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## Asia's Dragons

### Explaining Sino-Indonesian Economic Cooperation amid Anti-China Sentiment in the COVID-19 Era

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#### Introduction

Dragons hold an important role in both China's and Indonesia's cultural heritage. Both countries emphasize dragons in their folklore and recognize its dominance over other creatures. With that in mind, both countries, just like dragons, also play an important role in the current geopolitical context. China's rising power in Asia and across the globe, as well as Indonesia's key role in the rapidly growing region of Southeast Asia resemble the role of the dragons. The relationship between Asia's dragons has gone through up and downs and evolved over decades, and yet they have kept close to each other amid rising uncertainty.

Both countries have nurtured a close bilateral relationship since the 1950s, with Indonesia being one of the earliest countries to recognize the People's Republic of China (PRC) and establish formal diplomatic ties. However, over time, the relationship has been tainted by domestic political developments, such as the heightened tension between Indonesia's National Army and the China-backed Indonesia Communist Party (PKI) during Sukarno's rule (1945-1967). The final blow was dealt by the Suharto regime (1966-1998), which banned PKI in 1967 and froze Sino-Indonesian relations for more than two decades.

Anti-China sentiment also stemmed from government policies that discriminated against the Chinese ethnic minority in Indonesia. The sentiment was further exacerbated by the critical role the Chinese minority had played in the economy since colonial times, which resulted in jealousy and negative perceptions among the indigenous masses. This tension never eased, even during the second term of President Joko Widodo (2019-present), who has been accused by his political opponents of having a special relationship with the communist state.<sup>①</sup> It is apparent that COVID-19 has amplified bias toward the PRC administration as well as toward the Chinese ethnic minority in Indonesia. However, amid these challenges, bilateral relations have strengthened in terms of economic cooperation. Foreign direct investment (FDI) is growing in Indonesia and China has become one of Indonesia's biggest trading partners.

This essay seeks to explain the origin of anti-China sentiment in Indonesia and how the current pandemic affects the political and economic relationship between the two countries.

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① Ricky Mohammad Nugraha, "Rumor of Communist PKI Jokowi Looms over Indonesia Election," *Tempo*, March 18, 2019, <https://en.tempo.co/read/1186429/rumor-of-communist-pki-jokowi-looms-over-indonesia-election> (accessed February 13, 2022).

### Anti-China Sentiment in Indonesia

As previously mentioned, anti-China sentiment has deep roots in Indonesia. In 1959, the Indonesian government implemented Government Regulation No. 10, which prohibited “aliens” (ethnic minorities) from engaging in retail trade in rural areas. Moreover, under the Suharto administration, the public was banned from expressing their Chinese heritage and was forced to assimilate with the local culture.<sup>①</sup> Tension between the two countries decreased and cooperation reached a new height during Susilo Bambang Yudhoyono’s administration, in which both countries elevated their relations to the status of Comprehensive Strategic Partnership.<sup>②</sup> However, the recent global anti-China wave stirred by geopolitical disputes<sup>③</sup> has further complicated Indonesia’s anti-China problems. A recent survey by the Pew Research Center found that favorable views of China are at or near historic lows.<sup>④</sup> Similarly, favorable views of China among Indonesians reached a new low in 2019.<sup>⑤</sup> While the emergence of Covid-19 is generally to blame for these views, the case of Indonesia is more complex. Politically, bilateral relations have always been challenged by internal and external factors, such as China’s increasing assertiveness in the South China Sea since 2009.<sup>⑥</sup> Additionally, the Indonesian public felt that China’s growing economic intrusion disturbed the local market. This chain of events triggered the free-market community in Indonesia, pressuring the government to back out of the ASEAN-China Free Trade Area Agreement in 2010.<sup>⑦</sup> This combination of political and economic issues, as well as Indonesia’s public criticism of the Uyghur situation,<sup>⑧</sup> has created a dilemma in the high-level political sphere. This series of events has caused the Indonesian government to carefully assess their relationship and avoid being closely associated with China.<sup>⑨</sup>

### Evolving Pragmatic Cooperation

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① Dewi F. Anwar, “Indonesia-China Relations: To Be Handled with Care,” *ISEAS Perspective* 19 (2019): 1-7.

② *Ibid.*, 4.

③ Sakshi Venkatraman, “Anti-Asian hate crimes rose 73% last year, updated FBI data says,” *NBC News*, October 26, 2021, <https://www.nbcnews.com/news/asian-america/anti-asian-hate-crimes-rose-73-last-year-updated-fbi-data-says-rcna3741> (accessed December 23, 2021).

④ Laura Silver, “China’s international image remains broadly negative as views of the U.S. rebound,” *Pew Research*, June 30, 2021, <https://www.pewresearch.org/fact-tank/2021/06/30/chinas-international-image-remains-broadly-negative-as-views-of-the-u-s-rebound/> (accessed, December 20, 2021).

⑤ “Global Indicators Database: Indonesia,” *Pew Research Center*, 2020, <https://www.pewresearch.org/global/database/indicator/24/country/id> (accessed December 20, 2021).

⑥ Anwar, “Indonesia-China Relations,” 4.

⑦ Alexandra C. Chandra and Lucky A. Lontoh, “Indonesia-China Trade Relations: The deepening of economic integration amid uncertainty?” *International Institute for Sustainable Development (IISD)*, 2011.

⑧ Rakhmat M. and Aryansyah W., “Rising Anti-Chinese Sentiment In Indonesia,” *The ASEAN Post*, December 19, 2021, <https://theaseanpost.com/article/rising-anti-chinese-sentiment-indonesia> (accessed December 20, 2021).

⑨ Evi Fitriani, “Indonesian perceptions of the rise of China: dare you, dare you not,” *The Pacific Review* 31, no.3 (2018): 391-405.

Despite domestic pressure and the effects of COVID-19, on paper, Sino-Indonesian economic relations are stronger than ever.<sup>①</sup> This raises an important question as to whether both countries can maintain effective bilateral cooperation amidst heightened political tensions, weakened political relations, and limited public acceptance in Indonesia, especially given rising anti-China sentiment and the global economic downturn due to Covid-19.

Scholars that study the impact of political relations on economic cooperation have identified several links between political relations and economic cooperation. An early argument by Nich (1985) shows that political aspects of investments are driven by the subjective perception of investors from the investing country.<sup>②</sup> To further explain, Glaeser (2005) developed a model of rational public choice in which public perception is influenced by domestic politicians or leaders.<sup>③</sup> Following the same logic, a change in a country's political relationship with another country may be affected by public perception, which then in turn affects all participants in the economy, including consumers, exporters, and importers.<sup>④</sup> This study suggests a high potential for political perceptions to affect economic activity. Therefore, media and public outcry over anti-China sentiment and the spread of COVID-19 played a significant role in determining the course of international economic exchange. However, China's approach to international cooperation is quite different from that of the Washington Consensus. With a firm foundational outlook on development cooperation, China was able to suppress political barriers to foster effective and pragmatic solutions. The Beijing Consensus is a model that emphasizes pragmatism and flexibility and differs from the "Washington Consensus," which is dogmatic and hierarchical in its application.<sup>⑤</sup> As pragmatism is the key concept, China places economic development at the center of its cooperation, making it a mainstay of developmentalism.<sup>⑥</sup> This idea resonates well with developing countries that need a flexible approach to overcome political or bureaucratic shortcomings. This approach is one reason that China is capable of pragmatic and mutually beneficial cooperation with developing countries. For China, development is seen as the *pièce de résistance* of its cooperation strategy.

### The Reality of Sino-Indonesian Trade and Investment Cooperation

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① Muhammad Z. Rakhmat and Habib Phasya, "Indonesia-China cooperation: Standby for take-off," *Lowy Institute*, December 10, 2020, <https://www.lowyinstitute.org/the-interpreter/indonesia-china-cooperation-standby-for-take-off> (accessed December 21, 2021)

② Douglas Nich, "The Effect of Political Events on United States Direct Foreign Investment: A Pooled Time-Series Cross-Sectional Analysis," *Journal of International Business Studies* 16, no.1 (1985): 1-17.

③ Edward L. Glaeser, "The Political Economy of Hatred," *The Quarterly Journal of Economics* 1, no.120 (2005): 45-86

④ Brian M. Pollins, "Conflict, Cooperation, and Commerce: The Effect of International Political Interactions on Bilateral Trade Flows," *American Journal of Political Science* 33, no.3 (1998): 737-61.

⑤ Joshua Ramo, *The Beijing Consensus* (London: Foreign Policy Centre, 2004), 4.

⑥ Arif Dirlik, "Developmentalism," *Interventions: International Journal of Postcolonial Studies* 16, no.1 (2012): 30-48.

Findings from studies on China's development cooperation concerning international politics supports the "Beijing Consensus" and China's philosophical outlook. Whitten *et al.* formulated a study to determine whether political relations will affect international trade for twelve of China's main trading partners, including Indonesia. The study proposed that a positive shock of political events has a larger effect on China's exports to partner countries than on the partner countries' exports to China.<sup>①</sup> Moreover, the study suggested that, despite a positive shock to Indonesia, Indonesian exports to China declined quickly after the occurring shock. However, the same inter-connection of political shock and exports would have minimum impact for China. The impacts of political relations between Indonesia and China towards China's exports to Indonesia would have minimal influence, thus creating stable trade relations. Therefore, this study supports the notion that trade from China to Indonesia rarely depends on Indonesia's political perception of China, because a negative shock would have less effect on the Chinese side of trade relations, and a positive shock would boost China's exports to Indonesia.<sup>②</sup> This supports Ramo's argument that pragmatism is the core concept of China's economic relations with other countries. While political relations between China and Indonesia are currently experiencing a slump, economic relations will remain pragmatic and stable.

Trade analysis indicates that despite the recent negative political shocks, both countries have been able to maintain a high level of trade cooperation. Data from the Indonesian Ministry of Trade reveals that the total value of exports from Indonesia to China reached USD 23 billion in 2017,<sup>③</sup> with the current value having almost doubled to USD 42 billion.<sup>④</sup> China maintained a similar total export value, reaching USD 39 billion by the end of 2020.

In regard to China's outbound FDI, Li and Liang formulated a study that analyzed China's outbound investment flows from the enterprise level and the dyadic level (Chinese government and investment recipient country) based on Chinese outbound FDI flows to 95 countries from 2003 to 2005. Their findings show that on both levels, interstate political relations have a positive correlation with FDI.<sup>⑤</sup> This means that Chinese FDI would more likely flow to countries with which the Chinese government has good political relations. With regard to developing countries like Indonesia, the findings suggest that when Chinese stakeholders invest in countries with political instability and poor institutional quality, they will choose countries with which they have better political relations.<sup>⑥</sup> Despite the state of political relations between

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① Gregory Whitten, Xiaoyi Dai, Simon Fan, and Yu Pang, "Do political relations affect international trade? Evidence from China's twelve trading partners," *Journal of Shipping and Trade* 5, no.21 (2020): 13-24.

② Whitten et al., *Do political relations affect international trade*, 13.

③ Data retrieved from "Neraca Perdagangan Indonesia Dengan Rep.Rakyat Cina," *PDSI Kementerian Perdagangan*, 2019, <https://satudata.kemendag.go.id/balance-of-trade-with-trade-partner-country> (accessed December 20, 2021).

④ Data retrieved from "Export and Import," *Statistics Indonesia*, <https://www.bps.go.id/exim/> (accessed October 2021).

⑤ Quan Li and Guoyong Liang, "Political Relations and Chinese Outbound Direct Investment: Evidence from Firm- and Dyadic-Level Tests," *Indiana University Research Center for Chinese Politics and Business Working Papers* 19 (2012).

⑥ *Ibid.*, 18.

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China and Indonesia, there was a 48% increase in Chinese FDI projects in Indonesia from 2018 to 2020.<sup>①</sup> Furthermore, data from the Indonesian Ministry of Investment shows that the value of these investments rose from USD 2.38 billion in 2018 to USD 4.84 billion in 2020.<sup>②</sup> In regard to Li and Liang's findings, this suggests that China did not perceive the current political state between China and Indonesia as threatening to their cooperation agenda. This is also in line with Ramo's argument that China will overlook political and institutional shortcomings as long as pragmatic cooperation is possible for both sides.

### Findings

By examining existing academic literature and the current state of Sino-Indonesian political and economic relations, this essay reaches four key conclusions:

1. COVID-19 worsened the global perception of China, that of Indonesia being no exception. However, in terms of economic cooperation, it did not hamper trade and investment.
2. Anti-China sentiment and other recent turmoil between the two states have not presented high-level political challenges. It is for this reason that pragmatic cooperation between both countries continues to improve.
3. While the Indonesian public viewed recent events between China and Indonesia as a decline in relations, China's administration and private sector are still confidently investing in Indonesia.
4. Growing anti-China sentiment is not only a by-product of COVID-19 but also a combination of historical, domestic, and international factors.

### Conclusion

The COVID-19 pandemic presents new challenge and opportunities for Sino-Indonesia cooperation. While the current political atmosphere is tense, Jakarta-Beijing can maintain a pragmatic, mutually beneficial outlook. This essay suggests that China is willing to cooperate despite political and institutional shortcomings, and that Indonesia is increasingly willing to accept China's proposal, as seen by the 48% increase in Chinese FDI and the doubled trade value. The aforementioned trends suggest that mutual cooperation can be increased for the benefit of both countries, especially in the post-pandemic era.

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① Data retrieved from "China FDI Inflow," *National Single Window for Investment*, [https://nswi.bkpm.go.id/data\\_statistik](https://nswi.bkpm.go.id/data_statistik) (accessed December 20, 2021).

② Ibid.

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