THE RISE OF CHINA: CASE STUDY BELT AND ROAD INITIATIVE IN INDONESIA

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Abstract

The Belt and Road Initiative (BRI) is a grand strategy used by China to expand and strengthen its influence in the international sphere. In spreading BRI, China established strategic partnerships with middle and minor power countries through infrastructure development, such as the construction of an Asia-Europe silk train route, construction of an oil and gas pipeline through Central Asia-China, also a high-technology seaport in China and its destination countries. China also forming a Foreign Direct Investment (FDI) for Asian countries named the Asian Infrastructure Investment Bank (AIIB). China’s aggressiveness is increasingly visible through its one-sided effort on claiming the South China Sea. BRI has a long-term negative financial impact in the economic and trade sectors which could be seen in some African countries. However, BRI has a significant short-term impact, especially in improving the country’s infrastructure sector and the development of national growth. In Indonesia, the BRI project has been approved by the government to become an alternative that supports Indonesia’s infrastructure development. BRI has been applied in Indonesia on railway construction and also
power and steel industries. Furthermore, Indonesia is trying to stabilize the Asia-Pacific Region by setting its condition as the first move. This study will be analyzed using hegemonic stability theory and rational choice theory. The method used is a case study method related to the findings in this study aimed at analyzing the reasons and impacts of Indonesia choosing and establishing strategic partnerships with China amid the turmoil of the Chinese and American trade wars. Indonesia's choice of establishing strategic partnerships with China could appear as a security dilemma that Indonesia faces regarding the Asia-Pacific regional stability.

Keywords
China, Belt and Road Initiative, Asian Infrastructure Investment Bank, Indonesia, Infrastructure

1. Introduction

The trade war between China and America began when in August 2017 the American President ordered the U.S Trade Representative to check trade policies made by China. He claimed that such trade policies would burden the Americans. The situations got escalated by the US government's announcement to impose an additional tariff on Chinese imported commodities worth $200 billion in September 2018 (Grace, 2018), which was then immediately welcomed by the Chinese government who also would not remain silent in response to this by raising new import tariffs on American products worth $3 billion (Pujayanti, 2019). Both countries make protection policies to prevent the entry of goods produced by opposing parties. Intense competition between the two major countries has an impact on the weakening of global economic conditions (Tobing, 2019).

Even though trade war is happening between China and America, China has two roles in international trade: first, China seeks to take advantage of the empty spot of America to cover the losses of the America’s imposition of high import tariffs. Second, China is trying to become an aid especially developing countries that suffer losses due to America’s protectionist policies (Dewi, 2019).

During the reign of Xi Jinping, China began to show its fangs with a retaliatory attack on America through the trade war. China is also trying to show its dominance in the global sphere to repel America as the holder of world hegemony. China is trying to create hegemonic stability so America would no longer stay as the superpower and the world can begin to consider China. To expand its influence and power, China uses the concept of Belt and Road Initiative (BRI) which is directing foreign policy to expand its influence in the Asia-Pacific and also the world (Brands,
2018). Through BRI, China tries to create a cooperation that shares the same vision on mutual benefits and peaceful coexistence amongst member countries through the trade routes (Napang, Nurhasanah, & Rohman, 2019).

Seeing China's intense efforts to control the world economy and the lucrative investment opportunities, Indonesia tries to take advantage of this condition for infrastructure development related to national development. This was conveyed by Indonesian Foreign Minister Retno Marsudi who stated that Indonesia saw opportunities for connectivity offered through BRI as a facility for trade, investment and public relations development. She added that there is a continuity between connectivity offered by BRI and ASEAN Connectivity 2025 (Putra L. M., 2017). However, after this collaboration related to connectivity was carried out, several obstacles began to emerge and needs to be taken care of for the sake of the national development and national interests.

2. Analysis

To analyze China's efforts in the use and expansion of BRI in the international sphere, researchers used hegemonic stability theory. Besides, researchers also used rational choice theory as an important theory that was used to further analyze the reasons Indonesia chose to work with China so that this study would provide credible results.

2.1 Hegemonic Stability Theory (HST) Identification

The theory of hegemonic stability is an emerging theory that refutes the hegemony theory. This theory began to emerge in the 1970s and 1980s in the period's debate about the decline of the power of US hegemony. The theory of hegemony stability has basic ideas which state that the existence of a country is necessary and sufficient conditions for a liberal and open world economy (Gills & Patomäki, 2017). The stability of hegemony can be wise or coercive depending on how large countries use it. The key assumption underlying the theory of hegemony stability, however, is that free trade and maximum (global) openness in investment and finance benefit all people, although they are not the same, different from many alternative perspectives (Snidal, 1985).

Dominant forces not only provide good needs but also able to extract good contributions from subordinate countries. As a result, the power of hegemony is a quasi-government by providing industrial goods and taxing other countries to pay for it. Subordinate states will be
reluctant to be taxed but, because of the country's greater industrial-strength, will surrender. Indeed, if they receive a net benefit (i.e., a surplus of the benefits of industrial goods from the contribution extracted from them), they might recognize the leadership of the industry as legitimate and thereby strengthen its performance and position (Snidal, 1985).

China is seen as a country that strives to maintain the stability of generous hegemony. China through BRI also positioned itself as a country that came with a peaceful goal to cooperate rather than being a regional threat. Although in terms of hegemony, China seeks to take over American power in this world, in terms of hegemony stability, China wants to be a big country that has a hegemonic function but is beneficial in terms of cooperation for middle and minor power countries.

2.2 Rational Choice Theory

The rational choice theory emphasizes the importance of the word 'rational' which means that behavior is a process of cognition that can be explained. This theory also explains the use of the term 'utility-maximizing approach' which emphasizes that an individual will make choices that benefit him. The concept of Rational Choice Theory can theoretically be very strong but weak when explaining social phenomena (Boudon, 2009).

The study of rational choice has two main principles, namely domination, and variation. The concept of dominance shows that something (A) is chosen from another (B) because something (A) has an advantage over another (B). However, the advantage does not have to be on all aspects but at least something chosen (A) has one aspect that is superior to the other (B). This principle shows that the choice will depend on the benefits to be gained. Variation indicates that different representations of the same problem choices must produce the same preferences. That is, preferences between options must be in line with their description. Two characterizations that decision-makers, in reflection, will see as descriptions of the same problem must lead to the same choice - even without the benefit of that reflection (Tversky & Kahneman, 1986).

Rational choice theory is deemed suitable for analyzing the reasons and goals of Indonesia in conducting strategic cooperation with China. This is based on rational choice theory emphasizing that the actor (individual or state) is the most important key in taking action to achieve and maximize interests by taking or choosing an option that is considered to produce significant results (Coleman, 2013). In the context of the realization of national development, what Indonesia did by establishing a profitable partnership to strengthen infrastructure with
China by agreeing to collaborate on Indonesia’s nation development is the right thing to do. Based on the concept of domination, China was chosen by Indonesia because China wants to provide loans through Foreign Direct Investment (FDI) to Indonesia and Indonesia can also use money from the Asian Infrastructure Investment Bank (AIIB) as a member of the donor. From a financial perspective, Indonesia feels more privileged to cooperate with China compared to America.

3. Findings and Discussion

The research findings were discussed in two sessions, namely the Belt and Road Initiative session as a result of the Chinese perspective and the Belt and Road Initiative in Indonesia as a result of the research from the Indonesian point of view. Through these two sessions, the research is limited to analyze Indonesia’s cooperation with China and the problems found during the partnership from Indonesia’s perspective.

3.1 Belt and Road Initiative (BRI)

Belt and Road Initiative (BRI) which commonly known as One Belt One Road (OBOR) by the general public is China's major initiative to integrate China's rising economy and large middle-class market with the world (Gebauer, 2017). BRI was introduced in 2013 to improve the economy and connectivity (such as infrastructure, trade, and investment) with its neighbors and various trading partners which consists of the Silk Road Economic Belt and the 21st Century Maritime Silk Road (Morrison, 2019).

Xi Jinping explained on the Asia-Pacific Economic Cooperation (APEC) summit in November 2017 that BRI aims to improve connectivity between countries and regions, promote interrelated development, and create new space for global growth. BRI is an open platform for cooperation. This is guided by the principles of consultation and collaboration for mutual benefit and is not designed to serve a hidden geopolitical agenda, is not targeted at anyone and does not exclude anyone. In contrast, BRI is a large and transparent initiative with which China shares opportunities and pursues joint development with the rest of the world (Xia, 2018).

BRI calls for joint contributions and has a clear focus, namely to promote infrastructure development and connectivity, strengthen the coordination of economic policy, enhance complementary development strategies and encourage inter-related development to achieve mutual prosperity. This initiative is from China but belongs to the world. It has roots in history.
but is future-oriented. It focuses on the continents of Asia, Europe, and Africa by embracing those continents (Napang, Nurhasanah, & Rohman, 2019) but still open to all partnership. In opening a bigger market to meet a consumptive economy, China needs a bigger market in the Eurasian continent. This is the strategy of the new Silk Road with the aim of facilitating large-scale infrastructure construction, energy sale and transportation, as well as production relocation that is relevant to the economic conditions of the countries invited to cooperate, as well as profits on the part of China by increasing China's active participation in regional cooperation as a country major power is responsible as a form of diplomacy offered by China (Damuri, Atje, Alexandra, & Soedjito, 2014).

In its implementation, the achievement of BRI's strategic cooperation consists of five aspects, namely:

- Coordination of policies through joint development of large-scale projects and becoming strategic cooperation partners. BRI prioritizes voluntary cooperation based on shared interests and values. Policy coordination between and among participating countries is essential to align perceptions of economic growth strategies, macroeconomic policies, and national development plans.

- Facilitating Transportation through infrastructure projects & removing institutional and logistical constraints. This is done to realize the Silk Road of Trade and the 21st Century Silk Road that can connect the trade players. The results of BRI can also be seen with the construction of an Asia-Europe crossing train from Yiwu China Station to London that goes through the Kazakhstan route (Hillman, 2018). The path that was originally called the silk line has now become the silk train silk line. Items that used to take 6 weeks have passed now only need 3 weeks. Besides, the other development of China is the building of sea ports (Araya, 2019) (Masood, 2019).

- Trade facilities through a Free Trade Agreement which serves as the basis for the current multilateral trading system with the World Trade Organization (WTO) as its core. As the largest trading country in the world, China is willing to maintain and strengthen trade relations with its trading partners including BRI countries by applying zero or almost zero tariffs and substantially removing non-tariff barriers in the area covered, FTA benefits all participating countries. China has an effective bilateral FTA or investment agreement with many BRI countries.
Financial sector cooperation by offering quality financial services by providing direct loans through Foreign Direct Investment and inviting cooperating countries to invest in the Asian Investment Infrastructure Bank (AIIB) which is used as a bank to fund joint projects.

Relationships between individuals through cultural and academic exchange. Without the understanding, acceptance, and cooperation of local people and communities, a project abroad is difficult to succeed. And people only accept and engage with others when they know them better. Therefore, BRI countries need to have more exchanges at all levels and in various fields. The exchange of education, scholarships and joint research, for example, has proven to be an effective way to enhance mutual understanding, foster cultural identity and build shared values (Fan, 2019).

3.2 Belt and Road Initiative in Indonesia

On Belt and Road Forum (BRF), Indonesia and China have signed 23 Memorandums of Understanding (MoU) on cooperation regarding investment and trade. The cooperation contract covers the development of four economic corridors, fast train research and technology cooperation, and the development of educational research. Xi Jinping has also promised to increase imports of agricultural products, fruits, industrial products, and mineral mining. Xi Jinping also has signed the contracts for new projects worth US $ 64 billion. Funding will focus on developing projects in 4 economic corridors, namely North Sumatra, North Kalimantan, North Sulawesi, and Bali. The Coordinating Minister for Maritime Affairs Luhut Pandjaitan said that BRI had become an alternative to supporting development projects. This shows that China, as the main actor, can respond to the needs of the international community (Desk Editor Insider, 2019).

When viewed through the five aspects of BRI's collaboration achievements, BRI China and Indonesia's strategic cooperation are:

• Policy coordination, Indonesia chose China to be a strategic partner in Indonesia's development plans which were carried out throughout Indonesia. Indonesia and China have been strategic partners in Indonesia's development until 2045. Coordination between the Ministries and Institutions in Indonesia that must be carried out thoroughly seems tough. This has an impact on delays in project performance (Lai, 2019).
Facilitating Transportation through infrastructure projects & removing institutional and logistical constraints, China facilitates Indonesia in infrastructure projects and removes institutions and logistics. In Indonesia, China is trying to make President Joko Widodo's ideas about the world maritime axis work together as China realizes its Maritime Silk Road. China is also trying to help Indonesia in the development of sea tolls. However, Coordinating Minister for Maritime Affairs Luhut Pandjaitan stated that Indonesia was not cooperating in maritime matters with China given that the country made a one-sided claim on the North Natuna Sea (Desk Editor Insider, 2019).

Trade Facilities through a Free Trade Agreement (FTA) as the largest trading country in the world. China is willing to maintain and strengthen trade relations with its trading partners including BRI countries by applying zero or almost zero tariffs and substantially removing non-obstruction tariffs in the area covered, FTA benefits all participating countries. China has effective bilateral and multilateral FTAs or investment agreements with many BRI countries. Indonesia's policy following the ASEAN-China FTA (ACFTA) has a positive impact on Indonesia and China. Therefore, the partnership relationship needs to be continued and improved in a direction that increasingly provides optimal benefits for both, especially Indonesia. One way to optimize these benefits is by strengthening the cooperation that has been made between Indonesia and China through Memorandum of Understanding on Electronic Data Exchange to Facilitate Free Trade Agreement Implementation (Movanita, 2019).

Financial sector cooperation by offering quality financial services by providing direct loans through Foreign Direct Investment and inviting cooperating countries to invest in the Asian Investment Infrastructure Bank (AIIB) which is used as a bank to fund joint projects. Indonesia has also invested in the Asian Investment Infrastructure Bank (AIIB) which is used as a bank to fund joint projects. Since being formed in 2016, Indonesia is one of the largest shareholders in AIIB. Indonesia received one of the funding along with three other countries at the start of the AIIB operation. The funding are being distributed to national slum upgrading program (Asian Infrastructure Investment Bank, 2016), infrastructure development including sustainable rural sanitation service program, strategic irrigation modernization and urgent rehabilitation project (Asian Infrastructure Investment Bank, 2018), Dam Operational Improvement and Safety Project (DOISP)
(Asian Infrastructure Investment Bank, 2017) and Mandalika Urban and Tourism Infrastructure Project in Mandalika, Lombok (Asian Infrastructure Investment Bank, AIIB to support Indonesia’s sustainable tourism development, 2018). However, it should be noted that Indonesia must also be able to anticipate loans provided by China so that it will not suffer the same fate as minor power countries that are in debt with China and end up with power over infrastructure projects being taken over by China.

- Relationships between individuals through cultural and academic exchange. Without the understanding, acceptance, and cooperation of local people and communities, a project abroad is difficult to succeed. This point is more associated with Chinese experts. The exchange must be made so that the projects undertaken become more effective, but in practice, the number of Chinese foreign workers entering Indonesia is still exceeding the quota given by Indonesia’s government. China brought more than the agreed quota and the majority did not understand Indonesian / English which is not relevant with this aspect of BRI that China wanted to put forward in the realization of BRI (observation done in South Kalimantan).

Some mega projects Joko Widodo wished to be developed in Indonesia through the cooperation with China in BRI can be seen on the following table:

<table>
<thead>
<tr>
<th>No</th>
<th>Project’s Name</th>
<th>Location</th>
<th>Development’s Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>integrated economic corridors, connectivity, industry and tourism</td>
<td>North Sumatra</td>
<td>construction of Kuala Tanjung Harbor and access roads from Medan to Sibolga</td>
</tr>
<tr>
<td>2</td>
<td>Improvement of infrastructure quality in Bitung-Manado-Gorontalo</td>
<td>North Sulawesi</td>
<td>construction of access roads, railways, harbor and airports.</td>
</tr>
<tr>
<td>3</td>
<td>Investment opportunities on infrastructure project</td>
<td>North Kalimantan</td>
<td>energy infrastructure and power plant development</td>
</tr>
</tbody>
</table>

Source: (Adam, 2018), modified by the Researcher

Through the BRI, some projects agreed by Indonesia and China can be seen in the following table:

<table>
<thead>
<tr>
<th>No</th>
<th>Project’s Name</th>
<th>Type</th>
<th>Year Started</th>
<th>Year Finished</th>
<th>Value (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cirebon–Kroya</td>
<td>Railway</td>
<td>2017</td>
<td>2019</td>
<td>105 mn</td>
</tr>
</tbody>
</table>
Most BRI projects are developed through Joint Ventures (JVs) between host country entities and China, with financing from China's leading financial organizations. This JV carries out their project under a concession, i.e. a permit from the local government, or direct government procurement. The concession is included in the Jakarta-Bandung Railroad project and the Morowali Industrial Park in Indonesia (LSE IDEAS & CIMB Asian Research Institute, 2018).

4. Conclusions

China seeks to bring stability to hegemony in the world by conducting a trade war against America, this is done solely to improve the economic condition of China itself. In its implementation, China uses BRI which began to be spread throughout the world. BRI, which initially only engaged in the economic sector, also indirectly began to intersect with the political sphere and the interests of the countries invited to cooperate.

Indonesia seeks to collaborate with China because it is indeed beneficial in terms of infrastructure. This is in line with the achievements of President Joko Widodo, which is to improve infrastructure development in Indonesia. The cooperation is solely carried out by Indonesia by choosing China so that Indonesia can anticipate the worst situations that can arise from the intense competition that is taking place between China and America. This is done to protect Indonesia's national interests and the security of the ASEAN Region.

Based on the theory of rational choice, it is evident that Indonesia has collaborated with the side that has more favorable for Indonesia. In realizing national development, infrastructure development must be carried out evenly, not only in Java but also throughout Indonesia. But keep in mind, in the implementation of BRI many countries were harmed due to incapability of managing the financial and technical support. The host country will only benefit from this
opportunity if they can understand how the structure of the cross-sea or land trade market works. Most importantly the host country must have the ability to formulate and implement a good plan so that the project can be realized according to plan. Indonesia also has to address some problems that arising through the BRI with China. China’s attempt to intersect its Maritime Silk Road with Indonesia’s global maritime fulcrum might be a warn that has to be assessed carefully. Another problem that has to be addressed is the status of China’s foreign workers that come for working in Indonesia. Indonesia’s government also has to assess them according to the agreement made between Indonesia and China regarding the foreign workers.

Further research on the Belt and Road Initiation (BRI) shall focus on the sustainability of the project and also conduct a separate research regarding the Maritime Silk Road (MSR) since China is trying to rule not only the land but also the ocean as well. Indonesia as a maritime country has to be careful with China’s MSR because this would threaten Indonesia’s national interests on strengthening Indonesia’s position as the global maritime fulcrum. Problem regarding the foreign worker status and the implementation of its regulations also could be conducted as a future research because it has another urgency regarding security sector that could affect national interests. Hence why, the further research on this area has to be conducted.

References


