

research article

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Analysis of China-Indonesia Economic and Trade Cooperation

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Abstract. *The world economy is in crisis amid the ongoing outbreak of the novel coronavirus. Countries are committed to seeking new development opportunities by strengthening regional cooperation. In recent years, China-Indonesia cooperation has been continuously strengthened. As the largest economy in Southeast Asia, Indonesia has great potential for development. Under the framework of the Belt and Road Initiative, it is believed that the economic and trade scope of the two sides will continue to expand. From the perspective of economy and trade, this paper will analyze the current situation of China-Indonesia cooperation in trade, digital economy and cooperation mechanism, put forward the problems that hinder the development of economic and trade cooperation between the two countries, and further explore the future development path of cooperation between the two countries. According to the research, the trade scale between China and Indonesia has been expanding and the cooperation in the field of digital economy is close. However, there is a certain gap in the development level of the economy and trade between the two countries. In the future, the two countries will take advantage of the Regional Comprehensive Economic Partnership opportunity to further strengthen the coordination of their policies.*

Keywords: Belt and Road Initiative; digital economy; trade scale; strategic cooperation; China; Indonesia

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Анализ китайско-индонезийского экономического и торгового сотрудничества

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Аннотация. *Мировая экономика остается в состоянии кризиса на фоне продолжающейся вспышки нового коронавируса. Страны стремятся найти новые*

возможности в области развития путем укрепления регионального сотрудничества. В последние годы постоянно укрепляется китайско-индонезийское сотрудничество. Как крупнейшая экономика в Юго-Восточной Азии, Индонезия имеет большой потенциал для развития. В рамках инициативы «Один пояс, один путь» предполагается, что экономический и торговый охват обеих сторон будет продолжать расширяться. С точки зрения перспектив развития экономики и торговли в представленной статье будет проанализировано текущее состояние китайско-индонезийского сотрудничества в торговле, цифровой экономике и развитии механизмов сотрудничества. В статье предложены для обсуждения проблемы, которые препятствуют развитию экономического и торгового сотрудничества между двумя странами. Согласно полученным результатам исследования, масштабы торговли между Китаем и Индонезией расширяются, и сотрудничество в области цифровой экономики является наиболее тесным. Однако, автором отмечен и существующий определенный разрыв в уровне развития экономики и торговли между двумя странами. В будущем обе страны воспользуются возможностями регионального всестороннего экономического партнерства для дальнейшего укрепления координации своей политики.

Ключевые слова: инициатива «Один пояс, один путь»; цифровая экономика; масштабы торговли; стратегическое сотрудничество; Китай; Индонезия

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Introduction

Indonesia is not only the largest economy of ASEAN, but also the initiator of China's "21st Century Maritime Silk Road". With the deepening connection between Indonesia's "the Global Maritime Fulcrum" concept and the Belt and Road initiative, the two countries are currently building a "Regional Comprehensive Economic Corridor". China and Indonesia signed a memorandum of cooperation on "Two Countries Twin Parks" in 2021 and launched a high-level dialogue and cooperation mechanism, which prompted the upgrading of China-Indonesia economic and trade cooperation and ushered in broad prospects.

Materials and Methods

This paper uses the literature research method and qualitative analysis method, understands the data acquisition method according to the past literature, and carries out a "qualitative" discussion on the prospects of cooperation between China and Indonesia. This paper selects the import and export volume

between China and Indonesia from 2012 to 2021, analyzes the trend of trade volume between the two countries in the past 10 years, obtains the types of goods traded between the two countries, and then obtains the trade structure between the two countries. At the same time, to obtain the cooperation projects and cooperation agreements signed by the two countries in recent years from the official channels, and analyze the strategic methods of deepening economic and trade cooperation between the two countries in the future.

Results of Research

Trade between China and Indonesia Expands

According to the National Bureau of Statistics data and China Customs data (see Fig. 1), the total import and export volume between China and Indonesia increased from \$ 66.234 billion in 2012 to \$ 124.57 billion in 2021, with an average annual growth of 5.91 %. Among them, China's imports from Indonesia increased from USD 31.951 billion to USD 63.923 billion, an average annual growth of 6.51 %. China's exports to Indonesia increased from USD 34.283 billion to USD 60.647 billion, with an average annual growth rate of 5.32 %. The import and export growth rate of China and Indonesia ranks first among ASEAN countries [1]. Although the slowdown in China's economic development in 2015 caused a significant decline in the trade volume between China and Indonesia, the trade volume between China and Indonesia accelerated from 2017 to 2019 [2]. In general, the number of trades between the two sides showed an upward trend. At present, China's imports from Indonesia are mainly raw materials and rough processing products, including lubricants, fossil fuels, related raw materials and manufactured goods classified according to raw materials. The four major categories of goods exported from China to Indonesia are transportation equipment and mechanical equipment, finished products classified according to raw materials, chemical finished products and related products, and miscellaneous products [3]. From the perspective of the commodity structure of Sino-Indonesian trade, the trade between the two sides belongs to inter-product trade, which is conducive to the realization of specialized division of labor.

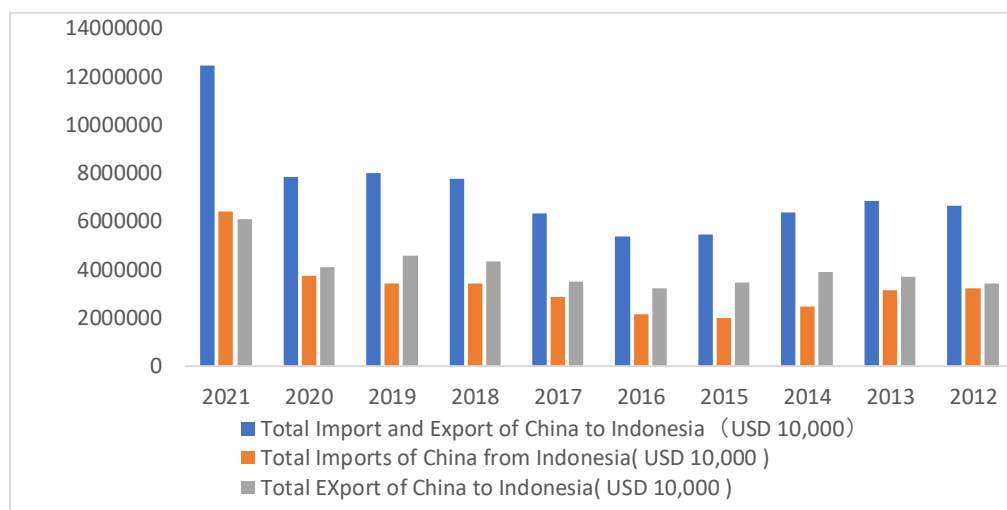


Fig. 1. Total Import and Export Trade between China and Indonesia 2012–2021
[Source: According to the National Bureau of Statistics and China Customs data statistics obtained]

Close Digital Economic Cooperation between the Two Countries

China's digital economic infrastructure construction and development is gradually improving, mainly reflected in the continuous expansion of the digital economy, the diversification of digital industry models, and the continuous introduction of relevant digital economic development policies. China's digital economy has a long history. In 2012, cloud computing was included in the 12th Five-Year National Strategic Emerging Industry Development Plan. Until the G20 Hangzhou Summit, it was proposed to upgrade the development of the digital economy into an international action strategy. These efforts have provided a strong guarantee for the smooth development of digital cooperation between China and Indonesia. Indonesia has shown strong development potential in the digital economy in recent years. The digital economy market is large and is gradually opening up to the outside world in the digital field. In 2020, the Indonesian Parliament passed the "Comprehensive Employment Creation Law" aimed at attracting investment, increasing employment opportunities and improving the business environment, which stipulates that the telecommunications and e-commerce industries are 100 % open to foreign investment. In order to gain a certain market share in the Southeast Asian economic market, Chinese enterprises have focused on Indonesia's digital economy. In mobile consumption and social software applications, China and Indonesia will face many opportunities for cooperation, and Chinese and Indonesian e-commerce companies can carry out investment cooperation projects. At present, China and Indonesia have carried out cooperation in online car-

hailing, online tourism, cloud computing center, e-commerce and other aspects. For example, Tencent Group acquired a stake in Indonesian delivery and ride-hailing service providers in 2017. Baidu and Indonesia Tourism Bureau have carried out strategic cooperation to help India's online travel, settled in China.

Bilateral Economic and Trade Cooperation Mechanism Deepening

The economic cooperation mechanism between China and India is improving and developing. So far, the two sides have a total of three trade cooperation frameworks, namely, jointly building the "Belt and Road", China-ASEAN Free Trade Area (CAFTA)¹ and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area ("4+1"). The CAFTA framework was upgraded in 19 years. China and the six ASEAN countries (including Indonesia) have achieved zero tariffs on more than 90 % of their products, and are now trying to start building version 3.0 [4]. In July 2022, when the President of Indonesia Joko Widodo visited China, the two sides established the general direction of jointly building a community of shared destiny between China and Indonesia, renewed the memorandum of understanding on cooperation on the concept of "the Belt and Road" and "the Global Maritime Fulcrum", and completed projects such as the first flagship project of Jakarta-Bandung high-speed railway and "Regional Comprehensive Economic Corridor" and "Two Countries Twin Parks" [5]. Jakarta-Bandung high-speed railway connects the Indonesian capital Jakarta and Bandung. It is not only the first project of China's high-speed railway "going out", but also the first high-speed railway in Southeast Asia. It brings together multiple new models and new ideas of the "China Project", and localizes many cutting-edge technologies. As of now, the Jakarta-Bandung high-speed railway is expected to start operating in mid-2023. If it can be opened on schedule, it will drive economic growth along the line and bring more opportunities for cooperation in many fields between the two countries, especially in the field of production capacity and infrastructure construction [6].

Main Problems in China-Indonesia Economic and Trade Cooperation

1. China's Trade Surplus with Indonesia is Widening

China's export trade volume to Indonesia is growing, and Indonesia's import volume to China is greater than its export volume. China is not only

¹ CAFTA – China-ASEAN Free Trade Area

Indonesia's largest trading partner, but also the largest source of Indonesia's deficit, which is not conducive to Indonesia's improvement of a country's terms of trade. This will impact the development of related industries and enterprises in Indonesia, which will easily lead to trade disputes between the two countries [7]. In recent years, Indonesia has frequently launched anti-dumping investigations against China, mainly involving eight types of products (see Fig. 2).

China has become the primary target country for Indonesia's anti-dumping. From 1996 to 2021, Indonesia launched 34 anti-dumping investigations against China. Of these, 23 cases were closed under anti-dumping measures, accounting for 33.3 per cent of the total number of anti-dumping investigations initiated in Indonesia during the same period. Indonesia is the most anti-dumping country against China among ASEAN countries. None of the cases resulted in price undertaking measures [8]. Side shows that the degree of Indonesia's anti-dumping measures against Chinese goods is heavier. If China does not take relevant measures to deal with this situation, it will not be conducive to in-depth economic and trade cooperation between China and Indonesia.

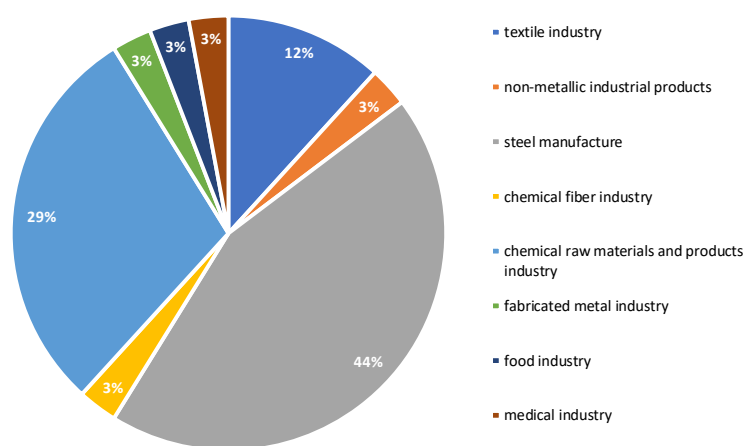


Fig. 2. Product Types Involved in Indonesia's Anti-dumping against China
[Source: China Ministry of Commerce Trade Relief Case Database]

2. There is a Gap Between the Development Level of the Digital Economy and Policies and Regulations

Indonesia's digital infrastructure is relatively backward, difficult to meet the needs of development in the digital sector. First of all, Indonesia's information and communication facilities are difficult to achieve interconnection with China in information exchange and trade. In January 2021, Indonesia's Internet penetration rate was 77.3 %, but more than half of Indonesia's are more

than 10,000 rural hospitals did not have Internet access, reflecting the uneven development of the digital economy in the region. Secondly, the development level of digital payment in Indonesia is far from that in China. The payment habits of Indonesian people are not too much affected by the increase of payment scenarios and methods. Cash is still the most popular payment medium. According to the survey, Indonesian payment channels for about 70 % of the bank transfer, cash payment is second. Finally, Indonesia's network information security is low. The country is frequently attacked by cyber-attacks. The severity of the attacks is the highest in the world [9]. The severe environmental situation will increase the risk of investors opening investment projects in Indonesia. Indonesia still needs to continue its efforts in managing the security of the digital economy environment, so that Chinese and Indonesian enterprises can carry out business cooperation in a secure network environment in the future.

Although the digital economy is developing rapidly, there are differences in policies and regulations formulated in various countries, and relevant laws and regulations need to be improved. China and Indonesia have different governance policies and efforts in data flow, consumer privacy protection, digital currency and other aspects, which will also hinder the cooperation between China and Indonesia in the digital economy.

3. Central-Local Relations in Indonesia are not Conducive to China-Indonesia Projects

Due to the instability of Indonesia's central and local relations, there is a phenomenon of power struggle, which will increase the instability of policy [10]. Indonesian local governments may seek benefits for relevant interest groups through legislative means rather than adapting to central government policies and regulations, which is not only difficult to protect the interests of investors, but also not conducive to promoting economic growth in the relevant regions. The construction of the Jakarta-Bandung high-speed railway involves the cooperation of multiple border areas. At present, its construction problems are more from local governments. In 2017, the county council of the West Bandung County rejected the "spatial planning plan" submitted by the West Bandung County government. The reason for rejection was that the project only benefited a small number of groups, which also showed that the regional institutional arrangements limited the development of infrastructure. At the same

time, Indonesia's private ownership of land makes it difficult to transfer land. It requires that the project development and investment of large-area land can be carried out after solving the problem of land expropriation. The cumbersome land use procedure is one of the important factors hindering Indonesia's rapid promotion of public infrastructure construction. The problem of land ownership determination increases the cost and risk of investors. Since land acquisition requires the permission of land owners and relevant government departments, the unclear central-local relations make communication and coordination between different departments, more difficult. These problems are not conducive to Chinese enterprises to carry out investment projects in Indonesia.

Discussion

The Alignment of Economic and Trade Strategies between Two Countries will be Strengthened

The trade between China and Indonesia is highly complementary. China can increase the number of manufactured goods exported to Indonesia, while Indonesia can increase the export of agricultural raw materials, food, minerals and fuels to China. There is a certain gap between the two sides in terms of factor endowment, technical conditions and economic development level. In the future, China will communicate more with Indonesia in trade and trade relief policies and regulations. China's active participation in the global value chain has increased domestic value-added content and improved price competitiveness. Compared with other Asian partners, Indonesia's value-added competitiveness has declined and, most likely, it faces greater price increases [11]. Indonesia may strengthen strategic cooperation with China on global value chains to maximize value added. With the "Belt and Road" framework and the upgraded version of the China-ASEAN Free Trade Agreement, we will continue to expand the scale of trade and investment in goods between the two sides. As the first place of China's "21st Century Maritime Silk Road", Indonesia has continuously connected its "Global Maritime Fulcrum" concept with the "Belt and Road" initiative [12]. China and Indonesia jointly discuss the upgrading of industrial structure, strengthen the complementary relationship between economy and trade, reduce Indonesia's anti-dumping investigation against China, further reduce trade disputes and avoid trade friction.

*Promote Digital Infrastructure and Policy Connectivity
between China and Indonesia*

Affected by the epidemic, Indonesia's economy fell into recession, but the Indonesian government used the Internet power and accelerated the pace of digitization to reduce risks. In the future, Indonesia will focus on the development of digital infrastructure, and the Chinese government and enterprises can seize this opportunity to actively participate in the co-construction of Indonesia's digital infrastructure [13]. On the one hand, the Chinese government can provide financial support for Indonesia's infrastructure construction by setting up cooperation funds or loans, commercial banks, etc. On the other hand, China and Indonesia can jointly build a digital talent training platform to increase the supply of digital talents through the counterpart digital talent delivery plan. Chinese enterprises can vigorously use local digital talents and actively train local digital talents.

In the future, China and Indonesia will further realize the interconnection of digital policies and strategies, and build fair and transparent data using standards and rules. Two countries are able to strengthen digital cooperation and exchange between governments, and jointly formulate policies on the cross-border data flow and data security management. The government jointly negotiates the establishment of relevant organizations aimed at jointly cultivating digital talents and forming a digital technical specification standard system in line with the interests of both sides.

*Seize RCEP² Development Opportunities and Inject New Impetus
to China-Indonesia Cooperation*

In early 2022, the Regional Comprehensive Economic Partnership (hereafter RCEP) will come into force, with 15 countries including China, Indonesia, Singapore and Thailand and so on. This agreement is the largest free trade agreement in economy and trade, reflecting the openness and inclusiveness of the regional market, which will be conducive to the global economic recovery in the post-epidemic era. China is among the first countries to enter into force. After Indonesia completes the domestic approval process of RCEP, the two sides will add new institutional cooperation mechanisms [14]. The formal entry into force of RCEP will promote China to deepen economic and trade

² RCEP: Regional Comprehensive Economic Partnership

cooperation with ASEAN countries, including Indonesia. In 2021, China's direct investment in ASEAN will reach US \$ 14.35 billion. Indonesia is one of the top three investment destinations. Indonesia has attracted more foreign investment by continuously optimizing the business environment. In 2022, it not only established an "investment management institution" to promote the construction of national strategic projects, but also officially launched the Indonesia-China local currency settlement mechanism in September. On this basis, Chinese enterprises are actively involved in the construction of infrastructure and industrial parks in Indonesia. The China-Indonesian Economic and Trade Cooperation Zone will have a positive development prospect, and will usher in the new development space in cross-border e-commerce, modern warehousing and logistics, biomedical technology and other industries.

Conclusion

With the continuous strengthening of cooperation between China and Indonesia under the bilateral and multilateral frameworks, the two countries have made more interpretations of the comprehensive strategic partnership between China and Indonesia. In view of the gap between China and Indonesia in the level of economic and trade development, as well as the differences in policies and regulations, the two sides can discuss the prospects for future cooperation. In the post epidemic era, with the Belt and Road initiative and the RCEP coming into effect as the background, the two sides will strengthen the economic and trade strategic convergence, expand the scope of economic and trade cooperation, and expand maritime cooperation channels to play a positive role in the development of the two countries and the world in all fields.

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