

©Institute of International Relations and Area Studies, Ritsumeikan University

Forging Closer Sino-Indonesia Economic Relations and Policy Suggestions

WU, Chongbo*

Abstract

During the passing years, the bilateral relations between China and Indonesia have witnessed great progress. China has become Indonesia's fourth biggest trading partner. Indonesia and China need to continue to work together to increase their bilateral trade and investment partnerships. The two countries can further strengthen their cooperation in various fields, such as tourism, agriculture, fisheries, textile and garment industry, information and communication technology, infrastructure, energy, as well as population-family planning program. These sectors are among the possible cooperation opportunities between China and Indonesia in the near future.

Keywords:

Sino-Indonesia Economic Relations; Policy Suggestions

RITSUMEIKAN INTERNATIONAL AFFAIRS Vol.10, pp.119-142 (2011).

* Professor, The Research School for Southeast Asian Studies, Xiamen University; Research fields are economy and finance in Asia-Pacific region, ASEAN Economy. Address: The Research School for Southeast Asian Studies, Xiamen University, Xiamen, Fujian, PRC 361005

Indonesia has the largest economy in ASEAN, as well as one of the important partners of China among the ASEAN countries. Over the years, the bilateral relations between China and Indonesia have witnessed great progress. China has become Indonesia's fourth biggest trading partner. Both China and Indonesia are big countries with large population and rich in resources. The two economies are highly complimentary, with Indonesia having advantages in raw materials, agriculture, and services, while China has the upper hand in manufacturing, human resources, and a huge market. Indonesia's economic and trade relations with China have improved tremendously since 1998. A closer and more productive trade and investment relationship between China and Indonesia are not a zero-sum game favoring China, but a win-win cooperation which could benefit both sides.

I LITERATURE REVIEW

China and ASEAN countries, whether linked by mountains and rivers, or across the ocean, are well-communicated with one another and have been sharing a longstanding tradition of friendly exchanges and contacts. There are many literatures about the economic relations between China and ASEAN, including Sino-Indonesian economic ties. Some of the major ones are as follows: "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century" (ASEAN-China Expert Group on Economic Cooperation 2001), "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States" (Bruce Vaughn and Wayne M. Morrison 2006), "China-ASEAN economic relations: development in China and ASEAN and their implications for China-ASEAN economic relations" (Cheng Bifan and Chia Siow-Yun 1989), "China-ASEAN economic relations: in the context of Pacific economic development and cooperation" (Cheng Bifan and Chia Siow-Yun 1991), "China-Asia Free Trade Agreement Shaping Future Economic Relation" (John Wong and Sarah Chan 2003), "China-ASEAN Free Trade Area: China's Peaceful Rising in Terms of Geo-economics" (Qiu Danyang 2005) "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations" (Sheng Lijun 2003), "ASEAN-China Economic Relations" (Saw Swee-Hock 2006), "New Development and Problems in China-ASEAN Regional Economic Cooperation" (Zhang Haibing 2006), "Recent Development of China-ASEAN Trade and Economic Relations: From Regional Perspective" (Zhao Jianglin 2007).

Changes in Sino-ASEAN trade and economic relations have been noted and discussed from the viewpoint of both sides in many occasions and papers. However, there is little discussion on economic relations between China and Indonesia. In recent years, Sino-Indonesian trade and commercial relations has become a new field attracting many scholars' attention, particularly since China and Indonesia signed the agreement to establish a strategic partnership in 2005. The main literatures include "China-Indonesia Relations and the Implications for the United States" (Hadi Soesastro 2003), "Indonesia-China economic relations: an Indonesian perspective" (Raymond Atje and Arya B. Gaduh 1999), "Indonesia's Response to the Rise of China: Growing Comfort amid Uncertainties" (Rizal Sukma 2003); and so on. The economic relations between China and Indonesia have been changing, with changes in politic and economy in these two countries and the changes in regional and global relationship. It is always imperative to study the economic relation between China and Indonesia in response to the changes of their respective economy and international relationships, especially in the face of the current grim and the escalating global financial crisis. The two sides are working together again to overcome current difficulties. Owing to the joint, unremitting efforts of both sides, people have ample reasons to believe that the Sino-Indonesian strategic partnership is sure to have a splendid tomorrow.

This paper is organized as follows: It begins with an overview of the key trends and characteristics of Sino-Indonesian Economic Relations, including bilateral trade, mutual investment, Chinese economic aid and export credit, as well as other areas of cooperation and exchanges are under way, and then touches on main reasons contributing to rapid Sino-Indonesian economic relations. It finally discusses the prospect for Sino-Indonesian economic and trade ties.

II PROFILE OF SINO-INDONESIAN ECONOMIC RELATIONS

After the establishment the People's Republic of China on October 1 1949, Indonesia became the 11th country in the world and the first among ASEAN members to establish diplomatic relations with China. Indonesia first signed a bilateral trade agreement with China in 1953, after officially establishing diplomatic ties on April 13 1950. Initial two-way trade value was only US\$7.4 million in 1954, but it steadily grew to \$129 million over

the next five years. The economic ties between Indonesia and China were saved when Jakarta severed its diplomatic relations with Beijing in 1965. However, direct trade between the two countries ceased soon after, but continued indirectly by proxy through Hong Kong and Singapore, averaging some \$200 million a year.

Due to the Cold War, the bilateral relation was suspended for 23 years. Relations between Indonesia and China began to improve in 1985 when the Indonesian government gave the go ahead to the business community to re-open direct trade relations between the two countries. That became an important first step toward normalization as bilateral trade immediately flourished with the outcome always in Indonesia's favor. With the development of exchanges, understanding, and trust, the diplomatic relations was resumed in 1990. For ten years, the bilateral relations have achieved enormous development. The two governments and their citizens are making efforts jointly to establish comprehensive cooperative relations toward a new century.

After the restoration of the diplomatic relations, the two countries have signed the "Air Transport Agreement", "Investment Protection Agreement", "Sea Transportation Agreement", "Agreement on Avoiding Dual Taxation", and also signed the memorandum for understanding of cooperation in the fields of mining, forestry, tourism, fishery, transportation, agriculture and finance. In 1990, the two countries set up a joint committee for economic, trade, and technological cooperation and Indonesia and China held their ninth Joint Commission meeting on September 24 to September 25 2007 in Shanghai to discuss efforts to enhance economic relations between the two countries. In March 2002, an energy forum was established and the first meeting was held in September of that year. The Trade Ministry of Indonesia is planning to open an Indonesian Trade Promotion Center (ITPC) in Shanghai in 2008 to benefit from the increasing trade opportunities between the two countries.

2.1 Bilateral Trade between China and Indonesia

Bilateral trade volume has risen very quickly since the two countries resumed diplomatic ties. The trade volume increased from US\$1.48 billion in 1990 to US\$3.75 billion in 1997; an increased by two fold. During the period of 1997 to 2001, it can be seen that the trade relations between the two countries showed a fluctuating trend as the trade volume dropped to \$

2.74 billion in 1998 due to the impact of the Asian Financial Crisis, though the amount of bilateral trade reached \$3.27 billion in 1999. Sino-Indonesian trade volume reached to 4.79 billion in 2000. In 2001, the value of Indonesia-China trade stood at US\$4.04 billion comprising of US\$1.84 billion of imports and US\$2.20 billion of exports, which showed a decrease of 8.87% compared to that of 2000 due to the global economic slowdown but China has become the 5th trading partner of Indonesia while Indonesia, the 17th trading partner of China. The balance of trade between the two countries from 1996 to 2001 consistently showed a surplus for Indonesia. The largest trade surplus was recorded in 1998 and amounted to US\$925 million, but the trend of trade surplus with China decreased since then. In 1999, trade surplus with China was US\$766 million, while in 2000 it was US\$745 million and in 2001 it was only US\$357 million, a decrease of 52% compared to the previous year.

While strengthening the friendship between China and Indonesia, and enhancing their cooperation, some restrictions limiting the development of bilateral relations have also been lifted. At the turn of the century, China-Indonesia bilateral trade continues to grow. It has reached US\$5.3 billion in 2002, from about US\$2 billion a decade earlier, although Indonesia's trade with China remains below the level achieved by Thailand, Malaysia, and Singapore.

Official data shows that trade between Indonesia and China increased by an average of 20 percent per year since entering the new century. China is Indonesia's fourth biggest export destination, and China's share of Indonesia's exports and imports rose from less than 3% in the late 1980s to 8–10% in the past a few years. Meanwhile, Indonesia is one of the important partners of China in the ASEAN countries. In 2004, the total bilateral trade amounted to US\$8.71 billion, an increase of 31 percent from 2003's total amount of US\$6.76 billion.¹⁾ In 2005, the total volume of trade surged to US\$12.5 billion, 20 percent higher than in 2004²⁾. In 2005, Indonesia was China's 19th biggest export destination with a total value of US\$5.84 billion, amounting to 1.11 percent of its total exports. Meanwhile, China's imports from Indonesia in 2005 were valued at US\$6.67 billion, 1.28 percent of its total imports, making Indonesia the 18th biggest sup-

1) Rendi A. Witar.: "Chinese investment may reach \$3b this year", *The Jakarta Post*, August 17, 2005.

2) "RI-China trade growing slowly", *The Jakarta Post*, July 06, 2006

plier of goods to China. Total trade between the two countries in 2006 reached US\$14.98 billion, an increase of 13.5 percent from 2005. From 2002 to 2006, Indonesia continues to record a surplus in its trade with China since Indonesia's export is always higher than its import. Indonesia enjoys a surplus of US\$503 million, US\$819 million, and US\$1.70 billion in 2004, 2005 and 2006 respectively. In 2007, trade between the two countries reached 20.51 billion US dollars, up by 31.2 percent compared to previous year³⁾. Up to July 2008, the trade value between the two countries has reached 19 billion US dollars. The basis for bilateral cooperation received a stronger impetus when, on April 25 2005, Yudhoyono and Chinese President Hu Jintao signed an agreement to establish a "strategic partnership" between the two countries, laying the ground for a comprehensive cooperation on a wide range of issues, including energy, security, and defense. The two countries intended to increase their two-way trade to US\$30 billion by 2010 under the strategic partnership frame. The target has been reached even before 2010 because the two countries' trade value stood at \$31.5 billion in 2008, up 25.9 percent year-on-year, which was a new record and two years in advance to reach the goal of 30 billion US\$ when the planned year is 2010. Both nations are now set to have a bilateral trade target of \$50 billion in 2014.

Indonesia-China trade balance, 1981-2009, million US\$

Year	Export	Import	Balance	Total
1981	8	254	-246	262
1985	84	249	-165	333.1
1986	139.0	337.1	-198.1	476.1
1987	343.0	408.0	-65	751.0
1988	491.8	438.7	53.1	930.5
1989	568.5	527.4	41.1	1,095.9
1990	834	653	181	1,486.8
1991	1,190.9	835.0	355.9	2,025.9
1992	1,396.4	751.5	644.9	2,147.9
1993	1,250.0	864.0	386	2,114.0
1994	1,321.7	1,369.0	-47.3	2,690.7
1995	1,742	1,495	247	3,137.0
1996	2,057	1,598	459	3,655
1997	2,229	1,518	711	3,747
1998	1,832	906	926	2,738
1999	2,009	1,242	767	3,251

3) "RI, China to hold joint commission meeting", <http://www.antara.co.id/en/arc/2008/1/18>.

2000	2,768	2,022	746	4,790
2001	2,200	1,843	357	4,043
2002	2,920	2,427	493	5,347
2003	3,803	2,957	846	6,759
2004	4,605	4,101	504	8,706
2005	6,662	5,842	819	12,504
2006	8,343	6,636	1,706	14,980
2007	9,670	8,560	1,110	18,239
2008	11,630	15,250	-3,620	26,880
2009*	5,040	6,000	-960	11,040

*From January to June

Source: Direction of Trade Statistics, IMF Yearbook, 1987, 1991, 2001, 2005, 2008; Central Board of Statistics of Indonesia; Ary Hermawan and Veeramalla Anjaiah. RI, China relations take a new turn, *The Jakarta Post*, Oct 1, 2009.

In terms of the commodities being traded, data shows that China's exports to Indonesia include electrical machinery and equipment, electronic goods and home appliances, textiles and motorcycles. China's principal import commodities, meanwhile, are mostly resource-intensive goods like crude oil, natural gas, palm oil, paper, pulp, and timber.

Compared with other ASEAN nations, Indonesia's trade volume with China was relatively growing slowly. In 1996, Indonesia's trade volume with China was the second highest after Singapore, but now among the 10 ASEAN countries trading with China, Indonesia is in fifth position in terms of trade volumes, after Singapore, Malaysia, Thailand and the Philippines. Some ASEAN member countries like Laos and Cambodia are currently boosting their economic ties with China. Indonesia's bilateral trade growth with China is among the slowest in the region, which means that the two countries' potential to increase trade relations are very great and can still be stepped up. To further intensify their bilateral trade, the two countries had set up a "Working Group on Bilateral Trade Resolution" which was tasked with identifying trade potentials that can be further developed and resolve existing impediments. The working group meets at least once a year in Indonesia or China. In addition, Indonesian businessmen's attention, has so far, still focused on traditional markets in China such as Beijing, Shanghai and Guangdong province. But other provinces in China also badly need products from Indonesia. Therefore, Indonesia is now trying to find opportunities and make breakthroughs in getting access to the Chinese market in these provinces that Indonesia has so far

not yet entered such as Lioing, Hubei, and Hunan.

2.2 Mutual Investment

The economic crisis that hit Indonesia in 1997, followed by political crisis in the following years had a very bad impact on the investment climate. However, as the stability of politics got better Indonesia recently has managed to bring back the interests of foreign investors, including Chinese investors to make investments in Indonesia. Investments from China to Indonesia are similarly on the rise. Data from the Indonesia's Investment Coordinating Board (BKPM) shows that from 1997 to February 2008, there are 360 China PMA projects in Indonesia, with a total investment of USD7.0 billion absorbing thousands of Indonesian workers⁴⁾, and the investments in the energy sector alone reaching US\$1.2 billion. Chinese investments in Indonesia, excluding those in the gas and oil sectors, reached US\$170 million (38 projects) in 2003, and it rose to US\$205 million (80 projects) in 2005. The value of Chinese investments in Indonesia in 2001-2006 recorded an amount of US\$600 million with 310 projects⁵⁾. Since dual directional investment has been gradually developing, China is now the fifth biggest investor country in Indonesia with an investment worth US\$7.4 billion.

On the other hand, data from the Chinese government shows that Indonesian investments in China have reached at least \$2 billion as of 2003. Indonesia's investment in China was recorded at US\$100.8 million with 115 projects in 2006⁶⁾.

According to a report published by Guo Ji Ri Bao, China's cumulative investments in Indonesia, including those in the gas and oil sectors, have boomed from US\$282 million (on an approval basis) at the end of 1999 to about US\$6.8 billion by the end of 2003. This represents a twenty-five-fold increase in four years. By the end of 2005, total Chinese investment in Indonesia has reached over \$6 billion; mostly in the infrastructure, energy, agriculture, and food sectors. The figure represented an over 21-fold in-

4) "Bilateral Trade Between Indonesia and China", Jakarta, Business News, April 18, 2008, PP11-12.

5) "Leading Chinese firms to stage exhibition in Jakarta", <http://www.antara.co.id/en/arc/2007/5/15>

6) Andi Abdussalam: "Indonesia, China forging closer economic ties", www.antara.co.id/en/arc/2007/6/8.

crease compared to six years ago. By the end of 2006, total Indonesian cumulative investments in China came to 1435 items with an agreed investment valued at 3.808 billion US dollars, and the actual investment stood at 1.552 billion US dollars. China set up 402 non-trade joint ventures and joint-operated enterprises in Indonesia with a total agreed investment of 6.937 billion US dollars, and the actual investment exceeded 3 billion US dollars⁷.

In recent years, Chinese companies have shown particular interest in Indonesia's oil and gas sector. Current investors from China include the country's two largest oil companies, PetroChina and Chinese National Overseas Oil Company (CNOOC). Many of China's well-known electronic appliance manufacturers, such as Cang Hung, Kang Cia and TCL, are also investing and marketing their products in Indonesia. Likewise, motorcycle manufacturer, Jia Ling, have also set up an assembly and spare parts plant. In addition, automotive sectors are also invested in Indonesia. An automotive producer from China with Chery and Geely of Indonesia, have built factories to make components. Chinese automotive manufacturing company, Foton, has established a joint venture with an Indonesian firm to set up a truck assembling plant in Indonesia. Bank of China, meanwhile, resumed its operations in Indonesia in 2003 to help facilitate the fast growing trade and investment between the two countries.

China has a lot of opportunities to increase its investment in Indonesia as both nations' economic relations are now increasing and China is moving into Indonesia in a big new way in infrastructure. Indonesian state electricity utility PLN announced in August 2007 that it has signed deals for new power plant worth about \$2 billion with China's Dongfang Electric and Shanghai Electric. PLN said that the Export Import Bank of China would shoulder 85% of the projects' financing and that the new plants are scheduled to become operational by either 2009 or 2010.

Shanghai Electric, meanwhile, plans to build three new 350-megawatt coal-fired plants in West Java for a total investment of \$800 million. China has made a loan commitment worth US\$800 million for different projects in Indonesia, of which US\$250 million are designed for construction of the Jatigede dam in Cirebon, West Java. The rest of the loan would be used for

7) "Work together to enhance RI-China economic cooperation", *guo Ji Ri Bao (JAWAPOS GROUP)*, July 27, 2007.

double-track railway projects, thermal power plants, and road construction. Indonesia and Sino-Hydro signed a work contract on April 30 2007, for the construction of the Jatigede dam project in West Java. Work on the dam is expected to begin on June 30 2007.

China's Chengda Engineering and Indonesian energy company PT Bosowa Energi, plan to build jointly a \$200 million 200MW coal-fired power plant in province of South Sulawesi. Bosowa will sell electricity to PLN for 3.18 US cents per kilowatt-hour for 30 years under an independent-power-producer mechanism⁸⁾.

2.3 Chinese Economic Aid and Export Credit

Within the framework of escalating bilateral trade, the Chinese government has offered aid to Indonesia in the form of;

Economic Aid: China will provide 30 million Yuan (US\$3.63 million) worth of assistance to Indonesia, and another US\$300 million in preferential loans for infrastructure construction and the reconstruction of its disaster-hit areas. Previously China had pledged US\$400 million worth of preferential loans to Indonesia. In addition, the Chinese Government has decided to provide another US\$2 million worth of rescue relief, including US\$1.5 million in cash to the earthquake-hit areas.

Soft Loan: Indonesia and China signed two agreements on soft loan cooperation as one of the results of the RI-China Joint Commission's 9th meeting held in Shanghai. The two deals were about a preference for purchasing credit assistance for the Jatigede Dam project and on an application for the use of Chinese Government facilities by Indonesia worth US\$200 million. The soft loan for the construction of the Jatigede dam project amounted to US\$239.7 million and an additional loan of US\$200 million. It was also the realization of a Chinese commitment to Indonesia made during Vice President Jusuf Kalla's visit to Beijing in 2007. The soft loan is expected to smoothen the construction of the Jatigede dam and expected to be completed on time.

2.4 Other Areas of Cooperation and exchanges are under way

China and Indonesia also carried out fruitful cooperation in fields such as infrastructure construction, energy and resource exploitation, ag-

8) Bill Guerin: "Japan, China power Indonesian growth", *Asia Times*, Aug 29, 2007.

riculture, and fishing in recent years.

Besides Indonesia's central government, the country's regional administrations also showed growing interest in cooperation with China as cooperation between local governments came to be vigorous. Beijing built up ties of friendship cities with Jakarta, the Indonesian capital city, and letters of intent have been reached for establishing friendship relation at provincial level between East Java and Shanghai, Guangdong Province and North Sumatra, Fujian Province with Central Java and Hunan Province with West Nusatenggara.

In 2007, Indonesia and China had signed a number of documents on bilateral cooperation. In the military field, Indonesia and China had established cooperation in training military personnel, while in defense, joint exercises, joint production, and technology transfer as well as exchange of visits have been established. The bilateral cooperation also covers intelligence exchange, technology, and science.

III THE MAIN REASONS CONTRIBUTING TO RAPID SINO-INDONESIAN ECONOMIC RELATIONS

It is commonly noted that trade and investment relations between China and Indonesia has been deepening and expanding over recent years. There are a couple of reasons contributing to that. China holds more than 1.9 trillion US dollar foreign exchange reserve and the Chinese Government has promoted the strategy of "going out", encouraging its enterprises to go international, especially to invest in ASEAN countries, including Indonesia, which is one of the most prominent members of ASEAN. Now China's capital controls have been reduced and domestic companies can now own foreign assets. In the past five years, China received \$50-\$60 billion in foreign direct investment annually and has plenty of cash to spend.

Next, China needs to look for a secure and stable base for energy resources outside. China's massive population and blistering hot economy make it the world's second biggest consumer of petroleum products. The US Energy Information Administration predicts China's huge demand for oil will increase by 130%, reaching 12.8 million barrels a day by 2025. China also uses up nearly half of the world's cement production and consumes two thirds of its coal production. This has forced China to look for a secure and stable source of basic energy needs, as well as raw materials and com-

modities. Indonesia has vast resources, with an estimated 9 billion barrels in oil reserves, well over 9.3 billion tons of coal and 188 trillion cubic feet of gas. Its 230 million population, endless consumer boom, and substantial energy sources offer great potential for Chinese enterprises. Indonesia may provide investment opportunities in its vast energy resources, infrastructure projects, and other commodities such as palm oil and rubber.

Thirdly, Indonesia's position as the largest country and economy in Southeast Asia makes it a key focus for major powers. China, Japan, and the US aspire to strengthen their influence in Indonesia. Indonesia is the largest ASEAN member and has played a leading role in the region. Indonesia's economy grew by 5.6% in 2005, and performed slightly worse the year of 2006, reaching only 5.5%, and in 2007, the economy grew by 6.4%, which was at its highest point since the 1997 financial crisis. Growth in 2008 stood at 6.3%, and the total GDP amounted to 385.9 billion US dollar, which occupied two-thirds of ASEAN-5. Indonesia has the biggest market opportunity among ASEAN countries. There are many opportunities for investment in various sectors, especially in infrastructure projects. Indonesia could expect between US\$80 billion and \$200 billion in investments from China within the next 5 to 10 years.

Fourthly, Indonesia welcomes investment from China; especially the manufacturing capital flows into Indonesia. Chinese manufacturers are facing a lot of pressure from developed countries because of the surge of Chinese imports in light industrial products. So, Chinese companies, as well as foreign companies based in China, are planning to diversify their production outside China. Shortly after entering the new century, Chinese businessmen began to explore the possibility to relocate production to Indonesia, Vietnam, Thailand and other Southeast Asian nations. In this aspect, Indonesia has the advantage because Indonesia has a larger pool of resources, including labor and a large domestic market.

Meanwhile, Indonesia extremely welcomes investment from China; especially the manufacturing capital flows into Indonesia. The Indonesian Government offered China to invest in manufacturing. This is a step of diversification of China's investment in Indonesia, which was previously in natural resources and infrastructure. The investment now is in the automotive, electronic and textiles sectors. Jakarta is now working out a list of some of the country's 145 state-owned enterprises to be sold to investors, although many are not in good shape. Foreign investors are now allowed

major and management control when they contribute to Indonesian's enterprises. China's investment can help increase the local tax revenue and create more job opportunities for Indonesians, as well as drive the real sector, while economic growth will continue to rise. Thus Indonesia can also improve the education sector, health services, and increase its people's purchasing power.

In the face of the global economic crisis, The Capital Investment Coordinating Board of Indonesia (BKPM) has and will continue to attract FDIs by continuing to reducing bureaucratic constraints, while modernizing and simplifying investment processes. In the year of 2008, FDI growth was around 40 percent, but in 2009, it may drop to around 20 percent, while domestic growth will be higher than FDI in the full-year. BKPM will focus on investments in three sectors, such as agriculture, infrastructure, and energy, to address the issue of a potential slowdown in investments this year. This created new opportunities for FDI flow into Indonesia from other nations, including China.

The ethnic Chinese in Indonesia also play a key role in promoting the China-Indonesia relationship because they often serve as a bridge in the bilateral economic relations. Over 60% of FDI in China comes from overseas Chinese, as most overseas Chinese enterprises have channels of their own, and they are prone to exportation. What's more, about 80% of joint-venture manufacturers in China are invested by overseas Chinese, which contributes to China's great trade surplus.

Last but not least, China and the 10 ASEAN members, including Indonesia, are speeding up tariff reduction, a move to facilitate the CAFTA's establishment. The average tariff imposed by China on imported ASEAN goods is expected to drop to 2.4 percent in 2009 from the current value of 5.8 percent. Under the CAFTA, China and the older ASEAN members: Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand will impose zero tariffs on most goods in 2010, while Cambodia, Laos, Myanmar, and Vietnam will follow suit in 2015. The CAFTA will bring about great opportunities to both China and Indonesia. China-ASEAN trade fairs have been organized annually in China since 2004, contributing to fostering the bilateral trade and investment cooperation between China and Indonesia. The two sides are actively negotiating for an investment agreement, facilitating their cooperation in the field.

IV THE PROSPECT FOR SINO-INDONESIAN ECONOMIC AND TRADE RELATIONS

In April 2005, Chinese President Hu Jintao paid a visit to Indonesia. During his visit, China and Indonesia signed a joint declaration for a "strategic partnership". The action plan of the partnership, which includes economics, politics and defense, was signed in January of 2010 in Jakarta. This demonstrated that Sino-Indonesian relations have entered a new development stage and will boost "comprehensive cooperation" between the two countries. Indonesia and China need continue to work together in increasing their bilateral trade and investment, and continue to build a closer relation in various fields, such as trade and energy. The following areas are among the possible cooperation opportunities between China and Indonesia.

4.1 Tourism

As the fastest growing economy in the world, the total number of Chinese going abroad for leisure reached about 34 million in 2006, an increase from 31 million in 2005. Data disclosed by China's National Tourism Administration indicated that nearly 30 million Chinese traveled abroad in the first nine months of 2007, up by 17 percent from the same period in 2006. That figure is expected to grow to 50 million by 2010, which can only mean that China remains Asia's largest source of tourism. According to the World Trade Organization, despite the fact that China's numerous award-winning travel destinations, including Resort Island Bali, Indonesia, will miss out on China's growing outbound tourism market. According to the preliminary results of a survey by the Nielsen Company on China's outbound market, Indonesia is not in the top-10 planned destinations for Chinese travelers, simply because of the perception of safety. Data from the Bali tourism authority showed that Chinese tourist arrivals to the island, the top tourist destination in Indonesia, reached 22,743 in 2006, that figure has already more than doubled to 53,113 as of the end of August in 2007.

Indonesia has failed to capitalize on the huge potential of the Chinese outbound market. For this reason, Both China and Indonesia have already made efforts to increase the tourist flows between the two countries, which through the granting of visa on arrival and increasing the frequency of di-

rect flights from China to Indonesia and vice versa, to 16 times a week, especially, Indonesian government is trying every possible measure to attract more Chinese people to visit Indonesia. Now, China and Indonesia are negotiating on a plan to open direct flights from Guilin in China to Denpasar in Bali so that Chinese tourists' arrivals in Bali could continue to increase. Given that, China has more than one billion people, and Indonesia tourism sector has bounced back and is now expanding again after several lean years due to natural disasters, security problems, and the bird-flu scare. So, the potential of tourists from China to go to Indonesia is extraordinary. There has been a significant increase in the number of Chinese tourists to Indonesia in the past years. Data collected by the Indonesian Culture and Tourism Ministry showed about 200,000 Indonesian tourists visited China and it was recorded at 182,341 Chinese tourists traveled to Indonesia in 2006. Indonesia has targeted to increase the tourist arrival from China from less than 200,000 in 2006 to about 300,000 in the year of 2007⁹⁾.

"China has 1.2 billion people. Indonesian foreign exchange income may increase if one percent of them visit Indonesia," Indonesian Culture and Tourism Minister Jero Wacik once said¹⁰⁾. It is necessary for Indonesia to smooth the access for Chinese who want to go to Indonesia as a tourist. At the same time, Indonesia should improve the services for the tourists by providing a comfortable environment, making improvement so that people will feel comfortable to stay in Indonesia, such as it will be easy to find Chinese food and shops. So they will feel like being at home in Indonesia. Meanwhile, it is necessary to maintain the sustainability of security in Indonesia. If the security is good, all tourists from the world will come to Indonesia. In addition, more flights should be opened between the two countries.

4.2 Agriculture

Indonesia is an agriculture-based country. However, the domestic production of rice is not sufficient enough to meet the domestic demands. Indonesia still needs to import rice to meet growing rice needs at home. Though Indonesia's rice imports fell from 6 million tons in 1998 to less

9) "RI, China agree to promote cultural ties", website: <http://www.antara.co.id/en/arc/2007/6/27>.

10) "RI, China agree to promote cultural ties", website: <http://www.antara.co.id/en/arc/2007/6/27>.

than 1 million in 2004, The Republic has to import 1.5 million tons of rice in 2007 to secure supply and stabilize prices. The staple food is very important to the country's economy and household food security, especially among the poor, who allocated about 30 percent of their total expenditure to rice. Increases in farming costs and low rice prices have caused many farmers to turn to other crops in the hope of improving their incomes. This has become the main obstacle to increasing Indonesian rice production. With a further decline in world rice production, Indonesia, a major rice importer, could suffer food shortages in the coming years if it fails to boost rice production¹¹⁾.

Indonesia is one of the biggest textiles producers in ASEAN, with a complete structure of industry, starting from fiber to garment and other textile articles industry. Although Indonesia has produced various kinds of textile products, this country and other ASEAN countries need sufficient supplies of raw materials, especially cotton, from the agriculture sector, which can be seen from the import figure showing that the Indonesia's third biggest import in 2000 was cocoon accounting for US \$ 999.4 million. Recently silk industry in Indonesia has shown a prospective growth with the growing demand of silk products both from domestic and foreign markets. Due to limited supplies of silk cocoon as a raw material for silk yam, Indonesia needs more imports of silk cocoon.

In this respect, Indonesia hopes China is able to offer technological assistance to help the Indonesian Government to achieve food self-sufficiency, including the development of hybrid rice. Indonesia also expects the cooperation from China to assist Indonesia in meeting the domestic demands of those above-mentioned commodities by giving special preference on exports to Indonesia. Another cooperation that can be developed is the provision of technical assistance by China to Indonesia on the development of those above agricultural sub-sectors.

Other areas of cooperation that are needed include the technological transfer programs such as food processing, functional food production, resources conservation, high-yield crops and product development. The Indonesian and Chinese Governments have confirmed cooperation in agriculture, especially in the development hybrid rice, horticultural products, and

11) "Indonesia may face food crisis in next 10 years: Minister", *The Jakarta Post*, December 11, 2007.

in research and development of farm produce.

4.3 Fish sector

Indonesia is among the top ten countries of fish producer and exporter in the world. The maritime and fishery sectors have great potential to contribute to the country's economy. GDP from the fishery sector increased by 18 percent in 2006, and generated US\$2.08 billion in foreign exchange revenue, with exports reaching 1.02 million tons in 2006.

The Sino-Indonesian economic relations in the marine and fishery sectors have been improving well, especially following the signing of a Memorandum of Understanding on marine and fishery for the 2004-2009 program. China is the second largest importer of Indonesian aquatic products in Asia, after Japan. Over the past five years (2001-2006), the volume of Indonesian seafood exports to China tended to increase significantly, namely around 52 percent at the average. In 2006, China imported Indonesian marine products worth a total of US\$55.8 million with a total volume of 109,337.7 tons¹²⁾.

In 2007, Indonesian Government began to cease cooperative ventures with foreign parties in the fisheries field, and instead encourage the latter to invest in the fishery industry in the country. The foreign fishing vessels could either establish their own industrial bases or cooperate with Indonesian companies in the form of a joint venture; otherwise, the foreign fishing vessels will prohibit foreigners operating in Indonesian waters if they do not have an industrial processing base in Indonesia. Chinese businessmen have expressed their readiness to invest capital in the marine and fisheries sector in Indonesia to set up the fish processing industries, thus increase the added-value and create new job opportunities for the local people. The Chinese investors would sink capital to the tune of US\$800 million in the marine and fisheries sector in Indonesia. Among them, \$300 million of the projected value of \$800 million would be used to develop the fisheries industry in Tual, Maluku, and \$300 million in Timika, Papua, and \$200 million in Bitung, North Sulawesi.

12) "RI might suffer loss of \$5 mln due to Chinese ban on seafood imports", website: www.antara.co.id.

4.4 Manufacturing Industry

Indonesia and China could develop synergy in various economic sectors, particularly in manufacturing, to win the global competition. In a number of manufactured products, Indonesia could not compete directly with China in domestic and global markets because production costs in China are low. But Indonesia can develop synergy with China in the procurement of cheap raw materials and compromise on what components Indonesia and China should produce.

Textile and garment industry: The textile industry was one of Indonesian Government's priorities; the sector has been contributing significantly to the country's foreign exchange revenues every year. In the year 2007, textile exports generated \$10.03 billion in foreign exchange income, up 6.13 percent from \$9.445 billion in 2006, and it is estimated that textile exports will reach to \$11 billion in 2008, and the Indonesian Government has set a record textile exports target for 2009 of \$US11.8 billion.

Over the last 10 years, the industry has consistently added an average \$5 billion surplus to Indonesian export earnings, and this industry could employ 1.62 million people in the next two years, so it is a very important sector. The leading problems for Indonesian textile and garment industry are such that the equipment and machinery are obsolete. About 60 percent of the machines used in Indonesian industry are between 10 and 20 years old, while 35 percent are more than 20 years old. This means that industry restructuring is inevitable to boost the efficiencies in the face of stiff global and domestic competition. At the same time, despite healthy growth in bank lending in the past few years, Indonesian banks showed little interest in disbursing loans to textile companies. The commercial banks in Indonesia consider the textile industry unable to produce garments that could compete with Chinese products, making them potential contributors to a rise in non-performing loans (NPLs). Indonesian government is seeking the help of China in restructuring its textile industry. Chinese government may provide export credit to help Indonesian update machinery. China is the largest textile exporting country in the world, holding 17 percent and 24 percent of the global textile and garment markets respectively. Meanwhile, China can increase its investment in Indonesia's textile and garment sector.

4.5 Information and Communication Technology

In line with the rapid development of the world ICT, Indonesia has been developing this sector in recent years to catch up with the advancement of the technology. In Batam Island, Indonesia develop facilities for electronic components industry producing hardware of ICT products. Software development centers also start growing in some areas, especially in Bali Island and Yogyakarta-Central Java. China, as a country with a more advanced technology, is expected to participate in the development of ICT industry, both for hardware and software in Indonesia and other ASEAN countries. More investments from China in ICT products are welcomed in Indonesia.

4.6 Infrastructure

China's state-owned companies have shown keen interest in participating in Indonesia's ambitious program to rebuild the country's infrastructure. Indonesia has a long wish list of infrastructure projects that it wants to build over the next five years, costing \$145 billion. The private sector is expected to fund 60% of the cost. China has now offered concessional loans totaling \$800 million to Indonesia. Half of that amount was offered during the presidency of Megawati Sukarnoputri. However, it took a long time to identify projects for funding. During his visit to Indonesia in April 2005, China's President, Hu Jintao, offered another \$300 million towards Indonesia's infrastructure program, and China offered a further \$100 million during Yudhoyono's visit Beijing in 2006. A number of projects have been earmarked for the loans, which will fund building of bridges, power plants, and railway tracks in West Java¹³). A number of government-to-government memoranda of understanding (MoUs) were signed in Oct 2005, particularly in the energy sector. One of the projects is a \$2.1 billion coal-fueled power plant in Muara Enim, South Sumatra, which will have a total capacity of 2,400 megawatts. Another is the development of the 1,320-megawatt, coal-fueled Tanjung Jati, a power plant in central Java, expected to cost \$1.1 billion. Still another agreement covered construction of a 150,000-200,000 barrel-a-day oil refinery in Indonesia's East

13) "Quotas send China's ragmen southeast", <http://www.nihaouzhou.com/articles/news/24/1862/en/>.

Java province; a venture between the Indonesian state-run oil and gas company, Pertamina, and the Chinese Petroleum & Chemical Corporation (Sinopec). The production from the refinery will be primarily for Indonesian domestic consumption.

4.7 Population-Family planning program

China and Indonesia are so far known as pioneers of the world's family planning program. So, they may establish cooperation in population field. Chairman of the Indonesian National Family Planning Coordinating Board (BKKBN) and Chinese Minister of National Population signed a memorandum of understanding (MoU) in 2005 to that effect. Under the MoU, the two nations agreed to encourage each other to develop cooperation in the population and family planning/reproduction health fields, the cooperation covered family planning training, family planning/reproduction health officer and ranking official exchanges. In addition, the two countries also agreed to conduct joint scientific and technological research work on contraceptives. Both Indonesia and China are also well-known for their efforts to pioneer the invention of a number of contraceptives and to give family planning training to other countries.

4.8 Energy industry

China is preoccupied with its need for energy and is looking for energy security through investment overseas. China's initial investments in Indonesia have been in energy as it realizes Indonesia is an important future energy source. Cooperation in the energy sector has become the major focus in the relationship. In April 2002, PetroChina acquired six oil fields from Devon Energy, a U.S.-based independent oil and gas producer for US\$216 million. This was PetroChina's first foreign venture. China National Offshore Oil Corporation (CNOOC) also acquired assets in Indonesia's oil and gas sector. Indonesia made a big effort to obtain a US\$10 billion contract to supply three million tons of liquefied natural gas to Guangdong province annually for 20 years. In return, Indonesia was ready to buy 20 Chinese oil tankers. If Indonesia could secure the contract, it could begin to develop the Tangguh gas field in Papua, an undertaking led by British Petroleum that included a number of Japanese companies.

In the end Australia won the LNG contract. China had invited six countries to bid, and based its decision on price, risk and flexibility. Aus-

tralia was seen as the most stable supplier. But Indonesia received a “consolation prize” of a US\$8.4 billion contract to supply 2.5 million tons of LNG annually to Fujian province for 20 years. This deal was signed in September 2002 at the First Indonesia-China Energy Forum held in Bali. In addition, six MoUs were signed which included the development of a 65 megawatt combined cycle power plant in Palembang, South Sumatra, a 220 megawatt coal-fired power plant on Labuhan Angin, North Sumatra, and the development of the gas pipeline linking East Kalimantan and East Java. On another occasion, Jiangshu province has stated an interest in the development of and a supply contract with the LNG project in Bon-tang, East Kalimantan.

V CONCLUSION

In conclusion, China and Indonesia are friendly neighbors and both of them are large developing countries with great influence. Over the past half century, China-Indonesia relations have, on the whole, enjoyed continuous development, despite some twists and turns. In recent years, the two sides have jointly added a new chapter to the friendship, deepening mutual understanding, enhancing trust, and expanding cooperation in bilateral relations.

China is becoming a more important trading partner for Indonesia and in the next few years China's investment in Indonesia will continue to grow. China's investment will be crucial for Indonesia's plan to optimize infrastructure development, primarily in power sector. China offers huge export credits that Indonesia can use for infrastructure development, for instance the construction of below 100 Megawatt power plants, and China's export credit helped finance the construction of the cross-sea Suramadu Bridge linking Java and the island of Madura.

Sino-Indonesian bilateral cooperation in various fields have continued to increase since both countries restored diplomatic ties in 1990 and signed a strategic partnership agreement in April 2005. Especially over the past three years, the partnership agreement had allowed bilateral relations in various fields to grow rapidly; China has become Indonesia's fourth biggest trading partner. Dual directional investment has been gradually developing. Although Chinese investment value in Indonesia is below that of the United States, Japan, and South Korea, China is now the

fifth biggest investor country in Indonesia. Co-operation in areas of infrastructure construction, energy and resource exploitation, agriculture and fishing are also to be enhanced in recent years.

Compared with other nations, Indonesia's bilateral trade growth with China is among the slowest in Southeast Asia. Among the 10 ASEAN countries trading with China, Indonesia is now in fifth position in terms of trade volumes, after the Philippines, Thailand, Malaysia and Singapore. So, there exist great potentials for further developing the two countries bilateral trade. Both China and Indonesia governments should take more actions to expand the two-way trade, in particular, to stimulate Indonesia to increase export to China.

In the near future, Indonesia should invite investors from China to invest their money in the sectors of electricity, agriculture, food, infrastructures and trade in Indonesia, and the areas, such as tourism, agriculture, fish sector, textile and garment industry, information and communication technology, infrastructure, energy industry, as well as population-family planning program, being among the possible cooperation opportunities between China and Indonesia. China and Indonesia governments should make joint efforts to uplift the cooperation in those cooperation areas, so as to deepen the Sino-Indonesian commercial and trade ties.

REFERENCES:

- 1, ASEAN-China Expert Group on Economic Cooperation, "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century", Oct., 2001, www.aseansec.org/newdata/asean_chi.pdf.
- 2, Bruce Vaughn and Wayne M. Morrison, "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States", CRS Report for Congress Order Code RL32688, Updated April 4, 2006.
- 3, Erwida Maulia and Aditya Suharmoko, RI resolves rifts with China, mends ties, The Jakartapost, On March 24, 2009.
- 4, Jusuf Wanandi, china-RI ties: Challenges and opportunities, The Jakartapost, On Nov 7, 2001.
- 5, John Wong and Sarah Chan,, "*China-Asia Free Trade Agreement Shaping Future Economic Relations*", in Asian Survey, Vol. XLIII, No.3, May/June 2003.
- 6, Oei Eng Goan, Sino-RI ties should include defense, security cooperation, The Jakartapost, On Dec 29, 2001.
- 7, Qiu Danyang, *China-ASEAN Free Trade Area: China's Peaceful Rising in Terms of Geo-economics*, Contemporary Asia Pacific, No.1, 2005.

- 8, Raymond Atje and Arya B. Gaduh, Indonesia-China economic relations: an Indonesian perspective, CSIS Working Paper Series, WPE 052, 1999.
- 9, Saw Swee-Hock, *ASEAN-China Economic Relations*, ISEAS Publishing, 2007.
- 10, Sheng Lijun, "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations", ISEAS Working Paper on International Politics & Security Issues Series No. 1, 2003.
- 11, Zhang Haibing, "New Development and Problems in China-ASEAN Regional Economic Cooperation", Dec., 2006, www.sisis.org.cn/forumenglish/Spring%202005/Zhang%20Haibing.pdf.
- 12, Zhao Jianglin. *Recent Development of China-ASEAN Trade and Economic Relations: From Regional Perspective*, Asean-China Trade Relations: 15 Years of Development and Prospects", The Gioi Publishers. 2007.
- 13, Raymond Atje and Arya B. Gaduh, Indonesia-China economic relations: an Indonesian perspective, CSIS Working Paper Series, WPE 052, 1999.

