

CHAPTER I

INTRODUCTION

A. Background

The Reserve Bank of Australia, led by diplomat Stephen Grenville, clashed with the IMF and Clinton administration in their analysis of the Indonesian economy during the 1997-99 Asian financial crisis, maintaining these close economic ties. Then Treasurer Peter Costello followed Grenville and Governor Glenn Stevens' advise on Indonesia and faced the IMF and Clinton Administration's economics staff, taking a different approach to the Indonesian economy than Washington. The Indonesian economy recovered faster and avoided the mistakes of other emerging nations that followed the IMF prescription (Harcourt, n.d.).

Since then, Indonesia and Australia continued to support each other even though there were some conflicting points here and there. includes the establishment of the Aeronautical Fixed Telecommunication Network, a project that remedied flaws in Indonesia's civil aviation system and made it possible for foreign airlines, such as QANTAS of Australia, to operate inside Indonesian airspace. Aceh got hit by a huge tsunami, thus the Australia–Indonesia Partnership for Reconstruction and Development (AIRPD) was formed. The partnership helped Indonesia to rebuild social and economic infrastructure.

The decision to begin official AANZFTA discussions was announced by the leaders in the year 2004. Following that, the talks were ended in 2008, and the AANZFTA went into effect for New Zealand in 2010, and for the other countries in January of 2012. Despite the fact that the AANZFTA discussions were carried out between Australia, New Zealand, and ASEAN as a single entity, the finalized free trade agreement resulted in distinct market access obligations for Australia, New Zealand, and each of the 10 nations that make up ASEAN(New Zealand Foreign Affairs & Trade, 2023).

The 12 Parties saw a growth in both their level of trade and investment activity between the years 2010 and 2016. The total amount of two-way trade in products and services conducted by ASEAN with Australia and New Zealand climbed from AUD 79.9 billion (in 2010) to AUD 93.2 billion (2016) and from NZD 10.5 billion (2010) to NZD 14.5

billion (2016), respectively. ASEAN's two-way investment (known as FDI stocks) with Australia and New Zealand has also expanded, going from AUD 42.6 billion (in 2010) to AUD 81.6 billion (in 2016), and from NZD 3.4 billion (2010) to NZD 7.8 billion (2016), respectively(AANZFTA, 2010).

The political ties between Australia and China have seen a notable deterioration since 2014, although commercial links have persisted and grown. Australia has expressed apprehension regarding the hindrances imposed by China on Australian exports, as well as China's attempts to exert influence within Australia and its regional strategic ambitions. In response, Australia has implemented various measures, including enhancing strategic and defence cooperation with its partners, enacting legislation to address foreign interference across different domains, and undertaking initiatives to broaden its market reach. The current state of relations with China continues to be characterised by tension, which will undoubtedly emerge as a significant matter requiring attention from the next Parliament (Wade, 2022).

Indonesia and Australia negotiated to expand trade and economic cooperation in 2012 (Toledo, 2017). The talks were then put on hold but resumed in March 2016. Due to domestic political events and bilateral difficulties ratification of the treaty have since been delayed on several times. Despite these setbacks, the agreement was eventually completed on August 31, 2018, and signed on March 4, 2019. Thus, the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) was born (Moenardy et al., 2021; Susanto, 2019).

B. Research Questions

- Why Australia agreed to make comprehensive economic partnership agreement with Indonesia?

C. Research Purposes

This research was carried out in order to provide an explanation to why Australia a developed country decided to make a comprehensive economic agreement to Indonesia and what does the benefit that Australia get from it.

D. Theoretical Framework

1. National Interest

Most international relations textbooks include definitions and discussion of national interest. Several experts, like Charles Beard, Hans Morgenthau, and Joseph Frankel, have authored full books on the topic. Scholars do not agree on a definition of national interest; thus it seems reasonable to provide one here that would hopefully withstand criticism from others. In its most basic form, national interest refers to a sovereign state's perceived needs and desires in respect to other sovereign nations that comprise the external environment.

The following are some examples of these fundamental national interests:

- **Defense interests:** Protection of a nation-state and its citizens against the prospect of physical violence from another state and/or a threat to its system of governance originating from outside the nation-state.
- **Economic interests:** the improvement of the nation-state's economic performance in comparison to other states.
- **World Order interest:** the preservation of an international political and economic order that allows a nation-state to feel safe and that allows its people and economy to thrive without conflict outside of its boundaries.
- **Ideological interest:** The protection and advancement of a set of values that the citizens of a nation-state hold in common and consider to be universally good (Nuechterlein, 1976).

One of Australia's main goals is to have a strong economy. The future prosperity of Australia will be largely dependent on having a robust, competitive economy. As nations in our area become more powerful and influential, a rising economy helps to maximize our impact on the globe. A competitive and interconnected world will benefit from innovative, global-minded, and well-governed nations. Countries with adaptable economies and strong institutions will be more able to endure sporadic systemic shocks. Countries that can innovate and adapt will be able to take advantage of opportunities and help their population through times of transition.

Australia's northern approaches are framed by Southeast Asia, which has enormous implications for our future. For 50 years, ASEAN's accomplishments have contributed to regional stability and prosperity. Australia's trade with ASEAN

nations surpassed that with the United States, our second-largest bilateral trading partner, in 2016. Australia gives assistance for ASEAN and its bilateral partnerships in Southeast Asia high importance. To promote a Southeast Asia that is more secure, economic, and resilient, the government is stepping up its involvement with the area (Australia Foreign Affairs Department, 2017). This concludes that one of the biggest Australia's national interests is in the economic interest. This in turn affected the foreign policy that Australia decides to make, since we know that the creation of a foreign policy is based on the national interest.

E. Hypothesis

Australia decided to make a comprehensive economic partnership agreement due to these factors:

- Relationship with China is deteriorated so it is crucial for Australia to expand their market while also diversifying their partners
- Limitations in AANZFTA in terms of Unbound tariffs and every country has different levels of development

F. Limitations and Scope of Research

It was crucial to set both temporal and spatial limitations on the research for it to be successful and effective. The researcher tried to impose boundaries on the process of preparing this thesis. The researcher was solely going to talk about the decision on why Australia decided to work together with Indonesia and the benefits that Australia gained from this cooperation. Since this research mainly talks about IA-CEPA, the timeframe for this research will be from 2012-2023. The boundaries of this investigation are not set in stone, and the researchers are not ruling out the potential of including a wide range of occurrences that can take place.

G. Research Methods

This research employs qualitative methods, such as content analysis, to investigate as to why Australia agreed to make a comprehensive agreement with Indonesia that will be investigated exhaustively, extensively, and in-depth through published books, journal articles, and websites. The data analysis focuses on the gain

that Australia received from the collaboration and compare it with previous collaborations.

H. Writing System

An introduction is given in Chapter I, which covers the issue's history, the study subject, the theoretical framework, the hypothesis, the research technique, and systematic writing.

In Chapter II, the researcher will wish to include some background information on the factors in the decision-making process of Australia and the benefits that Australia received in economy sectors and other sectors.

Chapter III provides a succinct summary, and the researcher will provide a conclusion about the material in the whole chapter.