



CENTRE FOR  
STRATEGIC AND  
INTERNATIONAL  
STUDIES

# PERCEPTIONS AND READINESS OF INDONESIA TOWARDS THE BELT AND ROAD INITIATIVE

UNDERSTANDING LOCAL  
PERSPECTIVES, CAPACITY,  
AND GOVERNANCE



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A Report by CSIS Indonesia

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# Perceptions and Readiness of Indonesia towards the Belt and Road Initiative

Understanding Local Perspectives,  
Capacity, and Governance



## Introduction

During his visit to Indonesia in October 2013, China's president Xi Jinping proposed an initiative to promote maritime cooperation and trade between China and ASEAN countries, Indonesia in particular. The initiative is dubbed the 21<sup>st</sup> Maritime Silk Road (MSR). A month earlier, during his visit to Kazakhstan, he introduced a similar idea which is known as the Silk Road Economic Belt, which consists of road and rail construction. The two proposals are now referred to as the Belt and Road Initiative (BRI) and the MSR becomes the "road" component of the initiative. The initiative aims at promoting joint development, prosperity and cooperation between China and countries across Asia, Africa and Europe. The ultimate goal is to promote infrastructure development in, and connectivity between, participating countries

As a part of the initiative, over the past four to five years, China has invested in such projects as constructions of highways and railways, oil and gas pipelines, power networks and other infrastructure and connectivity related projects in BRI's participating countries. As it is, the BRI may be seen as an alternative source of infrastructure financing in the region to traditional sources and fill the gap that the traditional sources might not consider as fitting to their interests.

The BRI came at a critical juncture of the globalization process. The process is stalling; there has not been any significant progress at the WTO in many years. Meanwhile, the United States (US), at least for the moment, seems to be abandoning multilateral approach in favor of bilateral one for free trade arrangements. Recently it has cancelled its participation in the Trans-Pacific Partnership agreement that it had helped forming. At the same time, China, through the BRI, lends its support to the global process by way of promoting connectivity development. Some have heralded the BRI as a creative new approach to global economic integration (Elek, 2015).

The BRI also emerged at the time when ASEAN is actively promoting its own Masterplan for ASEAN Connectivity (MPAC), a program to improve intra-ASEAN connectivity. Ideally, these two initiatives should complement each other. It is important therefore that ASEAN and China seat together and discuss how the two initiatives to proceed together without one seems to be overriding the other or, worse still, one obstructing the other. In this respect, China should pay attention to ASEAN sensitivity toward this whole issue.

There is an ongoing debate about China's real motive in launching the BRI. The debate is partly because the Chinese government has not articulated its vision about the initiative clearly: its objectives and how to achieve them. The Chinese government has come up with five areas of cooperation but has not provided its own vision about the modality of such cooperation. So far, the BRI has been implemented` in piece-wise manner where each piece consists of a bilateral agreement between China and one participating country without any say from other participating countries, including the neighbouring ones. However, as Sussangkarn discusses below using the China-

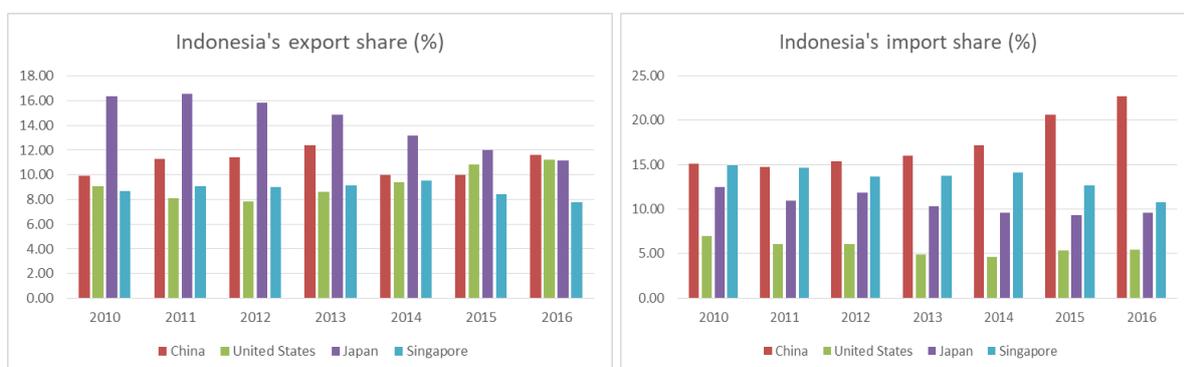
Thailand Rail Link as an example, a bilateral arrangement, especially when it involves connectivity, has its own drawbacks. It remains to be seen how this whole enterprise will evolve in the future, i.e., whether it will constitute a series of bilateral agreements between China and each of the participating countries as it is today, or it will evolve into a multilateral arrangement.

In the context of the bilateral relationship between Indonesia and China, this initiative will play a vital role. China and Indonesia are among the most populous countries in the world. In 2016, the population of China is 1.37 billion. Meanwhile, Indonesia's population is 261 million (World Bank, 2016). Hence, the population of both countries constitutes about 23 percent of the global population. As it is, China and Indonesia relations have a lot of potentials, not only in business and economic sector but also in other fields, including technology, education, social and culture.

In addition, China's and Indonesia's contributions to the world gross domestic product (GDP) have been exhibiting a continuous upward trend. Their combined GDP as the percentage of the world GDP has gradually increased from only 7 percent in 2005 to 13 percent in 2016, almost doubled within ten years period. While both countries' GDP growth rates tend to slow down in the last three years, they (the rates) remained above world average GDP growth rate throughout the period. Meanwhile, their active participations in international fora, regional as well as multilateral, such as Asia Pacific Economic Cooperation (APEC), East Asia Summit and G20 summit were the manifest of both countries eagerness to strengthen regional and multilateral cooperation.

With regard to bilateral trade, China has become the most important trading partner for Indonesia since 2016. In that year Indonesia's export to China surpassed its export to Japan. It should be noted that Japan, United States, Singapore and South Korea were the traditional markets for Indonesian exports in the last ten years. The flow of goods and services from China to Indonesia has also increased significantly, especially after the implementation of ASEAN-China Free Trade Agreement (ACFTA). The share of Indonesia's import from China has exceeded 20 percent since 2015 (Figure 1).

**Figure 1.Indonesia's Trade Share with Major Trading Partners (2010-2016)**



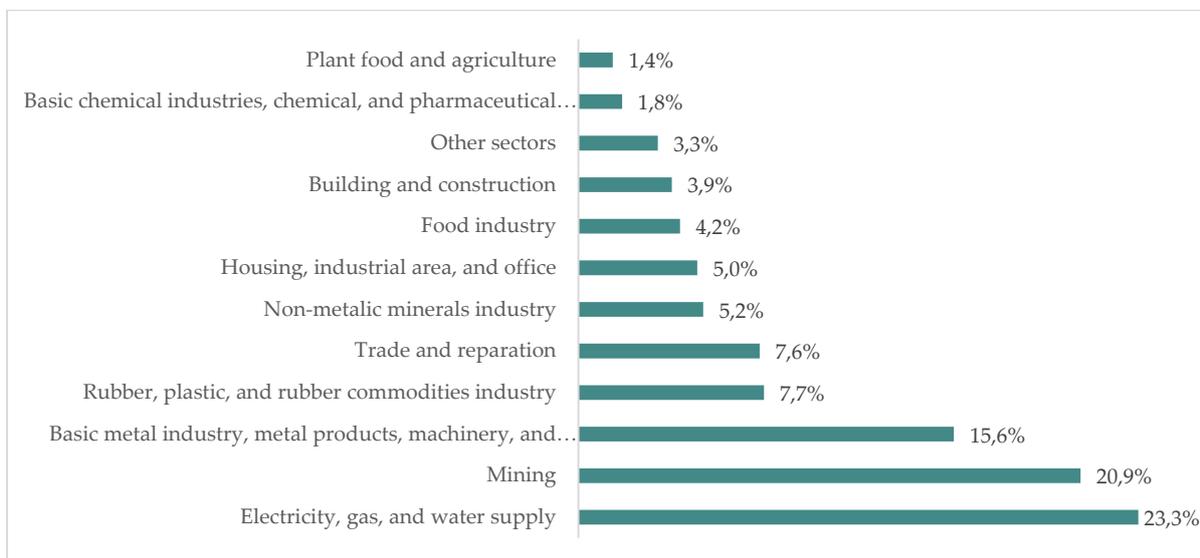
Source: UN COMTRADE

Meanwhile, between 2010 and 2015, utilities sectors which include electricity, gas and water supply received around 23 percent of China’s investment in Indonesia while mining sector received 20 percent. The large share of foreign investment in the electricity sector is partly explained by the ongoing government program to produce 35,000 megawatts (MW) electricity throughout Indonesia. According to the latest data published by Indonesian Investment Coordinating Board (BKPM), until the 2nd quarter of 2017, China’s has invested in 763 projects with the total investment around USD 1.3 billion. This puts China as one of the top investors in Indonesia.

In 2013, Indonesia and China upgraded the longstanding relationship into a Comprehensive Strategic Partnership which covers various areas of cooperation, including infrastructure development, transportation sector and industry. The partnership has been strengthened further in 2015 by including a greater number of tangible cooperation programs. On trade issue, Indonesia is a party to ACFTA that has been implemented since 2005 and came to full force in 2010. All in all, bilateral economic relations have played a significant role, as an anchor, to the overall bilateral relations between the two countries.

The BRI would definitely complement and provide support to a stronger bilateral relationship. In late 2017, as an example, both countries have agreed to strengthen cooperation in science and technology sector. This cooperation could easily become a part of the BRI implementation since one of the concerns of the cooperation is the establishment of a joint research centre that has a primary focus in seaport construction and disaster mitigation management.

**Figure 2. China’s Investment in Indonesia by Sectors (2010-2015)**



Source: BKPM

The BRI is also in line with Indonesia’s current strategy to mobilize infrastructure development and to improve industrial development, and particularly to improve domestic as well international connectivity. Those priorities are among the nine-

national-priority agenda (*Nawa Cita*) of the current Indonesian government. All activities and efforts that could lend support to one or several points in *Nawa Cita* would be welcome by Indonesia. Furthermore, Indonesia has an aspiration to develop its maritime activities as well. As an archipelagic country, maritime activities such as resources extractions (e.g., fisheries) and sea transportation to connect different parts of the archipelago, have become an integral part of the livelihood of many Indonesians. Nevertheless, there has been benign neglect in the country's maritime sector. The BRI therefore offers an opportunity for Indonesia to realize its recent Maritime Policy which was launched in 2017.

However, as pointed out in a previous CSIS study on Maritime Silk Road (Damuri et al. 2014), various issues might pose challenges to the implementation of this initiative in Indonesia. They include social and political issues such as the lack of awareness and information about the BRI and how it would be implemented. There are also concerns about growing dependence on China, and other domestic political factors that might work against the implementation of the initiative. In addition, there are well known problems that have been detrimental to investment in Indonesia, ranging from financial issues, land acquisition, labor and skills and regulatory uncertainty. Some Chinese investments in Indonesia have been delayed due to one or another of these factors.

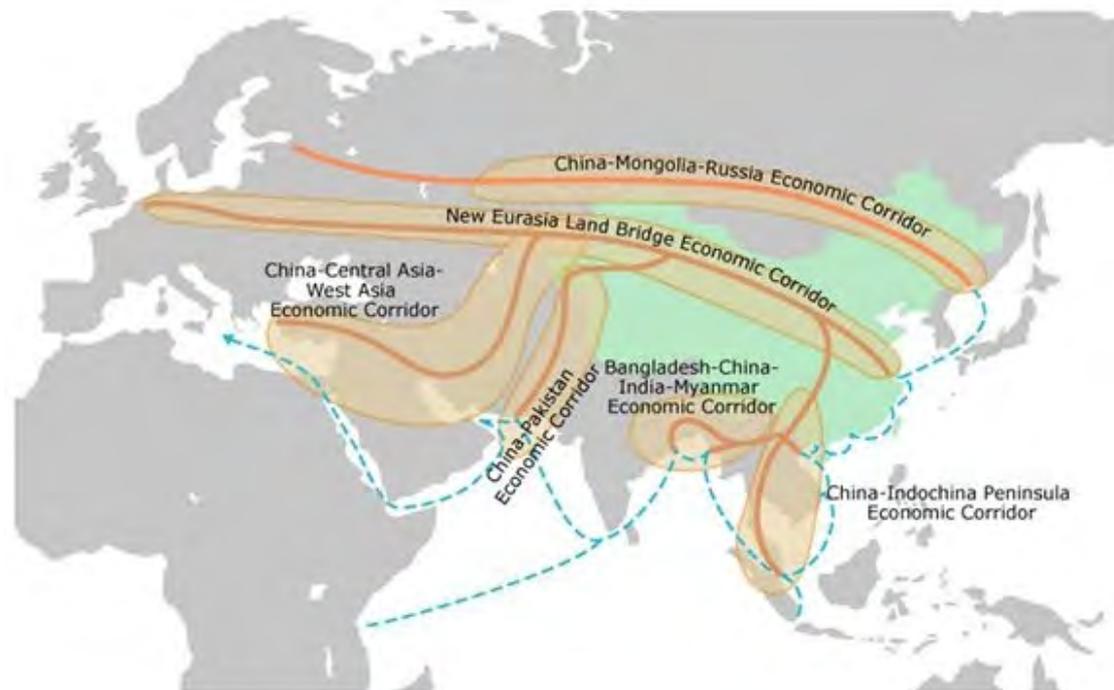
This study complements the previous CSIS study by exploring the progress of the BRI in Indonesia, as well as looking various challenges and issues that have emerged. It also extends the analysis by looking at perspectives from Indonesia's local administration on the implementation of the BRI. After this introduction, this study will briefly review the importance of BRI and how it fits the current situation of international development. We explore the potential contribution of this initiative in the next section while discussing the obstacles and challenges during the implementation, from an economic perspective, as well as strategic and social-political assessment. Our analysis and findings from local works would be elaborated in the section afterward. We are looking at various possible recommendations on the implementation of the BRI in Indonesia as a final section of this report.

## **Belt and Road Initiative: An Overview**

In 2013, Chinese President Xi Jinping announced a new initiative, the 21<sup>st</sup> century Silk Road Initiative which is popularly known as the Belt and Road Initiative (BRI). The Chinese government wants to improve global economy by promoting trade, cultural and technological exchanges among Eurasian countries. To support this idea, the Chinese government has actively promoting infrastructure development, including highways and railways, across Eurasia so as to increase trade and improve logistics networks among the participating countries. There are around 60 countries that have expressed their interest in the BRI which together represent more than a half the global population and around one-third of global GDP (Gill, 2017). If the BRI achieved, the

participating countries would eventually cover more than 4.4 billion people and contribute over USD 21 trillion to global GDP (Meltzer, 2017).

**Figure 3. The BRI's Six Economic Corridors**



Source: ESCAP

The BRI covers five integrative routes that consist of three land routes and two maritime routes (Lee and Kim, 2017). The land routes connect China and Western European region through Central Asia, the Middle East and Russia. Meanwhile, the maritime routes link the Indian Ocean and the South China Sea. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2017) summarized the six economic corridors that bond China and almost the rest of world as described in Figure 3.

- Bangladesh-China-India-Myanmar (BCIM),
- China-Indochina Peninsula (ICP),
- China-Central-West Asia (CAWA),
- New Eurasian Land Bridge (NELB),
- China-Mongolia-Russia (CMR), and
- China-Pakistan (CP) economic corridor

By observing those linkages corridors, the principal objective of the BRI is to improve connectivity between China and the Eurasian region countries by developing infrastructure and trade cooperation in the form of free trade zones (Lee, et al., 2015).

Five major goals or cooperation priorities also have been promoted by the Chinese government (China's National Development and Reform Commission, 2015) as the basis of the BRI to run effectively, namely

- Policy coordination,
- Facilities connectivity,
- Unimpeded trade,
- Financial integration and
- People-to-people bonds

Furthermore, to support the implementation of the BRI, the Chinese government has established three financial organizations, namely the Asia Infrastructure Investment Bank (AIIB), the BRICS Development Bank and Silk Road Fund (Lee and Kim, 2017). The AIIB is a multilateral development bank based in Beijing, China, that focuses on financing the infrastructure investment in the Asian region. It was launched in 2016 and more than 50 founding countries, including Indonesia, Australia, New Zealand, and South Korea. The BRICS Development Bank was established by Brazil, Russia, India, China and South Africa (BRICS) to support infrastructure investment projects in those countries. Meanwhile, the Silk Road Fund is the fund that is coming from joint Chinese state-owned banks to promote BRI implementation. It should be noted that China's National Development and Reform Commission (NDRC) is the lead agency for the implementation of the BRI (Gill, 2017).

NDRC defines the BRI as a systematic project of integration of national development strategies that are aiming at all market potentials, promoting investment and consumption, creating demand and employment and encouraging people-to-people exchanges (NDRC, 2015; Gabusi, 2017). Free trade and open world economy are the main foundation of the BRI. It also prioritizes cooperation that promotes policy coordination, connectivity and barriers reduction among participating countries. Economist Intelligence Unit (2015) stated that the BRI would promote better integration between China's coastal and inner provinces as well as the realization of Hu Jintao's "Go West" policy (Sun, 2013; Gabusi, 2017).

By building such a strong foundation, institutionally and financially, the President of China, Xi Jinping, expects the BRI would improve China's economy through trading activity among the countries involved in the initiatives. However, there are more things to be done if this initiative to run efficiently by putting more attention, not only in business and economic sector but also in socio-political and environmental implications. Higher infrastructure investments would probably achieve less than expected without taking into consideration the other non-economic factors during the implementation of the BRI. In other words, building hard infrastructure should be in line with the soft infrastructure development. Improving mutual understanding between China on the one hand and the other participating countries on the other, would become an important foundation for the sustainability of the initiative. For example, promoting more activities in research and education as well as developing more China Studies centers in the BRI member countries and vice versa.

It has been argued, however, that the idea of interconnection proposed by the BRI does not necessarily imply unification (Bei, 2015). Therefore, rather than framing the

initiative as a unification, the initiative should stress the importance of making different values of participating countries compatible so as to facilitate inclusive communication among them, instead. Such compatibility is likely to be more relevant in the development of the BRI. Mutual benefit partnership, host-guest relationship, as well as mutual respect, might become the values that should always be promoted by the countries involved in the initiative (Bei, 2015). Those three values are based solely on economic, politics and international relations theories but also on a moral high ground of human development as well. Thus, the interconnection of values is required for the effectiveness of BRI to remove any barriers that hinder economic interconnection.

### **The Importance of the BRI in Infrastructure Development and Connectivity**

As discussed in the previous section, the BRI has an ultimate goal to improve infrastructure and connectivity within Asia, Africa and Europe. The network of railways, highways, power plants, oil and gas pipelines, seaports and airports, logistics hubs, and free trade zones are among BRI priorities to support the infrastructure development and connectivity in the countries involved in the initiative. The initiative has several potentials that would benefit the participating countries. Chatterjee and Kumar (2017) highlight three potentials related to infrastructure development, transportation costs and trade facilitation. Infrastructure development is one of the main objectives that have become the vital engine for the implementation of the BRI. There will be more opportunities for the business groups, especially from China, to engage in infrastructure development in the countries involved in the BRI. Roads, railways, ports, and other infrastructure are some development projects that will be prioritized by the initiative.

A potential reduction in transportation and logistics costs is another promising aspect of the initiative. More efficient transport and logistics services sector would create a significant reduction in trade costs. This is one indicator that can be used to measure the effectiveness of the initiative. The Brussels-based economic think tank, Bruegel, stated that the reduction of railway and maritime costs by 10 percent could increase trade by 2 percent.

Furthermore, the Asian Development Bank (ADB) together with Purdue University conducted a study about the impact of the BRI in the South Asian region. They estimated that the improvement of transportation networks and trade facilitation measures could raise the GDP by 0.7 percent for the South Asian region under the BRI. Meanwhile, from the EU perspective, Herrero and Xu (2016) argued that the BRI that mostly focuses on infrastructure development in transportation sector would benefit EU as long as both parties (EU and China) concern about trade creation.

The other potential benefits of the BRI are the dynamic effects from the perspective of trade facilitation. BRI could benefit China if there is a significant reduction of tariffs by the countries that involved in the BRI. The prospects of foreign firms that run business in China and vice versa also would be more promising since there will be a

reduction in non-tariff barriers. Hence, the BRI would benefit China as it would increase China's international trade with the BRI's participating countries, as well as promoting China as the main production center in the Eurasian region.

### **The Current Progress of the BRI**

The potential increasing influence of the Chinese economy to the global economy is the primary driver behind the initiative. The global production network is the primary concern for the Chinese government to expand the interconnection of production network across countries involved in the BRI scheme. Financial infrastructure and free trade agreements are the instruments used by the Chinese government to support the critical objective of the BRI that mainly relies on the mutual economic cooperation among the involved countries (Cheng, 2016). Furthermore, the recent decreasing trend of economic growth in China has also become the other reason why China is eager to fully implement the BRI so that the world trade network could be reshaped and the sustainable growth could be maintained (Huang, 2016).

The BRI has potential benefits for the participating countries, but there are also some reasons for them to be concerned. More and more infrastructure projects have been developed. For example, the railway lines that link 20 cities in China with Central Asian and European trading partners have grown fast (Li and Schmerer, 2017). The other infrastructure projects, such as sea and airports, highways and bridges, oil and gas pipelines as well as industrial parks have also been under construction in several countries along the economic corridors.

Even though there are some issues in several countries and regions during the implementation of the BRI, the Chinese government seems to be optimistic that the initiative would be successful in the end. EU's refusal to endorse a trading statement tied to the BRI due to the transparency, labor and environmental standards as well as India's concern over China-Pakistan Economic Corridor that passes through Jammu and Kashmir are several sensitive issues that have emerged during the progress of the BRI (Chatterjee and Kumar, 2017). China and the European Union are strategic economic partners. Nevertheless, their strategic partnership faces some impediments related to political systems, trade bans and restrictions, and other institutional barriers that distort business and economic activities between them (Li and Schmerer, 2017). These issues have been raised continuously by some EU countries or regions, and have become significant challenges to the implementation of the BRI.

Thus, there are still many things remained to be done to make the BRI run effectively, including better essential information, clear key strategy, the term of reference, and detailed work plan for the participating countries (Chatterjee and Kumar, 2017). A good international governance structure is needed, notably to institutionalize the objectives and safeguard the interests of participating countries. Moreover, this structure should rely on consensus among the countries involved in the BRI. An equal treatment regarding funding or financing the infrastructure projects is also a concern that should be considered for the long-term benefits of the BRI and its projects. Trust

and transparency about potential gains and losses of the countries involved in the initiatives are other aspects that should always be promoted during the BRI development. The involvement in several global institutions, such as the International Court of Arbitration and Justice, for example, should be taken into consideration, just in case, there is a potential dispute between or among BRI participating countries to be resolved.

## **The Belt and Road Initiative in Indonesia: Importance, Concerns and Issues on the Implementation**

Indonesia has a very important position in the Belt and Road Initiative, or so it seems. President Xi Jinping launched the 21<sup>st</sup> Century Maritime Silk Road, which later become a component of the BRI, in Indonesia. The BRI might be perceived as China's initiative to re-activate the historic Silk Road as the major route of China's trading activities with its neighboring countries by taking into account the advanced technology and more efficient transportation costs; and Indonesia has a very strategic position in this maritime connectivity.

The BRI is even more important from the Indonesian perspective. It provides a good opportunity to develop its connectivity and infrastructure and to strengthen its position in the global market. Indonesia is the largest archipelagic country in the world, situated in a strategic location linking Pacific and Indian Oceans. Ideally, Indonesia should be able to leverage this strategic geographic location to its own advantage and national interests. Yet, Indonesia has, thus far, not been able to achieve that objective.

This chapter examines the potential contribution that the BRI can bring to resolve one of the major problems of the Indonesian economy, namely lack of quality infrastructure. After discussing this issue, we also explore several concerns and issues related to the implementation of some Chinese funded infrastructure projects in Indonesia, including BRI ones. The discussion in this chapter focuses on economic issues. It will be followed by another discussion on strategic, social and political issues in the next chapter.

### **Infrastructure Development in Indonesia and the BRI**

Given the size of its economy, it is quite surprising that Indonesia is far from being integrated into the global economy. Take international trade as a case in point. The country is not a regional, let alone a global, trade hub. One reason is it does not have a well-developed, well-articulated and coherent trade strategy to begin with. This may be traced to the fact that since its early years Indonesia had developed an ambivalent view toward trade, a view that more or less remains to this day. While arguably most Indonesians deem export as good for the economy, yet many Indonesian producers still consider the domestic market as sufficiently large to absorb their products. At the same time, many people think that import is bad for the economy. Needless to say,

this perspective toward trade just does not hold water, especially in this era of product fragmentation, intra-industry trade and global value chain.

Indonesia's share in world trade is relatively small even as compared to some of its smaller neighbouring economies. According to the World Trade Organization (WTO), at the end of 2015, its shares in world merchandise export is 0.9 percent (rank 30), below that Singapore at 2.3 percent (rank 14), Thailand at 1.3 percent (rank 21) and Malaysia at 1.2 percent (rank 23) (WTO, 2015). Competitiveness is one main obstacle for Indonesia to become a more important global player. Low competitiveness of the country can be traced back to various issues, ranging from the relatively low human capital, unfavourable regulatory framework, and more importantly lack of quality infrastructure.

The country's infrastructure is inadequate and relatively underdeveloped to sustain economic development, let alone to support a world-class trade hub. Note also that the dearth of investment in infrastructure development has deprived the country a significant amount of its national income yearly in terms of direct and indirect (opportunity) costs. It is estimated that Indonesia spends about 24 of its GDP annually on logistics. Additionally, as recent development seems to have indicated inadequate infrastructure might have resulted in lower economic growth than otherwise and inhibited further investment, foreign investment included.

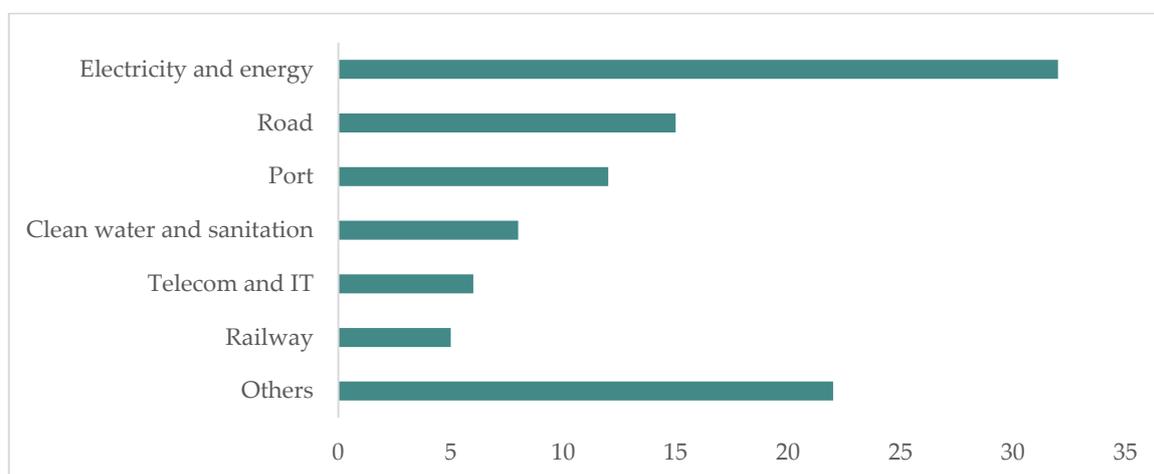
The importance of infrastructure for Indonesia is well known. Bank Mandiri (2017) examines the effects of infrastructure investment on economic output. Based on its estimation, every one IDR additional investment in construction and electricity would increase economic output by IDR 1.9 and 2.6 respectively. Damuri (2017) highlighted two different channels through which infrastructure lend essential support to economic development. First, infrastructure facilitates the development of new activities that could stimulate the economic growth. There would be a systematic effect of the infrastructure development, starting from increasing capital inflow and employment opportunities to generating income for the society. Second, the infrastructure development would develop human capital through greater access to education and health services.

However, some obstacles that often hinder infrastructure development in Indonesia still exist, notably the one related to financing and funding the infrastructure projects. The National Mid-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional (RPJMN)*) 2015-2019 estimated that Indonesia would need at least IDR 5,500 trillion or around USD 460 billion during 2015-2019 (Damuri, 2017) to support 6-7 percent of economic growth in 2019. To realize the growth target, the Indonesian government should focus on the development power sector, maritime connectivity, and transportation. Figure 4 shows that the Indonesian government allocates the largest share of its infrastructure spending to electricity and energy sector (32 percent). It is followed by road (15 percent), port (12 percent), water and sanitation (8 percent), telecom and information technology (IT) (6 percent) and railway (5 percent). 1,000 km

of new toll roads, 3,258 km of new railways, 15 new airports, 306 new seaports, and 35,000 MW of new power plants are some of the targets the Indonesian government would like to achieve in 2019.

Currently, budget constraint is the main concern of the government to finance infrastructure projects. The government’s ability to raise fund through debt issuance is also restricted by law. Under the existing law, government budget deficit cannot exceed three percent of GDP. Meanwhile, the amount of investment needed to sustain the country’s economic development is enormous. Against this background, the Indonesian government has been very open with any initiatives that could promote infrastructure development in Indonesia. BRI objective to promote infrastructure and connectivity development is in line with the government’s effort to improve the availability and quality of infrastructure in Indonesia, specifically in promoting connectivity within the country and the region.

**Figure 4. Indonesia’s Infrastructure Spending Allocation (2015-2019)**



Source: National Mid-Term Development Plan (RPJMN) 2015-2019

The offer to join the BRI and for which Indonesia has, indeed, responded positively, therefore, provides Indonesia with an opportunity to find an alternative source of financing for its infrastructure development. In May 2017, President Joko Widodo attended the first BRI Summit in Beijing. Recall that the main goal of the BRI is to facilitate closer sub-regional, regional and inter-regional integration by way of improving participating countries’ transport and logistics facilities, e.g., roads, railroads and ports, which are necessary to facilitate trade among them. In addition the initiative is in line with Indonesia’s aspiration to become a more maritime-oriented country as stated in President Joko Widodo’s program of Global Maritime Fulcrum (See Box 1).

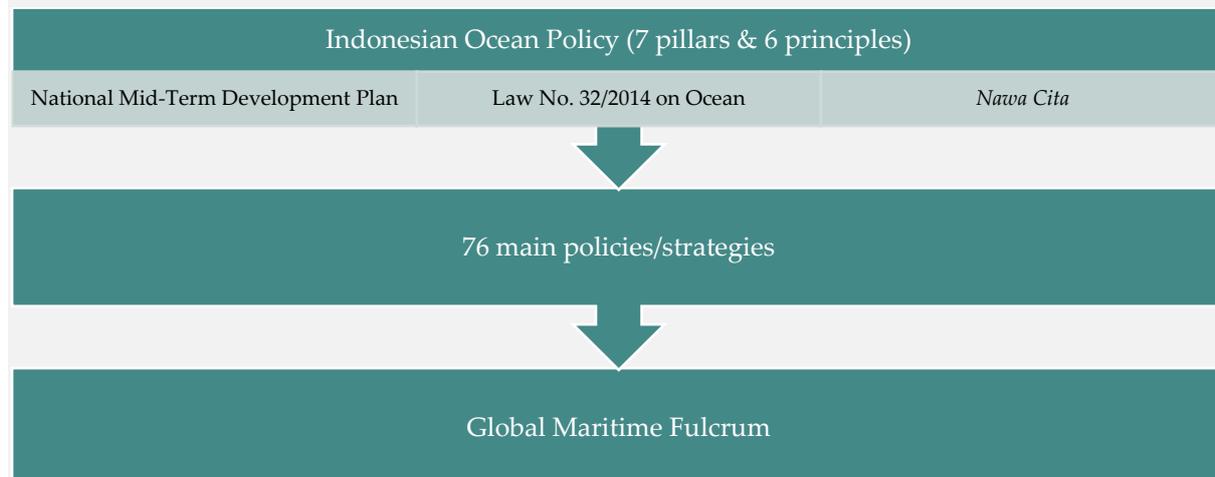
As a part of BRI investment programs in Indonesia, the government has proposed a number of projects. Among them is MRT East-West Line, a 100 km project rail line that will connect three provinces, i.e., Banten, Jakarta and West Java. Another project is Sulawesi Railway that will connect South Sulawesi and North Sulawesi with 1,513 km long railway. In addition, and as discussed further below, there is also a tourism

project in Manado, North Sulawesi. It is also worth noting that China has invested in Jakarta-Bandung High-Speed Rail project. It is a joint venture between Indonesian and Chinese state-owned enterprises. The loan agreement was signed in Beijing in May 2017 during the BRI Summit. The project scheduled for completion in 2019 but has been hampered by delayed due to land acquisition problem. As a result, China has halted its loan to the project as we will discuss in the later part of the paper.

### Box 1: Indonesia’s Ocean Policy and Belt and Road Initiative

Enhancing inter-island connectivity as well as building and upgrading infrastructure within the country are the primary concern of the Indonesian government under the Jokowi administration. This concern makes a lot of sense since Indonesia is the largest archipelagic country in the world, with 13,466 large and small tropical islands (Indonesian Ministry of Tourism, 2016). At the 9th East Asia Summit in November 2014, President of Indonesia, Joko Widodo, promoted his concept of Indonesia’s Global Maritime Fulcrum (GMF), which later became the basis of Indonesia’s maritime policy. As a follow up, in 2016 the government through Indonesian Coordinating Ministry for Maritime Affairs published the White Book on Indonesian Ocean Policy in 2016. It was released as a sign of the government commitment to transform Indonesia into a maritime power and to realize the Global Maritime Fulcrum (GMF).

#### Indonesian Ocean Policy Roadmap toward Global Maritime Fulcrum



A slogan of “Jalesveva Jayamahe” which means “in the sea, we triumph,” has often been mentioned by President Widodo, especially at the beginning of his presidency in late 2014 (Shekhar and Liow, 2014). As a part of its attempt to develop a maritime strategy, the Indonesian government has prepared a strategic plan in the form of a roadmap, known as the roadmap of Indonesian Ocean Policy toward GMF. This roadmap is the grand design of Indonesian Ocean Policy and includes six principles, seven policy pillars and 76 strategic programs.

The six principles that become the necessary foundation of Indonesian Ocean Policy include: Archipelagic outlook (*Wawasan Nusantara*); Sustainable development; Blue economy; Integrated and transparent management; Participatory, and; Equality and equitability.

The Presidential Decree (Peraturan Presiden) No. 16/2017 on Indonesian Ocean Policy dated March 1, 2017, has also strengthened Indonesia's motivation to realize its global maritime fulcrum. This regulation was constructed to facilitate the development of global maritime fulcrum by focusing on seven policy pillars, namely: Marine and human resources development; Maritime security; law enforcement and safety at sea; Ocean governance and institution; Maritime economy development; Sea space management and marine protection; Maritime culture, and; Maritime diplomacy.

The target of maritime economy development is quite clear: the Indonesian government has an intention to reduce the logistics costs from 23.6 percent in 2015 to 19.2 percent in 2019. The availability of quality infrastructure is crucial to achieve this target. The link between BRI, infrastructure initiative and Indonesia's maritime policy is quite clear since BRI might facilitate infrastructure development required in realizing the objectives in Indonesia Ocean Policy.

Indonesia's participation in the BRI gets strong but cautious support from those interviewed for this study. One prevailing view among those interviewed is that it is in Indonesia's national interest to have a good relationship with China. In addition to being a neighbor, China is now the second largest economy in the world which is destined to become the largest one in the not too distance future. Moreover, as has been discussed earlier, China is already Indonesia's largest trading partner. Hence, having a good relationship with China, a good economic relation, in particular, is an imperative.

Another reason, as stated above, is of course, potential access to an alternative source of fund to finance the country's infrastructure development. In this respect, it seems that the government, for reasons stated earlier, prefers a business-to-business (B-to-B) financing scheme for BRI projects to government funded one. The government will involve only in projects where the private sector is unlikely to venture. It seems that the government is also trying to avoid a similar predicament as that of Sri Lanka's Hambantota Port to any BRI projects in Indonesia. The port was developed using debt financing from Chinese state-controlled entities, but Sri Lanka's government has since struggled to repay the debt. Eventually, it agreed to lease the port to a Chinese concern for 99 years. Under the deal, China Merchants Port Holdings will hold 70 percent stake and Sri Lanka Port Authority holding the remaining 30 percent stake in the port (*China Daily*, 2017). It is not clear, however, to what extent the government is willing to facilitate this B-to-B scheme.

### **Concerns and Issues over the BRI: Economic-Related Aspects**

While the opportunity that BRI can bring to Indonesian economy is abundant, some concerns have been raised as well. We discuss some major concerns below.

#### ***Issues Associated with Foreign Workers from China***

Chief among those issues is a concern about a potential influx of a large number of Chinese workers as Chinese investment in the country increases. This is a legitimate concern. Indonesia itself is struggling to create more than two million jobs annually to

accommodate new entrants into the labour market and, hence, wants to limit the entry of foreign workers. Meanwhile, China is currently suffering from overcapacity in a number of industries such as steel, cement and some others. In addition, China is also facing a glut of redundant workers. According to one report China has been planning to layoff between five to six million workers as part of its effort to curb industrial overcapacity and pollution (*Reuter*, 2016). This due to the fact that China has more or less achieved its infrastructure and housing construction targets. In fact, it has been pointed out that it is actually experiencing real estate over stocks. During the heyday of construction activities, some of the above products were in high demand. The same is true with workers, construction workers in particular. Sending workers overseas is one way to relieve the glut.

Meanwhile, it has been reported in the national media about the presence of a large number of Chinese workers in Morowali, Central Sulawesi. There PT Indonesia Morowali Industrial Park (IMIP) is building an industrial park. China-based Shanghai Decent Investment owns 66.25 percent stakes in IMIP while Indonesia's mining company Bintangdelapan Group own 33.75 percent. The presence of large number of Chinese workers there has caught the attention of Indonesian media. Except for the company itself, no one - not even some relevant government agencies - seems to know the exact number of Chinese workers there, and how many of them have proper work permits. Some say that the number is in thousand and many of them do not have proper work permits and their presence has triggered frictions with local workers (*the Jakarta Post*, November 15, 2017).

Be that as it may, the fact that this issue has caught the attention of national news media clearly indicates its sensitivity. From the media reports, it appears that the government is well aware about the issue and, has taken steps to address it. Hence, both the Coordinating Minister for Maritime Affairs and the Minister of Industry have provided explanations about the presence of Chinese workers in the Regency.

They argued, in particular, that the presence of a large number of Chinese workers is only temporary. They, the Chinese workers, are needed for their skills during the construction process. Their number will be reduced once the construction process ends and the operational stage of the industry begins. A senior vice president of IMIP, according to a report, has corroborated the ministers' statements. He claims that a process of technology and know-how transfer is going on within the company. It will take around five years to complete the process and afterwards most of the Chinese workers will be gone.

### ***Issues Concerning Technology, Technology Transfer and Environment***

The second concern is about the creditworthiness of Chinese companies that would invest in Indonesia. This concern has been driven primarily by Indonesia's past experience with Chinese investors. One example is in energy cooperation known as fast-track program of PLN (Indonesian National Electricity Company). The program was an attempt to increase electric power capacity in Indonesia to fulfil the ever-

increasing demand, which was conducted in two phases, each would add 10,000 MW to the existing capacity. The first phase started in 2006 and was expected to be completed in 2010. However, due to various problems, the program had been extended up to 2014.

Part of the blame for the delay has been directed toward some Chinese corporations. Several power plants, mostly using coal-fired technology, were built by Chinese companies, using technology and financial assistance from China. The difficulties in disbursing the loan from China have stalled the development project for quite a while. Chinese banks, for instance, decided to stop funding the projects, citing the global financial crisis, while at the same time also asked for an increase in the interest rates for both the funds that have been cashed in, as well as the funds that are now frozen (*Jakarta Globe*, 10 February 2009). Chinese banks even delayed the disbursement as a retaliation for a dispute between Merpati, an Indonesian airline company, and Xi'an Aircraft International, both state-owned companies from Indonesia and China (*Jakarta Globe*, 15 October 2009).

A more serious problem is associated with the quality of machinery and construction of power plants. 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, initially planned to be attended by the President, for several times (*Harian Neraca*, 22 November 2012). The issue here is not limited only to the quality but also to the vintage of the technology. It seems that in some cases the technology was quite old, nearing the end of its lifecycle, and already being phase out in the country of origin mainly for environmental reason. To avoid a similar situation to arise in the future, the government should insist that only reliable and financially sound companies will involve in future BRI projects. In addition, the government should also insist that the technology that will be introduced is of the high quality, new vintage, and friendly to the environment.

On a related issue, a question has been raised about the willingness of Chinese companies to transfer their know-how and technology to their local partners. Realizing that knowledge and technology is the key to the country's future, the government, it seems, wants to ensure that foreign investment will bring in not only capital but also knowledge and technology. The government is hoping that Chinese companies would be more willing than companies from other countries to transfer their knowledge and technologies to local firms.

It is worth mentioning, however, that there were also successful Chinese infrastructure projects in Indonesia. One of them is the Suramadu Bridge connecting Java and Madura islands. This 5.4 km bridge was built by a consortium of Indonesian and Chinese contractors. The plan to build a bridge between two islands had been around for years. However, the difficulty to raise USD 450 million to finance the

project had held the construction back until the Chinese government offered its financial and technical assistance. The project was completed in March 2009 without any significant difficulty and delay; the bridge was opened for traffics in July the same year.

In addition to infrastructure development, a large fraction of Chinese investment in Indonesia is in the mining sector. These two activities tend to cause environmental damages to their surroundings during the construction and operation stages. It is imperative therefore to pay a close attention to long-term environmental implications of all BRI projects in Indonesia. One way to do this is to ensure that all BRI projects adhere strictly to the country's law and regulations on environment.

### *Issues Concerning Trade Balance and Fiscal Burden*

There is also an issue of Indonesia's trade balance with China. During the last several years, Indonesia has experienced a persistent trade deficit with China. Infrastructure financing under BRI is expected to increase imports from China as Chinese investors would likely to use parts, components and also equipment from China. This concern seems reasonable but misses the point in a number of ways. Firstly, irrespective of where the infrastructure financing is coming from, Indonesia's imports would likely to increase, as most of the necessary parts have to be imported. Secondly, trade balance should not be seen a bilateral phenomenon, in isolation from trade balance with the rest of the world. Rather, it is more appropriate to consider the overall trade balance.

Finally, Indonesia's total trade balance may deteriorate because of infrastructure development has boosted its imports. In this case, the government does not have another choice but to get going the development plan. Infrastructure improvement is likely to increase the country's competitiveness which, in turn, will improve its trade balance in the future. That being said, Indonesia should also try to avoid becoming overdependence on technology that comes from a single country. In other words, it should try to diversify the sources of its technology.

On a related issue, there is also a concern over the potential adverse effect of BRI infrastructure financing on the government's fiscal burden and sustainability. During the last three years, the government's debt has increased by more than 40 percent. The capacity of the Indonesia government to raise revenue is limited, with tax revenue of less than 11 percent of its GDP. This resulted in deficits of fiscal primary balance – implying the government needs to issue new debts in order to pay part of the interest payment. Intensive infrastructure development in recent years has given rise to a concern over the ability of government to manage its debt risks. Yet another concern is whether the loan from China under the BRI scheme will be relatively more expensive, in which case it will increase the debt risks even further.

Note however that the current government debt to GDP ratio is relatively low at 29 percent, while the level of fiscal deficits is manageable under 3 percent. And while part of the interest payment still needs to be covered by new debts, the deficit of fiscal

primary balance has been declining as the government managed to raise its revenue. This has reduced the fiscal burden and risk, which in turn provides more room for infrastructure financing, including from BRI scheme. With regard to loans from China, currently the total loan from that country is relatively small and constitutes only 4.5 percent of Indonesia's total debt.

In addition, to ease its fiscal burden, the Government of Indonesia is currently trying to encourage the use of business-to-business scheme for projects under BRI. This approach, however, is not without problems. Finding credible and capable potential local business partners to work with Chinese investors is not a straightforward task. If such companies are not available, then one alternative is to appoint state-owned enterprises (SOE) to do the job. But SOE involvement may, in one way or another, eventually affect the government's fiscal position, something that the government is trying to avoid in the first place.

### *Issues Concerning Small and Medium Enterprises Involvement in BRI Projects*

Finally, it has been suggested that local small and medium enterprises (SME) should be given opportunities to get involved in BRI projects. The Indonesian government has been actively promoting SME involvement in all economic activities. It has even reserved some economic activities exclusively for SME. The above proposition is therefore relevant; how to implement it is another question. It is a problem of finding small and medium companies that are capable of providing specific products and services that the main contractors demand at their localities and on a timely basis. It is well known that SME lacks both financial and human resources, two main factors that are necessary to become a successful subcontractor.

### **Box 2: IMIP: A Model for BRI investment in Indonesia?**

IMIP has some features that may meet policymakers' wishes and expectations for BRI investment in Indonesia. IMIP is perhaps the largest Chinese investment in Indonesia to date. Its history goes a few years back, before the launching of the BRI. In 2009, Decent Group of China together with PT. Sulawesi Mining Investment (SMI) of Indonesia invested in nickel ore mining and export. The activity later switched to ferronickel smelting industries in response to government banning of mineral ore export. In 2014 Decent Group and Bintangdelapan Group who owns SMI established an industrial park, PT Indonesia Morowali Industrial Park (IMIP), as a location for nickel-based industries. Note that Morowali is rich with nickel deposit. According to one estimate, Morowali has around 370 million tons of nickel deposits, an amount sufficient for decades of mining.

IMIP will eventually cover an area of more than 2000 ha of land. The industrial park has access to land, sea and air transportation and has a number of tenants already. The company provides the tenants with supporting infrastructure facilities such as electricity, telecommunications, etc. The port has a 30,000-ton quay berth and eight 5000-ton quay berths. There is a plan to build a carbon steel factory as well as a 700 MW power plant in the park. When completed, IMIP is expected to employ up to 20,000 workers plus another 80,000 workers indirectly through local companies that supply and serve companies in the park.

An interesting feature of IMIP is its development is based wholly on a business-to-business (B-to-B) scheme with minimum government involvement. As noted earlier, the government seems to favour such an arrangement for BRI investment. In addition, while IMIP is reported to employ a large number of Chinese workers, the presence will only be temporary. That, as cited earlier, what to the two ministers, i.e., the Coordinating Minister for Maritime Affairs and the Minister of Industry and a senior vice president IMIP have said. It will be even better if IMIP comes out clean and provides information about the number of Chinese workers working there including whose work permits are being processed. After all the company is expected to abide with - and liable to any violation of - the country's laws and regulations. Transparency will also reduce the likelihood of frictions between local and foreign workers. Finally, as mentioned earlier, IMIP will ensure that there will be a transfer of knowledge from Chinese to Indonesian workers, which according to the report will take around five years to complete.

The above features: B-to-B investment scheme, transfer of knowledge and temporary presence of foreign workers are features that the government would like to apply to BRI investment. It is not clear whether the above could be applied to every BRI project, however. B-to-B scheme works for IMIP because Morowali has a large reserve of nickel deposits, sufficient not only to impel both Decent and Bintangdelapan Groups to work together to exploit that potential but also to attract other nickel-based companies to locate in IMIP. Not every BRI project possesses similar potential to attract investors. This is especially true for infrastructure projects, especially in remote or sparsely populated areas.

One last note, IMIP experience also exposes some unpleasant issues about certain government institutions and agencies. One such issue is the government regulation to ban mineral ore export which was implemented in 2014. As a result of the regulation, a number of smelters have been built around the country including the one belonging to IMIP. Now, it seems, the government is wavering in its commitment to enforce the regulation as it allows ore export again. Naturally, companies that have invested in smelters are complaining. This kind of legal uncertainty will eventually work against the government effort to attract foreign investment.

Another is regarding the lack of coordination among relevant agencies in monitoring foreigners that enter and work in Indonesia. As the case of Chinese workers in IMIP clearly shows, neither the Immigration Office nor the Manpower and Transmigration Office in the region has up to date information about the exact number of Chinese workers in IMIP (*Jakarta Post*, November 15, 2017)

### **Issues and Obstacles with BRI Implementation**

In addition to the above concerns, there are other issues and obstacles in implementing projects under BRI, most of them are common to infrastructure development in Indonesia. There are at least 4 key issues that remains today despite various efforts by the government to address them: (a) difficulties to secure financing and funding projects, (b) the involvement (or lack thereof) of the private sector, (c) the provision or acquisition of land, and (d) the management of infrastructure assets. Many projects under BRI are still constrained by at least two aspects: lack of private sector involvement and acquisition of land.

As mentioned earlier, whenever possible, the government seems to favor a B-to-B scheme for BRI projects. It is not immediately clear, however, whether the government will be able to prod the private sector to increase its participation in infrastructure development. It is well known that private companies are, in general, reluctant to undertake green-field infrastructure projects for a number of reasons. The first is the lack of good profit- and risk-sharing mechanisms between the government and the private sector. Risks should be borne by the party that is responsible for the generation of such risk. The government, for example, should be responsible for the political risk since it usually comes from political and governance processes. If the government does not want to bear this responsibility, then it is unlikely that the private sector will participate in such projects. Another problem that may prevent the private sector from participating in infrastructure development is an array of overlapping, often inconsistent, regulations that investors have to satisfy in order to execute a project, an infrastructure project in particular.

Finally, the strategy toward infrastructure development has been criticized for an alleged of the government favouring state-owned enterprises (SOE) over private enterprises. In order to speed up the bidding process and to allow greater pressure for completion of the projects, the government often decided to appoint Indonesian SOE to build large-scale and key infrastructure projects. Infrastructure projects offered to private non-SOE are often unattractive and require a lot of structural adjustments to be viable; such projects typically require rigid incentive structures to make them feasible. As a result, SOE has been accused of crowding out the private sector from the more bankable infrastructure projects. It is incumbent on the government to address these issues squarely to attract the private sector to undertake infrastructure projects in general, BRI infrastructure projects in particular (*Jakarta Post*, 9 October 2017).

Land acquisition remains to be problematic. It is costly and takes a long time. As time goes by, the project cost would increase significantly, due to a rise in prices for construction materials/inputs, disruption to supplies, overhead costs accrued without any productive activities, and the possibility of the technology used becoming obsolete because of the long delay. Many infrastructure projects have been delayed for years or even cancelled due to this problem. The government has issued the Law No. 2 of 2012 to resolve this problem. According to the law, land acquisition process should take maximum 512 days. While it is still quite a lengthy process, at least it provides certainty to the process. In addition, the Presidential Regulation No 28 of 2015 has delegated responsibilities for the land provision to government, which is a major improvement that provides some certainty to the process.

There is a lingering question, however, whether the government involvement will be able to expedite the execution process, considering the fact that many on going government projects have been hampered by land acquisition problems. One such project is the high-speed railway construction between Jakarta and Bandung, which is one of BRI's infrastructure projects. Launched in January 2016, the project has

experienced a long delay due primarily to the difficulty to acquire land for the project. Ironically, two plots of land that were among the most difficult to acquire belong to government agencies<sup>1</sup>.

It is important for the government to expedite the resolution of this issue since the fate of the entire BRI projects in Indonesia hinges on it. It is a litmus test for the government's resolve and ability to solve similar problems in the future. On the one hand, if the government fails to address the issue immediately and, as a result the project is held back for a long period, then the entire BRI program in Indonesia may be put in jeopardy. The program may be delayed indefinitely. If the government, on the other hand, is able to expedite the resolution of the issue that will certainly boost investors' confidence about government's resolve and ability to tackle difficult issues pertaining investment activities in Indonesia. That will, in turn, encourage the private sector to undertake infrastructure projects in general, and BRI infrastructure projects in particular. It may even lower future investment costs as investors expect a lower risk of delay in projects implementation.

### **Box 3. Jakarta-Bandung High-Speed Rail Project**

The Jakarta-Bandung High-Speed Rail project is one of President Joko Widodo's national strategic projects to improve infrastructure in Indonesia. The project has been implemented under Presidential Regulation No. 3/2016. Thus, it should be prioritized by the related government agencies, especially regarding the issuance of permits and legal frameworks. When completed, the Jakarta-Bandung High-Speed Rail would reduce the traveling time between the two cities, from around 3 hours by car to around 40 minutes. The funding of this project is mainly coming from a China's loan worth approximately USD 6 billion. Even though the ground-breaking ceremony has taken place in January 2016, it is doubtful that the project can be completed in 2019 as planned.

Negara and Suryadinata (2018) have summarized several issues that have slowed the progress of the project, such as uncertain on its actual benefits, a lack of appropriate environmental impact and regional spatial plan studies, vague business modality, and a non-transparent tender process. The land acquisition is one of the most significant issues that should be seriously taken into account. As of September 2017, only around 54 percent of the total land needed for the project has been cleared. Although the project developer, PT Kereta Cepat Indonesia China (KCIC), has exclusively appointed PT Pilar Sinergi, a state-owned enterprise to deal with land acquisition, in reality, the process has not proceeded as smooth as the Indonesian government might have expected. As a result the China Development Bank (CDB) has halted the loan disbursement for the project. The 600-hectare land required for the project traverses across eight regencies, 29 districts and 95 villages in West Java (Dipa, 2017).

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<sup>1</sup> One of the plots is 14 hectare land near Halim Perdanakusuma airport, where the main station will be situated. This area belongs to Indonesian Air Force. The deal is expected to complete in March 2018 for the construction in that area after more than two years negotiation.

In May 2017, the Indonesian President, Jokowi, attended the Belt and Road Initiative (BRI) Summit in Beijing. During his visit the president witnessed the signing of loan commitment between PT KCIC and CDB worth 75 percent of the total USD 6 billion. However, two months after the summit, the Indonesian government seemed to worry about the increase of financial risks for Indonesia's State-Owned Enterprises (SOE) from the project. Hence, Jokowi instructed Coordinating Minister for Maritime Affairs, Luhut Pandjaitan, and Minister of SOE, Rini Soemarno, to find ways to reduce Indonesian SOE shares in the project from 60 percent to only 10 percent. The initial arrangement of the project shareholding is 40 percent for China and 60 percent for four Indonesian state-owned enterprises (PT Kereta Api Indonesia (KAI), PT Wijaya Karya, PT Perkebunan Nusantara VIII and PT Jasa Marga).

The Jakarta-Bandung High-Speed Rail project, according to Minister Rini, will not meet the target for completion in 2019. The land acquisition is the primary issue that would make the project being extended for another year, 2020. Of 54 percent of the land that has been acquired, 55 km has been handed over to the developer, of which 22 km is ready to be developed and the rest 33 km is in the final land clearing process. The minister also said that the construction of this project needs 32 months and it might be completed in October 2020. The slow progress of this project could generate some doubts in foreign investors' mind about the government's ability to handle difficult issues such as land acquisition, especially in infrastructure development sector. Foreign investors would be more cautious to invest in Indonesia as a result.

## Concerns and Issues over BRI: Political and Strategic Aspects

### BRI and Strategic Issues in the Region

Since President Xi Jinping introduced the Belt and Road Initiative (BRI) in 2013, there were speculations regarding the real China's motives to introduce the initiative. Experts believed that there were multiple domestic drivers and external forces, with economic, financial, security, political, diplomatic, socioeconomic, geo-economic and geopolitical elements (Hallgren and Ghiasy, 2017). These speculations might be attributed to the absence of clarity, authoritative official map and to the fact that the Chinese authorities have not provided any official timetable for the BRI.

Inevitably, as often the case, the speculations create negative images of China and suspicions that the BRI would become another form of neo-colonial power and a modern version of the tributary system or some other conspiratorial objectives. They also give rise to the discourses whereby the initiative is perceived as the Chinese way to preserve the stability and security of the regime. Or, perhaps as China's attempt to emerge as one of the great powers with global influence, not only to become the motor of the world economy, but also as an active actor in global geopolitical arena (Junchi, 2017). The rise of China is also seen as a threat towards hegemonies of major global and regional powers such as America, India and Japan.

It seems that the Chinese authorities were well aware and sensitive to the widespread misperceptions about the initiative. Therefore, the BRI is now conceptually treated as a 'work-in-progress' (Hong, 2016); indeed, it is the interest of the Chinese authority to

interpret the initiative as ‘open and flexible’ so as to deflect potential partners’ reactions.

Indonesia, however, appears to be less concerned about the rise of China as a great power or a new player which may become a threat to the global powers hegemonies. Instead, it focusses more on some unresolved issues in the region which may generate direct and indirect negative impacts on the regional stability and perhaps also to the BRI implementation.

One of the issues is the polemic concerning China’s behavior in the South China Sea. The situation in the South China Sea seems to be calmer now and there is a tangible progress toward resolving the issue as China is now willing to consider adopting the Code of Conduct (CoC) in the South China Sea proposed by ASEAN. It should be noted that there is a strong interdependence between the stability in the South China Sea and a successful implementation of the BRI in the region. On the one hand, the stability in South China Sea will enhance a mutual trust between China and ASEAN member states and, hence stability in the region, which is necessary for a successful implementation of the BRI in Southeast Asia. A successful implementation of the BRI, on the other hand, will help improve stability in the region. Therefore, it is in the interest of all parties, China in particular, to maintain stability in the South China Sea.

### **Social Issues and Opinions Related to Chinese Investment and Workers**

As mentioned above, the disputes in the South China Sea, including the sea around the Natuna Islands could potentially impede the BRI’s implementation in Southeast Asia, including Indonesia. However, it is also essential to understand how Indonesians perceive China, the BRI, Chinese people and China’s investment. Positive images of China among Indonesians will support ‘a smooth’ implementation of the BRI. With the coming simultaneous elections in 2018 and the presidential election in 2019, the issue of ‘political identity’ is likely to rise and the issues of BRI and images of China could be easily ‘politicized’.

The issue of Chinese labor is crucial for a successful implementation of BRI. A result from a national survey conducted by ISEAS Yusof Ishak Institute, Singapore, suggests that about 50.2 percent of the respondents of the opinion that the government may allow a limited number of Chinese workers to work in Indonesia. Around 26.6 percent say that they are against a policy that allows Chinese workers working in Indonesia and 19.9 percent respondents say that the government may allow only high-skilled Chinese workers to work in Indonesia (see Figure 8).

During our field research in North Sulawesi and North Sumatera, one issue that stood out prominently was about Chinese migrant workers. From an Indonesian perspective, foreign investment, including Chinese investment, should aim at creating as many jobs as possible for Indonesians. This is especially true for non-managerial, low skill, jobs for which Indonesia has abundance of workers. This essentially was the

message that our respondents in those two provinces were trying to send across when they spoke about Chinese workers.

In the Regency of Bitung, North Sulawesi, for instance, one official from the Bappeda (local government planning agency) argued that it would be crucial to limit the entrance of foreign workers as the regency had been experiencing lay-offs as the result of the fishery moratorium imposed by Minister Susi Pudjiastuti of the Ministry of Fishery. As a further consequence, social tension has been on the rise and, without such a limit, the likelihood for an open social conflict would increase in the future. Already, the crime-rate in Bitung has been rising in recent years. However, another respondent from the legislative body in North Sulawesi was more optimistic about this labour issue. The issue of China migrant labour would not pose any problem because he believed that the central government would be able to manage it. As will be discussed further below, the issue foreign workers also emerged during a focus group discussion (FGD) in Manado, North Sulawesi and in Medan, North Sumatera.

One issue concerning Chinese investment that had been brought up during our visit to North Sulawesi was about the closure of PT Conch, a Chinese-owned cement factory, in the Bolaang Mongondow Regency. The newly elected Head of the Regency accused the company of not having a proper operational permit after several years of operation. It is essentially a business issue that could happen to any company. It is also a problem of lack of coordination between the provincial and local regency governments. Each of the two branches of government insists to have the authority to decide on the matter.

**Figure 5. Attitudes toward Chinese Workers**



Source: Fossati, Yew-Foong and Negara, *the Indonesia National Survey Project: Economy, Society and Politics (2017)*

The issue of Chinese workers was also raised by staff from the Agency of Transportation in Medan, North Sumatera. He was in favor of limiting the entrance of Chinese workers to Medan. He used the term 'rough' to characterize Chinese workers. He argued that, if not managed properly, it would only be a matter of time before a conflict emerges because of this labor issue. Meanwhile, a quite different opinion was

voiced by a journalist in Medan. He did not object to Chinese with managerial position to work in Medan. He admitted that qualified human resources in Medan were still scarce. However, he argued that the middle to lower level jobs should be reserved for local workers.

It seems that the government is well aware about the sensitivity of the migrant labor issue as evident from its policy towards migrant workers. According to the one Chinese official in Medan, some projects had been delayed because the government did not issue the necessary working permits and work visas to some Chinese workers. He argued that some jobs require certain skills that have been perfected through many years of experience to do it. When people with such skills are not available locally, they have to be brought in from abroad. They are not necessarily managers, however. They are needed for their skills. The government, however, seemed to have interpreted the law rigidly and refused to issue work permits and visas for them. As a result, some projects have to be delayed. This labor-management 'hick-up' is a clear sign of misunderstanding and miscommunication between the government and Chinese investors. The government is trying to limit Chinese workers but did not realized the implication of such restriction. The official question understood that the number of Chinese workers must be reduced. He argued, however, that that should done gradually and at the same time they should train local workers to replace them. To achieve this objective, there is a need to open dialogues between the government and Chinese companies.

During an FGD in Medan, North Sumatera, we learned that the effort to control migrant labor might not that easy. There is a weak coordination between relevant authorities, namely, the police, the immigration office, the manpower agency and local government in charge of handling this issue. For instance, the regulation clearly states that migrant labor for the operator level will not be granted the working visa. Nevertheless, one participant of the discussion claimed that a few Chinese operators managed to obtain the visa. Seemingly there were some 'foul-plays' which involved various parties in this case. We could not corroborate this story, however. But the message of the story is valid. It is difficult to enforce the law when the coordination among relevant authorities is weak.

Participants of FGDs both in Medan and Manado agreed that low skill Chinese workers should not be allowed to work in Indonesia. They argued that Indonesia would never experience a shortage of low skill workers. If North Sulawesi is lacking such workers, it could easily get them from other provinces. Foreign investment must give priority to local labor absorption. Participants from the FGDs also suggested that the BRI should also invest in training local workers so as to improve their skills in addition to investment in infrastructure development. Training is important to minimize the 'gap' between foreign and local labor, especially regarding salary rates. Huge salary differences could lead to social envy, friction and conflict. It is also important to develop a program to equip foreign workers with the capacity to speak

Indonesian so as to improve their communication and interactions with local workers and to prevent any misunderstanding between local and foreign workers.

### **Spillover from Domestic Political Process**

Our study suggests that there is an ambivalent view toward China among Indonesians. On the one hand, there is an increasing admiration toward China, presumably because of its rapid rise as a global economic and military power that has to be reckoned. On the other hand, and perhaps for the same reason, there is also a suspicion or distrust not only toward Chinese investment, including BRI, but also social-cultural initiatives.

If the BRI investment were to be successful, it is incumbent on both the Indonesian government and the Chinese government, to try to address this public trust deficit and nurture a positive business climate in Indonesia. Note that, in general, public distrust is mainly a result of information asymmetry. That is when one party perceives the other party as holding back some relevant and important information. As mentioned earlier, any foreign investment, including that from China would be prone to political manipulation and manoeuvring during the periods of simultaneous elections for governors, mayors, and heads of regencies in 2018, as well as during the presidential and legislative elections in 2019. During this time identity politics tend to flourish.

President Jokowi has expressed his support for the BRI. During his campaign, President Jokowi has stated his commitment to give infrastructure development a priority of his presidency as well as to realize his Global Maritime Fulcrum initiative. It would require a huge amount of resources to achieve these objectives, and the BRI is one potential source of investment.

However, some have argued, from the standpoint of identity and domestic politics, that it would be better if the current government policies would take into consideration Muslim's interests, instead. They believe that the current government is being stirred by 'foreign' interests, at the expense of national and the Muslim's interests. As it is, the issue of Chinese migrant workers has been used to discredit President Jokowi by his opponents. Accordingly, the success of the BRI implementation will depend also on the ability of the government to counter such issues. One way to do this is to promote dialogues among different interest groups concerning the current government policy toward the BRI programs, so as to avoid misperceptions and distrust about the government intention in this regard.

It is interesting to note that there were mix opinions with regards to China and the BRI at the local or provincial level. According to one respondent from the North Sulawesi Board of Development Planning (Bappeda), there is not any security concern associated with China's investment in North Sulawesi. China's investment like investment from any other country is purely economic in nature. Let the Central Government (Jakarta) worries about the security aspect of such investment, if there is

any. Also, he has no objection in receiving Chinese people in North Sulawesi. Physically, between the North Sulawesi and Chinese are alike. There are now 19 direct flights per week from China to North Sulawesi which help boost local tourism. Even though he did not know about the BRI before the interview, he nevertheless argued that the objective of the initiative was essentially in line with North Sulawesi Development Planning and Program.

Another respondent from the legislative in North Sulawesi also did not see any problem with Chinese investment in North Sulawesi, not even security issue. He argued that North Sulawesi was open to foreign investment and the province acutely needed such investment. He further argued that any geopolitical implications from Chinese investment were the domain of the Central Government.

However, a different point of view was raised by an official from Bappeda of the Regency of Bitung, North Sulawesi. He raised a reservation toward admitting a large number of foreign workers, irrespective of their counties of origin, into North Sulawesi for fear that that might be used by terrorists to infiltrate the country. Terrorism could disrupt investment there, including investment in the special economic zone that the regency is developing. For him terrorism was a real concern, especially since Bitung is not far away from Marawi, in the Philippines. Marawi is a town in Mindanao, where the Philippines armed forces fought ISIS-affiliated terrorist group for several months in 2017.

## **Indonesia and BRI: Views from Local Level**

The main purpose of conducting interviews in a number of regions is to investigate local people's knowledge and perspective about BRI. That is, how much they know about the initiative and the fact that their regions have been selected as the main destinations of BRI investment; their hopes, expectations and their likely concerns. The inquiry is based on a conviction what matters in good government is intensely local. In this case, that includes a notion that local people have the right to know what the BRI has to offer and how the government, the local government, in particular, should respond to such an offer. The study was conducted in three provinces that have been selected by the central government as main destinations of BRI investment, i.e., North Sulawesi, North Kalimantan and North Sumatera.

There is a certain logic behind the selection of these provinces as main destinations of BRI investment. As will be elaborated further below, all these provinces have certain economic potentials, which are yet to be exploited or to be developed further. North Sulawesi has, for instance, a potential to become a tourism hub, especially for those who want to visit eastern Indonesia. Manado, the capital of the province, is only about five hours by air from Beijing, Chongqing, Chengdu, Seoul and Tokyo, four hours from Guangzhou, Hangzhou, Changsha, Hong Kong, and Singapore. What is lacking at the moment is supporting infrastructures.

As for North Sumatera, it has an abundance of natural resources, palm oil and rubber in particular. In fact, the government has established Sei Mangkei Special Economic Zone near Medan proposed specifically to become a centre for palm oil-based and rubber-based industries.

Meanwhile, North Kalimantan is rich in natural resources, especially minerals but also water for hydropower. While it is one of the richest provinces in terms natural resources, yet the region is relatively underdeveloped among the three provinces under consideration.

As should have been expected, while it varies from one region to another, information about the initiative has not been widely known, even among relevant provincial government agencies. Information that these provinces would become main destinations of BRI investment has not been widely distributed among provincial officials. This is due partly to the fact that the initiative is relatively new. However, it also reflects a possibility communication problem between central government and provincial government officials as well as among provincial government officials.

One general conclusion from our observation in the three provinces is that they are lacking the capacity to plan and execute major projects, including infrastructure projects on their own without assistance from the central government. Take the plan to develop a special economic zone (SEZ) in Bitung, North Sulawesi as case in point. Based on the initial plan, the SEZ should be in the development stage during our visit in 2017. But at the time of our visit, it was far from certain when the project would be carried out. The acquisition of land for the SEZ was yet to be completed. Or, take another SEZ at Sei Mangkei, North Sumatera. It was inaugurated by President Jokowi in January 2015. But the SEZ has been struggling to attract tenants ever since. One company that has been there since the beginning is PT Unilever Oleochemical Indonesia. Because human capital in the region is lacking, its oleochemical factory has to hire skilled workers from outside North Sumatera, most notably, from Java. Note that North Sumatera has a relatively large population, around 14 million in 2016. Yet it still faces a shortage of skilled workers.

In summary, these three provinces lack the capacity to plan and execute major projects on their own. In the process they would need central government assistance. In addition, they also lack skilled workers and capital. In the case of North Kalimantan, since it is sparsely populated, it may also need to bring unskilled workers from outside the province. To a somewhat limited extent, the same also applies to North Sulawesi. Furthermore, there is a lingering question about the capability of local companies to become partners of major foreign companies that invest there. Private companies in these regions do not have the capability to undertake major projects. There are even lingering doubts about their capability to undertake subcontracting jobs from large national or international companies. At the heart of the problem, as noted above, is a lack human resources and, perhaps also, financial resources. This problem is even more pronounced for local small and medium enterprises.

Figure 6. Map of Indonesia



## North Sulawesi

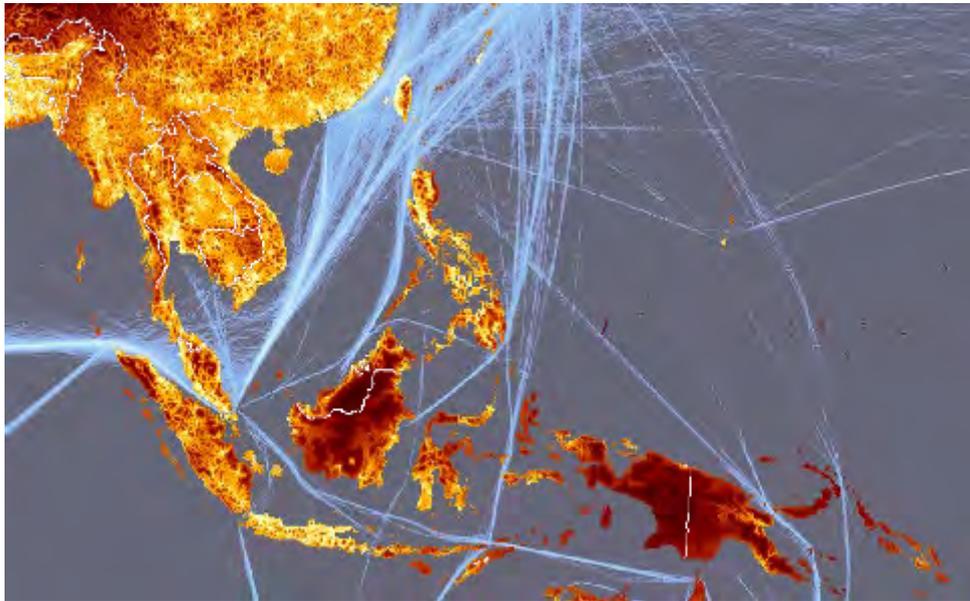
North Sulawesi is located in the northern peninsula of the island of Sulawesi encompasses an area of around 13,852 km<sup>2</sup>, with a total population of around 2.46 million people in 2017. In 2016 the province's gross domestic product (GDP) was only about 0.9 percent of national GDP. A breakdown of the regional GDP into sectoral contributions reveals that the largest contribution to regional GDP comes from agriculture, livestock, forestry and fisheries sector which contributes around 20.3 percent, while manufacturing sector contributes relatively small, i.e., about 9.1 percent, of which 8.4 percent or 92 percent of the total manufacturing contribution, comes from food and beverage industry alone.

In 2016 North Sulawesi's export to China worth about USD 107.8 million, the fourth largest after the US (USD 303.4 million), the Netherlands (USD 158.5 million) and Singapore (USD 130.8 million). At the same time, North Sulawesi's import from China was around USD 30.7 million up from USD 19.1 million in 2015.

The government of North Sulawesi seems to know quite well about the BRI. With some exceptions, relevant provincial government officials and some other stakeholders seem to be quite well-informed about the fact the province has been selected as one main destination of BRI investment in Indonesia. The government has formed a steering committee consists of government officials, representatives of local business community and university lecturers among others, tasked to prepare the region for BRI investment. The committee has prepared a list of projects that the province would like to be built as part of BRI investment. Among them are toll roads, tourism special economic zone, airport runway upgrading. Perhaps buoyed by large influx of Chinese tourist, the local government is planning to establish Manado as a hub for cruise lines for Eastern Indonesia. It remains to be seen how many of these

projects are deemed viable by the donor, and whether the local government has enough clout to ensure that these push projects will actually get financing.

**Figure 7. Map of Major Shipping Lanes in Southeast Asia**



North Sulawesi has, in fact, initiated programs to promote closer cooperation between the province and China in such fields as education and tourism. Some local institutions of higher learning have signed Memoranda of Understanding for close cooperation with universities in Dalian and Xi'an in China. For instance, Dalian Maritime University (DMU) and Sam Ratulangi University, Manado State University and De La Salle Catholic University and Manado State Polytechnic have agreed in principle to cooperate such field as information technology (IT) and tourism. Under the MoU, DMU agrees to send instructors to teach at the universities in Manado and these universities to send students and instructors to study at DMU. Another example, in 2017 the province sent 39 students to study for three years at Jiangsu Agri-animal Husbandry Vocational College, Taizhou, China.

Meanwhile, three national airlines have been licensed to operate direct flight - at the moment just charter flight - between Manado and Guangzhou, Chengdu, Shanghai and some other cities in China. The initiative seems to be quite successful. It has been reported that between July 1, 2016, and July 20, 2017, as many as 47,794 visitors from China arrived in Manado. It is one reason as to why some universities in Manado want to collaborate with their counterparts in China in the area of tourism.

The foregoing notwithstanding, China's investment in the region is small. When the Indonesian government decided to establish a special economic zone in Bitung, the provincial government has been trying to attract foreign investors, including from China to invest there, but has thus far not been very successful. Bitung is a municipality that serves as the main port for the province. The fact that North Sulawesi is relatively sparsely populated, coupled with region's infrastructure deficit

may partly explain why investors are reluctant to invest in the region, especially in the manufacturing sector.

In addition, the geographical location of the province which lies well off major international shipping lanes may also be a factor. There has been an attempt to make the port of Bitung as an international trade hub for Eastern Indonesia, i.e., the port where goods for export and from import pass through. The attempt has nevertheless not been materialized, arguably due location disadvantage reason noted before. Note that not only North Sulawesi but also the surrounding provinces are sparsely populated and without any major economic centre. As such, on the one hand, these provinces do not produce a sufficiently large volume of goods for export, while on the other demand for imported goods also relatively small to warrant Bitung as an international trade hub. To sustain Bitung as a hub port requires sufficiently large volumes of traded goods pass through the port at all times. At the moment port of Makassar in South Sulawesi and which lies on the Makassar Strait, one of major sea lanes through Indonesian water is already function as a de facto hub port for Eastern Indonesia. A prevalent view among those interviewed for this study is they welcome foreign investors, including from China to the province. They are less concerned about a possibility of large inflow of Chinese workers along with the arrival of BRI projects and potential negative impacts of such an influx. They point out that there has never been any ethnic-related in the region. However, it might also be because, as noted, the region has a small population and therefore they have not been facing real competition for jobs.

**Table 1. Sectoral Contribution to Province's GDP**

<i>Sector</i>	2015			2016		
	N. Sum	N. Kal	N. Sul	N. Sum	N. Kal	N. Sul
<i>Agriculture, Forestry, Fisheries</i>	22.02	17.39	20.74	21.65	17.63	20.25
<i>Mining &amp; Quarrying</i>	1.34	30.30	4.98	1.35	28.37	4.90
<i>Processing Industries (Manufacturing)</i>	20.21	9.60	10.41	19.98	9.83	9.91
<i>Electricity &amp; Gas</i>	0.11	0.06	0.11	0.10	0.06	0.13
<i>Water Supply, Waste Management &amp; Recycling</i>	0.10	0.07	0.14	0.11	0.07	0.13
<i>Construction</i>	13.61	11.58	13.10	13.40	12.10	13.19
<i>Wholesale &amp; Retail Trade and Reparation</i>	17.41	10.05	12.84	17.89	10.34	12.83
<i>Transportation &amp; Warehousing</i>	4.99	5.92	8.52	5.07	6.04	8.76
<i>Accommodation, Food &amp; Beverages</i>	2.41	1.24	2.19	2.38	1.29	2.33
<i>Information &amp; Communication</i>	1.95	2.65	4.56	1.94	2.76	4.69
<i>Financial Services</i>	3.35	1.12	3.56	3.3	1.14	3.99
<i>Real Estate</i>	4.50	0.98	3.70	4.73	0.96	3.73

<i>Business Services</i>	0.95	0.29	0.08	1.00	0.26	0.08
<i>Govt Administration, Defense &amp; Social Security</i>	3.71	4.90	7.18	3.64	5.09	7.08
<i>Education Services</i>	1.88	2.31	2.51	1.94	2.37	2.51
<i>Health Services &amp; Social Activities</i>	0.93	1.01	3.81	0.95	1.10	3.87
<i>Other Services</i>	0.53	0.54	1.57	0.56	0.58	1.61

Note: N. Sum: North Sumatera; N. Kal: North Kalimantan; N. Sul: North Sulawesi

Source: Central Bureau of Statistics

## North Sumatera

North Sumatera encompasses an area of about 72,981 km<sup>2</sup> with a population estimated to be around 14 million people in 2016. Also in 2016, the province contributes close to five percent to Indonesia's gross domestic product. Agriculture, livestock, forestry and fisheries sector contributes around 21.7 percent the province's GDP while manufacturing sector contributes close to 20 percent. Medan, the capital of the province, is the home to a thriving industrial centre, the largest outside Java. The province is located next to the Malacca Strait, one of the busiest shipping lanes in the world, which makes Port of Belawan, Medan, one of the country's main ports for export and import. The government is currently building a new seaport, Port of Kuala Tanjung, to serve Medan and its surrounding.

Over the years, North Sumatera has established close economic relations with China. For example, the province has received a relatively large sum of investment from China in recent years. According to North Sumatera Investment Coordinating Board, between 2000 and 2016 Chinese investors planned to invest around USD 491.1 million in 42 projects in the province. As of the end of 2016, the amount of actual (realized) investment was around USD 195 million covering 15 projects in, among other sectors, electricity, manufacturing and mining. In the power sector, for instance, Chinese companies have involved in Asahan No 1 Hydropower Plant, on the upstream of Asahan River which has entered commercial operation in 2010; Batang Toru hydroelectric power project; and, coal-fired steam power plant at Pangkalan Susu.

Meanwhile, trade between North Sumatera and China has been flourishing as well. In October 2017, for instance, trade data shows China as the main destination of province's export at around USD 140 million, consisted mainly of chemicals, tobacco and rubber products. At the same time exports to the US and India were USD 101 million and USD 50 million, respectively (*Harian Medan Bisnis*, 2017).

Trade and investment activities notwithstanding, respondents in North Sumatera, local officials included, knew relatively little about BRI and unaware that the province has been selected as a main destination of BRI investment in Indonesia. As it is, when asked to name projects that they would like to be developed in the region under the initiative, they were unable to provide even a tentative list.

Despite, or perhaps because of, flourishing economic relations, respondents tend to have a more cautious view about potential impacts of improving further the region's economic relations with China. On trade relation, for instance, some are concerned about cheaper Chinese goods would overwhelm local industries. Similarly, while most people would like to see more investment from China, some nevertheless were concerned about potential large inflow Chinese worker to the region, which in their view could spark conflicts with local workers. They argue that people in North Sumatera, Medan in particular, are quite sensitive to ethnic-related issues. Note that Medan, unlike Manado in North Sulawesi, had experienced ethnic-related conflicts in the past.

### **North Kalimantan**

North Kalimantan, which was established in 2013, has an area almost the same size as North Sumatera at 75,467 km<sup>2</sup> but has the smallest number population of all the three provinces assessed, only around 729,128 people in 2017. Its economy contributes around 0.54 percent to Indonesia's GDP. Mining and quarry sector dominate the economy and contributes about 28.4 percent, while agriculture, livestock, forestry and fisheries sector contributes around 17.6 percent to GDP of the region. This structure is also reflected in the province's export. In 2013 the province exported around USD 1,157.33 million of products, of which USD 872.55 million constitutes essentially of mineral fuels, i.e., oil and its derivatives, natural gas, and coal; USD 98.54 million of fish and crustaceans, molluscs and other aquatic invertebrates; and USD 97.15 million of wood products. The main destinations of the region's export were India (USD 325.49 million), China (USD 304.11 million) and Japan (USD 269.81 million).

Meanwhile, also in 2013 North Kalimantan imported USD 104.61 million worth of goods, USD 93.16 million of which came from Malaysia, USD 7.16 million from China, USD 1.65 million from the United States and USD 1.44 million from Singapore.

With regard to investment in infrastructure, the government of North Kalimantan has set 11 priority programs for infrastructure development. The programs, include investment in power sector, industrial estate, ports, airports, a new government center at Tanjung Selor, highways and bridges, and others.

At the moment the provincial government is keen to advance the development of a series of dams and hydropower plants along Kayan River. The project will produce between 9000 to 10,000 MW electricity. The first stage of the project is to build a dam at Peso, Bulungan Regency, which will produce around 900 MW electricity. The dam is designed by China Gezhouba, the same company that designed the Three Gorges Dam in China. At this stage, two Chinese companies, namely, China Power Investment Corporation and Shanghai Electric Power Construction Co., Ltd, have set up a joint venture with a local company, PT Kayan Hydro Energy to build the dam. The project is still waiting for Ministry of Public Works and Housing to issue the construction permit.

According to one estimate entire Kayan River hydropower plants project will cost around USD 17.8 billion and expected to commence in 2018, at the earliest. Chinese investment in the province may eventually reach USD 20 billion as there is also a plan to build industrial zone and international port at Tanah Kuning, in Bulungan, one of the regencies in the province (*Insider Network*, 2017).

The plan to build an industrial zone in Tanah Kuning has been approved as a national strategic project. The project will include the development of roads, bridges, seaport and airport. An idea has been floated to transform North Kalimantan into a smelting centre. There are three main reasons that seem to inspire the idea. Firstly, the province is known to have minerals deposits in relative abundance. In addition to oil and gas, it also contains some other minerals, most notably aluminum and bauxite. Secondly, the province is located next to a major sea lane and therefore has access to minerals mined somewhere else in the country, or even abroad such as in Australia. Thirdly, since smelters require a huge amount of energy, the project will be highly dependent on the realization of the Kayan River hydropower plants project. According to the plan, Tanah Kuning Industrial Zone, which will cover an area of about 10,000 ha, will become a centre for the mineral processing industry, as well as palm oil and fish products industries (*Tempo*, 2017). There are a number of foreign companies from China, South Korea, Saudi Arabia have expressed their interest to invest in Tanah Kuning.

Since Tanah Kuning Industrial Zone has been designated as a national strategic project, it is not immediately clear as to what role foreign investors can play in its development. That is, whether the government will decide to pursue a hands-off policy and let the private sector to take the lead as in the case of Indonesia Morowali Industrial Park (IMIP) discussed above. As noted, IMIP is essentially a private sector initiative where the government acts as facilitator and regulator only. Or, alternatively, the government will take a more active role and act as the prime mover of the project.

North Kalimantan faces the same issues as that of North Sulawesi and North Kalimantan such land acquisition for infrastructure projects, lack of skilled workers. With regard land acquisition the government officials interviewed for this study seemed confident that it would not become a main stumbling block for infrastructure development. As for the work permits for foreign workers, they argued that that is the central government domain, and the provincial government would abide with the central government policy in this respect. As noted, North Kalimantan is sparsely populated and, hence, when its economic development is in full swing, it is likely that it has to bring in workers, including low skilled workers, from outside the region.

## Prospects and Challenges of BRI from Some ASEAN Countries' Perspectives

As mentioned in earlier, the Belt and Road Initiative (BRI) is seen as an initiative of strategic significance that has been vigorously promoted in many different ways: financial, trade, investment, geographical, cultural, and public diplomacy. From the vantage point of the Southeast Asian countries, the viability and effectiveness of BRI programs in the region require a strong commitment and cooperation of both China and the Association of Southeast Asian Nations (ASEAN). Different countries may have different perspectives about the BRI, e.g., its potential implications to their respective economic and developments. This section presents views from five ASEAN countries, namely, Cambodia, Malaysia, the Philippines, Thailand and Vietnam.

### *A Cambodian Perspective<sup>2</sup>*

The BRI is currently very popular in Cambodia, as seen in the effort to raise awareness about the initiatives, especially by the Cambodian government via various workshops. Ongoing BRI participation has also enabled Phnom Penh to access various Chinese-led financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund. Since China is the biggest donor, loan provider and FDI source to Cambodia, the BRI has become an integral part of China's economic assistance to Cambodia, which is vital for the latter's economic development. However, as the influx of the Chinese investment and development assistance have helped Cambodia to become one of the fastest growing economies in Southeast Asia, the country may also be drawn further into China's economic and strategic influence. There is, therefore, a need for Cambodia's rebalance such influence with those of ASEAN, the United States and other important parties as well.

Currently, the BRI has resulted in 31 economic agreements between Beijing and Phnom Penh that include USD 237 million of soft loan deals and the cancellation of USD 89 million of Cambodian debt. The BRI has helped to showcase Cambodia's political stability, low labour costs, easy market access and strategic location in Southeast Asia, which in turn drawn even larger Chinese FDI and technology influx into the country. With the access to the aforementioned Chinese-led financial institutions, the BRI has also helped Cambodia to promote its export products and reduced the country's regional development gap and poverty rate. However, the initiative also brought negative impacts along with it, which has resulted in Cambodians' negative perceptions toward China, namely, that the country (Cambodia) has wholeheartedly kowtowed to China's interests and that, as result,

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<sup>2</sup> Chap Sotharith (2018), "Cambodia's experience and perspective on BRI," an excerpt from a presentation at a *Roundtable Discussion on Prospects and Challenges of BRI from Southeast Asian Perspective*, at CSIS, Jakarta, 6 March 2018. Dr. Sotharith is the Board Member of the Cambodian Institute for Cooperation and Peace (CICP), Phnom Pehn, Cambodia.

Cambodia would be indirectly obligated to support Beijing's position during regional conflicts. There have also been some social and environmental disruptions that are caused by the lack of project consultation and feasibility studies. Nevertheless, in general, the BRI is still likely to bring positive impacts to Cambodia's economic and social development through better connectivity in infrastructure and people to people connection. But, Cambodia still has to prioritize the projects to meet the real demands of the people and economic efficiency, in order to maximize their benefits from the BRI.

### *A Malaysian Perspective<sup>3</sup>*

The BRI constitutes a significant component of the China-Malaysia diplomatic relations. Before the BRI was initiated, Kuala Lumpur had already established a strong relationship with Beijing, which was diversified more extensively in the wake of the BRI's initiation in 2013. Historically, Malaysia was one of the first Southeast Asian countries to establish a diplomatic relationship with the People's Republic of China, which manifests in the depth of the two countries' joint endeavors that surpasses other ASEAN states. China's General Nuclear Power Group, for example, has bought and owned seven different Malaysian power companies and has rights to developing new ones. China's Zhejiang Geely Holding Group also owned almost half of the stake of Malaysia's automotive company, Proton, which is now almost entirely controlled and run by Chinese interests. Finally, the Malaysian military has also purchased various equipment from China, with the most significant one being the purchase of four navy vessel in late 2016.

Hence, there are various factors that contribute to the depth of Malaysia-China diplomatic relationship, with the primary one being China's withdrawal of support to the Malayan Communist Party that has paid in dividends until today, where the BRI has the backing of both the Ruling and Opposition party in Malaysian parliament, the government as a whole, as well as the private sector communities. Because of this tendency, any opposition to the BRI in Malaysia is barely noticeable, making the country one of the most comprehensive showcases for the initiative. This reality makes Malaysia as a potential for comprehensive case study for the BRI since the reliability and sustainability of the initiative are closely watched by neighboring states. Beijing's increasing economic gravity necessitates the need to broaden the BRI relationship beyond a bilateral context to ensure future sustainability and security.

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<sup>3</sup> Steven C. M. Wong (2018), "Malaysia's experience and perspective on BRI," an excerpt from the presentation at a *Roundtable Discussion on Prospects and Challenges of BRI from Southeast Asian Perspective*, at CSIS, Jakarta, 6 March 2018. Dr. Wong is the Deputy Chief Executive of the Institute of Strategic and International Studies (ISIS), Kuala Lumpur, Malaysia.

### *A View from the Philippines<sup>4</sup>*

The BRI has been promoted through a “soft sell” in the Philippines, due to the ongoing political tensions between Beijing and Manila regarding territorial disputes. Nevertheless, President Duterte’s administration still welcomed the BRI, since it is still consistent with his flagship extensive infrastructure development program. However, even though many development agreements with China have been signed, Chinese loan pledges only constitutes 15 percent of what the Philippine government needs. Furthermore, neither country has taken a significant initiative to improve the existing diplomatic relationship, with China being a late newcomer behind Japan to Philippines’ multilateral development negotiations and the Philippines position as the last ASEAN country to join China’s AIIB, due to internal pressure from many security and economic interest groups.

Even though President Duterte welcome the BRI cooperation initiatives, there are still many internal concerns regarding the technicality of the implementations, such as the issue of projects prioritization, lack of adequate human resources in the country, caution over resistance to Chinese workers, mounting debt trap, pushback from civil society groups and legal resistance to land acquisitions, to name a few. Internally, Duterte’s ascendance into the presidency also created challenges, since as the biggest flag carrier for Philippines-China diplomatic relationship Duterte is both popular and polarizing. Those who disavow his warmth attitudes toward Beijing question whether he is offering too much to China too soon. Duterte’s nature as an outsider has also created intense competition between the old economic elites who are now surrounding him as an effort to gain larger shared from the new Chinese capital influxes. And even as BRI negotiations are taking place, Manila is still very much focused on internal political reforms of the peace process, constitutional amendments and establishment of a federal form of government. This internal outlook generated fears of economic dependence on China that could politically destabilize the country, particularly during security crisis like that of the South China Sea. As a result, economic and infrastructure development in the Philippines could slow down indefinitely, and any new investments are perceived within the specific geopolitical contexts. However, with the ongoing resistance to the government’s tax reform for infrastructure building, the option of taking financial assistance from China could be unavoidable in the not too distant future.

Philippines-China relations have been constantly seen through the security lens, specifically regarding the South China Sea conflict, thus creating a tense picture of the relationship. There is an effort to compartmentalize the security situation with China

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<sup>4</sup> Aileen S. P. Baviera (2018), “Philippines’ experience and perspective on BRI,” an excerpt from the presentation at a *Roundtable Discussion on Prospects and Challenges of BRI from Southeast Asian Perspective*, at CSIS Jakarta, 6 March 2018. Dr. Baviera is the President and CEO of the Asia Pacific Pathways to Progress Foundation Inc., Manila, the Philippines.

while pursuing cooperation in infrastructure, investment and tourism initiatives. However, if the BRI does not deliver any tangible result sooner, the Philippines public will have a much further difficulty separating the BRI from the South China Sea conflict lens. Without proper internal and bilateral communications, cooperation potential through the BRI will be seen as a return to authoritarian government, since the expectation to finish the projects within the incumbent president's term could lead to an idea of declaring emergency powers to finish the projects, which may be fully supported by Beijing.

### *A Thai Perspective<sup>5</sup>*

The BRI has been implemented in Thailand. One example is the China-Thailand Railway Link (CTRL). Although China and Thailand do not have a shared border, the CTRL project does bring mutual benefits for both countries, however. The fact they do not have a shared border means that the negotiations of the project implementation was done on a "2 + 2" approach, consisted of China-Laos and Thailand-Laos negotiations. The approach has brought few positive outcomes but, in retrospect, would be even better had it had been conducted through a trilateral approach and institutional mechanisms.

Having been considered for almost 20 years, the CTRL has an exceptional potential of creating new trade routes through China's Yunnan Province as the most advanced economic sub-centre in the Greater Mekong sub-region (GMS). The project could also boost tourism and economic activities around the poor border areas, thus addressing various internal income distribution issues. More importantly for China, the CTRL could alleviate the income disparities between the coastal and inner provinces and accelerate inner provinces' development by creating various manufacturing jobs there.

The existing railway projects in the GMS show how the bilateral approach has generated overlapping confusions among individual states. The first section of the 420 km of railway project between Vientiane and Mohan, China, is between border towns Mohan, China and Boten, Laos is financed by the Chinese government, with a repayment-in-kind. However, the project does not extend the railway line from Vientiane to Thailand. Meanwhile, the China-Thailand railway project consists of 700-800 km of a rail link from Bangkok to Nong Khai on the Laos border, with extensions to Thailand's eastern seaboard. Fully financed by Thailand and using Chinese design and technology, the project still faces a significant problem to extend the railway line all the way to Vientiane. Adding to the challenges, neither China-Laos project nor

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<sup>5</sup> Chalongphob Sussangkarn (2018), "Thailand's experience and perspective on BRI," an excerpt from the presentation at a *Roundtable Discussion on Prospects and Challenges of BRI from Southeast Asian Perspective*, at CSIS, Jakarta, 6 March 2018. Dr. Sussangkarn is the Distinguished Fellow at the Thailand Development Research Institute (TDRI), Bangkok, Thailand.

China-Thailand project addresses the issue of border crossing point between Thailand and Laos that currently consists of a single bridge that is being simultaneously used for road and railway usage, as well as the need for new routes and crossing points when CTRL goes into full swing. This mainly because existing bilateral approach has resulted in piece-meal development, which implies that there is a need for a trilateral approach to the CTRL project. A trilateral mechanism could establish a more appropriate institutional setup that could further improve CTRL's efficiency.

In summary, there is a broad challenge in to show constituents in participating countries that the expected benefits of having the BRI can outweigh its costs. Varying degrees of trust deficit also persists, either about China's intention or from domestic politics of the host countries regarding their level of readiness to accept the BRI. The issue pertaining cultural sensitivity that emerges during the implementation must be assessed with proper in-depth understandings. What China is facing today vis-à-vis the BRI is similar to what Japan faced in Southeast Asia in the early 1970s. China ought to learn from Tokyo's Fukuda Doctrine in order to identify the host countries' internal issues that shaped their local cultures. To varying degrees of extent, the BRI is still too good to be true, as its goals is still too big and massive. Comparing it to the Marshall Plan, the open-ended nature of the BRI makes its financial and political drawbacks hard to assess. Being a peaceful time initiative, states also take more factors into consideration in assessing the BRI. Finally, the ever-changing domestic politics in China and Southeast Asia could lead to an advantageous or detrimental outcome for the BRI's continuity.

### *A Vietnamese Perspective<sup>6</sup>*

Since the BRI conception in 2013, Hanoi has been very reluctant to welcome the initiative into Vietnam, with full support being given only in November 2017. This slow, cautious and sometimes even suspicious pace is due to Vietnam's security lens that perceives the benefits from the BRI as "too good to be true," since the scale of the projects is already too big and comprehensive in the first place. Questions surrounding the financial and project survivability aspects have shaped several fundamental Vietnamese perspectives on the BRI. First, Vietnam viewed the BRI as a condition-regulated loan program with very high-interest rates that could leave its recipients with mounting debt. Second, the BRI's shared common destiny rhetoric could imply that Beijing might have hidden purposes and agendas behind the BRI, such as using it as a tool to exert China's regional ambitions as seen in the South China Sea.

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<sup>6</sup> Nguyen V. Tung (2018), "Vietnam's experience and perspective on BRI," an excerpt from a presentation at a *Roundtable Discussion on Prospects and Challenges of BRI from Southeast Asian Perspective*, at CSIS, Jakarta, 6 March 2018. Dr. Vu Tung is the President at the Diplomatic Academy of Vietnam, Hanoi, Vietnam.

Since the BRI, and China as its administrator, have been championed as an alternative to fill the existing void left by Washington in the international order, there has been little explanation on how will the BRI, or China in the larger extent, will fill the aforementioned void. The fact that there has been a lack of multilateral, or even trilateral aspects in the BRI approach, evidenced by its reluctance to link with similar initiatives from ASEAN, India, Japan, EU and the United States implied that the BRI is being used competitively to put China at a controlling advantage over other regional cooperation frameworks. There has been an informational deficit from Beijing regarding the BRI as well, where every relationship, future development projects, even existing initiatives have to be seen and connected through the BRI framework.

Despite all these concerns, Vietnam has been more receptive to the BRI, since it falls in line with the infrastructure development program that Vietnam needed. By 2020, the country would need massive infrastructure funding, which Hanoi could only support with merely 10-30 percent of funding over the past 20 years, while international private enterprises provided less than 60 percent of the fund needed. Looking at this reality, it is clear that there are still viable positive aspects that the BRI could provide by opening Vietnam's market to Chinese consumers, as well as opening Chinese investments and tourisms to Vietnamese consumers. However, even though Vietnam has indicated its willingness to participate in the BRI as a confidence-building measure (CBM), many technical concerns and issues still hinder the ongoing progress. As a starter, Vietnam has not effectively conducted existing infrastructure development projects enough, with some projects floundering as long as a decade. Moreover, by allowing many second-rate Chinese companies to run national-scale projects in the country, questions about how susceptible Hanoi is to corruption are also being raised.

With the prospects of having a regional or multilateral BRI that is fully implemented in Vietnam is far from certain, think tanks and individual state governments could help promote the BRI as a whole by conducting several courses of actions. To begin, both institutions should conduct further extensive studies to help establish the BRI as a good economic initiative. Additionally, the BRI should be seen as a CBM measure by being placed in a broader context of China's foreign policy with neighboring countries, as well as having a mechanism to solve the future conflict of interests. Finally, Beijing must also disseminate more information to host countries so that they could better understand the BRI as a whole, while the host countries also created more transparency on its rules and regulations as well as improving its own information provision to keep the public in the loop; specifically, ASEAN states must better organize their system of information sharing and collaboration.

## Way Forward and Policy Recommendations

This study is based partly on interviews with relevant stakeholders: their views, expectations and concerns about BRI in general and Indonesia's participation in the initiative in particular. On Indonesia's participation, it has been alluded that a prevalent view among those interviewed is that Indonesia should join the initiative; it is in line with its national interest to do so. Firstly, China is now the second largest economy destined to become the largest one in the not too distance future. In addition, China is already the largest trading nation. Hence, having a good relationship with China, a good economic relation, in particular, is an imperative.

Secondly, Indonesia is currently trying to accelerate its infrastructure development after years of virtual neglect. However, lack of financial resources has thus far prevented that government to do so on a large scale. The offer to join BRI, therefore, provides Indonesia with an opportunity to address this issue, at least partially.

Thirdly, the United States seems to be retreating from the global arena, at least for the time being. The US used to be at the forefront of the globalization endeavour. With the US is seemingly retreating from the world stage, China is one country that seems capable to continue the task the US left behind to champion the globalization. Seeing from this perspective, BRI is China's timely gesture to the world to sustain the globalization process. There may be some doubt and skepticism, about the sustainability of the BRI, and especially about China's real motives behind the initiative. But a healthy dose of doubt and skepticism is necessary, especially when it involves such a huge undertaking as the BRI. Be that as it may, the foregoing is yet another reason as to why Indonesia may want to join the BRI.

On its part, to be able to benefit from BRI-related investment, in particular, foreign investment in general, Indonesia should address a number of issues that have been identified as potentially inhibits foreign investment, especially in infrastructure development. This study identifies a number of issues that are of great importance to the success of BRI investment in Indonesia. The first issue is land acquisition, especially for infrastructure development. This study identifies a number of infrastructure projects that were delayed, often indefinitely, primarily because land acquisition for the projects in question had progressed very slowly. One such project is Jakarta-Bandung High-Speed Rail project. According to the Minister of State-Owned Enterprises, land acquisition process for the project progresses very slowly. As of February 2018, only 54 percent of all the land required for the project has been secured.

The above mentioned project is an example of projects that was conceived, planned and to be implemented in a hurry. Ideally, knowing that a process of land acquisition for public purposes tends to be lengthy and slow, a project should therefore be planned far in advance. Accordingly, the process of land acquisition should be done in a similar manner. Hence, when the project is commenced, land acquisition is no

longer an issue. The government may also want to consider of designating and empowering one body, such as the Ministry of Agrarian and Spatial Planning, to be responsible for land acquisitions for public purposes. The idea is similar to one-stop licensing services at the Indonesia Investment Coordinating Board.

The second issue is concerning foreign workers. This issue is deemed important largely because the finding of this study suggests that it as a sensitive one. It should not be the case. It should be noted that, during the last few decades, foreign workers were no longer an issue. It is essentially a transparency issue. That is, a company that hires foreign workers should follow all the rules and regulations concerning such workers and be transparent about the number of foreign workers it has. If it requires additional workers the qualifications of whom are not specified in the existing rules and regulations, the company in question should duly file a formal request to bring in such workers to the relevant authority. The relevant authority, in turn, should process the request accordingly and in a timely manner. By doing so, the relevant authority would have accurate data about foreign workers, how many of them and where each of them work. Under such an arrangement, any company that is employing foreign workers is liable and accountable for any problem that may arise from employing foreign workers without official work permits.

On its part, the government should improve coordination among relevant agencies in monitoring foreign workers in Indonesia, i.e., the Immigration Office, the Ministry of Manpower and Transmigration, and perhaps also the Indonesia Investment Coordinating Board. In the case of IMIP discussed earlier, neither of these institutions have up-to-date data about the exact number of foreign workers work at the project.

Given its sensitivity, the government needs to respond quickly to any negative issue and disinformation regarding foreign investment in general, foreign workers in particular. Once again, IMIP is a case in point. When an issue concerning illegal Chinese workers at the project emerged, the government has reacted swiftly to mitigate the problem. Both the Coordinating Minister for Maritime Affairs and the Minister of Industry gave their assurance that presence of most the Chinese workers at IMIP is only temporarily, an assurance that seems to have been able to bring back calm among the locals. The ability to provide such response is predicated on relevant agencies having reliable and up-to-date data and information regarding the number foreign workers currently working on projects in Indonesia. Ideally, such information is made available to general public. That is the essence of transparency. Moreover, transparency is the best way to quell negative issues, whatever they may be.

Finally, in case of any dispute, the government may want to provide assurance concerning the security and safety of the disputants and appoint a body to resolve the dispute promptly. Resolving a dispute in court often takes a long time.

The third issue is concerning the lack of capacity of the local governments covered in this study to plan and execute major projects, including infrastructure projects. This problem is not limited to the government sector but also to the private sector in those

provinces. Private companies do not have the capability to undertake major projects. There are even lingering doubts about their capability to undertake subcontracting jobs from large national or international companies. At the heart of the problem, as has been alluded to earlier, is the lack of human resources in those regions, in the government sector as well as in the private sector. This issue is even more pronounced for local small and medium enterprises. They lack not only human resources but also financial resources. For the development in those provinces to be successful, there needs to be a serious effort of both the central government and the provincial governments in question to initiate capacity building programs. For instance, education or human resource development programs should be tailored toward meeting the regions' specific demand for human resources.

The next issue is concerning technology. If the government is serious about technology development and transfer, it should have a mechanism to ensure that technologies that companies investing in Indonesia bring in meet certain standards. They should be of high quality and new vintage. There should also be an effort to diversify the sources of technology, so as to avoid over-dependency on one source of technology. Finally, the government should also find a way to ensure that the companies that invest in Indonesia would be willing to transfer of their technology to local companies or conduct research and development activities in Indonesia.

Lastly, and somewhat related to the foregoing, the government should also insist that all projects, particularly large ones, must abide to all rules and regulations pertaining to environmental standards. Large projects tend to have significant impacts on the environment. Also, some technologies are more environmentally friendly than others. The government should ensure that the technology that investors use should meet certain standards. Take the case of a power plant as an example. If it must use coal, the technology should nevertheless meet strict environmental standards for carbon emission.

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