

PENGARUH “JALUR SUTRA” CHINA MELALUI PENCAPAIAN MP3EI DALAM KONTEKS PASAR BEBAS ASEAN 2015

THE INFLUENCE OF CHINA’S ‘STRING OF PEARL’ TOWARDS MP3EI’S ACHIEVEMENT IN THE CONTEXT OF ASEAN FREE MARKET 2015

Erlinda Matondang¹, IDK Kerta Widana²

Indonesian Defence University

(erlinda.matondang@gmail.com) dan (dkwidana@gmail.com)

Abstract – *String of Pearl (SoP) is China’s strategy to expand its influence from China Mainland to the Middle East through strategic areas, like Malacca Strait and Indian Ocean which are parts of Indonesia. This strategy will give some influences to the “Master Plan of Acceleration and Expansion of Indonesia Economic Development” (Masterplan Percepatan, Perluasan, dan Pengembangan Ekonomi Indonesia - MP3EI’s) achievement that will become foundations for Indonesian economic development. The implementation of ASEAN Economic Community (AEC) that expand China’s access to strategic areas will affect the building of Indonesian economic corridors, especially under MP3EI framework. This study will discuss about the influence of China’s SoP towards Indonesian economic development, which is driven by MP3EI in AEC era. This review shows strategies available for Indonesia to minimize the influence of SoP to MP3EI’s achievement in the context of free market 2015. Indonesia’s potentials to increase its advantage in diplomacy and negotiation towards China also written in the last part of this review.*

Keywords: *String of Pearl (SoP), AEC, MP3EI*

Abstrak – *String of Pearl (SoP) adalah strategi China untuk memperluas pengaruhnya dari China Daratan ke Timur Tengah melalui wilayah strategis, seperti Selat Malaka dan Samudera Hindia yang merupakan bagian dari Indonesia. Strategi ini akan memberi pengaruh pada "Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia" (Masterplan Percepatan, Perluasan, dan Pengembangan Ekonomi Indonesia - MP3EI) yang akan menjadi fondasi bagi PT Pembangunan ekonomi indonesia Implementasi ASEAN Economic Community (AEC) yang memperluas akses China ke kawasan strategis akan mempengaruhi pembangunan koridor ekonomi Indonesia, terutama di bawah kerangka MP3EI. Studi ini akan membahas tentang pengaruh SoP China menuju pembangunan ekonomi Indonesia, yang didorong oleh MP3EI di era AEC. Studi ini menunjukkan strategi yang ada di Indonesia untuk meminimalkan*

¹ Erlinda Matondang is graduated from program on Defense Diplomacy, Indonesia Defense University (IDU). She completed her bachelor degree on International Relations from International Relations Study Program, University of Slamet Riyadi Surakarta in 2013.

² IDK Kerta Widana is lecturer in Indonesian Defense University (IDU), graduated from S1 Faculty of Public Health, Airlangga University, graduated from S2 Faculty of Public Health, Indonesian University in 2006, he is a doctorate Candidate of Human Resources management in State University of Jakarta.

pengaruh pencapaian SoP terhadap MP3EI dalam konteks pasar bebas 2015. Potensi Indonesia untuk meningkatkan keuntungannya dalam diplomasi dan negosiasi terhadap China juga ditulis pada bagian akhir dari stido ini.

Kata kunci: String of Pearl (SoP), AEC, MP3EI

Introduction

Modernisation is a hit in Southeast Asia. Robert Gilpin once said, “*The modern era has been characterized by integration of small and relatively distinct territories into larger nation-states and into national economies surrounded by trade barriers.*”³ This is exactly happening in the region of Southeast Asia (SEA).

Indonesia and other states in SEA have established the Association of Southeast Asian Nations (ASEAN) in 1967. However, the fully integrated regional economy will just be initiated in 2015. This economic integration will be expanded to the non-SEA countries, including China, India, South Korea, and Japan. It even invites several Western countries, such as Russia, USA, New Zealand, and Australia.

Gilpin’s approach on new institutionalism assumes that international and regional institutions are established to overcome market failures, solve

coordination problems, and/or eliminate other obstacles to economic cooperation⁴. Similarly, SEA’s economic integration aims regional trade liberalization as an attempt to solve market’s problems in coordinated manner in order to face any challenge for economic cooperation.

ASEAN has established its three regional community, commonly known as “Three Pillars of ASEAN”, i.e. the Political-Security, Economy, and Socio-Cultural community. ASEAN Economic Community (AEC) becomes one of the most highlighted features of ASEAN as the ASEAN free market will be put into action in 2015. Accordingly, the readiness of the member-states, including Indonesia, becomes highly intriguing.

Indonesia prepares itself for the ASEAN free market by composing the “Master Plan of Acceleration and Expansion of Indonesia Economic Development” (*Masterplan Percepatan, Perluasan, dan Pengembangan Ekonomi Indonesia - MP3EI*) which constitutes the

³ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order*, (Princeton: Princeton University Press, 2001), p. 344.

⁴ Gilpin, *ibid*, p. 345

Government's strategies to develop its potentials under certain regional economic corridors.

MP3EI success will determine the country's readiness to meet ASEAN free market 2015 and its accomplishment in the future. China is one of ASEAN partners in economic cooperation. China has been employing the "String of Pearl" (SoP) strategy in expanding its influence to other countries, including those in the SEA region. SoP established a line that connects China to Persian Gulf through the South China Sea and the Malacca Strait. Under the framework of SoP, China's influences incorporate military and economic features.

China's SoP potentially will affect the achievements of MP3EI thus Indonesian readiness to join ASEAN free market 2015. The consequences will not only appear in short term, but also in long-term development; hence its criticality.

This writing analyzes how China's SoP expansion affects Indonesian MP3EI achievements, particularly in AEC framework. The analysis is limited to any strategy Indonesia could compose to develop MP3EI vis-à-vis China's SoP

strategy according to the updated review on existing condition on both Indonesia and China. Lastly, this writing will be concluded by pointing Indonesian potentials that can be utilized to leverage its bargaining position in diplomacy and negotiation to China.

This entire writing is based on literature review thus involves various references to compose a chain of facts and concepts and build a complete understanding on the topic. For that reason, it will not provide a profound solution for state policy, but rather a study for further knowledge of policymaking.

Analysis

China's "String of Pearl" Policy

On the early 21st century, China underwent significant reform on its government and its relations to other countries. Under the reform, China's Government classified its territory into core and periphery regions, and focus on the latter's development to support the earlier; thus improve domestic condition. The development of periphery region is supported by China's foreign policy that highlighted its coastal and sea

lines as strategic areas with contemporary economic potentials⁵.

The Chinese Government is currently focusing on its maritime. Accordingly, China has been releasing numerous foreign

policies on maritime issues, which some experts perceived as a fundamental part of its national strategy. This diplomatic strategy is later known as the “String of Pearl”.



Figure 1. China’s Countries Project along the Indian and Pacific Ocean Littorals

Source: Virginia Marantidou, “Revisiting Tiongkok’s ‘String of Pearls’ Strategy:

Places ‘with Chinese Characteristics’ and Their Security Implication”, *Issues &*

Insights, Vol. 14

⁵ W. Lawrence S. Prabhakar, “China’s ‘String of Pearls’ in Southern Asia-Indian Ocean: Implication for India and Taiwan” in M.J. Vinod, et.al. (eds), *Security Challenges in the Asia-Pacific Region: The Taiwan Factor*, (New Delhi: Viva Books International, 2009), p. 2.

China SoP was developed as an attempt to expand its geopolitical influence. The “pearl” termination refers to the areas across the sea line from China’s Mainland, South China Sea littorals, Malacca Strait, Indian Ocean, to the coastal areas of Arabian Sea and Persian Gulf⁶. China’s aids and infrastructure development projects to the countries along the Indian Ocean littorals is part of implementation for SoP expansion⁷. Most of these projects refer to China’s attempt to occupy and utilize its way along the Malacca Strait⁸, as shown in Figure 1.

Basically SoP is a part of China’s attempt to enhance the power of defense, yet its strategic orientation expands to include economics interest as it covers some highly strategic areas for politic and economy. However, China’s SoP also influences its relation with other surrounding littoral countries, as seen in

the emerging conflict in the South China Sea.

South China Sea conflict involves six countries and spans in four dispute areas, i.e. Spratly Islands, Paracel Islands, three islands of Pratas, and Macclefield Banks. Spratly Islands is claimed by China, Taiwan, and Vietnam, while the surrounding isles are claimed under Malaysia and Philippines. Brunei also releases a maritime zone policy, which includes the south reef; no formal claim yet. On the other hand, Paracel Islands is claimed under Taiwan and China. Scarborough Shoal that lies between Paracel Islands and Philippines raises a dispute between China and Philippines. Pratas Islands, located in the Southwest of Hong

Kong is claimed as China’s territory under Taiwan occupation. Lastly, Macclesfield Bank is claimed under China and Taiwan⁹. All of the four dispute areas and other spots along the line of SoP are highly valuable for its natural resources, especially energy reserve like oil. Therefore, SoP becomes significant for China to

⁶ Christopher J. Pehrson, *String of Pearls: Meeting the Challenge of China’s Rising Power Across the Asian Littoral*, (Carlisle: Strategic Studies Institute, 2006), p. 3.

⁷ Virginia Marantidou, “Revisiting China’s ‘String of Pearls’ Strategy: Places ‘with Chinese Characteristics’ and Their Security Implication”, *Issues & Insights*, Vol. 14, No. 7, June 2014.

⁸ Shee Poon Kim, “An Anatomy of China’s ‘String of Pearls’ Strategy”, *The Hikone Ronso*, No. 387, 2011, p.32-34.

⁹ Robert Beckman, “The South China Sea: the Evolving Dispute between China and Her Maritime Neighbours”, *Geomatics World*, Vol. 21 No. 3.

expand its economical influence toward Asian littorals, Africa, and Latin America¹⁰.

SoP empowers China to build access to some potential littoral areas thus expand its trade investments and regional development. China induces its investment in order to optimize its opportunity in exploring any resources and 'valuable' markets. China also couples its SoP implementation with a "Going Out" strategy when it comes to its international relations; a strategy that escalates domestic consumption, industry, and potential productions in order to diminish any competition. Meanwhile, China also builds its Sea Line of Communication (SLOC) to the Middle East region as an act to expand its sea communication in trade and commerce¹¹.

Achievements of MP3EI

Indonesia Vision 2025 mainly focuses on Increase value adding and expanding value chain for industrial production processes, and increase the efficiency of the distribution network; encourage efficiency in production and improve marketing efforts to further integrate domestic markets in order to push for

¹⁰ Prabhakar, *op. cit.*, p. 5.

¹¹ Prabhakar, *ibid.*, p. 7.

competitiveness and strengthen the national economy; and to push for the strengthening of the national innovation system in the areas of production, process, and marketing with a focus on the overall strengthening of sustainable global competitiveness towards an innovation-driven economy¹².

Indonesian Vision 2025 becomes the foundation for the establishment of MP3EI. Accordingly, MP3EI develops a strategy consists of three pillars, i.e. to increase the potential of the region through the development of growth centres in the economic corridors, strategies to strengthen national connectivity, as well as strategies to increase the capacity of Human Resources and Science & Technology¹³. The economic corridors are determined to improve existing potentials of each region, which all have different specification yet operates in synergy. The development theme for each corridor is as follow¹⁴:

¹² Kementerian Koordinator Bidang Perekonomian Republik Indonesia, *Masterplan for Acceleration and Expansion of Indonesia Economic Development*, (Jakarta: Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2011), p. 15.

¹³ Kemko Perekonomian, *ibid*, p. 27

¹⁴ Kemko Perekonomian, *ibid*, p. 47

1. Sumatra Economic Corridor as “Centre for Production and Processing of Natural Resources and As Nation’s Energy Reserves”
2. Java Economic Corridor as “Driver for National Industry and Service Provision”
3. Kalimantan Economic Corridor as “Centre for Production and Processing of National Mining and Energy Reserves”
4. Sulawesi Economic Corridor as “Centre for Production and Processing of National Agricultural, Plantation, Fishery, Oil & Gas, and Mining”
5. Bali – Nusa Tenggara Economic Corridor as “Gateway for Tourism and National Food Support”
6. Papua – Maluku Islands Economic Corridor as “Centre for Development of Food, Fisheries, Energy, and National Mining”

These six region-based corridor need to be linked to fulfil the aspiration of synergize development. In order to strengthen the national connectivity, MP3EI also identified the strengthening of national connectivity as one of three main pillars. National connectivity consists of

four national policy elements, namely the national logistic system, national transportation system, regional development, and information and communication technology (ICT)¹⁵. National connectivity is not only lies on the national level, but also connects elements in every corridor up onto national trade. Connectivity on national level consists of intra economic corridor connectivity; inter economic corridor connectivity, and international trade logistic¹⁶.

The integration of the all the components in national connectivity will be formulated into a national connectivity vision, “Locally Integrated, Globally Connected”¹⁷. Indonesia will optimize the utilization of SLoC and Indonesia Archipelagic Sea Lanes (*Alur Laut Kepulauan Indonesia*, ALKI) to achieve international trade connectivity under the spirit of “Globally Connected”. These sea lines are the Straits of Malacca (SLoC), the Sunda Strait (ALKI 1), the Straits of Lombok and Makassar Straits (ALKI 2), and the Strait of Ombai Wetar (ALKI 3). SLoC and ALKI are essential to defend Indonesian

¹⁵ Kemko Perekonomian, *ibid*, p. 33

¹⁶ Kemko Perekonomian, *ibid*, p. 38

¹⁷ Kemko Perekonomian, *ibid*, p. 36

maritime territory with 54,716 km coastal line, stretched to Indian Ocean, Malacca Strait, South China Sea, Java Sea, Maluku Sea, Pacific Ocean, Arafura Sea, Timor Sea, and other small areas¹⁸.

MP3EI is also determined by eight basic principles that guide every step and effort of Indonesian economic development, as follow:

1. Change must affect positively on all stakeholders of the nation;
2. Change in mind-set starts from the Government and its bureaucracy;
3. Change requires the spirit of hard work and the strong desire to develop collaborations within a healthy

- competitive environment;
4. Productivity, innovation and creativity, driven by science and technology;
5. Enhancing entrepreneurship;
6. Private sector has an important role in economic development;
7. A Campaign to implement sustainable development principles;
8. Campaign for change in mind-set to improve prosperity has to be carried out extensively by all stakeholders of the nation¹⁹.

MP3EI are implemented under three phases. The first phase, quick wins phase, is execute in 2011-2015 and focuses on the operational of MP3EI Committee. The

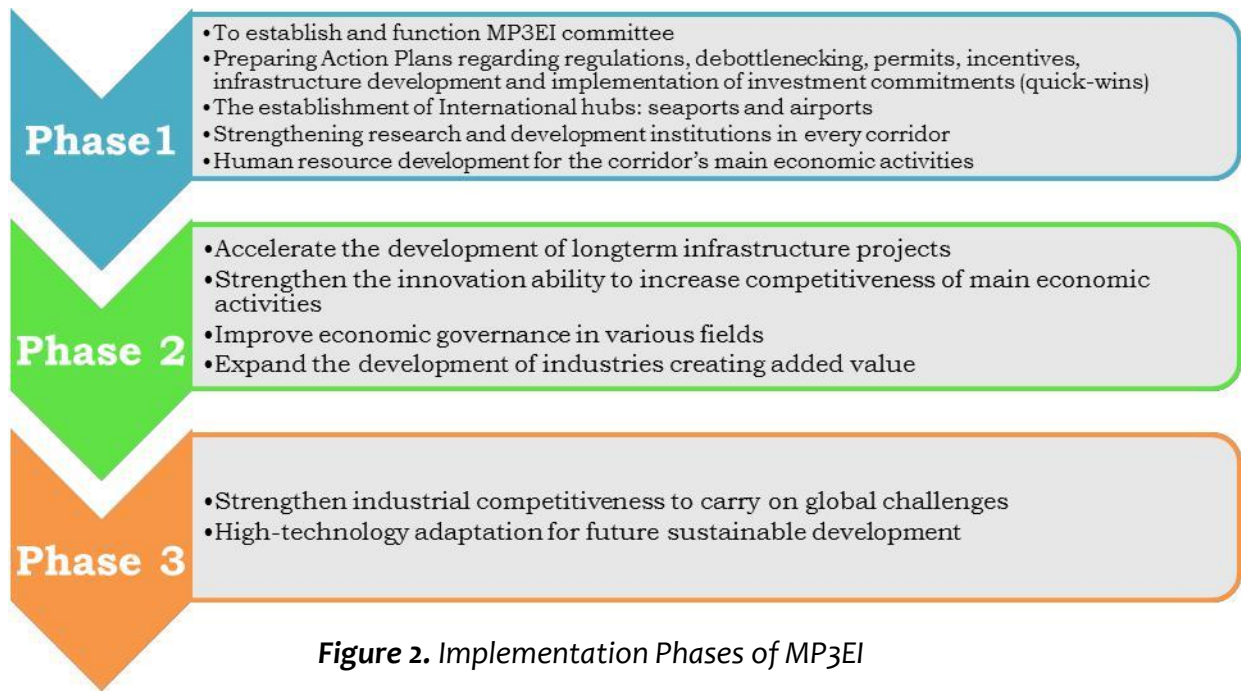


Figure 2. Implementation Phases of MP3EI

¹⁸ Kemko Perekonomian, *ibid*, p. 33

¹⁹ Kemko Perekonomian, *ibid*, p. 28

second phase focus on strengthening the economic and investment bases will be executed in 2016-2020. Lastly, the third phase in 2021-2025 will be focus on implementing sustainable growth²⁰.

According to the implementation phases in the Figure 2, Indonesia is currently under the first phase, which put the Government into an intensive preparation to achieve the vision of MP3EI. Indonesian Government is currently committing to several basic requirements, such as establishing committee, developing the corridors along with its each R&D institution. However, albeit the earlier stage of implementation, Indonesia has shown a significant economic growth.

According to the figures on Table 1, Indonesian economy is still stable. Actually, the 2015's figures do not show any improvement from those in 2011's due to global economic crises in Europe and other major countries. It was even worsened by the Arab Spring in the most of Middle Easterners oil producers²¹.

Positive national income depicts low level in exchange rate and domestic

demand²². An inadequate domestic demand indicates weakened market thus Indonesia is no longer perceived as potential market. Under this circumstance, domestic industries are motivated to export most of their products and services; hence the trade surplus.

However, this situation shows a significant improvement compared to its previous years. According to Bank Indonesia (BI) and Statistic Indonesia (*Badan Pusat Statistik*, BPS), Indonesia's consumption rate in 2010 depicted a dynamic that was not corresponding the net export, as shown in Table 2²².

According to Table 2, in 2005 Indonesian net export has plummeted 86.4 points from its previous, while consumption rate dropped only 1%. Another anomaly also happened when the highest rise of net export in 2006 followed by lower consumption rate with 0.7% difference.

²⁰ Kemko Perekonomian, *ibid*, p. 178

²¹ OECD, *ibid.*, p. 205

²² Dewi Ernita, et.al., "Analisis Pertumbuhan Ekonomi, Investasi, dan Konsumsi di Indonesia", *Jurnal Kajian Ekonomi*, Vol. 1, No. 2, January 2013.

Table 1. Indonesia's Macroeconomics Indicator

	2011	2012	2013	2014	2015
Real GDP Growth	6.5	6.3	5.8	5.7	6.3
Inflation (CPI), period average	5.4	4.3	7.0	5.4	4.7
Short-term Interest Rate	6.9	5.9	6.1	7.3	6.4
Fiscal Balance (%)	-1.1	-1.9	-2.2	-2.2	-2.0
Current Account Balance (\$ billion)	1.7	-24.4	-32.5	-26.8	-26.8
Current Account Balance (% GDP)	0.2	-2.8	-3.7	-3.1	-2.7

Source: The OECD Economic Outlook Vol. 2014/1²³

Table 2. Indonesian Consumption Rate and Net Export Percentage before MP3EI

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Consumption (%)	3.8	3.9	4.9	3.9	3.2	5.0	5.3	4.8	4.6
Net Export (%)	8.9	18.6	47.5	-38.9	12.8	6.4	7.6	12.4	7.4

²³ OECD, *The OECD Economic Outlook*, Vol. 1/2014, (Paris: OECD Publishing, 2014), p. 206.

MP3EI has demonstrated positive achievement on its earlier stage with some ground-breaking investment projects on real sector and infrastructure building. The investment reached a total of Rp 499.5 trillion consisted of Rp 357.8 trillion for 56 projects in real sector and Rp 141.7 trillion for 38 infrastructure projects. Those projects had multi-sourced fund from the state budget, private, state-owned enterprises (BUMN), and public-private partnerships (PPPs). The Government managed 24 projects with the total of Rp 71.6 trillion, BUMN managed 24 projects with Rp 131.0 trillion, private sectors managed 38 projects with Rp 168.6 trillion, and PPP managed 8 projects with Rp 128.3 trillion²⁴.

State regulation also supported MP3EI when the Coordinating Ministry for the Economy (Menko Perekonomian) released Ministerial Decree No. 1/2012 (Permen no. 1/2012), highlighted necessary programs to improve and develop Indonesia's export: (i) strengthening export competition by developing its premium and potential products as well as

improving product design; (ii) improving quality and quantity for trade facility with the more coordinated Indonesia EXIM Bank (*Lembaga Pembiayaan Ekspor Indonesia*, LPEI) and other related institutions; (iii) establishing national team for Export and Investment Improvement (*Peningkatan Ekspor dan Peningkatan Investasi*, PEPI) in order to strengthen the role of Indonesian Export Insurance (*Asuransi Ekspor Indonesia*, ASEI); (iv) increasing promotion; (v) developing regional export as well as urging Regional Development Bank (*Bank Pembangunan Daerah*, BPD) and other institutions to provide financial needs in exporting regional SMEs products; (vi) enhancing trade diplomacy in international forums and organizations like AEC, APEC, and WTO; (vii) enhancing coordination in managing international trade issues. Trade and economic diplomacy are the most important consideration in Indonesian foreign policy making. Economy diplomacy can be employed in any activities promoting Indonesia's potentials²⁵.

Not all the above improvements of Indonesian macroeconomic made its safe

²⁴ Sholeh, "Persiapan Indonesia dalam Menghadapi AEC (ASEAN Economic Community) 2015", *eJournal Ilmu Hubungan Internasional*, Vol. 1 No. 2 2013.

²⁵ Mahfudz Siddiq, "Indonesia Butuh Politik Luar Negeri Berorientasi Ekonomi", *JurnalDiplomasi*, Vol. 4, No.1, March 2012.

from crises, as Indonesia was still vulnerable to economic and financial crises. Its national growth could not be steady, as it did not ensue the improvement of human resources²⁶. Consequently, MP3EI's implementation could only scratch on the macroeconomic level and not yet dive deeply into the quality of human resources.

Southeast Asian Free Market 2015

Free market initiation in the Southeast Asia has been established in 1972, mostly through *declaration of intent* in slower pace. ASEAN establishment had never been addressed for such economic initiatives²⁷; hence the formation of the ASEAN Economic Community (AEC).

AEC committed implementation is divided onto four periods in the span of eight years, in 2008-2009, 2010-2011, 2012-2013, and 2014-2015²⁸. The AEC is founded upon the principles of open economy, outward-looking, inclusive, and market-driven, while still considers multilateral

cooperation and economic discrepancy among ASEAN member-states²⁹.

Shino-ASEAN relation has been initiated since 1991, then formally stated as full partner in 1996³⁰. In November 2002, ASEAN and China signed the "Framework Agreement on Comprehensive Economic Cooperation" (ACFTA) which would be effective in 2010 for Indonesia, Brunei Darussalam, Malaysia, Philippines, Singapore, Thailand, and China, and 2015 for the rest³¹. China and ASEAN signed three more MoU in the 12th ASEAN Summit, Thailand in October 2009. These MoU include the Establishment of ASEAN-China Centre, Cooperation on Intellectual Property Rights (IPRs), and Technical Regulations and Conformity Assessment³².

The Influence of China's "String of Pearl" to MP3EI Achievements

Sino-ASEAN trade relation is technically abide by *Framework Agreement On Comprehensive Economic Co-Operation between The Association Of Southeast Asian Nations And The People's Republic of China*. The objectives of this agreement are to: (1) strengthen and enhance economic, trade

²⁶ P. Eko Prasetyo, "The Quality of Growth: Peran Teknologi dan Investasi Human Capital sebagai Pemacu Pertumbuhan Ekonomi Berkualitas", *JEJAK: Jurnal Ekonomi dan Kebijakan*, Vol. 1, No. 1, September 2008.

²⁷ Siddiq, *op. cit.*

²⁸ ASEAN Secretariat, *The ASEAN Charter*, (Jakarta: ASEAN Secretariat, 2008), p. 54.

²⁹ ASEAN Secretariat, *ibid*, p. 56

³⁰ ASEAN Secretariat, *ibid*, p. 67

³¹ ASEAN Secretariat, *ibid*, p. 169-170

³² ASEAN Secretariat, *ibid*, p. 170

and investment co-operation between the Parties; (2) progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; (3) explore new areas and develop appropriate measures for closer economic co-operation between the Parties; and (4) facilitate the more effective economic integration of the newer ASEAN Member States and bridge the development gap among the Parties³³.

One of the agreement under the framework is a Sino-ASEAN free trade. Under this new special relation, they engage in progressive elimination of tariffs

and non-tariff barriers in substantially all trade in goods, in three implementing programs: *Early Harvest Program (EHP)*, *Exclusion List Program (ELP)*, and *General Exceptions*. EHP requires all parties with export readiness to reduce and eliminate their tariff and non-tariff barriers for certain products under EHP. EHP will be enforced until 2010.

Furthermore, ELP covers agreement to reduce and eliminate tariff for non-EHP products. This privilege is applied for products with sensitive features that could harm national economy. Lastly, the General Exception accepts no tariff reduction and

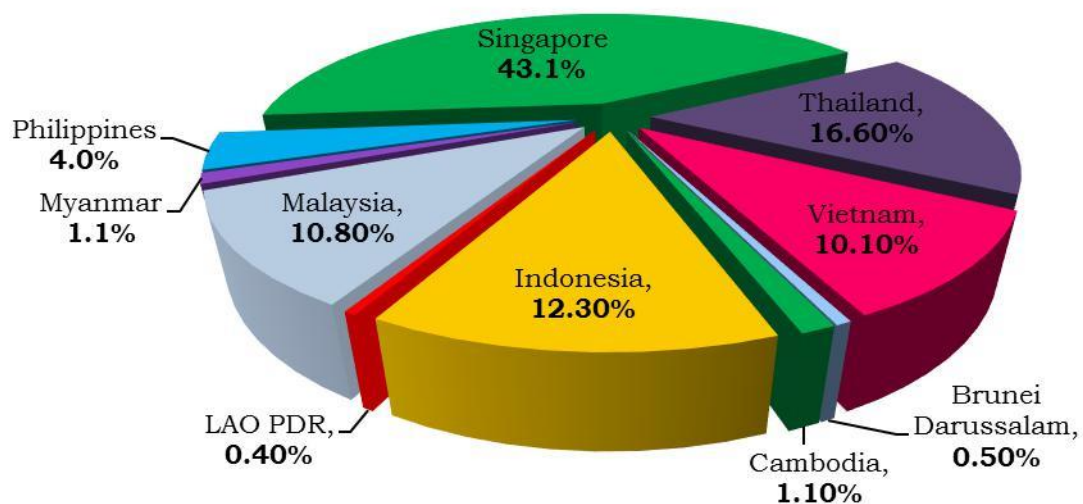


Figure 3. FDI in ASEAN by Receiving Countries

Source: Mahfudz Siddiq, "Indonesia Butuh Politik Luar Negeri Berorientasi Ekonomi",

Jurnal Diplomasi, Vol. 4, No. 1, March 2012.

³³ Suryani Indriastuti, "Pembentukan Perdagangan Bebas ASEAN-China (ASEAN-China Free Trade Area) dan Dampaknya bagi Petani di Indonesia", *Jurnal Ilmu-ilmu Pertanian*, Vol. 1, No. 2, 2005.

elimination for historic and/or artistic products and commodity, and those that has moral, humanity, and health safety features³⁴.

Trade was not much different for Indonesia. Amid its trade surplus with Malaysia, Laos, Philippines, Cambodia, and Myanmar, Indonesia still could not catch the loss from its declining trade with Vietnam and a major deficit vis-à-vis Singapore³⁵. Eventually Indonesia still suffered from a negative trade balance.

Generally, domestic condition is appeared as major hindrance for Indonesian readiness to join the free market 2015. In its third quick-win years, MP3EI has not yet optimize to utilize the AEC, since it is also deal with pressures from the newly elected Government. President Joko Widodo would have his focus more on administrative reformation, infrastructure development, and social policy³⁶. This new priority would be a positive attraction for foreign investment, however, President Joko Widodo also

underlined his plan to reduce import on food products³⁷.

Indonesia and China's economic condition shows a great deal of discrepancy. In economic growth, China has reached the point of 7.7% in 2014 and forecasted to be stable until 2018; meanwhile Indonesia reached 6.0% on the same period³⁸. China has currently focused on financial efficiency policy through institutional reform, while Indonesia is still occupied with social problems, such as disaster relief and education³⁹. Moreover, China also holds another superiority, which also alarms the West; its capability for market monopoly.

China has been expanding its great influences by establishing state-owned enterprises (SOEs) to compete with the power of foreign multinational corporations (MNCs) domestically and globally. These SOEs are also capable to acquire all the assets of western corporations⁴⁰.

³⁴ Indriaastuti, *ibid.*, p. 121

³⁵ Siddiq, *op. cit.*

³⁶ Deyi Tandan Zhixiang Su, "ASEAN Economics: Cyclical and Structural Forces at Play", *ASEAN Economics Chartbook*, (Hongkong: Morgan Stanley, 2014), p. 13.

³⁷ Su, *ibid.*, p. 13

³⁸ OECD, *Economic Outlook for Southeast Asia, China and India 2014 beyond the Middle-Income Trap*, (Paris: OECD Publishing, 2013), p. 2.

³⁹ OECD, *ibid.*, p. 8

⁴⁰ National Intelligence Council, "Nonstate Actors: Impact on International Relations and Implications for the United States", *NIC-Eurasia Group Seminars*,

According to Lovel, there are four factors that determine one's foreign policy and show the pattern of international interaction, i.e. the structure of international system; perception of the elites; strategy of other nation-states; and national capability⁴¹. These four factors also determine Indonesian foreign policy toward China's SoP, and depict their mutual interaction. Indonesian strategy review toward China is shown in Table 2.

If Indonesian capability was superior vis-à-vis China, Indonesia may apply confrontation or leading strategy. Confrontation is applied if China poses as a threat, while leadership strategy is applied if it was perceived to support Indonesian interest.

On the other hand, under inferior circumstance, Indonesia may apply accommodation or concordance strategy. If China poses as a threat, the less capable Indonesia would likely to put a good relation to avoid any harmful confrontation. Meanwhile, in concordance strategy, Indonesia would

tend to comply with China, as it seems more beneficial.

Indonesian strategy toward China's SoP is analysed as follow:

a. Structure of International System

International relation today is functioned on multipolar structure with the trend of numerous non-state actors, including regional organization. The rise of regional organization depicts the tighter interaction among neighbouring countries, for instance in the Southeast Asia. ASEAN has demonstrated the more intimate interaction among its member-states, which expected to be improved with the implementation of ASEAN Community in 2015. Moreover, ASEAN also poses a closer cooperation with its major partners outside the region whose powers would likely to signify the future's globalization. One of ASEAN's major partners is China. Throughout the last decade, China has been raising as the new polar and expanding its influence worldwide. Under ACFTA, ASEAN and China formalized their interaction in free trade, thus as one

(Washington, D.C.: National Intelligence Council, 2007), p. 3.

⁴¹ John P. Lovel, *Foreign Policy in Perspective: Strategy, Adaptation, Decision Making*, (New York: Holt, Rinehart and Winston, Inc., 1970), p. 98-101.

Table 2. Analysis of Indonesian Strategy towards China

Indonesian Capability : Superior			
China's SoP as a threat	Confrontation Strategy	Leadership Strategy	China's SoP as a support
	Accommodation Strategy	Concordance Strategy	
Indonesian Capability : Inferior			

Source: John P. Lovel, *Foreign Policy in Perspective: Strategy, Adaptation, Decision Making*, (New York: Holt, Rinehart and Winston, Inc., 1970), hlm. 98—101 (writer's analysis).

of its member-state Indonesia has opened its market to China's products and services since 2010. The amount import of China-originated products would likely to increase after AEC. According to those analysis, the writer concludes the multipolar system has been always abided by cooperation frameworks in any sectors, including economy. ASEAN and China are the newly rising polar. As ASEAN member-state, any ASEAN agreement would also bond

Indonesia. Therefore, Indonesia is required to join the AEC and open its market in the free trade under ACFTA with China.

b. The Elites' Perception

President Joko Widodo's administration has its focus on administrative reform, infrastructure development, and social policy. Through a comprehensive reform in administrative and infrastructure, Indonesia expects higher inflow of foreign investment. Moreover, a proper social policy may

provide a better preparation for Indonesians in joining free market era. However, the President's policy to reduce import on food products will be conflicted with ACFTA agreement, especially after AEC is implemented in 2015. Indonesians diets are mostly sourced from living livestock and crops and still cannot be replaced by synthetic foods yet. Living livestock and crops both fall into the EHP category, thus cannot be protected by reducing import quantity. By 2015, every country in the ASEAN and China must be ready to enter the free trade for "early harvest" products, including livestock and crops. The statement from President Joko Widodo captured political elites' perception that will choose not to harm their people. This current administration founded on the efforts to improve the life of its people. However, the Parliament's insight would still unknown, while the parties-backed Legislative often has various perception on ASEAN free market 2015. In that reason, the elite's perspective is analysed from official statements of the President.

c. *China's SoP in Indonesian Territory*

China's SoP is undoubtedly passing inside Indonesian territory. This line would likely to affect development's progress on the islands next to South China Sea and Malacca Strait. Under the MP3EI framework, SoP influence would firstly affect the development of Sumatera and Kalimantan corridors. Both are directly bordered the SoP' lines and more importantly become future energy reserves, natural resources, and minerals. Other than energy, Sumatera Corridor becomes vital to secure the Malacca Strait, which marked as one of the strategic area in the SoP to reach Persian Gulf. It is on China's interest to join the line of defence against piracy in Malacca Strait. China's presence in the Malacca Strait enhances its influence to Sumatera Corridor, and a closer China-Indonesia may disrupt Indonesia's defence relations with India. China and India have never been in harmony, therefore China's interest to defend Malacca Strait may conflicts India's. This clash of interest between Indonesian two strategic partners may hamper the

development of Sumatera Corridor, and further disrupt other corridor's development under the inter-corridor connectivity. In the national and regional level, Indonesia may unsuccessfully optimize its capability to endure the AEC because the attempt to achieve national integrity and inter-ASEAN regional connectivity is interrupted. Consequently, China's SoP will highly influences the MP3EI achievements, which further will reduce Indonesian readiness in free market 2015. It is essential to consider the SoP in shaping the future foreign policy's strategy toward China.

d. China's Capability

China has been using three interrelated strategies to strengthen its economy, i.e. the SoP, "Going Out" strategy, and market monopoly. These strategies has also been shaping China's posture in regional relation with ASEAN, and with Indonesia as its bilateral partner. The "Going Out" strategy ensures China's steady economy by spurring domestic consumption and production. Higher consumption attracts investments and it makes a good pose as export's

market. Meanwhile higher production pushes domestic productivity to maintain economic growth and people's welfare. In order to support this strategy, China also has established its state-owned enterprise to confine any dominating foreign industries. In short, China utilises its higher consumption to increase productivity, which creates well-being industries and maintains export activity under the state-owned enterprises. Under these two strategies, China improves its economy and finance, which later increase its capability in its relation with other partner like Indonesia. In the context of SoP, China's economy and financial advancement will surely make a higher capability in controlling the littoral lanes. China demonstrates its capability in the region by managing the South China Sea conflict against four disputed ASEAN countries, and one that is claimed as a part of its own. Outside the ASEAN, China also grasps several notable positions in the United Nations (UN), Shanghai Cooperation Organization (SCO), and has been categorized as the newly rising power

with BRIC (Brazil, Russia, India, and China).

Considering all the above factors, Indonesia holds less capability against China which makes the “accommodation strategy” or “concordance strategy” as the most logical to apply. To be more specific, the strategy can be narrowed down into one, the accommodation strategy, if Indonesia considers China’s threatening stance toward MP3EI achievement.

By employing the accommodation strategy, Indonesia should enhance its cooperation with China in every aspect, and capture any opportunity to do this, especially in the economy. A closer cooperation will put Indonesia as a strategic partner for China’s foreign policy, which will reduce the possibility of any conflicting interaction. In the other hand, to avoid any disruption in MP3EI achievements, Indonesia may attract China’s cooperation in developing the Sumatra and Kalimantan Corridors. This opportunity can yield in some beneficial result for Indonesia and the people in the corridors.

Furthermore, Indonesia should also seek an approach to accommodate China’s

interest to secure the Malacca Strait without creating any friction with India. Indonesian accommodative strategy cannot ignore the opportunity to advance its capability. Indonesia sits on numerous potentials that can be managed for stronger bargaining position. The prime reason is Indonesian strategic position in the Malacca Strait allows it to invite any cooperation in securing the Strait.

Second, Indonesia is demographically powerful. It has the biggest population in the ASEAN, which generates an interesting amount of potential market destination. This feature is surely appealing for China’s growing industries.

Indonesia is currently crafting its way to be more internationally acknowledge. Indonesia has been holding a significant position in ASEAN, which allows it to sway regional policy’s direction. Moreover, as one of the influential actors in the region, Indonesia holds a neutral position for the South China Sea conflicts. Indonesian neutral and cooperative stance has been opening windows for many regional forums and discussion with China regarding the issue. China also perceives Indonesia as a bridge for its partnership with the U.S.,

India, and Australia. Maintaining a positive relation with Indonesia will be an interest for a stable presence in the region.

All of these growing capabilities are advantageous for Indonesia. Indonesia becomes essential for China's interest in ASEAN and the successful of SoP strategy. Utilizing this opportunity will fortunate the developments of MP3EI corridors and turning China's threatening strategy into a potential opportunity.

Conclusion

China SoP strategy has a definite influence for MP3EI development and national preparedness in facing ASEAN free market 2015. Originally, SoP strategy poses a threat and it is logical for Indonesia to apply the accommodation strategy. However, Indonesia is capable to utilize SoP as a wide opportunity to accelerate the MP3EI achievement by performing its strategic role in bilateral and regional relation with China.

Bibliography

Books

- ASEAN Secretariat. 2008. *The ASEAN Charter*. Jakarta: Sekretariat ASEAN.
- Gilpin, Robert. 2001. *Global Political Economy: Understanding the International Economic Order*. Princeton: Princeton University Press.

Kementerian Koordinator Bidang Perekonomian Republik Indonesia. 2011. *Masterplan for Acceleration and Expansion of Indonesia Economic Development*. Jakarta: Kementerian Koordinator Bidang Perekonomian Republik Indonesia.

Kementerian Luar Negeri Republik Indonesia. 2010. *ASEAN Selayang Pandang*. Jakarta: Direktorat Jenderal Kerja Sama ASEAN, Kementerian Luar Negeri Republik Indonesia.

Lovell, John P. 1970. *Foreign Policy in Perspective: Strategy, Adaptation, Decision Making*. New York: Holt, Rinehart and Winston, Inc.

Pehrson, Christopher J. 2006. *String of Pearls: Meeting the Challenge of Tiongkok's Rising Power Across the Asian Littoral*. Carlisle: Strategic Studies Institute.

Prabhakar, W. Lawrence S. 2009. "China's 'String of Pearls' in Southern Asia-Indian Ocean:

Implication for India and Taiwan", in M.J. Vinod, et.al. (eds). *Security Challenges in the Asia-Pacific Region: The Taiwan Factor*. New Delhi: Viva Books International.

Vinod, M.J., et.al. (eds). 2009. *Security Challenges in the Asia-Pacific Region: The Taiwan Factor*. New Delhi: Viva Books International.

Journals

Beckman, Robert. 2013. "The South Tiongkok Sea: the Evolving Dispute between Tiongkok and Her Maritime Neighbours". *Geomatics World*. Vol. 21. No.3.

Ernita, Dewi, et.al. 2013. "Analisis Pertumbuhan Ekonomi, Investasi, dan Konsumsi di Indonesia". *Jurnal Kajian Ekonomi*. Vol. 1. No.2.

Indriastuti, Suryani. 2005. "Pembentukan Perdagangan Bebas ASEAN-Tiongkok (ASEAN- Tiongkok Free Trade Area) dan Dampaknya bagi Petani di Indonesia". *Jurnal Ilmu-ilmu Pertanian*. Vol. 1. No.2.

Kim, Shee Poon. 2011. "An Anatomy of Tiongkok's 'String of Pearls' Strategy". *The Hikone Ronso*. No. 387.

Marantidou, Virginia. 2014. "Revisiting Tiongkok's 'String of Pearls' Strategy: Places 'with Chinese Characteristics' and Their Security Implication". *Issues & Insights*. Vol. 14.No.7.

Prasetyo, P. Eko. 2008. "The Quality of Growth: Peran Teknologi dan Investasi Human Capital sebagai Pemacu Pertumbuhan Ekonomi Berkualitas". *JEJAK: Jurnal Ekonomi dan Kebijakan*. Vol. 1. No.1.

Sholeh. 2013. "Persiapan Indonesia dalam Menghadapi AEC (ASEAN Economic Community) 2015". *eJournal Ilmu Hubungan Internasional*. Vol. 1. No.2.

Siddiq, Mahfudz. 2012. "Indonesia Butuh Politik Luar Negeri Berorientasi Ekonomi". *Jurnal Diplomasi*. Vol. 4. No.1.

Reports

National Intelligence Council. 2007. "Nonstate Actors: Impact on International Relations and Implications for the United States". *NIC-Eurasia Group Seminars*. Washington, D.C.: National Intelligence Council.

OECD. 2013. *Economic Outlook for Southeast Asia, Tiongkok and India 2014 beyond the Middle- Income Trap*. Paris: OECD Publishing.

OECD. 2014. *The OECD Economic Outlook*. Vol. 1/2014. Paris: OECD Publishing.

Tan, Deyi dan Zhixiang Su. 2014. "ASEAN Economics: Cyclical and Structural

Forces at Play". *ASEAN Economics Chartbook*. Hongkong: Morgan Stanley.

Official Regulation

Peraturan Menteri Koordinator Bidang Perekonomian No. 1 Tahun 2010.