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View Point

Chinese Premier visits Indonesia: Reviving the ‘Charm Offensive’

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The visit of Chinese Premier, Wen Jiabao, to Indonesia during the last week of April 2011 witnessed a calibrated effort on the part of Beijing to resuscitate its ‘charm offensive’ in Southeast Asia, a policy that had nosedived in the aftermath of China’s assertiveness in South China Sea in May 2010. The Chinese premier highlighted before the Indonesian audience the emergence of a mutually beneficial relationship during the first ten years of 21st century and pitched for a long-lasting strategic engagement between the two countries. Premier Wen used the opportunity to highlight the advantages of developing trade and economic relations with China, and working together with China at the regional and global levels. Moreover, Chinese Premier accorded equality to Jakarta in the regional power equations and described the country as an important player within the region.

The policy of ‘Charm Offensive’ aims at highlighting two key objectives of China’s strategic behaviour in the Asia-Pacific – a benign and supportive role for China in the region, and the necessity and scope of a mutually beneficial bilateral and regional relationship. By pushing forth these two objectives, China is trying to buy its own indispensability in the regional strategic and economic calculations and, at the same time, weaken ASEAN’s possible collective resolve against China in the future, especially over issues like South China Sea or any potential China-Vietnam confrontation. China’s enhanced economic presence in the critical economies of

Southeast Asia would resist ASEAN from taking any drastic step against China in the region.

The Chinese premier's speech, that can be described as a 'textbook description' of 'charm offensive,' remained conspicuous with its overwhelming focus on the economics of engagement, absence of any reference to strategically sensitive issues, and call for wide-ranging cooperation at regional and bilateral levels. The speech began with the reference to the development of bilateral trade and economic relations and ended in the form of a political rhetoric of creating a 'beautiful tomorrow of trade and economic cooperation between the two countries.'

The two countries set new trade targets, and signed trade and economic agreements worth US\$10 billion. The bilateral trade has already crossed US\$40 billion, prompting the two sides to set a new bilateral trade target of US\$80 billion by 2015. As per the reports, China has emerged as Jakarta's second largest trading partner, biggest source of import and second biggest export market. While the overall bilateral trade grew by roughly 50 per cent on yearly basis, Indonesia's exports to China rose only by 15 per cent during the last one year, resulting into huge trade deficit for Indonesia. The Indonesian leaders attribute this growing deficit to the influx of Chinese goods after the operationalisation of the China-ASEAN FTA. This concern was expressed at the highest level by President Yudhoyono during his visit to China in October 2010 and by the Minister of Trade, Mari Pangestu during the visit of the Chinese Minister of Trade to Indonesia in April 2011. Taking note of growing opposition in Indonesia against increasing trade deficit with China, the Chinese premier promised to increase imports from Indonesia and declared that his country did not want a favourable balance of trade with Indonesia.

A large number of Chinese companies have begun investing in the Indonesian economy ever since the entry into force of the China-ASEAN FTA in January 2010, raising the total Chinese investment to US\$2.9 billion. Bulk of the investment has taken place in the infrastructure sector with the two sides willing to further increase Chinese investment in the critical sectors of energy and transport. China has also declared to develop seaports and airports in Indonesia's far-flung, somewhat neglected and insurgency-prone province of West Papua. During his speech, the

Chinese Premier highlighted the contribution of the Chinese companies towards the creation of more than 30 thousand jobs and development of infrastructure in the country, such as the completion of the Suramadu Bridge in East Java in 2009 and the Asahan Hydropower Station in North Sumatra in 2010. During the Chinese Premier's visit, Indonesia invited Chinese companies to invest in the development of six economic corridors in the areas of manufacturing, energy and transport infrastructure.

China has shown its keen interest in tapping into Indonesia's energy market with its companies exploring the possibility of (a) buying oil and gas blocks in one of the resource areas, (b) acquiring stakes in the Indonesian energy companies, and (c) buying stakes when sold by any of the multinational energy companies operating in Indonesia, such as Exxon Mobil and British Petroleum. Petro China is reportedly planning to buy blocks in the oil and gas producing areas like Aceh. Chinese foray in the Indonesian energy market seems to be an extension of its energy procurement strategy, actively pursued in Africa and Australia. At the same time, the Chinese authorities, at regular intervals, have been stating that their country does not want to treat Indonesia merely a supplier of raw-materials or a dumping ground of cheap Chinese products, a concern various Indonesian leaders have expressed frequently.

An important component of Chinese charm offensive in Indonesia is the Chinese policy of extending soft loans and credits to Indonesia for investment in several sectors such as construction, energy and transport. Indonesia received approximately US\$2.8 billion as preferential export buyer's credit, making Indonesia the recipient of the largest Chinese credit line. Many of the Chinese banks, such as Bank of China, are setting up branches in Indonesian cities, which are also providing commercial loans to the Indonesian companies.

China has called for greater Sino-Indonesian coordination at the global forums like G-20 and regional ASEAN-driven forums where Indonesia plays an important role. China reiterated its support for the ASEAN leadership in the regional strategic deliberation and its continued financial and technological support for the regional development. In a characteristic Chinese presentation, the visit made no reference to the issues of either South China Sea or Myanmar, both of which have the potential of

substantially damaging ASEAN's long-term objective of achieving an ASEAN community.

The Chinese Premier seems to have successfully deployed the charm offensive by confining the focus of its host to the economic issues, and avoiding discussion over any of the strategically sensitive issues, such as South China Sea. It becomes clear that China, in a sustained conscious effort, is adding more beef to the bilateral strategic partnership, signed in April 2005 in order to consolidate its constituencies in the most powerful Southeast Asian country – Indonesia.

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