

# THE POLITICAL ECONOMY OF INDONESIA-CHILE DIPLOMATIC RELATIONS AND SOME LESSONS LEARNED FROM SINO-CHILEAN ECONOMIC RELATIONS

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**Abstract:** *This paper examines Indonesia-Chile political economy relations and some lessons learned from Sino-Chilean economic relations. Over the last 50 years of bilateral diplomatic relations, at the beginning both countries demonstrated little progress with few contacts in all fields of cooperation but some good progress been made over the last few years and both countries have agreed to enhance bilateral economic relations through the establishment of the IC-CEPA. The invigoration to strengthen bilateral trade relations from both countries should be viewed in a positive manner and should further be encouraged. To strengthen Indonesia-Chile bilateral relations, one can look from the Sino-Chilean economic relations experiences including the bilateral free trade agreement that could provide some lessons for Indonesia including to not only emphasize on mercantile cooperation but also explore other strategic cooperation such as energy cooperation and strengthen the socio-cultural cooperation.*

**Keywords:** *Bilateral Relations, Comprehensive Economic Partnership Agreement, Free Trade Agreement, Political-Economic Analysis*

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## BACKGROUND

Indonesian foreign policy towards the Latin American region has been dynamic and changing over times. During the first Indonesian President, Soekarno, Indonesia did have a very cordial relations with the Latin American counterparts. In fact, Soekarno has made a breakthrough to engage relations with the Latin American countries by making official visits in 1959, 1960, and 1961. Soekarno had cordial and close relations with several prominent key leaders in Latin America including

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among others with Adolfo Mateos Lopez (Mexico), CheGuevarra and Fidel Castro (Cuba), and Arturo Frondizi (Argentina). But however this good political relations were not followed by strengthening economic relations.

During the Soeharto administration, Indonesian foreign policy changed towards Northern Hemisphere countries such as Western Europe, United States, Canada, and East Asian nations. The Latin American region along with the African region were not given attention (or if any would be marginal interests) as these states were viewed as donor recipient countries and their produced goods were less competitive and lower standard quality as compared to the commodities produced by the developed states in the Northern Hemisphere. Further, Soeharto had an interest to make relations with the Northern states to help support the Indonesian economy as part of his new order policy. Soeharto viewed Northern states are rich countries that could provide significant foreign aid to support economic development in Indonesia.

In the late 1980s and early 1990s, as the cold war era ended, then, international agenda was no longer about political matters and economic diplomacy for the purpose of enhancing economic prosperity become an important international agenda throughout the world. During this stage, the proliferation of the Free Trade Agreements (FTAs) and investment flows were visible. For Indonesia, there was a change in Indonesian foreign policy towards the Latin American region. The Latin American region which was not considered potential region to support the Indonesian economic development agenda, now the view changes as a potential alternative market to allow diversification of Indonesian exports portfolios, particularly in case traditional markets (such as the United States, China and Japan) experience a saturation or economic recession period. This changes reflected that Indonesian foreign policy towards Latin American region shifted slightly from 'not being interested at all' to 'some marginal economic interest'.

In the 1997/98, there was Asian Financial Crisis which hit many of the East Asian countries. Indonesia was in fact suffered the worst. The economic and financial crisis were also followed by a political crisis, in which led to Soeharto's step down as a second Indonesian President. This crisis has also clearly impacted the Indonesia-Latin American relations. Trade relations significantly declined during this period. The problem was exacerbated as several Latin American states faced crises such as the Mexican crisis 1994-95, and Argentinian great depression 1998-2002 which spillover to Uruguayan banking crisis in 2002. During this crisis and reform period, Indonesian national policy was on recovering and restructuring the domestic economic and political matters. Indonesian foreign policy has changed and Indonesia re-engaged relations with countries used to be vacuum including with countries in Asia such as People's Republic of China and North Korea, Eastern European States, and Latin America.

The U.S. economic recession and the global financial crisis in midst 2000s have in fact become a momentum for Indonesia to proactively search and explore new potential markets in the so-called non-traditional partners such as Latin American region, Africa, and Eastern European region. Indonesia crucially needs to tap new potential partners and markets, including the Latin American region to help support the current growing economy. In recent years, the newly elected Indonesian President, Joko Widodo (Jokowi) has in fact put strong emphasis on economic diplomacy in the Indonesian foreign policy particularly with the non-traditional partners that previously were not fully tapped by the previous Indonesian government.

Acknowledging the importance of the economic diplomacy in the Jokowi's administration and to encourage strengthen non-traditional partners including with the Latin American counterparts. This paper attempts to share and discuss some insights about Indonesian relations with one of the Latin American counterparts, namely, Chile. Chile is one of the most open economy in the Latin American region and one of the two Latin American states that are currently negotiating with Indonesia on a free trade agreement so-called Indonesia-Chile Comprehensive Economic Partnership Agreement (IC-CEPA). This paper attempts to to share the dynamic of Indonesia-Chile diplomatic relations over the years, followed by some discussion and lesson learned from People's Republic of China (PRC) – Chile diplomatic relations.

### **The Dynamic of Indonesia-Chile Bilateral Political and Economic Relations: Some Discussions**

The year 1965 marked the opening of diplomatic relations between Indonesia and Chile. Until 1989 bilateral cooperation was limited in scope and was mainly just to maintain formal diplomatic relations with limited commercial relations. During the Soeharto administration, his main policy during the 'new order era' was to focus more on domestic development; strengthening regional cooperation and international cooperation with East Asian countries, West Europe, Middle East and North America. Unlike its predecessor, President Soekarno did have personal and close relationships with several prominent leaders in Latin America such as Ernesto Che Guevara and Fidel Castro (Cuba), Arturo Frondizi (Argentina), and Adolfo Lopez Mateos (Mexico). Soekarno's initiatives to engage Latin American relations could be viewed as a breakthrough after the independence of the Republic of Indonesia. But this strong political relationship was not followed by strengthening economic relationship.

During this stage, Indonesian foreign policy must be in conjunction with the national development agenda. Indonesia viewed developing countries in Latin America and Africa as marginal priorities. The Latin American and African states

were viewed as donor recipient (debtor) countries and in the economic realm, these developing countries were not considered potential to support the Indonesian economic development agenda due to the geographical distance, product similarities, in competitive standard quality and price of industrial products (Pramudyo, 2006). Further, given the fact that these countries are donor recipient countries, similar to Indonesia, thus, could become competitors with Indonesia to obtain foreign aids and debts from developed countries such as United States, Japan and Western European countries. Therefore, the Ministry of Foreign Affairs of the Republic of Indonesia (Kemlu) classified the Indonesian embassies in Latin American and African states as D-3 embassies, the lowest rank of the Indonesian embassies (Pramudyo, 2006).

Thus, knowing the fact of the Indonesian passiveness during this earlier period, then enhancing the bilateral trade relations was a more of the Chilean foreign policy initiative towards engaging its trade relations in the Asia Pacific region, particularly following its shift to a more market-oriented development approach in 1974-75 which was part of strategy towards international economic insertion. Ross (2004) argued the internationalization of Chile towards Southeast Asian region was also motivated as a reaction to the international isolation of Chile under the Pinochet regime from the Western World, and the relations merely were mostly directed toward economic cooperation while putting political matters on a low profile.

In the second stage, the international political context changed as the Cold War era ended, leading to the United States being the sole global superpower. During this period, economic diplomacy with the ultimate goal to enhance prosperity increasingly became a priority for many countries around the world. Thus, a series of important economic events occurred in this period, such as the establishment of the Asia Pacific Economic Cooperation (APEC) in 1989, the Global System of Trade Preferences among Developing Countries (GSTP) agreement under the United Nations Conference on Trade and Development (UNCTAD) which entered into force in 1989, and the 1994 Uruguay Round of the World Trade Organization (WTO) which brought one of the important reforms of the world's trading system. These global and regional events have direct and indirectly supported Indonesia-Chile bilateral relations. This at least was evident by the significant increase in the trade volume.

In 1990, the total volume of bilateral trade was only US\$92.37 million, while by 1995 it reached its peak of US\$395.63 million. Although both sides showed some interest and a series of diplomatic efforts were made in the mid-1990s to intensify bilateral relations, the initiatives continued to come more from the Chilean side, in its efforts to deepen its economic relations in the Asia Pacific region following the restoration of democracy in Chile in 1990.

In the Indonesian foreign policy, there were some changes in Indonesian views towards the Latin American region. The Latin American region which was not considered potential region, now the view changes as a potential alternative market to allow diversification of Indonesian exports portfolios. This is also somewhat similar for the case of Chilean foreign policy implementation in the Asia Pacific region. Chile engaged more with its core traditional partners such as Japan, South Korea and China. Meanwhile the Southeast Asian region as a whole including Indonesia (maybe Singapore could be an exception) was still viewed as a peripheral region. For instance, the official visit by the President Chile, Eduardo Frei Ruiz-Tagle in 1994 was more a regional cooperation purpose within the framework of APEC and was not a pure bilateral diplomatic relation, but rather as a sideline and merely to make better use of Presidential visit agenda to build networks with the Indonesian counterparts particularly in economic cooperation (Wilhelmy and Lazo, 1997).

Based on these both countries' foreign policies facts, it can be roughly concluded that both parties did only have marginal economic interests in its respective counterparts. Further, both countries did have some political will knowing the fact that both countries had cordial relations with the United States and a relatively similar neoliberal economic doctrines<sup>1</sup>, which made a roughly similar foreign policy paradigms and thus, politically making them to be more comfortable in engaging bilateral relations.

In 1997-98, the Asian financial and economic crisis struck many East and Southeast Asian nations including Indonesia. This Asian financial crisis had a widespread impact across many countries around the world, including Chile. Chile which had strong relations with Japan, South Korea and China also adversely affected by the Asian financial crisis. As a result, not surprisingly, the bilateral trade relations with these core traditional partners declined significantly and with Indonesia declined during the period 1998-2003 and in 2002 the trade volume reached only US\$118.1 million. During this transition period, Indonesia attempted to strengthen Indonesian relations with all countries including re-engaging relations with countries which previously been ignored and/or isolated such as China and North Korea in the Asian region, countries in Eastern European and Latin American region. Further, Indonesian foreign policies priorities were more to enhance positive image of the country in the world, to protect Indonesian citizens abroad, and to strengthen the border diplomacy.

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1. Both countries had the neoliberalism paradigm, these can be seen where both had ministers with PhD graduates in Economics from the US top universities and it was known as the Chicago Boys (University of Chicago) in Chile and the Mafia Berkeley (University of Berkeley) in Indonesia.

The economic slowdown in the United States and many European countries since the mid-2000s have become a momentum and made both countries' exports to their respective traditional markets to decline; neither country believes at this stage that it can rely as much on its traditional markets (see graphics 1 and 2 for the Indonesian trade relation in traditional market). Both countries made huge efforts in order to find new alternative markets throughout the world. There is thus a natural impetus for both countries to deepen and elevate their bilateral economic relations. The political will from both parties at least could be seen from their diplomatic link efforts, which has developed considerably and at the highest official levels both sides have met at least four times<sup>2</sup> since mid 2000s and the increasing bilateral trade volume since 2004. The bilateral trade relation started to recover by 2004, and in 2011 total Indonesia-Chile bilateral trade reached to an unprecedented level of US\$586.3 million, though it declined over the next two years (see graphic 3).

The bilateral trade volume during 2009-13 showed a slight rising trend with an average annual rate of only 0.20 percent; within the same period Indonesian exports to Chile decreased with an average annual rate of -0.46 percent, while Indonesian imports from Chile have grown at an annual rate of 0.84 percent. Indeed, since 2004 Indonesia experienced only trade deficits with Chile. In 2011, Indonesia's trade deficit with Chile reached US\$158.3 million.

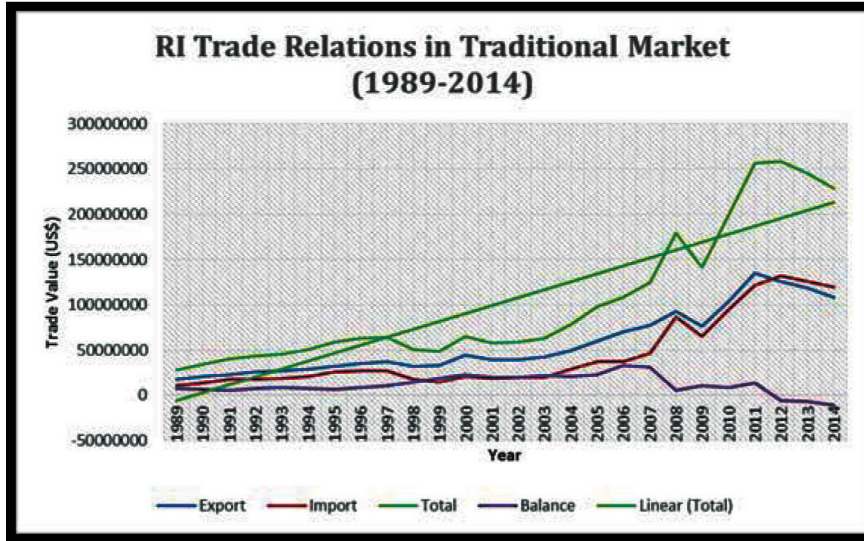
In 2013, Indonesia's exports amounted to US\$170.8 million, while imports reached an unprecedented US\$206.6 million. Using the HS six digit commodity categories (Version 2012), Indonesia's top five export commodities to Chile in 2013 were foot wears HS 640319 (US\$22.1 million) and HS640219 (US\$7.66 million); combined refrigerator-freezers HS841810 (US\$17 million), motor cars and other vehicles HS870323 (US\$7.45 million), and poly (ethylene terephthalate) HS390760 (US\$7.13 million). Meanwhile Indonesia's main import commodities from Chile in 2013 were iron ores and concentrates (HS260111, US\$108.29 million); refined copper and copper alloys, unwrought – cathodes and sections of cathodes (HS740311, US\$49.78 million); chemical wood pulp, soda or sulphate, HS470321 (US\$16.8 million), HS470311 (US\$10.15 million), HS470329 (US\$9.15 million).

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2. Both head of states have met on 28-29 April 2004 as Chilean President Ricardo Lagos Escobar paid an official visit to Indonesia and also during the sidelines of the APEC Economic Leaders Meetings in Vladivostok (2012). Besides both head of states have also visited each other during the APEC Economic Leaders Meetings in Santiago (2004) and Bali (2013).



Graphic 1: Indonesia Trade Relations in Traditional Market Period 1990-2014 (In US\$)



Source: WITS – UN COMTRADE (2014)

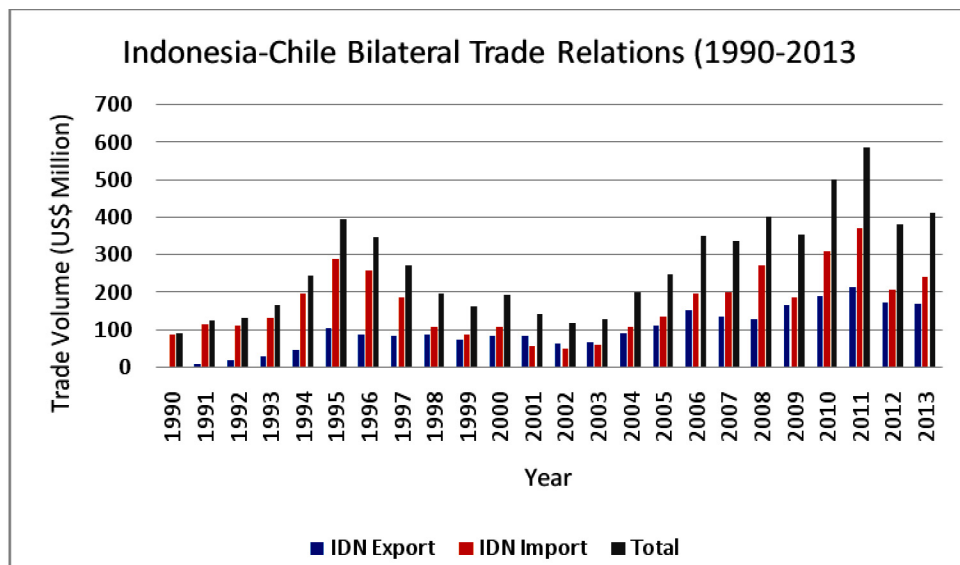
Graphic 2: Indonesia Trade Share in Traditional Market Period 1990-2014 (In%)



Source: WITS – UN COMTRADE (2014)

Indonesian export to Chile is still fairly limited but the highly competitive Indonesian commodities such as palm oil and tobaccos are slowly started to penetrate the Chilean market. In August 2011, the Indonesian Trade Promotion Center in Santiago (ITPC Santiago) has facilitated a business contract agreement between Smart Tbk and Industrial Jarsa amounted US\$170000 to palm oil from Indonesia (Hanim, 2012). Among others Industrial Jarsa imported palm kernel oil and margarine. Meanwhile for tobaccos, over the last few years British American Tobacco (BAT) manufacturer based in Chile has imported tobaccos from Indonesia and in 2013 the import volume reached US\$313040. But however above all of these potential markets, there are many Indonesian potential export commodities still impeded by the current increasing Chilean made trade barriers.

**Graphic 3: Trade Relations Indonesia and Chile for the Period 1990-2013**



Source: WITS – UN COMTRADE (2014)

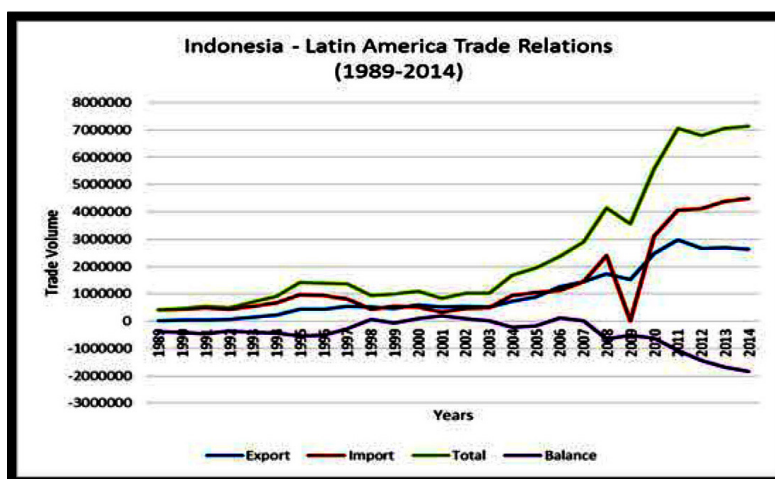
The global economic recession has also due to, partly forced Indonesia to engage in Latin American region. Despite the Latin American region still being constrained(clustered) as an alternative market (or non-traditional market) and received a lower priority in the foreign policy framework, but the fact is Indonesian trade volume and share with the Latin American region is slowly increasing and meanwhile with the traditional market counterparts, its trade share gradually declining. In 1989, Indonesian total trade volume with the Latin American counterparts was only US\$410 million (1.29 percent of the total Indonesian trade)



and in 2014, it reaches US\$7.1 billion (accounted for 2.37 percent of the total Indonesian trade). Meanwhile, Indonesian trade volume with the traditional market partners has increased significantly from only US\$28.3 billion (1989) to US\$228 billion (2014). But, at the same time, its trade share in fact declined from 73.85 percent (1989) to 64.36 percent (2014).

In April 2013, Indonesia and Chile signed the Terms of Reference (TOR) IC-CEPA and agreed to start talks for an IC-CEPA negotiation round. The first Trade in Goods (TIGs) IC-CEPA talks were held in May 2014. This is a very strategic bilateral proposal which is not only a step forward to further strengthen Indonesia-Chile trade relations, but that most importantly would elevate the bilateral economic relations to a new level. The current ongoing negotiation could also reflect a consensus from both states that in their respective bilateral relations agenda, an economic agenda is on the top.

**Graphic 4: Indonesia – Latin America Trade Relations Period 1990-2014 (In US\$)**

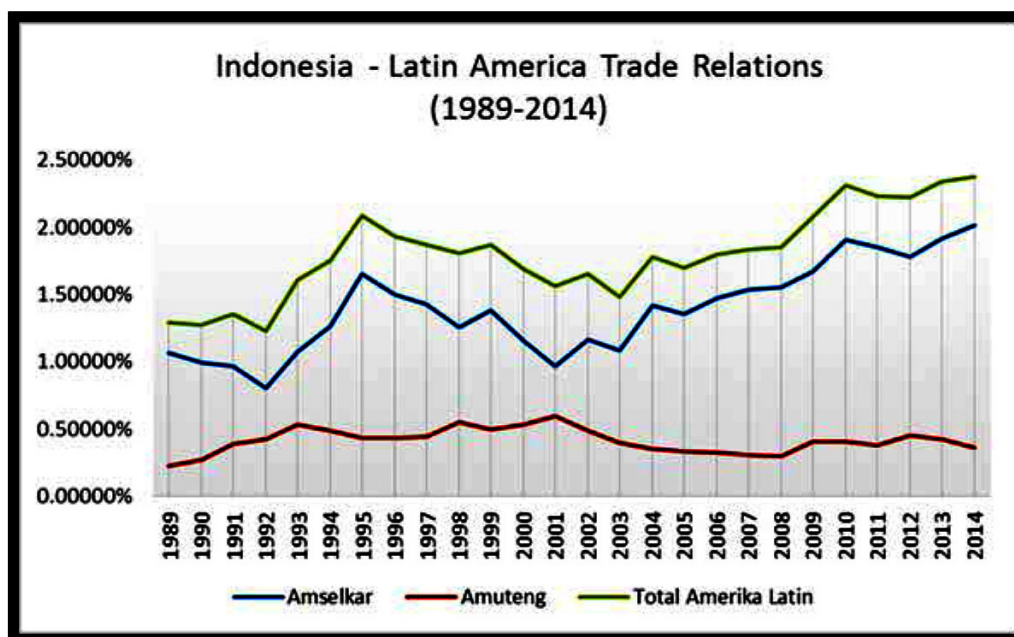


Source: WITS – UN COMTRADE (2014)

At the regional level, both sides shared commitment to advance on a wide range of regional cooperative agreements such as in APEC, Forum for East Asia – Latin America Cooperation (FEALAC), Association of Southeast Asian Nations (ASEAN) and maybe the possibility to advance ASEAN-Pacific Alliance cooperation in the near future. For the later, Chile views ASEAN as an important regional organization and since 2011 the Chilean ambassador to Indonesia was also accredited as the Chilean ambassador to ASEAN. The Chilean ambassador, Mr. Eduardo Ruiz Asmussen, during the credential ceremonial stated that Chile

will identify possible avenues for ASEAN-Chile cooperation, including the possible cooperation between ASEAN and the Pacific Alliance, a Latin American trade bloc established in April 2011<sup>3</sup> to forge trade and economic relations with the Asia-Pacific region (ASEAN Secretariat, 2011). Indonesia itself actually has been interested to become state observer of the Pacific Alliance. The initial goal is to advance economic cooperation and integration towards Asia Pacific region.

Graphic 5: Indonesia – Latin America Trade Market Share Period 1990-2014 (In% )



Source: WITS – UN COMTRADE (2014)

Last but not least, another potential regional economic cooperation is the Trans Pacific Partnership (TPP). But however both countries' stances are still ambiguous and both countries perceive the TPP to have a U.S.-led agenda. President Bachelet in an interview stated the following statement:

*“The role of the Chilean government is to safeguard the country’s interests. We don’t have much information on the process regarding the scope and limitations of the TPP. We already have a [free-trade agreement] with the U.S. We will protect all the agreements we already have established with the U.S” . (Weymouth, 2014).*

3. The current members of the Pacific Alliance are Chile, Colombia, Mexico and Peru.

Further, Indonesia has prioritized on the Asian Regional Comprehensive Economic Partnership (RCEP) rather than the TPP. For instance, BagasHapsoro, in a Foreign Policy Forum (FKKLN), stated that RCEP needs to be disseminated to the Indonesian society and TPP needs to be studied first (Ministry of Foreign Affairs of the Republic of Indonesia, 2014).

### **Sino-Chilean Economic Relations: Interdependence Partnerships and Some Lessons Learned for Indonesia**

If one ask whether there is any nation able to benefit from a relationship with China, then it is Chile (Ellis, 2009). At the same, however no other countries is more dependent on copper sales than Chile making the country's economy highly dependable and vulnerable to copper and its derivative products. As briefly discussed earlier, Chile is the first country in South America to establish formal diplomatic relations with China in January 1971 and is the first nation in the world to sign a FTA agreement with China. Over the years both countries have good political relations and increasingly a more dynamic economic relations. Chile in fact accepted China's accession to WTO in 1999 as it is in accordance to Chile's neoliberal strategy of a dynamic open regionalism and its foreign policy orientation in strengthening the Asian Pacific region counterparts (Jilberto and Hogenboom, 2012). The good political relations have successfully been translated to strengthen the economic agenda.

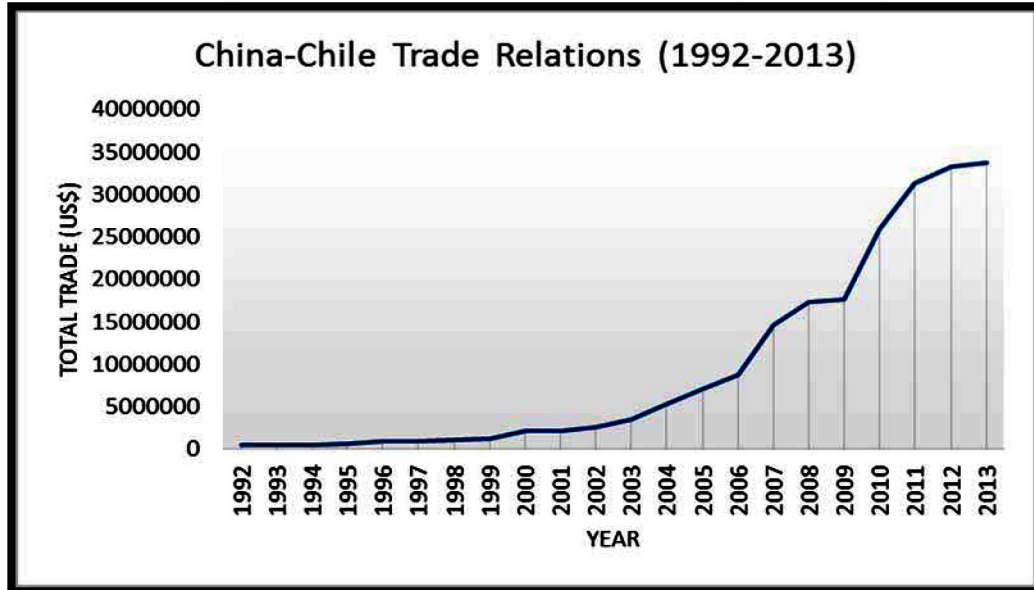
In the economic sphere, over the years both countries enjoyed a complementarity trade patterns in which roughly the Chilean side exports the primary sector commodities particularly the mining-sector products and to a lesser extent silvi culture, fruits and maritime commodities, and meanwhile China mainly exports manufactured goods such as automobiles, motorcycles, electronic products and textiles and clothings. Since the 1990s, Sino-Chilean economic relations have expanded rapidly and accelerating even faster after the resumption of the FTA accord which took in effect in 2006. Within a year, Chilean exports to China jumped by 140 percent, making China as Chile's the largest export destination with mostly concentrated in copper and other mining-sector products. Since 2008, China has become Chile's biggest trading partner and for China, Chile is second-largest trading partner in South America, after Brazil. In 2013, the bilateral relations reached to US\$33 billion and copper related products were accounted 85 percent of the Chilean total export to China. The other 15 percent of the Chilean export basket are mostly cellulose, fishmeal, wine and fresh fruit.

On the other hand, from China's perspective, Chile is viewed as a strategic partner to fulfill its input demand for Chinese industrial production activities.

Specifically, China is very interested in the Chilean mining-sector products particularly coppers needed to produce technological devices such as computers, mobile phones and cameras. To facilitate and ensure the supply of the Chilean mining-sector products, China has also invested in the Chilean mining sector and in 2013 worth US\$103 million (CIE Chile, 2014). For instance, China constructed a copper-processing plant in Chile in which the output of Chilean small and medium producers can be processed and sold to China (Ellis, 2009).

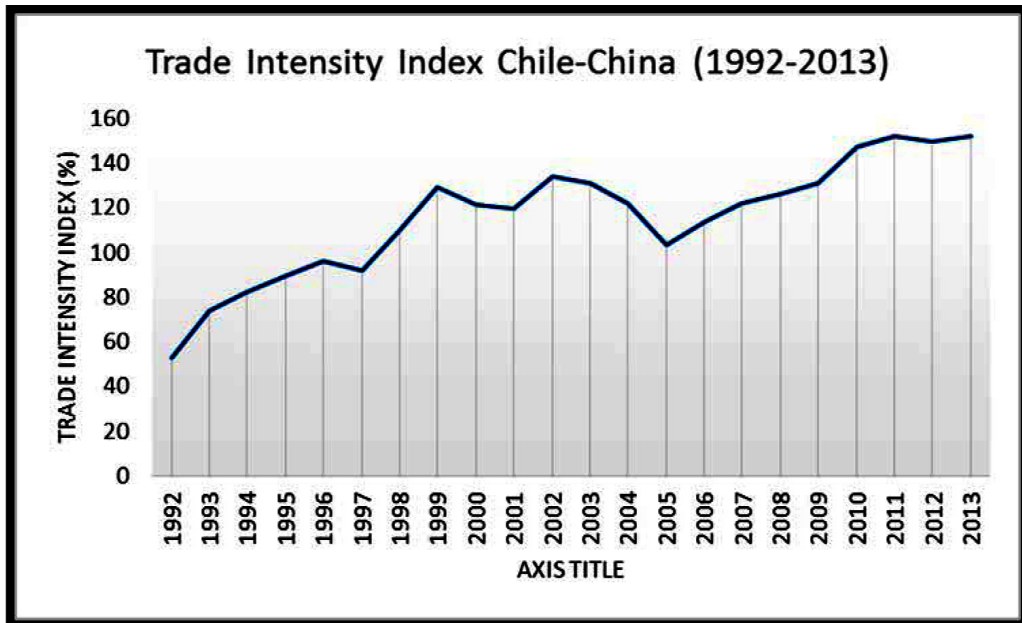
Chile exports around one third of China's total copper imports (or 40 percent of the total Chile's copper export) making Chile's economy highly dependent on China's demand on coppers. Thus, this leads over the years Chilean exports of copper and other mining-sector products to China have consistently been a clear common strategic interest to both countries and crucial part of the bilateral trade relations. But Chile is not the only country in the region supplying China's mineral needs. Peru is also a strong competitor in the region, and in 2014, China Minmetals, a leading Chinese metal company bought one of Peru's largest copper mines worth a US\$5.85 billion deal (Lahrichi, 2014).

Graphic 6: China-Chile Trade Relations (1989-2013)



Source: World Integrated Trade Solutions (2015)

Graphic 7: Trade Intensity Index Chile-China (1989-2013)



Source: World Integrated Trade Solutions (2015)

In general terms, according to Evan Ellis (2009) China is clearly very interested in Latin America at least due to four main reasons: as a source of primary products, as a market for Chinese goods, its diplomatic agenda on the isolation of Taiwan, and challenging and competing with the United States. Some analysts argued that China's growing interest in the region may create a fear among Latin American states as China's intention is to extract significant amount of raw materials in Latin America and sell back with value-added products is an unsustainable trading strategy (Datamyne, 2015). The growing economic interest in the Latin American region can be seen clearly from China's trade share from only 1.79 percent in 1992 (or US\$2.96 billion) and now in 2013 reaching 6.48 percent (or US\$259.48 billion).

For the case of Chile, China's interests are visible in the first two factors which mainly about buying and selling activities. This maybe given the fact that both countries still have limited political-military relations, due to Chilean tendency of the political and military orientation towards the United States rather than China. A small example would be Chile only purchased non-lethal goods Chinese military equipment including uniforms, personal gear for soldiers, and medical supplies but not the lethal weapons.



Graphic 8: China-Latin America Trade Volume and Trade Share (1989-2013)



Source: World Integrated Trade Solutions (2015)

Apart from the mining-sector products, both countries have also strong economic interest to market their commodities particularly as part of their diversification agenda. For Chile, there is a strong economic interest engaging with China for the purpose of diversifying its export basket particularly its primary products moving towards goods with greater value-added (Namur, 2015). This interest is becoming more important as recently China's slower demand for coppers and other mining-sector products due to the slowing China's economic growth and the continuing plunge of the world price of coppers in recent years (Porter, 2014). Chile's diversification strategy will be highly emphasized on silviculture and forest products, fishing and agricultural industries. Specifically in terms of the products, it covers pulp, cherries in counter-season, red apples, kiwi, avocado, preserved food, dry fruits, fish, wood, and wine (Vargas, 2014). Therefore, Chilean officials will make their best efforts to open up the market access in China by reducing tariffs and trade barriers for those products.

Indeed, Chile has some success stories in penetrating the Chinese market. In the agricultural sector, around 45 percent of the Chinese imports of wines and grapes (valued US\$28 million) were from Chile (Vargas, 2014). The success was due to among others: its effective branding and international reputation; and growing Chinese middle class demand (Ellis, 2009). Further, Chile has also established a wine company in China to produce a Chinese wine with Chilean technology. In the fisheries sector, Chilean fishmeal and fish such as salmon are important export



commodities as China demand these products as a major staple of the Chinese diet.

Other notable effort is the export of potassium nitrate to China. Chile has become the main supplier of potassium nitrate to China which is used as a fertilizer by China's tobacco farmers. To facilitate the supply of the potassium nitrate, Chile constructed a plant in China through a joint venture between Sociedad Quimica y Minera de Chile (SQM) and a Chinese firm, Migao (Ellis, 2009). The plant is able to produce 40,000 tons of refined potassium nitrate per year. Finally, to support Chile's commercial operation in China, the Banco of Chile has also open representative offices in China which crucially important financial and service links for commercial relations. This opening of the banking sector shows Chile's commitment to China as an emerging market.

Meanwhile for China, Chile is viewed as a market for Chinese goods. Chile, like other middle-income countries of Latin America, is a relatively attractive market for Chinese manufactured goods. Further, Chile may also be viewed as a port of entry in South America with good bureaucratic infrastructures. Due to these factors, China uses Chile as an important country in the region to diversify its exports particularly for its manufactured goods. Over the years China has exported to Chile ranging from medium-technological manufactured goods such as motorcycles, automobiles and computers to lower-end manufactured goods such as toys, clothings, textiles and footwear. The presence of the Chinese manufactured goods are strong, for instance, the Chinese motorcycles and clothings dominated around 80 percent of the Chilean market.

Apart from manufactured goods, China also expanded its business in telecommunication and financial industries. Chinese telecom giants such as Huawei and ZTE and Chinese banks such as China Development Bank and China Construction Bank have open offices in Chile and similar to Chile's case of Banco of Chile, these sectors established important financial and service links to both countries. To support the economic relations, both countries' regional authorities are also engaged in negotiating trade promotion and sister cities accords, and within the socio-cultural cooperation, for instance, Chilean universities and other institutions are providing courses in Mandarin and business-oriented China studies to enhance awareness and encourage commerce relations with China. Further, the Chinese diaspora (community) and fostering the flow of people in both countries should also play important role to support the bilateral economic relations. Jorge Heine, the Chilean ambassador to China stated that *"we have been very focused on buying and selling, but to strengthen this relationship we need more people-to-people exchanges* (Namur, 2015).

Apart from the trade activities and some socio-cultural cooperation, one potential and strategic cooperation is in relations to the power generation in which Chile urgently needs particularly in renewable energy<sup>4</sup> knowing the fact that most of the sources of energy such as natural gas and oil derived from its neighbouring countries such as Argentina. This energy cooperation could be the second most important agenda after the core trading activities agenda. So far, China has established photovoltaic and thermal plants<sup>5</sup> to do solar projects in Chile (Yingli Solar, 2014).

Other potential cooperation would be the nuclear power generation projects despite the current nuclear energy policy has not yet wide acceptance from the Chilean public. The Chinese are among the world's leaders in the active employment of nuclear power and Chile's neighbouring country, Argentina signed an agreement to sign nuclear deal cooperation with China in order to diversify its power generation to not only fully relying on natural gas and oil. China's practical experience with nuclear power makes it a logical partner in helping Chile develop its own nuclear power industry (Ellis, 2009).

## CONCLUSION AND POLICY RECOMMENDATION

Both countries have agreed to enhance bilateral economic relations through the establishment of the IC-CEPA. The invigoration to strengthen bilateral trade relations from both countries should be viewed in a positive manner and should further be encouraged. Over the last 50 years of bilateral diplomatic relations, at the beginning both countries demonstrated little progress with few contacts in all fields of cooperation but some good progress been made over the last few years. Chile in its foreign policy agenda, engaging economic relations in the Asia Pacific region is part of its strategy towards international economic insertion. Meanwhile Indonesia views Latin American region as an alternative market meaning a potential market to diversify the Indonesian exports portfolios and as an alternative market if the traditional markets experience a saturation or recession period.

Indonesia could learn some lessons from the Sino-Chilean economic relations. Over the years both countries enjoyed a complementarity trade patterns in which roughly the Chilean exports the primary sector commodities particularly the

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4. Energy security, and the vulnerability of the Chilean economy to cut-off in energy supply, are increasing concerns for the Chileans. The nation has very few gas and oil resources of its own, relying principally on neighboring Argentina for imports of natural gas. Such difficulties, have given urgency to Chilean efforts to achieve energy self-sufficiency.

5. Yingli Green Energy and Yingli Solar (Yingli is the world's largest producer of photovoltaic cells) established solar projects in Chile. So far Yingli cells generate 25 MW in Chile.

mining-sector products, meanwhile China mainly exports manufactured goods. For China, Chile is viewed as a strategic partner to fulfill its input demand (particularly coppers and other mining-sector products) for Chinese industrial production activities. Meanwhile for Chile, China is strategically an important market for Chilean coppers. Thus, this leads over the years have consistently been a clear common strategic interest to both countries. Apart from the mining-sector products, both countries have also strong economic interest to market their commodities particularly as part of their diversification agenda.

Apart from the corebuying and selling activities, both countries are cooperating in power generation sector in which Chile is urgently needs it. This energy cooperation could be the second most important agenda after the core trading activities agenda. So far, China has established photovoltaic and thermal plants to do solar projects in Chile. Other potential cooperation in the future would be the nuclear power generation projects despite the current nuclear energy policy has not yet wide acceptance from the Chilean public. Finally, to support the Sino-Chilean economic relations, both countries have also strengthen the socio-cultural cooperation, including providing Mandarin courses and Chinese business studies in Chile, making full use of the Chinese and Chilean diasporas, and fostering people to people exchanges.

Several policy recommendations to strengthen Indonesia-Chile economic relations including in terms of trade sphere, both countries may need to further identify a more potential and strategic complementary goods; and expedite the several important pending matters such as the Air Transport Agreement and Double Taxation Avoidance Agreement. Although the advancement of ICTs and infrastructures are evident, the geographic distance could still be a problem as long as direct flights are not yet established. This partially results in a limited number of people to people contact.

For Indonesian policymakers, despite very challenging, as part of Indonesian economic diplomacy efforts, the Indonesian officials may attempt to attract some Chilean investment to Indonesia, particularly in which Chilean companies already have investment experiences in Asian region such as SQM and Chilean wine companies in China. To achieve this, the Indonesian policymakers should proactively capture and convince the Chilean investors to invest in the biggest economy in Southeast Asian region. In relations to trade negotiation, we view that trade bargaining is not always about exchanging list of goods to be liberalized, but also could be other economic interests (or items) in compensation of liberalizing certain very strategic products such as wine and copper. Here the Indonesian officials could for example including wine within the trade negotiation list in

exchange for mega project, such as a fully funded by the Chilean government to construct Indonesian mega mall in Santiago. The establishment of this mall could stimulate Indonesian businesspeople to open offices and export their commodities in a well-spotted location in Santiago, Chile. This option could help strengthen and sustain Indonesian exports to Chile, thus, in turn it also helps strengthen Indonesia-Chile bilateral economic relations. Further, Chile can be the hub for Indonesia as it is strategically located in the Pacific Ocean region. Thus, constructing a mega mall deal could be the best deal for both countries.

Indonesia should not only emphasize on mercantile cooperation (or simply buying and selling activities), but should move forward beyond that. This is crucial for both countries as currently each country views one another only as a peripheral country thus limiting the trade potentials. Learning from China's experience, Indonesia could also explore for energy cooperation such as thermal energy cooperation or other renewable energy projects. Further, both countries may explore and strengthen the low profile non-business cooperation such as disaster risk management and food security programs in which both comfortably have the required expertise.

To achieve and smoothen all of these recommendations and if Indonesia wants to delve seriously then ultimately a grand design or a blueprint should be created. The blueprint is not only limited to Chile but Indonesian foreign policy towards the Latin American region as a whole. One suggested important aspect within the blueprint is to cluster and rank the Indonesian partners within the Latin American region based on importance.

There may be conventional factors such as language barriers, historical, cultural and political reasons that ultimately hindered bilateral economic relations. But these factors in fact could be reduced if both sides also strengthen their socio-cultural cooperation. Indonesia can learn some experiences from China to strengthen the socio-cultural cooperation, including increasing number of language trainings and schools of Spanish and Indonesian languages, providing Chilean and Indonesian business studies, exploring the possible common historical connections of both countries through joint research, promoting awareness of both nations, making full use of the Indonesian and Chilean diasporas, and fostering people to people exchanges.

The potential is there, given approximately the same geographical distance from Indonesia to the west coast of the United States and to Chile, if Indonesia is able to build intense bilateral relationships and people to people with the U.S., thus, why not with Chile? But to achieve this both sides need to work intensely so that these economic goals could be reaped in the future.

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