



Where economics and culture intersect: an analysis of China's economic engagement with Indonesia and the implications it brings for Indonesian culture.

Master thesis

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Abstract

Nowadays the rivalry between the two worlds, the world of the East Asia and Euro-America becomes more and more apparent. It is a clash not only of two great economic blocks but also distinct cultures and religions. This phenomenon is most evident in the rivalry for influence in the regions dynamically developing and possessing rich deposits of raw materials. In my work I would like to focus on almost a model example, which is the China's economic engagement in the lucrative market of Indonesia and its impact on Indonesian culture - Does Indonesia take into account the possible negative outcomes of China's economic engagement which may disrupt Indonesia's delicate ethnic balance, bring back anti-Chinese sentiment and turn into discontent among Indonesian population, suspicious of unfair competition and cause violence against the Chinese minority? I have reached out for historical and cultural perspectives to study to what extent they are influenced by the current economic environment and market trends. Through the theories of neoliberalism, realism as well as asymmetrical interdependence approach I devote my best effort to provide the answer as honestly as possible.

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1. INTRODUCTION

Nowadays the rivalry between the two worlds, the world of the East Asia (China, Japan, India, Korea) and Euro-America (US, EU) becomes more and more apparent. It is a clash not only of two great economic blocks but also distinct cultures and religions. This phenomenon is most evident in the rivalry for influence in the regions dynamically developing and possessing rich deposits of raw materials. Due to the vastness of the problem, in my thesis I would like to focus on almost a model example, which is the China's economic engagement in the lucrative market of Indonesia and its impact on Indonesian culture. Since the progress of Indonesia is undeniable with its dynamic economy and growing strategic potential it has become the third largest democracy, the largest Muslim-majority population and tenth-largest economy worldwide (by purchasing power). It is forecasted to have GDP three times higher than Australia by 2050 (Fealy&White, 2016). Moreover it has the broadest marine biodiversity and it is ranked as second largest terrestrial biodiversity (USAID, 2013). It is a key country holding ASEAN together and it also belongs to G-20, East Asia Summit, United Nations, IMF, WB and WTO. All in all, Indonesia has become a significant player on the international relations arena and so far seems to maintain equal relationships with all major powers. However due to increasing economic and military strength it becomes a very attractive partner to have on the economic and political stage. Thus, it is crucial for China, the new giant worldwide player, to have Indonesia as the close ally on the international forum. Archipelago's national and regional strategic interests are currently encouraging foreign direct investment in the country. Therefore it is no surprise the world's largest economies stepped in.

According to Investment Coordinating Board China's realization of FDI in Indonesia in just the period of January - September 2016 was about \$1.5 billion thus reached the total of \$2.67 billion in annual sum (Danubrata&Suroyo, 2017). Moreover, as stated in The Straits Times (2016) a sign of deepening the ties between the two countries can be seen in:

“seeking to expand cooperation from electricity generation and mining to new sectors such as e-commerce and tourism. Joint investment cooperation over the past five years totalled more than 3,000 projects. About a quarter of Indonesia's electricity is generated by power plants built by China. Tourism is another key area, with Mr Joko targeting half of his 20 million foreign tourist target by 2019 to come from China. As of September this year, 1 million Chinese tourists had visited Indonesia. This year, most of the investments from China have been in the steel and mineral processing sector, which includes smelters in Sulawesi. Chinese investors are also targeting cement and automotive industries, signalling a commitment to Indonesia's infrastructure push, with ventures in cement plants in Kalimantan and Papua. ” (The Straits Time, 2016)

Since this rapidly growing relationship raises many questions among scholars, politicians and media worldwide the aim of this paper is to provide most comprehensive study on what impact and implications carries an asymmetric interaction between Indonesia and China.

My problem formulation goes as follow: Will this rapid investment in Indonesian market combined with cultural differences and history of mistrust and social conflicts between two countries lead to Indonesia's threat of being taken advantage of and becoming too dependent and over-exploit by the Asian giant? Do China's and Indonesia's approaches and strategies towards their developing relationship involve awareness of cultural disparities, suspicions and sensitivity? Does Indonesia take into account the possible negative outcome of China's economic engagement which may disrupt Indonesia's delicate ethnic balance, bring back anti-Chinese sentiment and turn into discontent among Indonesian population, identity crisis, suspicious of unfair competition and cause violence against the Chinese minority as it did in the past? Or will the soft power of international and regional institutions be in control of maintaining peaceful relations and have ability to regulate the asymmetry between the great China's power and its smaller neighbours? Is the far-eastern world of insular Islam, driven by the sudden boom of Chinese commercialization, able to gain satisfying profits and advantages from economic cooperation or will it raise the flag of cultural-religious Jihad in defence of its identity and therefore whether Indonesia will not suffer from a real social rebellion due to Arab conflict with American-European expansionism?

In my work I have reached out for historical and cultural perspectives to study to what extend they are influenced by the current economic environment and market trends. Through the theories of neoliberalism, realism as well as asymmetrical interdependence approach I devote my best effort to answer the above questions as honestly as possible.

2. LITERATURE REVIEW

Scholars whose works and concepts are essential to understand the complexity of interactions between less and more powerful states have been remarkably helpful in understanding the China-Indonesia relations. This thesis draws great inspiration from the literature focused on the significance of history and why it might affect the present and future relations. The studies conducted by Sukma, Zhou and Laksmana were indispensable in indicating the cultural threat and 'injuries from the past' against the Chinese, especially the negative perception of ethnic Indonesian Chinese minority as well as China's impulse interference in the past that remains in mentality of Indonesian society to this day. Therefore, the historical path of China-Indonesia relations is crucial in shaping the bilateral attitudes, perception and expectations. Indonesia's Ambassador Rizal Sukma

has worked extensively on issues regarding Indonesia such as politics, security, defence, foreign policy, military reform, religion as well as domestic political changes. In his works “Indonesia and China: The Politics of a Troubled Relationship” and “The Politics of Re-engagement” Sukma focused on the period between 1964-1999 and described Sino-Indonesian history with detailed view on the unsteady connection characterised by fragility, suspiciousness, distrust and violent anti-Chinese movements as well as explanations on what caused the Indonesian elite and public perception of China as the principal source of external threat which lead to suspension of diplomatic relations for almost 23 years. What is distinguishing about Sukma's work is that the collected data principally consists of the interviews conducted in 1994-1995 with members of Indonesian foreign policy elite in particular from Foreign Ministry, military, members of Parliament, scholars and retired officials from various Indonesian institutions. Moreover, the work of Taomo Zhou titled “Ambivalent Alliance: Chinese Policy towards Indonesia, 1960–1965” has been of a great help as an additional work focused on Sino-Indonesian relations during the 1960-1965 – which even though seemed as a period of 'cordial quasi alliance' has started and ended with the two enormous waves of anti-Chinese movements. Finally, the research study “Indonesia - China’s Diplomatic Relations after Normalization in 1990” conducted by Ahmad Syaifuddin Zuhri has used historical background of diplomatic relations between Indonesia and China to analyse their recent relations. It is focused primary on reviewing the different studies already done for instance by Rizal Sukma and secondly on the new path in the Sino-Indonesian relations characterised by joint agreements and partnership in politic, economic, and military sectors. Despite the positive changes in relationship between both countries, the previous experiences and conflicts largely influence the cautiousness and suspiciousness while creating the partnership. According to Evan Laksmana, the author of “Dimensions of Ambivalence in Indonesia-China Relations” the Sino-Indonesian relations are deeply shaped by sentiments and perception and most importantly are influenced by historical actions and mutual interactions. The suspicions and distrust Indonesian society had with ethnic Indonesian Chinese and People's Republic of China can affect their partnership especially with China's rapid growth which can threat Indonesian culture, identity, values or even the independence of Indonesia in the future. What is more, the author points out that the ethnic Chinese are still viewed by vast amount of Indonesian population as a separate 'race' which differs not only in religion but also due to economic privileges and who historically proved to be focused only on their own well-being. The same opinion shares Rizal Sukma in 'The China Threat: Perceptions, Myths and Reality', where he wrote a chapter entitled 'Indonesia's Perceptions of China: The Domestic Bases of Persistent Ambiguity.' Since 1990 Chinese regional role and its increasing military capabilities as well as policies especially concerning the South China Sea issue have shaped the

view of China's expansionist ambitions threat. In his work, Sukma studies the 'historical-traditional' and 'internal-social' aspects of China's perception which Indonesia bears for years. He makes a connection between the pre-existing picture of China based on visions of Imperial Power and the issue of ethnic-Chinese minority and the current perception which is largely built upon it thus nowadays majority of Indonesians still perceives China as an offensive and arrogant power trying to increase its influence in the region and the country is often described as 'Zhongguo' which means it continues to see itself as the central country of the world. Sukma mentions that literature on Indonesian history promotes this view of China which is of great significance in shaping students perception of the giant neighbour (Sukma edited by Yee&Storey, 2002, 181-204).

Furthermore, Li and Lee in their work “China and East Asian Strategic Dynamics. The Shaping of a New Order” (2011) have brought together several scholars to study the challenges and prospects of accommodating rising China in the region. Authors believe that China appears to be challenging the US supremacy in East Asia. What I have learnt from their book is that the transformation of the relationships among those countries over the past two decades has been multidimensional involving economic, political, security and cultural aspects. There are concerns raised among ASEAN countries due to the growing dependence of some countries on China – in particular Indochinese Peninsula. As a result strategic countermeasures and groupings emerge between other regional powers. Moreover authors provide another factors hindering the China's growing strategic role in East Asia which are Chinese nationalism and its pragmatic decision-making while dealing with multiple regional issues. It's growing influence in the region especially when it comes to economy is seen to be gradually becoming a security influence as well for instance there are changes in attitudes among regional states involving the South China Sea dispute. ASEAN is facing difficulties to speak with one voice or express its concerns not as separate states but as one united institutional body. However, one matter that all regional powers agree on is that they will not accept any overpowering dominance of a single major player. All the states make actions necessary to enhance their presence in the region while developing cooperative relations with China. Although cooperation does not come without the challenges. According to the authors, the sensitive issues such as border disputes, balancing of power and constant readjusting of strategic relations can cause exceptional difficulties if countries still prevail the domestic nationalistic sentiments.

Aside from the literature focused on history and culture, the analysis also contains data about the economic trends, investment rates, advantages and disadvantages and so on. Therefore all the global and regional indicators such as database of World Bank, Asian Development Bank, Indonesia

Statistics as well as estimates provided by private parties although often not up to date or lacking credibility were still incredibly helpful in overall evaluation.

3. METHODOLOGY

1. Scope

The scope of this master thesis is accordingly divided into *Introduction* including the problem formulation; *Literature overview* presenting fundamental writings; *Methodology* focused on choice and explanation of methods used to conduct the research; *Theory* where fundamental theories are expressed; *Analysis* seeking to provide most relevant data and statistics; *Discussion* which attempts to answer all the ambiguities and inaccuracies and *Conclusion* where I draw inferences from overall research. The work ends with *Bibliography* containing all the authors, data and every other piece of evidence without which this paper could not reach this far.

2. Importance

This paper seeks to provide the understanding of why culture intersects with economy in international affairs, especially since nowadays we can see increasing cooperation, dependence and interdependence between emerging states and great powers. China-Indonesia relations have been chosen for this research due to complexity of their relationship's nature which has been lately gaining importance and attention in foreign affairs and is a model example of China's strategic influence in the region and attitudes it meets from the more vulnerable and sensitive partners. The rooted cultural ambivalence of Indonesian society's perception of China which has been caused by the bitter indignation at having been treated unfairly, suffering from discrimination and Chinese interference in Indonesia's domestic affairs in the past has based their current relationship on suspicions and carefulness (Lee&Li,2011; Womack, 2010; Sukma, 2002). These historical aspects are of great significance in shaping future strategies of partnership and cooperation. Nowadays in capitalist world with open market and enormous investment capabilities, the countries are so intense in concentrating on economic prosperities and competition they forget about the impact it may have on the culture and social identity of the population. Since the cultural disparities between China and Indonesia as well as their catastrophic consequences which ended in riots and mass-killings of ethnic Indonesian Chinese can be visible from the beginning of their relationship's history, the China's increasing engagement in Indonesian market, if not conducted with respect to sensitivity and vulnerability, may cause the repetition of the tragic violence due to deeply rooted negative

perception of China among Indonesian population which might feel threatened and be protective of its cultural identity (Laksmana, 2011; Sukma, 2002).

Since the intention of this paper is to bring awareness of the complexity and sensitivity of Sino-Indonesian asymmetrical interdependence, possible negative consequences it may have on Indonesia's society and the role of regional institutions to prevent it, the data selection is concentrated to analyse this issue by reaching for theoretical explanations of the connection between culture, historical sentiment and influence they have on present actions as well as by collecting most relevant and accurate information that would illustrate the current Sino-Indonesian relations and strategies and whether or not they are shaped by cultural and historical enduring perception of China as a threat. The key theories and concepts chosen are neoliberalism, realism, asymmetrical interdependence, hard and soft power and hedging strategy. Thus the selection of the data for this research has concentrated primarily on finding relevant official documents and publications concerning China's participation in Indonesian market, investment rates and their influence on Indonesian economic prosperity as well as regarding social sensitivity and vulnerability, China's nationalistic ambitions and why they may lead to the ethnic Chinese discrimination. Moreover, the analytical part aims to provide, analyse and compare most relevant and profound information focused on economic profits and losses, investment agreements, future plans and profit rates, FDI rates and any other benefits/losses Indonesia is obtaining from the partnership with China. Therefore I have reached out for international and national databases and statistics. Moreover, the analysis will also study the regional institutions and organizations both countries belong to and the influence they have on China-Indonesia relationship. In addition, due to limited availability of academic up-to-date data I have also selected various articles from the newspapers – The Jakarta Post, Reuters, The Straits Times etc.

THEORETICAL APPROACH

International debate and fundamental concepts

Since Indonesia is developing rapidly, its relationship with China gains greater interest and importance in international affairs. There are questions raised whether Indonesia should seek closer alignment with China to boost the economy or rather balance, hedge and secure their position in case China would ever pose a threat (Zhao, 2012; Li & Lee, 2011; Womack, 2010). Since China's diplomatic leadership in the region seems decisive it is consequently followed by the cautious respectability of South-East Asia. The realist literature has always been concerned about what leads

to disputes and whether weaker state should balance or accommodate against stronger one and what influence on its decision has economic interdependence. Whereas the neoliberal literature is concerned with the importance of combining soft and hard power in order to prevent the war and ensure peaceful and binding cooperation between different powers. Therefore, these key theories will be described below.

Interdependence

The Post-Cold War era has brought a new consciousness among the states that in order to achieve the real power they have to search beyond hard power which is focused only on innovative weapons and augmentative military and take into account the growing significance of securing economic and technological progress. The traditional military methods followed by the emergence of international institutions and regimes have been introduced to the new vital factors such as international trade, welfare and policies. It can be seen that states are willing to join cooperative alliances based on anarchical structure, interdependence or even dependence when it comes to smaller players.

The term economic interdependence was described by the Keohane and Nye (2012) as the mutual reliance (although not always mutually or equally beneficial for all involved parties) between countries or private actors from different countries who together share costly effects and risks of their transactions. Since the economic interdependence with China increases not only in Indonesia but also among other Asian states, there are furthermore questions raised whether China's increasing influence on economic marketplace in these states ensures this rising power with ability to consequently influence strategic choices of these states as well (Li & Lee, 2011; Womack, 2010).

According to liberalism, "interdependent states would rather trade than invade" (Copeland, 1996, 5) since interdependence reduces the likelihood of military force by increasing the value of economic benefits from international cooperation and trade over the alternative of violence. Moreover, authors of *War in a Changing World* (Maoz&Gat, 2001, 124) believe that economic compatibility and potential for interdependence will not be able to guarantee peace, particularly when some of the involved regional actors abide by divisive ideology of not respecting the sovereignty of other partners who share identical beliefs. However if states' economic compatibility is coupled with their political compatibility the liberal capitalist market can have positive impact of advancing and sustaining the regional peace. In other words due to liberal economic order and rising value of the trade states become more prosperous and thus have less incentives to participate in militarized conflict which would also bring them bigger losses. Therefore liberal economy encourages interdependence among states. The higher the interdependence the stronger the ability to compel other states to cooperate as well. Yet without democracy, in an unsecured, corrupted, poor, conflict-

ridden or high-threat states players will be concerned with relative gains instead of absolute ones. This will lead to difficulties in regional cooperation since interdependence also increases the vulnerability therefore it gives states an incentive to resort to military force to protect their access to essential goods. It can be seen in East Asia where intensifying economic interdependence does not eliminate offensive behaviours nor resorting to violence (Maoz&Gat, 2001). Realists argue that growing interdependence rises rather than reduces the probability of conflict due to the fact that states are constantly anxious about their security. Therefore interdependence which stands for mutual dependence brings vulnerability among states thus gives them incentive to start the conflict (Dwivedi, 2009). If trade has been severely restrained or future trade expectations are low for the greatly interdependent states, they might be tempted to initiate war. They will fear to lose their economic wealth which ensures the security thus they may use militarized methods to protect it. Consequently, it can be deduced that strong interdependence can lead to peaceful cooperation or can initiate war depending on future trade expectancy.

However, since foreign economic relationships extend far beyond just trade, the global capital markets dominate the exchanges of commodities and services whereas states become involved in monetary policy cooperation. Interdependence proposes resolving conflicts by communication and costly signalling. Therefore it might discourage some minor contests between the players due to the fact that states will be afraid to risk to disrupt their economic partnerships, however it shall fail to prevent from militarized disputes if expansionist ambitions or disparities are too strong. In other words, the opportunities and economic benefits cannot deter conflicts, nevertheless they create the means for resolving disputes between states without reaching out for military violence. Which means the capital interdependence contributes to peaceful coexistence despite the effects of trade, interest rates, democracy and so on, for instance liberal states tend to use non-violent methods to solve the problems. Most studies focused on interdependence and conflict concentrate exclusively on bilateral and global trade, whereas interdependence through capital markets reaches beyond that by linking aspects of national economies which otherwise have much less global exposure. Concerns about risks affect capital to respond to political violence in much more sensitive and more consistent way.

Hard and soft power

As a further matter scholars argue that increasing economic interdependence consequently changes the cost-benefit ratio of getting involved in disputes and introduces new mechanisms for resolving international conflicts such as the use of soft power (Keohane & Nye, 1998; Nye, 2004). Since China to keep its peaceful policy can use only persuasion not force to convince other states to act

jointly to together obtain mutually beneficial objectives its external power is therefore 'soft'. The concept of power divided into hard and soft accordingly to the methods used to influence others behaviour was first introduced by Joseph Nye (1990). The fundamental difference is that hard power hinges on threats and inducements whereas soft power has only ability to shape and influence preferences of others. The author puts emphasis on the fact that the nature of power is changing, therefore, nowadays where international institutions are in charge of controlling and securing international affairs the attraction and persuasion are of great importance in world politics. Furthermore, in order to achieve 'smart power' the states have to recognise the importance of both and balance soft and hard power. Since soft power becomes more and more significant and visible in international politics it can enable a transformation of others behaviour thanks to attraction and persuasion instead of conflict and competition (Nye, 2005). Whereas hard power becomes more costly nowadays when it comes to finances and politics. On the contrary, soft power does not demand considerable resources and has less threatening consequences in case of setback. However, the author has also noticed that since soft power is driven by seduction and often by propaganda, the arrogant behaviour might meet repulsion and lead to disagreement (Nye, 2011).

The concept of soft power emphasizes the ability of cooperation and the strength of ideas thus it is close to liberal vision of solving the issue of war. Liberals believe that democracies will not combat each other on military front since people have a right to criticise policy and press peaceful goals. Moreover, economic interdependence is seen as another solution to issue of war although states seem to be cooperating with each other on basis of coercion rather than attraction which makes it more of a hard power. For instance more economically strong country can pressure and influence the behaviour of smaller economies. According to liberals, a successful economic model is based on free trade among states owing to the fact it will produce and engage soft power. Last but not least solution to issue of war is development of international institutions which are responsible for guarding peaceful relationships by creating common rules and norms which is the foundation of neoliberalism. In accordance to it, institutions have ability to tone down the consequences of anarchy. Moreover, even though cooperation might be hard to achieve, once institutions are established they make it difficult for members to leave or to make drastic changes (Keohane&Nye, 1998). Consequently, institutions are enhancing state's soft power by promoting its policies, values and ideas not only with members but also with other states which do not belong to the institution. Thus, country's ability to shape international rules consistently with its ideas and interests will make its actions look much more legitimate worldwide.

Hedging strategy

The concept of national interest which has become a core term in studies of International Relations should also be brought to mind. Realists would always highlight the survival as being most important objective for the state influencing all its actions, behaviours and decisions (Morgenthau, 1969). States constantly feel insecure and threatened by larger players which therefore focuses international politics on continuous struggle of power. Thus, it is essential when discussing interdependence among different states to be aware that even though the state will justify its behaviour in the international context it is always conditioned and driven by its national interest therefore most smaller states adopt two-pronged approach known as hedging strategy, which according to Li and Lee, the authors of “China and East Asian Strategic Dynamics. The Shaping of a New Regional Order”, means that

“while the smaller actors have all aimed at maximizing economic and diplomatic benefits from China's growing profile in East Asia, they have also taken various opposite measures that are aimed at cushioning against any long-term risks surrounding the rise of a proximate great power” (Li&Lee, 2011, p.XVIII).

When it comes to influence in Asia, regional governments in most cases seek cooperation with China to gain economic benefits and successful partnership, however, they also stay aware and prepare for the possibility of shift in present Chinese moderate attitude in the region to more offensive and aggressive one. Although these governments may be less powerful than their giant neighbour, their determination to preserve their independence, values and interests will remain no matter how much China's influence in the region increases. By all means, the states will try to deter China from gaining invincible dominance. Whereas when it comes to Indonesia's response to China's rise, Rizal Sukma defined its strategy as 'diplomatic hedging' also known as flexible hedging. It means that even though Indonesia might be concerned about emerging superpower, as long as China's rise does not pose any threat, it will prefer to benefit from economic engagement as long as possible. However if Indonesia's security or autonomy will be at risk it will not trade its independence off for the potential benefits. The fundamental purpose of its diplomatic hedging is to maximize the opportunities to prepare against uncertainties coming from major power rivalries (Javadi, 2016). This hypothesis will be discussed more broadly in the analytical part as to provide a deeper understanding of the ponderosity that smaller states struggle with while being more vulnerable and sensitive players in asymmetric economic relations.

Main theories

Since this paper is concerned with relationship between China and Indonesia and why their economic cooperation is affected by historical disparities and most importantly why it may have negative impact on Indonesian culture the theoretical approach will concentrate on reviewing neoliberalism and realism theories (including criticism of both) and their prevalence in the contemporary world affairs with primary focus on the asymmetry of the economic interdependence since currently their relations are based on non-interference and are focused mainly on economic cooperation. Moreover, there will be studied the probability of conflicts to understand most extensively the relationship between two very diverse countries and the consequences and threats unequal economic relationship brings.

Every since Post Cold War era, when states started to cooperate together to achieve better economy, hard power seems not sufficient enough to ensure the real power and the soft power became a complementary factor. Consequently debate was raised among realists and neoliberals, who both presented their arguments to prove the validity of their views concerning new global trends. Asymmetrical interdependence seems to synthesize both – the realist and neoliberal standpoints. Neoliberal perspective of interdependence has obtained importance and challenged the fundamental hypothesis of traditional realism. It called attention to emerging transnational players and the influence and power they have over states. Therefore, with the rise of international powers and institutions, the traditional military force has been counterbalanced with the significance of trade, welfare and willingness among countries to develop cooperative alliances even though the conditions might not be equally beneficial for all of the sides. According to Bhatta (1996, 4) the international actors started to dominate political agendas and focused on organizing peaceful global order favourable to the economic development. This perspective has been of a great help in understanding the international politics and why states agree to cooperate under anarchical order and dependence. Instead of rejecting realism, it rather brings to attention that while international relations are progressing towards achieving economic prosperity by creating alliances among different states realists explanations for these changes often tend to be insufficient.

4.1. Neoliberal Institutionalism

Neoliberalism is a trend in the history of economic thought, prevailing since the early 1980s in the world economy. It calls for returning to the principles of the free market, expanding influence of international institutions and minimizing states interference in the economy. Concept of neoliberal institutionalism was first characterised by Keohane and Nye in their work 'Power and

Interdependence' (1977) and later revised in other Keohane's publication entitled 'After Hegemony: Cooperation and Discord in the World Political Economy' (1984). Authors fundamental ideas were that international institution influence states behaviour and decision-making and the foreign affairs are based on cooperation and seeking common interests rather than conflict. Therefore, even though states' nature is selfish and concentrated on their own well-being and protection it can actually prevent them from going into war since they will have the loss of their comparative advantages to consider and consequently might prefer to settle for reciprocal cooperation. What is more, neoliberal argue that even though international system is based on anarchy it does not mean chaos and disorder nor it has to lead to disputes since international community can create anarchic-orderly society by establishing rational international order which has ability to resolve conflicts without the use of military and by promoting international cooperation and gaining mutual benefits and advantages from peaceful relations. As a consequence, interdependence became core concept of neoliberalism.

4.2. *Asymmetrical interdependence*

According to Hirschman (1945) the larger economy should be accommodated by smaller ones when the economic interdependence will provide smaller states with trade constituting major part of their total trade. Therefore it is opposite to the argument that smaller states should balance and secure against the greater power.

Although Hirschman, Keohane and Nye were first most significant scholars to provide the explanation of the asymmetric interdependence between states in the international affairs literature, their arguments can be found quiet narrow in explaining the connection between economic interdependence and what influence economic dependency and asymmetry may have on the cultural and political aspects and vice versa. It is worth mentioning here that another scholar - Wagner (1988) has criticized both Hirschman, Keohane and Nye and disagreed with the idea that more powerful side can use the asymmetry in its favour while bargaining or as a political leverage. He believed that using predominance to force one's will would eventually lead to conflict (states as well as people eventually rebel). In his view, public expenditure and international projects are the opposite of asymmetry therefore his theory denies it. Wagner claimed that social needs are growing faster than consumption, as developing countries need more international connections, exchange of information and goods, rotation of workers and professionals, and therefore hundreds of joint investments and programs at transnational (international) level consequently eliminate contrasts and reduce differences between states. His theory can best describe the undeniable success of European Union nevertheless it seems quiet too ideal and optimistic hypothesis that there would be the same

outcome for South-East Asian partnership with China especially since here there exist cultural differences that may create the barrier beyond the economic affairs.

Moreover, Nye has been also criticized by Womack (2010) for not addressing the key issue of shared interests and the role they play in persuasion. After all, the ability to persuade someone to do something against their will and the ability to synchronize actions for a common objective are two fundamentally different matters. It can be seen particularly when crisis emerges.

Smaller state tends to feel negative complementarity of the vexation and bullying behaviour of the larger state and consequently it has paranoia and exaggerated crisis behaviour. Therefore both states can be driven away from the possibility of successful negotiations. Moreover, economic pressure can be indicated by the sensitivity to the changes on the economic marketplace and vulnerability to costs of interruption in economic relationships. If one state is less sensitive and vulnerable than the other then the results of interruption are much more important for the weaker state. According to Womack (2010) "Vulnerability to China is positional rather than a result of China's current behaviour or intentions. However reassuring Chinese diplomacy is, the neighbours are more exposed to China than vice versa, and they will remain alert to risks as well as to opportunities."

As shown above, many scholars have focused on asymmetrical interdependence and the dependence of smaller states on more powerful ones however I have not found any work that would focus directly on the impact which the cultural, religious and social identity threat might have on economic asymmetrical interdependence and contrariwise. This is the aim of this thesis, to contribute by connecting different theoretical approaches of asymmetrical interdependence to link economic asymmetry to hedging strategy or even hostile/discrimination actions by studying closely the economic and cultural outcomes for Indonesia based on its asymmetric interdependence with China linked with perception of potential China's threat. Therefore, all arguments considered, the theoretical approach of this thesis will be mostly based on realism and the asymmetrical interdependence approach introduced by Joseph Nye as well as by Brantly Womack who has used Nye's concept to study the situation of development of asymmetric relations in accordance to Asian affairs provided in his work "China Among Unequals : Asymmetric Foreign Relationships in Asia" which was of essential inspiration. Moreover, I seek to make use of Hirschman and Keohane works and expand them through more regionally related perspectives of Li and Lee and Womack who have adjusted the economic interdependence specifically to China and it's relations with other Asian countries. Womack has pointed out the weaknesses of the Western international relations theory approach. It would perceive the asymmetric relation as dominative or defensive where if one side is not able to win, it will lose. Moreover, most often the linkages between asymmetries in behaviours,

capacities, exposures, attentions, interests and (all) the rest have been omitted or seen as negligible. The author in his work was mainly concerned about the results of asymmetry.

Based on Womack's observations he has divided asymmetric relations into three categories.

First, asymmetry is resilient meaning although the smaller state is not an equal challenger, does not indicate that the larger state can force their agenda since if conflict occurs the smaller state may feel morally threatened and therefore has ability to engage its entire strength whereas the larger state does not have incentive to mobilize its absolute strength and can be faced with frustration by the costs of conflict's length.

Second is difference in perspectives as an outcome of asymmetry. The gains and losses are usually smaller and less significant for the larger state especially since it has more foreign and domestic concerns to deal with. On the other hand, the smaller state has bigger opportunities but is more vulnerable and sensitive to risks and control over relationship. This difference will lead to inattentiveness of a larger state in certain situations and over-attentiveness of a smaller one which will tend to view settlement not as a solution but rather as a milestone in the ongoing process. Consequently it will affect the behaviour and smaller state will have less trusting and agile approach whereas the larger state's attitude will switch accordingly to the situation to friendship, normalcy or hostility and might be tempted to bully smaller state to accept its solutions to their disputes. Furthermore, this constant suspiciousness can lead to behavioural misinterpretation and therefore to endless circle of alarmism and persecuting.

Third, the neutral asymmetric relations. This scenario suggests that since both sides have more to lose than to gain from not having a neutral relationship gives them incentive to live in symbiosis. Nevertheless, the requirements for this to happen may vary for both sides. The position of the larger state must remain unchallenged and respected, whereas the autonomy of the smaller state must be recognised. The relationship is not based on domination but on mutual recognition and validation where neither of the states can force its interests on the other through coercion but by negotiation.

For instance, China's diplomacy is currently operating under the Five Principles of Peaceful Coexistence which means it does not interfere in political affairs, it recognises the autonomy of the states it cooperates with but also discourages them to engage in any actions that might suggest disrespect for China. China's stance and the opportunity of gaining immediate benefits from cooperative interaction received appreciation among Asian states. Nevertheless, since their ally is developing much faster they perceive the capacities disparity and remain alert to possible threats especially since South China Sea disputes put China's actions in a bad light.

4.3. Realism

A realist tradition, also known as "political realism", may very well be considered the oldest theory of international politics. We can find it in the classic work "The Art of War" Sun Tzu, which was founded around 5th century BC in China. Whereas the medieval European classic of realism was written in 1532 by Machiavelli the author of "The Prince". While in the light of idealism, morality should give tone to international relations, the foundations of realism are the politics of power and national interests. The primacy of power does not encourage its use. The great realist Sun Tzu complied to avoid fighting, because it is too expensive. He believed that "The supreme art of war is to subdue the enemy without fighting." (Giles, 2007, p. 62) Victory should come at the least cost in people and materials. The ideal is to defeat the enemy without a fight by thwarting his plans, destroying preparations and eliminating his alliances.

The main actor of the realists international scene is the state, whereas state bonds and loyalty to the nation are more important than any other relations. For realism, this is a guarantee of safety, because only national defence is solid, certain and permanent, which depend on the bravery of the nation (Machiavelli, 1995). More modern scholars representing realism are Edward Hallett Carr (1939) and Hans Morgenthau (1948), who despised idealistic belief in natural harmony and international cooperation. Each country is self-centered and must pursue its own national interests, because that is the only way to ensure survival and independence of the state as well as the protection of its territory and economic interests. Power, wealth and natural resources are not evenly divided between states. Therefore, the international order is in practice a system which signifies control of the superpowers over other states through trade blocks, "zones of influence" and overt colonization. Subsequently, in the 1980s under the influence of Waltz (1979) neorealism has developed (sometimes called a new or structural realism). Although the neorealists still recognize the central importance of power and force, they tend to recognize the importance and impact of the growing structure of the international system as a guardian of the interests of individual "weaker" states. It can be seen in relation to rise of China. This country is not only increasing its influence in economy and politics in the region but is also pursuing its interest via cooperation and by initiating new international institutions to broaden its participation in the global governance. It is no surprise that weaker states are threatened by rising dominance of Beijing and use their alliances with the United States to balance the powers in the region. China's aggressive and expansionist desires in the past had negative impact in creating its current perception among other states in the region. After all, survival and independence are the most important qualities of each country and if they are being threatened the government will take hostile actions against the opponent despite losing economic benefits. Realists elucidate that cooperation between different powers is always acquired through

alliances to strengthen state's position and security. Even though, realists believe that states have power, whereas people and institutions determine the amount of it and how it can be used they seem to neglect the importance of international institutions and economic advantages from cooperation between states as huge assets in preventing using military force. Nevertheless, in this work, realism is irreplaceable in explaining the China Threat and actions taken by states to deal with increasing dominance of their powerful neighbour. According to realism the fundamental factor ensuring survival and development is power since it determines state's dependence, position, capability and influence in international relations. The increasing economic asymmetry between different powers and rising new players can undermine the current balance of power leading to conflicts and competition between emerging and existing rulers, consequently threatening the stability of the whole international system. Moreover, if opportunity appears to become dominant through war, countries which are dissatisfied with or threatened by current new order will not hesitate to take this chance and fight to gain more power. Although here we can argue that unless state is sure of its victory, the war will not be waged easily. Especially when there is a gap in capabilities between opponents, it may cause discouragement among potential invaders (Morgenthau&Thomson, 1985; Mearsheimer, 2001).

All in all, increasing dominance of China in the region might meet constrains from threatened neighbours and if China becomes too expansionist there might appear conflicts, clashes and upheavals.

5. ANALYSIS

Indonesia's economic engagement with China was initially driven by the recovery policy after the disastrous economic crisis that hit Asia in 1997. Consequently, period under administration of Susilo Bambang Yudhoyono (2004-2014) brought restoration and stability of Indonesian market and bilateral relations developed beyond economic engagement and established political and security strategic partnerships in 2005, which later created strategic and comprehensive partnership in 2013. However, increasing cooperation with China comes not only with opportunities but also brings exceptionally hard challenges to Indonesia's foreign policy. For instance, growing economic competition with China has lead to Indonesian market being threatened and demanding greater protection which as a result hindered government's efforts to reinforce ties with its stronger neighbour. It is argued that even though the relationship between Indonesia and China has improved significantly in recent years, it is still characterised by suspiciousness and sensitivity (Laksmana 2011; Sukma, 2009). Given the background, the fear of Indonesian market being penetrated by

China connected with mistrust towards ethnic-Chinese minority and their economic role might have negative impact on their bilateral relationship. For instance, when ACFTA (ASEAN – China Free Trade Agreement) was established it provoked Indonesian businesses to bring about political responses and by using parliament and institutions they demanded better protection and received government's response in the form of adopting a number of protective measures.

The analytical part of this paper aims to examine Indonesia's opportunities as well as challenges which are brought by their increasing cooperation with China. Firstly, the focus will be on historical and cultural perspective and how it shapes the bilateral relations. Secondly, the recent improvements and implications will be studied, in particular economic engagement, trade and investment relations. Lastly, there will be elucidation of the China Threat and growing nationalistic attitudes caused by Indonesian businesses being exposed to greater competition and rivalry with its giant neighbour.

5.1. Historical and cultural perspective

The start of official relations between both states is dated back to the 1950 but for years this relationship could be described as fragile and inconsistent. A significant period was during Sukarno's regime when there was a desire to balance the military and strengthen the Communist Party of Indonesia (PKI) as well as to confront Western Imperialism which Beijing has supported politically and financially. However, rapidly growing in power the Armed Forces of Indonesia (ABRI) were anti-communist and against alignment with China. Their leaders perceived China's involvement and support for PKI as a conspiracy to gain loyalty and supervision over Chinese-ethnic minority in Indonesia. Consequently, there was an abortive coup in 1965 which led to revolution and regime change. Suharto has taken over with his New Order regime and charged PKI as guilty of the coup and made allegations against China and ethnic-Chinese minority for their interference and complicity. Thereby the bilateral relations between both countries were declared frozen. Maintaining public memory of linkages between Beijing, ethnic-Chinese minority and communism by Suharto's regime was intentional and crucial in protecting its hegemony. Legal institutional discrimination of ethnic-Chinese minority in Indonesia, not accepting them as equals and perceiving them as separate nation lasted almost three decades and was a very successful strategy in preventing the restoration of diplomatic ties (Sukma, 2009). Although, from 1970s there became positive changes in the region, in particular due to Beijing's improving relations with non-communist countries and promotion of their 'four modernisation' peaceful policy, it has not altered Indonesia's negative vision which remained sceptical of China's intentions. There was conducted a survey according to which more than a half of Indonesian elites saw China as a major threat and

about two-thirds considered it frightening and dangerous (Weinstein, 1976, 93-125). However, their bilateral relations slowly improved when China boosted its economy which led to direct trade cooperation in mid 1980s. Indonesia's policy has also shifted its attitudes towards maximizing economic progress therefore China became an attractive potential partner. Nevertheless restoring official diplomatic ties was still hindered due to suspicions and mistrust towards ethnic-Chinese minority in Indonesia and their loyalty to Beijing. Thus, the trade and investment remained relatively low which resulted in Indonesian severe economic crisis and regime collapse in 1998. Closer cooperation with China was then necessary in order to recover and due to political changes Indonesia held its first democratic presidential election in 1999 and the new ruler Abdurrahman Wahid suppressed discriminatory actions against ethnic-Chinese minority. It was a starting point in improving relations with China and making ties closer between two countries was continued by next Indonesian leaders. They have increased cooperation not only on economic stage but also on political and security matters, as well as signed several agreements guaranteeing them mutual benefits on various fields. However, even though their bilateral relations improved significantly, Indonesia still keeps in mind the previous unfortunate experiences and has not broken away from the perception of China as a threat.

This negative perception of Chinese has been rooted in Indonesian culture so deeply it cannot be erased just by mutually beneficial engagement in trade and according to Rival Sukma, in his work entitled "The China Threat: Perceptions, Myths and Reality" there exist several popular stereotypes of China among Indonesian population to this day. Firstly, ethnic-Chinese minority is seen as separate nation due to the fact that during Dutch colonial era they have been given a privileged position - thanks to their merchant skills they were middlemen between the Dutch and local Indonesians. Secondly, as the result, Chinese dominated the economy market, run most of the businesses and gained many benefits whereas majority of Indonesian population lived in poverty. This social division implied that Chinese were superior to natives and were viewed as Dutch 'henchmen' which brought feelings of resentment and indignation among Indonesians. Thirdly, most of the overseas Chinese did not identify themselves with the natives but with their mainland China or with the Dutch which indicated they perceived locals to be inferior. Therefore, there is a stereotype of Chinese being presumptuous and exclusive, focused only on their own benefits and their kinship with China's mainland. Fourthly, there is a belief among Indonesians that Chinese nature is changeless which means that despite of their location, they will always be committed and influenced by the values and culture of their heritage and ancestors. Lastly, all the previous arguments considered, the ethnic-Chinese minority in Indonesia has their loyalty questioned and is seen as closed, separate group focused on its own security and well-being and as history shows

majority of the overseas Chinese did not get involved and remained on the fence during the revolutionary era. They have not joined Indonesian population in fighting against the Dutch, instead they concentrated on protecting their privileged position in economic sector. These are the reasons why they have been discriminated and are pressured to stay out of Indonesian politics. Finally, Sukma states that democratisation process in Indonesia, increasing role of Islam in its politics, unresolved issue with discriminated ethnic-Chinese minority, complexed civil-military relations as well as vigilance related to China's growing strength and assertiveness in its actions in South China Sea will still cause future constraints in the Indonesia-China relationship (Sukma edited by Yee&Storey, 2002, 181-204).

5.2. Economic engagement, investments and challenges

Since the positive relationship between Indonesia and China is vital in ensuring peaceful aura this section will explore the progress of their economic cooperation and to what degree it is beneficial for both. The trade and investment opportunities have increased greatly during Susilo Bambang Yudhoyono's presidency in 2004-2014. China has become one of the major trading partners especially when it comes to expansion of Indonesia's exports. In period between 1987-1997 the value of Indonesia's total export to China was estimated at 1,217 million US dollars, which positioned China as fifth (behind the Japan, United States, Singapore and South Korea) Indonesia's major export trading partner. Post-Suharto era of economic progress and Megawati's and Yudhoyono presidencies encouraging economic engagement resulted in nearly multiplying this amount by six to 6,662 million US dollars in 2005 (it is the year there was first strategic partnership established). China has then upgraded to the second position of Indonesian largest export partners just behind Japan which remained the major export stakeholder till 2015. Continuously, in 2013, when the strategic and comprehensive partnership was formed, the export volume increased to the total amount worth 22,601 million US dollars and later on it gave a bit more balanced outcome of 16,786 million US dollars in 2016 which positioned China as the major export trade partner with Indonesia leaving behind Japan with export trade value worth 16,102 million US dollars. Similarly, the import relations have met tremendous improvement. During period 1987-1998 the value of median import was about 955 million US dollars which positioned China as Indonesia's sixth major import partner. The progress was followed with the outcome reaching 5,843 million US dollars in 2005, 29,849 million US dollars in year 2013 and reached 30,800 million US dollars in 2016. Once again China has upgraded and became Indonesia's first major import partner with second place belonging to Singapore (14,548 million US dollars) and third to Japan (12,985 million US dollars) (Asian Development Bank, 2017).

What is more, there was report realised by Indonesia's Central Statistics Bureau according to which in the beginning of 2017 (January-February) Indonesia's foreign trade reached 49.2 billion US dollars where trade has been amounted to the total sum of 25.98 billion US dollars meaning the import was worth 23.22 billion US dollars. The trade surplus for that period equalled 2.75 billion US dollars. As stated on the website of Ministry of Commerce People's Republic of China the value of China-Indonesia oil and gas trade reached nearly 7.8 billion US dollars in the beginning of 2017. In addition, Indonesia's exports to its giant partner were worth 1.83 billion US dollars making up for the 12.4% of Indonesia's whole exports whereas the imports from China reached the total amount of 4.87 billion US dollars which makes up for about 25.7% of Indonesia's entire imports (MOFCOM, 2017).

Such a successful progress in trade was possible thanks to the establishment of the ASEAN–China Free Trade Area (ACFTA) in 2010. Since 1st of January that year, they removed each one of the tariffs on 6682 tariff posts involving twelve manufacturing sectors and five in agriculture, maritime and mining (Chheang; et al, 2014). Although the bilateral trade value grew significantly, the emphasis has to be put on the fact that China is a significantly larger beneficiary from increasing trade cooperation than Indonesia. According to Young-Chan Kim (2016) it is due to the fact that China maintains comparative advantage in majority of trading commodities (77%) especially in regards to manufactured goods which leaves Indonesia mostly with trade of primary goods (23%). Therefore, Indonesia is facing growing reliance on natural-resources exports to their giant partner and has to work harder on producing more competitive manufactured commodities. It is worth to mention here that although East Asian Tigers states were successful in entering capitalism after 1980s and developing industries that could compete on the international market, Indonesia has been left behind due to much different state-business relations of the country. Hereditary market and policy-making of Indonesia has been largely influenced and shaped by predatory business elites and their demands who often used their clientelistic relations to achieve their target. The country lacked also adequate policy implementation due to absence of capable and compatible bureaucracy thus state's interference in the market was used as a pretext to endow patronage of mighty business elites who had significant political power (Fukuoka, 2012). Moreover, ICRA's report (2011) has evaluated that exports of stocks from Indonesia's major export sector, which is mining, increased by 41.5% (equivalent to 5.82 billion US dollars) in just five years from 2005 to 2010, mostly thanks to raises in prices. On the contrary, within the same period Indonesia's manufacturing sector declined gradually from 91,4% to just 56.9%. This vertical trade model was a fundamental cause of its trade deficit which was the highest in 2012 with 7.7 billion US dollars (Kim, 2016). However, China has

faced enormous deficit in raw-material production and imports huge amount of it from Indonesia. On the other hand it has also reached substantial surplus of high-tech production worth more than 9 billion US dollars in 2012. Consequently China holds upper stream position over Indonesia in the international division of workforce. Even though Indonesia faces only minor trade deficit with China, according to Fukuoka and Verico's (2017) calculations based on value-added approach China is the one with huge deficit against Indonesia worth about 800 million US dollars. The calculations were based on the fact that China's imports of Indonesian raw materials account for more value added whereas Indonesia's imports of Chinese manufactured commodities possess minor value added. Despite the fact that this method entirely changes the outcomes of the traditional gross value calculations, it does not change the negative attitudes towards strengthening countries bilateral ties. Indonesian businesses have been shaped from very beginning, they were always characterized as receiving from the government not only financial facilities but also protection from competitors. To avoid rivalry and ensure survival they plundered country's resources and became deeply dependent on it. As Habir (1998) highlighted, internationalization when it comes to developing services and producing commodities for exports has always been neglected and of little interest for Indonesian manufacturers. Whereas the competitiveness of the few products which actually experienced increasing exports is based primarily on access to natural-resource combined with low wages. There were predictions of Indonesia becoming vulnerable to competition from China or other countries with even lower wages thus strengthening economic ties with these states was seen as a threat to Indonesian local businesses especially to manufacturing production (Lall and Rao cited in Kim, 2016). Thus, when ACFTA was established it resulted in the de-industrialization process and downfall of Indonesia's not competitive manufacturing production. In accordance to Novotny (2010, 216) deficient performance and vulnerability of Indonesian economy coupled with China's rapidly growing one resulted in relationship based on dependency. As a consequence, it brought about perception of China as a threat, rival and major challenge for Indonesia which definitely led to reserved attitude towards enhancing bilateral cooperation. However, if ACFTA succeeds in developing and maintaining effective regional production and trade system it would encourage investing in this intra-region. Thereby, to justify whether or not Indonesia should be threatened by China's engagement in its economy it is crucial to examine to what degree it benefits from this investment. China's foreign direct investment (FDI) has slightly decreased since 2013 from 290.928 billion US dollars to 170.557 billion US dollars in 2016 (The World Bank database, 2017) but according to Jakarta Reuters (Danubrata&Suroyo, 2017) its investment in Indonesia last year hit the record sum of 2.67 billion US dollars. A concise analysis of this FDI inflows by sectors provided by Kim (2016) indicates that the largest investments involve following sectors: mining and metal

production as well as machinery, electronic, followed by trade and repair, then food, rubber and lastly plastic industry which positions China among ten largest investors in 'the fishery, wood, leather goods and footwear, rubber and plastic, non-metallic mineral, paper and printing, metal and machinery and electronic industries' (Fukuoka&Verito, 2016). In addition, China also increases its investment in utility sector, transport and communication as well as real estate and business activities. Since its investment concerns both tradable and non-tradable sectors it is indeed very comprehensive. It should be highlighted here that China's long-term investment covers relatively disadvantaged sectors in Indonesia such as food production, transport (vehicles and their parts, railways, etc), machinery, paper and many more. It can be expounded by China's desire to gain access to these products through large domestic market of Indonesia. Simultaneously, increased investment in these sectors if connected with incorporating them into larger production networks will help stimulate their competitiveness in the region. What is more, China has also invested in sectors labeled as having 'priority integration' importance among ASEAN Economic Community such as fishery, wood and rubber industries which could greatly benefit Indonesia and help increase production and boost future economic growth (Fukuoka&Verito, 2016).

All things considered, it can be deduced that the negative costs of trade carried by Indonesia are to some level compensated by increasing interest, engagement and investment from China. Hence, even though their relationship has improved remarkably over the years, the long-term outcomes are still unclear. Growing trade deficit, increasing dependence on primary production exports, still weak ability to provide competitive manufactured commodities which exports, besides the increasing share of energy products exports, are declining. On the other hand, compensation in the form of China's greater investment brings opportunities for Indonesian industries and businesses. Mari Pangestu, the former Indonesian Trade Minister from 2004 to 2011 from very beginning has seen China as the best ally helpful in boosting the economy and was in favor of ACTFA trade agreement. In her opinion, increased access to China's businesses, lower prices for the domestic marketplace, improving productivity and effectiveness and consequently insured greater protection from changes and shocks on the global market would be remarkably beneficial for Indonesia (The Jakarta Post, 2010). Similarly, studies carried out by Verico (2012, 2013) imply favorable effects of ACFTA and the enforcement of open regionalism for Indonesian development of manufacturer production followed by opportunity to become a part of the regional economic network simultaneously encouraging further investment from the outside. Nevertheless due to huge opposition to the free trade agreement, the Pangestu's optimistic approach has been largely marginalized during policy-making procedures. The People's Representative Council (DPR) opposed to economic freedom claiming it would harm national interests whereas local businesses need governments protection in

order to secure their vested interests. The attitudes almost resembled xenophobia, it became common accusation to blame government for serving in favor of foreign capitalists and investors instead of benefiting local population (Sukma 2009). Lack of sufficient knowledge among lawmakers on foreign trade matters was also a significant setback for Indonesia to pursue economic freedom without meeting allegations of selling the country to outsiders (The Jakarta Post, 2009). Thus ACFTA was no exception, and faced enormous stubbornness, pessimism and fear of party politicians and DPR which led to mobilization against Trade Minister Pangestu to discharge her from the position she held. Some opponents went so far to even make a racist accusations that minister by being an ethnic-Chinese has followed her ancestors' convictions and interests when forming her political agenda. It was a huge reminder of the extend to which economic grievance could be manifested in ethnic terms. As a consequence, then President Yudhoyono could no longer support Mari Pangestu worried it might sabotage his administration since it was crucial responsibility for the leader to protect the interests of the country's elites and oligarchs who held significant political influence. Thus Pangestu has been displaced by Gita Wirjawan who offered local businesses increased protection. Domestic pressure and protectionist tendency has forced government to raise additional non-tariff barriers and costs which are difficult to track down and calculate but stimulate opportunities for those with greater political influence. Later on, in 2014, the DPR adopted new trade law focused on continued protection of domestic market combined with developing higher-value productions. The idea of this new law was to empower authorities to restrict exports and imports by implementing adequate quota policy however as a consequence it enabled rent-seeking activities which harm economic development. Moreover, DPR has gained authority to be involved in all Indonesian Free Trade Agreements decision-making processes which means that governments which aims at increasing economic openness needs permission of DPR which on the contrary has protectionism tendencies. Therefore, Indonesia-China relations remain challenging and rouse the fear that growing economic asymmetry will leave Indonesia behind dependent on natural-resources industry while China becomes an enormous manufacturing regional leader. At this point it is safe to deduce that even though their bilateral cooperation improves Indonesian economy, increasing competition with China over trade dependence has driven Indonesian domestic businesses to feel insecure, vulnerable and sensitive to more liberal changes. We can witness it to this day since Indonesian public and media are mainly focused on negative perspectives and disadvantaged related to China's economic engagement in the region. Raising nationalism among several politicians and eternal anti-Chinese sentiment account for the greatest obstacle and challenge in progressing China-Indonesia relations. Recently, Indonesian elites all over again stimulate the perception of China as a threat by ignoring

the positive impacts and benefits their country could gain from their bilateral cooperation and instead highlighting all the negative outcomes of the trade imbalance. There were also strong objections and concerns raised by the Indonesian Chamber of Commerce which insisted government is responsible to protect its own market and give support to local productions, demanded renegotiation of the ACFTA agreement (The Jakarta Post, 2011). This behavior and attitudes cause enormous difficulty towards managing, maintaining and developing further their relationship. As already emphasized several times in this paper, the straightening ties and progressing engagement between Indonesia and China bring not only opportunities but also serious challenges such as increased competition and Chinese labor-flow it has pushed local Indonesian businesses to fear of China becoming more penetrative and take actions to prevent it by demanding firmer protection. However, growing economic asymmetry between native population and ethnic-Chinese minority combined with recent discriminatory attitudes can result in destabilizing bilateral relations completely. Such a pessimistic perspective has been introduced by Booth (2011) who believes that local businesses harmed by 'unfair' economic competition with China could upraise rebellion and their main target would be evidently ethnic-Chinese minority, in particular the businessmen whose companies are gaining profits from selling products originated from China.

Alerting can be also the protectionist behavior of Islamist forces which challenge secularism in Indonesia. Their anti-Purnama (first ethnic-Chinese Christian governor in Jakarta, also known as Ahok) movement brought back the anxiety of the racist and religious influence of world's largest Muslim population. This Christian governor was popular among numerous Chinese businesses thanks to his potential and capability to carry out the infrastructure reform agenda set by president Jokowi and connected to China's 'One Belt, One Road' initiative which plans to invest greatly in global projects. Therefore they were very disappointed to see Purnama being accused of blasphemy and insulting the Koran and sentenced to two years in jail, although the governor denies these allegations and claims they are politicized. This negative atmosphere might have harmful influence on China's future investment decision making especially since Chinese businesses become worried whether the discriminating attitudes will deepen and the business-friendly environment will be then lost. The verdict of sentencing Ahok is also a huge setback for the governments efforts to suppress radical groups and provide comfort and reassurance to foreign investors concerned about the risks of cultural clashes. As stated in Reuters (2017), China's main concerns are safety, stability and consistency in law enforcement, thus their greatest fear is a repetition of disastrous, mass-killing anti-Chinese movement from 1998.

Indeed, during the enforcement of ACFTA, Indonesian businesses which were protected by the government protested against removing trade tariffs afraid of being exposed to unbearable

competition with Chinese low-end mass-produce commodities which could potentially result in displacement of local businesses and job losses of Indonesian people since Chinese companies tend to hire their own people. The debate arose about small and medium local businesses which not only contribute to more than half of Indonesia's GDP but are also responsible for employment of about 97% of the entire Indonesian workforce and since ACFTA fear of struggle with massive influx of Chinese goods. Their concerns were backed by Statistics Indonesia (BPS) which estimated increase of China's non-oil and non-gas imports by 55% (equivalent to around 2.8 billion US dollars from just 1.8 billion US dollars from the previous year) in just first two months after establishing ACFTA (The Jakarta Post, 2010). On the other hand China's recent initiatives and institutions promoting regional economic development and cooperation bring several remarkable benefits for its neighbors. Especially, Chinese willingness to help fund and build communication infrastructure and means of transport through the Belt and Road Initiative. Together with China Development Bank, Beijing will finance Indonesia's high-speed railway project. China Minsheng Investment Group is considering investing 1.6 billion US dollars in a steel plant which will belong to industrial park worth total sum of 5 billion US dollars. Moreover, Asian Infrastructure Investment Bank (AIIB) will also financially support various development projects. Not to mention China's plans to build in Indonesia textile factory worth 100 million US dollars or its active participation in about 35 thousand energy operations. But then again there are concerns raised what consequences such a noble generosity will bring in the future.

5.3. China Threat and anti-Chinese movement

China's growing global economic and geopolitical role has given rise to an increasing division on states which portray the rise of the country as an opportunity for peaceful interdependence and prosperity and states which assimilate it with assertive, mercantile threat. Chinese increasing global interdependence results in gaining greater geopolitical influence in the region. It is believed that its more assertive position in the conflict is compensated by China's generous trade packages and encouraging investment in the region. This state of affairs can be already visible in Southeast Asia-China relations where the tensions are growing over the South China Sea dispute. To protect itself from the China's increasing influence, Indonesia adopted diplomatic hedging strategy. On the one hand it tries to maximize gaining benefits from their bilateral cooperation by trading its abundant natural resources for infrastructure and investment projects. On the other, it uses protectionist measures and participation in international and regional organizations and institutions to stay alert to China's regional activities and have ability to confront them through these institutions to ensure other states play the witnesses. Since China's infamous 'Nine-Dash Line' overlaps with Indonesian

Exclusive Economic Zone known for the rich in natural resources Natuna Islands, Indonesia has adopted a 'delicate equilibrium' approach. On the one hand, it seeks to diplomatically engage China as well as other parties involved to actively participate in discussing the issue and on the other hand it attempts to protect its own interests by pursuing numerous security, economic and legal procedures in case Beijing became even more aggressive in order to achieve its goal. Indonesia's concerns over China's growing pressures in the region resulted in recent renaming of its South China Sea area to North Natuna Sea which was part of the strategy to warn China that Jakarta's priority is to secure their territory. Although Beijing abides by no-interference policy it is using soft power of coercing other states to agree with them on the South China Sea issue by putting economic limits on exports, resigning from diplomatic agreements or even sending its vessels to remind of its power. Consequently the dispute affects peace and stability and encourages other states to produce countermeasure actions in order to protect themselves from increasing China Threat (Parameswaran, 2017).

Despite South China Sea dispute, there are increasing nationalistic and protectionist attitudes among Indonesian population afraid of China's economic market overtaking their domestic one. Local businesses complain about unfair competition and increasing number of Chinese employees gaining greater profits than natives. Furthermore, although according to the official statistics the amount of work permits given to Chinese has increased by only 30% during past two years giving the total amount of 21,271 permits released in 2016 (Badan Pusat Statistik database), labor unions disagree with this number, asserting it should be much higher. They accuse Chinese companies of using visa-free routes reserved for tourists in order to bring illegally low-skilled Chinese employees, which amount is estimated to be 'hundreds of thousands' (according to Said Iqbal, labor leader, cited in Jakarta Reuters, 2017). Similarly the Confederation of Indonesian Workers' Union (KSPI) having its objections about credibility of official statistics decided to gather themselves the data on illegal Chinese workers and encouraged ministry of manpower to act and resolve this issue. Iqbal who belongs to KSPI has stated in his interview with Reuters that unskilled locals do not have any job opportunities since all the positions have been given to the Chinese labor (Reuters, 2017).

Whereas the head of the Indonesian Chamber of Commerce in China, Liky Sutikno explains that Chinese companies employ their own Chinese workers only temporarily in order to teach local people the necessary technical skills so they could later take over the job positions. He adds, it is much more efficient this way since the Chinese workers expertise in installing their machinery, and posses broader knowledge of products and processes. Furthermore, according to Maruli Hasoloan, who works for manpower ministry, there are increasing frictions and vigilantism attitudes among the labor force. Ministry tries to improve the control over visa-free entry abuses, however it does

not conduct any punishments or severe measures to restrict illegal Chinese from working. This only incites Indonesian anti-Chinese sentiments, especially since Indonesian Chinese minority is much wealthier comparing to other ethnic groups. Even under Suharto's regime, when they were discriminated and suffered as victims of violence, the wealthier ethnic-Chinese businessmen were cultivated and protected by the leader and therefore became extremely rich (Reuters, 2017). Thus, the anti-Chinese sentiments combined with China Threat and increasing nationalistic atmosphere lead to greater Chinese discrimination and propaganda against FTA.

6. *DISCUSSION*

As an author of this paper I have to admit it was a challenge to examine the asymmetric China-Indonesia relations. There is so much more to it than just calculating the economic advantages and disadvantages. Along with the writing there were universal questions raised to which there seems to never be just one, clear answer. However by gaining knowledge about the complexity of the international affairs I would like to dedicate my discussion part to elucidate the most common debates met during gathering necessary data for the sake of progress of this work. These questions and my personal feelings on these matters, largely shaped by this writing experience are as follows:

1. Why, in spite of the advances towards liberalism (increased interdependence, development of regional and international institutions guarding peaceful coexistence) everything still seems to be driven by realistic perspective of eternal instinct of the existing threat. Why relations between countries seem always to be a constant rivalry based on the fear of states losing identity or freedom to another country. Why violence is an intuitive defense against this risks?

History of the world is a story of the eternal strife of realism with liberalism, differently understood in different epochs, like the eternal battle of good against evil, war and peace, spirituality and cynicism, religiosity and atheism, democracy and tyranny. The desire for communion, prosperity and peace is the eternal dream of philosophers and idealists, utterly exploited by political realists. Unfortunately, the real driving force of civilization is the rush towards wealthiness and power. Practice shows that the power and skillful use of the resources and weaknesses of the opponents is always determined by the group, the region and the world. There are no centuries without wars,

there are no empires that do not fall, there are no civilizations that have not come down with blood and have not ruined other civilizations. "Want peace - get ready for war" is a timeless maxim. Constitutions, power concepts and global centers are constantly changing. Just recently, it seemed as if United States had won the race for world domination. However, the failure of its policy in the Middle East has led to an increasing global protest against "Americanization". At the same time, there appeared another great players in the "game of throne "for world supremacy. China's position has become a rival to the US administration, The role of the "second row" of India, Indonesia, Brazil and others is growing as well. At the same time, the technological revolution, the development of the Internet and new forms of communication have brought surprising consequences. Rather than creating a unified culture and taking over the American/European liberal consumer patterns, they have led to the rapid development of religious, cultural and nationalistic protectionism attitudes among nations resulting in a continuing armed and social conflicts between the East and West. These conflicts go far beyond the area of traditional extremism and terrorism. Local wars, acts of terrorism, waves of uncontrolled migration and the helplessness of international institutions, which have expanded the ineffective and monstrous structures of the administration, are meeting increasing aversion and opposition.

2. Why, despite remarkable progress of capitalization and development of international relations, the cultural and religious differences remain a powerful tool in international affairs? How can culture be so intertwined in politics and economics that it can initiate violence despite the risk of losing benefits from the cooperation?

Technological development, the apparent division of the world into the sphere of influence of seemingly unquestioned leaders has brought about attempts to universalize cultural values. It seemed inevitable that the borders will eventually disappear, there will be more liberal labor migration or that there will be transfer of international rivalry from the "militarized" level to economic one. In the twentieth century, the theories of neo-colonialism, economic colonialism, and all sorts of liberal approaches with a "global village" arose. Too aggressive "promotion" of new values has resulted in complete opposite effect. Religious conservatism, traditional values, defense of national and cultural identities have become an effective tool for leaders to fight for independence from world major power. It turned out that in spite of the rapid development and advancement of technology, despite the possibility of total monitoring and surveillance, despite the unreasonable asymmetry of potentials, a new modern battlefield and a new strategy for intercultural

warfare emerged. The consequences of this kind of modern conflicts are still not obvious and in result they remain unpredictable.

3. Why, in the long run, international and regional institutions cannot cope with maintaining order or preventing conflicts?

International institutions do not meet expectations because they are a hybrid of the unhealthy mutation of rationalism and political idealism. They are called upon to serve the nations and communities in order to contribute to the improvement of their standard of living, maintenance of peace and economic growth and to equal opportunities of the regions (idealism, liberalism). In practice, they are the instrument of real influence for world leaders, and on the other hand, the extended administrative structures are used for distributing benefits to the leaders, thus increasing the number of ineffective sub-institutions, committees, subcommittees, advisers, lobbyists, service providers (translators, experts, trainers, apprentices, etc.). Often, the important role / purpose of these institutions is the impossibility of making decisions that condemn the actions of world leaders. By doing so, they do not legitimize controversial activities or economic and military interventions. The usual rule is the need for unanimity (eg UN resolutions). Institutions are, of course, useful and often effective in the event of local conflicts that are not strategically important but which represent a humanitarian challenge (famine, ecological catastrophes, local conflicts, and tribal wars). Thus it can be deduced that the East-Asian regional institutions are of little significance and do not possess enough power to resolve Indonesia-China obstacles and challenges.

7. CONCLUSION

The present state of China – Indonesia relations illustrates in all its splendour the problems of contemporary international relations. The amount and pace of economic, political and cultural events creates a huge analytical and informative disorder that hinders their objective analysis. Seemingly, relations between the two countries, in particular their asymmetric economic interdependence which has a negative impact on Indonesia's national attitudes, are a perfect reflection of political realism. China rationally strives to expand its regional (Asian) impact zone, and in order to do so is ready to bear the costs of supporting Indonesia's economic development. It believes that this will strengthen its position as a trading partner, open up even greater export market and will gain them a privileged position for the exploration of Indonesian natural resources. Due to no-interference policy of China, Indonesia should not feel threatened (despite the size of its partner), as China cannot even cope with its troubled Taiwan independence. By adopting a

diplomatic hedging strategy, Indonesia should therefore take advantage of new potential market opportunities to absorb Chinese capital and increase foreign support to boost its already dynamic economic development. However Indonesia's vulnerability and sensitivity are apparently here to stay and hinder the progress of the relations with China. Therefore, these elements are entering the arena of political realism and convert the conduct of Indonesia's actions to irrational responses. Fear raises religious, cultural, national and anti-Chinese sentiments. For realism, state is the most important player, but the state has to be strong not weak. To maintain independence, it has to combine military and soft power and encourage political stability and economic development. Cultural and religious nationalism that inhibits the development of economic and political potential is not rational. It is rather conservative idealism, building the foundations of past tragedies and drama. Only theoretical concepts, predictions and hypothesis brought into being by scholars who did not neglect the undeniable importance of the historical and cultural perceptions as well as persisting sentiments could predict these effects of China's increasing engagement in Indonesian market. I believe this is where my work contributes the most. It proves that all the speculations and pessimistic visions raised by scholars who focused on the economic and cultural intersections (such as Sukma, Laksmana, Womack, Yee&Storey and many more mentioned in this paper) appear to be increasingly more realistic and already noticeable – for instance in nationalistic and protectionists movements, ethnic-Chinese discrimination and growing propaganda against Chinese minority. Their works warned about the potential complications of asymmetrical economic cooperation meeting resistance and sense of threat on the part of the weaker state. And if their pessimistic visions will really come true the power of diverse world-views, religions and cultures in connection with the fear of becoming dependent and vulnerable will make the current world look very similar to the Middle Ages.

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