

Belt and Road Initiatives to Further Bolster Indonesia and China Economic Cooperation

22 May 2017 – China’s recent introduction of stricter capital outflow controls has raised concerns around the prospects of the country’s outbound direct investment. The Belt and Road Initiative will be a key catalyst to accelerate China’s outbound investment flows.

While China’s decision of introducing more strict capital outflow limitations seems like an uncomfortable turning point, it appears targeted and likely short term for the benefit of the wider economy. There are strong signals that Beijing is confident that their current approach will not impede or reverse China’s long-term overseas investment trend. President Xi Jinping has made it clear that China will continue to reach out to the world and invest in key sectors. In the next five years China expects to invest 750 billion Dollars overseas and ODI will continue to play a key part in supporting the country’s economic transition.¹

China’s ODI continues to surge, with a 44.1 per cent year-on-year growth to USD 170.11 billion in 2016. The Belt and Road Initiative is bolstering cooperation between Chinese and foreign firms. Outbound investment to countries involved in the initiative totalled USD 14.53 billion in 2016.² Data from January to September 2016 details that China’s ODI in Indonesia grew by nearly 300 per cent to US\$1.5 billion compared to the same period in 2015, according to Investment Coordinating Board (BKPM).

In line with ODI growth, the number and size of Chinese privately owned enterprises (POE) are increasing. Accumulated state-owned enterprises (SOE) ODI has more than quadrupled in the past few years, particularly in the areas of mining and infrastructure following the announcement of Belt and Road Initiative. Chinese POE overseas investment has expanded even faster, 10.4 times over 2009 to 2015.³

Currently, the Belt and Road Initiative is bringing in a new round of opportunities for China’s outbound investment, particularly in infrastructure construction – building roads, railways, bridges and ports across the Asia region.

Some signs of deepening ties between China and Indonesia are to expand economic cooperation from electricity and mining to new sectors such as e-commerce and tourism. On his visit to China in 2016, President Joko Widodo and President Xi Jinping has agreed on 3 (three) main issues between the countries. The first discussion is on their effort to increase trade and decrease the deficit gap between Indonesia and China. Another thing discussed is both countries are working to increase the investment especially in manufacture and infrastructure. Third, in tourism industry, China will encourage its people to visit Indonesia more.⁴

In particular, large infrastructure investments require substantial capital support, but financing is often a challenge for most Asian countries. Indonesia’s government has identified infrastructure as being a key focus area for growth, and has listed a number of key infrastructure projects including sea ports, airports, toll roads and power projects which will result in an investment of US\$450 billion over a five year period. Indonesia has a large infrastructure gap to fill, requiring over US\$400 billion in total investment in the coming five years. President Joko Widodo has pledged to transform the investment climate with significant infrastructure investment and secured US\$74bn of investment commitments from China (US\$68 billion) and Japan in 2015.

“With the increasing urbanisation of populations around ASEAN, infrastructure has become an unmistakable priority for countries across the bloc, and this is where China’s Belt and Road Initiative

¹ http://news.xinhuanet.com/english/2017-0h1/19/c_135997710.htm

² <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201701/20170102503092.shtml>

³ HSBC Global Research, On the New Silk Road V (17NOV16)

⁴ <http://economy.okezone.com/read/2016/09/03/320/1480382/3-kesepakatan-hasil-kunjungan-jokowi-ke-china>

(BRI) has added a new dimension to the business possibilities,” commented Sumit Dutta, President Director (designate), PT Bank HSBC Indonesia.

President Joko Widodo mentioned NAWACITA which is Nine Agenda Priorities of Government Economic Policies and includes the development of rural areas and improving quality of life. This agenda is supported by the infrastructure rollout program such as construction of roads, toll roads, MRT and LRT, sea toll. The construction is carried out in Java but also Sumatera, Kalimantan, and Sulawesi. Most of the programs are currently in progress and it is speeding up.

The Belt and Road Initiative later may help to secure the financial support needed from China-led policy banks including the Asian Infrastructure Investment Bank (AIIB) and New Development Bank, as well as Chinese funds like the Silk Road Fund. These have dedicated billions to support Belt and Road Projects. Financial institutions including Chinese and foreign commercial banks also have key roles to play in facilitating this financing.

Indonesia can further expect more investments in particular infrastructure investment in the future to help speed up Indonesia’s economic growth, relates to President Joko Widodo’s NAWACITA above. Some projects like the port infrastructure and sea transports can surely assure sustainable production of maritime-related resources. It will also support Indonesia’s maritime industry to boost national economy.⁵

Concurrently, S&P Global Ratings has raised Indonesia’s credit rating to investment grade, bringing it in line with the other two main rating companies.

“The sovereign rating was lifted from BB+ to BBB- with a stable outlook⁶, this will pave the way for more investments to Indonesia, as ASEAN largest economy,” as said by Dutta.

The Belt and Road Initiative is a suitable good momentum for that kind of partnership where Indonesia can gain benefit, not only to strengthen the relationship with China, but also to guarantee the funding of its infrastructure project. As mentioned by the Head of Investment Coordinating Board (BKPM), Indonesia should be proactively involved in this initiative especially for the infrastructure project which has been the focus of the government.⁷ By doing that, Indonesia could capture the benefit from this initiative to be able to lead the current economic growth, especially in ASEAN region.

“When tied with the development needs of ASEAN, this could be the biggest opportunity to stimulate international trade, motored by Indonesia,” commented by Dutta.

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⁵ <http://www.globaltimes.cn/content/1046679.shtml>

⁶ <https://www.bloomberg.com/news/articles/2017-05-19/s-p-upgrades-indonesia-to-investment-grade-amid-stronger-growth>

⁷ <https://bisnis.tempo.co/read/news/2017/05/06/090872811/bkpm-ri-harus-manfaatkan-peluang-di-one-belt-one-road>