

The Belt and Road Initiative in Indonesia: Opportunities and Challenges
Septia Anes Dena

Introduction

In October 3, 2013, President Xi Jinping put forward the idea of "building a maritime Silk Road in twenty-first Century" or recently popularly known as The One Belt One Road Initiative ("OBOR"), and also labelled as Belt and Road ("B&R") or Belt and Road Initiative ("BRI") in Jakarta, Indonesia. This giant project is focusing on improving connectivity and cooperation among multiple countries. Over the past 5 years, China has signed the "one belt and one way" cooperation document with more than 150 countries and international organizations. A large number of cooperation projects have landed, which has effectively promoted the economic development and improvement of people's livelihood of all countries along the belt road.

The One Belt One Road Initiative ("OBOR") are consist of two kind of route trade, the first is land-based trade called *New Silk Road Economic Belt*. President Xi Jinping firstly release this initiative concept when he was visiting Kazakhstan in 2013. The land-based trade is covering area starting from Xian, capital of Shanxi Province in central China, country in central Asia, Russia, until Germany. The other route will connect southern China to Singapore across the ASEAN mainland and another route starting from Central Asia to West Asia. So, this land-based trade route will connect China with Central Asia, West Asia, the Middle East and Europe (Jetin, 2017). The other trade route is sea-based route called *21st Century Maritime Silk Road*. This sea route was developed as an effort to strengthen China's relations with South and Southeast Asia which focuses on maritime trade. This *21st Century Maritime Silk Road* connects important ports in China with the South China Sea, Mediterranean Sea, Indian Ocean, Africa and Europe (Sharma & Kundu, 2016).

Figure 1. The Belt and Road Map



Source: CNN Xinhua

After agreeing to join the OBOR project with China government, the two sides have actively docked development strategies, deepened cooperation in an all-round way and achieved fruitful results. Although Sino Indonesian cooperation under the "belt and road" framework faces many challenges and problems, the governments and enterprises of both countries are making active efforts to create a good atmosphere for the "one belt and one road" docking with the "global maritime project" and the economic cooperation between the two countries.

In the other hand, even this collaboration project between Indonesia and China achieved a good result, but it is also creating opportunities and challenge for Indonesia because it intersects with

Indonesia's national interest itself. In this paper, the writer will try to describe and analyse the opportunities and challenge that Indonesia get from the big project of the Belt and Road Initiative.

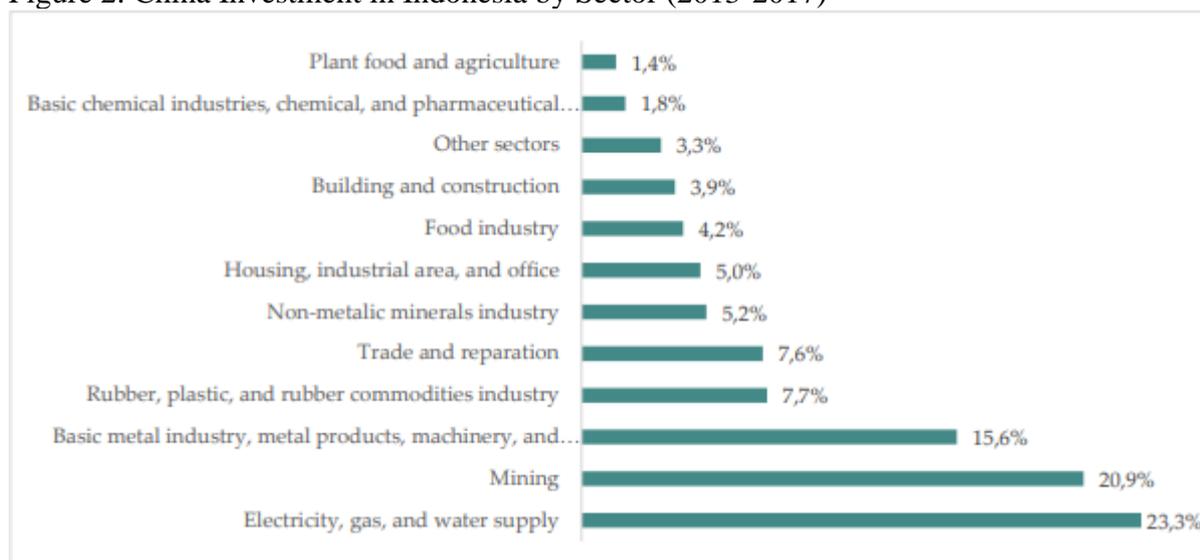
Analysis of The Current Situation of China Investment in Indonesia

Indonesia, known as the Thousand Islands Country, has abundant resources in its vast territory. The reserves of various mineral resources occupy an important position in the world, which has become an important basis for foreign businessmen, including China, to enter the field of natural resources development and utilization in Indonesia.

According to the Indonesian investment Coordination Committee, as of July 2016, China's cumulative non-financial direct investment in Indonesia exceeded US \$3 billion, it was 72% of China's total investment in Indonesia since 2010. The total investment of the whole industry has exceeded 8.8 billion US dollars, was 14.2% of the total investment of Chinese enterprises in ASEAN. Indonesia has become China's largest investment destination and the second largest engineering market in ASEAN. In addition, the Indonesian Investment Coordination Committee also pointed out that within three years, China has leapt from the 13th source country of Indonesia's foreign investment to the third place in 2018, after Singapore and Japan. In 2018, China invested about 4.4 billion US dollars in Indonesia, mainly in infrastructure construction, mining, manufacturing and electronic industries. This increasing amount of investment is also the good effect of The Belt and Road Initiative that Indonesia take.

The investment of Chinese enterprises in Indonesia was mainly concentrated in natural resources in the early stage, and after that the cheap labour and huge demand market became the business opportunities for Chinese enterprises to invest until now. Nowadays, China's investment in Indonesia has expanded to cover energy, mineral development, infrastructure (including electricity, dams, communications, ports, transportation, etc.), agriculture, fisheries, insurance and finance. From the total investment in 2013-2017, China invested the most in power, water and other projects was 23% of China's total investment in Indonesia, followed by metal mining and processing (21%). It can be seen that energy; metal industry and infrastructure are still the main areas for Chinese investment.

Figure 2: China Investment in Indonesia by Sector (2013-2017)



Source: BKPM

The Impact of The Belt and Road Initiative in Indonesia

Industrial transformation and technological upgrading

As a country whose capital, technology and industry are better than Indonesia in all respects, the technology spill over effect from Chinese investment will promote the technological innovation of Indonesian enterprises and the development of high-tech industrial technology industry, and accelerate

the upgrading of Indonesian industrial structure. At the same time, Chinese enterprises need to improve their own human resources structure, including Chinese and Indonesian employees, and Indonesian employees have lower labour costs than Chinese employees, so most Chinese enterprises are now engaged in training Indonesian employees, which helps to improve the overall level of the Indonesian labour market, making Indonesia produce more talent reserve with high comprehensive quality, good language talent and good education.

At the same time, many technologies in China are not available in Indonesia. However, in some industries, these technologies are indispensable. Therefore, when Chinese-funded enterprises enter Indonesia, these technologies will inevitably flow into Indonesia together with Chinese capital, which directly improves Indonesia's professional and technological level.

Employment Impact

The employment impact of China's direct investment in Indonesia includes two parts, direct and indirect. The direct impact is that many Chinese enterprises invest directly in establishing joint ventures or wholly-owned enterprises, increasing new production capacity and also increasing employment. Indirect impact refers to foreign direct investment, which promotes the development of related industries of the same type, and creating new jobs.

From the perspective of direct impact, there are two ways for Chinese capital to enter Indonesia: first, new enterprises, i.e. new enterprises in Indonesia; second, cross-border merger and acquisition, where Chinese enterprises acquire or directly merge existing enterprises in Indonesia. In these two ways, the former can directly promote the employment growth of the host country, because it is necessary to build factories when starting a new enterprise, which creates a large number of short-term employment opportunities. After the infrastructure is built, it requires a large number of workers and sales managers to put into formal production. For the cost calculation, employees will be localized, which will greatly enhance the employment growth in Indonesia.

The indirect impact means that Chinese capital indirectly creates employment opportunities through various chain relationships and multiplier effects with Indonesian enterprises. The industry-related effects, such as mining, electronics and many other industries of China's direct investment, have a wide range of forward and backward links, which can create employment opportunities for suppliers, sellers and service agents. Through the investment multiplier effect, China's investment can promote employment in other fields and enterprises, create new employment opportunities, and indirectly increase employment.

Infrastructure Development

Indonesia is a country whose economy and system of government are developing. To advance the country's economy, one of the main factors that can support an improvement in the economic system is the infrastructure sector, because with a good infrastructure will develop a new activities and project that can stimulate economic growth and also can increasing capital inflow and employment opportunity. Unfortunately, Indonesia's infrastructure is still far from being developed, or in other words, it is still very improper. There are many problems that hamper the progress of Indonesia's infrastructure, one of the main problems is financing and funding in infrastructure project, whether it comes from foreign capital or domestic capital.

With the offer from the Chinese government to Indonesia to participate in the large OBOR project, which was very positively welcomed by Indonesia, according to the objectives of the OBOR project to focus on increasing the connectivity and cooperation of participating countries, China and Indonesia made a collaboration bilateral funding for infrastructure development in Indonesia.

In this The Belt and Road Initiative investment project, the government has proposed some infrastructure project. The infrastructure investment project includes MRT East-West Line, a 100 km

project rail line. This line will connect three provinces, in example, Banten, Jakarta and West Java. Another project is Sulawesi Railway that will connect South Sulawesi and North Sulawesi with 1,513 km long railway. In addition, there is also a tourism project in Manado, North Sulawesi. The other big infrastructure project that China already invest is Jakarta-Bandung High-Speed Rail project. It is a joint venture between Indonesian and Chinese state-owned enterprises. The investment agreement was signed when The Belt and Road Initiative summit was held at May 2017 in Beijing. This project scheduled to be finish in 2019 but need to be delayed because the land acquisition problem.

The Issues of The Belt and Road Initiative in Indonesia

The trade balance between the two countries has changed with the deepening of economic cooperation between the two countries. At first, the trade between the two countries was small, and Indonesia was in a surplus position in bilateral trade. But, as the closer economic and trade cooperation and exchanges between the two countries, China has gradually "turned its adversity into a chance". In 2006, Indonesia's trade surplus with China was \$1.7 billion, compared with \$1.1 billion in 2007. However, for the first time since 2008, Indonesia has a trade deficit with the two countries, and the deficit has gradually expanded, reaching US\$3.6 billion in 2008, US\$4.8 billion in 2010, US\$13.118 billion in 2014, US\$14.365 billion in 2015 and US\$20.08 billion in 2018. With the gradual expansion of the trade deficit, the growing dissatisfaction of Indonesians, and re-examining the trade relations between the two countries, and even questioning the role of free trade agreements, a lot of Indonesian citizens worry that the expansion of the trade deficit with China will affect national economic security. After a large number of Chinese goods entered the Indonesian market, it also caused anxiety in many people in Indonesia, especially some business group.

The other issues that need to be concern is the increasing of Chinese worker that come and work in Indonesia. At first, China enterprises who build some factory in Indonesia, based on lower cost productivity calculation, plan to just employ Indonesia worker, but China government also facing a redundant workers problem. So, they don't have any other way instead of sending their worker overseas to decrease the unemployed crisis in their country. Meanwhile, Indonesia also still struggling from create more and more job for Indonesia worker. With the increasing amount of China worker who come to Indonesia, it is make our Indonesia workers have less chance to get a job.

The last but not least issues that also worth to discuss is about the creditworthiness of the China company that want to put some investment in Indonesia. By analysing from the past investment project with the China company, some of them facing a several problems. Among of them are, the funding company have some problems with the bank that made the investment flow had been delayed, and so as the project development, it needs to be postponed from the construction. The bank suddenly wants to stop the funding and blaming the global economic crisis for that, in the same time, they want to increase the interest from the loan that already chases in and also the loan that frozen. Some joint-venture company also facing problem about the quality of the technologies that China company bring to Indonesia. Several power plants were having serious problems during the dry run period (Jakarta Post, 11 April 2012) and took several months to fix them. In some cases, such as a coal power plant in Labuan Angin, North Sumatra, the problems happened frequently and had resulted in postponement of the opening ceremony. In this case, its not just talked about the quality problem, but also the vintage of the technologies that bringing the bad effect to the environment.

Conclusion

China's relations with Indonesia are healthy and stable, and China has great opportunities for investment in Indonesia. From the perspective of Indonesia, to achieve the goal of domestic economic transformation, it is necessary for Indonesia to have an investment from foreign enterprises. China-owned enterprises, with their advantages of capital, technology and experience, will boost the development of Indonesia. From China's perspective, The Belt and Road project will surely lead and accelerate the pace of "going out" of Chinese enterprises. Indonesia is rich in natural resources, huge

market and important geographical location and other advantages. It can become an important reason for Chinese enterprises to expand overseas markets. To sum up, the two countries are strategically compatible and mutually reinforcing, and they will surely need each other and complement each other's strengths. Investment cooperation between the two countries has a broad prospects and great potential. However, we should also see that Chinese enterprises need to deal with all kinds of challenges in the process of investing in Indonesia. At the same time, there are still many problems in the process of Chinese enterprises' investment and operation in Indonesia. With the impetus of "One Belt and One Road", a new round of interconnection and interflow leads to a large number of funds flowing into Indonesia through foreign investment, and then will enter a more stable and saturated development period for Indonesia.

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