ASEAN-China Economic Relations: A View from Indonesia

Maddaremmeng A. Panennungi

July 2015

Department of Economics, Faculty of Economics and Business
University of Indonesia
Contents

Contents 3
List of Tables 4
List of Figures 4
1 Introduction 1
2 Methodology 2
3 ASEAN-China Economic Relations from Indonesia Perspectives 2
4 Understanding the Main Changes in Asia and the World in the Last Four Decades 3
5 Maritime Silk Road of China and Maritime Axis of Indonesia 5
6 Going Deeper: Indonesia-China Trade Relations 7
7 Conclusion 11
8 References 13
List of Tables

1. Top 20 of Export Destination of Indonesia 2013 .................................................. 8
2. RCA of Selected Countries Based on Export Value Added, 2009 ............................. 10
3. Product and Market Concentration of Indonesia and China ..................................... 11

List of Figures

1. Trade Balance of Manufacturing Goods of Selected ASEAN Countries with China (USD M) ................................................................. 2
2. Trade Balance of Manufacturing Goods of Selected ASEAN Countries with China (USD M) ................................................................. 3
3. World Share of China Export to Selected Countries ................................................. 4
4. Economic Growth of Selected Countries since 1980s ............................................. 5
5. Economic Growth of Selected Countries since 1980s ............................................. 6
6. Silk Road Revival ..................................................................................................... 7
7. Sea Toll of Maritime Axis? ...................................................................................... 8
8. Usage of Traded Goods of Indonesia and China ...................................................... 9
9. Value Added Contribution of Services in Exported Goods Value Added of APEC Economies .......................................................... 12
ASEAN-China Economic Relations: A View from Indonesia

Maddaremmeng A. Panennungi

Abstract
This paper is aimed at providing current condition of ASEAN-China Economic relation and showing the prospect for future economic relation between ASEAN (especially Indonesia) with China. Methods of this paper is focused on qualitative analysis and supported by simple statistics. There are some important highlighted from this paper: (1) One of the main concerns of the most ASEAN countries is the negative bilateral trade balance with China. (2) It is predicted that Asia will reemerge as the largest economy in the world and ASEAN and China will be part of the reemergence. China and Indonesia are the two largest economies in ACFTA. (3) Despite the current short run problems of the China and Indonesia economy, long term economic prospects are still better. One of the drivers could be the development of infrastructure in Mainland Silk Roads and Maritime Silk Road in China and integrated infrastructure development in Indonesia, especially Maritime Axis development. (4) Services is needed to join the global production network/global supply chains in ASEAN and China. (5) However, several challenges that should be faced to secure the future economic and non economic relation. Non economic problems, especially the tension in South China Sea between China and its neighbors should be solved or at least the tension should not move into open conflict.

JEL Classifications: F15, F68

Keywords: ASEAN, China, Economic Relation

1. Introduction
Indonesia has entered multilateral trade agreements/arrangements in 1994/1995 under WTO (World Trade Organization). Another agreements/arrangements that is based on the regional, is AFTA (ASEAN Free Trade Area) in 1992 and followed by several agreements/arrangements under ASEAN based, started with ACFTA (ASEAN-China Free Trade Area) in 2005 (Goods) and 2007 (Services). ASEAN based agreements/arrangements are enlarged into ASEAN with several important countries (Korea (2007 for Goods and 2009 for Services), Japan (2008), India (2010), and Australia & New Zealand (2012).

Furthermore, AFTA in 2015 will be transformed into ASEAN Economic Community that is broader and deeper than just CEPT (Common Effective Preferential Tariff) in AFTA. There is also a plan ”to convert” all ASEAN Plus into what so-called RCEP (Re-
Bilateral trade agreements/arrangements of Indonesia has only one until now, namely IJEEA (Indonesia Japan Economic Partnership Agreements) in 2008. In addition, Sub-regional cooperation of Indonesian border of selected border provinces with its neighbors are SIJORI (Singapore-Johor Riau) then changed into IMS GT (Indonesia Malaysia Singapore Growth Triangle), IMT GT (Indonesia Malaysia Thailand Growth Triangle), and BIMP EAGA (Brunei Indonesia Malaysia Philippines East Asia Growth Area). However, there is a forum before entering WTO, which is very important for Indonesia but only based on voluntarily, is APEC (Asia-Pacific Economic Cooperation) since 1989.

Among trade arrangements/agreements above, ACFTA is the "most famous" in the public arena, especially in the political debate in Indonesia due to its bilateral trade deficit. For Indonesia, China is the second largest export market and the first largest import of origin in 2013. Therefore, this paper is aimed at understanding the economic relation and its future prospects between China and ASEAN, especially China and Indonesia.

2. Methodology

This paper is focused on qualitative analysis by using simple statistics. It is also employed several qualitative information to support the analysis.

3. ASEAN-China Economic Relations from Indonesia Perspectives

China is a growing market destination started in 2001/2002 (China entered WTO) and enlarged since 2004/2005 (ACFTA). Indonesia export growth to China has increased since China entering WTO and ACFTA (with interruption of the Global Financial Crises 2009/2009); however, Indonesia import growth from China is greater and the result is Indonesia trade balance is deficit. To show the progress of the trade balance ASEAN countries with China, please see the Figure 1. It is showed that Vietnam, Indonesia, and Thailand are the three largest deficit countries with China.

To emphasize the trade deficit with Indonesia, it is shown with only trade balance in manufacturing goods as in Figure 2. For Indonesia, the trade deficit in total has a better performance due to Indonesia primary commodity/mineral export; however, in manufacturing,
Indonesia has biggest deficit among ASEAN countries.

There are several determinants that could explain why most of the ASEAN countries experienced deficit, for example in the case of Indonesia and Vietnam, both of these countries could keep relatively higher growth in the time of GFC (Global Financial Crises) 2008/2009. There is also a possibility of "redirecting export destination" of China from the countries that suffers from GFC such as US and EU. The Figure 3 below shows the trend of Chinese Export to the selected countries: US, Japan, and some ASEAN countries.

Despite the trade imbalances between China and ASEAN countries, especially Indonesia and Vietnam, the long term economic relation of these countries are still have a chance for a better future as explained below.

4. Understanding the Main Changes in Asia and the World in the Last Four Decades

World has change dramatically since 1980s both economic and political perspectives: China has changed its political revolution into economic pragmatisms especially since the early 1980s, the Berlin Wall had fallen (and followed by united both West and East Germany that one of the sign of the end of cold war), and the radical changes of former USSR (Uni Sovyet) that moved into market capitalism. These changes have convinced the world that the market is the economic system that could lead to the prosperity. In the same time, Reagan (United States, US) and Thatcher (United Kingdom, UK) launched the economic reform such as liberalization and privatization. And in the 1990s, economic performance of US has expanded dramatically, especially under Clinton administration.

Furthermore, during 1990s, there are several changes in the world trade policy such as the conclusion of Uruguay Round in 1994 and the birth of WTO in 1995. One of the important trade blocks that was established in the 1990s was NAFTA (North American Trade Area) that consist of US, Canada, and Mexico. And since then, many trading blocs have been started, such as AFTA in 1992 that concerned on the trade diversion of NAFTA. Another important that shape the future of Asia and the Pacific is the "Bogor Goals" commitments toward liberalization of trade and investment by 2010 (developed economies) and 2020 (develop-
China and Japan are the two largest economies in Asia. Japan is the first locomotive of Asian economy and also the first modern/developed economies in Asia in our modern history. In the 1980s, Japan was the main driver of world economy that experienced high trade surplus with the US and become the leading of the Asian countries in trade and investment. However, in the 1990s, Japan entered the lost decade with its slump. The next locomotive of the Asian economy is China that showing high economic growth during the four decades started in the early 1980s. China’s secret recipe is the development of what so-called SEZs (Special Economic Zones) in the Eastern Part of China that open China for trade and investment. These SEZs are the drivers of China economy which are located in the Coastal Areas, a very good location for sea trade, and have better infrastructure, more population, and already have contacts with the world sea trade since the ancient time compared to the Middle and Western Part of China. The Figure above shows that China economic growth since 1980 tend to grow about 10% until GFC (Global Financial Crises) in 2008/2009 and then slowing down around above 7%.

Indonesia is the largest economy in ASEAN. Before AFC (Asian Financial Crises) in 1997/1998, Indonesia economic growth was around 7% in the early 1980s until mid 1990s. After the contraction -13% in 1998/1999, Indonesian economic growth has been struggling to achieve 5%-6%. Currently, Indonesia has put attention on the development of the infrastructure to boost Indonesian economic growth. And one of the purposes of infrastructure development is how to reduce cost of logistics for efficiency in the movement of goods and people. This strategy is one of the important factors that must be addressed to join the regional and global production network. In IMF Outlook in April 2014, as shown in the Figure 4 above, has shown the forecasting of selected countries: US, China, Japan, Germany, and Indonesia in the period 2014-2019. According to IMF, Indonesia economic growth is expected to be higher in the period 2014-2010 while China will slow down in the same period. US economy will higher but decrease in 2016-2019. And in average, Germany and Japan will have a constant growth. However, the author’s opinions tend to disagree some of the prediction of the outlook, especially related to growth of China and Japan. First, if US is predicted to grow faster started 2014, China’s economy should be faster than the prediction of IMF because US is the largest export
destination of China as shown in Figure 3. Second, if Japan is predicted to be stagnant, how could Indonesia grow faster? This question is valid because Japan is the largest export market of Indonesia. Third, how could Indonesia grow faster if China is predicted to be slowing down and Japan to be stagnant?

5. Maritime Silk Road of China and Maritime Axis of Indonesia

Several prediction of the Asia revival in the world economy has been well known. One of them is Piketty, in his famous and controversial book, Capital in 21st Century (2014)\(^2\).

"If this were to occur as predicted, per capita output in China, Eastern Europe, South America, North Africa, and the Middle East would match that of the wealthiest countries by 2050. After that, the distribution of global output described in Chapter 1 would approximate the distribution of the population." (Piketty, pp.100)

\(^2\)Another famous book, Why Nations Fail, by Acemoglu (2012), has a pessimistic perspective on China because according to Acemoglu, economic system in China has been an inclusive institution but political system is not yet become inclusive institution. He emphasized that both of the politic and economic systems are needed to be inclusive in the long run to avoid as fail nation.

In the ancient times, as shown by Figure 5, Asian economy (especially China and India) had highest share in the world output and it has been overtaken by Europe (both Western Europe and US, including Canada and Australia-New Zealand) since 1870s. However the economic trend of Asia will reemerge as the largest economy and China together with Japan will lead the reemergence along with India and Indonesia (see also in Panennungi, 2012).

China has prepared roadmap to be the largest economy in the world by moving into what so-called "Maritime Silk Road". Silk Road is the image of the time of prosperity of China and its trading partner in the ancient time both in land and sea. The ancient Silk Road in the land stretched from China to Central Asia, South Asia, Southeast Asia, Middle East, and to Europe. In the land, at least two main directions (For example, Rana, 2014): first is Northern Silk Road from Xi’an to Kashgar, Central Asia, Middle East, Africa, and Europe; second is Southwestern Silk Road started...
from Guangzhou-Kunming-to Pakistan and India plus some direction to the Southeast Asian. Both of the directions have been advanced by improving the infrastructure of road and railways.

In the sea or Maritime Silk Road, the ideas is mainly based on the extension of the Admiral Zheng He’s voyages before China close itself from sea trade. It stretched from Guangzhou, South China Sea, Malacca Straits, Java, Sumatra, India, until Africa. For the improvement of infrastructure for Maritime Silk Road, China has announced 10 Billion Yuan.

There are some notes from latest development of China. The peaceful rise of China is a necessary condition for better economic performance of both Asia and the World. The political and security tensions between China and other countries during the last decades have potential to disturb the economic development in China and other countries. Furthermore, concept of mainland silk roads and maritime silk roads are intended for strengthening economic relations between China and other related countries. However, it is also recognized that there are some worries from several neighboring countries.

For Indonesia, there is a coincidence between the development maritime silk road of China and Indonesia maritime development. In the Presidential Candidate Debate in 2014, elect President of Indonesia, Joko Widodo, proclaimed the importance for Indonesia to become a maritime country and He urges the so-called Poros Maritim or Maritime Axis. Indonesia is located between Pacific and Indian Ocean and between two continents: Asia and Australia. And currently, He is preparing a special department to handle the maritime policies. However, until now there is no detail explanation of maritime axis. One of the additional explanation is Mr. Widodo will build on what so-called ”sea toll” and one of the recent interpretation is it is closer to idea of the extension of Pendulum Nusantara, a previous concept from Pelindo 2 (2012) as shown in the Figure 7 below.

If sea toll idea is equal to or the extension of pendulum nusantara, it is the idea on how to reduce cost of logistics especially to reduce the maritime transportation cost in Indonesia (for example, see Panennungi, 2013). Indonesia geography conditions consist of more than 17,000 islands and around 70%-75% of its territory is salt water (sea). Moving to the sea transportation development is one step ahead for Indonesia. Previously, Indonesia was consist of many maritime-trading kingdoms that
were defeated (and isolated) one by one by the Dutch and until now this country has still left behind in the maritime development compared to its neighbors. One of the facts for the past experiences in the maritime trade could be seen from relation between the people of Indonesia and Malaysia. Most of Malay tribe in Malaysia had direct relation with the people from Indonesia in the past especially from Sumatra (Acehneese/Melayuneeese/Minang), Northern Part of Java Island (Javanese), and Southern Part of Sulawesi Island (Bugineese/Macassareese).

Currently, Indonesia has started Jokowi administration since October 20, 2014. And to emphasize the development of the maritime axis development, Mr Widodo will set some programs in several ministries related to the development of the maritime axis.

6. Going Deeper: Indonesia-China Trade Relations

The Tabel 1 below shows the top 20 of Indonesia export market in 2013. The top 20 of the market destination could be explained by the gravity model that the economic size, economic growth, and the distance could be the main explanation why these economies could be largest destination for Indonesia export.

In addition, 10 of the economies have special economic agreements/arrangement with Indonesia: Japan (IJEP A and ASEAN Japan FTA), China (ASEAN China FTA), Singapore (AFTA/AEC/ASEAN based agreements), India (ASEAN India FTA), Korea (ASEAN Korea FTA), Malaysia ((AFTA/AEC/ASEAN based agreements), Thailand (AFTA/AEC/ASEAN based agreements), Australia (Australia New Zealand FTA), Philippines ((AFTA/AEC/ASEAN based agreements), and Vietnam (AFTA/AEC/ASEAN based agreements).

As mentioned previously, Indonesia bilateral trade deficit has entered public debate. If the trade between Indonesia and China are disaggregated by usage as shown in Figure 8, Indonesian export tend to be dominated by raw materials and Indonesia import tend to be...
Table 1: Top 20 of Export Destination of Indonesia 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>Destination</th>
<th>Trade Value in US$1000-2013</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>27,086,258.71</td>
<td>14.84</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>22,601,487.23</td>
<td>12.38</td>
</tr>
<tr>
<td>3</td>
<td>Singapore</td>
<td>16,686,283.64</td>
<td>9.14</td>
</tr>
<tr>
<td>4</td>
<td>United States</td>
<td>15,741,131.92</td>
<td>8.62</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
<td>13,031,302.74</td>
<td>7.14</td>
</tr>
<tr>
<td>6</td>
<td>Korea, Rep</td>
<td>11,422,476.22</td>
<td>6.26</td>
</tr>
<tr>
<td>7</td>
<td>Malaysia</td>
<td>10,666,609.47</td>
<td>5.84</td>
</tr>
<tr>
<td>8</td>
<td>Thailand</td>
<td>6,061,869.96</td>
<td>3.32</td>
</tr>
<tr>
<td>9</td>
<td>Other Asia, nes</td>
<td>5,862,445.95</td>
<td>3.21</td>
</tr>
<tr>
<td>10</td>
<td>Australia</td>
<td>4,370,481.87</td>
<td>2.39</td>
</tr>
<tr>
<td>11</td>
<td>Netherlands</td>
<td>4,105,967.06</td>
<td>2.25</td>
</tr>
<tr>
<td>12</td>
<td>Phillippines</td>
<td>3,861,962.61</td>
<td>2.09</td>
</tr>
<tr>
<td>13</td>
<td>Germany</td>
<td>2,883,422.57</td>
<td>1.58</td>
</tr>
<tr>
<td>14</td>
<td>Hongkong, China</td>
<td>2,693,254.44</td>
<td>1.48</td>
</tr>
<tr>
<td>15</td>
<td>Vietnam</td>
<td>2,400,879.75</td>
<td>1.32</td>
</tr>
<tr>
<td>16</td>
<td>Italy</td>
<td>2,128,608.27</td>
<td>1.17</td>
</tr>
<tr>
<td>17</td>
<td>Spain</td>
<td>1,810,444.48</td>
<td>0.99</td>
</tr>
<tr>
<td>18</td>
<td>Saudi Arabia</td>
<td>1,734,016.65</td>
<td>0.95</td>
</tr>
<tr>
<td>19</td>
<td>United Kingdom</td>
<td>1,634,804.63</td>
<td>0.90</td>
</tr>
<tr>
<td>20</td>
<td>United Arab Emirates</td>
<td>1,589,066.71</td>
<td>0.87</td>
</tr>
</tbody>
</table>

Source: WITS (2014)
Figure 8: Usage of Traded Goods of Indonesia and China

(a) Indonesia Export to China is Dominated by Raw Materials

(b) Indonesia Import from China is Dominated by Capital Goods

Export of Indonesia to China is dominated by raw materials and import Indonesia from China is dominated by capital goods and intermediate goods. This condition could be seen from at least two perspectives. First, for most of politicians, bureaucrats, and most of public shows that our exported goods are raw material has less value added and most of our imported goods have higher value added). These facts are not good and our export should be improved into higher value added. Second, for some economists, imported capital goods (and intermediate goods) are good signals for further production process in the future and it is needed to join the global production networks. And higher export of commodity is the signal that China’s economic growth has dragged price of world commodities. It could be shown later that Indonesia export growth in raw material has decreased since Global Financial Crisis 2008/2009.

Most economist consider that trade balance should be seen from total trade balance instead of bilateral trade balance because import from one country could be used to help production process and exported to the other country; however, bilateral trade deficit with China after ACFTA implemented is the “most famous” in the public arena, especially negative perspectives of politicians and bureaucrats.

As information, Indonesia has passed a new law, namely "Trade law" No 7/2014 that gives stronger power for parliament and government in influence international trade especially international trade agreements/arrangements. And trade deficit could be one of the reasons to reconsider the trade agreements/arrangements.

This article is trying to show some of the factors that could affect the trade performance of China and ASEAN countries. First, by showing comparative advantage with simple RCA (Revealed Comparative Advantage); Second, by showing export concentration of China in both product and market and to be compared with Indonesia; Third, by showing share of services value added in the exported goods of China compared to some countries.

RCA in terms of export based on value added which is developed by OECD and WTO is shown in Table 2. China has comparative advantage on (1) textile, textile products, leather and footwear, (2) electrical and optical equipment, (3) manufacturing nec. Indonesia has comparative advantage on (1) food products, beverages, and tobacco, (2) textile, textile products, leather and footwear, (3) wood, paper, paper product, printing & publishing, and (4) chemicals and non-metallic product. Malaysia has comparative advantage on (1) wood, paper, paper product, printing & publishing, (2) chemicals and non-methalic product, (3) machinery
Table 2: RCA of Selected Countries Based on Export Value Added, 2009

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.3421</td>
<td>2.6121</td>
<td>0.5368</td>
<td>0.5082</td>
<td>0.8430</td>
<td>0.8392</td>
<td>1.8211</td>
<td>0.3278</td>
<td>1.5906</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.8405</td>
<td>1.8726</td>
<td>1.5166</td>
<td>1.1936</td>
<td>0.7345</td>
<td>0.6144</td>
<td>0.5484</td>
<td>0.3181</td>
<td>0.9129</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.7184</td>
<td>0.4668</td>
<td>1.2496</td>
<td>1.2105</td>
<td>0.3636</td>
<td>1.5513</td>
<td>1.7711</td>
<td>0.0975</td>
<td>0.2032</td>
</tr>
<tr>
<td>Phillippines</td>
<td>0.1278</td>
<td>0.8213</td>
<td>0.1030</td>
<td>0.0515</td>
<td>0.0639</td>
<td>0.1379</td>
<td>4.1618</td>
<td>0.2396</td>
<td>0.0834</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.2281</td>
<td>0.0510</td>
<td>0.2310</td>
<td>1.9299</td>
<td>0.3001</td>
<td>0.8244</td>
<td>1.7088</td>
<td>0.4139</td>
<td>0.2271</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.1402</td>
<td>1.7772</td>
<td>0.4534</td>
<td>0.6253</td>
<td>0.5076</td>
<td>0.2243</td>
<td>1.8702</td>
<td>0.3047</td>
<td>1.5470</td>
</tr>
<tr>
<td>Vietnam</td>
<td>4.3146</td>
<td>6.6119</td>
<td>1.3679</td>
<td>0.1591</td>
<td>0.2117</td>
<td>0.2301</td>
<td>0.2549</td>
<td>0.1107</td>
<td>0.7742</td>
</tr>
</tbody>
</table>

A: Food products, beverages and tobacco  
B: Textiles, textile products, leather and footwear  
C: Wood paper, paper products, printing and publishing  
D: Chemicals and non-metallic mineral products  
E: Basic metals and fabricated metal products  
F: Machinery and equipment, nec  
G: Electrical and optimal equipment  
H: Transport equipment  
I: Manufacturing nec; recycling

and equipment, (4) electrical and optical equipment. Philippines has comparative advantage on electrical and optical equipment. Singapore has comparative advantage on (1) chemicals and non-metallic product and (2) electrical and optical equipment. Thailand has comparative advantage on (1) food products, beverages, and tobacco, (2) textile, textile products, leather and footwear, (3) electrical and optical equipment, and (4) manufacturing nec. And Vietnam has comparative advantage on (1) food products, beverages, and tobacco, (2) textile, textile products, leather and footwear, and (3) wood, paper, paper product, printing & publishing.

If we compared China and selected ASEAN countries above, it is seen that if we use the comparative advantage with value added, China domination does not seen. Economies of scale of China production could be one of the reasons why China could dominate trade balance in ASEAN and the world.

Second. This article is using Index Herfindahl-Hirschman (HH) to show the concentration both in product and market for China and Indonesia. There are differences between China and Indonesia: first, in terms of product concentration, Indonesia’s export to China tend to be more concentrated compared to the world in 2010-2013 (consistent) while China tend to be more concentrated to the world compared to Indonesia in 2013 (but inconsistent because 2010-2012 tend to be concentrated to Indonesia).

Second, in terms of market concentration, Indonesia export market to the world tend to be concentrated compared to China; however, the trend of the market concentration tend to be more equal. In addition, number of market destination of Indonesia (212 to 216 economies) tend to be larger than China (212 to 213 economies).

Third. One of the factors that need in involving in global value chain is services, especially related to the logistics. However, most of the countries, especially developing countries tend to be more protective on services. Study of PSU APEC Secretariat (2014) has shown that there is a negative relation between manufacturing per capita Services Restrictiveness Index (SRI). Furthermore, the study point out that the developing countries of ASEAN countries in APEC tend to have more than 50% foreign Services value added in terms of value added exported goods such as Singapore, Thailand, Malaysia, Philippines and Brunei Darus-
Table 3: Product and Market Concentration of Indonesia and China

(a) Indonesia Product Concentration to China vs World

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HH Product Index</td>
<td>Number of Products</td>
</tr>
<tr>
<td>2010</td>
<td>0.0647</td>
<td>1866</td>
</tr>
<tr>
<td>2011</td>
<td>0.0617</td>
<td>1954</td>
</tr>
<tr>
<td>2012</td>
<td>0.0654</td>
<td>2040</td>
</tr>
<tr>
<td>2013</td>
<td>0.0542</td>
<td>2014</td>
</tr>
</tbody>
</table>

(b) China Product Concentration to Indonesia vs World

<table>
<thead>
<tr>
<th></th>
<th>Indonesia</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HH Product Index</td>
<td>Number of Products</td>
</tr>
<tr>
<td>2010</td>
<td>0.0103</td>
<td>3551</td>
</tr>
<tr>
<td>2011</td>
<td>0.0095</td>
<td>3665</td>
</tr>
<tr>
<td>2012</td>
<td>0.0100</td>
<td>3669</td>
</tr>
<tr>
<td>2013</td>
<td>0.0060</td>
<td>3685</td>
</tr>
</tbody>
</table>

(c) Indonesia vs China: Export Market Concentration

<table>
<thead>
<tr>
<th></th>
<th>Indonesia</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HH Product Index</td>
<td>Number of Products</td>
</tr>
<tr>
<td>2010</td>
<td>0.0656</td>
<td>212</td>
</tr>
<tr>
<td>2011</td>
<td>0.0636</td>
<td>212</td>
</tr>
<tr>
<td>2012</td>
<td>0.0613</td>
<td>212</td>
</tr>
<tr>
<td>2013</td>
<td>0.0652</td>
<td>212</td>
</tr>
</tbody>
</table>

Source: WITS/Comtrade Data Base, 2014

salam. And only Indonesia that has domestic value added of its services around 60% which is higher than China (around 50%) as shown in Figure 9.

7. Conclusion

1. One of the main concerns of the most ASEAN countries is the negative bilateral trade balance with China, especially in manufacturing. This should be addressed to secure trade relationship in the future

2. It is predicted that Asia will reemerge as the largest economy in the world and ASEAN and China will be part of the reemergence.

3. China and Indonesia are the two largest economy in ACFTA. Despite the current short run fluctuation of the China and Indonesia economy, their long term economic prospects are still better. One of the driver could be the development of infrastructure in Mainland Silk Roads and Maritime Silk Road in China and integrated infrastructure development in Indonesia, especially Maritime Axis development

4. Indonesia economic condition is stable and
it is expected to grow faster in the next five years and China is one of the main trading partners for Indonesia. It is also considered that the future of China economy will become more important for ASEAN countries, especially with Indonesia.

5. China products tend to be a competitor with other ASEAN countries, especially in labor intensive industries of Indonesia and Vietnam. However, natural resource intensive of export industry of Indonesia, Malaysia, Vietnam, and Thailand tend to be more competitive compared to China.

6. Services is needed to join the global production network/global supply chains. Foreign share of services in export by value added of Indonesia is lower than that of China, Brunei, Malaysia, Thailand, Singapore, and Vietnam. Another key for ASEAN, especially for Indonesia to increase manufacturing export is services development to improve the capability in joining global value chain

7. However, several challenges that should be faced to secure the future economic and non economic relation. Non economic problems, especially the tension in South China Sea between China and its neighbors should be solved or at least the tension should not move into open conflict.
8. References


