking the political and financial support of the ethnic Chinese domiciled in Indonesia and of providing political and financial support to the Indonesian Communist Party (*Partai Komunis Indonesia/PKI*). As the position of both ethnic Chinese and the PKI in Indonesian domestic politics had been problematic, China's interference served as a source of repeated tensions and upheavals in Jakarta-Beijing relations.

Attempts by Indonesia and China in the early 1960s to forge a radical political alignment expressed mainly in the form of a united front against the West, failed to endure the pressure emanating from Indonesia's domestic politics. That political alignment was brought to an end when an abortive coup in October 1965, in which the PKI was charged as the main perpetrator, led to a government change in Jakarta. In the aftermath of the attempted coup, Indonesia-China relations deteriorated sharply as an inevitable consequence of the anti-communist momentum that arose in Indonesia. The Indonesian Armed Forces quickly crushed the PKI and eventually removed President Sukarno from power. The new Indonesian Government led by Major-General Suharto accused China of complicity in the coup. Bitter diplomatic exchanges erupted and, on October 23, 1967, diplomatic relations between the two countries were declared "frozen" by Indonesia. On October 28, Beijing formally announced the suspension of its own ties with Indonesia.

For Indonesia, China's radical foreign policy of actively supporting Communist insurgencies in Indonesia and other Southeast Asian countries only served to confirm China's determination to export communism and instill instability in non-communist states of the region. The New Order government, especially the Indonesian military,

portrayed China as the main threat to Indonesia's national security, especially in its revolutionary forms. And this subversion was to be carried out through the remnants of the PKI and the ethnic Chinese minority in Indonesia. For the New Order government, which derived its legitimacy as the savior of the Indonesian state from a Communist take-over, the public representation of the presumed linkages between China, the ethnic Chinese and the Communists were required in order to preserve the basis for regime legitimacy. An early restoration of diplomatic ties with Communist China would undermine that legitimacy claim. Actually, it was the "triangle threat" (the PRC, the PKI, and the ethnic Chinese) that prevented Indonesia from restoring diplomatic ties with Beijing for almost 23 years.

Positive changes in the regional and international environment from the mid-1970s onwards, especially in the nature of Beijing's relations with non-Communist states, failed to alter Indonesia's perceptions and attitude towards China. Even after China abandoned its Maoist revolutionary foreign policy and replaced it with a peaceful foreign policy of promoting four modernizations, Indonesian leaders were not impressed. The primacy of domestic politics continued to prevail in Indonesia's policy towards China. The dynamics within Indonesia's domestic politics, which required the preservation and the employment of anti-communist ideology as the basis of regime legitimacy, continued to underline the paramount importance of domestic political requirements over other considerations in Indonesia's foreign policy. While the opportunity to benefit from China's growing economy had been taken up from July 1985 with the resumption of direct trade relations, restoring diplomatic ties with China remained subject to domestic political calculations.

It was only in 1991 that the diplomatic relations were restored between Indonesia and the People's Republic of China. Prior to that time, bilateral trade remained insignificant in both absolute and relative terms. During the second half of the 1980s, Indonesia supplied a mere 1/200 of Chinese imports, a flow of goods corresponding to only 1/40 of total Indonesian exports. Proportions in the reverse direction of the exchange of goods were barely higher at respectively 1/100 of total Chinese exports and 1/30 of total Indonesian imports. Exports from Indonesia to China climbed above the \$1 billion mark in 1991, and doubled in value (at current prices) during the next six years. Indonesian imports from China

increased at approximately the same rate, doubling in value between 1991 and 1997, but remained at a slightly lower level. During the first half of the 1990s, China still accounted for little more than about 3 per cent of Indonesian total trade, whether exports or imports, which conveys that this particular trade relation was expanding at about the same pace as Indonesian foreign trade at large. The bilateral exchange produced greater incomes for Indonesia than for China. In 1997, the surplus on Indonesia's balance of trade with China amounted to about \$700 million corresponding to one-third of export revenues. In other words, one dollar out of three earned by selling to China was not spent on goods from China.

Indeed, it took more than two decades until diplomatic relations were finally restored in August 1990. Yet, in the immediate years since the official restoration of diplomatic relations, Indonesia-China relations did not improve significantly. Both suspicions and sensitivity continued to characterize Indonesia's attitude towards China. Indonesia tended to take a cautious and wait-and-see approach in developing its newly restored relations with China. In fact, as other ASEAN countries began to deepen their relations with Beijing in the early 1990s, Indonesia did not actively seek to expand its relationship with China. Such a cautious attitude has to a certain degree manifested itself in Indonesia's indirect approach in its developing strategic engagement with China. Instead of developing its political-security relations with China directly, Indonesia preferred to deal with China within a multilateral framework, either through ASEAN or the ASEAN Regional Forum (ARF). It has been noted that ASEAN "has been regarded in Jakarta as likely to be a more effective instrument for managing relations with a China regarded with apprehension and some foreboding." Similarly, the ARF has been seen by many Indonesian policy-makers as an instrument not only to engage China regionally but also to secure China's respect for international norms of inter-state relations.

Ironically, it was the political implications of the 1997 financial crisis in Indonesia that opened up the opportunity for a much more cordial relationship between Indonesia and China to develop. Indeed, the financial crisis of 1997, which brought the Suharto regime from power, served as a defining moment in Indonesia-China relations. The collapse of Suharto's regime in May 1998 was preceded by three days of rioting during which the ethnic Chinese minority became the target of brutal attacks

by the mobs. While the riots were clearly triggered by the outbreak of the worst economic crisis since July 1997, many saw the event as the culmination of anti-Chinese sentiment in Indonesia. Hundreds of thousands fled the country and it was estimated that many billions of dollars of Chinese capital also left the country. The riots served as a test for both Jakarta and Beijing on how they would manage such an issue that could potentially damage their bilateral relations.

Both the countries, however, did manage the issue well and did not let it get out of control. The Chinese government, while recognizing the sensitivity of the problem, had no choice but to express its concern over anti-Chinese riots in Indonesia. At the same time, Beijing repeatedly maintained that the problem was Indonesia's internal problem. For its part, Indonesia did not react emotionally as was the case in 1995. And, since May 1998, the real improvement in Indonesia-China relations has become more evident, and the scope of bilateral cooperation has been expanding rapidly to include cooperation on areas such as security and defense.

Indonesia's response to the rise of China needs to be understood from the bilateral perspective and within the wider context of regional implications of the rise of China in East Asia. Within the bilateral context, Indonesia has become increasingly comfortable dealing with China, a manifestation of which is evident in the expansion of cooperation between the two countries since 1998 and especially since 2004. Within the East Asian context, however, Indonesia's attitude and policy are still shaped by a degree of the feeling of uncertainty regarding the long-term implications of the rise of China for the regional order. In this context, due to the perceptions of uncertainty in China's long-term intentions in East Asia, Indonesia also pursues a policy of hedging of a kind towards the rising power.

The Asian crisis hit Indonesia exceptionally hard but left China largely unaffected for a variety of reasons. Bilateral trade suffered badly. Indonesian demand for imports from China fell dramatically, especially in the disastrous year 1998 when national income in Indonesia declined by a staggering 13.6 per cent, far more than in any other crisis-hit economy. The capacity of Indonesians to purchase Chinese goods was seriously eroded by both the real loss of income and the extreme depreciation of the Indonesian currency (from Rp. 2,900 per dollar

on average in 1997 to Rp. 10,000 per dollar in 1998) against a retained value of the Chinese yuan. Indonesian imports from China dropped below the \$1 billion mark. Despite the vastly cheaper Indonesian currency, exports failed to increase and even declined somewhat as export production depended in part on imported inputs that had become too expensive for Indonesian producers. In 1998, the Indonesian surplus vis-à-vis China corresponded to one-half of export revenues.

The recovery began in 1999 and already by the year 2000 both exports to China and imports from China had reached a higher level than before. Imports from China into Indonesia rose by more than 60 per cent in a single year because of rising real incomes and a tendency to substitute expensive imports, from, for instance, Japan, with cheaper Chinese goods. As a result, the surplus in Indonesia's balance with China declined to one-quarter of export earnings. The tumultuous changes during the second half of the 1990s did not bring any significant changes in the relative positions of the bilateral flows of trade. Only exports from Indonesia came to occupy a slightly higher share in total Chinese imports, about 1/25 against 1/30 prior to 1995.

There was a temporary dip in 2001 as Indonesian total trade declined by about 10 per cent while the growth of total Chinese trade slowed down somewhat. Momentum was resumed in 2002 and since then both flows of bilateral trade have experienced a sustained and rapid expansion. By 2005, the value of Indonesian exports to China was twice as high as in 2002, and 150 per cent above the level of 1997. The expansion of Indonesian imports from China was even more spectacular. It was conditioned by stable economic growth in Indonesia at a rate of approximately 5 per cent annually. The level of Indonesian imports from China in 2005 was almost four times that of 1997.

The Asian financial crisis in mid-1997 provided an opportunity for China to put its diplomacy of friendship into shape and action and consequently boosted its positive image further in the region and particularly in Indonesia. In addition to refraining from devaluing its currency, China quickly offered aid packages and low-interest loans to several Southeast Asian states. For example, China contributed 400 million US dollars in stand-by loans as part of an IMF rescue package for Indonesia.



Beijing also provided export credit facilities amounting to 200 million US dollars. As mentioned earlier, China agreed to sell 50,000 tons of rice to Indonesia and provided 3 million US dollars grant of medicines. Indeed, as Shambaugh has noted, China's policy and assistance to the countries hit by Asian Financial Crisis "punctured the prevailing image of China in the region as either aloof or hegemonic and began to replace it with an image of China as a responsible power." As a result, the Indonesian government itself was indebted for this help.

China's image as a responsible and benevolent major power received further height during the Tsunami disaster that struck Indonesia and other Indian Ocean countries in December 2004. China responded rapidly to provide relief for victims of the tsunami disaster and announced initial emergency aid of 3 million US dollars. On January 5, 2005, Prime Minister Wen Jiabao arrived in Jakarta to attend the Special ASEAN Leaders' Meeting on the Aftermath of Earthquake and Tsunami, and pledged over 60 million US dollars in aid for the affected countries, especially for Indonesia. He also promised that China would be committed to reconstruction and long-term development of tsunami-hit areas in Indonesia. During the meeting, Premier Wen reportedly remarked that China would provide "unselfish assistance within our capacity and have no added conditions." For China, the participation in the relief efforts reflected "the friendliness of the Chinese government and people towards the governments and people of the disaster-hit countries."

During his meeting with President Yudhoyono in Jakarta, Premier Wen Jiabao also promised Jakarta that in addition to sending epidemic prevention experts and medical teams, China was also ready to help build roads, bridges and power stations. In April 2005, China's Minister of Commerce Bo Xilai announced that China would provide another 2 million US dollars worth of cash and goods for Indonesia, bringing the total Chinese tsunami aid to Indonesia to around 25 million US dollars. During the emergency relief operations, China also sent medical teams, built temporary medical facilities and helped in the evacuation of bodies of the victims. China also promised to collect around 30 million US dollars from China's private companies, non-governmental organizations and civil institutions.

Such a display of harmony and support by China was clearly met with a degree of gratefulness by Indonesia. Minister of Trade Mari Elka Pangestu, for example, stated that “the commitment from China has been very generous and China is helping in many ways, not just in funding, but in more specific areas.” Indonesia’s Foreign Ministry Spokesman Yuri Thamrin also acknowledged that Indonesia thanked China for its help and said that China was an example of “a friend in need is a friend indeed.” Coordinating Minister for People’s Welfare Alwi Shihab also maintained that the relationship between Indonesia and China would be further strengthened in the face of the tsunami, and cooperation between the two countries will be even closer in the future. Indeed, providing aid has been an important part of China’s “charming diplomacy” in Southeast Asia. In the event of the devastating earthquake that hit Java in 2006, China was also quick in providing 2 million US dollars in cash aid, together with the dispatch of a 44-person team of medical and earthquake experts to Java.

In fact the years from 2004 to 2010 have seen considerable improvement in Indonesia’s export performance. Between 2003 and 2010, Indonesian exports more than doubled in terms of nominal dollars. Part of this increase was due to price increases for important exports such as oil and gas and vegetable oils, but part was also the result of quantity increases. Only 20 per cent of the increase in export value between 2003 and 2010 came from oil and gas, and another 23 per cent from other mining products, including coal. Much of the rest of the growth came from manufactures including processed vegetable oils. Over these seven years, Indonesian exports to China grew more rapidly than total exports, and accounted for around twelve per cent of the total growth in dollar terms. By 2009, coal was the most important single export, followed by palm oil, gas, crude petroleum and crumb rubber. Together these five products accounted for around 58 per cent of total exports to China in value terms in 2009. In common with other ASEAN countries, Indonesia exports fell in dollar terms in 2009, as the full effects of the global downturn were felt both on prices and on demand, but there was a strong recovery in 2010.

Indonesian exports to China were only slightly lower in dollar terms in 2009 than in 2008, and there was some growth in 2010. By 2009, China had become Indonesia’s

second largest export market after Japan, and had overtaken Singapore. On the import side, growth between 2003 and 2010 was also very rapid, with only a slight decline in value terms in 2009. By 2010, Chinese imports to Indonesia in dollar terms had overtaken those from both Singapore and Japan. They far outstripped imports from both the EU and the NAFTA countries. The balance of trade between Indonesia and China, which had been running in Indonesia's favour in the earlier part of the decade, had turned in China's favour after 2008. In 2009, around half of Chinese imports were in the machinery and transport equipment category; the second largest category was other manufactures, followed by chemicals.

Since 1998, Indonesia-China relations had begun to enter a new period of active re-engagement and cooperation. A newly democratizing Indonesia seemed to have pursued a very different attitude and policy course towards China. The imperative for improving relations with China had suddenly become a matter of urgency in any foreign policy discourse of the successive governments in Jakarta. President Abdurrahman Wahid, who became the first democratically elected president in October 1999, made China his first destination of his state visit abroad. During the first year of the Wahid presidency, Indonesia-China relations improved significantly. There were several reasons that led to the new enthusiasm on the part of Wahid's government in forging closer relations with China.

First, Wahid's desire to work closer with China pointed to a degree of Indonesia's dissatisfaction with the dominant role played by the West in international affairs. Indeed, many members of the Indonesian elite felt betrayed by the West, especially Australia, over East Timor. They felt that instead of supporting Indonesia's territorial integrity, the West had taken advantage of its troubled situation to separate East Timor from the Republic. Even prior to the East Timor debacle, there was also a sense of frustration among the political elite over Indonesia's "excessive" dependence on the West, especially the US.

In this context, by forging closer relations with China, Wahid sought "to balance American and Western influence" and "limit the scope for external forces to undermine Indonesia's sovereignty." In other words, the move corresponds with domestic requirements at a time that made it necessary for the government to

display a degree of independence in dealing with the outside world (the West) on the one hand, and to induce a sense of dignity and pride on the other. Second, it served the need to accelerate economic recovery through the strengthening of both domestic and international confidence in the Wahid government, especially among Indonesian Chinese and the Chinese business community elsewhere. Wahid understood that domestic economic recovery could be accelerated if the Indonesian Chinese brought back their money and started doing business again in the country.

He also understood that the Overseas Chinese business community also had an important role to play in that process. In his attempt to restore their confidence, President Wahid initiated a series of policies to dismantle discriminatory regulations imposed by the New Order government against them. Such a changed attitude on the domestic front was matched by the same attitude towards Mainland China. President Wahid expected that the support from domestic Chinese would soon increase if Indonesia forged better relations with Beijing. While the assumption of the linkage between Indonesian Chinese and Beijing might be unfounded, the gesture did send a significant message both to Indonesian Chinese at home and abroad that he and his government had nothing against the Chinese.

Third, pressing domestic interests of preserving Indonesia's territorial integrity was partly served during Wahid's visit to China. During the visit, the Wahid government managed to secure China's support for Indonesia's attempt to overcome separatist challenges to the Republic's territorial integrity, especially in Aceh. In Beijing, President Wahid was told that China supported "the Indonesian government efforts to maintain national unity and territorial integrity." Similar support was also expressed by China in July 2000 in Jakarta by then Vice-President Hu Jintao. He maintained that the Chinese government would always support Indonesia's government and people in maintaining national integrity and sovereignty, especially in the face of possible intervention by large powers. When China also joined ASEAN in expressing their support for Indonesia's territorial integrity, in the ASEAN Plus Three Joint Statement issued in Bangkok in July 2000, it sent a clear message to the Acehnese and Papuan rebels that their struggle would not receive support from important countries in the Asia-Pacific. President Megawati Sukarnoputri, who replaced President Wahid in July 2001, continued to pursue the policy of

improving ties with China. President Megawati made China her first stop during her Asian tour in March 2002, during which both countries agreed to expand bilateral cooperation in all sectors, especially in energy and agriculture.

In fact, it has been pointed out that the energy sector had become the major focus in the relationship. In April 2002, for example, Petro China acquired six oil fields from Devon Energy, and China National Offshore Oil Corporation (CNOOC) had also acquired assets in Indonesia's oil and gas sector. Bilateral trade increased to 8 billion US dollars in 2002, and China's cumulative investment in Indonesia increased 25 times to 8.8 billion US dollars by the end of 2003. Under Megawati presidency, Indonesia has also become more sensitive to Beijing's concerns over Taiwan. In December 2002, for example, Indonesia's government refused a request by Chen Shui-bian of Taiwan to visit Indonesia.

The policy of seeking active re-engagement with China remains high on the foreign policy agenda of President Susilo Bambang Yudhoyono who became Indonesia's sixth president in October 2004. By 2004, China had become the fifth largest trading partner for Indonesia. In the same year, Indonesia's exports to China increased by 232% from 2003, amounting to 12.6 billion US dollars. The total volume of trade surged to 16.8 billion US dollars in 2005. Cooperation between the two countries has also rapidly expanded to include other areas beyond trade such as energy, security and defense. The basis for bilateral cooperation received a stronger impetus when, on April 25, 2005, President Yudhoyono and Chinese President Hu Jintao signed an agreement to establish a "strategic partnership" between the two countries. During President Yudhoyono's visit to China in July 2005, both countries concluded several major agreements covering not only traditional areas of cooperation such as trade and investment, but also in the area of security and defense technology cooperation. With these agreements, Indonesia-China relations seem to have come full circle, and bilateral cooperation consistently improves.

The expansion of Indonesia-China relations has been made possible by two major factors. First, since the opening up of Indonesia's politics in May 1998, the barriers to interaction between Indonesia and China have been mostly lifted. Both government officials and private citizens are now free to travel to China, and Chinese

officials and citizens who want to travel to Indonesia are no longer subject to various immigration restrictions. As exchanges of visits among government officials, businessmen and even private citizens have become more frequent, a more positive image of China began to emerge. Most Indonesians no longer see China as an ideologically-threatening state. They are now, in fact, impressed by the pace of economic development in China. China has often become a reference for success, and for many activists of non-governmental organizations, China is seen as a good example for combating corruption.

The democratization process in Indonesia also paves the way for the resolution of the ethnic Chinese problem that had often served as an undermining factor to Indonesia- China relations. While prejudices and stereotyping against the Chinese remain evident in Indonesia, explicit anti-Chinese attitudes in Indonesia have, however, become less apparent today than ten years ago. The democratization process in Indonesia clearly helps resolve the problem. The government, for example, has introduced a number of significant political moves in order to address the problem of discrimination against the Indonesian Chinese. The special mark in the identity card of Indonesian Chinese, for example, has been removed. A new law on citizenship which bans discrimination against any citizen regardless of his or her ethnicity, race, and religion has been passed by the Parliament. Even a controversial article in the Constitution, which stipulated only a native Indonesian can be a President (which implied that an Indonesian of Chinese descent could not be a president), has been amended. More importantly, the unwritten restrictions on cultural and political rights that were imposed on the Indonesian Chinese during the New Order era have now long gone. The earlier restriction on the celebration of the Lunar Year is now removed, and the Lunar Year has been declared as a national holiday in Indonesia. More and more, Indonesian Chinese have now entered politics and become activists of non-governmental organizations.

The resolution of the Indonesian Chinese problem would clearly remove one of the barriers in Indonesia-China relations in the future. The prospect for such a resolution would be further enhanced if Indonesia succeeds in consolidating its democratization process. Within a democracy, the rights of minority groups would be better protected and respected. As Indonesia democratizes, perpetuating the Chinese threat as the

basis of regime legitimacy would no longer attainable. As demonstrated in the 2004 elections, the legitimacy of the government has now come primarily from the ability to deliver its campaign promises. Indeed, as the position of the Indonesian Chinese within the country continues to improve, it is expected that this factor would become less intrusive in the future of Indonesia-China relations.

Second, Indonesia's wariness of China had increasingly subsided when China began to project itself as a responsible major power seeking a friendly relationship with its neighbors in the south. Indeed, by the mid-1990s, China began to discover the utility of participating in ASEAN-led multilateral processes in the region, notably within the ASEAN Regional Forum (ARF). China's willingness and growing commitment to support ASEAN's central role in "managing" the post-Cold War strategic environment in the wider Asia-Pacific was clearly welcome by Indonesia. In this context, it has been noted that "Indonesia has been encouraged by the extent to which the ARF is itself predicated on the security model and experience of ASEAN and to a degree by China's willing and sustained participation in inter-sessional dialogues on confidence-building." In other words, Indonesia's growing comfort in dealing with China has also been the function of a significant shift in China's overall approach towards Southeast Asia since the mid-1990s.

Indeed, at the bilateral level, Indonesia has increasingly become more comfortable and confident in dealing with China. It no longer sees China as a threat to Indonesia's national security and internal stability. The perceptions that China would seek to destabilize Indonesia are long gone. In fact, Indonesia now sees China more as an opportunity, especially in economic terms. Ironically, however, it is in the economic field that China has also come to be perceived as a source of challenge by some and as a threat by others. Within the business community, for example, both perceptions – China as an economic opportunity and an economic threat—are prevalent. However, what is more important in shaping Indonesia's response to the rise of China has been the perceptions of uncertainty regarding China's future role and intentions in Southeast Asia in particular and in East Asia in general.

Indonesia's policy of re-engagement with China beyond the economic field is marked by two main characteristics. First, on the political-security front, Indonesia

continues to engage China through the framework of ASEAN. Indeed, from 1990 to 1998, Indonesia took a cautious, wait-and-see approach in developing its newly restored relations with China. In fact, while other ASEAN countries began to deepen their relations with Beijing in the early 1990s, Indonesia did not actively seek to expand the relationship with China. Instead of developing its political-security relations with China directly, Indonesia preferred to deal with China within a multilateral framework, either through ASEAN or the ASEAN Regional Forum (ARF). It has been noted that ASEAN “has been regarded in Jakarta as likely to be a more effective instrument for managing relations with a China regarded with apprehension and some foreboding.” Similarly, the ARF has been seen by many Indonesian policymakers as an instrument to secure China’s respect for international norms of inter-state relations. In other words, the main objective of this strategy is to ensure that China continues to strengthen its commitment and engagement in a web of multilateral security processes in the region.

Second, Indonesia’s uncertainty with regard to China’s role and long-term intentions in East Asia has also driven Jakarta to pursue a hedging strategy of some sort. In the regional context, a degree of wariness towards China as a major power is still evident among Indonesian leaders and policymakers. There is no guarantee that in the future a powerful China, both in economic and military terms, would continue to be a status quo power. It is also not immediately clear influence in achieving its national interests and objectives in the region. Indonesia, like any other ASEAN member states, would not want to see China seeking to dominate the region and define its relations with ASEAN states in terms of its competition with other major powers.

Indonesia’s view and position on the East Asia Summit (EAS) can be seen in this context. Indonesia was not comfortable with Malaysia’s initial proposal that the EAS should only be limited to the APT countries. In Indonesia’s view, there was a need to expand the membership to include Australia, India and New Zealand so that the EAS could really function as an inclusive process of East Asian regional community-building. The unstated logic, however, was that the more actors involved in the EAC, the more difficult it would become for any party to dominate the process. Indonesia’s support for the inclusion of India and Australia was then interpreted by many analysts



as an expression of its uncertainty regarding the place and intention of China not only in the process of regional community-building but also in the region.

Indeed, even though Indonesia has demonstrated its preference on cooperative multilateralism and institutionalism in its approach and strategy, it has not eschewed the logic of balance of power all together. Indonesia, together with other ASEAN states, is now also pursuing a strategy of hedging of some sort. For example, in dealing with the rise of China, Indonesia together with ASEAN has formed a “strategic partnership” with China. Indonesia has also strengthened its relations with Japan within a strategic partnership framework which moves beyond traditional areas of cooperation (trade, ODA and industry and technology) to include deeper political and security cooperation.

Despite recent improvements in bilateral relations, however, Indonesia-China relations are not without problems. It is important to note that the future course of Indonesia-China relations will continue to be subject to the dynamics of Indonesia’s domestic politics. Three issues might affect how Indonesia-China relations would evolve in the future. First, there is still the problem regarding the public perceptions of Indonesia’s ethnic Chinese. For example, if there is a resurgence of anti-Chinese feeling in Indonesia, and if the problem of the ethnic Chinese minority once again becomes a political issue in Indonesia, then Indonesia-China bilateral relations might also be affected. The Chinese have to situate their ethnicity and identity to survive. These personal experiences shape the discourse of Chinese identity in Indonesia. For example, many of the informants indicate that in public, they rather identify themselves as Indonesians rather than as Chinese, in the hope of avoiding discrimination. At the personal level, this is possible to a certain extent. However, when it comes to dealing with the bureaucracy, what a person identifies himself or herself makes little difference. The Chinese are dealt with as a separate and distinct group. It is really about being between a rock and a hard place. For some of the Chinese who chose to identify themselves as Indonesian, and to assimilate into Indonesian society, they are not allowed to do so, and they continue to be discriminated against. For those who choose to retain and display their Chineseness, they are viewed as unpatriotic, and parasites of the Indonesian economy.

The last verbatim may offer a clue as to what holds the Chinese community together, in the face of the loss of what are regarded as traditional markers of identity, such as language, education, community organizations and religion. The new imagined community of Chineseness rest not on cultural markers, but on economic ones. In a sense, it can be termed “economic ethnicity”, where identification with other Chinese is based on economic networks. It is thus strategically advantageous, in certain situations, to be identified as a community to ensure survival in Indonesia. In general, Chinese businessmen hold a general distrust towards “outsiders, preferring to do business with other Chinese. *Guanxi* is fundamental to Chinese economic transaction”. Thus, maintaining Chineseness and an imagined community facilitate economic survival for the Chinese in Indonesia. The resolution of the Indonesian Chinese problem would clearly remove one of the barriers in Indonesia-China relations in the future. As the position of the Indonesian Chinese within the country continues to improve, it is expected that this factor will become less intrusive in the future of Indonesia-China relations.

Second, it was mentioned earlier that important segments of Indonesia’s elite remain uncertain regarding China’s role and long-term intentions in East Asia. In this context, any sign indicating China’s intention to be a dominant power in the region would certainly revive Indonesia’s sensitivity. Indonesia has begun to show its willingness to trust China, but that trust still needs further nurturing. A public opinion poll conducted by the Lowy Institute in July 2006, for example, reveals that Indonesians trust Japan (76%) more than China (59%). For China to be fully trusted, it needs to consistently pursue a good neighbourliness policy towards Southeast Asia.

Third, the overall positive trends in bilateral relations will also depend on how China resolves any differences with Indonesia. The recent case of trade disputes between the two countries on the issue of food and toys safety provide a good lesson for both sides. After Indonesia issued a warning in August 2007 regarding the safety of imported food and toys products from China, Beijing immediately retaliated by banning the import of seafood from Indonesia. If this is to become a typical Chinese way of resolving dispute, then bilateral relations will certainly face a rocky road ahead. So far, despite the unfortunate flare at the start, the dispute has been

resolved and it is not expected to affect the improvement of bilateral economic relations between the two countries.

Indonesia and China have learned the lessons of their past relationship. Both countries now base their relationship on mutual respect, mutual interests and the need to work together for regional stability. Indeed, the improvement of relations between the two countries over the last ten years has been the result of the politics of re-engagement, not only from the Indonesian side but also from the Chinese side. As the relationship begins to mature, the ability of the two countries to manage differences in their bilateral relationship is expected to improve.

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