

## **CHAPTER II**

### **THE DEVELOPMENT OF CHINESE INVESTMENT IN INDONESIA**

#### **A. Introduction**

China knows that Southeast Asia or known as ASEAN is one of the strategic regions to expand their markets. China has an interest and ambition to expand their business and market there especially in Indonesia, as a country that has the largest market in Southeast Asia. This is supported by the interests of Indonesia who also want to open a significant investment and open for a foreign company to come to Indonesia. The reason is that Indonesia needs much income for improving the country's infrastructure. Therefore, the two interests of this country are the same where China wants to enter the ASEAN and Indonesian markets while Indonesia also has a desire to open a significant investment.

This chapter will discuss the development of Chinese investment in Indonesia and consist of four following sub-chapters. The first sub-chapters will discuss the Chinese Investment in South East Asia. The next sub-chapter will explain Chinese Investment in Indonesia, then continue to Chinese Strategies in Indonesia. Finally, all the chapter will be summarized in conclusions.

#### **B. Chinese Investments in South East Asia**

Association of Southeast Asian Nations or ASEAN is increasing its existence as the axis of the world economy. With around 6.2% of world GDP in this region (Kurniawan, 2017). ASEAN is required to accelerate integration in order to become a new economic power. Nevertheless, ASEAN still cannot extricate from China which grew as one of the most significant economic power in the world. China is aggressive in seeking international partners, and ASEAN was chosen because in addition to having a large captive market which is around 630 million

of the world's population resides in ASEAN, also countries in this region do not spawn particular political policies that weaken China's ambitions.

China and ASEAN have a complicated relationship. It can be said that there are a mutualism and dependency relationship between the two, where ASEAN needs China to boost its economic progress. Likewise for China, ASEAN as a supporter of China's economy and politics. Historically, China began a bilateral partnership with ASEAN in 1991, when invited as a guest at the ASEAN Summit in Kuala Lumpur. China-ASEAN relations have finally developed rapidly from being limited to the foreign political agenda and changed to being economically charged (Chinadaily, 2011). China was the first significant force to recognize ASEAN's centrality, which demanded that China enter as a party outside ASEAN which ratified the Treaty of Amity and Cooperation in 2003. This agreement emphasizes that "There will be no use of threats or violence in resolving problems between countries." Furthermore, in 2010, the ASEAN-China Free Trade Area (ACFTA) initiative was built, indicating that China and Southeast Asia are ready to provide preferential treatment in three sectors: goods, services and investment with the aim of spurring the formation of a free trade area. "This agreement is the biggest agreement in the world, between big countries and developing countries," said H.E Jiang Qin, Chargé d'Affaires to Chinese mission to ASEAN Minister Counselor when opening the China Session panel at the 3rd ASEAN Marketing Summit at Raffles Hotel Jakarta (Shekhawat, 2017).

China's trade volume to ASEAN, according to Jiang Qin (Shekhawat, 2017), reached US \$552 billion in 2016, a 56-fold increase from the first cooperation in 1991. The number made China-ASEAN trade relations the third largest in the world. "Even so, with the total direct investment of Chinese companies to ASEAN whose value during January-June 2017 reached the US \$ 696.2 billion,"

he explained. Although China's relations with ASEAN have been running since 26 years ago, the investment of that giant country is still not evenly distributed because Chinese investment is more dominant in Singapore, compared to other regional countries (Shekhawat, 2017).

China is in dire need of ASEAN. China needs ASEAN not only on trade affairs but also to gain ASEAN political support for China's foreign policy. In addition to the South China Sea dispute that dragged the Philippines, China, and Japan, it also involved the One Belt silk road project, One Road initiated by the Chinese Government starting in 2013. In 2013, Chinese President Xi Jinping announced the idea of One Belt One Road (OBOR). OBOR is the initiation of China's geopolitical strategy with the use of world transportation routes as trade routes spread across the Eurasian region. The vision of OBOR is to improve the welfare and realization of China's modernization in 2020 by increasing trade intensity by providing infrastructure facilities, both land, and sea, which are adequate throughout the targeted area. There are 5 (five) main objectives of OBOR, namely policy coordination; facility connectivity; free trade; financial integration, and; a bond between people.

There are two main components in OBOR, namely land and sea transportation. Land transportation is supported by the Belt of the Economic Silk Road (Silk Road Economic Belt), while the Maritime Silk Road (MSR) serves as a supporter of sea transportation (TheGuardian, 2018). To fulfill this regional strategy, China has mobilized various bilateral cooperation with each targeted country. One of the silk line projects is the construction of a 12,000-kilometer logistics railway from Yiwu City, China, to London, England. The shipping route from China to Europe via trains is considered more effective in terms of cost and time than through the fleet or air. Not only land routes, but the project also designs maritime routes that will pass through three ASEAN

countries, including Vietnam, Malaysia, and Indonesia. From ASEAN, this route will deliver China to India, East Africa, North Africa and continue to Italy. "One Belt, One Road is the initiative of Chinese President Xi Jinping which aims to remove trade barriers to reduce trade and investment costs," he said. Jiang Qin revealed projects worth more than hundreds of trillions of US dollars would help accelerate the economic and infrastructure of developing countries through the route, including Indonesia. "This also opens up new trade opportunities because the trade supply chain is organized" (Shekhawat, 2017)

The reasons listed above is what makes China even more confident to invest in the Southeast Asian region, primarily by increasing bilateral relations with the countries exist there specifically in Indonesia. Indonesia as the largest country in Southeast Asia has enough economic power to make China interested in investing in it. Moreover, with good relations between the two, make the bonds stronger.

### **C. Chinese Investment in Indonesia**

In 2019, China's relationship with Indonesia has reached 69 years. Relations between Indonesia and the People's Republic of China have passed the ups and downs in terms of social and political dynamics that have occurred in both countries. History records that President of the Republic of Indonesia gave an invitation to the Chinese Prime Minister Zhou Enlai in the 1955 Asia Africa Conference which later producing the Ten Principles of Bandung, the history of relations between China and Indonesia began at that time. Relations between Indonesia and China have also reached the lowest point marked by the freezing of diplomatic relations in 1967. This relationship reached a turning point with the normalization of relations on August 8, 1990, through the signing of the MoU on the Resumption of Diplomatic

Relations by Indonesian Foreign Minister Ali Alatas and Foreign Minister Qian Qichen in Jakarta. With the normalization, Indonesia and China entered a new stage in bilateral cooperation which was marked among others by visiting government officials (KEMLU, 2010).

Bilateral relations between the two countries increased with the signing of the Declaration of the RI-PRC Strategic Partnership in Jakarta on April 25, 2005. In the Declaration, the two countries underlined a strong commitment to promoting cooperation in various fields. On January 21, 2010, the two countries also signed the Plan of Action (PoA) Declaration of the RI-PRC Strategic Partnership which will become a roadmap and reference for the implementation of the two countries' Strategic Partnerships (KBRI, 2010). Collaboration in the fields of economics, infrastructure, science, and technology has expanded widely. In the context of economic cooperation, the value of two-way trade transactions has increased significantly from year to year, as reflected in the success of the two countries reaching the set trade targets. At the level of regional and multilateral cooperation, Indonesia and China also have very close cooperation. China has officially become an ASEAN dialogue partner since 1996 and acceded to ASEAN Treaty of Amity and Cooperation in 2003. Indonesia and China also collaborate closely in the APEC and G-20 framework (Yi, 2018).

Refer to the history of relations between Indonesia and China and all the cooperation that has been agreed by both countries, from cooperation in the fields of economy, investment, technology, and others. Now Indonesia and China are changing becoming more advanced countries. Besides, China is now a country with the second economic power compete with the United States. China was once known as a country of imitators because of its many imitations of other state-owned works, especially in the technology and automotive markets. However, along with the development of the era, now besides being a developed

country, China is also known to have become an investor country. The country invests in everything, from industry to technology. The next step taken by China after developing rapidly and becoming a developed country is Expansion. Southeast Asia has become the primary target for Chinese investors. Among the countries in Southeast Asia, Indonesia has become a special attraction for China to invest and open their companies in Indonesia. Therefore, what is the reason for China choosing Indonesia as one of the countries they are aiming for? One of the reasons that make a strong relationship between China and Indonesia thus making these two countries enjoy investing together is the similarity of policies between the two. Indonesia and China have policies that intersect with each other, and China has a policy of Belt and Road initiative or BRI and Maritime Silk Road. At the same time, Indonesia has a world maritime axis with both having similarities, namely in the maritime field. Seeing that opportunity also made Indonesia send proposals to China for a development and investment cooperation for North Sumatra, North Sulawesi, North Kalimantan and Bali (Laucereno, China Gelontorkan Rp 21 Triliun Bangun Industri di Sulawesi, 2017).

Apart from these basic things, there are also reasons why China wants to invest in Indonesia. Many reasons why China want to invest in Indonesia,

1. A massive population in Indonesia, the current business and technology climate in Indonesia is similar to China 10 years ago. So that it is possible for Indonesia to turn later out to be a developed country just like China (Li, 2017).
2. The second reason is, many new companies are still in the development and research phase to find the right market, or commonly it called a Startup (Marikxon, 2017). A lot of unique, vibrant and varied startup exist in Indonesia. Seeing this golden opportunity makes

- China rise and increasingly active in investing in Indonesia by provoking start-ups in Indonesia to grow.
3. The third reason is that the Indonesian population tends to be a type of "mobile-first" society where people are ahead of what is on their mobile first. The fact that 70 percent of Indonesia's internet flow comes from mobile devices. Afterwards, the next reason is that the spinning capital in the digital industry in Indonesia is still relatively small so that Chinese investors see this chance as a golden opportunity to invest in Indonesia as the Indonesian government also very open with foreign investors by preparing some regulations and initiatives before they come inside the country (Mustofa, 2017).
  4. The last reason would be, China believes in investing in Indonesia, which is caused by "ease of doing business" in Indonesia, continues to increase. In 2013 ease of doing business Indonesia ranked 129th, in 2018 Indonesia's ranking rose 56 and now in a 73rd position (DoingBusiness, 2017). Afterward, the world Sovereign Credit Rating agency assesses Indonesia as a country with investment objectives with a stable and positive status. This increasingly makes investors believe especially foreign investors to open their businesses in Indonesia.

*Table 2.1 Sovereign Credit Rating for Indonesia. (Source: (Investments, 2018) )*

<b>NO</b>	<b>Rating Agency</b>	<b>Ratings</b>
1	Moodys	BAA2
2	Standard and Poor's Global Ratings	BBB
3	Japan Credit Rating	BBB
4	Rating and Investment Information	BBB <sup>-</sup>
5	Fitch Ratings	BBB

The following data is based on Sovereign Credit Rating for Indonesia. Sovereign Credit Rating, namely the credit rating of a country or sovereign entity. Sovereign credit ratings provide a view for investors to see the level of risk associated with investing in a particular country (Chen, 2017). Based on data, Japan Credit Rating and Investment Information have changed Indonesia's rating from BBB- (positive outlook) to BBB or stable outlook (JCR, 2018). Whereas in December 2017, Fitch Ratings were also upgraded upgrading Indonesia's foreign-long-term and local currency issuers default ratings to BBB (stable outlook), from BBB-previously (Investments, 2018). Furthermore, Indonesia is in a positive or stable position to invest. This has made many foreign investors from China increasingly brave to invest in Indonesia.

China has seen Indonesia as one of the strategic partners and countries that are suitable for investing in China. As stated by Wang Fan, vice president of China Foreign Affairs University in an interview with Kompas, he argued, "I think China think of Indonesia as one of the important countries in Southeast Asia. I think we already have much cooperation that is made of a good foundation for our future" (KOMPAS, 2017)

Aside from being seen from the Chinese side, Indonesia also has a great advantage in having good relations with China. Indonesia is comfortable by investing in that large country. As said by the Indonesian ambassador to China, Soegeng Rahardso, in an interview with Kompas, he argued, "China, one of the countries that developed cooperation, did not want to interfere in the internal affairs of each country, so far China tried to cooperate directly about things that are productive and not at all willing to cooperate in ideological fields and all kinds (KOMPAS, 2017). Based on the National Medium-term development plan for 2015-2019, Indonesia's infrastructure development requires and investments of US \$ 389 billion or equal to Rp 4,769 trillion (Bappenas,



2017). While the need for such a large budget to build infrastructure the Indonesian government can only budget around 40 percent and the remaining 60 percent of it, is taken from state-owned companies and also private investors. That is why Indonesia needs investment not only from within the country but also from overseas specifically with China.

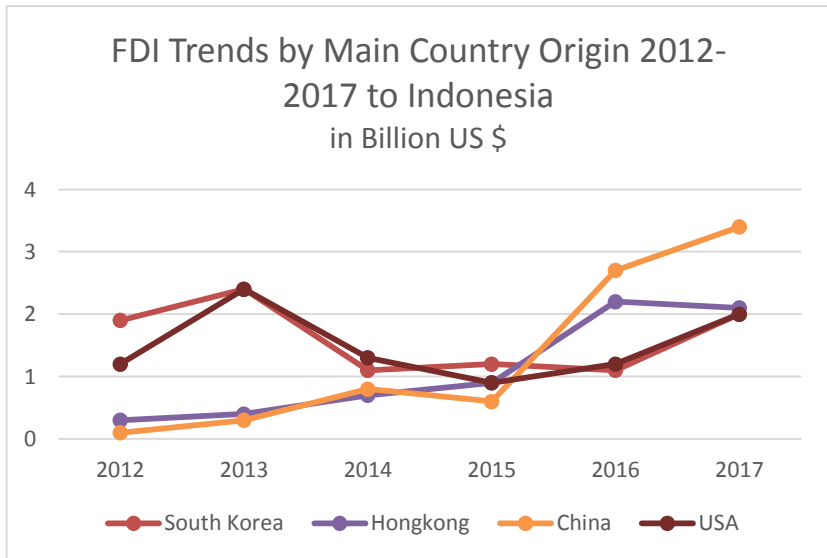
The increase in investment and consistency between China's economic relations with Indonesia looks quite significantly from year to year. Director of Regional Promotion Facilitation of the Investment Coordinating Board (BKPM) Husen Maulana said investment from China indeed continues to increase rapidly. In 2013, Chinese investment amounted to only 297 million US dollars and ranked it as the 12th most invested country in Indonesia. Then, in 2015, Chinese investment rose to ninth with a value of 628 million US dollars (Himawan, 2018).

Afterward, in 2016 cooperation between Indonesia and China was increasingly tightened, proven by the many projects carried out by the two countries. The first phase is the Cisumdawu toll road project, then the second is in Medan, Deli Serdang, Bukit Tinggi toll road, the third is in alco aluminum smelter located in North Sumatra, and also Jakarta-Bandung fast train project. Loans from China funded the four massive infrastructure and industrial projects. China began to push forward the Indonesian investment world. There was a jump of 291 percent in the form of Foreign Direct Investment from 600 million US dollars to 1.6 billion US dollars from 2015 to 2016 (Ariadi, 2017).

Entering 2017 China's investment in Indonesia has increased again by 27 percent, the country's investment has reached 3.36 billion US dollars and ranked as the third largest country that invests the most in Indonesia after Singapore and Japan "Last year China's investment here grew 27 percent. I think this momentum will continue even to the following years," said Minister of Economic

and Trade Minister of the Chinese Embassy to Indonesia Wang Liping in Jakarta (PERPIT, 2018). Based on BKPM data regarding investment realization in the second quarter of 2017, China was in third place after Singapore and Japan as the biggest investors who invested their capital in Indonesia with the realization of investments worth USD1,355.66 million and the number had around 763 projects in Indonesia (BKPM-A, 2018). China's strategy in dominating Indonesia also proved successful, according to data from UNCTAD China ranked first in the "Top 5 Partners in 2017" in the export sector, followed by the United States in second place, then Japan ranked third, then India and Singapore (UNCTADSTAT, 2018).

China's state investment in Indonesia has increased significantly over the past three years. According to The Indonesian Investment Coordinating Board (BKPM) data Based FDI trends by Main Country of Origin, in 2016 Chinese investment in Indonesia rose by five ranks compared to the previous year which was ranked as the third largest country investing in Indonesia (BKPM-A, 2018). Furthermore, in 2017 it dropped to fourth place, and in 2018 China again believed in their relationship with Indonesia and rose to become the number two largest country number investing in Indonesia (MOFCOM, 2018).



*Figure 2.1 FDI Trends by Main Country Origin 2012-2017 to Indonesia (Source: (BKPM-A, 2018) )*

The following is data from The Indonesian Investment Coordinating Board (BKPM) which shows the growth of Foreign Direct Investment or FDI Trends by Main Country Origin from 2012-2017 (BKPM-A, 2018). It can be seen China's growth in the yellow line. Although China's investment in 2012 until 2015 is calculated to be low compared to South Korea, Hong Kong, and the USA. However, in the past three years, Chinese investment has proliferated. This shows the seriousness of the two countries to cooperate in the economic field.

#### **D. Chinese Strategies in Indonesia**

There is a strategy to maintain good relations between Indonesia and China and increase the economic cooperation that has been established in both countries. The Indonesian and Chinese governments make a

Memorandum of Understanding in 2010 (KEMENLU, 2010). On January 22, 2010, located in the Sunda Kelapa Room, the Indonesian Ministry of Foreign Affairs the signing of the MoU on Grant Assistance in Relation to Economic and Technical Cooperation worth RMB 20 Million (20 Million Yuan Renmimbi) from the Government of the People's Republic of China to the Government of the Republic of Indonesia. In addition, on the same occasion, a draft of the Exchange of Letters on the Holding of 2 (two) workshops in China for Indonesian Officials using the Government of the People's Republic of China was also signed. The signing of the two texts was carried out by the Director General of Asia Pacific and Africa, the Indonesian Ministry of Foreign Affairs, T.M Hamzah Thayeb and Deputy Minister of Trade of the PRC, H.E. Chen Jian represents the respective government. The state visit was scheduled as an essential visit to the state, considering that China is one of the countries that have a high potential for cooperation that can increase the economy of Indonesia and Asia. President Jokowi's visit to China, to declare an agreement between Indonesia and China regarding the agreement between the two countries to announce a joint statement on the relations of cooperation between the two countries towards mutually beneficial.

There are eight signed MoUs, namely:

1. Memorandum of Understanding on economic cooperation between the Indonesian Ministry of Economic Affairs and the Chinese National Reform and Development Commission,
2. Memorandum of Understanding on the cooperation between the Jakarta-Bandung Rapid Railroad Construction Project between the Ministry of BUMN and the China National Development and Reform Commission.

3. Memorandum of Understanding on maritime and SAR cooperation between the Basarnas and the Chinese Ministry of Transportation.
4. Cooperation between the Agreement Protocol between the Government of the People's Republic of China and the Republic of Indonesia in preventing the double taxation of the two countries.
5. 2015-2020 Space Cooperation Framework between Lapan and the China Space Agency.
6. The agreement on cooperation between the Ministry of SOEs and the China Development Bank.
7. Memorandum of understanding between the government of the Republic of China and the Republic of Indonesia in preventing the double taxation of the two countries
8. Memorandum of Understanding on industrial and infrastructure cooperation between the Ministry of BUMN and the Chinese National Reform and Development Commission (KEMENLU, 2010).

The MoU aims to strengthen relations between the two countries, but also provide plans in the form of investments for China and Indonesia in the future. In addition to the MoU, the form of strategy is carried out, namely through policies made by the two countries.

China's interest in conquering ASEAN is very evident from their ambitions to approach ASEAN countries. China is very understanding. It takes extra effort to be able to soften the attitude of countries in ASEAN to be able to be in line with its interests in the South China Sea. For this matter, one of the instruments used by China is through the commitment of investment funds. The China OBOR agenda is a way for China to draw closer to ASEAN countries that have contact with them in the South China Sea, such as Vietnam, the Philippines, Malaysia, including Indonesia.

China's seriousness in investing in Indonesia can also be proven by the increasing investment made by

China in the past three years. One of China's strategies for investing in Indonesia is through Multinational Corporations that they have and spread throughout Indonesia. Here are the examples of China's big company and MNC that exist in Indonesia;

1. State Development & Investment Corporation (SDIC), established in 2009, is a leading fund management *company* focusing on private equity investment in *Chin* (SDIC, 2017).
2. China Fortune Land Development (CFLD), is a publicly traded Chinese real estate developer, based in Beijing.
3. HUAWEI is a Chinese multinational conglomerate which specializes in telecommunications equipment, consumer electronics, and technology-based services and products, headquartered in Shenzhen, Guangdong (Huawei, 2017).
4. XIAOMI, *Xiaomi Corporation* is a Chinese electronics *company* headquartered in Beijing (Mi, 2018).
5. VIVO, *Vivo Communication Technology Co. Ltd* is a Chinese technology *company* owned by BBK Electronics that makes smartphones, smartphone accessories, software, and online services (VIVO, 2018).

One of the fastest growing Chinese MNCs in Indonesia is Xiaomi. Although Xiaomi is MNC's of China that just entered Indonesia, Xiaomi is a Chinese company that developed very quickly in a short time.

Meanwhile, from the side of the Indonesian state, there were also Indonesian efforts involved. Indonesia's efforts to facilitate the inflow of foreign investment are also supported through the establishment of an economic policy package. In the number two economic policy package issued by President Jokowi, the government focuses on increasing foreign investment by facilitating investment permits. The contents of the number two

economic policy package are ease of licensing, faster tax allowance and tax holidays, the absence of VAT charges for transportation equipment, incentive facilities in bonded logistics centers, incentives to reduce deposit interest taxes and downsizing forestry sector permits (Humas, 2018).

## **E. Conclusion**

This chapter has explained the development of Chinese investment in Indonesia. As explained earlier, starting from China's ambitions to expand its trade in Southeast Asia and Indonesia as an important country for China, this is indicated by an increasing trend to maintain an increasing trend, China is implementing the OBOR strategy, namely by offering assistance in the form of investment, one of the essential strategies is to encourage foreign companies. To see the company's case the next chapter will discuss Xiaomi.