

## Research on Economic and Trade Relations Between China and Indonesia

Jiahe Wu\*

Institute of Human Resource, Henan University of Technology

\*Email: 15649860590@163.com

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**Abstract:** China and Indonesia are good neighbors and have long-standing trade relations between the two countries. Since the resumption of diplomatic relations between the two countries in 1990, especially since 2000, bilateral exchanges between China and Indonesia have been increasing. In the broader context of China's enhanced cooperation with ASEAN, the friendly exchanges and cooperation between China and Indonesia in the political, economic and cultural fields have been strengthened, thus forming good trade and economic cooperation relations. China and Indonesia are complementary to each other in economy and have great potential for cooperation. Strengthening economic and trade cooperation between China and Indonesia is very important for the economic development of the two countries. With the joint efforts of the two governments, on the one hand, Sino-Indonesia economic and trade cooperation has been continuously strengthened and achieved many achievements; but on the other hand, at present, China and Indonesia also have some problems in trade, investment and cooperation in various fields, facing many challenges such as their own problems and external interference. Therefore, it is of great significance to study the current situation of Sino-Indonesia economic and trade cooperation, analyze and summarize the main problems and causes of Sino-Indonesia economic and trade cooperation, and explore countermeasures and suggestions for promoting the economic and trade development of the two countries.

### 1. Introduction

Republic of Indonesia (Indonesian: Republik Indonesia, English: the Republic of Indonesia), referred to as Indonesia or Indonesia, is a Southeast Asian country. Composed of about 17508 Islands, is the world's largest archipelagic nation, the territory spanning Asia and Oceania, also known as the "Thousand Islands of the country", is also more volcanoes and earthquakes in the country, the capital is Jakarta. Connect countries such as Papua New Guinea, Timor-Leste and Malaysia.

On April 1, 1950, China and India formally established diplomatic relations. From natural allies to enemies, from non-enemies to attempts to put aside the concept of enemies and friends to redefine the relationship between the two countries, Sino-Indian relations in the modern history of "positive-negative-positive" history forward logic spiral forward.

Minister of maritime co-ordination of Indonesia, ruhut. Panchartan said, "the Belt and road construction" is China and three continents countries to work together for the world's welfare initiatives [1]. Indonesia is an important part of the 21st Century Maritime Silk Road and hopes to further cooperate with China's industrial and commercial sectors on the "Belt and Road". As a special envoy for Indonesia's strategic partnership with China, he also stressed the importance of encouraging both countries to develop business ties that are in the national interest. "We must seize the opportunity to increase investment, create more jobs, raise the gross national product and promote economic growth [2]."

## 2. Basis and Conditions for the Development of Economic and Trade Relations between China and Indonesia

### 2.1. Overview of Bilateral Economic and Trade Development between China and Indonesia

China and Indonesia on April 13, 1950 diplomatic relations, bilateral trade relations development can be described as a twists and turns, 1950-1967 for the slow development of bilateral trade between the two countries order. In 1967-1985, the bilateral trade relationship between the two countries was interrupted, mainly dominated by the re-export trade through Hong Kong, Singapore and other third places, and the bilateral trade relationship between the two countries began to improve after 1985. In 1990, the restoration of bilateral diplomatic relations between China and Indonesia led to the rapid development of bilateral trade between the two countries. 1991-2000 the average annual growth rate of trade between China and Indonesia reached 14.7%. After 2000, China and Indonesia's bilateral trade development in general showed the following characteristics: first, the rapid expansion of trade. As shown in Table 1, in addition to 2001 and 2009, imports and exports of the two countries showed an upward trend, the total bilateral trade between the two countries increased more than five times in 10 years. Second, the bilateral trade balance changes greatly. China has a \$1.34 billion trade deficit with Indonesia in 2000, followed by a gradual reduction in its deficit, and a trade surplus with China in 2006, which has been in overdrive for the next four years. However, according to the United Nations Com trade data, in 2011, China and Indonesia in bilateral trade, there has been a large trade deficit, about \$ 2. 110 billion (shown in table 2).

Table 1 China's import and export trade to Indonesia (in Billion US dollars) (2001-2011).

Index	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export trade	30.6	28.3	34.2	44.8	62.5	83.5	94.4	126.9	171.9	219.5	292.2
Import Trade	44.0	38.8	45.0	57.4	72.1	84.3	96.0	124.6	143.2	207.9	313.3
Total Trade Amount	74.6	67.1	79.2	102.2	134.7	167.8	190.5	251.5	315.1	427.4	605.5
Trade Balance	-13.4	-10.5	-10.8	-12.6	-9.6	-8.8	-1.6	2.3	28.7	12.4	-21.1

Table 2 China's trade with Indonesia.

Year	Unit: Millon Dollars			
	1950-1955	1956-1960	1961-1965	1966
Export	11.75	206.28	236.99	0.33
Import	22.56	191.98	225.20	16.39
Total Amount of Import and Export	34.31	398.26	462.19	16.72

Source: according to the yearbook on trade in China's foreign economic relations, official Chinese information does not include the information for 1967-1976.

### 2.2. Characteristics of Economic and Trade Relations between China and Indonesia

#### 2.2.1. Indonesia's Trade Deficit with China Has Increased Year by Year

The trade balance between the two countries has changed with the deepening of economic cooperation between the two countries. Initially the two countries trade on a small scale, Indonesia in the bilateral trade in the top poor position, but with the two countries closer economic and trade cooperation and Exchange, China gradually "reverse to CIS". In 2006, Indonesia and China trade in the Indonesian trade surplus of \$ 1.7 billion, in 2007 to \$ 1.1 billion, began to change after 2008, Indonesia for the first time in the two countries in the trade deficit, and the deficit gradually

expanded in 2008 to \$ 3. 6 billion, in 2010 to \$ 4. 8 billion, in 2014 to \$ 13 billion in 2015 with the gradual expansion of the trade deficit, causing some people in Indonesia to resent and re-examine the trade relations between the two countries and even question the role of the Free Trade Agreement, more and more Indonesians fear that the expansion of the trade deficit with China will affect national economic security. After the Chinese goods entered the Indonesian market in large quantities, it also caused the anxiety of many people in Indonesia, especially some business groups. However, some people can look more objectively at the problem of Indonesia's trade deficit between the two countries, which is rooted in the growth of Indonesia's domestic middle class and the promotion of society's ability to consume [3].

### 2.2.2. Structural Imbalances in Trade between China and Indonesia

From the structure of the trade between the two countries, Indonesia to China's export products are still mainly resource-based, the main export products for crude oil, plywood, wood and its products, pulp, rubber, chemical raw materials, China to Indonesia's export products to industrial products and semi-finished products, the main products for chemical raw materials, mechanical and electrical equipment, tobacco. In 2001, China's exports to Indonesia accounted for 3% of primary products, 77% of industrial manufactured goods, and China's imports from Indonesia accounted for 51% of primary products and 49% of industrial manufactured goods [4].

### 2.2.3. China Has a Small Proportion of Its Output to Indonesia

From 2006 to 2014, China's direct investment in Indonesia has increased, with only 56. 94 million US dollars in 2006 and 127. 198 million US dollars in 2014. However, compared with China's investment in the ASEAN ten countries, China's investment in Indonesia is still relatively small, as can be seen from the data in Figure 1, Indonesia accounted for our direct investment in the ASEAN ten countries is a little more than compared to Singapore. In addition, according to China's Ministry of Commerce, the Bureau of Statistics, the Foreign Exchange Administration Bureau compiled the "2013 China's outward direct investment statistical bulletin" that, in 2013, the mainland of China to Hong Kong direct investment flow of 628. 24 billion dollars, accounting for 58.3%, ranked first. Our country invests in Singapore 20. 33 billion dollars, accounting for 1.%, Ranked sixth. And China's direct investment in Indonesia flow of 15.63 billion US dollars, accounting for the proportion of foreign direct investment in China is only 1.5%, ranked seventh. Although Indonesia entered the top ten, immediately after Singapore, but there is a difference with Singapore 4. More than 700 million dollars, and Hong Kong is a far cry, up to 612.61 million. Compared to the stock, China's investment in Indonesia is also relatively small. In 2006, China's stock of direct investment in Indonesia was \$ 22.551 million, and in 2014 it was \$ 6793.5 million [5].



Figure 1 China's stock of direct investment in 10 ASEAN countries at the end of 2016

Unit:10, 000 USD

Thus, although China's direct investment in Indonesia is growing, but China's investment in Indonesia is still small, which also shows that China's investment in Indonesia has a certain potential for development.

### **3. The Main Factors Affecting the Future Development of the Trade and Economic Relations between Indonesia and China**

#### **3.1. The Problem of Trade Friction**

With the deepening of trade between the two countries, trade friction between the two countries has increased. As of December 2010, Indonesia initiated 25 trade relief investigations on Chinese imports, including 12 anti-dumping investigations and 13 safeguards investigations, mainly involving textiles, light industry, chemicals and Quarry Products. In recent years, China and Indonesia and other developing countries have increased trade friction problems need our attention [6].

#### **3.2. Interference and Competition in the West and Neighboring Countries**

The United States and Japan, as economic powers, play a key role in Indonesia's economic development, and both countries maintain close economic and trade cooperation with Indonesia. As the United States will Indonesia as a whole "Asia-Pacific rebalancing" strategy one of the key, the United States and Indonesia's economic and trade cooperation continues to deepen, after China and the United States in Indonesia's economy will face more competition. Investment of more than 100 billion dollars in the Sunda bridge, the original Chinese company is the main investment, the United States Embassy personally dispatched, do everything possible to participate. During his first visit to the United States in 2015, Mr. Zoko expressed Indonesia's intention to join the TPP, followed by Indonesian Trade Minister Thomas Lian Peng said he hoped Indonesia would join the TPP within two years to attract more foreign investment. And just before Indonesia was cautious about the TPP.

Due to Japan long-term strategic management in Indonesia, Japan's high-end manufacturing enterprises, especially electronic products in Indonesia to occupy a landslips, Indonesia or Japan ODA, namely official development assistance, Japan called government development assistance) largest recipient, and Japan had maintained Indonesia's largest trading partner, in 2013 China rose to Indonesia's largest trading partner, but Japan is still Indonesia's largest export market, so this in Indonesia has significant economic and political influence, China's economic and trade cooperation with Indonesia is bound to face Japan's competition.

#### **3.3. Indonesia's Domestic Problems Have Become a Constraint on Economic and Trade Relations**

##### **3.3.1. Economy**

The government's economic function has been strengthened, but since 2018, the macro economy has faced major challenges, the currency has depreciated significantly, the exchange rate has been higher than the level of the 1998 Southeast Asian financial crisis, the current account deficit has exceeded 3% of GDP, the difficulty of attracting capital increases, the leading indicator (CLI) shows the downward trend, etc. Industry and Commerce, "made in Indonesia 4.0" plan, revitalize oil and gas investment, and vigorously improve the efficiency of logistics become a hot spot.

The Indonesian government does not provide government guarantees to local banks. once the liquidity of Indonesian commercial banks is reduced and nonperforming loans are increased, it is very likely that there will be problems such as capital strand breaks and further lead to run-off risk. Liquidity risk issues stand out. The Indonesian government has been able to boost domestic exports and stimulate the domestic economy by devaluing its currency, so the risk of devaluation of the Indonesian rupiah is relatively clear.

Exchange rate risk is also worth attention. At present, Chinese enterprises in Indonesia to carry out the project cooperation, the contract price is usually composed of the dollar and part of the Indonesian rupiah, due to the instability of the Indonesian rupiah, Chinese enterprises face greater exchange rate risk. On the one hand, the rmb has generally been in the process of revaluation since the 2005 exchange rate reform, owing to the long-term fixed exchange rate pegged to the US dollar,

the rapid growth of the Chinese economy and the upward pressure brought by the large trade surplus. On the other hand, the Indonesian rupiah has been constantly devalued in recent years as a result of the economic crisis. In the Asian financial crisis of 1997, the Indonesian rupiah was devalued by 200%.

### **3.3.2. Politics and Law**

First, the issue of the politicization of Islam in Indonesia and its influence on the elections was analyzed. The political impact of Islam was once marginalized in Indonesia, but after democratization and reform, political Islam has become increasingly hotter, moving from the periphery to the center.

The strategic connection is less specific, and the two countries' cooperation in the ocean exists "the phenomenon of much less talk, and many agreements have yet to be implemented". The consensus and verbal promises made by the leaders of the two countries in many meetings, the lack of follow-up and follow-up by the relevant departments, and the efficiency of cooperative projects need to be improved.

The policy communication in the process of docking is slightly insufficient. One is underutilization of existing mechanisms. For example, since the establishment of the Sino-Indonesian maritime cooperation committee in 2012, only two sessions have been held. The technical committee for Sino-Indonesia maritime cooperation was originally scheduled to meet annually, but the meeting in 2014 was not held for some reason, and the meeting originally scheduled for 2015 was postponed. Second, there are fewer relevant departments involved in regular mechanisms and regular communication. In addition to the State Oceanic Administration and the government level committee mentioned above, China's other relevant government departments have little to do with Indonesia to establish a conventional mechanism for maritime cooperation. The lack of a dynamic communication system and the limited participation in the sector have made it difficult for the two parties to connect well with the maritime strategy and for maritime cooperation to meet the strategic expectations of each other.

Moreover, the procedures of commercial license are complicated. The low efficiency of the Indonesian government's bureaucratic procedures is the second biggest obstacle to Indonesia's economic development after corruption. According to standard operating procedures, the completion of the entire procedure generally takes 1, 125 days. In order to speed up the approval process, many enterprises have to choose intermediary services, and even had to pay the "urgent fee" and "benefit fee" in the license processing process, virtually contributed to the corruption of the evil spirit, increase the operating costs of enterprises.

Secondly, the system analysis of the Indonesian Labor legal environment, pointed out that its legal setting tends to promote long-term fixed labor relations, in favor of protecting the interests of workers and to a certain extent, the formation of labor efficiency management constraints, while foreign labor restrictions more, the proportion of foreign workers is very low, only 0. 5%. 07%.

## **4. Recommendations to Promote the Development of Economic and Trade Relations Between China and Indonesia**

### **4.1. National Level**

The two countries should strengthen communication and top-level design, clarify the principle of cooperative comfort, and continue to actively promote high-level visits and exchanges to form a positive interaction. China has actively invited Indonesian leaders to participate in various events sponsored by China to further reinforce political consensus and strengthen top-level design. In terms of the operation of the AIIB, the establishment of the Silk Road Fund, the internationalization of the rmb, and the infrastructure interconnection are all important initiatives to promote the "21st Century Maritime Silk Road" in China. We will continue to promote the high-level consultation mechanism on Chinese-Indonesian cultural exchange, the vice-premier-level dialogue mechanism on Chinese-Indonesian cultural exchange, and the high-level economic dialogue on

Chinese-Indonesian cultural exchange, so as to strengthen political mutual trust, economic and trade investment, and cultural exchange.

Sino-Indonesian departments, institutions and think tanks should strengthen sincere and in-depth communication. On the one hand, China should comprehensively introduce the background, positioning, connotation and Action Plan of the “Belt and Road” and “21st Century Maritime Silk Road”. Indonesia should further clearly put forward its core concerns, and the two countries should actively communicate, dispel doubts, and create a good atmosphere of political mutual trust. On the other hand, China and Indonesia should take the initiative to design and refine concrete cooperation intentions and practical actions, on the basis of taking into account the needs and comfort of both parties: to develop detailed and operational implementation plans, roadmaps and timetables, and to bring the two countries’ consensus to fruition [7].

In dealing with the overlapping of the exclusive economic zones in the waters of Natuna, China’s “One Belt and One Road” initiative goes hand in hand with the goal of focusing on economic development, which will avoid the expansion of Natuna and help the two countries solve the Natuna problem. His government believed that Indonesia attached greater importance to its own commercialization interests, foreign direct investment and future infrastructure assistance projects. Indonesia’s official position of the Natuna affair as a fishing issue, known as the economic “sea resources dispute”, rather than political “territorial disputes”, aimed at diluting the political meaning of the event. Both countries in the “honeymoon” of bilateral relations tend to take a peaceful approach to the possibility of consultation and settlement of the problem of various Force is extremely low, most likely to be controlled in the “fight without breaking” the range. However, the intervention of external forces, such as the United States, Japan and Australia, advocating the so-called “China Threat Theory”, will affect to some extent the process of solving the above problems, thereby affecting the regional peace and stability [8].

China should pay attention to the propaganda work, clarify the basic concepts, eliminate doubts and suspicions. Chinese media should change the original “strategic” discourse system. The official Chinese media should maintain good communication with the local Indonesian media. With the support and recognition of more people, the Belt and Road Initiative can be promoted smoothly and doubts can be alleviated. Communication is mutual, Chinese media also want to do this work in the country. It is necessary for Chinese media to have a certain voice and initiative, to set up a corresponding news media station in Indonesia, to set up a social media platform, and the Ministry of Foreign Affairs to set up a linkage mechanism, in a timely manner to break the traditional news mode of “rumor”. The Chinese media should strengthen the media construction, should try to introduce the master of the Indonesian language editing personnel, interview the well-known Indonesian experts and scholars, reduce the direct quoted the Western media coverage.

#### **4.2. Enterprise Level**

Chinese enterprises should build a correct understanding of the investment environment in Indonesia from the concept, do more long-term layout. Develop an investment strategy based on the actual situation of the Indonesian market, avoiding the risk and subjective speculation, and increasing the return on investment. Chinese enterprises in Indonesia has a certain scale of investment, various associations and chambers of Commerce, should make the best use of available resources. If you do a long-term plan, truly integrated into Indonesia, will get a higher return on investment.

In addition, we must establish the concept of local management. Many Chinese enterprises with a speculative mentality came to Indonesia, there is no localization of business philosophy, the business process is still dominated by China, for example, some products sold to Indonesia after quality problems, customers also receive after-sales service from Chinese production enterprises this approach greatly increases the failure rate of investment in Indonesia. Chinese enterprises should make full use of Indonesian localization to promote the healthy development of enterprises.

Chinese enterprises should pay attention to the problem of legal employment, need to improve their human resources structure, including Chinese and Indonesian employees.

In the outbound investment, it is necessary to create a certain proportion of employment opportunities for local enterprises in accordance with the agreement, for the preparation of long-term investment in Indonesia for the development of Chinese enterprises, should pay attention to the Indonesian staff in the context of the Indonesian cooperation: achievements, questions and countermeasures, including human resources training. Reserve talents for At the same time, for Chinese employees, should apply for a real and effective work visa, and do a good job of basic overseas training, including basic language training and target country, especially the local religious belief in Indonesia. To ensure that Chinese employees have the basic communication skills when participating in projects overseas, and respect the religious beliefs and social customs of the Indonesian people

In addition, the local government should work with the Labor Department, and the employment of local employees signed a formal and effective labor contract, set the rights and obligations of both parties, and the local staff of professional skills and pre-job training. In the event of a breach by either party, they will act in accordance with the labor contract and protect the legitimate rights and interests of the Chinese enterprises and local employees reasonably and legally.

## **5. Conclusion**

China and Indonesia are good neighbors and have long-standing trade relations between the two countries. China and Indonesia are complementary to each other in economy and have great potential for cooperation. Strengthening economic and trade cooperation between China and Indonesia is very important for the economic development of the two countries. With the joint efforts of the two governments, on the one hand, Sino-Indonesia economic and trade cooperation has been continuously strengthened and achieved many achievements; but on the other hand, at present, China and Indonesia also have some problems in trade, investment and cooperation in various fields, facing many challenges such as their own problems and external interference. Therefore, it is of great significance to study the current situation of Sino-Indonesia economic and trade cooperation, analyze and summarize the main problems and causes of Sino-Indonesia economic and trade cooperation, and explore countermeasures and suggestions for promoting the economic and trade development of the two countries.

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