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ABSTRACT

Related to the increasing competition for hegemony in the Indo-Pacific region between the United States and China, there are concerns that it will impact international trade, especially in Indonesia. This study aims to see whether Indonesia's international trade is affected by conflicts between member countries of the AUKUS Trilateral Pact (Australia, United Kingdom, United States) and China due to trade wars and the situation in the Indo-Pacific. The increase in China's national power has affected the flow of international trade to Indonesia from each AUKUS country. It proves a rivalry between AUKUS member countries and China regarding their national power. China continues to increase its national power, which reduces other countries' national power, especially the United States. However, competition in military spending, the trade war conflict between the United States and China, and the situation in the Indo-Pacific have not affected the flow of international trade from each member of AUKUS to Indonesia.

Keywords: AUKUS, China, Indonesia, Indo-Pacific, International Trade

INTRODUCTION

Regional international relations are felt to be more complicated because countries are starting to realize the importance of increasing security. It is especially true in the Indo-Pacific. Security is currently also related to other fields besides the military, such as the economy and the environment. Because of this, countries in the world are aware of the importance of economic protection to prevent the possibility of collapse (Farrell, Hettne, & Langenhove, 2005, p.70; Delanova, 2021). The conditions of the Indo-Pacific as a strategic environment

change rapidly. The complexity of relations between countries in the region supports it. There are so many countries that there are complications in relations between countries, and it is increasingly difficult for countries to make plans and decisions (Pangestu et al., 2021).

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Amid increasingly fierce competition for influence in the Indo-Pacific region between the United States and China, we will look at economic data in the form of the trade balance between Indonesia and the United States, Indonesia, and China. The trade balance between Indonesia and the United States shows a surplus for Indonesia in 2019 of US\$ 8.583 million, and the trade balance between Indonesia and China shows a deficit of US\$ -16.969 million for Indonesia. The trade balance for Indonesia continues to increase. In 2021, Indonesia experienced a surplus of US\$ 14.525 million, while against China, the deficit decreased to US\$ -2.445 million. (BPS, 2022)

Trade, investment, and economic relations that continue to increase between Indonesia and the United States and China are the main considerations for Indonesia to maintain good relations with the two countries competing for hegemony in the Indo-Pacific region. However, there are Chinese claims to the South China Sea area which are opposed by Southeast Asian countries, such as Vietnam, Malaysia, Indonesia, and the Philippines. Until China and ASEAN agree on a draft that will form the basis of the *Code of Conduct* in the South China Sea. (Sutrisno & Meirinaldi, 2020)

However, relations between ASEAN and China regionally experienced a significant increase. Both sides' exports and imports continue to increase, and Chinese investment in ASEAN continues to increase. Tourists from China who visited ASEAN in 2015 reached 18,596,000 people. China's role in ASEAN, which continues to increase, is welcomed by ASEAN countries. However, on the other hand, it creates political problems, such as with Vietnam and the Philippines regarding the South China Sea and Myanmar with increased infrastructure investment which also causes social anxiety in Myanmar. (Sutrisno & Meirinaldi, 2020)

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During increasing cooperation in the region, the growing Chinese-American rivalry in the Indo-Pacific region prompted the formation of a new alliance on September 15, 2021, namely the AUKUS trilateral pact. Australia, the United Kingdom (UK), and the United States (US) announced their alliance in the Indo-Pacific region. Under the deal, Australia will build eight nuclear-powered submarines with American assistance. Australia became the second country after the UK in 1958 to be given access to American nuclear technology to build nuclear-powered submarines. This plan was criticized by China, which is currently in a confrontation with Australia. (Indriani, 2021)

At that time, the Indonesian Minister of Trade, Muhammad Lutfi, was worried that the AUKUS pact would impact Indonesia. He hopes that international trade remains conducive. There must be a dialogue between the countries involved or concerned about this alliance because this alliance was built in the Indo-Pacific region, where Indonesia is. For this reason, Lutfi ensures that there is a need for dialogue politically. Meanwhile, efforts to separate politics and trade were also carried out from the trade side, given the current global trend. Lutfi

invited ASEAN countries to eliminate political affairs from trade, emphasizing that trade is the best solution to recovering the current economy and bringing benefits to many parties. (Indraini, 2021)

There are concerns that Indonesia's international trade and its ever-increasing trade balance with China and AUKUS member countries will be disrupted and even decreased due to conflicts between them. This tension has been going on for a long time in the Indo-Pacific. But the US announced a trade war with China in 2018 until the formation of AUKUS in 2021. By this, the study aims to see whether Indonesia's international trade flows are affected by conflicts between countries members of the AUKUS Trilateral Pact, namely Australia, the United Kingdom, and the United States, with China through the trade war that has occurred so far and the situation in the Indo-Pacific.

LITERATURE REVIEW

International Trade and Conflict

(Temurov & Kilicaslan, 2016)

Trade is one of the central elements in a complex system of international relations, which mediates almost all types of the international division of labor and links all countries into a single world system. "Trade is how nations satisfy their unlimited needs. There have been various attempts to empirically model international trade flows from classical to modern trade relations. International Trade is the oldest form of international economic relations. It existed long before the formation of the current world economy and industrial revolution and is increasing exponentially. Therefore, international trade development is one of the sources of global economic growth by triggering innovation and market expansion in the long term. In this process, political stability and distance between countries are crucial for further international trade development. (Temurov & Kilicaslan, 2016)

According to Khudoykina (1998), *conflict* is used in various senses. As a synonym for international disputes, international military problems, or all situations, conflict is simply a relationship contradiction. The word *conflict* means a clash between parties. Despite the differences in the definition of the term *conflict* in international law and economics, the following classification fits this research best because it is primarily interested in the economic consequences of the conflict. Namely: diplomatic disputes, territorial claims, economic contradictions, and military conflicts (including wars). Security conflicts are mentioned as military conflicts, while Diplomatic Conflicts are known as political disputes with any other country. Diplomatic conflict is accepted as a short-term conflict, and Security Conflict is accepted as a long-term conflict and has a delayed impact. (Temurov and Kilicaslan, 2016)

The relationship between political conflict and trade has long attracted much attention. The literature on conflict examines the interactive effects of distance and trade on international conflict and cooperation. Polachek (1980) argues that trade reduces disputes because conflict

imposes increased trade costs on trading partners. The relationship between trade and conflict received more attention when [\(Polachek, 1997\)](#) examined how trade affects conflict using the Social Welfare Function. In this study, [Polachek \(1997\)](#) found that (1) The greater the level of trade between countries, the lower the conflict between them [\(Polachek, 1997, p.301\)](#), (2) There is a positive relationship between trade elasticity and conflict between trading partners, less conflict [\(Polachek, 1997, p.302\)](#), and finally, democracy reduces conflict and increases cooperation [\(Polachek, 1997, pp. 305-306\)](#)

The work of [Morrow \(1999\)](#) examines the general logic of the argument that international trade prevents conflict due to possible economic losses by using game theory models to examine how trade affects the relative resolution of disputes and concludes that trade reduces the will to fight. Both in the initiating and target areas. The relationship between trade and conflict has received substantial empirical investigation as well. Several studies have found that trade reduces conflict. [Morrow \(1999\)](#) discusses the possible indirect effects of conflict on trade, presented by [Pollins \(1989\)](#), which have not been tested explicitly. [Morrow \(1999\)](#) shows that countries with close interests in the United States, as measured by equality in UN voting, have higher levels of trade with the United States.

Several studies have focused more specifically on the impact of wars on trade, and there is some debate here too. [Barbieri and Levy \(1999\)](#) argue that war does not always disrupt trade. They examined seven trading partners, each of which experienced one war in the period under consideration. They found that war was associated with serious disruptions in trade in only this one case. However, the authors acknowledge that the small sample makes generalization difficult. Indeed, [Kastner \(2007\)](#) considers the larger number of cases and finds that war, particularly long-term war, harms trading.

Some studies examining the correlation between trade and conflict show that countries will have relatively low military disputes when they have good trade relations. Political relations between countries can, directly and indirectly, affect their trade. When two trading partners are in a political conflict, and one has a favorable economic position over the other, it may consider limiting trade to advance its side of the conflict. [Morrow et al. \(1998\)](#) show that the political relationship between two countries greatly influences trade flow. It shows that two partner countries with high trade relations have high political interaction while countries with low trade have relatively poor political relations. The main finding of [Morrow et al. \(1998\)](#) is that military disputes do not statistically have a significant effect on trade in the year the dispute occurs. That is, the dispute has a delayed impact.

Conflicting interests can negatively impact trade even when there is little potential for escalation of war or comprehensive trade sanctions because countries sometimes signal in ways that can hurt trade, even when the bargaining points for disagreements are relatively low. For example, after the 2001 spy plane incident between the United States and China, Beijing signaled its displeasure with US reconnaissance policies by suggesting it might buy more Airbus planes and fewer Boeing planes.

In addition to war, diplomatic and security conflicts can be very detrimental to international trade between conflicting partners and the rest of the world. For example, the latest embargo against the Islamic Republic of Iran (IRI) severed all IRI trade ties with the US and Europe. The ongoing economic sanctions against Russia are another example. It brings serious damage to the economies of the implementing countries as well as the global economy.” (Temurov & Kilicaslan, 2016) It is an example of the direct effect where political conflict leads to trade restrictions. Conflict can also indirectly affect trade flows by increasing the risk perceptions of trading companies and other economic agents involved.

National Power

The concept of *national power* is very important and invites much debate. How to determine the amount of power is the main and fundamental thing in the debate that occurs. Because, like it or not, the concept of power is very influential in the international strategic environment. Every country wants to balance its strengths to face threats from its adversaries or neighbors in the international environment.

The size of the traditional/external threat is very sensitive to each country's strength relative to its neighboring countries' strength. “This magnitude assumes that the greater the relative capability of a country (*nation's relative capability*), the greater its political and military influence over its strategic environment. The distribution of this capability is asymmetric among countries to create threats and pressures among them. (Kennedy & Siregar, 2018)

Chatterjee (1972) explains classically that the balance of power distribution, or balance of power, is most influenced by a country's military strength, the number of troops, the number of weapons, and the technology reflected in its military budget. Hopkins & Mansbach (1973) explained that this concept has several weaknesses. First, the adjustment of power does not run automatically but depends on the ability of the actors or politicians to see and interpret it appropriately. Second, in specific cases, it is very difficult to know whether resource changes are affected by actors. Third, this balance of power model does not consider these countries' goals and motivations because not all countries use their influence to increase resources and strength to gain influence in international politics. (Kennedy & Siregar, 2018)

Treverton & Jones (2005) explained that looking at national strength is done by calculating the total national resources. The country's *capability containers* are transformed or converted through country-level processes into usable power. The actual processes in this framework are focused on very critical factors. These factors form national strength. One of the quantities that must be considered is the expenditure for the defense of a country (Kennedy et al., 2018).

Differences in the balance of power between countries can provide a perceived threat to the weaker ones. Lebovic & Ishaq (1987) define a threatening situation as an asymmetric distribution of power between countries that creates a threatening condition (threat) and tension or escalation between them. Thus this threatening situation can be expressed as the concept of relative strength. However, this asymmetrical form of power is viewed from

different perspectives depending on the motive underlying this condition. From this perception, a country makes their defense spending policy.” (Kennedy & Siregar, 2018)

The calculation of power was first thought to be analyzed by a German statistician Johann Peter Submilch in 1741, who led the calculation of power in the field of statistics. It is not surprising that the power formula first appeared through systematic statistical development. In 1741-1960 several individuals/experts began to develop several power equations, but there needs to be work from them that is so known systematically. More systematic calculations began to be seen in the 1960s with the power equation from Clifford German (1960), which made the power equation more general. The German formula (1960) consists of four categories, namely: (1) national economy, (2) land, (3) population, and (4) military strength. (Chang, 1999)

RESEARCH METHODS

The research method used in this study is quantitative. The hypothesis is formed based on research objectives by building a suitable model to answer research problems. The model that has been built will be tested using panel data regression from the research object or countries involved in the research problem, namely Australia, the United Kingdom, the United States, and China. The data used are secondary data obtained from the Indonesian Central Bureau of Statistics (BPS, 2022) for data on international trade flows to Indonesia, the World Development Indicator (WDI, 2022) to obtain economic data on countries, and IFS (2022) to collect data on a country's national power.

The international trade flow model was built to test whether the conflict between AUKUS trilateral pact member countries (Australia, the United Kingdom, and the United States) with China affects international trade to these countries. The international trade flow model is built based on the gravity model, an adaptation of Newton's gravity model. The gravity model used to explain observed variations in trade flows was built in the 1960s, which describes bilateral trade flows from country i to country j (Tinbergen, 1962; Linneman, 1966). (Liu, 2018)

The gravity model was criticized in the 1960s "As a purely empirical proposition to explain bilateral trade flows and lacking theoretical support. In the late 1970s, the gravitational equation was legitimized by a series of theoretical articles demonstrating that the form of the basic gravitational equation was consistent with various models of trade flows. Currently, the gravity model is widely used to explain the paradox of international trade. The empirical application of the gravity model is extended to cover a wide range of issues such as the impact of geographic distance, regional trade agreements, national borders, currency unions, wars, trade disputes, and conflicts.” (Temurov & Kilicaslan, 2016)

The Gravity Model for International Trade

Several empirical studies show that international trade flows follow the principles of gravitational physics (Head, 2000; Porojan, 2001; Kεpαptsoglou, 2010). “In other words, two opposing forces determine the volume of bilateral trade between countries or economic blocs—or even between countries and economic blocs. Bilateral trade volume is based on the level of economic activity, income and trade barriers. The latter include transportation costs, trade policies, levels of uncertainty, cultural differences, geographic characteristics, consumer preference schemes, regulatory barriers, and shared borders” (Anderson & Wincoop, 2003).

While trade potential is export capacity and import demand, “at a more aggregate level of analysis, demand proximity, per capita income, and culture, are the main macroeconomic determinants of export potential. Thus, various combinations of macroeconomic variables, such as GDP and population with geographic distance, are strong predictors of trade potential. Therefore, the gravitational equation uses these variables and has been used extensively in various empirical literature on international trade” (Bayoumi & Eichengreen, 1997).

This model has been widely used in the empirical literature to evaluate the determinants of bilateral trade. “It explains the trade-related dependent variable by a combination of macroeconomic variables, such as country size, income, exchange rates, prices, and so on for the two countries. Additionally, indicators of transportation costs between the two countries and more general market access variables are usually added. The model states that bilateral trade flows are positively related to the economic size (GDP or GNI) of countries i and j . He also stated that bilateral trade flows were negatively related to the distance between the two countries.” (Liu, 2018)

The gravity model for international trade is a simple empirical model used to analyze trade flows between countries. “The model's history begins with Newton's Law of Gravity (Head, 2000)”. The gravity model of international trade is similar to “Newton's equation of gravity. In 1687, Newton proposed the *Law of Universal Gravity*. This law states that the force of attraction between two objects, i and j , is given as follows:

$$F_{ij} = G \cdot M_i \cdot M_j / D_{ij}^2 \quad (1)$$

Where F_{ij} is the force of attraction, G is the gravitational constant, M_i and M_j are the masses of the two objects, D_{ij} is the distance between the two objects, i and j .

Based on Newton's equation of gravity as given above, Tinbergen (1962) proposed the same functional relationship to explain international trade flows.” (Liu, 2018) The proposed equation in simple form is:

$$T_{ij} = A (Y_i \cdot Y_j) / (D_{ij}) \quad (2)$$

Where, T_{ij} is bilateral trade flows (*exports plus imports*) between countries i and j , $Y_i(j)$ is the GDP or GNI of country $i(j)$, D_{ij} is the distance between states i and j , and A is the constant of proportionality. Given the logarithm, the equation takes the following form:

$$\ln(T_{ij}) = a_0 + a_1 \ln(Y_i \cdot Y_j) + a_2 \ln(D_{ij}) \quad (3)$$

The basic model was developed by Deardorff (1995) to be applied to T_{ij} , namely:

$$T_{ij} = A_{ij} \cdot (GDP_i \cdot GDP_j) / Dist_{ij} \quad (4)$$

Where, " T_{ij} is volume T or actual *trading flow from home country i to host country j* ; GDP_i is the actual GDP of the home country; GDP_j is the actual GDP of the host country; $Dist_{ij}$ is the distance or distance between home country i and host country j , and A_{ij} is a constant of proportionality.

The signs above mean that according to the gravity model, the flow of trade is directly proportional to the economic size or GDP of the host country and home country (positive sign) and inversely proportional to the distance/barriers between the host country and the home country (negative sign). So in the basic model or basic gravity model, there is a relationship:

$$T_{ij} = f(A_{ij}, GDP_i, GDP_j, Dist_{ij}) \quad (5)$$

This equation is an equilibrium condition in the *long run*. So, in the long run, the expected T_{ij} should be the same as the actual T_{ij} . However, in reality, some countries receive less than the expected T_{ij} or even receive more than expected. In this model, there is a constant A_{ij} where if one country's GDP goes to zero, the flow of T_{ij} between the two countries is also zero. Here the value of A_{ij} becomes a proportional constant.

In applying the model to the proportional constant, the population size (POP) of the two countries is also included so that the proportional constant becomes (A multiplied by $(POP_i \times POP_j)/(POP_i \times POP_j)$) where A_{ij} becomes the constant A . Thus it is assumed that the larger the population will attract greater FDI flows, several:

$$T_{ij} = A \times (POP_i \times POP_j) \times (GDP_i/POP_i \times GDP_j/POP_j) \times (1/Dist_{ij}) \quad (6)$$

where T_{ij} increases in line with increases in GDP_i and GDP_j , and GDP becomes a function of GDP per capita ($GDPC = GDP/POP$), so it can be rewritten as:

$$T_{ij} = A \times (POP_i \times GDPC_i) \times (POP_j \times GDPC_j) \times (1/Dist_{ij}) \quad (7)$$

Even though GDP_i/POP_i is not constant, this variable can be omitted because it cannot be used as an explanatory variable to explain the deviation of trade flows (T) to the host country. Thus, if logged, we can model the empirical equation as follows:

$$\ln T_{ij} = \beta_0 + \beta_1 \ln GDPC_j + \beta_2 \ln POP_j - \beta_3 \ln Dist_{ij} + \varepsilon_{ij} \quad (8)$$

The signs above mean that according to the gravity model, the flow of Trade (T) is directly proportional to GDP per capita and the population of the host country (positive sign)

and inversely proportional to the distance/barriers between the home country and the host country (negative sign).” (Kennedy, 2018)

Although the basic gravity model can explain the flow of Trade (T) in the long-term analysis, the model does not show the factors that affect volatility in the trade flow in the short term. The above equation is the basic equation for the gravity model. However, many model adjustments have been made by several researchers. The model will be adjusted according to the research objectives of this study. Therefore it is necessary to establish a *modified gravity model*.

By the identification of the problem in the research context, namely, to see whether the conflict in the South China Sea that prompted the emergence of AUKUS had an impact on Indonesian trade flows, the modified gravity model can be written as follows:

1. The economic size of the home country proxy is changed from GDP to the national power of the home country.
2. In the model, national power from China is added because we want to see the impact on the flow of trade to Indonesia from AUKUS member countries. After all, China is the cause of the emergence of conflict.
3. The GDP/POP variable is taken from GDP per capita data from the home country.
4. The distance, originally the distance between the home country and the host country, was replaced with a barrier variable, namely by proxy the difference in military budgets between AUKUS countries and China, which was thought to reduce trade flows.
5. In the model, international trade flows from China are added because we want to see the impact on trade flows to Indonesia from each AUKUS member country because China is seen as the cause of the emergence of conflict.
6. A dummy variable is added, showing the conflict (inspired by Temurov & Kilicaslan, 2016) or a trade war between the US and China during that period. The conflict seen starting in Indo-Pacific along with the trade war with the US, which is starting to be felt as disturbing to Australia, is assessed as *dummy*=1 if the trade war conflict has not occurred *dummy*=0.

So:

Indonesia's trading flow = f (National power from AUKUS country, National power from China, GDP per capita of AUKUS country, difference in military budget between AUKUS countries and China, total Trade from China to Indonesia, conflict in the form of a *dummy* variable)

The empirical equation can be written as follows:

$$\begin{aligned} \ln T_{ij,t} = & \beta_0 + \beta_1. (\text{National Power}_{i,t}) + \beta_2. (\text{National Power}_{c,t}) + \beta_3. \ln (\text{GDP per capita}_{j,t}) \\ & + \beta_4. \Delta \text{Defense}_{j,c,t} + \beta_5. \ln T_{ic,t} + \beta_6. \text{dummy}_t + \varepsilon_t \end{aligned} \quad (9)$$

i=host country = Indonesia; *j* = home country = AUKUS member country; *c* = China ; *t*=time = observation period

The above equation explains that the development of trade flows to Indonesia from AUKUS member countries is influenced by their *national power*. This *security dilemma* occurs from the defense spending race between AUKUS member countries and China, as well as trade war conflicts with China and the situation in the Indo-Pacific. This situation will be proven in this study by building the following hypotheses:

Ho₁: *National power* of the home country does not affect the flow of trade from the home country to Indonesia (host country)

Ho₂: *National power* of China does not affect the flow of trade from the home country to Indonesia (host country)

Ho₃: The *GDP per capita* of the home country does not affect the flow of trade from the home country to Indonesia (host country)

Ho₄: The difference in the defense budget between the home country and China does not affect the flow of trade from the home country to Indonesia (host country)

Ho₅: The flow of Trade from China to Indonesia does not affect the flow of trade from the home country to Indonesia (host country).

Ho₆: Trade war conflicts and the situation in the Indo-Pacific do not affect the flow of trade from the home country to Indonesia (host country).

This hypothesis will be tested to prove whether the conflict between AUKUS countries and China in the South China Sea did not affect Indonesia's Trade flows with these countries. To answer the purpose of this study, the data to be collected is from AUKUS member countries (Australia, United Kingdom, and the United States), Indonesia, and China in a time series.

Data

The following is descriptive data from the results of data collection.

Table 1. Descriptive Research Data for the 2000-2020 Period

Sample: 2000 2020 Common sample							
	TRADE?	POWER?	POWER?	GDPC?	TRADEC?	MILITARY?	DUMMY?
Mean	8.895016	10.69024	10.54903	10.81891	10.24993	-0.889935	0.142857
Median	9.044262	11.25000	4.356000	10.83857	10.49451	-0.542453	0.000000
Maximum	10.26172	16.33000	27.87000	11.01349	11.19674	0.175721	1.000000
Minimum	7.530158	5.644000	1.393000	10.57718	8.976656	-3.183167	0.000000
Std. Dev.	0.897343	3.423840	10.83243	0.119126	0.754123	0.954247	0.352738
Skewness	-0.094278	0.033617	0.686669	-0.261749	-0.358520	-0.930884	2.041241
Kurtosis	1.684517	1.621885	1.562004	1.850367	1.666229	2.669953	5.166667
Jarque-Bera	4.635878	4.997267	10.37897	4.188728	6.019365	9.384667	56.07292
Probability	0.098476	0.082197	0.005575	0.123149	0.049307	0.009165	0.000000
Sum	560.3860	673.4850	664.5890	681.5912	645.7454	-56.06590	9.000000
Sum Sq. Dev.	49.92389	726.8063	7275.174	0.879848	35.25945	56.45639	7.714286
Observations	63	63	63	63	63	63	63
Cross sections	3	3	3	3	3	3	3

Source: Results of data processing from EVIEWS Software

Information:

TRADE = Total international trade flow (export+import) from each AUKUS member country (Australia, United Kingdom, and United States) to Indonesia.

TRADEC = Total international trade flow (export+import) from China to Indonesia.

POWER = National Power of each AUKUS member country

POWERC = National Power of the State of China

GDPC = Per Capita Growth Domestic Product (GDP) of each AUKUS country member

MILITARY = The difference between the military budget to the GDP of China and each AUKUS member country (Australia, United Kingdom, and the United States)

DUMMY = the year the trade war occurred between the US and China (value 0 if there was no trade war, value 1 if there was a trade war, starting from 2018)

The depiction of data is conveyed through graphics, as in the pictures below.

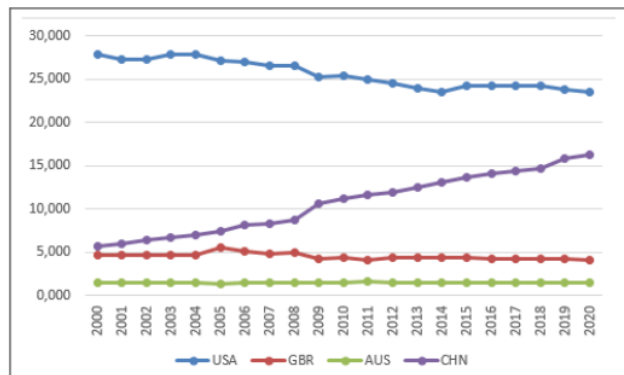


Figure 1. National Powers from Australia, United Kingdom, United States, and China
Power index, Global Power Index (percent of global total)

Source: Process data from https://www.ifs.du.edu/IFs/fm_PackagedDisplaysFlex.aspx

In Figure 1, it can be seen that the National Power (percent of global total) from the US (2000-2020 period) tends to have a downward trend from 27,870 (2000 year) to 23,510 (2020 year). In contrast to China, its National Power tends to increase from 5,644 (2000) to 16,330 (2020). Meanwhile, the other AUKUS member countries (UK and Australia) were almost flat, where the UK experienced a downward trend while Australia experienced a sloping increase (almost level off).

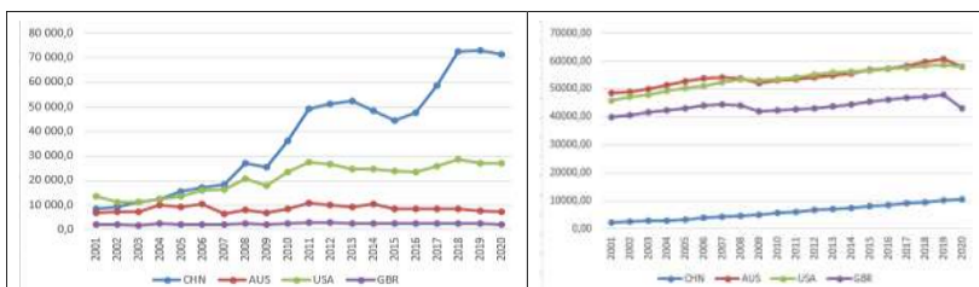


Figure 2. Total Value of Trade by Main Countries to Indonesia (in a million US\$)

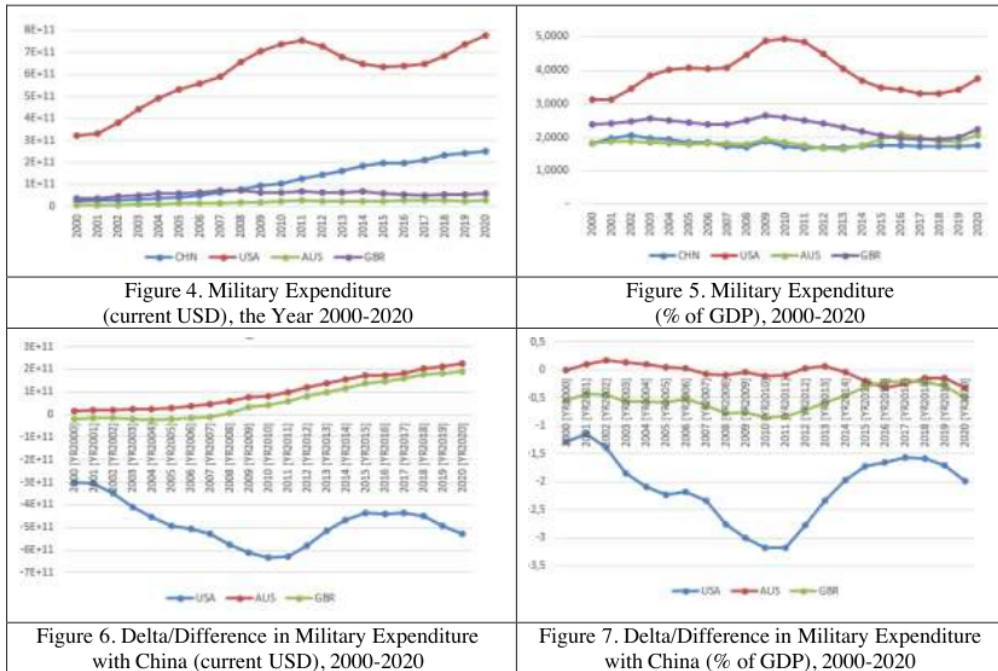
2001-2020, Source: Processed data from <https://www.bps.go.id/indikator/8/336/3/neraca-perdagangan-several-negara.html>

Figure 3. GDP per capita (constant 2015 US\$), 2001-2020

Source: Processed data from World Development Indicators (WDI, 2022)

In Figure 2, it can be seen that the total value of trade flows to Indonesia from US and China (2000-2020 period) has an increasing trend, but China has a very large increase compared to the US. Meanwhile, Australia and the UK tend to have a flat trend, and even Australia seems to be declining gently in terms of total trade flows to Indonesia.

In Figure 3, it can be seen that all countries (Australia, United Kingdom, United States, and China) have Per Capita Domestic Product (GDP) Growth which tends to increase (2000-2020 Period), where the US and Australia have the highest per capita GDP.



Source: Processed data from [World Development Indicators \(WDI, 2022\)](#)

Figures 4 and 5 depict the military expenditure of each country (Australia, United Kingdom, United States, and China, Period 2000-2020) in current USD (nominal) and % of GDP. In nominal terms, military spending from US and China tends to increase, whereas America has the highest military spending. Meanwhile, in nominal terms, military spending from Australia and the UK tended to be flat, while the UK's decreased steadily. When viewed in % of GDP, the US and China military spending tends to decrease and begins to increase again in 2018. Meanwhile, military spending from Australia and the UK tend to be flat in the direction of a gradual increase. It shows that these countries have the motivation to increase their military budget starting around 2018.

RESULT AND DISCUSSION

Indo-Pacific

The Indo-Pacific region merges the Indian Ocean and Pacific Ocean regions. Geographically, the Indo-Pacific region refers to the area that stretches from the eastern Indian Ocean to the western Pacific Ocean and is connected to the Malacca Strait. The Indo-Pacific has become a center for maritime, security, trade, environmental, and geopolitical activities. At least there are more than 50 countries that are in the Indo-Pacific circle. The Indian Ocean, the third largest ocean in the world (after the Pacific and Atlantic), occupies about 20 percent of Earth's sea surface, covering a total area of 73.56 million square miles (Michel & Sticklor, 2012). "The Indian Ocean contains many minerals, oil, and natural gas. The states of the Indian Ocean region have more than two-thirds of the world's known oil reserves. So the Indian Ocean region is believed to be rich in energy reserves (Albert, 2016)". (Pangestu et al., 2021)

The Indo-Pacific accounts for two-thirds of Gross Domestic Product (GDP) growth because the Indo-Pacific accounts for at least 60 percent of global GDP (The Department of Defense USA, 2019). This region includes the world's largest economies, namely the United States, China, and Japan. In addition, the six countries with the fastest-growing economies in the world are India, Cambodia, Laos, Myanmar, Nepal, and the Philippines.

Table 2. Gross Domestic Product 2018

No.	Country	GDP (millions of US Dollars)
1.	United States of America	20,544,343
2..	China	13,608,152
3.	Japan	4,971,323
4.	India	2,718,732
5.	Canada	1,713,342
6.	Russia	1,657,555
7.	South Korea	1,619,424
8.	Australia	1,433,904
9.	Mexico	1,220,699
10.	Indonesia	1,042,173

Source: <https://datacatalog.worldbank.org/dataset/world-development-indicators>

Year of 2017 was an interesting year in the development of the Indo-Pacific discourse. It was because the United States, as a superpower and major country in the region, adopted the Indo-Pacific concept and revived the Quad. The quadrilateral cooperation framework covering Australia, India, Japan, and the United States was revived in 2017 after being frozen for about ten years (Hanada, 2018). In April 2017, the Japanese Ministry of Foreign Affairs released the "Free and Open Indo-Pacific Strategy" (FOIP Strategy). It describes how Tokyo will broaden its worldview and strategic role under the Shinzo Abe era, defined by a desire to make a "proactive contribution to peace." (Lee, 2018). One of Japan's Development Cooperation policy priorities is promoting strategic development cooperation through FOIP to achieve stability and prosperity in the Indo-Pacific region.

In November 2017, Australia issued the 2017 Foreign Policy White Paper (Hanada, 2018). The 2017 Foreign Policy White Paper contains five objectives that are very important for the security and prosperity of Australia, one of which is "promote an open, inclusive and

prosperous Indo-Pacific region in which the rights of all states are respected" (Australian Government, 2017). In December 2017, the White House released *The National Security Strategy of the United States of America* (NSS) (White House, 2017). In the NSS, there are basic objectives that we must carry out. First, the nation's fundamental responsibility is to protect the US people and its homeland. Second, trying to create prosperity for the US. Third, maintaining peace through strength by rebuilding the military so that it remains superior can hinder the enemy so that they can fight and win. Fourth, advancing US influence in the eyes of the world. (Pangestu et al., 2021)

Rivalry occurs between the US and China in investment, economy, and military fields. It is a rough comparison of investment scopes (Pangestu et al., 2021). Countries in the Indo-Pacific region are aware that opposing China is a decision that hurts their economy, which makes the distribution of *power* in the region unbalanced (Delanova, 2021). From a geopolitical point of view, there are China's claims (Sutrisno & Meirinaldi, 2020):

- The South China Sea area with China's claims to the waters of the *Natuna Nine Dash Line* or 9 (nine) dotted lines as China's ancestral heritage to the maritime area up to Natuna. The negative relationship between Indonesia and China is related to China's claim that the Natuna waters have been part of China's traditional Chinese fishing ground since ancient times.
- The territorial dispute also happens in the South China Sea with the Philippines.
- The Shinkoku or Dae-yu island dispute between China and Japan has just been resolved in the East China Sea. Even the PRC (People's Republic of China) unilaterally claims the airspace boundary over the Sinkhoku islands, ADIZ (*Airborne Defense Identification Zone*).

These differences have created regional tensions among PRC with Vietnam, Indonesia, and Malaysia, as well as Japan, Taiwan, and South Korea. Regarding the possibility of territorial disputes arising in the Natuna waters in the South China Sea. Due to the unilateral claim of the People's Republic of China (PRC), the Natuna waters are part of the *Traditional Chinese Fishing Ground*, which can potentially cause conflict/dispute with Indonesia. (Sutrisno and Meirinaldi, 2020)

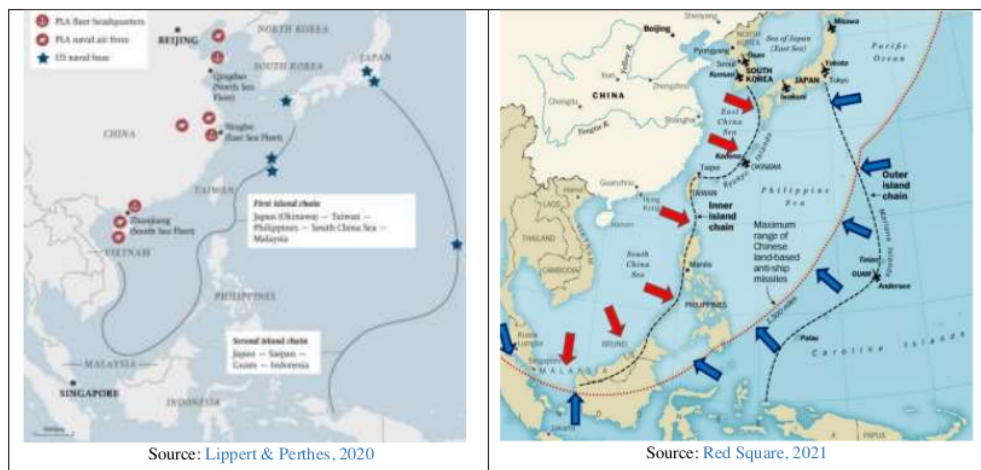


Figure 8. Locations and chains of Chinese and US military Bases in the Indo-Pacific Region

The military competition between China and the United States causes other countries in the Indo-Pacific region to feel disturbed. It is because almost all countries have middle power (*middle power countries*). On the one hand, several countries, such as Japan, South Korea, and Australia, have strong military alliance relations with the United States. On the other hand, they also have strong trade relations with China. (Delanova, 2021)

AUKUS launched in September 2021, “Australia, the United Kingdom (UK), the United States (AUKUS) security pact is described by analysts as the most significant security arrangement among the three countries in a generation. Observers say the three allies launched AUKUS as a strategic response to China's growing military capabilities in the Indo-Pacific region. President Biden stated that AUKUS would renew and enhance our collective ability to meet the threats of the 21st century. For the record, the three countries *stand shoulder to shoulder* and fight together in two world wars, Korea and the Persian Gulf. (CRS, 2022)

AUKUS is focused on developing military capabilities and paving the way for Australia to build nuclear-powered submarines. Australia initially planned to build around eight submarines in Adelaide and build a new submarine base on its east coast. Currently, six countries operate nuclear-powered submarines. The United Kingdom and now Australia are the only countries that share nuclear propulsion technology with the United States. Nuclear-powered submarines do not have the same limitations as conventional submarines and can remain submerged/operated for months on end. These steps are part of a broader Australian effort to enhance national security capabilities. (CRS, 2022)

The AUKUS Agreement strengthens the United States' defense and intelligence relationship with Australia and the United Kingdom while augmenting several existing multilateral security arrangements. By strengthening key US alliances in the region through the AUKUS agreement and other multilateral initiatives, Biden seeks to answer questions from regional partners about America's Commitment and resilience in the Indo-Pacific. The United

States and Australia were treaty allies under the Australia, New Zealand, and the United States 1951 alliance. The United States and the United Kingdom were members of the 1949 North Atlantic Treaty Organization (NATO) alliance. The United States, Australia, and the United Kingdom, along with Canada and New Zealand, are part of the 1946 intelligence-sharing group *Five Eyes*. The United States initially joined Australia, Japan, and India in 2007 and again in 2017 to form the Quadrilateral Security Dialogue (Quad). Australia and the United Kingdom, together with Malaysia, New Zealand, and Singapore, were part of the 1971 *Five Power Defense Arrangements*.” (CRS, 2022)

AUKUS can be considered a way to ensure power distribution in the Indo-Pacific and not only focus on projecting China's military power. By equipping Australia with nuclear-powered attack submarines, Australia is becoming a rival to China. However, it should be noted that without a suitable economic dimension, AUKUS allies risk mutually damaging each other as they pursue their economic interests unilaterally. "The Biden administration (US) needs to complement AUKUS with economic multilateralism to more effectively compete with China's military and economic power, which is dominant in the region.” (Delanova, 2021)

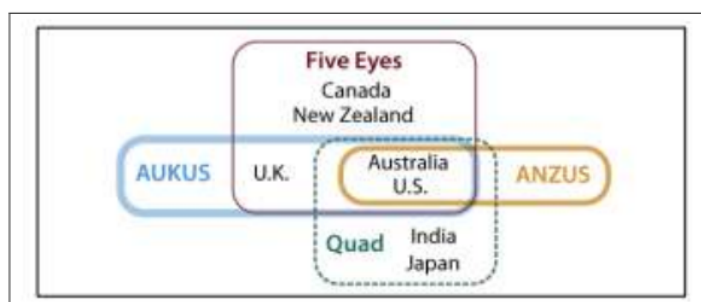


Figure 9. Defense, Intelligence, and Security Groups (CRS, 2022)

The Effect of Conflict between AUKUS member countries and China on Indonesia's International Trade

Indonesia consists of about 30% land and 70% sea, with the large islands of Sumatra, Java, Kalimantan, Sulawesi, and Papua, small islands such as Bali, Lombok, Timor, and other small islands (Sutrisno and Meirinaldi, 2020). Indonesia, as an archipelagic country, according to the provisions of the *United Nations Convention on the Law of The Sea* (UNCLOS, 1982), has provided three sea lanes, namely: Through the Indian Ocean-Sunda Strait-South China Sea; Through the Makassar Strait-Lombok Strait; and the Indian Ocean-Banda Sea-Moluccas Sea-Pacific Ocean.

Indonesian waters link East Asia, the Pacific Ocean, the Indian Ocean, Africa, and Europe. Indonesia's position is also a crossing point between the Pacific Ocean, the Indian Ocean, the Asian continent, and Australia. Even in the ASEAN region, two-thirds of its territory is Indonesian waters (Yanti & Aviolita, 2020). Because Western and Eastern economic interests pass through Indonesian territorial waters, it is fitting for Indonesia to become a major player in the core area of world maritime traffic. (Perdana et al, 2021)

The total population at the end of 2019 was recorded at 267 million, with per capita income of USD 4,050, - 5.03% economic growth, 24.78 million poor people, unemployment reached 7.00 million, Gross Domestic Product (GDP) of Rp. 15,583 Trillion. Export goods are dominated by primary goods/commodities such as Crude Palm Oil (CPO), rubber, cocoa, coffee, coal, and other mining products, with an export and import trade value of USD 293.061 billion (Sutrisno and Meirinaldi, 2020). Indonesia trade balance can be seen in the table below:

Table 3. Trade Balance Figures and Indonesia's Foreign Direct Investment Value

	2015	2016	2017	2018	2019
Trade Balance (USD Billions)	293.06	280.84	325.81	368.72	338.25
Direct Investment (Trillion Rupiah)	545.5	612.8	692.8	721.3	809.6

Source: Sutrisno and Meirinaldi, 2020

Related to the COVID-19 pandemic, Indonesia's economic growth in the second quarter of 2020 experienced a contraction - of 5.32%, and for economic recovery due to Covid 19, Indonesia has spent Rp. 695.2 trillion, consisting of Rp. 695.2 trillion for health recovery. 87.5 trillion, National Economic Recovery of Rp.807.7 trillion, and disbursement of grant funds for working capital of Ultra Micro and Micro business actors of 12 million people/business actors, each of which received a grant of Rp.2.4 million. Also, salary subsidies for employees whose salary is below IDR 5 million per month, with subsidies per person of IDR 600,000 per month for four months for 13.7 million employees. The economic stimulus aims to boost public demand/consumption, given that public consumption has decreased by around 5.3%. (Sutrisno and Meirinaldi, 2020)

This study will test whether the trade war between the US and China prompted the formation of the AUKUS Trilateral Pact in the Indo-Pacific, which could affect the flow of international trade between AUKUS member countries (Australia, the United Kingdom, and the United States) to Indonesia. "The trade war between America and China has been going on since 2018 under the leadership of US President Donald Trump. The trade war started because Trump was unhappy with his country's trade balance, which always recorded a deficit with China. For this reason, he chose protectionism to improve the US trade balance. Trump decided to increase import duties on solar panels and washing machines to 30 percent and 20 percent, respectively. Since then, January 22, 2018, to be precise, the trade war began" (CNN, 2020).

The following is the total development of international trade flows from AUKUS member countries (Australia, the United Kingdom, and the United States) and China, which can be seen in the table below.

Table 4. Total International Trade Value by Main Country to Indonesia
(in a million US\$), 2000-2020

No.	Year	Trading Value of US - Indonesia	Trading Value of UK - Indonesia	Trading Value of Australia - Indonesia	Trading Value of China - Indonesia
1.	2000	13 057.5	2 224,2	7 130.0	7 916,1
2.	2001	13 645.2	2 322.5	6 792.7	8 513.9
3.	2002	11 382.7	1944.5	7 415,7	9 229.5

4.	2003	11 428,4	1863.4	7 105.0	11 042.7
5.	2004	12 507.5	2 413,2	9 909,1	12 243,1
6.	2005	13 599.6	2 109,2	9 214.5	15 567.0
7.	2006	15 855.5	2 012.9	10 296,6	17 138,4
8.	2007	16 401.4	2 108,2	6 398.6	18 233,4
9.	2008	20 917,0	2 614.5	8 108.5	26 883.7
10.	2009	17 933.9	2 303,9	6 700.2	25 501.5
11.	2010	23 665.8	2 631.1	8 343,4	36 116,8
12.	2011	27 272,3	2 893.6	10 759.6	49 153,2
13.	2012	26 477,0	3 063.1	10 203.0	51 045.3
14.	2013	24 757,4	2 716,7	9 408.7	52 451.0
15.	2014	24 700,2	2 553,4	10 595.9	48 230,2
16.	2015	23 834.0	2 346.0	8 518,1	44 457,3
17.	2016	23 439,8	2 484,2	8 469.8	47 591,3
18.	2017	25 916,1	2 455.7	8 533,3	58 849,9
19.	2018	28 616.0	2 677,8	8 645,1	72 670,0
20.	2019	27 106,2	2 399.5	7 843.9	72 892.5
21.	2020	27 202,7	2 331.4	7 152,3	71 416,5

Source: <https://www.bps.go.id/indikator/8/336/3/neraca-perdagangan-beberapa-negara.html>

Following are the regression results from research data using panel data regression, which gives the following results:

Table 5. Panel Data Regression Results

Dependent Variable: TRADE?				
Method: Pooled Least Squares				
Date: 11/20/22 Time: 16:52				
Sample: 2000 2020				
Included observations: 21				
Cross-sections included: 3				
Total pool (balanced) observations: 63				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.901030	4.439446	1.329227	0.1894
POWERC?	-0.080642	0.017877	-4.510973	0.0000
POWER?	-0.161670	0.018017	-8.973309	0.0000
GDPC?	0.105430	0.424619	0.248293	0.8048
TRADEC?	0.433684	0.078963	5.492281	0.0000
MILITARY?	0.022283	0.039381	0.565814	0.5739
DUMMY?	-0.031542	0.047653	-0.661915	0.5108
Fixed Effects (Cross)				
_AUS--C	-1.351404			
_USA--C	3.434608			
_GBR--C	-2.083204			

Source; The results of data processing using Eviews Software, 2022

Tests are carried out using regression based on the general form of panel data with a *fixed effect* and avoiding the occurrence of a singular matrix which can cause a regression not to be generated. The *R square value* or the coefficient of determination from the results of panel data processing is 0.989083 or 98.91%, meaning that there is a model fit of 98.91%, where the independent variables can explain the change in the dependent variable by 98.91%. The variable explains the rest -Other variables not included in the model. Meanwhile, the *adjusted R-squared* is 0.987465. F-count obtained 611.5257 with a probability of 0.00000 (below the 1% significance level), meaning that it significantly rejects Ho. The point is that there is a linear relationship between the independent and dependent variables.

T-statistical and probability tests are used to test whether the partial regression coefficients differ individually concerning the dependent variable. From the t-statistic test, it can be seen that the independent variables in the model have a significant influence on the independent variable (total flow of international trade from each AUKUS member country to Indonesia). Based on the EVIEWS output results, it can be explained as follows:

Table 6. Panel Data Regression Results

Hypothesis	Variable	Coefficient	Probability	Significance	Results
Constant	<i>C</i>	5.901030	0.1894	10%	Do not reject Ho
<i>Ho 1</i>	<i>POWER</i>	-0.161670	0.0000	1%	Reject Ho
<i>Ho 2</i>	<i>POWERC</i>	-0.080642	0.0000	1%	Reject Ho
<i>Ho 3</i>	<i>GDPC</i>	0.105430	0.8048	10%	Do not reject Ho
<i>Ho 4</i>	<i>MILITARY</i>	0.022283	0.5739	10%	Do not reject Ho
<i>Ho 5</i>	<i>TRADEC</i>	0.433684	0.0000	1%	Reject Ho
<i>Ho 6</i>	<i>DUMMY</i>	-0.031542	0.5108	10%	Do not reject Ho

Source: Computer output results from data processing (2022)

Thus the independent variables that significantly influence the dependent variable (total international trade flow from each AUKUS member country to Indonesia) are:

- (1) The national power of each member country AUKUS (*POWER*), with a negative sign coefficient
- (2) National power from China (*POWERC*), with a negative sign coefficient
- (3) The total flow of international trade (export+import) from China to Indonesia (*TRADEC*) with a positive coefficient.

The variables that do not affect the total flow of international trade from each AUKUS member country to Indonesia are the Per Capita Growth Domestic Product (GDP) of each AUKUS member country (*GDPC*). Also, the difference between the military budget to GDP (*MILITARY*) of China with each of the member countries of AUKUS (Australia, United Kingdom, and the United States), as well as the occurrence of trade war conflicts between America and China and the situation in the Indo Pacific (*DUMMY*).

In general, from the regression results, it can be said that:

- The trade war conflicts do not affect the flow of international trade to Indonesia from countries involved in trade war conflicts and the situation in the Indo-Pacific.
- Differences in the defense budget of each AUKUS member country and China do not affect the flow of international trade to Indonesia from countries involved in the conflict. Even though, according to Figure 4-7, China's military spending has increased significantly, which was offset by America (the military race), which the United States has been pushing to increase again starting in 2017.
- Changes in the Growth Domestic Product (GDP) per capita of each AUKUS member country do not affect the flow of international Trade to Indonesia from each AUKUS member country (Australia, the United Kingdom, and the United States).

- China's National Power turned out to have a negative effect on the flow of international trade to Indonesia from each AUKUS member country (Australia, the United Kingdom, and the United States). It means that when there is an increase in national power from China, it does affect the decrease in the flow of international trade to Indonesia from each AUKUS member country.
- National Power from each AUKUS member country turned out to have a negative effect on the flow of international trade to Indonesia from each AUKUS member country. It shows that there is indeed a rivalry between AUKUS member countries (Australia, the United Kingdom, and the United States) and China. Towards an increase in China's national power, which causes a decrease in the national power of AUKUS member countries, even though the flow of international Trade to Indonesia from each country remains constant increase.

CONCLUSION

Indonesia's concern is related to the increasing competition for hegemony in the Indo-Pacific region between the United States and other AUKUS Trilateral member countries (Australia and the United Kingdom) and China, which could impact international trade. For this reason, this study was conducted to see whether Indonesia's international trade was indeed affected by conflicts between member countries of the AUKUS Trilateral Pact and China, respectively, due to trade wars and the situation in the Indo-Pacific.

The results of the panel data regression show that the trade war conflict between the United States and China, as well as the situation in the Indo-Pacific that occurred, has not affected the flow of international trade from each member of AUKUS to Indonesia. In addition, changes/differences in military spending between each AUKUS member country and China do not affect the flow of international trade to Indonesia from countries involved in the conflict (AUKUS), even though there is a possibility of a security dilemma in military spending competition.

However, China's increased national power has affected the flow of international trade to Indonesia from each AUKUS country. It proves a rivalry between AUKUS member countries and China regarding their national power. China continues to increase its national power, reducing the national power of other countries, especially the United States. Because the calculation of national power is based on the percentage of the global total, an increase in the national power of a country will provide the possibility of decreasing the national power of other countries.

This research has implications that the increasing national power of conflicting countries affects the trade flow to Indonesia from these conflicting countries. Thus, conflicts must be suppressed and avoided as much as possible so that international trade between

countries is not disrupted. Even though the AUKUS pact has been signed in the Indo-Pacific region, dialogue and diplomacy must still be carried out between countries in conflict so that international trade that has been taking place in the region so far has continued to run smoothly and increase.

This research has limitations because the period is from 2000 to 2020. Future research needs to review the impact of the period after the formation of the AUKUS Trilateral Pact, which was formed on September 15, 2021. So we cannot see the real impact of the formation of AUKUS. We can only observe the period of conflict leading to the formation of AUKUS. For this reason, it is necessary to increase the observation period after the formation of AUKUS and use other models to capture the effects of conflicts on the economies of countries in the Indo-Pacific region, especially Indonesia.

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