

Indonesia-China Relations: The Belt and Road Initiative and COVID-19 Challenges

Kam-Hing Lee*

To cite this article: Kam-Hing Lee (2021). Indonesia-China relations: The Belt and Road Initiative and COVID-19 Challenges. *Malaysian Journal of Chinese Studies* 10(2): 1–18. [http://doi.org/10.6993/MJCS.202112_10\(2\).0001](http://doi.org/10.6993/MJCS.202112_10(2).0001)

To link to this article: [http://doi.org/10.6993/MJCS.202112_10\(2\).0001](http://doi.org/10.6993/MJCS.202112_10(2).0001)

Abstract

Relations between Indonesia and China are important not only to the two countries but also to the region. This is because China is the world's second largest economy while Indonesia is the largest in Southeast Asia. In 2020, Indonesia's economy formed one-third of the GDP of the Association of Southeast Asian Nations (ASEAN). Within ASEAN, Indonesia, which leads in terms of population and territorial size, has an influential voice. The nature of Indonesia-China relations, therefore, has implications on trade and security of the region. Relations between the two have not been easy, swinging from warm ties in the 1960s to a suspension of relations lasting almost thirty years until relations were restored in 1990. This paper looks at how the two countries are re-setting their relations particularly against the opportunities of the Belt and Road Initiative and the challenges of the Covid-19 pandemic.

Keywords: Indonesia, China, Covid-19, investments, security, environment

Introduction

Indonesia and China are two very large countries in the Indo-Pacific region with growing economies. Together, they are important to the stability and development in the Indo-Pacific region. Since the normalization of relations between Indonesia and China in 1990, trade and investments between the two countries have greatly increased. China has become Indonesia's largest trading partner. China is also the second largest investor in Indonesia, having replaced Japan and the US. In tourism, Chinese visitors form the largest group to visit Indonesia.

Several major developments in recent months have further underscored the importance of relations between Indonesia and China. These developments are the intensifying United States-China rivalry, China's Belt and Road Initiative, and the Covid-19 pandemic. Unsurprisingly, growing US-China rivalry has led to a U.S. pivoting of its security interest to the Indo-Pacific region. Earlier, China launched its Belt and Road Initiative, a project which offers economic opportunities to Indonesia. Amidst these developments in the region, as with the rest of the world, the Initiative was hit by the Covid-19 pandemic with the first outbreak having been reported in China.

While China seems clear and consistent in how it regards Indonesia, seeing Jakarta as important to its broad geo-political and economic interest, Indonesia's view of China is one of ambivalence. While on one hand, Jakarta sees benefits and opportunities in closer ties with Beijing such as in trade and investments, it also considers China as a potential threat to its territorial and domestic security. This ambivalence is highlighted in studies of three Indonesian scholars. It is an ambivalence that has led Sukma in his essay to comment that China is the most difficult of all the countries that Indonesia must deal with (Sukma, 2009).

Indeed, relations between the two have not always been easy, swinging from warm ties in the 1960s under President Sukarno to suspending of relations under President Suharto. Diplomatic ties between Indonesia and China resumed in August 1990 and since then the two countries have close relations especially in trade and investments. Dewi Fortuna Anwar sees this re-engagement as one of bringing Indonesia-China relations one full circle back to the days when observers refer to the close ties as a Jakarta-Beijing axis. In fact, a closer look shows that Indonesia today cooperates with China in more areas and more deeply than at any time in the past. There are more extensive trade, investments, and travel between people of the two countries. However, Dewi Fortuna Anwar who was one of the advisors to President Habibie hastened to add that Indonesians still views China with ambivalence (Anwar, 2019).

This ambivalence could be traced to the early years of diplomatic relations. Ruth McVey in her study of the Indonesian Communist Party argues that early Indonesian leaders viewed China as a state as well as a revolution (McVey, 1968). But there was also the image of China as a homeland to Indonesians of Chinese descent whose economic wealth created much resentment. Nevertheless, the first two images of China were received positively by many Indonesians. Liu Hong took up the images described by McVey. He argued that China was idealized through these images and that Indonesians believed that the creation of a disciplined, cohesive, and harmonious society was due to the nationalism and the new Chinese-style democracy (Liu, 2011). In doing so, many Indonesians distinguished the China they admired from the communist ideology practised there. Sukarno found no incompatibilities between his own vision for Indonesia and the ideas driving China. His interpretation of China's political experience became a key rationale for the introduction of Guided Democracy. Guided Democracy placed power in the president's hands (Bunnell, 1966). Sukarno, greatly disenchanted with Western-style democracy, viewed China as a model that was very appealing.

However, relations between Indonesia and China deteriorated from the end of 1965 following an abortive coup in October 1965 launched by dissident Indonesian military officers. The coup attempt was supported by the Indonesian Communist Party, and the Chinese Communist Party which had close links with the Indonesian communists was implicated. The anti-China atmosphere was worsened by the often-difficult relations between the small but wealthier Indonesian Chinese community and the larger indigenous society. Some Indonesians alleged that local Chinese were harbouring sentiments of China as their homeland (Leo, 2017). In the aftermath of the coup attempt, Indonesia suspended diplomatic relations with China. The memory of the 1965 coup attempt and allegations of China's involvement continue to loom large in the consciousness of Indonesians.

Resumption of Diplomatic Ties, 1990s

Evan Laksmana in his essay suggests that given the historical experience and the ambivalence Indonesia has towards China, it may not be easy to determine whether hedging, balancing or band wagoning could best describe Indonesia's foreign policy particularly in relation to the major powers in the region (Laksmana, 2011). It may be, he suggested, variances or a mixture of how it positions itself. He argued that in domestic politics, national security, trade and economy, Indonesia has reasons to work closely with China. On its part, China has demonstrated greater goodwill towards Indonesia. During the 1998 Asian Financial Crisis, China provided 4 billion in U.S. dollars of aid to Thailand, Indonesia, and other countries within the framework of the IMF. It provided export credit to Indonesia as well as medicine to help with Indonesia's recovery. China also provided humanitarian assistance and support worth more than US\$50 million when the huge tsunami of 2004 hit Indonesia's Sumatran coast. Indeed, China's decision not to devalue the yuan during the Asian Financial Crisis was also seen as particularly helpful as this would otherwise have put great pressure on the devastated economy of Indonesia and other countries in the region.

Indonesia's leaders also saw China's expanding economy as of importance to Indonesia's trade. Other Southeast Asian countries were increasing their economic ties with China, and Indonesia did not want to be left out. Furthermore, improving economic relations with China would lessen its dependence on Japan which had been dominant in trade and investment in Indonesia.

The fall of President Suharto amidst the 1998 Asian Financial Crisis led to a freer and more open political system in Indonesia. The new democratic forces had less need to dwell on the post-1965 events implicating China and the local Chinese community. Instead, they sought broad social reforms. In the process, many of the discriminatory policies against the local Chinese were removed especially under Habibie, Abdurrahman Wahid, and Megawati Sukarnoputri. Under President Susilo Bambang Yudhoyono, Indonesia's relations with China further improved. In April 2005, Indonesia and China signed a strategic partnership during

President Hu Jintao's visit to China. In October 2013, this was elevated to a comprehensive strategic partnership in areas on trade and economic development, science and technology, sociocultural activities, and defence industry during Xi Jinping's visit.

Yet, there remained sections of the elite and general public who remained critical of China. Some of the Indonesian views are based on deep-rooted perceptions of China as well as of local Indonesian Chinese. They also fear China's economic and military power that may threaten Indonesia's interest. In the light of this, how is Indonesia responding to the emerging geo-political challenges of U.S.-China rivalry in the Indo-Pacific region and how is it dealing with China's Belt and Road Initiative (BRI) as well as the Covid-19 pandemic? Has there been impact of the pandemic on Indonesia-China relations and on the BRI projects?

China and the Introduction of BRI

With the opening of the country in 1978 and the introduction of reforms, China has emerged to be the world's second largest economy. It has made impressive progress in various fields including science and technology, taking some 700 million of its people out of poverty, and has completed major infrastructure projects across the nation. Drawing upon this experience and resources, China embarked on the very ambitious BRI comprising separate overland and maritime routes. The overland route is from China across Eurasia and on to Europe, while the maritime route is from the ports of southern China through the Straits of Malacca to West Asia, Africa, and Western Europe.

The BRI links some 66 countries that would have profound impact on world trade and economy. Regional connectivity and economic integration are key features of BRI as roads, railways, and ports are projects to be jointly developed with local investors. The BRI is the largest ever infrastructure programme with total investment of US\$8 trillion until 2049 and with expected annual investment of around US\$150 billion. So far, some three-quarters of BRI projects in 2017 have been in power-plants and transport infrastructure.

The BRI draws inspiration from the pre-modern period when China conducted trade with cities in West Asia and Europe through an overland Silk Road and a maritime Silk Road. Trade moved through the two routes for centuries that led to cultural exchanges. Now in the twenty-first century, the two routes are being re-vitalized as China sees in them new roles. More than just trade, economic development would be jointly carried out by China and countries along the two routes. Chinese state and private companies would invest in development projects on a joint venture basis with local firms.

Some idea of the thrust of the BRI can be seen in the breakdown of projects already implemented such as 12% for power plants, 22% for hydro power plants, and 19% for railway networks. It is expected that the BRI would draw on the financial resources of the newly established Asian Infrastructure Bank as well as other Chinese financial institutions. There are, however, critics of the BRI. Some of them alleged that the BRI is a programme to utilize

China's oversupply of capital and resources overseas. Others see China using the BRI for its broad geopolitical aim (Tritto, 2021).

Indonesia and the BRI

China regard Indonesia as so important to its economic and geo-political interests that it was in Jakarta that President Xi Jinping announced the Belt and Road Initiative (BRI) during a state visit in 2013. With Indonesia projected to be among the top ten economic powers in the world by 2050, there have been expectations that Indonesia would have a key part in China's BRI projects. Indonesia is the largest country in ASEAN in territorial size, population, economy, and military capability (Hill & Siwage, 2019). The seas around it are rich in natural resources such as fisheries, forestry, energy, and mineral. The waters are also strategic, comprising straits such as the Straits of Malacca and the Straits of Sunda which both commercial and military vessels pass through. Its abundant natural resources could supply raw materials much needed for industries in China. Furthermore, with a population of 280 million, Indonesia is a huge market for trade and investment.

Indonesia is also important to China because the present government follows a non-aligned foreign policy. It is also a member of ASEAN, an influential grouping representing the interest of the region amidst great power rivalry. On many issues, ASEAN acts together. One of these issues is the competing claims in the South China Sea. Several member states have overlapping territorial claims with China and have chosen not to engage in bilateral negotiations with Beijing but to act as a group through ASEAN. This would allow them as ASEAN states to negotiate from a position of relative strength.

Jakarta responded positively to China's BRI. A year after the BRI was announced, Indonesia had a new president. The newly elected president, President Joko Widodo, upon taking office, spoke of his plans to develop Indonesia into a maritime power. Widodo believes that the archipelago state should turn its numerous straits and large stretches of water to strategic advantage and to harness and protect its vast maritime and inland resources (Hadrianto, 2017; Bharat, 2018). He also wants Indonesia to project itself as a maritime power more strongly in the region. President Xi's offer of a maritime partnership and financial support for infrastructure projects within the framework of the maritime Silk Road fitted into Widodo's aim of achieving his maritime goal (Lai, 2019).

Later, given the uncertainties surrounding global trade under President Trump's America First policy, U.S. withdrawal from the Trans-Pacific Partnership, and an increasingly regulated EU market, Indonesia sees China's BRI as timely. China offers to BRI partners such as Indonesia access to its global market that is driven by interconnectivity and a part in its strong supply chain of production. The BRI will help Indonesia develop its own infrastructure programme especially in improving its transport and communication system to link the widely spread archipelago state. Such projects are necessary to boost its ambitious economic development (Qian, 2019; Qiu, 2019).

Meanwhile, China has overcapacity in resources and ample funding that could be utilized in Indonesia. As an example, Chinese financial institutions are the world's largest funder of overseas coal power plants, investing US\$15 billion in coal projects from 2013 to 2016. Indonesia, meanwhile, lags behind most ASEAN countries in electrification. The problem in Indonesia is compounded by the unevenness of electrification in the sprawling archipelago. President Widodo announced in 2015 that the country has set 35,000MV supply of electricity power as a target to be achieved. Of this, the state power supplier, Perusahaan Listrik Negara (PLN) is expected to produce 10,681MV with 35 new power units. The rest is to be provided by private power producers. Besides insufficient and uneven electrification, Indonesia lacks an adequate network of roads and railways (Tritto, 2021).

Progress of the BRI in Indonesia

Compared with many other countries, Indonesia has not been a major beneficiary of China's trillion-dollar modern Silk Road. President Widodo who attended the unveiling in Beijing of the BRI (Hadrianto, 2017) and the second BRI forum in 2019 indicated that he wished to see more BRI projects and investments in Indonesia. In welcoming Chinese investments to Indonesia under the BRI, President Widodo sees multiplier effects leading to more employment, raising the standard of living of the Indonesian people, and the transfer of technology (Soeriaatmadja, 2019). In June 2019, on the side-line of a G20 summit in Japan, President Widodo made the request for a special fund within the BRI framework. The fund should be on a business-to-business basis to avoid exposing the government to any liabilities. President Widodo agreed to BRI investments being approved as turnkey projects where raw materials and labour could be imported from China (Asmarini and Jefriando, 2019). Luhut Pandjaitan, Indonesia's coordinating minister for maritime affairs who has been put in charge of all BRI projects in Indonesia, called for low interest rates on all loans given for investments that are in partnership with Indonesian companies (Asmarini, 2019). During the second BRI Forum in April 2020, Indonesia offered opportunities to Chinese companies to participate in about 30 projects worth US\$91 billion (Stratford review, 2019).

Indonesia and China announced earlier in 2020 that they were taking steps for currency exchange between the renminbi and the rupiah to facilitate investment settlement. The Widodo government also introduced a series of omnibus bills to override some existing laws to remove some of the existing protection enjoyed by workers. New labour laws make it easier for companies to fire employees and to hire temporary staff. Existing laws were cited as a reason for difficulties in attracting investments. However, the new labour laws were objected to by trade unions, and this led to a series of labour protests (Asmarini & Miket, 2019; Albert, 2020).

But what constitute a BRI project in Indonesia? Are all Chinese business investments and projects to be placed under the heading of the BRI? Or have the projects to be declared as such by China or that the projects must be state initiated or underwritten by BRI funding such as

from Chinese state banks or the Asian Infrastructure Bank? On the other hand, the Indonesian government insisted that BRI projects must be private sector driven, a business-to-business co-operation, and should be profit-oriented (Soeriaatmadja, 2019). The government would also not stand as guarantor of loans taken for BRI projects. Based on this definition, many projects in Indonesia with strong Chinese government support may not be listed as BRI projects. Table 1 indicates Chinese investments in Indonesia before and after BRI.

Table 1

Number of Projects by Chinese Investing Companies before and after BRI

	Before BRI	After BRI
Shenhua Group	1	3
China Huadian Corporation	2	3
China Electric Power Construction	1	
China Energy Engineering Corporation (CEEC, Gezouba)	1	2
Power Construction Group (Sinohydro, PowerChina)	1	4
China Hongqiao Group/Shandong Weiqiao	-	1
Dingxin Group	-	1
Huadi Steel Group	-	1
China's Golden Concord Holdings (GCL-Poly)	-	1

Source: Tritto, 2021

Nonetheless, the construction of Indonesia's first high-speed rail link between Jakarta and Bandung, the most high-profile development in Indonesia, has generally been described in the local media as a BRI project. Started in 2015, this US\$6 billion project involves a consortium of Chinese and Indonesian state companies (Rahman, 2020). China outbid the Japanese for the Jakarta-Bandung rail contract, underlining the serious competition China faces in Indonesia from other economic powers in the region such as Japan, Taiwan, and South Korea. Some of these have had long business ties with Indonesian state or private companies. However, the 150 km Jakarta-Bandung high-speed rail project has been delayed by land acquisition issues, labour problems and, more recently, the Covid-19 pandemic (Rakhmat, 2020). These issues highlight some of the problems encountered by BRI efforts in Indonesia.

Another sector that attracted Chinese investment interest is the massive nickel smelting industry. In fact, Chinese investors are dominating the nickel smelting industry following the Indonesian government's move to ban the export of nickel ore. At least seven Chinese companies are in joint venture with local Indonesian companies in the nickel smelting industry. The Tsingshan Holding Company is in partnership with Indonesian companies operating in Sulawesi. The largest is China's Wanxiang in joint production with a locally incorporated company with an output capacity of 900,000 tons (Allard & Nangoy, 2020). Except for one smelter in Banten and the other in West Kalimantan, the rest are in Sulawesi.

Another BRI project is the US\$1.5 billion 510-megawatt hydro-power plant in Batang Toru funded by Chinese banks and built by Zhe Fu and Sinohydro, both Chinese state firms. The plant is in the heart of the Batang Toru rainforest in Sumatra and was expected to be completed in 2022. However, recent landslides and concern about the impact of the hydro-power plant on the environment may delay the completion of the project (Harsono, 2020).

More recently, the Indonesian government in February 2020 launched a coal-fired power plant in Java's Banten province. The plant is being built by the state-owned China Shenhua Energy Co Ltd at a cost of US\$1.8 billion. When another unit in the same area is completed in 2021, it will be the largest power plant in the country.

Chinese players are the largest exporter of coal-fired power plants worldwide and are building almost 7% of hydro projects outside of China (263 projects in 32 BRI countries.) China has another US\$13 billion in proposed funding for overseas power-producing companies (Dim, 2021).

China's Investments and Trade in Indonesia

One may need to distinguish BRI projects from other Chinese investments in Indonesia. Prior to 2013 China lagged behind many other countries in the number and value of direct investments in Indonesia. In 2008, direct investments from China amounted to only US\$140 million. But over the five years since 2013, China has risen to become the second largest investor. Over that period, China in 2019 doubled its investments in Indonesia to US\$4.7 billion as the second largest foreign investor in Indonesia after Singapore (US\$6.5 billion) and replacing Japan (US\$4.3 billion). China invested in capital intensive sectors and large projects such as infrastructure, manufacturing, transportation, and telecommunications sectors. There are an estimated 800 Chinese companies with investments in Indonesia.

China's increasing direct investments in Indonesia is matched by growing trade between the two countries. China is today the largest trading partner of Indonesia. In 2019, China was Indonesia's number one export destination with exports accounting for US\$27.88 billion or 17% of Indonesia's total exports. China was also the number one source of Indonesia's imports with imports amounting to \$44.81 billion or 27% of Indonesia's total imports (Table 2).

According to trade reports by Indonesia's Central Statistics Bureau on 16 March 2017, Indonesia's foreign trade in January-February 2017 amounted to US\$49.2 billion, up 15.9% year on year. Among these, export was at US\$25.98 billion, up 19.2% year on year; import was at US\$23.22 billion, up 12.5% year on year. The trade surplus was US\$2.75 billion.

In January-February 2017, the trade value of China-Indonesia unconventional oil and gas products was US\$7.78 billion, up 16.0% year on year. Among these, Indonesia's exports to China reached US\$1.83 billion, up 58.8% year on year, forming 12.4% of Indonesia's total exports, and ranking China as the top among Indonesia's total exports; Indonesia's imports from China registered US\$4.87 billion, down 0.1% year on year, taking up 25.7% of Indonesia's total

imports, and ranking China first among Indonesia's source of imports and placing China as the largest trading partner of Indonesia.

Table 2

Indonesia Imports from and Exports to Five Principal Trading Countries, 2019

Import from	US\$ in billions	Export to	US\$ in billions
China	44.81	China	27.68
Singapore	17.32	United States	17.68
Japan	15.62	Japan	15.93
Thailand	9.46	Singapore	12.93
United States	9.31	India	11.77

Sources: Embassy of the Republic of Indonesia, Beijing, People's Republic of China, February 28, 2020

Issues Arising from BRI in Indonesia

The growing trade between Indonesia and China as well as increased investments from China drew mixed reaction from the Indonesian elite and the general public. Indonesian individuals and companies collaborating with Chinese firms in the BRI see the partnerships as boosting business in the country, contributing to economic and technological development, and creating a multiplier business effect in the country. For Indonesian leaders, BRI will bring in larger, first-tier type of companies to invest in Indonesia. Such first-tier companies will undertake large ambitious infrastructure projects needed in Indonesia and the transfer of technology. It is also expected that projects carried out through first-tier Chinese companies would be environment-friendly (Tritto, 2021).

There were, however, strong criticisms of Chinese trade and investment which suggest continuing ambivalence on how Indonesians view China. While these views are rooted in a historical experience, there were other more recent causes. Dewi Fortuna Anwar noted that the small and medium-sized Indonesian industries are hit hard by competition from cheaper Chinese products imported into Indonesia. Consequently, during discussions of the China-ASEAN Free Trade Agreement, Indonesia listed nearly 400 categories of sensitive and highly sensitive goods and asked that these items be excluded from the agreement (Laksmana, 2011). Among the small and medium-sized industries are Muslim entrepreneurs many of whom belong to conservative Islamic parties that are already critical of China. There are also allegations that China's trade and investments are benefitting the small Indonesian Chinese community. The negative reaction to Chinese trade and investments have been directed against Joko Widodo particularly during his campaign for re-election in the presidential election.

It is also claimed that Chinese-supported projects lead to a rise in local corruption through bribes and other kickbacks (Parama, 2020). Costs of a project are inflated from which kickbacks are then given. Some projects with inflated budget that are not economically viable were even

approved, leading to what analysts describe as future “debt-trap”. Loan defaults is only one of the government’s concerns (Tritto, 2021).

Allegations are also made that Chinese companies bring lower-end types of technology to minimize investment costs. This also means that there is very little technology transfer from these Chinese companies with low-end technologies. Hence, a more common criticism of Chinese investments is the lack of technology transfer. This also happens when it is a turn-key project, and the Chinese company is allowed to bring in its own labour and equipment. The complaint is that not much of the project is sub-contracted to local companies nor are senior or middle level positions filled by locals. Hence, there are few opportunities for transfer of knowledge or technology to local companies or labour (Ding, 2029).

An issue that has led to strong objections especially from labour unions is the claim that Chinese companies have brought in illegal Chinese labour to the country (Bloomberg, 2000). The Jakarta-Bandung rail project reportedly employs 2,000 Chinese nationals while the nickel smelting plant in Sulawesi has brought in 500 Chinese workers. The recruitment of Chinese nationals come at a time when an estimated 7 million Indonesians have lost their jobs because of the Covid-19 pandemic and the resulting economic downturn. The Confederation of Indonesian Trade Unions called for the immediate cancellation of permits for foreign workers and to replace them with locals. The trade unions are particularly unhappy with the omnibus Bill approved by the Widodo government that scrapped minimum wage and allowed the dismissal of workers. The Indonesian government however defended its decision allowing Chinese nationals to work in Indonesia arguing that they were needed for specialist positions and that their presence would, in fact, lead to the creation of 5,000 new jobs to be filled by Indonesians (Bloomberg, 2020). Indonesia has strict laws governing foreign labour. Chinese companies, however, often are said to circumvent these laws by using visitor visas for their workers or having them share temporary work permits.

A final major concern of Indonesians as well as in international forums is the impact BRI projects have on the environment. A report by the WWF and funded by HSBC claimed that the BRI was drawn up with very little study done on the environmental impact of the projects. The report points to the fear that many of these Chinese projects risk damaging the environment and the habitat of endangered wild life (ASEAN Post, 2019). WWF and HSBC have called for attention to environmental impact studies as well as integrating infrastructure decision-making to include sustainable business opportunities (WWF-HSBC, 2020).

There are fears that the BRI programme will, during and after the projects, cause damage to the environment in the form of disruption to the ecosystem, water use, and other resource use. Several types of energy and transport infrastructure projects such as coal, hydro-plants, and ports including shipping pose significant environmental risks that affect the biodiversity and the climate. There are fears that development works could lead to greenhouse gas emissions, non-greenhouse gas pollutants, water pollutants, and solid wastes. New BRI roads and rail will fragment and degrade the eco-systems, causing impacts such as soil erosion on slopes, form

barriers to movement of mammals and reptiles in forest habitats, and changes in movement of water, sediment, nutrients, and aquatic species in floodplains. A recent landslide in the BRI Batang Toru hydro-power project which killed 10 people highlights such risks. Wildlife areas are not only split via road and rail development but are also made much more easily accessible to poachers (Rochmyaningsih, 2020).

Covid-19 Pandemic and Indonesia

The Covid-19 pandemic provided a test and an opportunity to Indonesia-China relations. Indonesia is one of the hardest hit countries in the Covid-19 global pandemic. It has in fact the highest number of infected cases in Southeast Asia and the most deaths from the pandemic in the region. The first reported case of a Covid-19 infected patient was on 2 March 2020 and since then the pandemic had spread to all 34 provinces of Indonesia. As of June 15 2021, there were 1, 919,547 cases. This makes Indonesia with the highest number of Covid-19 cases, ahead of the Philippines which has 1,322,053 cases. The death toll from the Covid-19 pandemic in Indonesia is 53,116, the highest in Southeast Asia with the Philippines following it at 22,845. The hardest hit areas are Jakarta, West Java, and East Java which together account for almost 55% of the cases (Rakhmat, 2020).

Has the Covid-19 pandemic affected Indonesia's relations with China? And has the continually rising number of infected cases impacted BRI projects in Indonesia? These questions are raised because China's handling of the outbreak of Covid-19 in Wuhan has been criticized internationally. In Indonesia which had experienced violence against local Chinese, there were worries that the Covid-19 pandemic could spark anti-China and anti-Chinese sentiments. Most significantly, BRI projects with its thrust on physical connectivity of nations are now at risk because the Covid-19 pandemic presently has forced the closing of international borders.

Meanwhile as the economies of many developed countries slowed or contracted, China recovered quickly from its pandemic crisis and its economic growth has returned to near pre-pandemic levels. In fact, China achieved a 2.3% GDP growth despite prolonged lockdowns and a nation-wide slowdown. Industrial output showed a 7.3% increase. The economy recovery has been driven largely by exports as shown from December 2020 figures. Official figures show China's growth of 4.9% between July and September 2020, the same as the previous year's quarter, indicating that China is bouncing back from virus-caused slump. This figure is less than the 5.2% expected by economists. For the first quarter of 2021, the BBC reported that China's economy grew 18.3% compared to the same quarter in 2020. This is the biggest GDP growth since quarterly records were first kept in 1992 (BBC, 2021). In these circumstances, China could play some role in supporting the recovery of Indonesia's economy (BBC, 2021).

Indonesia and China have together managed relatively well some of the negative fall-out of the Covid-19 pandemic. The feared anti-Chinese violence did not happen, and the pandemic did not harm Indonesia-China relations. In fact, in August 2020, Retno Marsudi, became the

first overseas foreign minister since the start of the Covid-19 pandemic to visit China. The visit discussed how the two countries could work together further amidst the pandemic. Two measures were agreed upon to contend with the pandemic. One was collaboration of the two countries in developing vaccines to immunise the population. Laboratories of several pharmaceutical institutions in China were then developing vaccines. One of these was Sinovac Biotech (Albert, 2020). Indonesia gave approval to Sinovac Biotech to conduct Stage-3 trials for the vaccine. Some of the first trials were carried out by volunteers in Bandung. Since then, Sinovac vaccines have been approved by the Indonesian government and is now used for mass vaccination of the population (Septiari, 2020; Septiari & Gorban, 2021).

Meanwhile, Indonesia is also developing its own vaccine known as Merah Putih vaccine. Wang Yi, China's foreign minister in his meeting in early 2021 with Indonesia's Coordinating Minister for Maritime Affairs and Investments, Luhut Pandjaitan, offered China's help for Merah Putih productions (Yamin, 2020). In addition, he promised Chinese assistance to turn Indonesia into a regional hub for the development and production of vaccines against Covid-19 (Yeremia & Raditio, 2021; Zheng, 2021)

Secondly, Indonesia and China formally launched a "fast-lane arrangement" to enable exchange of personnel involved in business and in pandemic co-operation. The closing of borders and imposing long quarantine periods had disrupted international travel including those for business and trade purposes (Xinhua, 2020). The new agreement allowed business travel between Indonesia and China under special conditions such as for the exchange of personnel working on pandemic prevention, maintaining smooth flow of industrial and supply chains, and helping each other's economic growth. The announcement of the "fast-lane" was made in August 2020 in Hainan by Wang Yi and Retno Marsudi, the Indonesian foreign minister. In the meeting between Wang Yi and Luhut Pandjaitan, it was also announced that China would help develop Indonesia's three industrial zones in the Bintan, Batam, and Semarang areas. Furthermore, Chinese universities would join in researching herbal medicine in North Sumatra. China was also asked to share experience on poverty eradication (Priyandita, 2019).

When the pandemic first broke out, Indonesia's immediate task was to contain the spread of the virus. There were lockdowns that restricted movement of people and Special Operating Procedures such as mask-wearing and social distancing. The impact of such measures to contain the spread of Covid-19 infections hit businesses and industries badly. Almost every sector of industry was affected. The tourism and the hospitality sectors suffered the most as local and international travel were severely curtailed. This led to retrenchment of large number of workers which lead to financial distress to many (UNDP, 2020).

The pandemic revealed some of the most serious weaknesses in the social and economic systems of the country. The country's health care system was fully stretched as the number of Covid-19 cases rose. Hospitals ran short of health equipment and supplies such as PPE and were not able to cope with the growing number of patients. Welfare support by the state was inadequate.

With the number of infected cases still rising, McKinsey and Company revised Indonesia's projected GDP growth rate for 2020 from 5.3% to 2.3% (Lath et al., 2020). In fact, in 2020, Indonesia saw a 5.32% contraction of the economy year-on-year (yoy) during the second quarter due to the impact of the Covid-19 pandemic. Economic sectors that experienced the worst contraction included transportation-warehouse (-30.84%), accommodation-food and beverages (-22.02%), other services (-12.60%) and corporate services (-12.09%). Major growth drivers also contracted: manufacturing (-6.19%), trading (-7.57%), and construction (-5.39%) (Salim, 2020).

However, the economic contraction was uneven across sectors and geographical region. Several sectors recorded positive growth: information and communication (+10.88%), water supply (+4.56%), health services (+3.71%), real estate (+2.30%), and agriculture (+2.19%). The contribution of the agricultural sector to the national economy was the second highest (+15.46%) after the manufacturing industry (+19.87%).

For Indonesia, there is need for new strategies and priorities to cope with serious economic dislocation caused by the pandemic (Aljazeera, 2021). In some of these, Indonesia could learn from China's example. In others it could collaborate with China. One of the most urgent tasks will be to address the disruptions to the production supply chain. Analysts recommended that to avoid future disruptions affecting Indonesia, it needs to phase out 'just-in-time' practices. This is possible with an acceleration to digitization of supply chain. At the same time, the country needs to encourage domestic sources for strategic goods such as food and medicine. The pandemic showed how vulnerable Indonesia could be if it were to rely on imports or on the supply chain to source for critical food and health products. Moreover, there is a growing concern about food supply. Food security has now become a core concern. Consequently, agriculture is another area where reforms and improvements are needed (Habir, 2020).

The pandemic also showed that Indonesia needs to shift its focus in its manufacturing of healthcare devices and products. Domestic manufacturing of healthcare devices and medical products were worth approximately US\$1 billion annually and projected to grow to US\$1.5 billion by 2025. As against this, a staggering 92% of healthcare devices and medical products, mostly medium and high-tech devices, are imported. Indonesia exports some basic devices such as surgical gloves, disposable gowns, and hospital beds.

The pandemic highlighted three sectors where Indonesia needs to introduce innovation and reforms (UNDP, 2020). In technology, agricultural reforms, and improvements in tourism facilities Indonesia could collaborate with China. The pandemic has accelerated digitization in factory production and office work, delivery of services and goods such as in retail and wholesale, government services, shopping, learning, entertainment, and making payments (Habir & Wardana, 2020). China has taken a lead in many areas of digitization both in hardware and software.

The slowdown in the tourism industry provides Indonesia the space to improve and to upgrade facilities in this sector. Prior to the pandemic, tourists from China form one of the

largest groups visiting Indonesia. Therefore, this is a sector that Indonesian tourism agencies and companies could work with their Chinese counterparts on improving facilities. During this period of slowdown in international travel and limited arrival of overseas tourists, the country could look into encouraging and developing local tourism just as China had done.

The pandemic has also exposed the social gap within Indonesian society. With many businesses, especially the small and medium enterprises, failing owing to lockdowns which in turn led to more people losing their jobs, the extent of poverty has increased. Indonesia's Coordinating Minister for Maritime Affairs and Investments, Luhut Pandjaitan, had mentioned that Indonesia needs to look to China in drawing up plans for poverty eradication in Indonesia.

It is to China's interest to offer more investments, trade, and aid to help Indonesia recover from the impact of the Covid-19 pandemic. Beijing is alert to its geo-political interest. It has to compete with other countries such as Japan, Taiwan, and South Korea which have long been investing and doing trade and business with Indonesia. Furthermore, these East Asian countries regard ASEAN countries, especially Vietnam and Indonesia, as alternative places to move their factories and investments to. China is becoming more expensive for their factories. Considering the U.S.-China trade war and the enacting of high tariffs and sanctions, companies from the U.S. and other East Asian countries may be forced to re-locate their investments from China to places such as Indonesia. How China manages its relations with Indonesia, the largest country in size and economy in Southeast Asia, could help set the tone for the rest of the ASEAN member countries (Darmansjah, 2020).

Indonesia Seeing China as a Security Threat: Natuna Islands and South China Sea

It is in national security that Indonesians see China as a potential threat, and it is this factor more than any other that leads to a continued ambivalent view towards China. The Covid-19 pandemic, the BRI, and the increased trade and investment posed less problems to Indonesia-China relations. While Beijing today is unlikely to become a serious problem to its internal security, it is the integrity of its territory and territorial waters that the threat is seen as coming from China. (Suryadinata, 2016).

At the same time there are areas in security that Indonesia is willing to work with China. The comprehensive strategic co-operation agreement, for example, allows Indonesia to purchase military supplies and to have joint production in the defence industry with China. This followed the U.S. placing of an embargo on defence supplies because of Indonesia's invasion of East Timor in 1999. Consequently, Jakarta decided to look for alternative sources of military supplies. China was an alternative and its military equipment was also less expensive.

There are new developments that could prevent improved relations in security matters between Jakarta and Beijing. Firstly, there are reports of Chinese incursions into Indonesia's territorial waters. Secondly, there is a growing U.S. military presence in the Indo-Pacific area. Indonesia has alleged that Chinese fishing boats regularly enter its Exclusive Economic Zone

around the Natuna Islands. The Natuna Islands belong to Indonesia and are within the South China Sea where several ASEAN countries and China have overlapping claims over several islands as well as stretches of water.

The disputes over the islands have arisen when in recent years, China made claims over a wide stretch of the South China Sea. The claims are based on a so-called Nine-Dash Line on its map which extended to include islands and waters which other countries in the region said are within their jurisdiction. The maps were first produced by the previous Kuomintang government in China and is reasserted by the new Chinese Communist Party government when it took over China in 1949. The dispute has become more serious with rival claimants doing reclamation work and constructing military facilities on the contested islands. A case was brought to the International Arbitration Court by the Philippines against China for one of the contested islands.

Indonesia does not have overlapping claims over any of the islands with China. However, Indonesia does not recognize China's Nine-Dash Line. Jakarta also takes the position that the disputes should be resolved through discussions between ASEAN as a bloc and China. China on the other hand wants to negotiate directly with the individual countries with whom it has overlapping claims.

While Indonesia may not have overlapping island claims, it maintains its rights to the Exclusive Economic Zone (EEZ) especially around the Natuna Islands (Laksmana, 2020). The waters around the Natuna Islands in the South China Sea are rich in fishery and natural resources. Over the years, there have been occasions of Chinese fishermen intruding into these territorial waters off the Natuna Islands. One of the most recent was in December 2019 when Chinese fishing vessels accompanied by Chinese coast guard vessels entered Indonesian waters. The Chinese ambassador to Indonesia was summoned to the Indonesian Foreign Office over the incident.

In June 2020, Indonesia's foreign minister, Retno Marsudi, sent a note to Beijing declaring that Indonesia's EEZ rights over the waters off the Natuna Islands as indisputable. Marsudi therefore rejected offers of bilateral talks between Indonesia and China over the Natuna Islands.

Following the incidents of Chinese fishermen intruding into the EEZ waters off the Natuna Islands, Indonesia has set up a military base on one of the islands there. It also integrated its sea and airport operations on the island and deploys military planes and vessels to provide surveillance of the area. President Widodo flew on one occasion to the Natuna Islands as a demonstration of Indonesia's determination to maintain its rights over its EEZ there (Yeremia & Raditio, 2021).

Secondly, the growing U.S.-China rivalry and U.S. move towards a greater military presence in the Indo-Pacific region may affect how Indonesia relates to Beijing and to Washington. This may not be easy and as Evan commented, Indonesia may have to decide on how to balance, hedge or bandwagon on to one or the other great powers. Indonesia may decide to act together with other ASEAN countries as a bloc in response to the growing presence of great powers in the region. Nonetheless, Indonesia would continue to regard China as important

for trade and investments but would see the U.S. as an assuring presence for the security of the region (Suryadinata & Mustafa, 2017).

Conclusion

Both Indonesia and China regard their relations as important, and ties today between the two nations are closer than at any other time. Since the resumption of diplomatic ties between Indonesia and China in 1990, there have been increased trade and investments between the two countries. Currently, China is Indonesia's largest trading partner. The launch of the BRI has led to increased flow of investments from China for large infrastructure projects in Indonesia that are jointly carried out by Chinese companies with local Indonesians to boost the country's economic development.

The outbreak of the Covid-19 pandemic has led to further co-operation between the two countries to manage the health crisis. Trials of a Chinese vaccine were carried out in Indonesia and there is an agreement to jointly produce the Sinovac vaccines in the country. The Jakarta government has since approved the use of Sinovac to vaccinate the population in Indonesia.

Despite the BRI that has brought increased trade, investments, and co-operation during the Covid-19 pandemic which in turn have further improved relations, there continues the ambivalence Indonesia has towards China. Much of this ambivalence is rooted in past experiences. China's size and its ability to project its interests overseas have always loomed large over the politics and the economies of the Southeast Asian region. Hence, there are mixed views even on China's BRI. Critics see it as an attempt by an assertive China to expand its economic influence. They also see China's investments and trade policies in the region as predatory. There is concern regarding the viability of some BRI projects, the lack of technology transfer, the recruitment of Chinese workers, and the negative impact on the environment (Rakhmat & Habib, 2020).

Hanging over this unease are the overlapping claims in the South China Sea of which China is one of the claimants. China's claims over extensive areas of the South China Sea is based on its Nine-Dash-Lines but has led Beijing to be portrayed as an assertive big power. In what some analysts see as efforts to check the rise of this big power, the U.S. has pivoted to the Indo-Pacific region to safeguard the freedom of navigation in the South China Sea where a considerable part of the global commercial shipping passes through. In this growing U.S.-China rivalry, Indonesia, as the largest of the Southeast Asian countries, has a key role. It will maintain close trade and economic ties with China but accept U.S. military presence to balance any potential threat from China.

* Dr. Kam-Hing Lee (李锦兴) is Professor and Deputy Vice-Chancellor (Corporate Development), New Era University College, Kajang, Malaysia. Email: kamhing.lee@newera.edu.my

References

- Aditya, A. (2020). Indonesian labour unions protest import of Chinese workers, *Bloomberg*.
- AFP (2021). Death toll in Batang Toru powerplant landslide rises to 10. *The Jakarta Post*, May 6.
- Albert, E. (2020). Indonesian special envoy visits China in show of cooperation. *The Diplomat*, October 15.
- Aljazeera (2021). COVID slammed Indonesia's economy hard in 2020, data shows. *Aljazeera*, February 5.
- Allard, T. & Nangoy, F. (2020). Indonesia sees China firms lead commitment for \$35b investments. *The Jakarta Post*, October 16.
- Anwar, D. F. (2019) Indonesia-China relations: Coming full circle? *Southeast Asian Affairs*, Singapore: ISEAS-Yusof Ishak Institute, 145–161.
- ASEAN Post Team (2019). China's BRI negatively impacting the environment. *The ASEAN Post*. December 24.
- Asmarini, W. & Miket, J. (2019) Indonesia asks China for special fund under Belt and Road: Ministers. *Reuters*, July 3.
- Bharat, S. S. (2018) China's Belt and Road Initiative and Indonesia's financial security. *The Jakarta Post*, October 1.
- Bloomberg (2020), Indonesian labour unions protest import of Chinese labour, *Straits Times*, July 29.
- British Broadcasting Corporation (2021). China's economy grows 18.3% in post-Covid comeback. *BBC*, April 16.
- Bunnell, F. (1966). Guided Democracy foreign policy. *Indonesia*, 2, 37–76.
- Coca, N. (2021). Fueled by China, coal still firing in SE Asia despite environmental concerns, *Benar News*, April 30.
- Dim, I. (2021). China's coal investments in Indonesia at odds with its climate ambition. *South China Morning Post*, May 2.
- Ding, G. (2019). Indonesia on track with China's standards. *Global Times*. July 24.
- Djumala, D. (2020). Economic diplomacy in time of pandemic. *The Jakarta Post*, October 1.
- Habir, M. T. & Wardana, W. (2020). Covid 19's impact on Indonesia's economy and financial markets. *Perspectives Series*, No 14. Singapore: ISEAS Ishak Yusof Institute.
- Hadrianto, I. (2017). China's Belt and Road Initiative: Indonesia's Response. *Jakarta Globe*, May 17.
- Harsono, N. (2020). Batang Toru \$1.5b hydropower plant may be delayed by years. *The Jakarta Post*, June 18.
- Hill, H. & Siwage, D. N. (Eds.) (2019). *The Indonesian economy on transition: Policy changes in the Jokowi era and beyond*. Singapore: ISEAS-Yusof Ishak Institute.
- International Chinese Coal Projects (2021). Global Energy Monitor Official Website. https://www.gem.wiki/International_Chinese_coal_projects.
- Laksmiana, E. A. (2011). Variations on a theme: dimensions in ambivalence in Indonesia-China relations. *Harvard-Asia Quarterly*, Spring, 13(1), 23–31.
- Laksmiana, E. A. (2020). Indonesia, China, and the Natuna lynchpin. *The Diplomat*, March 1.
- Lai, H.-Y. (2019). Indonesia: The Belt and Road Initiative and Relations with China. *The Asia Dialogue*, October 4.
- Lath, V., Lee, K.-T., Tracy & Phillia Wibowo. (2020). With effort, Indonesia can emerge from the Covid-19 crisis stronger. *McKinsey and Company*.

- Parama, M. (2020). Corruption risk to Indonesia's infrastructure push: Expert. *The Jakarta Post*. July 28.
- People's Daily Online (2019). China-built coal-fired power plant starts operation in Indonesia. *People's Daily Online*, December 16.
- Priyandita, G. (2019). From rivals to partners: Constructing the Sino-Indonesia strategic Partnership. *Global Journal Politik Internasional*, 21(1).
- Qian, X. (2019). Belt and Road benefits Indonesia, the world. *The Jakarta Post*. April 15.
- Qiu, X.-L. (2019). Why BRI-GMF cooperation benefits China and Indonesia. *The Jakarta Post*. August 23.
- Rahman, R. (2020). Progress on Jakarta-Bandung railway reaches 64%, with drilling of fifth tunnel. *The Jakarta Post*, December 1.
- Rakhmat, M. Z. (2020). Coronavirus takes its toll on China-Indonesia relations. *The Diplomat*, 15 February.
- Rakhmat, M. Z. & Habib, M. P. (2021). Chinese infrastructure projects face fresh delays. *The Diplomat*, April 8.
- Rochmyaningsih, D. (2020). Dam threatening world's rarest great ape faces delays. *Science*, December 1.
- Salim, W. (2020). Covid-19's impact on growth by sector, region. *The Jakarta Post*, September 1.
- Septiari, D. (2020). Indonesia secures massive supply of potential Covid vaccine until end of 2021. *The Jakarta Post*. August 25.
- Septiari, D. & Gorban, M. I. (2021). China's top diplomat visits Indonesia as it rolls out China-made vaccine. *The Jakarta Post*. January 12.
- Soeriaatmadja, Wahyudi (2019). Indonesia wants BRI projects to be in line with national development plan, no government debt. *The Straits Times*. April 25.
- Sukma, R. (2009). Indonesia-China relations: The politics of re-engagement. *Asian Survey*, 49(4), 591–608.
- Suryadinata, L. (2016). Did the Natuna incident shake Indonesia-China relations? *Perspectives Series*, No.19. Singapore: ISEAS Ishak Yusof Institute.
- Suryadinata, L. & Mustafa, I. (2017). The Natunas: Territorial integrity in the forefront of Indonesia-China relations. *Trends in Southeast Asia series*. Singapore: ISEAS-Ishak Yusof Institute.
- Tritto, A (2021). China's Belt and Road Initiative from perceptions to realities in Indonesia's coal power sector. *Energy Strategy Reviews*, 34.
- United Nations Development Programme (UNDP) (2020). Summary of Covid-19 impact assessment on SME in Indonesia. *UNDP Indonesia Report*.
- WWF-HSBC (2020). Greening the Belt and Road Initiative. *WWF-HSBC Report*.
- Xinhua (2020). China, Indonesia formally launch fast-lane arrangement. *Xinhua*. August 21.
- Yamin, K. (2020). Indonesia seeks own vaccine rather than rely on Sinovac. *University World News*.
- Yeremia, A. E. & Raditio, K. H. (2021). Indonesia-China Vaccine Cooperation and South China Sea. *Perspectives Series*, No.55. Singapore: ISEAS Ishak Yusof Institute.
- Zheng, S. (2021). China pledges joint Covid-19 vaccine production plan with Indonesia. *South China Morning Post*, June 7.