

CHAPTER I

INTRODUCTION

1.1 Background

The relationship between Indonesia and Taiwan is one of the interesting bilateral cooperation relations to be examined in the study of International Relations. This is because the relationship between Indonesia and Taiwan is not an official diplomatic relationship. It is a close and unique, but limited relations. The two countries have many common interests, including they have a commitment to maintain peace and stability in the East and Southeast Asian region.

In this section, the author first explains a glimpse of how the relationship between Indonesia and Taiwan in the last few decades. Afterwards, the author will introduce the New Southbound Policy (NSP), then explain how Indonesia behaves in dealing with this policy, and finally, the author will explain why this policy puts Indonesia in a dilemmatic position.

Indonesia and Taiwan have had a cooperative relationship that began in the 1970s when Indonesia opened the Indonesian Trade and Economic Office (KDEI) in Taipei. This trade office is a forum to facilitate trade and economic relations between the two countries, although not a formal diplomatic representative, while Taiwan established the Taipei Economic Trade Office (TETO) located in Jakarta. The relationship formed between Indonesia and Taiwan has been established for the past 53 years as a positive development. This can be seen from the increasing flow of trade, investment, and immigration between the two sides.

As members of the World Trade Organization (WTO), Indonesia and Taiwan have equal standing in trade. Since both countries have representative offices, trade relations between Indonesia and Taiwan are more regular and significantly improved. So far, encouraged by various cooperation programs, Jakarta and Taipei have recorded total trade of up to USD11.31 billion in 2021 and USD690 million until June 2022 (Dwi Sasongko, 2023).

Since the election of Tsai Ing-wen as Taiwan's new president, Tsai has had a push to strengthen the Indo-Pacific region under Taiwanese rule and establish a new policy called the New Southbound Policy (NSP). The NSP was launched on September 5, 2016, and is

targeted at 10 countries in ASEAN, 6 states in South Asia (India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan), Australia, and New Zealand. Taiwan has plans to strengthen cooperation with these countries. This policy has four focal areas, those being economic and trade collaboration (establishing economic and trade partnerships, connecting and coordinating with target countries), talent exchange (sharing human resources such as student exchanges and training), resource sharing (creating opportunities for bilateral and multilateral cooperation with soft power in the fields of culture, tourism, technology, health services, agriculture, etc.), regional connectivity (increasing official and private exchanges, signing and renewing trade agreements, enhancing negotiations and dialogue).

Before becoming president, Tsai Ing-wen was a Taiwanese politician who was a member of the Democratic Progressive Party (DPP). The DPP is the opposition party to the authoritarian rule of the Kuomintang (KMT). Since its political reforms leading to the transition to multiparty democracy, it has become a significant political force. The DPP is trying to build a 'from the world to China' approach to expand Taiwan diplomacy. Based on his planning, maintaining relations with China is only a part, and no longer a cornerstone of Taiwan's foreign policy. The Tsai administration's diplomatic strategic planning is to deepen ties with other countries and strengthen relations between the United States and Japan. The existence of the platform "Taiwan is a sovereign country" promoted by the DPP brings hope for Taiwan about what the fate of Taiwan will be in the future which has been under the shadow of China (Bayuarti, 2005).

Since Tsai Ing-wen, a member of the pro-independence party, was elected president and has a New Southbound Policy, China suspects that Tsai wants to push for official Taiwan independence. That cannot be tolerated by Communist Party leaders in Beijing, although Tsai herself has said she wants to maintain the status quo and is committed to maintaining peace (Reuters, Media Pemerintah China Sebut Beijing Mesti Siap Gempur Taiwan, 2018).

Indonesia recognized the One China Policy (OCP) through the basic policy Memorandum of Understanding (MoU) on August 8, 1990. In the agreement between the two countries, Indonesia's relations with Taiwan affirmed that the relationship between the two countries is only established in the economic field (business to business). Indonesia and Taiwan do not have diplomatic relations because Taiwan has not been recognized as a sovereign state by Indonesia and several other countries de jure. China

considers Taiwan a province that is part of its territory, so it does not meet the requirements of state-to-state relations. With this OCP policy, China runs the OCP by making strict rules for countries that want to establish relations with Taiwan, in other words, in the OCP, each country must respect and recognize the policy and only choose one government if it wants to continue to cooperate with China.

Indonesia, in maintaining its diplomatic relations with China while developing its bilateral relations with Taiwan, is by respecting and maintaining the One China Policy. The recognition of the OCP by Indonesia causes Indonesia and Taiwan have limitations in cooperation, including limitations in diplomacy (no official embassies or diplomatic missions), limited consular protection (Taiwanese citizens in Indonesia and Indonesian citizens in Taiwan only have limited access to protect their citizens because they do not have an official consulate), restrictions in international and regional contexts (Indonesia is careful in maintaining a balance regional diplomacy and maintaining political stability in Southeast Asia), and lastly restrictions on security and military cooperation. With the existing limitations, Indonesia still maintains diplomatic relations with China but also continues to develop its bilateral relations with Taiwan.

China is Indonesia's important, largest trading partner and source of investment. In 2013, China was ranked 12th contributor to foreign direct investment (FDI) in Indonesia, but in 2022 it has risen to 2nd. This indicates that China is an important country for Indonesia. Similar to China, according to Taiwan Today Indonesia, Taiwan is the 11th largest trading partner for Indonesia and the 9th largest source of foreign investment; there are about 20,000 Taiwanese businessmen residing in Indonesia with more than 260,000 Indonesian migrant workers residing in Taiwan although China still ranks highest in economic cooperation with Indonesia (Indonesia, 2021).

The dispute between China and Taiwan began when China declared itself a communist country. On October 1, 1949, there had been opposition to the establishment of a communist government itself since the establishment of China as a communist state (People Republic of China). The opposition is a nationalist group that wants China to be in a democratic government. This nationalist group occupies Taiwan which lies separated by the strait and establishes its own government there. The focus of the Chinese government on Taiwan is to get Taiwan back to Chinese rule.

Since Taiwan is still considered part of China, Taiwan's scope is limited because the ultimate power is still in China's control. This condition makes Indonesia in a dilemmatic position because Indonesia is required to be careful in taking a stance in cooperation with Taiwan, especially in cooperation with The New Southbound Policy. Although Indonesia has non-governmental cooperation with Taiwan, Indonesia does not want to break cooperation and does not want to create conflict with China.

Thus, the preparation of the thesis there is interest and feels it is important to conduct research motivated by the New Southbound Policy. This study wants to see how Indonesia responds in its attitude to take cooperation with Taiwan in the New Southbound Policy. The dilemmatic position faced by Indonesia is related to Indonesia wanting to take advantage of the economic opportunities offered by the NSP but does not want to damage its relations with China, besides that Indonesia wants to maintain regional stability and does not want to get involved in conflicts between China and Taiwan, because Indonesia wants to remain consistent with its foreign policy principles. This thesis wants to examine in depth how Indonesia behaves in balancing various interests.

1.2 Research Question

From the background that has been written, the author has formed the following problem, namely "How does Indonesia behave in the face of a dilemmatic position under the New Southbound Policy?"

1.3 Theoretical Framework

According to Sugiyono, theory is a logical flow or reasoning which is a set of concepts, definitions, and proportions that are arranged systematically. In general, theory has three functions, namely for explanation, prediction, and control of a symptom (Sugiyono, 2018).

A. Principle of Free Market

According to David Ricardo, the free market is an economic system in which international trade is carried out without barriers and countries specialize in the production of goods that have a comparative advantage (Ricardo, 2004).

The flow of goods from one country to another must be free from political barriers, so that goods across countries take place freely and naturally according to market laws. This confirms that restricting the flow of goods from one country to another will lead to a decline in economic growth that undermines all state power. Measures such

as protection, dumping, etc. are considered bad things to avoid. Too much state interaction and interference in the field of international trade will distort the market and can cause economic chaos (Maiwan, 2015).

Indonesia has undergone a significant economic shift by adopting a free-market system. This approach encourages all citizens to participate in market competition, stimulating economic growth. The government actively facilitates this process through deregulation in various sectors, promoting a more liberal economic environment. Furthermore, Indonesia has implemented regional autonomy and decentralization, empowered local governments and contributed to overall economic development.

Beyond its internal reforms, Indonesia prioritizes international cooperation. It seeks to strengthen its ties with fellow ASEAN member states, aiming to build a peaceful, free, neutral, and prosperous South Asian Zone. Additionally, Indonesia actively fosters cooperation with countries in the Southwest Pacific region and pursues bilateral investment treaties (BITs) to expand its economic partnerships beyond its immediate neighbourhood.

Indonesia's journey towards a globalized economy has been a long and deliberate one. Over time, the government implemented a series of market-oriented reforms, ultimately establishing a dominant free-market system. This shift was driven by the strategic goal of achieving higher and more sustainable export levels, which in turn fuels robust economic growth. Indonesia's globalization policy itself was heavily influenced by the success stories of other East Asian nations. By liberalizing its economy, the government aimed to create a more attractive environment for foreign investors, recognizing the vital role the business sector plays in national development under the pressures of globalization. The key pillars of this economic transformation, initiated in the 1980s, included embracing a free market, empowering regional governments through autonomy, and deregulating and privatizing industries. However, this process faced initial hurdles due to the authoritarian regime in place until 1998. Since then, and particularly under globalization, the Indonesian government has redoubled its efforts to enhance its industries' competitiveness on the world stage. This includes ensuring efficient resource allocation and fostering a thriving small and

medium-sized enterprise (SME) sector, both crucial elements for success in the globalized world.

With the joining of Indonesia and Taiwan in the New Southbound Policy cooperation, the author sees liberalism as an explanation of Indonesia's attitude that opens opportunities for cooperation with Taiwan. As a country that adheres to the principles of a free market economy, Indonesia tends to view positively Taiwan's efforts to expand economic cooperation in the region. Within the framework of liberalism, Indonesia sees NSP as an opportunity to expand markets, increase investment, and strengthen trade relations with Taiwan and other countries in the region. Nevertheless, Indonesia adheres to the principle of sovereignty and non-intervention. Indonesia will maintain a balance between strengthening cooperation with Taiwan in the NSP and maintaining relations with China without taking a confrontational side.

B. The Concept of Foreign Policy

According to Yani (Yanyan Mochamad Yani, 2016), in a general sense, external politics is a set of formulas of values, attitudes, directions, and objectives to maintain, secure, and advance national interests in the international arena. A commitment that is basically a basic strategy to achieve a goal both in domestic and foreign contexts and determines the involvement of a country in international issues or the surrounding environment.

Policy is a series of decisions that provide direction for action, or a series of steps designed to achieve predetermined goals. The basic concept of policy is rooted in the idea of choices: choosing a course of action or making decisions aimed at achieving a specific goal. Meanwhile, an understanding of sovereignty and the concept of territory helps in understanding foreign policy. Sovereignty refers to control over territory owned by a country. Thus, foreign policy is a set of guidelines for choosing actions aimed outside the territory of a country.

In Law Number 37 of 1999 related to Indonesia's foreign relations, foreign policy is the policies, attitudes, and steps taken by the government in conducting relations with other countries, international organizations, and other subjects of international law in order to face international problems in order to achieve national goals.

Indonesia adheres to a free-active politics, this principle means that Indonesia does not adopt a neutral politics in its relations with other countries, but Indonesia has the

freedom to determine its attitude and policy towards international issues without tying itself to one particular world power. The principles firmly held by non-aligned countries include rejection of foreign interference in foreign affairs, peaceful settlement of international disputes, and cooperation based on equality and mutual benefit between states.

Indonesia's first vice president, Mohammad Hatta, also introduced a freely active Indonesia with the term "rowing between two reefs", emphasizing the importance of maintaining balance and not being tied too tightly to one power bloc or the other. On the contrary, small countries should maintain good relations with all parties, seize existing opportunities, and avoid being caught in conflicts between larger great powers.

This foreign policy is also a reference for Indonesia in responding to cooperation with Taiwan in the New Southbound Policy (NSP), where Indonesia can still cooperate with Taiwan without coercion and threats from any party even though it has cooperated with China by implementing the One China Policy. Indonesia considers and balances relations with Taiwan through NSP in its foreign policy.

1.4 Hypothesis

Indonesia did not build diplomatic relations with Taiwan but signed a non-governmental Memorandum of Understanding (MoU) in the fields of trade, investment, and economic development to facilitate the economic interests of both countries, while maintaining the balance of relations between Indonesia and China.

1.5 Research Purposes

The purpose of this study is to find out how Indonesia behaves in dealing with dilemmatic positions under the New Southbound Policy.

1.6 Research Methodology

The steps taken by researchers in collecting information or data are qualitative research methods. In this case, it is done on data in the form of information, descriptions in prose form are then associated with other data to get clarity on a truth or vice versa. So, this form of analysis is explanations, not statistical numbers, and other forms of numbers (Subagyo, 2011).

1.7 Scope of The Research

In this study, the author will focus on discussing how Indonesia behaves in facing the dilemmatic position under the New Southbound Policy.

1.8 Writing Structure

This thesis consists of four chapters, and each chapter discusses a particular topic in depth. These topics are further divided into more specific sub-chapters.

Chapter I is an introduction containing eight sub-sections, consisting of background, research question, theoretical framework, hypothesis, research purposes, research methodology, scope of the research, and finally writing structure. In this chapter, the author explains how the relationship between Indonesia and Taiwan has been in recent decades. Afterwards, the author will introduce the New Southbound Policy (NSP) then explain how Indonesia behaves in dealing with this policy and finally, the author will explain why this policy puts Indonesia in a dilemmatic position. With this explanation, the author then found a formulation of the problem, namely "how does Indonesia behave in the face of a dilemmatic position under the New Southbound Policy?". To answer about Indonesia's attitude in facing a dilemmatic position, the author uses the theory of liberalism and the concept of foreign policy to answer the formulation of the problem.

Chapter II will discuss the establishment of the New Southbound Policy and the cooperation carried out between Indonesia and Taiwan in the NSP. In this chapter, the author explains how Indonesia participated in the NSP, the opportunities Indonesia received in NSP cooperation, and what cooperation existed between Indonesia and Taiwan under the policy.

Chapter III is a discussion of the dynamics of relations between Taiwan and China and Indonesia's attitude in facing a dilemmatic position under the New Southbound Policy. How Indonesia balances in utilizing the economic opportunities offered by the NSP but does not want to damage its relationship with China.

Chapter IV contains the conclusion of the overall discussion in the research from the previous chapters.