

Research Report

# **The Political-Economy of ASEAN-China FTA**

## **An Indonesian Perspective**

Ignatius Ismanto & Indra Krishnamurti

**University of Pelita Harapan,  
Karawaci, Indonesia**

**2014**

# The Political Economy of ASEAN-China Free Trade Agreement: An Indonesian Perspective<sup>1</sup>

Ignatius Ismanto

Universitas Pelita Harapan

&

Indra Krishnamurti

Universitas Pelita Harapan

## Abstract

The enactment of the regional economic cooperation scheme ASEAN-China Free Trade Agreement (ACFTA) is an interesting phenomenon accompanying political-economic changes in the East Asian region. The regional economic cooperation scheme first proposed by then-Chinese Prime Minister Zhu Rongji in 2000 was driven more by political considerations. China's rise as a global economic power was seen as a threat to ASEAN. Accordingly, China's involvement in regional forums is considered very important for ASEAN in creating regional stability. ASEAN-China FTA is an economic instrument, which is also part of ASEAN's political agenda to support regional stability. Indonesia, as the most influential country in ASEAN, supports regional economic cooperation, and always emphasizes the importance of ASEAN centrality in the face of uncertain changes in the world political economy. Unfortunately, Indonesia's support to ASEAN-China FTA, and Indonesia's stance on ASEAN centrality, turn out to be expensive in the socio-economic costs, namely: (i) Indonesia's unpreparedness in building the competitiveness of its economy, in line with the integration of the national economic system into the wider regional economy, and (ii) the economic unpreparedness actually caused by sharp differences of interest among domestic actors and exacerbated by the weakness of the government to overcome the differences.

Keywords: Free Trade Agreement, ASEAN Centrality

---

<sup>1</sup> The writers would like to extend their thanks to SECO and the World Trade Institute (WTI), Switzerland; and the School of Government and Public Affairs, Pelita Harapan University, Indonesia, which have facilitated this study. The writers also thank Professor Malcolm Bosworth, whose inputs have been valuable in the revisions of this report.

## Introduction

ASEAN-China Free Trade Agreement (ACFTA) has been implemented for almost five years, ie since January 1, 2010. The idea of regional economic cooperation was initially proposed by then-Chinese Prime Minister Zhu Rongji in 2000. Leaders of ASEAN and China finally managed to agree on a framework of comprehensive economic cooperation in 2002,<sup>2</sup> and the terms of reference became the basis for the establishment of ACFTA. The process of establishment of cooperation between ASEAN and China occurred in an appropriate period, namely a time of improving relations between ASEAN and China. For a long period, especially during the Cold War, the relation between ASEAN, which initially comprised only of 5 countries,<sup>3</sup> and China, has been characterized by sharp mutual suspicion and distrust. ACFTA has become a means for both parties to re-establish a harmonious relationship as well as supporting in bringing peace and prosperity of the region and the world.

ACFTA is one of ASEAN's commitments built in the face of uncertain global change. ASEAN has collectively used the Free Trade Area (FTA) or RTA (Regional Trade Agreement) or Economic Partnership as a form of economic diplomacy in regional economic cooperation with other countries or economic powerhouses partnering ASEAN. Leaders of ASEAN countries increasingly recognize the importance of building a solid economic foundation for ASEAN in the face of changes in an uncertain global economy. ASEAN's commitment to deepen its internal economic integration becomes an important strategy. The establishment of the ASEAN Free Trade Area (AFTA) initiated in January 1, 1992<sup>4</sup> and the planned realization of ASEAN Economic Community (AEC) in 2015 are ASEAN's collective strategy in the face of challenges and changes in the global economy.

---

<sup>2</sup> The agreement for comprehensive economic cooperation resulting in the ASEAN-China FTA was signed in Phnom Penh, Cambodia, on November 4, 2002. The agreement has three components: goods, services and investment. The agreement on trade in goods and dispute settlement mechanism was signed in November 2004. The agreement on trade in services was signed in Cebu on January 14, 2007 and the agreement on investment was signed in Bangkok on August 15, 2009.

<sup>3</sup> Founded in 1967, ASEAN initially comprised of 5 countries: Indonesia, Malaysia, Thailand, Philippines and Singapore. In 1984, Brunei Darussalam joined, and the six countries were known as ASEAN-6. Since the 1990s, ASEAN membership expanded with the entrance of Vietnam (July 28, 1995), Laos and Myanmar (July 23, 1997) and Cambodia (December 16, 1998).

<sup>4</sup> AFTA was intended to increase competitiveness of ASEAN countries, by realizing ASEAN as a production base for the world market, obtain investments and increase trade. The goal was set to be reached in 2008, but was rescheduled to 2003.

ACFTA is implemented in the midst of ASEAN countries seeking to strengthen the economic foundation of ASEAN as well as ASEAN's interest in playing a more significant regional role in achieving regional stability. There are a number of interesting issues that accompany changes in the political economy of Southeast Asia between the declaration to the implementation of ACFTA. First, Southeast Asia, as part of East Asia, is a region that is experiencing dynamic and exciting growth. In fact, the dynamics of economic growth in East Asia is predicted to be able to drive global economic growth. Second, the rise of China as a global economic power and its interests to play a greater role and increase its influence in the region along with economic progress. The rise of China remains perceived as a threat by a number of ASEAN countries. Third, the interests of the United States to maintain its influence and hegemony in the region, as well as a strategy to compensate China's increasing influence in the region. Accordingly, the establishment of the Trans Pacific Partnership (TPP) becomes an interesting issue. Fourth, ASEAN as a regional organization has played an increasingly important role, particularly in the establishment of institutional fora involving the interests of large countries, such as the ASEAN Regional Forum (ARF), ASEAN Plus One (ASEAN-China FTA, ASEAN-Korea South FTA, ASEAN-Japan CEP, ASEAN-India FTA and ASEAN-Australia and New Zealand FTA) and the ASEAN Plus Three (Japan, South Korea and China) and the East Asia Summit (EAS), which is a forum for ASEAN and its dialogue partners, namely: India, China, South Korea, Australia, New Zealand, Russia and the United States

ACFTA's implementation is strongly influenced by the dynamics and challenges of political and economic changes in the East Asian region. Indonesia, as the most influential country in ASEAN, is very interested in supporting the implementation of ACFTA. In fact, Indonesia emphasized the importance of ASEAN centrality in regional cooperation, including the implementation of ACFTA. The research report is intended to study the implementation of ACFTA from the Indonesian perspective. It focuses on two issues, namely (i) to understand the perceptions of actors in the implementation of ACFTA, and (ii) identify crucial issues that accompany the implementation of ACFTA in Indonesia

## **Economic Regionalism**

One of the phenomena that accompany changes in the global economy since the end of the Cold War was the development of economic regionalism triggered by the establishment of fora for economic cooperation between countries in the same region, or often called inter-regionalism. Geographical proximity is often a major consideration for countries within the regional economic cooperation. Economic cooperation can occur between countries in different regions, or the so-called trans-regionalism. As of January 31, 2014, a total of 581 drafts on RTA creation have been submitted to the WTO, and of these, 377 have been implemented RTA ([www.wto.org](http://www.wto.org)). The globalization of production processes supported by advances in information technology and transportation is one of the factors that allow countries in different areas to have regional economic cooperation. The formation of regional economic cooperation was generally pursued through the implementation of the Free Trade Agreement (FTA) or Preferential Trade Agreement (PTA) or also commonly referred to as the Regional Trade Agreement (RTA). The formation of regional economic cooperation (RTA) often triggered other countries to also establish regional economic cooperation.

Regional economic cooperation through FTA or PTA is essentially meant to deepen economic integration among members. The increasing trend towards FTA or PTA has dramatically occurred since the 1990s. Cohn (2008, 141) describes the five stages to the depth of regional economic integration process, namely: (i) Free Trade Area (FTA), (ii) Customs Union, (iii) Common Market, (iv) Economic Union, and (v) Political Union.

**Figure 1: Stages in Regional Economic Integration**

	Free Trade Area (FTA)	Customs Union (CU)	Common Market	Economic Union	Political Union
Tariff Reduction	X	X	X	x	X
Customs		X	X	X	X
Movement of Factors of Production (capital and labor)			X	X	X
Harmonization of Economic Policies				X	X
Harmonization of Political Regulations					X

Source: Theodore H. Cohn, Global Political Economy, New York: Pearson International Inc, 2008, hal. 141

The initial stage in the process of economic integration is the establishment of an FTA or PTA. In the formation of the FTA or PTA, member countries agree to eliminate tariff barriers or non-tariff barriers on goods and services traded. The elimination of tariff and non-tariff barriers can only be enjoyed by the countries that are members of the said economic cooperation. The policy of non-discrimination as set out in the GATT (General Agreement on Tariff and Trade), through the principles of Most Favoured Nation and National Treatment, is only applied to member countries. Countries that are not members are still treated according to provisions applicable in each country. Customs Union is a deeper stage of economic integration than Free Trade Area. In a Customs Union, member states do not only eliminate tariff and non-tariff barriers on goods and services traded, but also apply the same import costs against countries that are not members (external tariff). In the formation of a Common Market, member countries open opportunities for mobility of factors of production, namely capital and labor. The formation of a Common Market is a deeper stage of economic integration than Customs Union and Free Trade Area. Even deeper than Common Market is the establishment of Economic Union. At this stage, member states agree to harmonize their national economic policies, such as policies concerning education, health, or employment. At this stage, member states can also apply monetary policies, namely the unification of currency. Finally, political union is the deepest

stage of economic integration, in which countries do not only cooperate in their economies, but also starting to align their foreign policy and defense policy.

The phenomenon of creation of regional economic cooperation fora in line with changes in the global political economy can be understood in various ways. The liberal-institutionalism approach considers that the establishment of economic cooperation fora is required in facilitating information, and therefore is useful to reduce transaction costs, and to avoid misunderstanding and conflict. The liberal-institutional approach proceeds from the assumption that the international system is in harmony and interdependent. Cooperation between countries in an interdependent international system is a positive-sum game, which is beneficial to all parties, although the benefits achieved by those in the cooperation may not always be balanced (assymetrical). In contrast, the realist approach considers that the international system is conflictual. In the conflictual international system, inter-state relations are a zero-sum game, i.e. one party is benefited and the other is harmed. The realist approach considers that the international system is anarchic and every state is required to fight for national interests. The realist approach emphasizes power and security and sees fora of economic cooperation and trade as instruments in the realization of geopolitical interests, although the country has to sacrifice their economic interests.

The formation of regional economic cooperation fora does not only have an economic dimension, but also a political dimension (Ravenhill, 2008). Accordingly, a review of the agreement reached by the leaders of China and ASEAN countries in realizing economic cooperation through ASEAN-China Free Trade Area (ACFTA) will be understood more comprehensively without ignoring the political reality.

### **Political Dimensions of ACFTA**

Even though ASEAN is an economic cooperation forum established in 1967, leaders of ASEAN countries initially had no desire or interest to encourage the process of economic integration of its members. The idea to promote economic integration was initiated since the early 1990s, with the launching of ASEAN Free Trade Agreement (AFTA). Soesastro (1995, p: 319-320) uses the term “ASEAN is too big, but too small” to describe ASEAN economies in the early 1990s. ASEAN is considered ‘too big’ in sense that ASEAN economies

are still diverse and at different levels of development. Therefore, integration among all its members tends to be shallow. On the other side, ASEAN is too small to be effective in response to the uncertainty of the world economy. ASEAN economic integration is intended to strengthen the foundation for ASEAN economies, especially in response to the changes and challenges of the global economy. ASEAN economic integration will be very beneficial for ASEAN in regional economic cooperation with other countries.

The commitment resulting from the 13th ASEAN Summit on November 20, 2007 was a determination to realize the ASEAN Economic Community to be achieved by 2015. ASEAN's commitment can be seen as strategic interest to deepen internal economic integration, i.e. towards a Common Market. The formation of the RTA (Regional Trade Agreement) or a Free Trade Agreement (FTA) launched in the early 1990s, namely through the establishment of AFTA has clearly shown FTA as an instrument to encourage the process of economic integration for the countries of Southeast Asia. However, is the establishment of ASEAN-China FTA also intended to encourage the process of economic integration, similar to economic integration within ASEAN countries? The establishment of ASEAN-China FTA seemingly was not intended to encourage regional integration as was ASEAN FTA. The establishment of the ASEAN-China FTA is more driven by political considerations, namely as a means for both parties to build trust, in line with the rise of China as a global power (Chia, 2004, p. 14; Chandra, 2014).<sup>5</sup>

Chandra (2014)<sup>6</sup> explains that the dynamics of the ASEAN-China relationship is an important aspect in understanding the political considerations in the establishment of ACFTA. This section of the paper will study the political considerations of the formation of ACFTA. The relationship between ASEAN and China has begun to improve since the early 2000s, which has been a very supportive factor for the countries to build agreements in ACFTA. However, the improving ASEAN-China bilateral relations does not mean that the perception among ASEAN countries about the threat of China has disappeared, especially with the rise of China as a global power. ASEAN's perception about the Chinese threat has long historical roots. During the Cold War, ASEAN has identified that the threat to political

---

<sup>5</sup> Interview results, May 26, 2014. Alexander C. Chandra is a researcher from the Trade Knowledge Network.

<sup>6</sup> Ibid.



stability and security of the region comes from the North, namely China. Southeast Asia is a region that has always been an arena of influence and interests of the big powers. During the Cold War, the United States and China are competing to exert influence in the region. The formation of ASEAN in 1967, according to Rudolfo C. Severino (in Chia, 2004), is an instrument benefiting the United States to contain China's expanding influence of Communism in Southeast Asia.

Relationship between ASEAN and China began to warm since the late 1980s, following the end of the Cold War. Since then, China has actively pioneered the restoration of diplomatic relations with individual ASEAN countries. Beginning with the restoration of diplomatic relations with Singapore in October 1990, China further restored diplomatic relations with other ASEAN countries. Restoration of diplomatic relations with each of the ASEAN countries has allowed China to establish official relations with ASEAN. In the 24th ASEAN Ministerial Conference in July 1991, ASEAN began inviting China. On that occasion, then-Chinese Foreign Minister Qian Qichen expressed his desire to establish cooperation with ASEAN. In 1994 China began to be involved in a consultation forum with ASEAN senior officials to discuss political issues and security. Since 1996 China has become ASEAN's dialogue partner in regional cooperation (Saw-Swee, Sheng and Chin, 2005, p. 1-18)

One of the crucial issues that could potentially lead to instability of the region is the territorial disputes in South China Sea and East China Sea.<sup>7</sup> China's claim over the Paracel and Spratly Islands in the South China Sea has sparked tensions between China and ASEAN countries, notably Vietnam and the Philippines. Similarly, China's claim to Mischief Reef and Scarborough Shoal has sparked tensions between other ASEAN countries, namely Philippines and Brunei. China and Japan also each claim an archipelago in East China Sea, called Diaoyu by the Chinese, and Senkaku by the Japanese. Even in early 2014, China took a very risky policy in fueling regional tensions, namely by imposing a defense identification zone in the disputed region (Kompas, January 21, 2014). ASEAN's concern of China's attitude to use military force to uphold its sovereignty, especially in resolving territorial disputes has been felt since the early 1990s (Jing-Dong, 2006, pp. 4-5). During the Cold War,

---

<sup>7</sup> The South China Sea has a strategic geopolitical value. It is the second most highly used maritime lane, and the main route for the oil supplies of East Asian countries. It also has large petroleum deposits.

the issue of territorial claim did not worry ASEAN countries. U.S. presence in Southeast Asia during the Cold War made a significant contribution in realizing political stability and security in the region. The constellation of politics and security has certainly changed with the end of the Cold War.<sup>8</sup>

China's various policies implemented since the 1990s has contributed significantly to the improvement of the ASEAN-China relationship. China's good neighborly policy is taken as its commitment in bringing stability, peace and prosperity to the region. Through foreign policy of the new China, China will give more emphasis on dialogue rather than the use of military force in resolving potential conflicts in the region. China has promised not to use force in settling territorial disputes to overcome the anxiety of neighboring countries. Another factor affecting the improvement of China-ASEAN relations is China's significant contribution in helping a number of ASEAN countries affected by the economic crisis in 1997 (Alice D. Ba, 2003, p. 634). China's policy to not devalue Renminbi not only relieves ASEAN countries affected by the economic crisis, but it also builds mutual trust between the two parties. China was seen to have made a significant contribution to Southeast Asian countries in the face of their economic difficulties. Asian countries experiencing serious impact of the 1997 economic crisis such as Indonesia, Malaysia, Thailand and South Korea recognized that they are no longer able to rely on financial assistance from Bretton Woods financial institutions such as the IMF and World Bank in overcoming their economic difficulties (Booth , 2011). The improvement in the relationship of China and ASEAN was instrumental in the process of creating ACFTA.

Various studies have explained that the establishment of the ACFTA is not only driven by economic considerations but also political considerations. ASEAN-China FTA is intended to promote the economic integration of the two regions, and also to be a means to reduce the threat of China towards ASEAN (Wang and Tong, nd, p. 48). China's interest in regional economic cooperation with ASEAN is triggered by China's interest in playing a greater role and influence in the region along with its rise of economic power. China's involvement in the ASEAN-China economic cooperation is a means to increase China's

---

<sup>8</sup> ASEAN's support in the establishment of the ASEAN Regional Forum (ARF), involving external forces, especially the United States, reflects ASEAN's anxieties toward China. Through ARF, ASEAN shows its interest in maintaining US involvement in Southeast Asia. US presence in Asia is expected to offset the rise of China.

influence and leadership in Asia (Funabashi in Chirathivat, 2005, p. 253), as well as a strategy to counterbalance U.S. influence in the region. The formation of an FTA with ASEAN countries is an instrument of Chinese foreign policy to restore its relations with these countries, which for a long period of time was marked by mutual distrust and disharmony. Restoration of trust in the relationship of China and ASEAN is a very strategic issue for China in supporting the continued growth of the Chinese economy and the strengthening of China as a world economic power, the which in turn is a necessary precondition for China to increase of its role and influence in the region and offset American influence in Southeast Asia (Chandra and Lontoh, 2011, p. 5).

ASEAN sees the rise of China both as an opportunity and as a threat. As a weak regional power, ASEAN tends to implement a dual strategy in the face of the potential rise of China as a stronger regional power. The perception of China as a threat has prompted ASEAN to maintain the involvement of major powers, especially the United States in the region. Accordingly, ASEAN's interest in cooperating with other major countries, such as United States, Japan and India, is a strategic instrument for ASEAN in facing China's rise (Saw, Sheng and Chin, 2005: p. 8). ASEAN takes a hedging strategy in the face of the power of competing states (Jing-dong, 2006, pp. 22-23). Hedging is a political maneuver taken by relatively weak countries to maintain their interests vis-a-vis major powers, in facing uncertain political changes. The hedging strategy as pursued by ASEAN is shown in the willingness of ASEAN to implement regional cooperation with China in realizing political stability, security and prosperity, but at the same time maintaining US presence in the region.

### **Centrality of ASEAN**

ASEAN-China FTA, implemented since 2010, has brought great dynamism and change for the region. Forbes Magazine (2009) stated that free trade is not just about economic goals, but it also about reinforcing strategic political and security ties with key allies.”<sup>9</sup> That idea encourages ASEAN to cooperate with other countries or economic powers

---

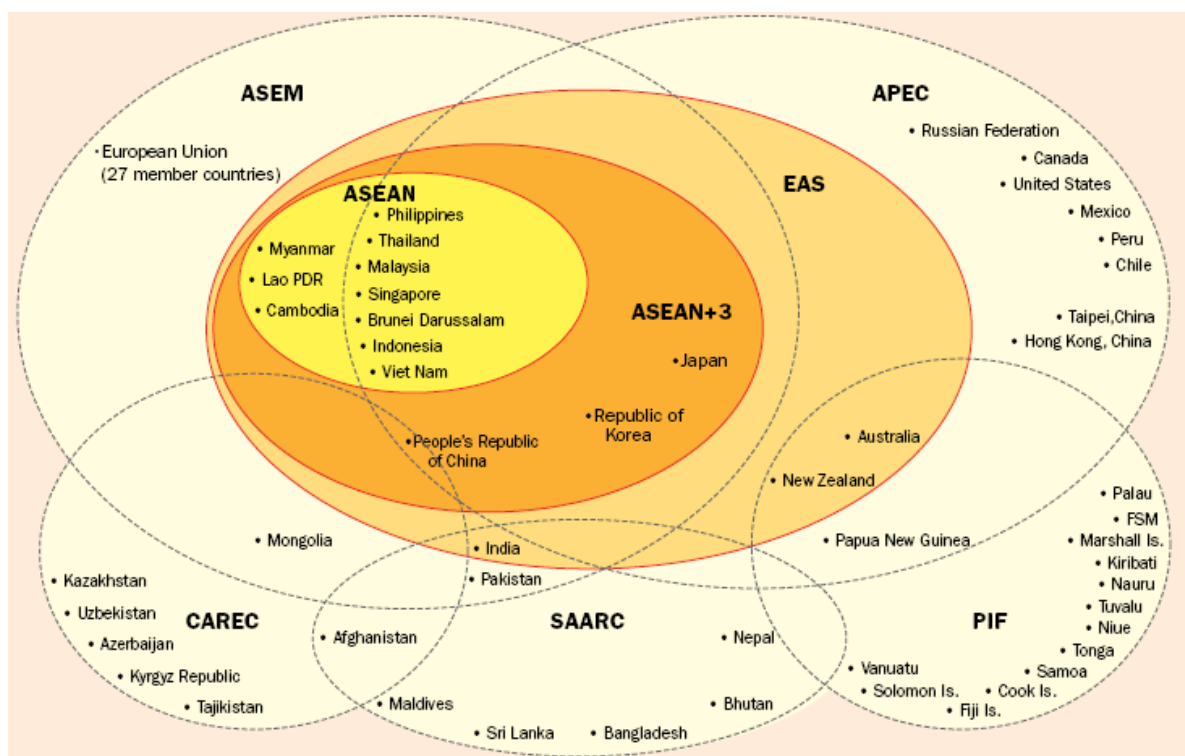
<sup>9</sup> Forbes, 2009. “The Importance of Free Trade” <http://www.forbes.com>

through the formation of FTA or RTA or Economic Partnership. The creation of ASEAN regional economic cooperation with China through ASEAN-China Free Trade Agreement (ACFTA) is an important step for ASEAN to achieve its greater plan, which is to make ASEAN a regional hub of integration. ASEAN is required to play a central role in driving Asian regional economic cooperation.

In addition to China, ASEAN countries also cooperate with large economies such as Japan, South Korea, India and Australia and New Zealand. Bilateral economic cooperation between ASEAN and each country is done in the ASEAN Plus One scheme (ASEAN + 1). ASEAN-China FTA is the first FTA, and was signed in 2004, followed by ASEAN-South Korea FTA (AKFTA) signed in 2006, and the ASEAN-Japan Economic Partnership Cooperation (AJCEP) signed in 2008. In 2009, ASEAN-Australia & New Zealand FTA (AANZFTA) and the ASEAN-India FTA (AIFTA) were signed. In the 19th Summit, which took place in 2011 in Bali, Indonesia, ASEAN leaders agreed on a draft establishment of a regional comprehensive economic cooperation for East Asia (RCEP).

RCEP membership includes 10 ASEAN member states and six partner countries: China, Japan, South Korea, India, Australia and New Zealand. RCEP is an effort to harmonize the existing framework of partnership, such as ASEAN-China Free Trade Agreement (ACFTA), ASEAN-South Korea FTA (AKFTA), ASEAN-Japan Comprehensive Economic Partnership (AJCEP), ASEAN-Australia-New Zealand FTA (AANZFTA) and ASEAN-India FTA (AIFTA). Bosu Sauchita Das, as quoted by Wang (2013), considered that the establishment of RCEP is an attempt to overcome the problem of “noodle bowl”, the complexity triggered by different commitments in various RTAs. Several problems have arisen, such as tariff reduction schedules, different rates for the same commodities, as well as the rule of origin to obtain preferences. Djatmiko Bris Witjaksono (2014) explains that the harmonization of the partnership is reached with reference to the principles of: (i) World Trade Organization (WTO)-consistent, (ii) significant improvement over existing FTAs, (iii) facilitation of trade and investment, (iv) acknowledging different levels of development, (v) ASEAN plus 1, bilateral and plurilateral FTAs continuing to exist, (vi) FTA partner(s) can join at a later stage, (vii) availability of technical assistance and capacity building, and (viii) parallel negotiations toward comprehensive and balanced outcomes.

The creation of RCEP, according to Djatmiko Bris Witjaksono (2014),<sup>10</sup> is more an effort to increase ASEAN's participation in the global production chain as well as a logical consequence of the realization of the ASEAN Economic Community to be achieved by 2015. Judging from the political dimension, Baginda Pakpahan (2014)<sup>11</sup> assesses that the establishment of RCEP is seen as a middle ground between the interests of China in realizing the establishment of the East Asia Free Trade Agreement (EAFTA) proposed by ASEAN in October 2001, and the Japanese interest in the establishment of the Comprehensive Economic Partnership in East Asia (CEPEA) proposed in August 2006. Based on political considerations, RCEP can be viewed as a forum for regional economic cooperation expected to help create a harmonious relationship between China-Japan and Japan-South Korea, so the regional economic cooperation plays a role in supporting the realization of security stability and regional and global prosperity.



Source: Djatmiko Bris Witjaksono, "Regional Comprehensive Economic Partnership (RCEP): Lesson Learned from ASEAN + 1 FTAs Bercermin pada ACFTA", *Limited Discussion*, 9 June 2014.

<sup>10</sup> Limited discussion results, June 9, 2014. The discussion was facilitated the the Director of ASEAN Economic Cooperation, Indonesian MoFA.

<sup>11</sup> Ibid. Baginda Pakpahan is a lecturer in the Faculty of Social and Political Sciences, Indonesia University

Ravenhill once described Asia as an “institutionally deficit” region, namely lacking institutions that facilitate cooperation among the countries in the region (Avila, 2001). Today, the region has undergone dramatic changes. Various institutions have facilitated cooperation among the countries in Asia, such as the ASEAN Regional Forum (ARF), ASEAN Community, and RCEP. ASEAN plays an important role in facilitating development of regional cooperation institutions. Rudolfo C. Severino illustrated ASEAN during the Cold War period as an instrument of the interests of large states, i.e. the interests of the U.S. to stem the widespread influence of Communism in Southeast Asia. The picture has now changed. ASEAN has become a relatively independent regional institution.

ASEAN's interest in building institutions of regional cooperation involving the interests of the major countries in in fact ASEAN's strategy to prevent the domination of big powers. The principle of the foreign policy of ASEAN countries has always stressed on the strong interest in maintaining the autonomy and sovereignty of the country and to respect other countries by not interfering in domestic matters. These principles are known as the “ASEAN Way”. In essence, ASEAN does not want the big powers to use their force to dominate and influence the issues that developed in the region, along with the changes in the global economy. ASEAN, with its relatively small influence and power, may not be able to effectively build strength and influence to confront the interests of the big powers. Involving competing countries in fora of regional cooperation is a strategy to prevent the dominance of major countries. RCEP can be seen as an attempt to prevent the dominance of large state.

Another interesting aspect of the RCEP is that the regional economic cooperation forum of East Asia did not involve the United States. Has the United States been 'discriminated'? According to Lingga Setiawan (2014),<sup>12</sup> U.S.' non-involvement in the RCEP is due to institutional technical considerations, namely that ASEAN and the United States have not established an FTA, as in ASEAN Plus 1 schemes. The establishment of RCEP is intended as an effort to harmonize existing efforts within the framework of ASEAN plus 1 partnership schemes. The creation of RCEP is reminiscent of the idea of the establishment of the East

---

<sup>12</sup> Interview results, June 6, 2014. Lingga Setiawan is a staff in the Directorate General of ASEAN Cooperation, Indonesian MoFA.

Asia Economic Group (EAEG) proposed by then-Prime Minister of Malaysia, Mahathir Mohamad. Japan was expected to be lead the forum. What is interesting from the forum was that (i) the United States was not involved in the forum, and (ii) Japan objected to lead the forum. EAEG was finally not realized, but the interesting lesson is that in East Asian cooperation, attempts to discriminate the United States, yet involving “competitors” would always raise the suspicion of the United States.

In order to create stability in the region, ASEAN has an interest to maintain U.S. presence in Southeast Asia and in the Asia-Pacific region. The formation of the East Asia Summit, for example, has opened the involvement of the United States and Russia. East Asia Summit is a forum established by ASEAN with 6 countries in East Asia and the Pacific region, namely China, Japan, South Korea, Australia, New Zealand and India. They are partners of ASEAN, because of their willingness to accept the principles established by ASEAN, namely the Treaty of Amity and Cooperation (TAC).<sup>13</sup> ASEAN is a key driver in the formation of the regional forum. EAS is a forum established to discuss issues of economic, political and other strategic common interest and intended to create stability and prosperity in the region. EAS is an open regional forum formed in 2005 in Kuala Lumpur, Malaysia. United States and Russia became EAS members in 2011.

The biggest political issue accompanying the implementation of ASEAN-China FTA today is the increasing competition between the United States and China in Asia. The phenomenon can be observed from the formation of the Trans Pacific Partnership (TPP) developed shortly after the rollout of RCEP in 2011. While RCEP is led by China, TPP is led by the United States. A comparison of the strengths of RCEP and TPP can be seen in Table 1. TPP has in fact been established for long, but initially involved only a few countries, namely Brunei, Malaysia and Chile. This forum began to receive attention when the United States joined. TPP consists of 12 countries, including United States, Japan, Australia, New Zealand, Chile, Canada, Mexico, Peru, Brunei, Malaysia, Singapore and Vietnam. China is not involved in TPP. Judging from the political dimension, TPP is seen as an economic instrument with a political agenda pursued by the United States to offset the strength of China's influence in

---

<sup>13</sup> TAC (Treaty of Amity and Cooperation) regulates ASEAN principles in their interactions, namely self confidence, self reliance, mutual respect, cooperation and solidarity. The treaty was signed by original ASEAN members in 1976. Since 1998, partner countries are allowed to sign the treaty in their partnership with ASEAN.

Asia (Petri and Plummer, 2012, p. 2; Djakababa, 2014).<sup>14</sup> Jagdish Bhagwati (Thompson, 2013) describes TPP as “a political response to China's new aggressiveness, built therefore in a spirit of confrontation and containment, not of cooperation”.

**Table 1: A Comparison of RCEP and TPP**

RTA	Market Size (billion)	Nominal GDP (trillion US \$)	GDP PPP (trillion US \$)	Total Merchandise Trade (trillion US \$)
RCEP	3,1 (45,4%)	20,5 (28,6%)	26,7 (32,1)	10,1 (27,9%)
TPP	0,79 (11,2%)	28,1 (39,2%)	26,9 (32,4%)	9, 5 (20,3%)

Source: Djatmiko Bris Witjaksono, “Regional Comprehensive Economic Partnership (RCEP): Lesson Learned from ASEAN + 1 FTAs Bercermin pada ACFTA”, *Limited Discussion*, 9 June 2014

ASEAN centrality is an important issue for ASEAN in facing global changes (Ludiro Madu, 2014).<sup>15</sup> In order to create stability in the region, ASEAN has played a central role in encouraging the development of regional cooperation institutions. ASEAN is a regional architect recognized by the international community. The formation of regional economic cooperation forum (FTA) is an important instrument in supporting regional stability. In that regard, ASEAN engages Chinese involvement in Southeast Asia, namely through the establishment of ACFTA as an effort in maintaining regional stability. At the same time, ASEAN also has maintained United States’ presence through various fora for regional cooperation in Asia in maintaining stability of the region. However, there are several crucial issues regarding ASEAN centrality in the institutional development of regional cooperation, namely: (i) how ASEAN responds to competition between United States and China through the establishment of RCEP and TPP, and (ii) how ASEAN maintains cohesion among its members , because not all ASEAN members are involved in TPP.

<sup>14</sup> Interview results, June 4, 2014. Yosef Djakababa is the Director of Center of Southeast Asian Studies Indonesia.

<sup>15</sup> Interview results, May 22, 2014. Ludiro Madu is a lecturer in National Development University, Yogyakarta.



The competition between RCEP (under Chinese leadership) and TPP (under US leadership) is a challenge to ASEAN in maintaining its centrality and unity. As mentioned by Ho (2012, p. 2), the challenge for ASEAN in responding to global political-economic changes is to build on ASEAN centrality without losing its focus and become divided over great power rivalries in the region. ASEAN is an arena for the struggles of the interest of major states, especially United States and China. Baginda Pakpahan (2014)<sup>16</sup> emphasizes the importance of ASEAN to play a role as a non-aligned stabilizer, by balancing regional and global interests when negotiating with outside parties. The competition in the interests of major countries is not only a challenge to ASEAN, but also to Indonesia as a leading influential country in the Southeast Asian region.

### **Lessons from ACFTA Implementation in Indonesia**

Indonesia is a major power, wielding influence in the Southeast Asian region, especially in creating regional stability. Indonesia's primacy in ASEAN is supported by a number of factors, such as population, area and economic power. Indonesia has the greatest nominal GDP in ASEAN, with US\$ 878,223.4 million pada 2012. Indonesia's leadership in ASEAN has always been noted by other members. The normalization in the relations of Indonesia and China is an important milestone in the history of ASEAN as a regional organization, in building a harmonious relations and trust with China.

Indonesia-China relations suffered from ebbs and flows (Rizal Sukma, 2009). The normalization of bilateral relations, developed since the early 1990s, has been much supported by Indonesia's democratization process in 1998. The restoration of Indonesia-China relations is also an important aspect in support of Chinese future interests. Blessed with abundant resources, Indonesia is expected to play an important role to China in supporting its economic development and maintain its economic growth rate. Indonesia is also a provider of energy (oil and natural gas), of high importance to China's continuing industrialisation. Restoration of good relations with Indonesia is thus a strategic instrument for China in rebuilding harmony and cohesion with Southeast Asian countries, which was disrupted during the Cold War. Indonesia is a strategic partner for China in strengthening its

---

<sup>16</sup> Limited discussion results, June 9, 2014.

influence in the region, even a key for China's success in Southeast Asia (Owen, 2007). Indonesia, alongside Thailand and Malaysia, are ASEAN member states that develop comprehensive strategic partnerships with China.<sup>17</sup> For Indonesia, its support in the development of ACFTA is regarded as an important economic instrument for the sake of regional stability. The stability in the relations between Indonesia and China is also an important factor in the sustainability of ACFTA.

**Table 2: Comparison of ASEAN Member States (Population, GDP/Capita, and Trade Volume)**

Country	Total population	Gross domestic product at current prices	Gross domestic product per capita at current prices		International merchandise trade		
	Thousand	US\$ million	US\$	US\$ PPP	Exports US\$ million	Imports US\$ million	Total trade US\$ million
	2012	2012	2012	2012	2012	2012	2012
Brunei Darussalam	399.8	16,969.7	42,445.5	54,210.5	13,182.2	3,674.1	16,856.3
Cambodia	14,741.4	14,400.8	976.9	2,528.4	7,434.9	11,228.8	18,663.7
Indonesia	245,425.2	878,223.4	3,578.4	4,902.9	190,031.8	191,689.5	381,721.3
Lao PDR	6,514.4	9,083.1	1,394.3	2,876.2	2,655.2	3,503.5	6,158.8
Malaysia	29,518.0	305,154.4	10,337.9	16,780.0	227,537.8	196,392.6	423,930.3
Myanmar	60,976.0	51,597.5	846.2	1,571.1	9,314.9	9,188.4	18,503.3
Philippines	97,594.0	250,542.7	2,567.2	4,299.2	51,995.2	65,386.4	117,381.6
Singapore	5,312.4	284,389.0	53,533.1	62,509.4	408,393.6	379,723.3	788,116.9
Thailand	67,911.0	366,126.6	5,391.3	9,502.0	229,524.2	247,777.7	477,301.9
Viet Nam	88,772.9	141,669.1	1,595.9	3,449.0	114,510.7	113,282.5	227,793.3
<b>ASEAN</b>	<b>617,165.1</b>	<b>2,318,156.4</b>	<b>3,756.1</b>	<b>5,793.0</b>	<b>1,254,580.7</b>	<b>1,221,846.8</b>	<b>2,476,427.4</b>

The agreement on trade in goods under ACFTA is progressive and is divided into three tracks , namely: (i) Early Harvest Program (EHP)<sup>18</sup>, (ii) normal track<sup>19</sup> and (iii) sensitive

<sup>17</sup> The bilateral cooperation paved the way for high level visits and exchanges between defense/military ministers of China and Indonesia (and also Thailand and Malaysia) as well as joint military drills and exercises (see: Lucio Blanco Pitlo III, "ASEAN-China Ties: Can Trade Buy Peace", <http://www.sharnoffsglobalviews.com>, accessed on June 15, 2014).

<sup>18</sup> EHP provides for an accelerated reduction of tariffs for selected agriculture and manufacturing products between Jan. 1, 2004 and December 2006 for ASEAN-6 countries (Thailand, Malaysia, Singapore, Indonesia, Brunei Darussalam and the Philippines). The deadline for tariff reduction for former socialist ASEAN member countries (CLMV — Cambodia, Laos, Myanmar and Vietnam) was extended to 2010. The scheme allows ASEAN member countries to export selected agricultural products without imposition of any tariff to China from 2004 to early 2010.

<sup>19</sup> Tariffs under the normal track will be lowered by 0 to 5 percent in July 2005, by at least 60 percent by January 2010, and to be eliminated, except for items provided with flexibility, by January 2010.

track programs<sup>20</sup>. Reduction in tariff of a number of commodities in the ACFTA scheme has improved the flow of trade between the two parties. The Early Harvest Program enacted in 2005 opened up opportunities for ASEAN countries to enter the Chinese market. Since 2005, Indonesia's exports to China have increased sharply. Alexander and Lontoh (2011, p. 2) stated that Indonesia's total exports to China amounted to US\$ 8.3 million in 2006, which increased sharply to US \$15.6 million in 2010. The growth of Indonesian exports to China between 2006-2010 has increased by an average of 15.44 percent annually. The Ministry of Trade recorded that since 2011, China has become Indonesia's largest export commodity market, replacing the position of Japan and United States as Indonesia's most important trading partners (See Table 3). In 2014, China absorbs 14.19 percent of Indonesia's non-oil export commodities. China is not only Indonesia's most important trading partner, but also for ASEAN, replacing Japan and United States, both as a group and as individual member countries (Aslam, 2012, p. 51). For China, ASEAN is the third largest trading partner after United States and European Union.

**Table 3: Indonesian Export Destinations (Non-Oil and Gas)**

NO	Description	2009	2010	2011	2012	2013	Trend(%) 2009-2013
1.	CHINA	8.920,1	14.080,9	21.595,6	20.864,1	21.281,6	23,77
2.	JAPAN	11.979,0	16.496,5	18.330,1	17.231,2	16.084,1	6,53
3.	UNITED STATES	10.470,1	13.326,5	15.684,2	14.590,9	15.081,9	8,55
4.	INDIA	7.351,4	9.851,2	13.279,0	12.446,7	13.009,8	14,75
5.	SINGAPORE	7.947,6	9.553,6	11.113,4	10.550,9	10.385,8	6,55
6.	MALAYSIA	5.636,4	7.753,6	9.200,1	8.469,0	7.268,2	6,15
7.	KOREA, REPUBLIC OF	5.174,3	6.869,7	7.565,8	6.684,6	6.052,5	2,90

Source: Central Bureau of Statistics, processed by Ministry of Trade, 2014.

<sup>20</sup> Tariff rates for sensitive list items (such as automotive components) are slated to be lowered to 0 to 5 percent by Jan. 1, 2018, at the latest

At the same time, Indonesia's total imports from China also rose sharply. In 2006, China's total exports to Indonesia amounted to US\$ 6.6 million, and have now reached US\$ 20.4 million. The growth of Chinese imports into Indonesia has increased by an average of 31.53 percent (Chandra dan Lontoh, 2011, p. 2). Since 2009 China has become Indonesia's largest source of imports (See: Tabel 4). In 2012, Indonesia's total imports reached US\$ 141.3 billion, and China's share reached US\$ 28.9 billion, or 19.4%. Chinese products flooded the Indonesian market, and China has also replaced Japan and the United States as the largest source of imports. Djatmiko Bris Witjaksono (2014)<sup>21</sup> noted that both Indonesia and China benefits from the implementation of ACFTA. In the context of trade of goods between the two countries, China is able to optimize it to gain greater benefits than do Indonesi

**Table 4: Indonesian Import Origins (Non-Oil and Gas) 2009-2014**

NO	Description	2009	2010	2011	2012	2013	Trend(%) 2009-2013
1.	CHINA	13.491,4	19.688,0	25.456,4	28.962,0	29.570,5	21,60
2.	JAPAN	9.810,5	16.910,7	19.321,0	22.721,5	19.054,1	17,62
3.	THAILAND	4.570,8	7.420,6	10.248,3	11.298,8	10.613,7	23,43
4.	SINGAPORE	9.236,6	10.053,3	10.548,4	10.637,8	10.158,9	2,50
5.	UNITED STATES	7.037,6	9.299,4	10.697,0	11.468,9	8.873,9	6,97
6.	KOREA, REPUBLIC OF	3.807,8	5.593,0	7.440,9	8.301,5	8.813,4	23,04
7.	MALAYSIA	3.184,2	4.521,8	5.745,4	6.321,1	5.929,2	17,10

Source: Central Bureau of Statistics, processed by Ministry of Trade, 2014

<sup>21</sup> Limited discussion results, June 9, 2014.

It is interesting thing to note that previously trade relations between Indonesia and China used to result in a trade surplus for Indonesia, however, since 2008 Indonesia has always ran a trade deficit that continues to increase (Chandra and Lontoh, 2011, p. 2). In 2013, the deficit reached US\$ 8.29 billion (See Table 5). Not all ASEAN member countries suffer from deficits, though. Singapore is able to gain benefits from its trade with China (see: Table 6).

**Table 5: Indonesia-China Trade Balance (2008-2013)**

Description	2009	2010	2011	2012	2013	Trend(%) 2009-2013
TOTAL TRADE	25.501.497,8	36.116.829,3	49.153.192,3	51.045.297,1	52.450.952,0	19,58
OIL & GAS	3.090.052,2	2.347.861,2	2.101.182,8	1.219.267,7	1.598.916,5	-17,91
NON OIL & GAS	22.411.445,5	33.768.968,1	47.052.009,5	49.826.029,5	50.852.035,5	22,48
EXPORT	11.499.327,3	15.692.611,1	22.941.004,9	21.659.502,7	22.601.487,2	18,22
OIL & GAS	2.579.242,8	1.611.661,3	1.345.420,4	795.429,9	1.319.904,4	-18,50
NON OIL & GAS	8.920.084,4	14.080.949,9	21.595.584,5	20.864.072,7	21.281.582,8	23,77
IMPORT	14.002.170,5	20.424.218,2	26.212.187,4	29.385.794,5	29.849.464,8	20,66
OIL & GAS	510.809,4	736.200,0	755.762,3	423.837,7	279.012,1	-16,15
NON OIL & GAS	13.491.361,1	19.688.018,3	25.456.425,0	28.961.956,8	29.570.452,7	21,60
BALANCE OF TRADE	-2.502.843,2	-4.731.607,1	-3.271.182,4	-7.726.291,8	-7.247.977,5	29,91
OIL & GAS	2.068.433,4	875.461,3	589.658,1	371.592,2	1.040.892,3	-19,99
NON OIL & GAS	-4.571.276,6	-5.607.068,4	-3.860.840,5	-8.097.884,1	-8.288.869,8	16,86

Source: Central Bureau of Statistics, processed by Ministry of Trade, 2014

**Tabel 6 : Trade Relation between China and ASEAN Members (2010, US Dollar Billion)**

	Volume of Trade	Trade Increase / Decreased (%)	Balance of Trade
--	-----------------	-----------------------------------	------------------

Brunei Darussalam	0,36	517,4	-0,234
Cambodia	0,38	336	0,345
Indonesia	12,4	74,0	-0,595
Laos PRD	0,42	73,3	-0,019
Malaysia	22,2	68,4	-7,69
Myanmar	1,319	76,8	0,798
Philippines	8,25	49,5	-1,264
Singapore	17,5	42,2	3,418
Thailand	15,78	60,4	-4,786
Vietnam	7,926	50,1	-4,168

Source: Chandra dan Lontoh, 2011, p.4

Since the 1997 economic crisis, Indonesia has been increasingly relying on an export strategy to spur economic growth. Similarly, China also relies on such a strategy to sustain its economic growth. China is more successful in exploiting export opportunities than Indonesia. China also gains more benefits in trade with ASEAN countries (Aslam, 2012). China-ASEAN trade was considered more competitive rather than complementary in its character, including agricultural products (Nasrudin et al., 2014, pp. 26-27). Products produced by both parties do not complement each other. Both parties trade in commodities and thus become competitors. Indonesia is relatively unable to compete with China on a number of labor intensive manufactured products such as textiles, shoes and toys. Chinese products flooding the Indonesian market generally are products of labor intensive manufacturing industries with relatively low prices, bringing a wide impact for Indonesia. Indonesia's weakness in competing with Chinese products has pushed the bankruptcy of labor intensive industries in Indonesia. Closure of several manufacturing industries following the implementation of ACFTA exacerbates the deindustrialization of Indonesia (Faisal Basri, 2009).

ACFTA has brought serious challenges to Indonesian industrial development, especially labor intensive industries. In 2009, 271 factories were closed, due to inability to

compete, and 18,396 workers lost their jobs.<sup>22</sup> Ten industrial sectors are expected to experience a slump due to ACFTA implementation,<sup>23</sup> including: (i) textile and garment (ii), food and beverage, (iii) petrochemical, (iv) agricultural equipment and machinery, (v) footwear, (vi) synthetic fibers, (vii) electronics (including cables and electrical equipment), (viii) machinery, (ix) industrial engineering, and (x) steel. Industries incapable of competing will shut down or reduce production capacity. Closure and reductions in production capacity will have a serious impact on employment, resulting in about 7.5 million job loss (*The Jakarta Post*, 12 January 2012).

The threat of layoffs has resulted in massive labor rallies in major cities. A number of labor organizations: Serikat Pekerja Tekstil Sandang dan Kulit (SPTSK), Serikat Pekerja Seluruh Indonesia (SPSI), Serikat Pekerja Nasional (SPN), Gabungan Serikat Pekerja Merdeka Indonesia (Gaspermindo), Federasi Buruh Seluruh Indonesia (FBSI), Gerakan Organisasi Buruh Seluruh Indonesia (GOBSI), Serikat Buruh Seluruh Indonesia (SBSI), and Federasi Serikat Pekerja Metal Indonesia (FSPMI), for example, held a rally in Bandung, West Java.<sup>24</sup> They demanded the government to revoke ACFTA. Opposition to ACFTA is also an agenda in May Day commemorations, held by thousands of workers from various labor organisations in the Greater Jakarta area.<sup>25</sup>

Concern for industries in line with the implementation of ACFTA has also resulted in reaction from various government ministries. The Ministry of Industry has proposed a postponement to the implementation of ACFTA.<sup>26</sup> Minister Fahmi Idris emphasized that the implementation of ASEAN FTAs have to be delayed to protect domestic industries, especially those that are still weak.<sup>27</sup> A number of industrial associations, such as IISIA (iron and steel), API (textile) and Asmino (furniture and craft) requested a postponement of ACFTA.<sup>28</sup> The

---

<sup>22</sup> See "Perdagangan Bebas ASEAN-China: Berdagang untuk Siapa?" in *Jurnal Demokrasi Sosial*, Vol. 8 (3), February-June 2010.

<sup>23</sup> See "Terjerat FTA ASEAN-China" <http://economy.okezone.com>, December 21, 2009, accessed June 12, 2014,

<sup>24</sup> See <http://fsp2ki.blog.com>, accessed June 12, 2014

<sup>25</sup> See <http://www.tempo.co>, April 30, 2010, accessed June 12, 2014

<sup>26</sup> See <http://finance.detik.com>, accessed June 12, 2014

<sup>27</sup> See <http://finance.detik.com>, accessed June 12, 2014

<sup>28</sup> See: <http://bisnis.news.viva.co.id>, June 30, 2009, accessed June 12, 2014

Indonesian Chamber of Commerce regards that ACFTA implementation will result that businessmen preferring to become traders rather than industrialists. According to the Head of Permanent Committee on Distribution and Agency of the CoC, Natsir Mansyur, “the present crisis will result in the pragmatic businesses preferring to shut down factories and moving to become traders, due to the cheap price of imports.” Similarly, the micro, small and medium enterprises section of the CoC pushed the government to postpone the implementation of ACFTA. They are concerned that elimination of tariffs will weaken SMEs as the backbone of industry in Indonesia. By 2008, for example, cheap Chinese imports have taken over 70% of the Indonesian market, taking over from SMEs.<sup>29</sup> The demand to postpone ACFTA was also stated by entrepreneurs in the Indonesian Entrepreneurs Association (Apindo). Sofyan Wanandi, chairman of Apindo, demands the government to postpone ACFTA, even if it will reduce the credibility of the government. He stated, “...if we have to postpone, the government has to be prepared to apply non-tariff barrier and anti-dumping policies to save the domestic industry.”<sup>30</sup>

The Indonesian parliament also reacted against the implementation of ACFTA. The vice chairman of House Commission VI, Aria Bima filed an objection to the implementation of ACFTA, not only because of Indonesia’s unpreparedness, but also the legal basis. He claimed that “..... there is no legal requirement that requires Indonesia to follow the stipulations of AFTA and ACFTA.”<sup>31</sup> Rejection of ACFTA was echoed by other members of the House Commission VI, by demanding government accountability and urging the dismissal of the Minister of Trade Mari Elka Pangestu.<sup>32</sup>

---

<sup>29</sup> See “Terjerat ASEAN-China FTA”, <http://economy.okezone.com>, 21 Desember 2009. accessed June 17, 2014.

<sup>30</sup> “APINDO Desak Pemerintah Tunda FTA ASEAN-China” <http://economy.okezone.com>; December 17, 2009, accessed January 12, 2014.

<sup>31</sup> “DPR meminta FTA ASEAN-China Dinegosiasi Ulang” <http://finance.detik.com>, November 3, 2009, accessed June 12, 2014.

<sup>32</sup> Mari Elka Pangestu is the Minister of Trade in the 2004-2009 cabinet of Susilo Bambang Yudhoyono. She was not a political party official, but a researcher from the Center for Strategic and International Studies and her policy orientation was to strengthen the market mechanism. She was no longer appointed as minister in the next Susilo Bambang Yudhoyono cabinet, and was replaced by Gita Wirjawan, a businessman and Democrat Party member



ACFTA has triggered rejection from various elements of society. However, at the same time, the ACFTA is an element of Indonesian economic diplomacy alongside ASEAN countries in the face of uncertain economic changes. In fact, ACFTA doubles as a political agenda championed by Indonesia in creating regional stability. Thus, domestic political support is an important aspect for Indonesia, especially in playing an active role in ASEAN to create stability and prosperity in the region. An important issue is how Indonesia faces domestic pressures in the implementation of ACFTA. The SBY administration took the measure of replacing Minister of Trade Mari Pangestu as an attempt to calm widespread reaction rejecting ACFTA; a political maneuvering to maintain political support for his government.<sup>33</sup> Titik Anas (2014)<sup>34</sup> considered that the dismissal of the Minister of Industry and Minister of Trade has been due to political considerations. However, it did not solve the problems faced by Indonesia. The challenges for Indonesia in integrating its economy into the wider economic system, as well as Indonesia's interests to play an active role in ASEAN to create stability and prosperity of the region, are to increase competitiveness of the national economy.

The most crucial issue accompanying the implementation of ACFTA in Indonesia is Indonesia's weak economic competitiveness. Increasing competitiveness is not a new challenge for Indonesia. The economic difficulties experienced by Indonesia since the 1980s, triggered by the global economic crisis,<sup>35</sup> has pushed the importance of Indonesia's economic competitiveness in the face of changes in the global economy. The strategy of export-oriented industrialization policy supported by a series of economic deregulations has saved Indonesia from the global economic crisis in the mid-1980s. The Asian economic crisis hitting Indonesia in 1997 plunged the country into economic difficulties, including

---

<sup>33</sup> In the Indonesian presidential system the SBY regime is a minority government, obtaining the majority in the direct presidential elections, but not supported in the parliament because the Democrat Party only obtained 33% of the votes in the legislative election. As a result the regime was rather bound by pressures from the parliament.

<sup>34</sup> Interview on June 6, 2014. Titik Anas is an economist and the Managing Director of Rumah Presisi.

<sup>35</sup> The mid-1980s global economic crisis was felt by Indonesia in the declining price of oil in the international market. Oil was Indonesia's major export, and the crisis was felt by the Indonesian economy. In order to overcome the crisis, Indonesia had to diversify its exports, no longer depending on oil as the sole source of income. This was done by pushing non-petroleum exports. Economic liberalization was an important aspect for the increasing of Indonesian competitiveness in facing global economic challenges.

exacerbating national economic competitiveness. Increasing competitiveness of the economy becomes a crucial issue in Indonesia's economic recovery. Ann Booth (2011) considered that the challenge of national economic recovery is not only determined by external factors, such as regional economic crisis or emergence of China as a competitor in the global market. The biggest challenge facing Indonesia in economic recovery, including increasing economic competitiveness, is determined by internal factors, including political instability, rising terrorism, deteriorating infrastructure, and stricter labor legislations, all of which had caused a slowdown in FDI inflows into Indonesia. Jose Rizal (2013)<sup>36</sup> asserts that the Indonesian government was regarded to be less than serious in preparing Indonesia to face the competitive changes in the global economy. Similarly, Anton Supit (2013)<sup>37</sup> considered that Indonesia's involvement in regional economic cooperation fora, such as AFTA, AFTA, ASEAN-India, and the ASEAN-China, has only sparked a political commitment in promoting economic liberalization to boost economic competitiveness. However, economic liberalization in the midst of a weak democracy has become a serious obstacle in improving the competitiveness of the economy. Weak rule of law, widespread malpractices due to the implementation of regional autonomy, as well as poor infrastructure and public services, are serious obstacles in improving the competitiveness of the Indonesian economy. In fact, due to domestic pressure, the government has resorted to a distorted trade policy through quotas and other non-tariff barriers (NTBs). Anwar Nasution is worried that the protection of non-tariff barriers in the middle of the current weakness of democracy will be difficult to monitor, and will only stimulate rent-seeking opportunities for those who are closely connected politically (The Jakarta Post, 13 April 2013). Such a development makes it very difficult for Indonesia to build economic competitiveness.

There are a number of interesting notes from the implementation of ACFTA in Indonesia. First, the implementation of the ACFTA do not bring significant economic benefits in promoting progress and improving the competitiveness of the Indonesian economy. Second, Indonesia is not very serious in addressing the opportunities and challenges of regional economic cooperation. Third, the active role of ASEAN in creating stability of the

---

<sup>36</sup> Interview results, April 15, 2013. Jose Rizal Damhuri is the Head of Economy Department, CSIS, Jakarta.

<sup>37</sup> Interview results, April 21, 2013. Anton Supit is the Vice Chairman of Apindo.

region, which does not translate into benefits for Indonesia, triggers a polemic about the interests of Indonesia in ASEAN. As noted by Aleksius Jemadu (2014),<sup>38</sup> is ASEAN for Indonesia; or Indonesia for ASEAN? Fourth, internal constraints faced by Indonesia in the implementation of ACFTA will also bring adverse impact to the centrality of ASEAN in creating regional stability.

## Conclusion

Southeast Asia is a region that has always been the arena of the struggles of interests of the big powers. China's rise as a global power, as well as U.S. interests in maintaining its influence in East Asia are factors that affect the dynamics of political-economic changes in the region. ASEAN, as a regional architect, has played an active role in bringing about stability in the region, namely through the establishment of various regional fora involving the interests of the competing countries in the region. ASEAN's interest to involve major countries is intended to prevent dominant influence of the major countries. The establishment of the ASEAN-China FTA in engaging China's involvement, as a global economic power, is not only caused by economic considerations. There are political considerations, namely overcoming the anxiety of several ASEAN countries that sees the rise of China as a threat to regional stability. Accordingly, ACFTA can be viewed as an economic instrument developed into ASEAN's strategy in realizing geo-political interests, namely creating regional stability.

Indonesia is one of the ASEAN countries that support the formation of the ASEAN-China FTA. Through various FTA fora developed by ASEAN, Indonesia has utilized RTA as a form of economic diplomacy in increasing its influence in the global arena. Indonesia's commitment to the establishment of various regional economic cooperation fora has enhanced the prestige of Indonesia in international politics. However, the price to be paid for the international prestige is high. Through ASEAN-China FTA, Indonesia has played an active role in bringing ASEAN to create stability in the region, but unfortunately the progress of the region has not been supported by an increase in the competitiveness of the national

---

<sup>38</sup> Interview results, May 19, 2014. Aleksius Jemadu is the Dean of the Faculty of Social and Political Sciences, Pelita Harapan University, Tangerang.

economy as a means to meet the challenges of regional and global economic changes. Implementation of ACFTA in Indonesia has sparked a critical reaction and rejection from various domestic parties. Negative perception against ACFTA, rising nationalist sentiment and populist political orientation are serious challenges for Indonesia's commitment in addressing regional economic cooperation in the future, including Indonesia's preparedness in facing RCEP.<sup>39</sup> Internal consolidation becomes a crucial issue for Indonesia to play an active role in bringing about stability in the region.

## References:

Aslam, Muhammed, "the Impact of ASEAN-China Free Trade Area Agreement on ASEAN's Manufacturing Industry" *International Journal of China Studies*, Vol. 3 (1) April 2012. This paper can be accessed from <http://ics.um.edu.my/images/ics/IJCSV3N1/aslam.pdf>

Avila, John Lawrence A., "EPEC and ASEM Reconciling Two Regional Agenda" in Wilfrido V. Villacorta (ed), *Coalition Building and APEC*, Makati City, Phillipine: Phillipine APEC Studi Center Network (PASCN), Phillipine Institute for Development (PDDS), and Yuchengco Center for East Asia (YCEA), 2001.

Ba, Alice D., "ASEAN and China: Renavigating Relation for a 21st Century Asia" *Asian Survey*, Vol. XLIII (4), July/August, 2003.

Booth, Anne, "China's Economic Relations with Indonesia: Threats and Opportunities", *Journal of Current Southeast Asian Affairs*, 30, (2), 2011.

Basri, Faisal, "FTA ASEAN-China dan Deindustrialisasi", *kompas.com*, 21 Desember 2009. Diakses 17 Juni 2014.

Chandra, Alexander C. Dan Lucky A. Lontoh, *Indonesia-China Trade Relations: The Deepening of Economic Integration Amid Uncertainty*. Trade Knowledge Network, 2011. This paper can be accessed from <http://www.iisd.org/publications>

---

<sup>39</sup> RCEP, which is to be realized in 2015, is expected to pass through ten rounds of meetings. The first meeting was held in Brunei Darussalam on May 9-13, 2013. The second meeting was held in Brisbane, Australia on September 23-27, 2013. The third meeting was held in Kuala Lumpur, Malaysia on January 20-24, 2014. The fourth meeting was held in Nanning, China, on March 31-April 4, 2014, and the fifth in Singapore, June 23-27, 2014. The lengthy preparation provides an opportunity for Indonesia for internal consolidation, namely by involving actors in the agenda of regional economic cooperation talks.

Chirathivat, Suthiphand, "Building ASEAN-China FTA: Opportunities, Modalities and Prospects" dalam Saw Swee Hock, Sheng Lijun dan Chin Kin Wah (eds), *ASEAN-China Relations: Realities and Prospects*, Singapura: ISEAS, 2005.

Chia Siow Yue, "ASEAN-China Free Trade" Presentation Paper at *The AEP Conference* – Hongkong, April 2004. This paper can be accessed from <http://www.hiebs.hku.hk/aep/Chia.pdf>

Cohn, Theodore H., *Global Political Economy: Theory and Practice*, New York: Pearson Education Inc., 2008.

Ho, Benyamin, "ASEAN's Centrality in A Rising Asia", *Working Paper*, No. 249, Rajaratnam School of International Relation (RSIR), Singapura, 13 September 2012

Jing-dong Yuan, *China ASEAN Relations: Perspective, Prospect and Implication for US Interest*, Oktober 2006. This paper can be accessed from <http://www.StrategicStudiesInstitute.ary.mil>

Mack, Andrew dan John Ravenhill, "Economic Security Regimes in the Asia-Pacific Region" dalam Andrew Mack dan John Ravenhill (eds.), *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region*, Canberra: Allen and Unwin, 1994.

Nasrudin, dkk, "China-ASEAN Free Trade: Complementary or Competition", *IOSR Journal of Economic and Finance*, Vol. 3, (4), 2014. This paper can be accessed from <http://www.iosrjournals.org/iosr-jef/papers/vol3-issue4/C0342331.pdf>

Ong Keng Yong, "Securing a Win-Win Partnership for ASEAN and China" dalam Saw Swee Hock, Sheng Lijun dan Chin Kin Wah (eds), *ASEAN-China Relations: Realities and Prospects*, Singapura: ISEAS, 2005.

Owen, Edmund, *Sino-Indonesian Relations Since 1965*, Georgia Court University, December 2007. This paper can be accessed from <http://www.academia.edu>.

Petri, Peter A and Michael G Plummer, "The Trans Pacific Partnership and Asia Pacific Integration: Policy Implication". *Policy Brief*, 12 (16) June 2012.

Sarah Y. Tong dan Chaterine Chong Siew Kieng, *China-ASEAN Free Trade Area in 2010: A Regional Perspective*, EAI Background Brief No. 519, 12 April 2010. This paper can be accessed from [www.eai.nus.sg](http://www.eai.nus.sg)

Saw Swee-Hock, Sheng Lijun dan Chin Kin Wah, "An Overview of ASEAN-China" dalam Saw Swee Hock, Sheng Lijun dan Chin Kin Wah (eds), *ASEAN-China Relations: Realities and Prospects*, Singapura: ISEAS, 2005.

Sukma, Rizal, "Indonesia-China Relations: Politics of Re-engagement", *Asian Survey*, Vol. 49, No. 4 (July/August), 2009. This paper can be accessed from <http://www.jstor.org>.

Soesastro, Hadi, "The Asia-Pacific Region on the Threshold of the 21st Century: Trends and Goals", *The Indonesian Quarterly*, Vol. XXIII, (4), 1995.

Thomson, Mark, "Trade Partnership Competition: TPP vs RCEP", April 2013. This paper can be accessed from <http://www.aspistrategist.org.au>

Wang Yuzhu and Sarah Y TONG, "China-ASEAN FTA Changes ASEAN's Perspective on China", This paper can be accessed from [www.eai.nus.edu.sg/Vol2No2\\_WangYuzhu&SarahYTong.pdf](http://www.eai.nus.edu.sg/Vol2No2_WangYuzhu&SarahYTong.pdf)

Wang Yuzhu, *The RCEP Initiative and ASEAN Centrality*, China Institute of International Studies, 2013. This paper can be accessed from [www.csiis.org.cn](http://www.csiis.org.cn)

----- //