

# CHAPTER I

## Introduction

### a) Background

The issue of trade war between China and Australia which occurred in 2020, becomes an crucial topic as it poses impacts on Indonesia. China and Australia's relationship deteriorated starting with Australia banning Huawei products belonging to China from entering its 5G network, then worsened when Canberra investigated the origin of the COVID-19 virus in April 2020 because it was considered a provocation by China. After that, China began to take punitive actions in the form of restricting import products from Australia such as coal, and stipulates anti-dumping and anti-subsidy for Australia. This was followed by Australia bringing the case to the WTO and receiving support from the US and England, as proven by the presence of AUKUS (Hilmiy, 2021).

Australia has asked the WTO to investigate China's tariffs on imports of barley, a type of cereal for animal feed that produces malt. China imposes a surcharge of up to 80% for barley from the continent. Australia's barley exports to China are worth about US\$1 billion a year. This is the first time Australia has taken legal action against China's trade war at the WTO. Australian industry body Grain Growers welcomed the report to the WTO. The agency said Chinese tariffs could cost the sector about \$1.9 billion over the next five years (Sorongan, 2020).

China was Australia's top overall export market. Based on data from the International Monetary Fund (IMF), the export market value of the two countries was USD \$104 billion in 2019. News stories of Australian companies in distress emerged as Chinese demand fell in January and February 2020; disrupted supply-chains

became evidence that it is now a ‘necessity’ for government to force greater diversification in trade ties away from China (James Laurenceson, Michael Zhou, May 2020). Thus, a long-term severance of trade relations could damage the Australian economy. On the other hand, China can easily find alternative suppliers. Diplomatic reactions that came in waves between the China-Australia were recorded several times, including 8 Australian products that were victims. These products were coal, barley, meat, wood, cotton, wine, lobster, and iron ore. Meanwhile, in 2018-2019, Australia's exports to China were quite significant, reaching USD \$116.79 billion, or equivalent to 32.6% of the country's total exports. Indonesia can take this opportunity to establish a profitable cooperation (Wareza, 2020).

The loss to the neighboring country, Australia, should not bring losses to Indonesia and instead lead to benefits to Indonesia in its trade war with China. Indonesia as one of the largest mining producers in the world has several mining products, including silver, natural gas, petroleum, gold, coal, manganese, sulfur, platinum, tin, bauxite, granite, gold, copper, platinum, iron ore, limestone, steel, marble, gypsum, phosphate, iron sands, diamonds, aluminium, nickel, and bronze, which will be discussed further in the discussion chapter. Those production elevate Indonesia's opportunity to conduct trade and occupy an important place in the international market competition. According to International Energy Agency, Indonesia is ranked as the biggest exporter of Coal in 2019, followed by Australia and Russia in the second and third place. This position was obtained since 2005, when it surpassed Australia's coal production. Based on data from the 2020 Coal Booklet released by the Ministry of Energy and Mineral Resources, in 2019 Indonesia exported 454.5 million tons of coal. Indonesia's coal exports are 25.7% of total world exports (Asmarini, 2022). This is also marked by

several increasingly harmonious collaborations and the signing of trade agreements between Indonesia and China, one of which is the signing of an agreement between the Indonesian Coal Mining Association (APBI) and China Coal Transportation and Distribution on Wednesday, November 25, 2020 (Pransuamitra, 2020). Given the importance of coal exports as one of the focuses of non-oil and gas exports which results in a trade balance surplus for Indonesia, the author deems it crucial to delve deeper into the topic.

## **b) Research Question**

Based on the background above, the formulation of the problem is: How is the impact of China-Australia Trade War on the Indonesian Economy?

## **c) Theoretical Framework**

To analyze the possible profitable opportunity cooperation of Indonesia in the China-Australia Trade War, the author uses the Liberalism theory.

### **Liberalism Theory**

The theory that the author will use to fill the gap in this study is liberalism. Liberalism states that war is impossible because it only brings harm while positive human nature will bring gain. (Scott Burchill, Andrew Linklater, 1996). Liberalism views the international system as a competition area. Every country needs to cooperate with other countries to fulfil their national interest. Although human beings have a selfish nature, as the realists say, a country cannot meet its own needs (Dunne, Tim, 2001). Liberals also view that trade interactions will create less conflictual international relations because trade goods will cause dependence between countries; thus countries involved in trading will tend to avoid conflict (Jackson, Robert, and

Sorensen, 1999). Hence, author will use the theory of liberalism from Indonesia's point of view in looking at the China-Australia Trade War towards Indonesia.

Phenomenon in the social sciences is unique and different from one another. If we try to explore literature in the digital world, most of those discussing trade wars will revolve around the China-US Trade war. For instance, in a journal written by Chunding Li, Chuantian He & Chuangwei Lin, the effects China-US trade war on China is analyzed. Simulation results show that China will be significantly affected by the tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing, employment, and trade. Trade effects are prominent, production and employment effects are moderate, and welfare effects are comparatively weak. The positive impact on non-manufacturing production is due to the full employment assumption in the model, in that decrease of manufacturing production will cause the non-manufacturing to increase. (Chunding Li, 2018).

Learning from the above analysis, we can see that the Trade War between Australia and China did not only cause economic harm, but also brought a positive effect to other countries, as it is based on the theory of liberalism which states that positive human nature will bring gain. Liberalism also places countries, including Indonesia, into the international system as a competition area, bringing the possibility for Indonesia to prosper as one of the largest mining producers in the world. China wants to fulfil its national interest in the form of an alternative market after severing trade relations with Australia. Moreover, Australia has a national interest to cover losses resulting from the trade cut with China. Indonesia has the opportunity to fill this gap and achieve its national interest of increasing economic growth by establishing trade with both. As stated the Ministry of Trade (Kemendag), Indonesia seeks to focus on increasing non-oil and gas exports by

optimizing international trade agreements. This is one way to encourage economic recovery after the COVID-19 pandemic.

**d) Hypothesis**

From the explanation above, there are several reasons why Indonesia was impacted by the China-Australia Trade War, and have its Economic Sector as alternative market for China and Australia, namely; the China-Australia trade war has brought blessings toward Indonesia as one of the alternative sources of the metal coal market and liberal economic thinking where the emphasis is on ongoing trade goods between China and Indonesia as one of the non-oil and gas exports that generate a trade balance surplus, mainly Indonesian Coal.

**e) Research Method**

This study aims to find out about China-Australia Trade War impact on Indonesia's economic sector. This research is a descriptive study using a qualitative approach on exports as one part of five indicators, namely: Gross Domestic Product (GDP), the money supply, inflation by expenditure group, the exchange rate of foreign currencies against the rupiah, exports, and imports). To rate the Indonesian economy's level from the Indonesian trade minister, the author uses the theory of liberalism.

**f) Data Collection Techniques**

The data collection technique used by the author is literature study. This research addresses official documents from related governments reports, media reports, books, scientific journals, newspapers, as well as reports from non-governmental organizations and other relevant stakeholders, to address the research question.

**g) Writing Systematics**

CHAPTER 1 contains an introduction to the research, consisting of the Background, Research Question, Theoretical Framework, Hypothesis, Research Methodology, and Writing Systematics.

CHAPTER 2 explains the chronology of the China- Australia Trade War so that Indonesia can acquire the opportunity to seek for profitable cooperation from neighboring countries, Australia, and also China.

CHAPTER 3 contains a summary of each chapter, as well as conclusions and suggestions from the author's analysis.