

## CHAPTER 5

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# Indonesia's Response to the Rise of China: Growing Comfort amid Uncertainties

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### **Introduction**

The growing influence of China constitutes an important, if not the most important strategic development in East Asia and beyond. It represents a key driver of change in the dynamics of major power relations and will have significant impacts on regional politics in East Asia. Within the region, China has become an influential player in all aspects including the political, security, economic and military arenas. Indeed, the rise of China has become a dominant discourse in the region, both within and outside government circles. For Southeast Asian states, which have had difficult relationships with China in the past, managing and coping with the rise of a new and powerful China in the 21st century has become one of the most elusive foreign policy challenges.

For Indonesia, as the largest country in Southeast Asia which had experienced the most troubled relationship with China until the early 1990s, the rise of China also constitutes an issue that has captured the attention of foreign policy circles, the business community, defense planners, and academia. Like other countries, Indonesia is also faced with the challenge of formulating an appropriate response to the rise of China. As normal relations between the two countries were restored only less than two decades ago (in August 1990), Indonesia's response to the rise of China is still evolving. While recent developments suggest a marked improvement in bilateral relations, Indonesia's policy of re-engagement towards China should also be understood within the complex relationship of recent history, the primacy of domestic politics and the imperative of regional considerations.

This paper examines Indonesia's relations with the rising China since 1998 when Indonesia's domestic politics, which have always been an important factor in Jakarta's policy towards Beijing, began to undergo fundamental changes. It argues that despite significant improvements in bilateral relations, Indonesia's policy towards China continues to reflect a degree of ambiguity. On the one hand, Indonesia genuinely

sees the benefits of having good relations with China and begins to demonstrate increasing comfort in managing the bilateral relations with the country. On the other hand, however, Indonesia remains uncertain and anxious regarding China's long-term role and intentions in the region. This apparent ambiguity has led Indonesia to pursue a policy of re-engagement characterized by a mixture of cooperative and hedging strategies in its response to the rise of China.

### **Indonesia-China Relations: An Overview**<sup>1</sup>

China was the first communist country with which Indonesia sought diplomatic relations immediately after the transfer of sovereignty from the Dutch in December 1949. However, the fact that Indonesia established diplomatic relations with China as early as 1950 did not necessarily mean that their relations would proceed smoothly. They were fragile, replete with problems and subject to various upheavals. Indeed, the management of bilateral relations proved to be a difficult one for both sides. More strikingly, those relations were subject to pressures stemming from Indonesia's domestic political arena. And, the question of perceptions among both the public and the elite served as the most important context within which Indonesia's policy towards the PRC was formulated and carried out.<sup>2</sup>

Indeed, 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 outset, 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*

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<sup>1</sup> This section is partly drawn from Rizal Sukma, "Recent Development in Indonesia-China Relations," *Contemporary Southeast Asia*, vol. 16, no. 1 (June 1994), pp. 35-45.

<sup>2</sup> For a discussion on Indonesia's perceptions of China as the context for Indonesia's policy towards China in the period before 1990, see Rizal Sukma, *Indonesia and China: The Politics of Troubled Relationship* (London: Routledge, 1999).

*Indonesia/PKI*).<sup>3</sup> As the position of both ethnic Chinese and the PKI in Indonesian domestic politics had been problematic, China's meddling practice 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 withstand 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 regime 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.<sup>4</sup>

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 as the main threat to Indonesia's national security, especially in its subversive 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

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<sup>3</sup> For a comprehensive discussion on China's earlier policies toward Indonesian ethnic Chinese, see Stephen Fitzgerald, *China and the Overseas Chinese: A Study of Peking's Changing Policy 1949-1970* (Cambridge: The Cambridge University Press, 1972); and Wang Gungwu, *China and the Chinese Overseas* (Singapore: Times Academic Press, 1991). On China's policy towards the PKI, see Justus M. van der Kroef, "Indonesia, Communist China, and the P.K.I.," *Pacific Community*, no. 6 (Winter 1970); and David Mozingo, *Chinese Policies Towards Indonesia* (Ithaca, NY: Cornell University Press, 1976).

<sup>4</sup> For an excellent discussion on the breakdown of Sino-Indonesian diplomatic relations, see Justus M. van der Kroef, "Sino-Indonesian Rupture," *China Quarterly*, no. 33 (January-March 1968), pp. 17-46.

would undermine that legitimacy claim. Indeed, it was this logic of the “triangle threat” (the PRC, the PKI, and the ethnic Chinese) that prevented Jakarta from restoring diplomatic ties with Beijing for almost 23 years.<sup>5</sup>

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. 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.

Indeed, it was more than two decades until diplomatic relations were finally restored in August 1990.<sup>6</sup> 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. The event on April 1994 demonstrates this point. In the wake of a labor unrest which flared into an anti-Chinese riot in North Sumatra, China’s Ministry of Foreign Affairs, issued a statement of “concern” and called upon Jakarta to defuse the situation.<sup>7</sup> Indonesia’s government replied angrily to the Chinese, and accused China of interfering in Indonesia’s internal affairs. China was warned that it “had better mind its own internal affairs.”<sup>8</sup> Some officials even went to the extent of threatening to freeze bilateral ties once again. The Indonesian Government also maintained that

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<sup>5</sup> For a more detailed analysis of this “triangle threat” in Indonesia’s perceptions of China, see Sukma, *Indonesia and China*, pp. 47-53.

<sup>6</sup> The decision to restore diplomatic relations with the PRC was in fact taken in February 1989 when President Suharto met Chinese Foreign Minister Qian Qichen in Tokyo while they were there for Emperor Hirohito’s funeral.

<sup>7</sup> *The Jakarta Post*, April 22, 1994.

<sup>8</sup> *Agence France-Press*, dispatch from Jakarta, April 26, 1994.

China had no cause for concern. As for China, the episode clearly demonstrated the lack of understanding in Beijing on Indonesia's sensitivity on issues involving the ethnic Chinese minority in the country.

Indeed, 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."<sup>9</sup> 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.

Until early 1998, Indonesia tended to prioritize the economic dimension of bilateral relations with China. From 1991 to 1998, Indonesia's non-oil and gas exports to China increased from around 580 million US dollars to over 1.32 billion US dollars, while Indonesia's imports from China grew from around 800 million US dollars in 1991 to around 1.27 billion US dollars in 1997.<sup>10</sup> In 1997, Indonesia's total exports to China reached 2.7 billion US dollars, a significant jump from only 834 million US dollars in 1990.<sup>11</sup> Cooperation between Indonesia and China in the immediate years after the resumption of diplomatic ties, however, remained limited to trade and investment. Despite such improvements, however, it was noted that "trade and investment flows between China and Indonesia are expected to be relatively low in the near future."<sup>12</sup>

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<sup>9</sup> Michael Leifer, "Indonesia's Encounters with China and the Dilemmas of Engagement," in Alastair Iain Johnston and Robert S. Ross, eds., *Engaging China: The Management of an Emerging Power* (London: Routledge, 1999), pp. 98-99.

<sup>10</sup> Raymond Atje and Arya B. Gaduh, "Indonesia-China Economic Relations: An Indonesian Perspective," *CSIS Working Paper Series No. 052*, (Washington, DC: CSIS, 1999), p. 9.

<sup>11</sup> Imron Husin, "The Emergence of China: Some Economic Challenges to Indonesia," paper presented at ATO Research Conference, Tokyo, February 3-4, 2004, p. 5.

<sup>12</sup> Atje and Gaduh, "Indonesia-China Economic Relations," p. 10.

Indeed, the growing efforts to promote trade between the two countries since 1990 were obstructed by the financial crisis in the end of 1997. 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.<sup>13</sup> 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 sides, 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.<sup>14</sup> 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. In fact, Indonesia's Foreign Minister Ali Alatas simply maintained that protests from China's government would not settle the problem of the Indonesian ethnic Chinese minority in the country. He also maintained that Indonesia would not specifically reply to concerns expressed by Beijing.<sup>15</sup> In this context, it is important to note that this time both Jakarta and Beijing managed to prevent the issue of ethnic Chinese from complicating and undermining bilateral relations between the two countries.<sup>16</sup> And, since May 1998, the real improvement in Indonesia-China relations has become

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<sup>13</sup> *Indonesia's Crisis: Chronic But Not Acute*, International Crisis Group Report, no. 2, May 31, 2000, p. 19.

<sup>14</sup> *The Straits Times*, August 4, 1998.

<sup>15</sup> "Protests Over Anti-Chinese Violence Will Not Settle Problem: Alatas," *AFP*, August 25, 1998, quoted in *Ibid.*, p. 564.

<sup>16</sup> For a detailed discussion on how Jakarta and Beijing managed the impacts of May 1998 anti-Chinese riots in Indonesia, see Rizal Sukma, "Indonesia-China Relations: The Politics of Re-Engagement," in Tang Shiping ed., *Living with China* (Forthcoming).

more evident, and the scope of bilateral cooperation has been expanding rapidly to include cooperation on areas such as security and defense.

## **Indonesia's Policy towards China Since 1998: Bilateral Improvements and Regional Concerns**

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 Policy of Re-Engagement:*

#### *The Expansion of Bilateral Cooperation*

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.<sup>17</sup>

First, Wahid's desire to work closer with China pointed to a degree of Indonesia's

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<sup>17</sup> The following discussion on Wahid's warm overture towards China is partly drawn from Rizal Sukma, "Indonesia's Perceptions of China: The Domestic Bases of Persistent Ambiguity," in Herbert Yee and Ian Storey eds. *The China Threat: Perceptions, Myths, and Reality* (London: Routledge, 2002), pp. 193-194.

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.<sup>18</sup> 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.<sup>19</sup> 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."<sup>20</sup> 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.

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<sup>18</sup> Rizal Sukma, "Indonesia, East Timor, and the Problem of National Disintegration," paper presented at Workshop on East Timor, The National Institute for Defense Studies (NIDS), Tokyo, December 13-15, 1999.

<sup>19</sup> Ben Perkasa Drajat, "Skenario Diplomasi Presiden Gus Dur [Scenario for President Gus Dur's Diplomacy]," *Panji Masyarakat*, no. 31, November 17, 1999, p. 21.

<sup>20</sup> *Kompas*, October 26, 1999.

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."<sup>21</sup> 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.<sup>22</sup> 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,<sup>23</sup> 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.<sup>24</sup> In fact, it has been pointed out that the energy sector had become the major focus in the relationship. In April 2002, for example, PetroChina 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.<sup>25</sup> 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.<sup>26</sup> 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.

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<sup>21</sup> *FEER*, December 16, 1999.

<sup>22</sup> *Kompas*, July 25, 2000.

<sup>23</sup> *Kompas*, July 27, 2000.

<sup>24</sup> "China Pledges \$400m to Indonesia," BBC News, <http://news.bbc.co.uk/2/hi/asia-pacific/1891007.stm>, March 24, 2002.

<sup>25</sup> Hadi Soesastro, "China-Indonesia Relations and the Implications for the United States," *USINDO Report*, November 7, 2003.

<sup>26</sup> *Ibid.*

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.<sup>27</sup> 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.<sup>28</sup> 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. A recent poll by the Sidney-based Lowy Institute also suggests that 56% of Indonesian respondents thought that China could be trusted.<sup>29</sup>

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<sup>27</sup> "China, Indonesia Agree to Intensify Economic Cooperation," *Xinhua News Agency*, October 10, 2006, <http://english.sina.com/china/1/2006/1006/91073.html>.

<sup>28</sup> Parts of the following analysis are based on Sukma, "Indonesia-China Relations: The Politics of Re-Engagement."

<sup>29</sup> Murray Goot, *Australians and Indonesians: The Lowy Institute Poll 2006* (Sydney: Lowy Institute for International Policy, 2006), p. 6.

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).<sup>30</sup> 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."<sup>31</sup> 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.

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 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.<sup>32</sup> Beijing also provided export credit facilities amounting to 200 million US dollars.<sup>33</sup> 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."<sup>34</sup> As a result, the Indonesian government itself was grateful for this help.<sup>35</sup>

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

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<sup>30</sup> David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security*, vol. 29, no. 3 (Winter 2004/2005), p. 69.

<sup>31</sup> Leifer, "Indonesia's Encounters with China," p. 100.

<sup>32</sup> Storey, "Indonesia's China Policy," p. 150.

<sup>33</sup> Ignatius Wibowo, "China Wins Hearts in Southeast Asia," *The Jakarta Post*, February 5, 2007.

<sup>34</sup> Shambaugh, "China Engages Asia," p. 68.

<sup>35</sup> *The Jakarta Post*, April 14, 1998.

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."<sup>36</sup> 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."<sup>37</sup>

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.<sup>38</sup> 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.<sup>39</sup> 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.<sup>40</sup>

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."<sup>41</sup> 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."<sup>42</sup> 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

<sup>36</sup> Srikanth Kondapalli, "Tsunami and China: Relief with Chinese Characteristics," [www.asianaffairs.com/feb2005/china.htm](http://www.asianaffairs.com/feb2005/china.htm).

<sup>37</sup> *People's Daily Online*, January 5, 2005.

<sup>38</sup> *China Daily*, at [www.china.org.cn/english/features/tsunami\\_relief/116981.htm](http://www.china.org.cn/english/features/tsunami_relief/116981.htm), January 6, 2005.

<sup>39</sup> *Xinhua News Agency*, April 22, 2005.

<sup>40</sup> *The Jakarta Post*, February 1, 2007.

<sup>41</sup> *China Daily*, January 8, 2005.

<sup>42</sup> *Ibid.*

the future.<sup>43</sup> Indeed, providing aid has been an important part of China's "charming diplomacy" in Southeast Asia.<sup>44</sup> 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.<sup>45</sup>

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.

### *Regional Uncertainty:*

#### *Hedging and Regional Engagement*

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

<sup>43</sup> *Xinhua News Agency*, January 12, 2005.

<sup>44</sup> Joshua Kurlantzick, "China's Charm: Implications of Chinese Soft Power," *Policy Brief* no. 47, Carnegie Endowment for International Peace, June 2006, p. 3.

<sup>45</sup> Robert Sutter and Chin-hao Huang, "China-Southeast Asia Relations: Military Diplomacy and China's Soft Power," *Comparative Connections*, CSIS Pacific Forum, August 2006, p. 3.

foreboding.”<sup>46</sup> 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 that China would not pursue a revisionist foreign policy agenda in the future. 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 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.<sup>47</sup> 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

<sup>46</sup> Leifer, "Indonesia's Encounters with China," pp. 98-99.

<sup>47</sup> This view is prevalent among officials in Indonesia's Ministry of Foreign Affairs.

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 Indonesia’s critical stand on the manner by which the US has conducted its war on terror, Jakarta still sees the US as an indispensable power critical to regional security, stability and prosperity.

### **Future Directions in Indonesia-China Relations**

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 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%).<sup>48</sup> For China to be fully trusted, it needs to consistently pursue a good neighbor policy towards Southeast Asia.

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<sup>48</sup> Ivan Cook, *Australia, Indonesia and the World: Public Opinion and Foreign Policy* (Sydney: Lowy Institute, 2006), p. 16.

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.<sup>49</sup> 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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<sup>49</sup> "Indonesia Seeks Explanation from China over Seafood Ban," *Antara News*, <http://www.antara.co.id>.