



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

DECEMBER 2003

Asia's China Debate

Anthony L. Smith is a Senior Research Fellow in the Research Division of the Asia-Pacific Center for Security Studies who focuses on Southeast Asia. His most recent co-edited volume is *Governance in Indonesia: Challenges Facing the Megawati Presidency* (2003).

From Latent Threat to Possible Partner: Indonesia's China Debate

ANTHONY L. SMITH

Executive Summary

- China has played a major—and at times controversial—role in Indonesia's post-independence history. While founding President Sukarno viewed China as a role model, the emerging power of Indonesia's Communist Party (PKI) greatly alarmed the military. Following Soeharto's emergence to power after 1965, China and domestic communists were viewed as the principal threats to Indonesia's cohesion. Indonesia's civilian and military elite, obsessed by fears of national disunity, refused, from 1967 to 1990, to engage in normalized relations with China on the grounds that the People's Republic of China (PRC) had fostered internal rebellion and remained a military threat.
- Since the 1980s a debate has been waged in Indonesia between the military (TNI) and the Department of Foreign Affairs (Deplu). The TNI, which viewed China as a threat, urged Soeharto not to restore the relationship, while Deplu argued that failure to normalize would hold Indonesia back diplomatically and economically. Deplu won the debate, but Indonesia's military establishment is still wary of an emerging China.
- China's growing economic power poses an immense challenge for Indonesia's growth. Currently Indonesia has a healthy trade surplus with China, but the structure of trade—with Indonesia providing raw materials while China exports manufactured goods—could be the death knell for an array of Indonesian firms.
- Fear of the Chinese market could conceivably become fused to the indigenous Indonesian community's (imagined) fear of the economic dominance of Indonesian Chinese. Indonesians fear China's possible involvement in behalf of domestic ethnic Chinese.
- While a skepticism of China's intentions is alive and well in Indonesia, the relationship has grown in terms of substance and warmth over the last decade. In particular, Western criticism of Indonesia's questionable human rights record and U.S. sanctions on military-to-military contact, have pushed Indonesia to look to its other options. In attempting to deflect Western pressure concerning human rights, Indonesia finds it has an ally in China at international forums.

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE DEC 2003		2. REPORT TYPE		3. DATES COVERED 00-00-2003 to 00-00-2003	
4. TITLE AND SUBTITLE From Latent Threat to Possible Partner: Indonesia's China Debate				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Asia-Pacific Center for Security Studies, 2058 Maluhia Road , Honolulu, HI, 96815				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

THE BACKDROP

Assessing Indonesia's "China debate" is like an exercise in "examining Javanese tea-leaves," to modify an old saying. China has played a major role in Indonesia's political development, as Indonesia's first two presidents, Sukarno and Soeharto, used China to their own domestic political ends.

Sukarno, as founding president, saw in China a role model to be emulated. China also continued to support Sukarno, including his withdrawal from the United Nations during his increasing belligerence toward Malaysia. With formal relations established in July 1950, soon after Indonesian independence, the relationship reached such intensity between the years 1963 and 1965—during Indonesia's war against Malaysia—that it alarmed foreign governments. As Indonesian foreign policy specialist Rizal Sukma puts it in *Indonesia and China: The Politics of a Troubled Relationship*: "Indonesia and China enjoyed a relatively close relationship when the two governments forged a diplomatic liaison which in some capitals appeared to pose a threat not only to stability within South-East Asia but also to world peace." Sukarno had grown close to the PKI in these years and justified his war against Malaysia as an anti-imperialist crusade. These views of China were by no means shared by other elements in Indonesian society. The Indonesian military continued to view China, and the PKI, as major threats to Indonesia. A China threat to Indonesian sovereignty has been imagined in the following terms over the years: (1) a conventional assault by the PLA (People's Liberation Army) from the north; (2) Chinese pressure over sea boundaries in the South China Sea, which affect the status of Indonesia's Natuna Island; and (3) China's role in causing, or sustaining, domestic instability in Indonesia.

When the military seized power in 1965, it did so in part because of discontent with Sukarno about China and the PKI. Soeharto, Sukarno's successor, used China as a "whipping boy," blaming the PRC for aiding and abetting a communist plot in 1965 to overthrow the government. The Indonesian government suspended relations with the PRC in October 1967, and insisted on an apology for meddling in Indonesian affairs. China refused to make the apology on the grounds that it was not responsible for the coup attempt.

Another point of contention within Indonesia about China emerged in the context of the Cambodia situation, which exposed one of many splits between Deplu and the TNI. Although Indonesia supported the Thai position (and ASEAN's official position) opposing Vietnam's occupation of Cambodia from 1979, the Indonesian government demonstrated real reluctance. Although Deplu's encouragement of adhering to the ASEAN line carried the day, the TNI established high-level contacts with Vietnamese counterparts who were regarded as natural allies against Chinese influence.

Although evidence of the PRC's involvement in the 1965 coup attempt is scant, Soeharto based the legitimacy of his earlier years in power on saving Indonesia from the communist threat—a threat posed by China, the PKI and Indonesia's ethnic Chinese population. Once Soeharto's propaganda on the China threat was accepted by the general population, it was not easy to reverse, and Soeharto was unable to restore relations with China until 1990. The rapprochement

between China and Indonesia came quite late. It occurred nearly two decades after a similar rapprochement between China and most Western countries, as well as other members of ASEAN (Thailand in particular). Although Indonesia under Soeharto is often regarded by commentators as a U.S. partner, Indonesia was well out of step with U.S. policy with regards to China from the Nixon administration onward. In fact, Sino-Indonesian relations during these years were not shaped by international events but by Indonesia's own domestic political decisions and needs.

The restoration of relations in August 1990 was the result of a number of factors converging. The end of the Cold War had made talk of a "communist threat" less relevant. Also, the Soeharto regime, by 1990, had switched its claim to legitimacy. Soeharto, dubbing himself the "Father of Development," now staked his reputation on economic progress. Not only was the anti-communist theme no longer needed, but China's economic potential was also attractive—and potentially helpful to underscore the development basis of Soeharto's "new" legitimacy. Indirect trade links with China had already been restored in 1985. But of great importance was Soeharto's desire to put Indonesia's foreign policy onto a more active footing. Both the President and his diplomatic corps had an eye on the role Indonesia should play on the world stage. The absence of ties with China was a major anomaly for the foreign policy activism of Soeharto's latter years, particularly as it was out of step with the rest of ASEAN and the Non-Aligned Movement. Finally, China—though it continued its refusal to apologize for the events of 1965, in which it was most likely not involved—promised not to get involved in Indonesia's domestic affairs.

The normalization was also a demonstration of Soeharto's ability to override his own military machine—a step that may not have been possible earlier. At the time of normalization Soeharto faced opposition from his own military, which saw this as a dangerous step. There were still lingering suspicions that China might somehow use its links to the ethnic Chinese community and/or the remnants of the PKI to undermine Indonesian cohesion. Another event reinforced, for the military, the view that China was a threat. Indonesia was not a claimant in the South China Sea dispute over the Spratly Island chain, but Indonesia's Natuna Island has an overlapping sea boundary claim with China's claim. A similar potential problem emerged between Indonesia and Vietnam's South China Sea claim, but this was resolved through negotiation, while China appeared to be aggressively increasing its presence in the South China Sea region. Indonesia, initially seeing itself as not party to the South China Sea dispute, brokered a series of ASEAN-China discussions on the Spratly Islands. These talks resulted in claimants agreeing to freeze their claims. However, from the TNI's perspective, China's extensive line of claims by the late 1980s posed a possible threat to the edge of Indonesia's territorial sea—a fear that continues to this day.

THE CHINA DEBATE AFTER SOEHARTO

The end of the Soeharto era in Indonesia saw relations with China, and therefore the debate on China, move to a new footing. The reformasi era that was ushered in by Soeharto's departure from office in 1998 has so changed the situation

that Abdurrahman Wahid, president from 1999 to 2001, could talk openly of forging a bloc with China—without committing political suicide—although fears of Chinese-inspired communism had apparently not completely gone away. Wahid's first official trip as head of state was to China, while his successor, President Megawati, who chose to make her first official outing a traditional tour of the ASEAN capitals, made a state visit to China in March 2002.

Abdurrahman Wahid announced a “Look towards Asia” policy soon after coming to office. Wahid during his time as head of state, literally made foreign policy initiatives in the midst of speeches. Amid idle talk about the recognition of Israel, playing peace broker in the Middle East and so forth, Wahid proposed various kinds of political and/or trade blocs (the details were never clear) that involved China, with varying combinations of India, Russia, Japan and Singapore. Despite the lack of substance, Wahid captured the zeitgeist of the times. China, although still considered a domestic and foreign threat in certain Indonesian circles, would be a useful counter to the United States, with whom relations have deteriorated since around the time of the 1997 financial crisis.

Even after relations with China were restored in 1990, the Soeharto regime had remained noticeably paranoid about the communist threat to society. Wahid proposed legalizing the PKI. This did not have any impact on China-Indonesia relations, as many foreign media sources had assumed, but it did demonstrate that Wahid's administration no longer feared communist infiltration, aided and abetted by China. Not all agreed and a massive debate ensued. Among those to publicly condemn communism—despite the fact that any attempt to revive the PKI would struggle to fill an auditorium—were leaders of some of the Muslim parties. Amien Rias, speaker of the upper house, and Hamzah Haz, current Vice President, were among those to speak of communism as the leading threat to the fabric of Indonesian society. Soeharto-era suspicions of communism, often linked to Beijing, continued to find fertile ground within elements of the elite, even among critics of the Soeharto regime.

On the “one-China” policy there has been no debate. Indonesia reaffirmed many times its view that Beijing is the sole representative of China (it is notable that Soeharto ended ties with Beijing but never switched recognition to Taipei). In return, China's recognition of Indonesia's sovereign territory is ironclad. The Megawati regime recently made a gaffe when the Vice President of Taiwan went to Indonesia on a “vacation” visit. Indonesia was forced to issue a statement that Annette Lu (or Lu Hsiu Lien) was not on a pre-arranged visit, nor was she in her “supposed capacity” as vice president of “an entity” known as the “Republic of China.” The reaction to this blunder indicates that Indonesia is firmly behind a one-China policy.

Among Indonesian foreign policy and security specialists there is still the question of China's future role. Jusuf Wanandi, a well-known Indonesian commentator on foreign affairs, has asked whether China will be a “revolutionary” or “status quo” power. In answering his own question he has written in the *Jakarta Post*: “Given this uncertainty [of China's direction], it would be wise for East Asia to commit China to the web of rules and institution[s] in the region.” This view coincides with the strategy of Deplu—which is to bind China into

multilateralism and market interdependency. The fears of the TNI, which may continue to inform military planning, are dormant in the formation of Indonesian foreign policy.

With economic ties a major factor in the earlier restoration of relations, trade has been a major factor in the ongoing relationship. The predominant view today about economic relations is not positive. During the 1980s, two-way trade was worth around US\$500 million per annum but by the year 2000 reached around \$7.5 billion. Trade figures for 2000 were more than double that of the previous year. A slowdown in the world economy saw a decline in 2001 to \$6.7 billion. Trade for 2002 is about \$7.3 billion. China is now officially listed as Indonesia's fifth largest trading partner, while Indonesia ranks number seventeen for China. These rankings need to be placed in context, as the lion's share of Indonesia's trade goes to Japan and the United States, and to a lesser extent the European Union, so China is at best a useful supplement at this point. There is also growing Chinese investment in Indonesia. There are now more than 800 Chinese-owned businesses in Indonesia, worth nearly \$2 billion—roughly double that of Indonesian investment in China. During a 2002 state visit to China, the key feature was Megawati's attempt to hawk liquefied natural gas (LNG) sales to China's Guangdong province. Indonesia has now successfully signed LNG deals to supply China into the future.

In commodity trade Indonesia has actually enjoyed a surplus with China, but the structure of this bilateral trade has changed—and it is this point that causes so much angst. In contrast to when the commercial relationship began, now it is Indonesia that exports raw materials and primary products to China (namely, crude oil, paper pulp, logs, veneer and palm oil), while imports from China are now largely manufactured goods (machinery, electronics, textiles and motorcycles). This, according to noted Indonesian economist Hadi Soesastro, is threatening to many local manufacturers who fear being wiped out by Chinese imports: "China is real. Its development is awesome and at the same time scary." Indonesia's once massive footwear industry is already in steep decline, in large part due to competition from China. Other low-tech industries will go the same way. Wanandi warns, "The economic weight of North East Asia threatens to make ASEAN a sideshow." He believes the only way Indonesia—and the rest of Southeast Asia—can survive is to reform its markets and concentrate on resource-based products and niche consumer goods. Indonesia's inability to reform its sluggish economy in recent years means that the prospects for harnessing China's economic rise are minimal on present trends.

Fear of losing out economically to China exacerbates an unfortunate problem within Indonesia: prejudice against ethnic Chinese. While official restrictions and bans on expressions of Chinese culture are now removed, and ethnic Chinese are now a regular feature in the Indonesian cabinet and in parliament, China's economic prowess has a real danger of becoming conflated with economic jealousy within Indonesia of the relative prosperity of the ethnic Chinese community. Hadi Soesastro notes that the economic emergence of China will be a challenge to Indonesian businessmen of Chinese descent "since there are among the public those who harbor suspicions and old sentiments." While resolving this "suspicion" and hostility toward ethnic Chinese will be a major factor in Indonesia's

attempt to revive its domestic economy, there is an international dimension to all this: How will China react to anti-Chinese pogroms in the future?

China's relationship to Indonesians of ethnic Chinese ancestry has not been as close as members of the TNI have suggested. The ethnic Chinese are not a natural extension of China's reach, and China has made it clear that overseas Chinese in Southeast Asia are citizens of the countries in which they reside. Nonetheless, China, a staunch advocate of the primacy of sovereignty, has made a sole exception to this doctrine in expressing concern over the rights of the Indonesian Chinese from time to time. During the anti-Chinese riots in 1998, the Chinese Foreign Ministry issued statements that Indonesia should protect ethnic Chinese—although China quickly backed away from these statements soon after they were made. Some international commentators interpreted this as a “maturing” of Chinese foreign policy to accommodate human rights concerns, but the statement seems like little more than a reflex reaction based on ethnic solidarity. The message went down hard in Jakarta and has raised fears of a China that may not stand by in the future if ethnic Chinese are threatened.

THE FOREIGN POLICY OUTCOMES

Megawati has been far more reliant on the advice of Deplu to shape foreign policy than her immediate predecessor was. However, major aspects of Indonesia's China policy remain the same. In particular, drawing closer to China—a refrain in Wahid's pronouncements—is also a feature of the Megawati administration. Megawati has demonstrated, since around 2002, a greater foreign policy activism in the mold of some of her predecessors. Officials often describe Indonesia's foreign policy as being based on “concentric circles” of importance. While ASEAN occupies the first “circle,” East Asia (including China) is in the second, yet still important, rung. Megawati, in early 2002, visited both North and South Korea in what seems to have been an unsuccessful attempt to broker a deal on the Korean Peninsula.

Interest in Northeast Asia, and in world affairs generally, means for Indonesia a strong relationship with China. But other interests overlap, notably in the field of military matériel. Indonesia is busy trying to secure alternative sources of military equipment outside the preferred traditional sources of the United States and the UK—both of whom have made uncomfortable human rights demands. The Indonesian Air Force—which is currently taking possession of Russian fighters—has contacted counterparts in the Chinese Air Force to discuss aircraft maintenance. Other avenues for cooperation are being investigated. In one sense the U.S. embargo on military-to-military contact against Indonesia has played into China's hands. As China seeks to improve its influence, presumably to counter any future U.S. “containment,” and make money for its defense industry, there is scope for cooperation with Indonesia. So far China and Indonesia have had bilateral high-level visits and military training exercises. However, the poor reputation of Chinese defense equipment may give Russia the edge as an alternative to the United States and Britain.

China is a useful political balance, but TNI's wary eye on China remains. High-level Indonesian military officers privately concede that China remains the

most likely source of a future threat. The TNI strategy is to defend its land (more than 13,000 scattered islands) and intervening sea, as part of one territory—the doctrine is called *wawasan nusantara*. The TNI defense strategy is still based on defending Indonesia from a northern threat, allowing the invaders to penetrate the archipelago, while the TNI organizes a rearguard guerrilla war (a strategy unchanged since a conflict was fought like this against the Dutch). No one in the TNI seriously imagines that an old colonial power would attempt this, but China is the country that might just do so, according to some Indonesian officers.

As noted, in order to normalize relations, China gave assurances to Indonesia in 1990 that it would not interfere with Indonesia's domestic affairs. And China had abandoned support of communist insurgencies in the region from the 1970s. In fact, in modern times China has become an ultra-conservative stalwart of non-interference. China was only satisfied with the East Timor intervention in 1999 when Jakarta issued an invitation (and therefore, in Beijing's eyes, it was not technically an "intervention"). China has issued and reissued numerous statements supporting Indonesia's territorial integrity, including a May 2001 announcement to distance China from Papuan independence activists who visited China and claimed they had China's sympathy. Alwi Shihab, foreign minister with the Wahid government, according to a Chinese Ministry of Foreign Affairs press release, when meeting with Foreign Minister Tang Jiaxuan, expressed gratitude to China for supporting Indonesia in international affairs—a polite way of saying that China is not involved in the pressure applied by Western countries against Indonesia. Alwi Shihab on other occasions mentioned that China supported Indonesia on human rights and East Timor issues. Short of a reoccurrence of violence against ethnic Chinese in Indonesia, Indonesia can expect the support of China at international forums in the face of Western pressure.

Indonesia is very keen to imbed China in multilateral frameworks; a theme common throughout the Asia-Pacific. Indonesia has been an enthusiastic supporter of ASEAN Plus Three (APT) and the China-ASEAN Free Trade Agreement that is currently in the pipeline. China remains a possible threat in the eyes of the TNI, and also within the civilian elite, but the Deplu approach of engaging China bilaterally, and now bringing it into a web of multilateral frameworks, has determined Indonesian foreign policy outcomes.

IMPLICATIONS FOR U.S. FOREIGN POLICY

The most obvious implication for the United States is that China and Indonesia, while being far from close allies, have drawn closer together in areas of mutual interest. For Indonesia, China could be an alternative source of military equipment, without America's scruples. A growing friendship between China and Indonesia need not be a threatening prospect to the United States because the United States still is important to Indonesia, there are limits to Sino-Indonesian cooperation, and the post-September 11 world is one in which the Bush administration also seeks cooperative relations with China. If competition resumes between China and the United States, it would be a quantum leap in logic to suggest that Indonesia might go China's way. It is far too soon to start sounding alarm bells given the natural suspicion that Indonesia still has of China. There are still

significant barriers to a China-Indonesia “alliance,” even if Indonesia has found a comforting friend in China as Jakarta tries to bat away pressure to hold trials on East Timor and clean up its act in Aceh and Papua.

The United States has a strong interest in a cohesive Indonesia. A vibrant Indonesian economy is a critical part of this. Although Indonesia’s economic problems relate to its own domestic mismanagement, China’s emergence as an economic powerhouse will not only divert needed investment away from ASEAN but will put serious pressure on Indonesia’s manufacturing industries in the international marketplace. The prospects are not bright for Indonesian exports. Indonesia’s only hope lies in the reform of its distorted economy—the record to date for such reform is not strong. The sometimes heated debate over China in Indonesia has culminated in a foreign policy outcome of embedding China into a lattice of solid bilateral and multilateral relationships in order for China to emerge as a constructive great power in the Asia-Pacific region. Indonesia has reached a point in its debate over China whereby constructive engagement with Beijing is no longer regarded as controversial, and is therefore set to continue into the future.

Asia-Pacific Center for Security Studies

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • www.apcss.org

For further information regarding APCSS publications or to be placed on the distribution list, please contact research&publications@apcss.org