

Potentials and Challenges of Chinese Foreign Direct Investment in Indonesia**Melda Ria Juwita***The School of Geography, Nanjing Normal University, China
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agus_dea@yahoo.com***Abstrak:**

Program ekonomi China Belt and Road Initiatives (BRI) memiliki pengaruh besar pada laju ekonomi dunia, terutama di negara-negara tuan rumah yang berpartisipasi di dalamnya. Indonesia adalah negara yang menjadi bagian dari program ini di kawasan Asia Tenggara, mengalami dampak yang cukup besar dalam hal pembangunan ekonomi dan peningkatan nilai investasi asing, yang ditandai dengan penambahan proyek investasi di berbagai bidang industri. Pertumbuhan investasi asing Cina di Indonesia dapat dilihat dari perkembangan taman industri Cina di beberapa daerah di Indonesia. Artikel ini disusun dengan melakukan tinjauan literatur dan pengumpulan data yang akurat yang bersumber dari Badan Koordinasi Penanaman Modal Indonesia (BKPM) dengan tujuan untuk menganalisis potensi dan tantangan yang muncul dari FDI Tiongkok untuk Indonesia dan sebaliknya. Hasil yang diperoleh dari penelitian ini adalah, terlepas dari potensi pangsa pasar Indonesia karena jumlah penduduk yang besar, kemudahan memperoleh bahan baku untuk produksi dan upah minimum untuk pekerja lokal relatif rendah. Namun, bagi investor Cina, hal ini diikuti oleh tantangan yang juga muncul, seperti harga tanah yang tinggi, infrastruktur Indonesia yang tidak memadai, dan berbagai peraturan investasi di hampir setiap wilayah. Bagi Indonesia, peningkatan FDI Cina mendorong lapangan kerja, memberikan peluang bagi alih teknologi dan pengetahuan. Namun, masalah lain muncul, seperti persaingan untuk pengusaha lokal dan kekhawatiran tentang ketergantungan ekonomi Indonesia pada Cina. Selain itu, untuk mendapatkan pemahaman komprehensif tentang taman Industri Cina dan dampaknya, penelitian masa depan dengan penelitian survei lapangan sangat dianjurkan.

(The China Belt and Road Initiatives (BRI) economic program has an enormous influence on the pace of the world economy, especially in host countries that participate in it. Indonesia is a country that is a part of this program in the Southeast Asian region, experienced a considerable impact in terms of economic development and an increase in the value of a foreign investment, which is marked by the addition of investment projects

in various fields of industry. The growth of Chinese foreign investment in Indonesia can be seen by the development of Chinese industrial parks in several regions in Indonesia. This article was prepared by conducting a literature review and accurate data collection sourced from the Indonesia Investment Coordinating Board (IICB) with the objectives to analyze the potentials and challenges that arise from Chinese FDI for Indonesia and vice versa. The results obtained from this study are, despite the potential of the Indonesian market share due to the large population, the ease of obtaining raw materials for production and the minimum wage for local workers is relatively low. However, for Chinese investors, it is followed by challenges that also arise, such as high land prices, inadequate Indonesian infrastructure, and different investment regulations in almost every region. For Indonesia, an increase in Chinese FDI encourages employment, provides opportunities for the transfer of technology and knowledge. However, other issues arise, such as competition for local entrepreneurs and concerns about Indonesia's economic dependence on China. Besides, to get a comprehensive understanding of Chinese Industrial parks and their impact, future research with field survey research is highly recommended).

Kata Kunci:

Industrial park; foreign direct investment; Belt and Road Initiatives; Indonesia.

Introduction

Economic globalization is still a significant trend to be discussed following today's global economic growth. Several nations' ancestors have migrated to other territories, other countries, and even other continents to expand their power for commercial purposes since ancient times. Nevertheless, developed countries have now played a leading role in the cycle of globalization's economic progress. Today, economic progress and innovation in IT and telecommunications are now recognized as the driving force behind economic globalization¹.

The increasing number of developed countries make Foreign Direct Investment (FDI)- becomes a feature of the growth of global economic globalization. Total FDI hit an all-time high of US\$ 1.833 billion in 2007², making FDI a dominant trend of the global economy. According to Adugna inside Chaudhary A very high FDI flow has a significant advantage in achieving host country economic growth³.

FDI starts when one country's company invests in a company in another country in the long run. Developed countries are mainly aimed at developing countries as destinations for investment, including Indonesia. According to a survey from United Nations Conference on Trade and Development (UNCTAD) that Indonesia ranked fourth as the most attractive country for investment purposes. Indonesia rose four scores from the previous poll after the United States, China, and India⁴.

FDI in Indonesia is diversified by sectors. The manufacturing industry continues to lead in Indonesia until 2019, driven by power, gas and water supply, which began to grow dramatically relative to other sectors at 48.2% in 2018 and 62.4% in the first quarter in 2019. According to the

¹ Elena Toader et al., "Impact of Information and Communication Technology Infrastructure on Economic Growth: An Empirical Assessment for the EU Countries," *Sustainability* 10, no. 10 (October 17, 2018): 3750, <https://doi.org/10.3390/su10103750>.

² L. Weissleder, "Foreign Direct Investment in the Agricultural Sector in Ethiopia," *ECOFAIR TRADE DIALOGUE* (Berlin, 2009).

³ Anjali Chaudhary, "Role of Foreign Direct Investment (FDI) in the Growth of Indian Agricultural Sector: A Post Reform Study," *Global Journal of Finance and Management* 8, no. 2 (2016): 119–29, https://www.ripublication.com/gjfm16/gjfmv8n2_02.pdf.

⁴ UNCTAD, *ASEAN Investment Report 2017*, 50th ed. (Jakarta: The ASEAN Secretariat, 2017).

Indonesia Investment Coordinating Board (IICB), the most massive rise in FDI flows in Indonesia occurred in 2013, which amounted to 348.82 trillion Rupiahs (35,8 billion USD), up over 100 trillion (9,72 billion USD) from inflows in 2012⁵.

That is inseparable from China's massive investment stream in Indonesia. Realizing Chinese investment has shot up dramatically, making it the 3rd largest for foreign investment in Indonesia, along with Singapore and Japan. There are signs that China's BRI economic program had an impact on the enhancement of investment schemes. Even in 2018, Indonesia became Southeast Asian countries largest recipient of capital from Chinese investors by earning USD 171.11 trillion, followed by Vietnam with USD 151 trillion and Cambodia with USD 103.96 trillion in third place⁶.

Industrial park construction is a significant component and innovative method in the BRI plan, which is expected to promote inclusive globalization through the development of new forms of cooperation between China and Indonesia. Political flexibility has implications for the growth of industrial parks abroad, a classic concept in international political geography that explores the relationship between national and global politics⁷. The initiative to establish an industrial park, More funds will be invested.

There are indicators of the potentials and challenges that arise as both a country of origin and a host country with China's massive capital outflow. Chinese investment has different impacts on each host country including Indonesia. In these articles, the authors tried to investigate the opportunities and disadvantages of Chinese OFDI in Indonesia. To find the required result, the authors used the literature review method with the descriptive analysis method by comparing it with previous studies linked to Chinese FDI in Indonesia and other countries and including evidence derived from data from Indonesian foreign investment agencies.

Research Method

This research used quantitative research methodology which the data analysis processes by statistical calculations and hypothesis testing processes need not be presented. The research results can be equipped by tables, pictures and graphics to clarify the verbal presentation of research results. The accurate data collection was taken from the Indonesia Investment Coordinating Board (IICB) with the objectives to analyze the potentials and challenges that arise from Chinese FDI for Indonesia and vice versa. To find the required result, the authors used the literature review method with the descriptive analysis method by comparing it with previous studies linked to Chinese FDI in Indonesia and other countries and including evidence derived from data from Indonesian foreign investment agencies.

Results and Discussion

This section presents the results of research and discussion in a chapter, therefore the author does not need to make separate sub-chapters of results and discussion. The results presented in this section are “clean” result

FDI has a potent influence on the economic growth of a nation. In globalizing the world economy, FDI plays a crucial and vital role. Although it may seem reasonable to argue that FDI may

⁵ Domestic and Foreign Direct Investment Realization Indonesia Investment Coordinating Board, *Indonesia Investment Coordinating Board* (Jakarta, 2019).

⁶ Realization of Foreign and Domestic Capital Investment, *Indonesia Investment Coordinating Board* (Jakarta, 2019).

⁷ Tao Song et al., “Chinese Overseas Industrial Parks in Southeast Asia: An Examination of Policy Mobility from the Perspective of Embeddedness,” *Journal of Geographical Sciences* 28, no. 9 (September 27, 2018): 1288–1306, <https://doi.org/10.1007/s11442-018-1526-5>.

bring significant benefits to host countries⁸, several studies have discussed how FDI contributes significantly to economic development and has a positive impact on a country's progress, especially for non-industrial and developing countries. Developing countries, as well as home countries, are desirable investment targets. Foreign investment has a positive impact on the host country's economy, according to Athukorala (2013), as foreign investment will increase the host country's availability of funds. Athukorala(2013) also conducted research using an econometric model of cointegration and the time series data from 1959 to 2012 to analyze the FDI-GDP relationship in Sri Lanka. The results show that FDI has a positive effect on GDP in Sri Lanka, as well as a causal relationship between FDI and GDP.

Su and Liu⁹ have researched the effect of FDI and human capital on China's economic development from 1991 to 2010, using a city information panel in China. They analyzed economic growth determinants with an emphasis on the role of FDI and human resources. They also found that FDI had a positive effect on per capita GDP growth, which was reinforced by public social capital ownership.

Indonesia, as a developing country, needs the capital for national development. Realizing that it is not the best way to achieve the desire to become a prosperous country to rely on abundant resources, Indonesia needs foreign investment to help improve the economy. Finance is the driving force behind economic growth and growth in jobs. Indonesia has a strong desire for foreign investment to fund the current account deficit and accelerate economic growth. With a growing contribution to GDP, FDI is projected to be the critical source of economic growth in addition to the government's infrastructure budget¹⁰. Indonesia is the fourth most populous country in the world to report phenomenal economic growth since overcoming the Asian financial crisis of the late 1990s. The nation's GDP per capita rises from \$823 in 2000 to \$3,932 in 2018. As an emerging middle-and lower-income country, this archipelago nation had benefited a lot from poverty reduction rates by more than half since 1999 to 9.8 percent in 2018. Economic growth in Indonesia has increased, backed by substantial investment, low unemployment, and an active labor market¹¹.

There has been a rapid increase in FDI reaching Indonesia since 2010. It no longer underestimates Indonesia's attractiveness as a market. The cause was by reporting positive growth of 4.6 percent in 2009 as Indonesia was able to face the global crisis in 2008-2009. During the worldwide economy's recession, only China, India, and Indonesia reported positive growth.

⁸ Laura Alfaro and Jasmina Chauvin, "Foreign Direct Investment, Finance and Economic Development," *Faculty & Research* 1 (2020): 231–258.

⁹ Yaqin Su and Zhiqiang Liu, "The Impact of Foreign Direct Investment and Human Capital on Economic Growth: Evidence from Chinese Cities," *China Economic Review* 37 (February 2016): 97–109, <https://doi.org/10.1016/j.chieco.2015.12.007>.

¹⁰ Song et al., "Chinese Overseas Industrial Parks in Southeast Asia: An Examination of Policy Mobility from the Perspective of Embeddedness."

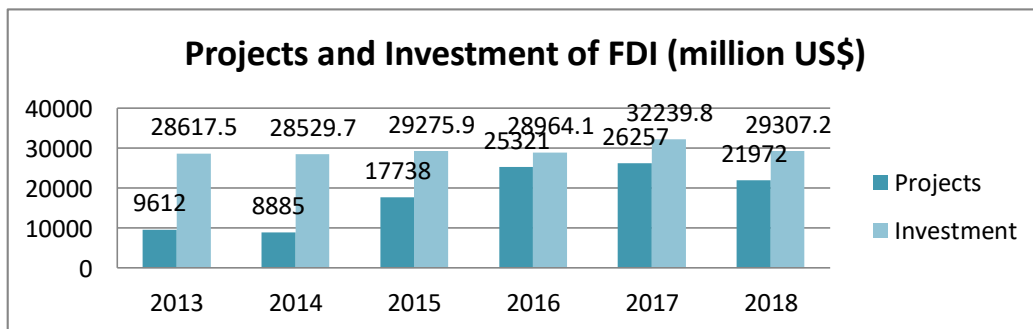
¹¹ World Bank, "Indonesia Overview," 2019, <http://www.worldbank.org/en/country/indonesia/overview>.

Fig1. Percentage of Indonesia GDP Growth.



Source: Statistical Intitution¹²

Fig2. Projects and Investment of FDI in Indonesia



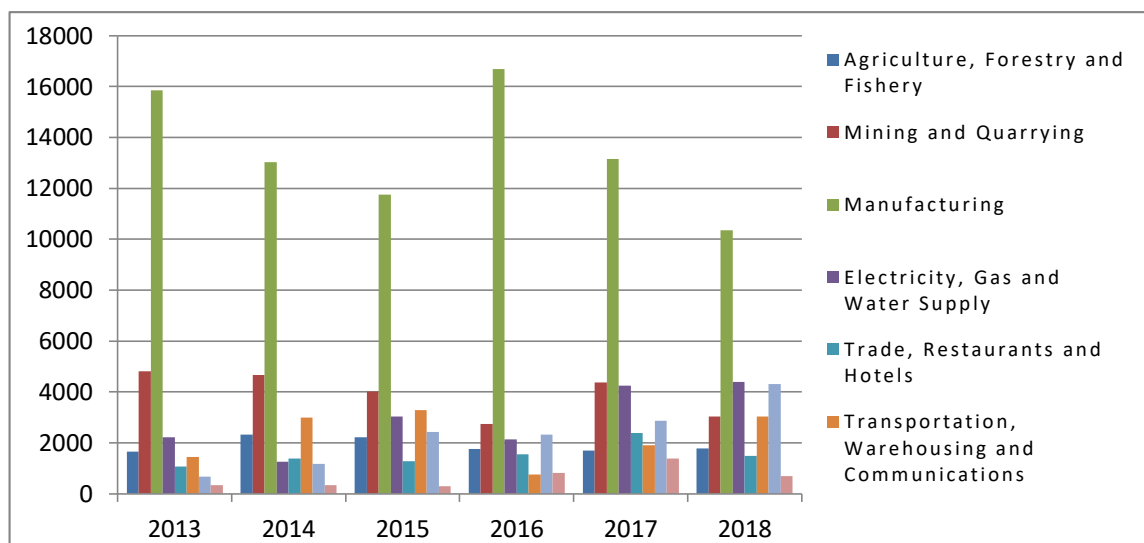
Source: BPS, 2019 ¹³

In the fourth quarter of 2017, Indonesia's investment stream hit its peak, touching an all-time high of US\$ 32239.8 million. Singapore is the largest source of investment, followed by the top five in the next year by Japan, China, Malaysia, and South Korea. Foreign investors also prefer the manufacturing sector as the leading market. Significant increases have occurred over the past three years in the energy, gas and water supply industries, as well as in the real estate and business services industry, which has experienced an increase in the type of investment since 2013. Thus investment has fluctuated for other sectors.

Fig.3. FDI Trends Sector in Indonesia¹⁴.

¹² (BPS, 2019)

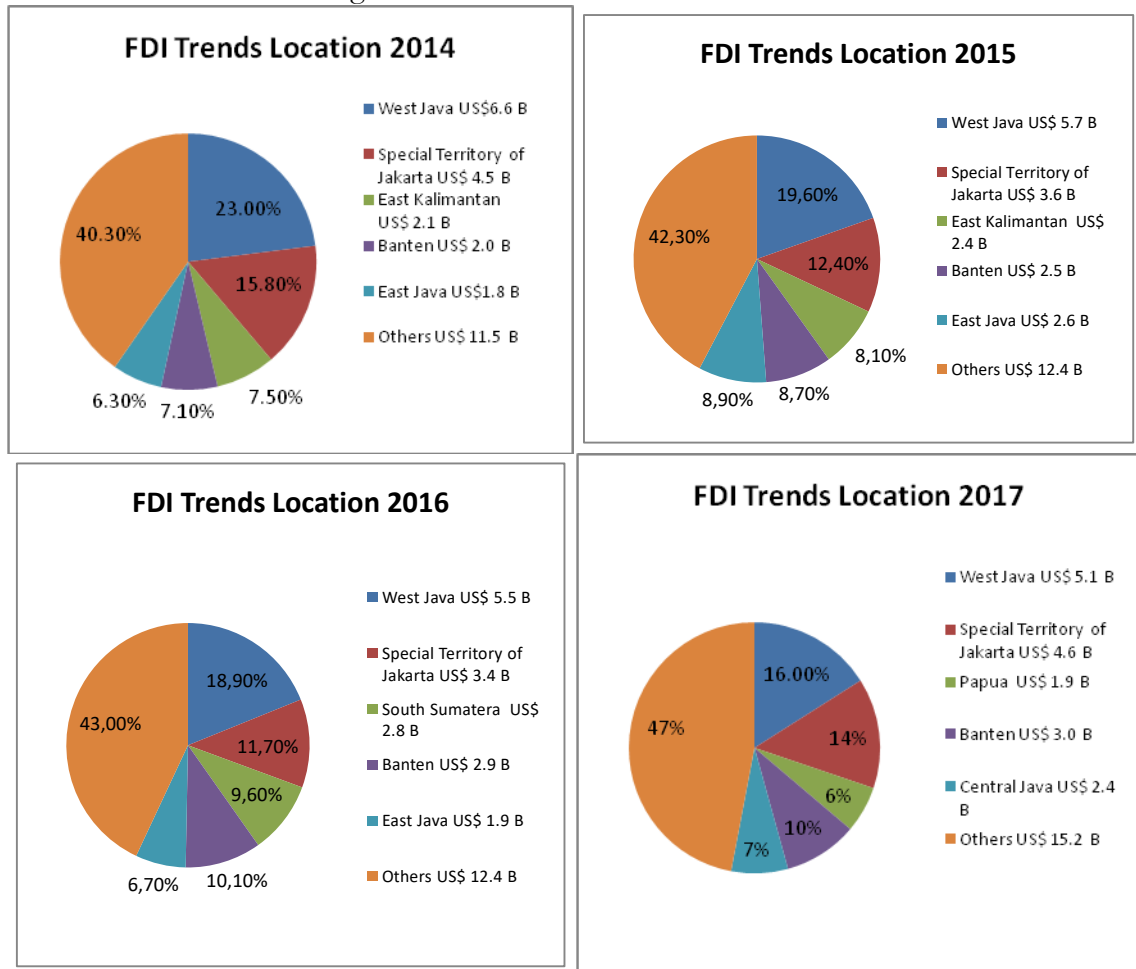
¹³ (BPS, 2019)



Business convenience is one indicator, particularly in terms of facilities. Tambunan (2007) stated that infrastructure is the first in consideration of investment matters. Java Island still dominates the absorption of FDI inflow, especially in the West Java Province. Because Java's infrastructure is good enough. As supply indicators, ports, airports, and highways are sufficient. The expansion of FDI flows has also begun to spread over time to other islands such as Sumatra, Kalimantan, and Papua. Foreign investors are actively starting to build industrial parks outside of Java on islands. Foreign investors began to venture in islands other than Java, suggesting that the Indonesian government was successful in ensuring security and investment comfort.

¹⁴ BPS 2019

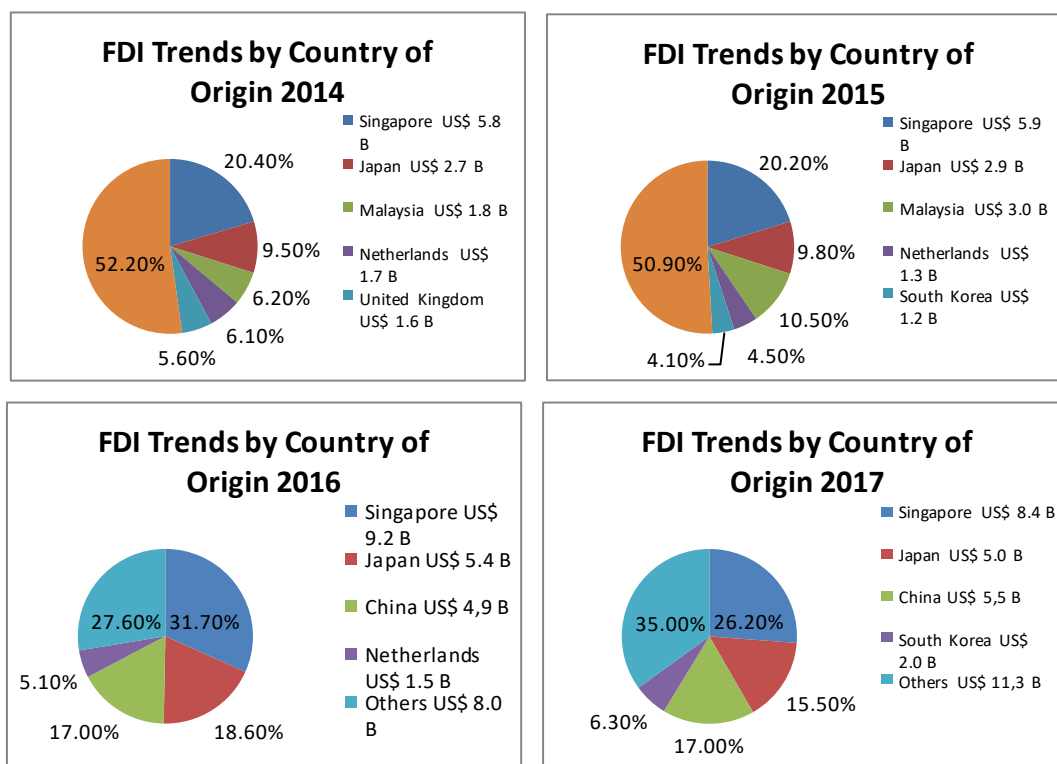
Fig.4. FDI Trends Location 2014-2019¹⁵



Attracting trust in investment from other countries is still being pursued and is a challenging but achievable goal. From 2014 to 2015, Singapore, Japan, Malaysia, and the Netherlands became investment subscription countries in Indonesia. In 2016, China entered the top five investor countries with a share of 17 percent, followed by the same percentage in the following year, and surprisingly, in the first quarter of 2019, it increased 25.40 percent share to shift Singapore's position as the first largest investor so far.

Fig5. FDI trends by country of origin 2014-2019¹⁶

¹⁵ Indonesia Investment Coordinating Board, 2019



Recognizing the great benefits of rising economic growth from the FDI, the Indonesian government began to search for ways to attract foreign entrepreneurs to invest. Nevertheless, appreciation of FDI's importance is demonstrated by the issuance of the Foreign Investment Law of 1967 to attract foreign investment to build the national economy. With this regulation, the Investment Technical Committee has been formed. The Indonesian Investment Coordinating Board (IICB) was created in 1973, instead of the functions performed by the Investment Technical Committee, which is an agency at the ministry level and has been approved to grant approval and permission for FDI.

Indonesia's government offers a variety of investment opportunity packages with all the conveniences, both in-licensing and regulating, to increase investor interest in Indonesia. The following investment opportunities will be provided by the Government of Indonesia.

Table 1. Indonesia Investment Incentives.

¹⁶ Indonesia Investment Coordinating Board, 2019

Indonesia Investment Incentives	
Tax Allowance	30 % from investment value.
(Source : Government Regulation No.9/2016)	Reduction of corporate net income tax for 6 years, 5% each year. 145 business fields eligible for tax allowance.
Tax Holiday	Expanded from 143 segments in the previous regulation Under certain requirements among others: investment value or export orientation, manpower absorption, local content, and project location (especially outside Java island). 5-15 Years Tax Exemption, with potential 20 years exemption for project that considered strategic for Indonesia economy.
(source : Ministry of Finance Regulation No.103/PMK.010/2016)	8 eligible pioneer industries <ol style="list-style-type: none"> 1. Basic metal industries; 2. Oil refinery industries 3. Basic organic chemicals from natural oil and gas; 4. Machinery industries; 5. Communication devices industries. 6. Agricultural processing 7. Marine transportation 8. Economic infrastructures
Preferences for Import Tariffs (source : Ministry of Finance Regulation No.176/PMK.011/2009 juncto. No. 188/PMK.010/2015)	Machines, goods, materials for production, 2 years import duty exemption or 4 years for companies using locally- produced machines (minimum 30%). Industries which produces goods and/or services, including : <ol style="list-style-type: none"> 1. Tourism and culture 2. Public transportation 3. Public health services 4. Mining 5. Construction 6. Telecommunication 7. Port.

In recent years, Indonesia has shown progressive advances despite global economic competition. In a list of the World Bank's ease of doing business, Indonesia's ranking has always increased from 2013 to 2017, ranking 106th to 91th in the year after the most considerable rise of 15 scores in 2016. Besides, Indonesia has received a positive response with the current investment strategy and gained confidence and support from the home country. In Nielsen Global consumer

confidence index survey, Indonesia is still ranked fifth in the world's top five most positive countries after India, the Philippines, the United States, and Vietnam¹⁷.

Indonesia experiences and increases in the overall Index of Trust in four institutions: government, industry, media, and NGOs, according to research results from the 2017 Edelman Trust Barometer. Indonesia has risen as one of the three countries with the highest index of trust in the face of increasing levels of trust in different countries around the world. Indonesia's international faith is also demonstrated by performing trade transactions that have consequences for country-to-country agreements. Indonesia has signed six national and two bilateral free trade agreements (FTA). It also has tariff agreements with Malaysia, India, Pakistan, Iran, Egypt, Turkey, and Nigeria¹⁸.

Table 2. Indonesia Trade Agreements¹⁹

Indonesia Trade Agreements	
Bilateral FTAs	
Indonesia-Japan Economic Partnership Agreement	<ol style="list-style-type: none"> 1. Covers over 90% of goods (agriculture & industrial products) Indonesia exports to Japan 2. Scrapping of import duties for most export products 3. Stabilize Japan's FDI in Indonesia
Indonesia-Pakistan Preferential Trade Agreement	<ol style="list-style-type: none"> 1. Preferential tariff rates for more than 200 products 2. 15% margin of preference over the standard tariff rate of Indonesian palm oil products
Regional FTAs	
ASEAN Free Trade Area	<ol style="list-style-type: none"> 1. Elimination of tariffs on more than 99% of products 2. Allows for back-to-back shipment of goods between member countries 3. Allows for third-party invoicing of goods 4. Allows for ASEAN cumulation
ASEAN-Australia-New Zealand Free Trade Agreement	<ol style="list-style-type: none"> 1. Elimination of tariffs on more than 90% of the products with the exception of exclusions 2. Allows for back-to-back shipment of goods between member countries 3. Allows for third-party invoicing of goods 4. Allows for ASEAN cumulation
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	<ol style="list-style-type: none"> 1. Elimination of tariffs on at least 90% of the products 2. Allows for back-to-back shipment of goods between member countries 3. Allows for third-party invoicing of goods 4. Allows for ASEAN cumulation
ASEAN-India Comprehensive Economic Cooperation Agreement	<ol style="list-style-type: none"> 1. Elimination of tariffs on at least 80% of product lines with the exception of exclusions 2. Allows for back-to-back shipment of goods between

¹⁷ N. R. Kentjana, *Opportunities for Foreign Direct Investment in Indonesia Director of Investment Promotion Development* (Jakarta: Indonesia Investment Coordinating Board, 2017).

¹⁸ KPMG Indonesia, "ASEAN Business Guide : Indonesia" (Jakarta, 2018).

¹⁹ KPMG Indonesia.

	member countries
	3. Allows for third-party invoicing of goods
	4. Allows for ASEAN cumulation
ASEAN-Japan Comprehensive Economic Partnership	1. Elimination of tariffs on at least 90% of product lines with the exception of exclusions
	2. Allows for back-to-back shipment of goods between member countries
	3. Allows for third-party invoicing of goods
	4. Allows for ASEAN cumulation
ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement	1. Elimination of tariffs on at least 90% of product lines with the exception of exclusions
	2. Allows for back-to-back shipment of goods between member countries
	3. Allows for third-party invoicing of goods
	4. Allows for ASEAN cumulation
Concluded / signed FTAs	1. Trade Preferential System of the Organization of the Islamic Conference. Indonesia signed the Framework Agreement and Protocol on the Preferential Tariff Scheme (PRETAS)
	2. Indonesia-Chile Comprehensive Economic Partnership Agreement (IC CEPA)
	3. ASEAN-Hong Kong, China Free Trade Agreement (AKHC-FTA)
FTAs under negotiation	1. India-Indonesia Comprehensive Economic Cooperation Arrangement
	2. Indonesia-Australia Comprehensive Economic Partnership Agreement
	3. Indonesia-Peru Free Trade Agreement
	4. Indonesia-European Free Trade Association Free Trade Agreement with Switzerland, Lichtenstein, Norway and Iceland
	5. Regional Comprehensive Economic Partnership (RCEP) with Australia, Cambodia, India, Japan, Laos, Myanmar, Philippines, Thailand, Brunei Darussalam, China, South Korea, Malaysia, New Zealand, Singapore and Vietnam
	6. Republic of Korea-Indonesia Free Trade Agreement
	7. Indonesia-Sri Lanka Free Trade Agreement

However, through delivering goods/services, training skilled workers, providing facilities, and implementing policies, the public sector also plays an essential role in creating and improving place benefits. Since investors are very committed to the long-term commitment of the government to the investments they make, the government must ensure that investments are secure from corruption, that income can be exported internationally, and that the country has stable economic and political conditions. Foreign investors should find geographic proximity to a large and growing economy even more attractive

Historically, China established thousands of years ago the intercontinental trade route known as the Silk Road. This ancient silk route is a trade route that links China with European, Asian, and African countries through the spirit of harmony, collaboration, openness and inclusiveness, shared education, and mutual benefits with the principal commodities of silk. Following the idea of the ancient Silk Road, the Chinese President Xi Jin ping resurrected the modern version of the concept of the Silk Road under the title Belt and Road Initiatives (BRI) in 2013 or also named the 21st Century Silk Road²⁰. The Chinese government wants to improve the global economy by encouraging economic, cultural, and technological exchanges between Eurasian countries. There are about 60 countries that have expressed interest in the BRI, which together account for over half of the world's population and about one-third of global GDP²¹. The Chinese government has actively promoted the development of infrastructure in Eurasia, including highways and railways, to increase trade and improve the logistics networks among the participating countries to support this concept.

The Chinese government has also supported five primary goals or collaboration targets as the basis for the BRI to operate effectively: (a) Policy coordination, (b) Infrastructure connectivity, (c) Unimpeded trade, (d) Financial integration and (e) People-to-people bond²². Chinese President Xi Jinping's expectation, BRI, would boost the Chinese economy through trade activities between the countries involved in the initiative, not only in the business and economic fields but also in socio-political and environmental implications. Infrastructure investment is expected to increase mutual understanding between China and other participating countries during BRI's implementation, which will be an important foundation for the sustainability of the initiative. For example, promoting more educational activities and developing more centers of Chinese Studies among BRI member countries, including Indonesia.

In 2015, Indonesia and China agreed to work together and sign a Memorandum of Understanding by President Joko Widodo and President Xi Jinping at the People's Great Hall²³. In other words, the MoUs are signed (a) MoU on economic cooperation between the Indonesian Ministry of Economic Affairs and the China National Reform and Development Commission, (b) MoU on the collaboration between the Jakarta-Bandung High-Speed Railway Development Project between the Ministry of SOEs and the China National Reform and Development Commission, (c) MoU on maritime and SAR cooperation between Basarnas and the Ministry of Transportation of the Republic of China followed by collaboration on remote sensing was also signed earlier on 13 October 2014 The China National Space Administration (CNSA) and the Indonesian Maritime Security Coordinating Board (Bakorkamla) signed an agreement supporting the latest effort to improve maritime security, (d) The 2015-2020 Space Cooperation Framework between Lapan and the China Space Agency, followed by Signing the 2015-2019 Aerospace and Aerospace Cooperation between LAPAN - CNSA in Beijing, China, (e) MoU for the cooperation of mutual support between the Ministry of SOEs and the China Development Bank for Development, (f) MoU between China and Indonesia governments in preventing the double taxation of the two countries, (g) MoU on industrial and infrastructure cooperation between the Ministry of SOEs and the China National Reform and Development Commission.

²⁰ E. W. Sari, "Industry Leading Sectors in Sumedang," 2015, <http://erlindasoledad.blogspot.com>.

²¹ I Gill, *Future Development Reads: China's Belt and Road Initiative* (Washington: Brookings Institution, 2017).

²² Michael Dunford and Weidong Liu, "Chinese Perspectives on the Belt and Road Initiative," *Cambridge Journal of Regions, Economy and Society* 12, no. 1 (February 20, 2019): 145–67, <https://doi.org/10.1093/cjres/rsy032>.

²³ News Antara, "Indonesia-China Cooperation Agreement in 8 Aspects," *Antaranews.com*, 2015, <https://www.antaranews.com/berita/487606/indonesia-tiongkok-sepakati-kerja-sama-delapan-bidang>.

Also, the Chinese government has set up three financial institutions to aid the implementation of the BRI, namely the Asia Infrastructure Investment Bank (AIIB), the BRICS Development Bank, and the Silk Road Fund (Lee and Kim, 2017). The AIIB is a multilateral development bank focusing on funding the Asian region's infrastructure investment. Brazil, Russia, India, China, and South Africa (BRICS) have formed the BRICS Development Bank to support infrastructure investment projects in these countries. The Silk Road Fund, meanwhile, is the fund that comes from joint Chinese state-owned banks to finance the introduction of BRI. It should be remembered that China's National Commission for Development and Reform (NDRC) is the primary agency for implementing the BRI²⁴.

Indonesia-China collaboration is very potential in the future. Indonesia is currently committed to building itself into the 'Global Maritime Axis' and initiating the 'Maritime Highway Project'—including the future development of 2,000 kilometers of roads, ten new airports, ten new port facilities, and ten industrial parks. Even the high-speed rail network Jakarta-Bandung was officially launched in 2017 in Indonesia. Jakarta-Bandung is the first to go internationally along with China's high-speed rail network. In May 2017, China Development Bank signed a US\$ 4.5 billion loan agreement with Indonesia for the Jakarta-Bandung high-speed railway. Recently, China developed several BRI trade and economic cooperation zones in the form of environmentally friendly industrial parks and adequate infrastructure.

Chinese investor interest is still in the sectors of electricity, gas, and water supply. The second-largest industry, which mining has an FDI percentage of more than 20% of the total investment. For this category, the most significant share of Chinese investment went to power generation projects. The majority of Chinese FDI projects are located in Central and Southeast Sulawesi, which are mineral-resource rich (nickel and ferronickel) regions in Indonesia (Figure 8). Overall, the size of Chinese FDI in Indonesia remains small compared to that from Japan. However, considering the trends and the potential impact of BRI, it is very likely that Chinese FDI will surpass FDI from Japan in the next few years, especially when Chinese FDI becomes more diversified, going beyond the mineral processing sector and move towards the property, e-commerce, and other industries.

Fig6. FDI in Indonesia²⁵

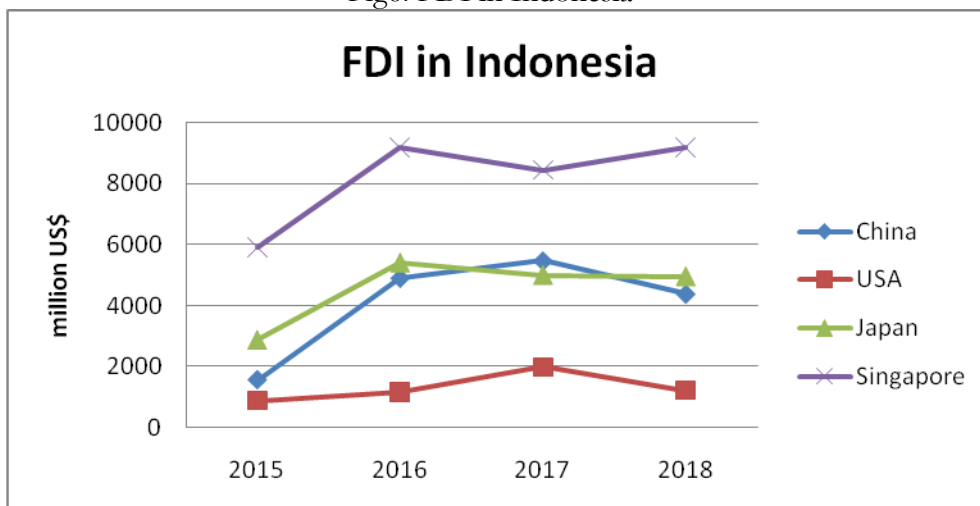


Fig 7. Percentage of China's Investment in Indonesia in sectors 2010-2015²⁶

²⁴ Gill, *Future Development Reads: China's Belt and Road Initiative*.

²⁵ BPS, 2019

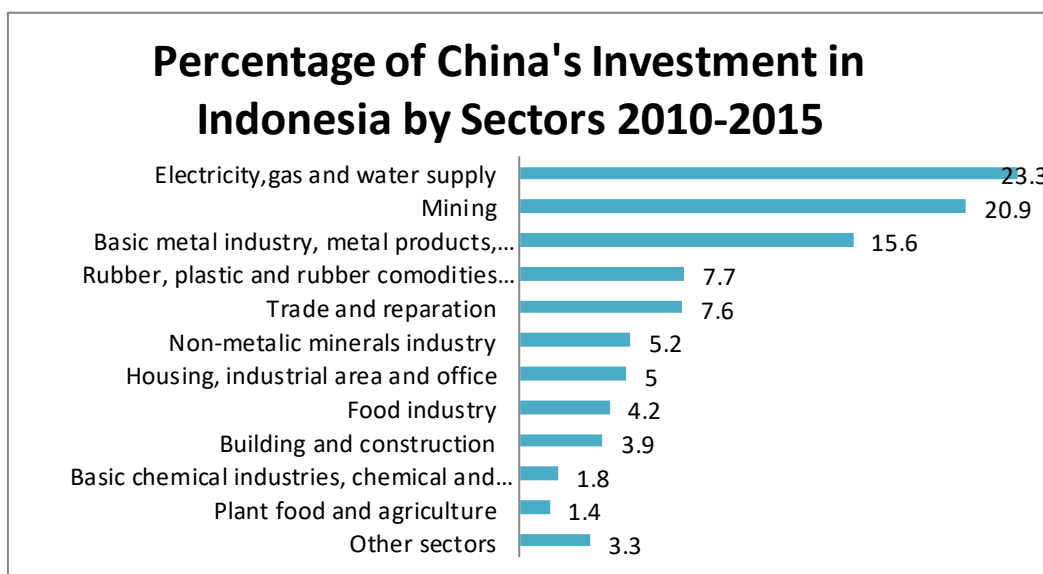
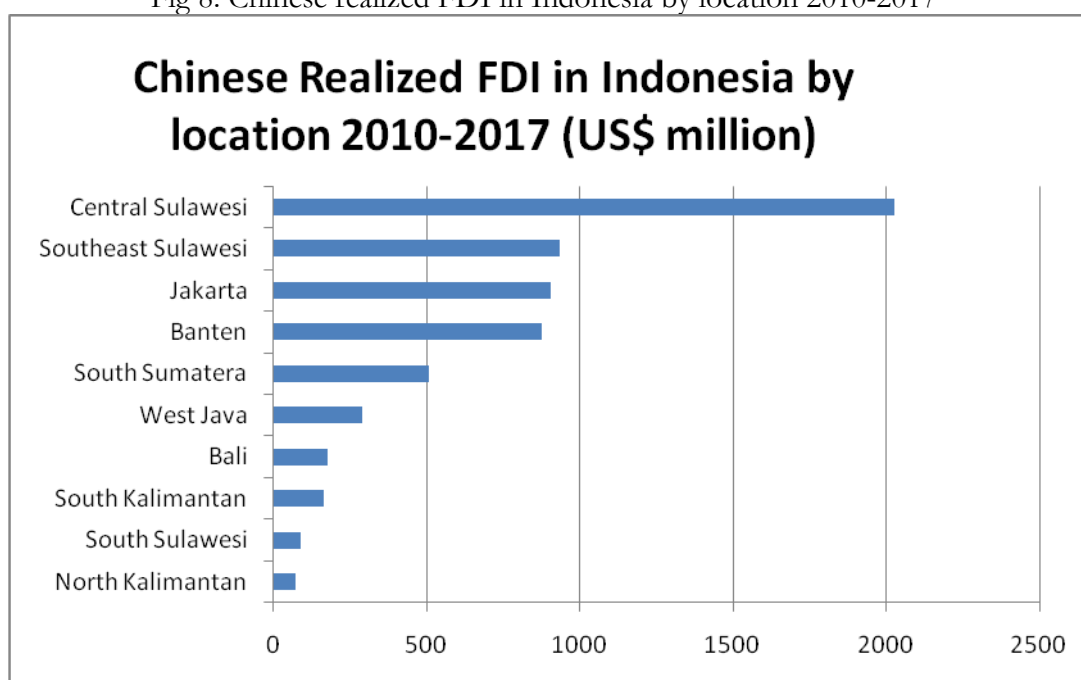


Fig 8. Chinese realized FDI in Indonesia by location 2010-2017²⁷



Chinese FDI's impact on Indonesia is essential. Fu et.al(2018) have shown that the Indonesian province's GDP per capita has a positive effect on Chinese FDI. According to their research, the economic development rate regression coefficient of Chinese FDI indicates the number of projects per capita of each regional GDP having gone up, this also occurs with the number of investments

²⁶ Yose Rizal Damuri et al., "Perceptions and Readiness of Indonesia towards Belt and Road Initiatives" (Jakarta, 2019). Damuri, 2019

²⁷ Ibid

and the investment projects has increased by each industry. This statement confirms the influence of Chinese FDI in Indonesia, bringing benefits to the regional level for the Indonesian side.

An industrial estate, also known as an Industrial Park, is defined as an area managed and marketed by a private or public company offering necessary infrastructures such as electricity, water, and a sewerage system. Besides, it also provides a range of supporting services (permits, security) and property facilities. In Indonesia, the initial development of industrial estates (Jakarta, Surabaya, Cilacap, Medan, Makassar, and Lampung) took place during the 1970s through the joint efforts of local and provincial governments. A milestone of the development of Industrial park was Presidential Decree 53/1989, which opened up the business of developing industrial estates to private companies and set the legal and technical standard requirements for the development and operation of such estates. In 1996, Presidential Decree 41/1996 established the first guidelines for industrial estates in Indonesia. Government Regulation No. 24/2009 highlights the industrial estate as a center for manufacturing industries supported by infrastructure, facilities, and services. Industrial Estates in Indonesia generally offer: (a). Infrastructure: Roads, water supply, drainage systems, wastewater systems, electricity and telecommunications, (b) Special facilities: Employee housing, office space, hotels, fiber optic telecommunications cables, and specialized transport services. (c) Service: Medical services, fire brigade, security, commercial services, and recreational area.

Industrial facilities are suited to many manufacturing and industrial activities because investors can choose whether to plug into a commercially ready-to-use factory with complete facilities or acquire a piece of land to build a factory customized on production requirements. Some industrial parks offer a complete package, which even includes the processing of permits and licenses with the relevant authorities and the recruitment of workers from the local pool and from the rest of Indonesia who is readily available.

Table.3. Industrial parks in Indonesia²⁸.

No.	Locations	Total	Land area (Ha)
1.	Java	55	22,795.90
2.	Sumatera	16	4,493.45
3.	Sulawesi	2	2,203.00
4.	Kalimantan	1	546
	Total	74	30,038.35

Source: (Salanto, 2015)

The dominance of the number of industrial parks in Indonesia is still on the island of Java, covering an area of 22,795.90 hectares totaling 55 areas. A total of 13 regions are controlled by Indonesian State-Owned Enterprises or the public sector. While the remaining 61 areas are owned by the private sector. Foreign investors who have been subscribed to since long ago are Japan, USA, and Singapore, while for newcomers such as China, who have just begun to develop their industrial park business in Indonesian from 2007.

Fig9. Location of Chinese industrial parks in Indonesia

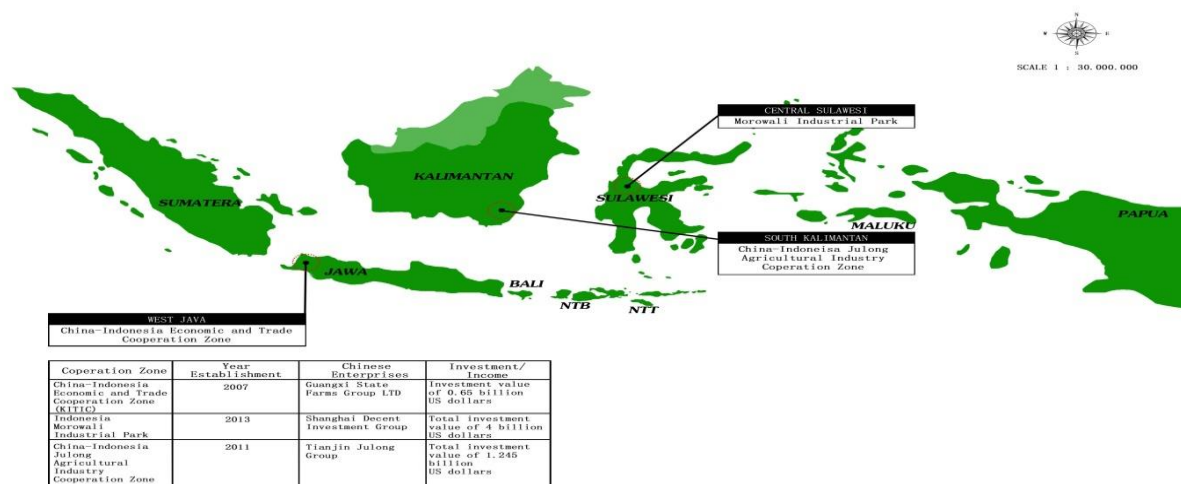


Table 4. Description of 3 Chinese industrial park investments.

Cooperation Zone	Description	Leading Industry	Investment/ income	Main enterprise
China-Indonesia Economic and Trade Cooperation Zone (KITIC)	3 Industry sectors, including household appliances, manufacturing equipment, and agriculture	Installation of automobiles machinery, home appliances, fine chemicals, and new equipment	Investment value of 0.65 billion US dollars	In 2018, 23 enterprises
Indonesia Morowali Industrial Park	4 Electronic generators, base station, satellite TV, 300,000 tons port berth and more than 70 residences	Ferronickel, stainless steel	Total investment value of 4 billion US dollars	6 enterprises, including PT Sulawesi Mining Investment and Indonesia Guangqing Ferronickel Industry Co. LTD
China-Indonesia Julong Agricultural Industry Cooperation Zone	5 parks including Central Kalimantan Park, Southern Kalimantan Park, Western Kalimantan Park, and Northern Kalimantan Park in the Kalimantan Island and the Lampung Port Park, Lampung	Oil palm planting and development, intensive processing, acquisition, storage and logistics	A total investment of 1.245 billion US dollars	12 upstream and downstream enterprises for palm oil

Province.

Source: (Song., et al, 2017)

Chinese Industrial Park in Cikarang Bekasi Regency, West Java Province is focused on industrial land sales because the site's location is close to Jakarta as the economic and government core. Chinese investors are very mindful to invest their resources, for example in two other industrial parks in the field of natural resource production built in the region where the product originates from being preferable so that in addition to finding the best raw materials, the choice of these locations can also save the cost of the distribution of raw materials.

Indonesia is a Country with a large population: A country with a large population is one of Indonesia's attractions. While GDP is not too high, it can be said that Indonesia's population is a consumer economy. 260 million inhabitants of Indonesia with an average annual increase in population growth of 1% and the bulk of the working-age population are their advantages in terms of the people of Indonesia. Chinese investors do not have to go far to export their production to their home country or other countries to find buyers, because Indonesians are potential consumers of their products. So setting up and expanding their factories in Indonesia is very efficient for Chinese producers. In addition to earning a large share of the internal market directly, it is also possible to make reductions in distribution costs.

Indonesia is a Country that has abundant superior natural resources for production raw materials: The issue of raw materials for processing is another crucial issue. Indonesia is a tropical country supplies many quality materials for processing. for example, Indonesia is the second-largest exporter of thermal coal and also the third-largest exporter of steaming coal in the world. Moreover, Indonesia has produced about 150.7 trillion cubic feet of natural gas at the end of 2012 and is the country's largest single owner of natural gas reserves of natural gas in the Asia Pacific region. Indonesia also holds 40% of the world's geothermal assets, which is equal to 28.6 GW of potential renewable energy generation capacity. In addition to the excellent quality of oil, palm oil, cocoa, and other minerals are also available in Indonesia. Indonesia is the world's leading natural resource producer

Table 5. High quality natural resources of Indonesia²⁹

No.	Commodity	Production	Location	World Rank
1.	Crude Palm Oil	21.2 million tons	Sumatera, Kalimantan, Sulawesi, Papua.	1st
2.	Tin	63 thousand metric tons	Sumatera,	2nd
3.	Rubber	3.1 million tons	Sumatera, Kalimantan	2nd
4.	Cocoa	740 thousand tons	Sulawesi, Sumatera, Java, Kalimantan, East Nusa Tenggara	2nd
5.	Copper	868 thousand metric tons	Papua, Maluku, Nusa Tenggara	5th
6.	Nickel	189 thousand metric tons	Sulawesi, Sumatera, Maluku, Papua	2nd
7.	Gold	105 metric tons	Kalimantan, Sumatera, Maluku,	7th

²⁹ Imam Haryono, "The Development of Manufacturing Industrial Estate in Indonesia" (Tokyo, 2015).

Chinese producers do not have to look far for raw materials with so many superior products in Indonesia and can save on distribution costs. Like China, for example, developed Morowali Industrial Park for the processing of nickel, where Central Sulawesi Province is the producer of these superior commodities, is already very well targeted.

Besides the ease of importing raw materials, the Indonesian government offers numerous investment opportunities that Chinese companies can enjoy in the industrial parks of China. This privilege is to obtain the reputation that the Indonesian government has been specializing in and paying more attention to investors' fate. Here are some of the laws of privilege that Chinese companies may encounter in industrial areas: (a) Enjoy corporate income tax and machinery import free periods for a maximum of 8 years; (b) The company does not need to pay taxes on imported raw materials for sales in the initial five years; (c) Company equipment that is used alone with foreign investment must be exempt from import duties; (d) Purchases of goods used in the production of export products in Indonesia will be exempt from value added tax and luxury good tax; (e) Industry specifics and large scale investments may apply for tax breaks; (f) Investment Protection; (g) Double Tax Avoidance Agreements and Memorandum of Understanding for subjects such as agriculture and mining, which provide guarantees for Chinese company investment in Indonesia³⁰.

In addition to being limited to Chinese companies, even the Indonesian government offers advantages to foreign workers with particular expertise to buy land in Indonesia and take their respective spouses to Indonesia. China's advantage does not end there, Indonesia's minimum wage for local workers is still relatively competitive compared to neighboring countries like Malaysia and Singapore, while Vietnam always keeps lower wages in the Southeast Asia region.

Competition with other investor countries: Indonesia is attracting many home countries with so many advantages in investment. Investments in Indonesia are reported in 98 countries. There is probably a competition. In the industrial park market, Japan and Singapore are China's biggest rivals. The following is a study of the three countries' industrial park sampling.

Table 6. Comparison of industrial parks in collaboration with Singapore, Japan and China.

China-Indonesia Economic and Trade Cooperation Zone (KITIC)	Area : 500 ha, Plan area: 200 ha
Industrial land for sale (Joint venture with China)	Location : Cikarang, West Java
	Number of companies : 23
	Distance to maintown : 37 km (Jakarta)
	Distance to Airport : 60 km (Soekarno Hatta)
	Distance to Seaport : 50 km (Tanjung Priok)
	Utilities and infrastructure: services (0,06 US\$/m ² /month) water source (0,86 US\$/m ³ /month) , electricity (PLN rate) and telecommunication (telkom rate).
Bukit Indah Industrial Park (BIIP)	Plan area : 700 ha
Industrial land for sale in	Location : Karawang, West Java
	Number of companies : 33

³⁰ G Zeng, H Zhao, and H. Hu, *Report on Construction and Development of China's Overseas Industrial Parks under the "Belt And Road" Initiatives* (Beijing: China Social Sciences Press, 2018).

general zone and export processing zone (Joint venture with Japan)	Distance to main town : 65 km (Jakarta), 59 km Bandung, 23 km (Karawang) Distance to Airport : 95 km (Soekarno Hatta), 80 km (Husein Sastranegara) Distance to Seaport : 75 km (Tanjung Priok) Utilities and infrastructure: services (0,06 US\$/m ² /month) water source (1,2 US\$/m ³ /month) , electricity (PT. Jabar Sejahtera rate) and telecommunication (telkom rate).
Batamindo Industrial Park (BIP) Standard factory building for lease (Joint venture with Singapore)	Plan area : 500 ha Location : Batam, Riau Islands Number of companies : 69 Distance to maintown : 12 km (Nagoya) Distance to Airport : 20 km Distance to Seaport : Batam Centre FT 7 km, Sekupang FT 24 km, Batu Ampar Seaport 18 km Utilities and infrastructure : services (0,60-1.20 S\$/m ² /month), water source (1.70 S\$/m ³), electricity (0,27 S\$/kwh), and telecommunication (telkom rate) One Stop Customer Service Centre : a. Business license application b. Manpower management and recruitment c. Immigration clearance d. Logistics management e. Security maintenance

Source: (Salanto, 2015)

Singapore is the largest investment in Indonesia According to Tab.6, the number of companies in BIP is much higher than in KITIC or BIIP, and this is one of the benchmarks of performance in industrial parks. Once observed, the industrial parks of Singapore are superior in terms of access and connectivity, such as the distance to major cities, airports, and connect with three seaportsto facilitate the distribution of goods. Furthermore, the distance from Batam to Singapore is very convenient, no more than 3 hours by sea, making it easier for Singapore to track and work.

Diversity of population and regulation: Compared to other countries in the world, the challenges faced in Indonesia are much more complicated³¹. Indonesia is made up of many tribes and races, and they vary significantly in their mindset and nature. Indonesia is also a decentralized country where different investment rules in each local government can cause customs and tax arbitrariness, which leads to corruption.

Media Indonesia also reports on the issue of local government corruption, especially local officials, concerning projects and investments almost always. It is a challenge to be cautious for investors and to understand the legal certainty that applies in the investment area. In contrast to the local government's lack of understanding, the role of the Indonesian government in regulating industrial land prices is also still insufficient.

³¹ J Octavia, "Rebuilding Indonesia's Industrial Estates," *Indonesia Investment Coordinating Board*, 2016, 1–14.

Difficulty of land acquisition: The dominant private sector in industrial property development and lack of government intervention and oversight has resulted in rising industrial land prices, rendering investment in Indonesia's industrial assets more expensive than in neighboring countries. As an example, in 2013, square meters were priced at US\$ 191 in Bekasi or Karawang (around Greater Jakarta), while in Bangkok which is the capital city of Thailand is only US\$ 119 . This may be due to a strong demand for industrial land in more developed areas in or around Greater Jakarta, as well as low capacity utilization outside Java for industrial estates. Land prices can be regulated only if the government plays an active and significant role in the growth of the industrial estate of their country (Octavia, 2016). This usually affects the price of renting a house or land around industrial areas whose prices also jumped.

Uneven infrastructure: Industrial properties, if holistically and adequately developed, have the potential to spread equitable growth across the archipelago. Because the infrastructure of Indonesia is more hierarchical and not evenly distributed on Java, the investors are afraid to start their company as well as Java. Nonetheless, the Indonesian government has gradually begun to improve business-friendly facilities, such as building ports, airports, and roads, especially as it is under the auspices of the BRI member countries that are focused on developing infrastructure.

Increased labor absorption: FDI has a strong influence on economic developments and has been demonstrated on different continents in many countries. The government has issued investment regulations to boost foreign capital. The latest innovation is that the Indonesian government promotes investment ease in Indonesia by encouraging and strengthening the "one-stop-shop" (OSS) of investment and publishing procedures and information on foreign investment by establishing tracking system electronically.

President Joko Widodo's release of OSS Central Government on 26 January 2015 is a remarkable moment in improving business and climate investment, especially in licensing services. Twenty-two ministries were formed as coordinating and delegated departments at IICB. The OSS system is socialized with local governments to prevent conflicting legislation. Eventually, by the end of 2016, all provinces and 514 cities and districts in Indonesia were fully integrated into OSS. One of OSS's goals is to promote the spread of investment outside Java island and accelerate investment permits in the regional bureaucracy without the central ministry carrying out a complicated licensing process³². With the ease of investment, the burden of Indonesian state problems such as the issue of unemployment and jobs in the region around industrial parks is expected to be rising. It was demonstrated positively in³³ research, which claimed that more than 20,000 direct jobs and about 10,000 indirect jobs were generated for Indonesia with the establishment of Chinese Industrial Park in Morowali Indonesia, absorbing the investment flow in the region. More than 10,000 Indonesian workers have been hired to date; the subsequent purchases of over 5,000 motorcycles have shown that they have become accustomed to working and living there. It is also an opportunity in Vietnam where investment flows produced indirect jobs of 330,000 in 1995 jumped 3.6 million in 2017³⁴ and Chinese companies played a significant role.

Exchange and improvement of science and technology from China: With the creation of industrial parks in the city, foreign workers who have the experience to use new technology from

³² Zeng, Zhao, and Hu, *Report on Construction and Development of China's Overseas Industrial Parks under the "Belt And Road" Initiatives*.

³³ Song et al., "Chinese Overseas Industrial Parks in Southeast Asia: An Examination of Policy Mobility from the Perspective of Embeddedness."

³⁴ L. T. Ha, "Chinese FDI in Vietnam : Trends, Status and Challenges," *ISEAS Yusof Ishak Institute Journal* 34 (2019): 1–10.

their home country and that is new to local workers in the factory will immediately be brought in. In this way, skills and knowledge of local workers will increase. However, many foreign companies also provide local workers with educational and training facilities to help operate their industries.

The concern of domestic entrepreneurs: The presence of industrial park has allowed Chinese business people to run their business comfortably. Indonesian government offers numerous facilities as well as increasingly widespread foreign business behavior so that they can grow their business quickly. This situation raises the fears of the domestic entrepreneurs. Chinese knowledge and technology are more, efficient than Indonesia, and it is believed that domestic products will lose in terms of price and value. This event has also occurred in Vietnam, where the local industry is challenging to survive, making the economy highly dependent on foreign companies, which is more than 70%³⁵ Anxiety about the rise of Chinese business investors is also felt in Malaysia because it is feared that Chinese companies will control the entire investment supply chain and ultimately determine local small and medium-sized business prices³⁶ Indonesia is concern of this condition, so new regulations are needed to control it. The fear of economic dependence: Indonesia gets a substantial flow of funds from year to year coming from China, even in 2018 is the largest recipient of funds among other neighboring countries. With the large amount of capital flowing into Indonesia in the form of investment, it is feared that Indonesia's economic dependence will occur. This happened in Pakistan, where now part of Pakistan uses two currencies, namely Pakistan Rupee and Renminbi. This situation reflects that China has a very strong economic influence in Pakistan.

Conclusion

Establishing an industrial park in the host country is the main thing as a glue for cooperation between China and BRI member countries. The development of Indonesia's industrial estate aims to control the use of space, accelerate industrial growth, increase industrial competitiveness and investment, and provide certainty in infrastructure planning and development. According to the discussion about the potential and challenges of Chinese FDI in Indonesia in this paper, the following conclusions were obtained: (a) Potentials from the perspective of Chinese investors: In addition to being a host country, Indonesia is a very attractive share of the internal market because it is backed by a large population, most of who are in a productive age with a population growth rate of 1% per year. However, Chinese investors will not be short of raw materials because Indonesia is a country that produces abundant natural resources of high quality. Furthermore, Chinese manufacturers are also drawn by the relatively cheap minimum wage for local workers; (b) Chinese investment challenges in Indonesia: land acquisition in Indonesia is still categorized as setting a high price compared to other countries; it needs land acquisition regulations that are friendly to investors. However, infrastructure is still inadequate in Indonesia, particularly for those outside Java, so investors are still reluctant to invest outside Java. Although industrial licensing has been integrated on the scale of local government, with decentralization, investment regulations have become different in the regions, which are often used for corruption by local government officials. And another tough thing is rivalry with other countries' shareholders who have their plans to grow their industrial estate; (c) Potentials from Indonesia's point of view: The impact of industrial park presence in one area concerns many aspects such as exchanging knowledge and technology and growing labor absorption in the industrial area either directly or indirectly, which inevitably becomes one of the measures of increasing economic growth rates; (d) Challenges for Indonesia: With the fast speed of

³⁵ Ha.

³⁶ T. S. Yean, "Chinese Investment in Malaysia : Five Years into the BRI," *ISEAS Yusof Ishak Institute Journal* 11 (2018): 1–9.

Chinese manufacturing entrepreneurs in Indonesia, state-owned companies or domestic people in business will also become less successful due to far behind technological advances. Even worse, if the Indonesian economy is dependent on the flow of Chinese FDI that could threaten the sovereignty of the country.

Chinese FDI has brought more good effects to Indonesia, especially in stimulating the country's infrastructure development. The economic activity's potential and challenges are general. Identifying this is for knowledge to optimize what is the opportunity and what is a barrier can be solved gradually. This paper may have a lack of in-depth analysis, and the analysis result may not represent the current exact data and example. However, the authors hopes this paper may be able to represent general condition of Chinese FDI in Indonesia, more work on Chinese FDI and Chinese industry parks in Indonesia is strongly recommended.

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