China's "Belt and Road" and Indonesia: Challenges and Opportunities

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Abstract:
Lately Indonesia and China are in a good relationship. At the same time, China launched the Belt and Road Initiative which is another form of ancient Silk Road. China's "Belt and Road" initiative is a significant foreign policy and economic strategy. During the Silk Road era, Indonesia had an important role as a 'spice island'. So in line with the Belt and Road Initiative, China expects Indonesia to take part in this initiative. However, the good relationships between these two countries are not enough to predict the path of this initiative. Therefore this paper aims to discuss the Challenges and opportunities for Indonesia in the Belt and Road Initiative. The analysis finds that, while the project offers enormous benefits for Indonesia, there are also problems that must be addressed. This study delves into the possible consequences of the "Belt and Road" plan for Indonesia and highlights areas where the country might profit from it.

Keywords: The Belt and Road Initiative, Indonesia, Challenges, Opportunities
Introduction

During his visit to Kazakhstan and Indonesia at the end of 2013, Chinese President Xi Jinping announced one of China’s most ambitious plans, The Belt and Road Initiative (BRI) (Huang, 2016). It is arguably one of the largest development plans in modern history, in which China itself would invest US $40 billion in the Silk Road Infrastructure Fund. According to the Chinese government, The Belt and Road Initiative is a "systematic project, which should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the Belt and Road (Wolff, 2016)." As we can see, The Belt and Road Initiatives are one of the strategies for the Chinese government to cooperate with neighboring countries based on open regional cooperation and seek mutual benefit.

The Belt and Road Initiative consists of the Silk Road Economic Belt and the Twenty-First-Century Maritime. The project will cover a population of approximately 4.4 billion; that Road includes four main routes: the New Eurasia Land Bridge Economic Belt to the northwest, the Sino-Mongolian Economic Belt to the northeast, the China-South-West Asia Economic Belt to the southwest, and the Maritime Silk Road Economic Belt to the south. According to CBBC, the economic aggregate of BRI is approximately US$ 21 trillion, or 63% and 29% of the world total (Lovina et al., 2017). In his speech at the 2015 Belt and Road summit, Xi mentioned that China has signed agreements related to the 'Belt and Road' with 68 countries and international organizations (Leng, 2018).

Xi Jinping first proposed the Maritime Silk Road initiative during a speech to the Indonesian Parliament in October 2013. The ideas are mainly based on Admiral Zheng He’s voyages before China closed itself from sea trade. It stretched from Guangzhou, the South China Sea, Malacca Straits, Java, Sumatra (Indonesia), India until Africa. Because of its geographical position, Indonesia plays an important role in the Maritime Silk Road (Panennungi, 2015).
The map of "One Belt One Road" (Xinhua version)

Indonesia is an important country for China to realize its dream. However, there is much controversy in Indonesia regarding this program. Although it is undeniable that this program will benefit Indonesia, the fear of foreign products and foreign workers' invasion has become one of Indonesia's doubts about accepting this program. It also considers that the prospect of increasing economic growth through this program is tremendous if it runs well. Therefore, this paper tries to find out more about the challenges and opportunities for Indonesia. This paper can then be used as a consideration for the governments of Indonesia and China in developing their policy toward this program.

The Motive and Implications of the BRI

Since President Xi Jinxing announced the initiative to promote economic engagement and investment, known as The Belt and Road Initiative (BRI), in 2013, numerous studies and reports have attempted to explain the motive and implication of this initiative. Christopher Len wrote one of the earliest studies concerning this initiative in 2015. He focused his study on the 21st Century Maritime Silk Road initiative. He believes that China's efforts to make this initiative "work will be hampered by strategic distrust and political risks facing China in the Asian region" (Len, 2015). Nevertheless, while his argument assesses
future challenges China might face, it is still less helpful in explaining the Belt and Road Initiative in depth.

Later, a study released by Peterson Institute for International Economics explains the motives, scope, and challenges of China’s Belt and Road Initiative. The authors revealed that the initiative presents both opportunities and risks for China’s neighbors and the rest of the world. The author highlights the importance of institutional reforms and policies within China and in countries where the projects are located. In the end, the author assesses how the initiative may affect the former Soviet Bloc countries and concludes that the success of BRI in those countries depends on China’s efforts to blend its goals with those of the governments there (Djankov & Miner, 2016).

Huang Yiping also wrote a similar argument on Understanding China’s Belt & Road Initiative: Motivation, framework, and assessment. However, He offers different ideas about the challenges that this initiative will face. He believes the problem lies in the insufficient mechanism coordination, so they relied heavily on bilateral coordination, which generates flexibility but sacrifices consistency. He also mentions that there will be "risks of clashes of political values across countries," making implementing the Initiatives harder. This essay enriches the knowledge of the challenges faced by BRI (Huang, 2016).

Still discussing the motives and challenges of BRI, Peter Cai, in his writing Understanding China’s Belt and Road Initiative, specifically discusses the motives and challenges in the economic field. He argues that the main motive of BRI is upgrading China’s manufacturing capabilities. He also discusses the challenges from the economic aspect of BRI. For example, two-thirds of BRI countries have a sovereign credit rating below investable grade, and the problem with over-leveraged and risk-averse Chinese financers. His writing was critical because he gave a specific analysis regarding the economic aspect of BRI (Cai, 2017).

Furthermore, the report from the Economist describes the prospects and challenges faced by countries that may participate in this initiative. The report measured it through risk assessment. They classify countries that are not at risk to the most at risk. The risk is seen from 9 areas: Infrastructure risk, Labor market risk, Tax policy risk, Financial risk, Foreign trade & payments risk,
Macroeconomic risk, Legal & regulatory risk, Government effectiveness risk, and Political stability risk. This report provides a detailed description of the challenges facing the country so that the risk assessment that has been made will help to see which countries are most at risk and not at risk in implementing BRI. Other writings on similar topics are discussed in general. This paper has more value in viewing challenges and opportunities per country (The Economist Intelligent Units, 2015).

Peter Wolff wrote a report titled China’s 'Belt and Road' Initiative - Challenges and Opportunities. He specifies the BRI’s discussion only for the Asian region. According to him, a major issue is the limits to finance for infrastructure projects in foreign currencies for the scaling-up of finance for infrastructure as well as for industrial projects. Another issue is the high development costs for projects. However, he also mentions the opportunities that will come: the large infrastructure investment envisaged in the Belt and Road. "The vast amounts of money needed will inject fresh momentum for capital market development in Asia, contributing to the intermediation of the considerable regional savings into investments in Asia (Wolff, 2016)."

Alvin Cheng-Hin Lim on China’s "Belt and Road" And Southeast Asia: Challenges and Prospects explains the stand of each Southeast Asia country to BRI. He generally explains the positive or negative response to Southeast Asia countries. To see each country’s relationship with China, this paper shows the cooperation that has or will be established between China and the Asian countries. Of course, this paper is essential because Indonesia became one of the countries in the discussion of this paper (Lim, 2015). Further, Hermaputi Roosmayri Lovina, Gong Jiajia, and Hua Chen wrote a specific paper about Indonesia. This paper explains the impact of Chinese investment and BRI on port city development in Indonesia. This paper includes BRI’s obstacles and opportunities in the Indonesian port city development. However, this paper only discusses the impact of BRI only on Indonesian port city development but not Indonesia as a country (Lovina, et al., 2017).

Previous writings explain BRI implementation’s scope, motive, challenges, and opportunities. However, the articles above do not specifically explain the implementation of BRI in Indonesia. Thus, this paper aims to explain
the challenges and opportunities of BRI in Indonesia. However, the articles above are essential to provide understanding to the author in finding obstacles and prospects for implementing BRI in Indonesia.

**China and Indonesia Relations**

Relations between China and Indonesia were not constantly smooth; there were ups and downs. The relationship between the two was at its lowest point under the reign of Indonesia’s second President, Suharto. Under the Suharto regime (1966-1998), the relationship between China and Indonesia worsened and was filled with distrust. Jakarta cut diplomatic relations as well as direct trading links with China. Nonetheless, after 23 years of being ‘frozen,’ the China-Indonesia relationship normalized in 1990 (Suryadinata, 1990). Nonetheless, their connection did not instantly transform into a bilateral partnership.

Significant development occurred following Suharto’s downfall in 1998. Cooperation begins to develop as the two countries' relationships strengthen. As the relationship develops, both parties recognize that it is not only Indonesia that requires China for trade and financial assistance, but China also needs Indonesia. The Malacca, Sunda, and Lombok Straits run through Indonesia and are among the world’s most vital waterways. Because eighty percent of China’s oil imports transit via the Malacca straits, these sea lines are critical for China’s energy security, trade, and strategic flexibility (Denmark, 2010). Indonesia also supplies vital natural resources to China, including palm oil, coal, and liquefied natural gas. Since ASEAN is China’s fourth largest commercial partner, Indonesia was also essential to China’s economic integration with Southeast Asian states (Nabbs-Keller, 2011).

During the 1998 uprising in Indonesia, China maintained its nonintervention policy and did little to quell the conflict. The financial meltdown in Indonesia in 1998 led to a disastrous riot between Indonesian indigenous people and the Indonesian Chinese minority. Chinese minority was demonized because of the wealth that they had. The mob began attacking, robbing, and burning Chinese-owned shops. These incidents made thousands of Chinese Indonesians flee the country, and many more escaped Jakarta.
Beijing stated that it was worried about the suffering of Chinese Indonesians, but it did not pressure Jakarta to support them. This eventually shifted Indonesian leaders’ attitudes toward China. Indonesian authorities feel China is becoming more pragmatic and noninterventionist (Kurlantzick, 2007). China also provides financial help to Indonesia in order to enhance its influence in the country. Unfortunately, determining the actual figure is difficult because China has not released any information on its assistance to other countries. However, according to a comprehensive research conducted by Henry Yeah of National Defense University, China’s aid to Indonesia was nearly double that of the United States by 2004 (Kurlantzick, 2007).

China continued its effort to be one of the most significant economic contributors to Indonesia by giving Foreign Direct Investments (FDI). According to data provided by the Investment Coordinating Board, China’s Investment in Indonesia increased yearly. In 2015, China’s foreign direct investment, at US$600 million and triple in 2016, contributed almost US$1.6 billion investment to Indonesia (Decanay, 2018). Not only in the economic sector, but China also increased its education fund for Indonesian students. During his visit to Indonesia, Xi Jinping delivered a speech to the Indonesian parliament proposing "to set 2014 as the year of China-ASEAN cultural exchanges. In the coming three to five years, China will offer ASEAN countries 15,000 government scholarships." China seems to be committed to this goal because there is a significant rise in the government’s fully funded scholarships. The number of students increased significantly from 15 in 2015 to 187 in 2016 (Yosephine, 2017).

One of the newest infrastructure cooperation between Indonesia and China is the Jakarta – Bandung High-Speed Railway. In July 2015, the Indonesian government planned to build Indonesia’s first high-speed railway to connect the national capital Jakarta, to Bandung, covering a distance of around 140 kilometers (Reuters, 2018). After winning the bid against Japan, China is set to implement this project. Jakarta – Bandung High-Speed Rail is one of the BRI concrete projects that is currently undergoing in Indonesia. The total cost of this project is US $5.5 billion and is mainly funded by a loan from China. The groundbreaking ceremony of this project was in January 2016 and is set to finish
in 2019 (Dharma and Suryadinata, 2018). This cooperation shows that China-Indonesia relations are getting stronger and have a bright future ahead.

**Indonesia-China Bilateral Trade**

According to the United Nations COMTRADE data, China has become Indonesia’s biggest trading partner in recent years, serving as the country’s largest export and import market. In 2017, the total bilateral trade amounted to US$57.5 billion, an increase of 20.9 percent from 2016’s total amount of US$47.5 billion. China was Indonesia’s largest exporter in 2017, with a total of US$23.05 Billion (14%), while the United States and Japan stood behind it with 11% of the total of all exports. In terms of total non-oil and gas exports, China stood as the largest destination for Indonesian export products in 2017, with 20% standing in front of Japan (16%) and India (14%). Similarly, China is also becoming Indonesia’s most important source of imports. In 2017, Indonesia imported from China a total amount of US$ 34.52 Billion (22% of total Imports). However, from the graphic below, we can see that since 2008, Indonesia has continued to record a deficit in its trade with China since Indonesia’s Import is always higher than its exports (International Trade Center, 2018).

![Graph of Indonesia-China Bilateral Trade](image)

**Source:** Author's calculations based on ITC & UN COMTRADE statistics
Opportunities for Indonesia

As a regional organization, ASEAN has become the focus of Indonesian foreign policy. As one of the founders, Indonesia has an active role in forming the program in ASEAN. One of the examples is the Master Plan on ASEAN Connectivity 2025 (MPAC 2025). One of the strategies that MPAC 2025 focuses on is Sustainable infrastructure, which means increasing public and private infrastructure investment in each ASEAN Member State as needed (The ASEAN Secretariat, 2016). One of ASEAN’s problems is that it has no financial means to carry out the ambitious projects of the AMPC successfully. According to the Asian Development Bank (ADB, 2012), Asian countries will need to invest US$8 trillion in national infrastructure and another US$320 billion in inter-regional infrastructure between 2010 and 2020 (Jetin, 2016).

Similar to MPAC, BRI also focuses on infrastructure development involving ASEAN countries. This shared vision would greatly benefit developing ASEAN and support the ASEAN nations by advancing regional connectivity. BRI will improve an infrastructure deficit and support industrial development in ASEAN. The result of BRI so far is the investment for China in ASEAN countries. The Asian Development Bank has estimated that US$750 billion will be invested annually (Kapahi, 2018). Hence, we can predict that this initiative will increase foreign investment in Indonesia by this estimation. Significant investment has been made in the initiative by Chinese companies and investors, which will help to boost economic growth and create new and will develop new industries and sectors. For example, developing new transportation links can increase demand for logistics and transportation services, while constructing new infrastructure projects can increase demand for local construction companies and suppliers. This can potentially open up new avenues for entrepreneurship and innovation in Indonesia.

The second opportunity comes from the Indonesian Development plan to develop domestic infrastructure. BRI includes several transportation-related projects, such as the construction of ports, airports, and highways. This can help to reduce transportation costs and time, allowing Indonesian businesses to access new markets and increase their exports more easily. In his keynote speech at the Second Seminar of 100 Indonesian Economists, President Jokowi explained the
need to conduct infrastructure development aggressively to create higher economic growth (Indonesia Secretariat Cabinet, 2017). Seeing this condition, China has a chance to continue to play an active role in Indonesia’s infrastructure development. One of the new initiatives for Indonesia’s maritime development, from Indonesia President Joko Widodo (Jokowi), is The Maritime Toll. The Maritime Toll is a way to solve a disparities problem among regions in Indonesia and mainly focuses on supporting the development of eastern regions (Lovina, 2017).

For Indonesia, there is a coincidence between the development of the maritime Silk Road of China and the Maritime toll of Indonesia. Both of these initiatives shared the same vision to build better connectivity. Franky Sibarani, Indonesia’s head of the Investment Coordinating Board, stated, "... the cooperation between Indonesia and China can increase the value of investment and development. In particular, the marine toll can be achieved because it is now beginning to be built (Glienmourinsie, 2016)." To ensure this initiative goes as planned, there is a demand for higher investment, and China’s investment in port infrastructure will contribute a large part. That is why, in the Belt and Road Forum for International Cooperation in 2015, President Jokowi stated his excitement towards the Belt and Road Initiative. He appreciates the initiative because "because it is a realistic one. It is not merely talk, but it is about actually building something. From ports to railways, these are industries we can see and touch. This is exactly the sort of courage and real action the world needs right now (Sheany, 2017)."

The last is the scholarship opportunities for Indonesian students. In 2016, China’s Ministry of Education announced new scholarships that will fund 10,000 international students for over five years to study in China. The Belt and Road scholarships aim to build education collaboration with nearby countries along the Silk Road and Maritime Silk Road, especially in Central Asia, South Asia, and Southeast Asia (Smith, 2016). This scholarship also promotes cultural integration and broadens local students’ international perspectives. To support this cause, Hong Kong alone will pour HK$1 billion into this program. In 2016, the Hong Kong government has only signed a contract with Indonesia to allow ten students
to study. Even though it is not a huge number, it is a great starting point (Pang, 2016).

The Challenges

Complicated bureaucracy is one of the challenges faced by China in doing business with Indonesia. Indonesia's bureaucracy can be described as a 'Power Centre' in its right and is known to be long and complicated. The involvement of multiple stakeholders, including government officials, private companies, and foreign investors, can make it difficult to ensure transparency and accountability in allocating funds and resources. There are still problems with the culture of bribery, a lousy business climate (due to various business uncertainties), and not credible courts. However, the biggest problem in Indonesia's bureaucracy is the lack of coordination because of its hierarchical governance. The investment process becomes complicated and lengthy because investors must obtain several legal documents from each government level (the lower levels of government up to the central government) (Lovina et al., 2017).

Retno Maruti, a senior economic analyst at the Indonesian Ministry of Finance, supported the idea above and said that "Investors often view Indonesia as an attractive place to invest but express concern about the time-consuming, complex, and costly process for obtaining business permits, including certificates of incorporation and tax identification numbers from national ministries." She argues that Indonesia's decentralized government structure is the reason for the lack of coordination between the central and regional governments. The structure allows local governments to impose their own investment procedures, which sometimes contradict or overlap with the central government's (Maruti, 2016).

The second challenge is the complicated process of land acquisition. This problem is because most of Indonesia's land is private property, which is a bottleneck for land acquisition. A national infrastructure industry research report of "The Belt and Road" issued by China Export & Credit Insurance Corporation stated that "land acquisition difficulties constraining infrastructure investment are Indonesia's second largest problem. Meanwhile, many infrastructure construction projects are delayed and abandoned because of it." Shang Yongqi and Zhang Yu found several difficulties in land acquisition in Indonesia, such as:

(i) Due to the privatization of land, all levels of government in Indonesia have
limited influence on land acquisition. (ii) It is hard to confirm legitimate
hereditary land tenure. (iii) Difficulty in presenting landowner identity
documents. (iv) Inefficiency in working. (v) In case of disputes about land tenure,
the proceedings are quite complex and lengthy, and the coordination of
government efforts is very limited (Shang and Zhang, 2015). The Jakarta-
Bandung high-speed railway is an excellent example of this problem. State-
Owned Enterprises Minister Rini Soemarno has said the construction of the
Jakarta-Bandung high-speed railway project will fail to meet its completion
target in 2019 due to problems in land acquisition. Until now the project is still in
the process of land clearance even though the groundbreaking ceremony
happened two years ago (The Jakarta Post, 2018).

The third challenge is the revival of anti-communism in Indonesia.
Communism has been a dark history in Indonesian military generals. Even though PKI has been destroyed and banned since 1965, the paranoia about its revival still happens until today. The anti-communist paranoia has surged significantly during Jokowi’s presidency. On September 29, 2017, an anti-communist demonstration happened in Jakarta. Thousands of Indonesian Muslims rallied outside Indonesia’s House of Representatives to protest the revival of PKI (Maulia, 2017). The fact that China is known for its communist ideology will not help China’s image in the future, especially during the presidential election in 2019, where anti-communist sentiment will be used for political gain. According to the BBC World Service Pool, in the year 2017 itself, China’s favorable view has dropped from 52 to 28 percent in Indonesia. This meant a majority of Indonesian people have a negative feeling towards China.

The fourth challenge is the sentiment towards Chinese workers.
Altering perceptions and suspicions towards the Chinese may take time. Even though the relationship between the two countries is on good terms, there were reports of resentment toward workers from mainland China in Indonesia (Sukma, 2009). The situation worsens when rumors and conspiracies swamp Indonesian news and social media. In 2016, a "chili conspiracy" accusing China of using a biological weapon against Indonesia flooded Indonesian news outlets. After four Chinese nationals were arrested for planting imported chili seeds contaminated with bacteria, even though this bacteria is not harmful to humans,
it can cause crop failure (Reuters, 2016). Another false rumor spread is about 10 million Chinese workers in Indonesia. These rumors spread fear towards local people who think that Chinese workers will take away much-needed jobs that local people count on for their livelihood (Coconut Jakarta, 2016). The rumor fueled the perception that Chinese companies were importing their own workers for projects in Indonesia, leading to accusations of unfair competition and labor exploitation. This rumor created tensions between Chinese and Indonesian workers and between Chinese workers and the local population. Another challenge is the perception that Chinese workers are contributing to social problems in Indonesia, including crime and corruption. The sentiment towards Chinese workers got worse not long ago after one Chinese worker had to be deported after insulting the Indonesian state symbol. His action sparked anger from local people who saw him when he unplugged the flagpole, which had the Indonesian flag tied to it and threw it into the ground (Perdana, 2017). These reports have contributed to negative public sentiment towards Chinese workers, as well as towards the "Belt and Road" initiative more broadly.

**Conclusion**

At the end of 2013, President Xi announced one of China's most ambitious plans called The Belt and Road Initiative (BRI). It is not a surprise that Indonesia is an essential actor in realizing this initiative. This is due to its strategic geographical position and its influence in ASEAN. Good diplomatic relations between the two countries are an advantage for this initiative. This can be seen from the economic, infrastructure, and education cooperation between the two countries. Therefore, there is a need to know the opportunities and challenges faced by this initiative to see the possibility of this initiative in the future. The Belt and Road Initiative shares the same vision with the Master Plan on ASEAN Connectivity and Indonesia's Maritime Toll. Thus, BRI will bring investment from China to ASEAN Countries and help ensure both programs run well. Add with the scholarship opportunities for Indonesian students that this initiative offers. However, BRI faces some challenges from Indonesia's domestic sphere, such as Complicated Bureaucracy and the land acquisition process, the revival of anti-communism in Indonesia, and the sentiment towards Chinese workers. The
information about this initiative can be a consideration in looking at the prospects of these two countries' relationship.

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