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The Belt and Road Initiative in ASEAN

Indonesia

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Research Methodology

The study aims to provide insights into the political, institutional, and environmental factors that affect the design and implementation of Belt and Road Initiative (BRI) projects in Indonesia, the potential for BRI investments to spur private investment and other foreign direct investment (FDI) opportunities, and any potential role for the Hong Kong SAR.

The key research questions that drove the study were:

- What changes has the BRI brought to Indonesia?
- What are the key sectors or areas experiencing growth and what are the key BRI projects?
- What factors seem to be affecting the success of the projects?
- What are the key opportunities and challenges in Indonesia?

The case study employed a mix of quantitative and qualitative data. The primary data were mostly qualitative and included a combination of in-depth interviews, informal interviews, and field notes based on observation. The primary data also included datasets and documentary evidence exclusively obtained from informants. Other quantitative data consisted of datasets describing Indonesia's economic, environmental, and social dimensions which were used to support the analysis as well as the selection of specific projects or sectors.

Interviewees included a wide range of stakeholders such as government officials, representatives of business associations, entrepreneurs, members of civil society groups, academics and consultants both in Indonesia and in the Hong Kong SAR.

The research process involved three phases: 1) preparation, 2) fieldwork and data gathering, and then 3) data analysis and write-up. In the preparation phase researchers examined the background of the case through desktop research and identified key issues and projects. Afterwards, key topics to be explored were selected in consultation with UOB staff in the Hong Kong SAR and Indonesia. Before the fieldwork, both UOB and the researchers contacted potential interviewees to brief them on the research and inquire about their availability and willingness to partake in the project as informants. Subsequently, phase 2 consisted of a couple of 2- to 3-week visits to Indonesia during which the researchers carried out interviews and site visits. The last stage focused on gathering the data into themes, analysing it and writing up this case report.

Highlights

- President Widodo has created a "Sea Toll Road" plan that perfectly aligns with the BRI. Indonesia aimed to direct Chinese investments to four main provinces to help the country's infrastructure and economic development. The most substantial Chinese investments are not currently in these regions, but interest is warming up.

- The BRI's impetus has led to a sixteen-fold increase in Chinese investments in Indonesia from 2013 to 2019. Chinese investments went through phases. They started with trading and mining activities but more recently have brought new technology and built infrastructure.
- Chinese companies face a steep learning curve in understanding the Indonesian market. Their approach must move away from replicating practices learned in the Chinese market towards gaining a deeper understanding of Indonesia's sectoral dynamics, regulations, and consumer preferences.
- President Widodo has so far proved favourable towards Chinese investments. Investors should prioritise compliance with local regulations, especially about foreign labour, and adhere to the country's development goals when assessing environmental and social impacts.
- Hong Kong companies and business associations enjoy an excellent reputation and are well-connected in the country. They can be an invaluable knowledge source for new investors.
- The COVID-19 crisis has had serious consequences for Indonesia's economy. Real GDP growth is forecast to be slightly negative in 2020, as the country continues to contain the spread of the virus. While trade in manufactured goods has sustained some growth, some investments and key infrastructure projects have come to a halt.

Introduction

It is no coincidence that the plan for the 21st Century Maritime Silk Road was unveiled in Indonesia. The country's leading role in ASEAN, its vast and largely untapped resources, its large population, its growing domestic market, but also its infrastructure deficit make it a perfect partner for the BRI. The BRI has cemented the significant improvement that Sino-Indonesian relations have witnessed in the past decade, especially after the election of President Widodo in 2014. While some in the local business elite and opposition parties maintain a critical view and a diffident attitude towards Chinese investments, the BRI has created a new platform for high-level meetings, which are producing numerous economic agreements and cooperation frameworks.

Indonesia is the largest democracy with a Muslim-majority population and the world's fourth most populous country overall. It has a young and growing population (only 5% aged 65 or above) of just over 261million composed of sixteen main ethnic groups plus Chinese, Arab and Indian minorities. Indonesia's economy is the largest in Southeast Asia. As of 2019, the country had a total GDP of US$1.112 trillion, which had grown at 4.6% to 6.3% over the previous decade. The ADB estimates that the economy's GDP will contract by 1% in 2020, but grow by 5.3% in 2021.

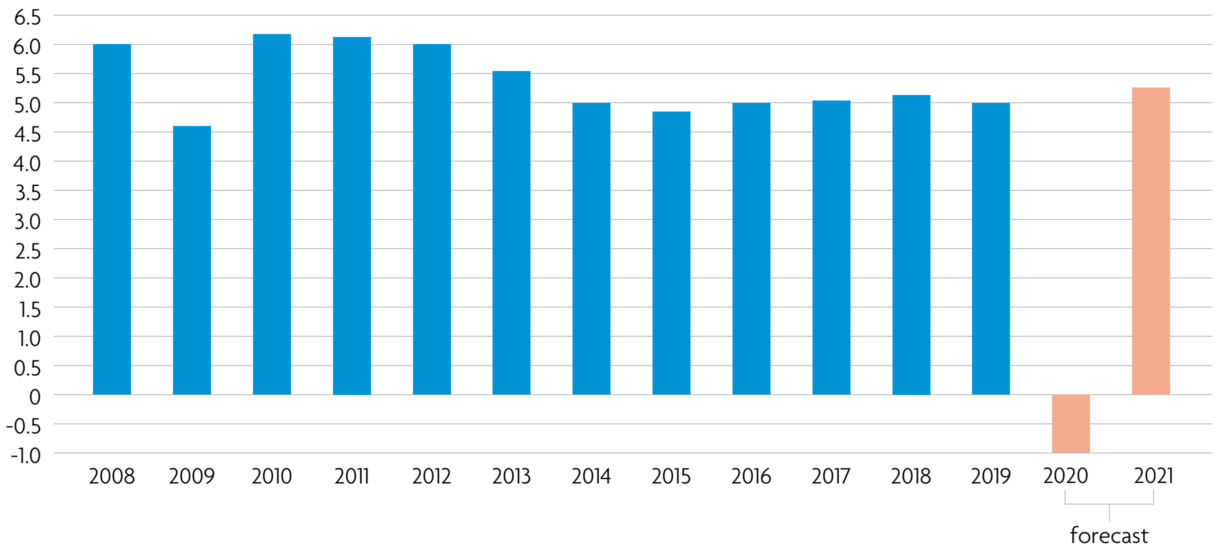


Figure 1. GDP Growth in Indonesia (Annual %). Source: The World Bank Data.

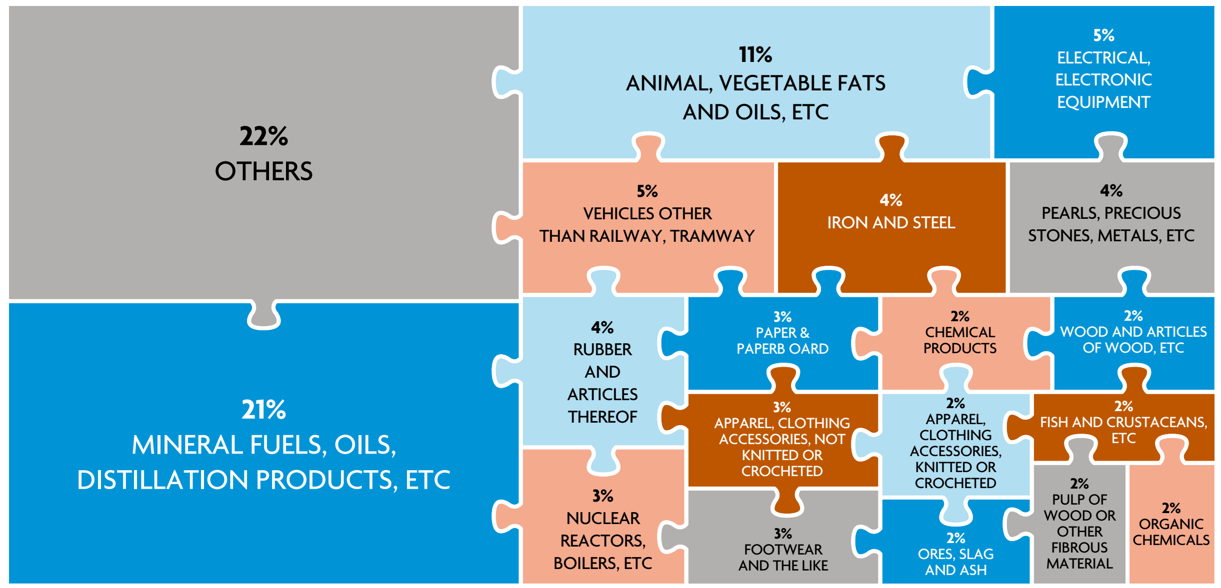


Figure 2. Indonesian Exports in 2019. Source: United Nations Comtrade Data HS92.

For some years, Indonesia's ratio of debt to gross domestic product (GDP) has been lower than most other countries' and it was 29.8% at the end of 2019. In recent years, the country has increased borrowing from local lenders to reduce exchange rate risk, reducing foreign loans from 78% to 30% of its debt portfolio. By the end of April 2020, Indonesia's foreign loans totaled US$400.2 billion, equivalent to 34.5% of its GDP. The Widodo administration has consistently increased public spending to boost economic performance through better connectivity and infrastructure, prioritising also education and healthcare. It has also cracked down on public sector corruption and waste.

The country has abundant natural resources. Its most important exports are commodities such as coal, oil and gas, and palm oil. The country was also a lead exporter of nickel ore until an export ban was enforced in 2014. The ban was partially lifted at the beginning of 2017 but reimposed in 2019. Indonesia accounts for 20% of the world's nickel and 10% of its aluminium supply. Other major exports are gold, bauxite, lead, zinc, and copper. Indonesia is also the second-largest producer of rubber, robusta coffee and fishery products, and the third-largest rice grower. It holds as well 40% of the world's geothermal energy reserves.

Belt and Road in Indonesia

After 2008 the Indonesian economy became closely linked to commodity prices due to a high reliance on commodity exports. A period of low commodity prices marked the beginning of a decline in the nation's GDP growth rate. It has finally recovered in the past couple of years. Nevertheless, Indonesia's economy remains stable thanks to strong private consumption (which accounts for 50-60% of GDP), increasing investment, and to a robust manufacturing sector. According to the United Nations Industrial Development Organization, Indonesia has officially entered the group of the world's ten largest manufacturers. The largest industries are food and beverages (31%); pharmaceutical and chemical products (12%); rubber and plastic products (12%); textiles and apparel (12%); motor vehicles and transport equipment (11%); and computers, electronics, and electrical equipment (7%). Indonesia's focus on manufacturing is part of a government effort to shift the country's production and exports away from reliance on raw commodities towards higher value-added products, leveraging also foreign investments.

In 2019, the gross value added of the nation's service sector accounted for 44.23% of Indonesia's GDP according to data from the World Bank. The main subsectors by value were wholesale and retail trade, repair of motor vehicles and motorcycles, construction, transport and storage, and financial and insurance activities. The fastest-growing sectors in 2019 were business services as well as information and communications.

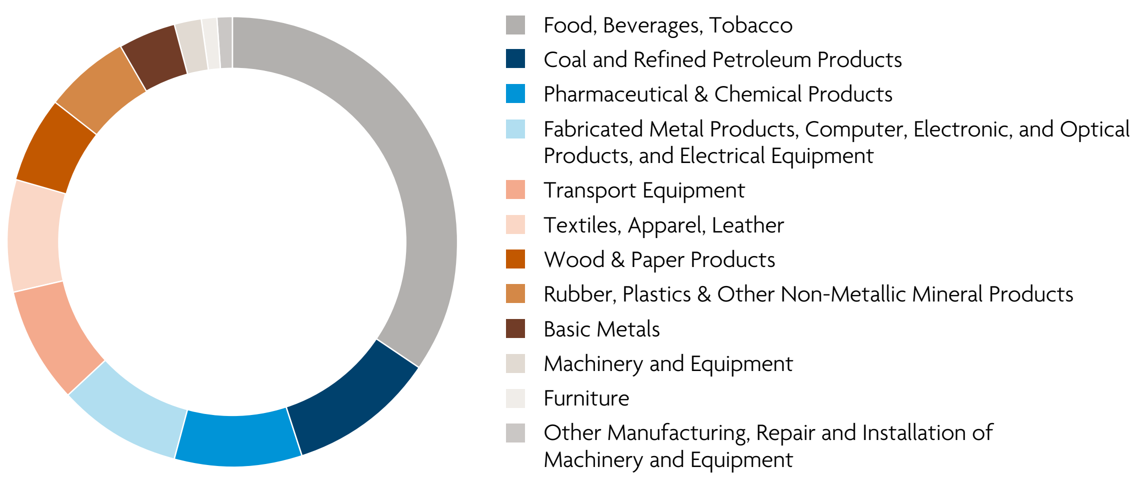


Figure 3. Manufacturing as A % of GDP at 2019 Current Market Prices. Source: Indonesian Central Bureau of Statistics. Indonesian National Income 2015-2019.

Name	Jakarta – Bandung High Speed Rail	Manado – Bitung Toll Road	Pangkalan Susu Coal Power Plant	Kayan River Hydro power Plant	Sumsel 8 Power Station Kuning Industrial Park	North Bali Airport
Awarded to	KCIC	JMB				
Chinese SOE	China Railway Group	China State Construction Engineering Corporation	Sinohydro	China Power, China Three Gorges	Chinese Huadian	Power Construction Corporation of China
Type	Rail	Road	Power	Power	Power	Airport
Status	*Construction*	*Completed*	*Completed*	*Agreement*	*Construction*	*Negotiation*
Value(US$ bn)	5.5 bn	0.37 bn	373 mil	17.8 bn	1.59 bil	3.7 bn

Figure 4. Key Infrastructure Contracts with Mainland Chinese Soes Participation. Source: Author's Compilation. Note: The Values are of the Entire Project.

After the announcement of the Maritime Silk Road in October 2013, Jokowi Widodo became president in 2014 and announced his "Sea Toll Road" programme, which shares the same vision as the BRI. During the Belt and Road Forum for International Cooperation in 2017, the Indonesian government unveiled a "matching plan" for the BRI. The plan aims to develop and connect four Indonesian provinces — North Sumatra, North Kalimantan, North Sulawesi, and Bali — by establishing new industrial zones and tourism destinations, and by enhancing connectivity through upgrading and developing ports, highways, railways, and airports. The Committee for Acceleration of Priority Infrastructure Delivery under the coordinating Ministry of Maritime Affairs coordinates a list of key "National Strategic Projects" that China's National Development and Reform Commission is evaluating through feasibility studies. While some of the projects arise from government-to-government agreements and involve mostly state-owned Chinese firms, once completed they could unlock economic opportunities for the private sector by adding much-needed infrastructure in resource-rich provinces. An example is the Manado-Bitung corridor in North Sulawesi. It is gradually gaining traction thanks to the new toll road built by a consortium of Indonesian and Chinese companies. The plans, still under negotiation, to build a large hydropower plant and an industrial park in North Kalimantan could dramatically transform this newly-developing province (see the figure above).

Figure 5: The 10 New Balis. Source: Wordfolio.

While those projects are considered top priorities for achieving Indonesia's development goals, investment opportunities are not confined to the geographical areas or specific sectors in the plan. In fact, Chinese companies investing in Indonesia tend to target better-developed regions such as Java.

There have been phases of sectoral investment through the years, starting from the establishment of trading offices engaged primarily in the export of mined commodities to the latest investments in environment preservation technologies.

Chinese investments in Indonesia started growing in 2012, just before the announcement of the BRI. The largest sectors by investment amount are now energy, and mineral and metals manufacturing. Energy investments are gradually moving away from coal power towards renewable energy. Investments in ferronickel and aluminium smelters boomed after the 2014 Export ban on unprocessed minerals. Among these, the Morowali Industrial Park has become the largest industrial park for the production of stainless steel in the country, with over US$5 billion invested over the past six years.

In 2015, Chinese investments in real estate and in the technology, media, and telecom (TMT) sector experienced a few setbacks due mostly to poor awareness of significant cultural and market-related factors. However, Indonesia's Financial Services Authority promptly responded by reforming the licensing process which reformed those industries. They are now open and welcoming to foreign investors that bring new financial technology and services.[1]

In 2018, investments in tourism and environmental technologies started to increase accordingly. Tourism is a sector with high potential, as Indonesia is rich in both cultural and natural resources. In 2017 the Indonesian government launched its "10 new Balis" programme to replicate Bali's success in ten new emerging destinations, and the BKPM, the investment promotion agency, has encouraged foreign investors to look at these new opportunities (please refer to the map).

[1] *IDN Financials, 2018. OJK: A lot of illegal fintech companies come from China. https://www.idnfinancials.com/n/17444/OJK-A-lot-of-illegal-fintech-companies-come-from-China*

Chinese investors have slowly begun to acquire land and hotels as well as undertaking renovations. They have mostly been targeting Manado, North Sulawesi, to satisfy the growing number of Chinese tourists. Meanwhile, in 2019 the Plateno group (7 Days Inns) committed to the Indonesian market with a plan to build 15 hotels across the country in the next five years. However, investments in tourism might be delayed by the pandemic, together with the ambitious plan to move the Indonesian capital from Jakarta to East Kalimantan. The estimated cost of the new capital is US$32.79 billion, and the Indonesian government is actively looking for foreign investors to partake in its construction.

Investments in environmental technologies are also picking up. Indonesia has severe waste pollution problems and, while having great renewable energy potential, investments have up until now prioritised coal. However, in 2018 Chinese investments in renewable energy including hydropower and geothermal, finally began. KS Orka, a joint venture between Icelandic Hugar Orka and Zhejiang Kaishan Compressor acquired and developed two geothermal plants in East Nusa Tenggara and North Sumatra. The acquisition and development of a waste-to-energy plant in Palembang by Jinjiang Environment, South Sumatra has also begun, and in August a Chinese company expressed interest in undertaking the daunting endeavour of cleaning up the Citarum, the most polluted river in the world, a situation that President Widodo has pledged to resolve. This latest trend is one of the most promising, as projects that bring new technology and skills, tackle critical social or environmental issues, and unlock key resources are indeed more valued and sustainable.

Data show that between 2013 and 2019 Chinese investments in Indonesia have increased almost sixteen-fold. Specifically, they increased from US$296.9 million in 2013 to $4,744.5 million in 2019, when for the first time investments from China surpassed investments from Japan. Singapore remains Indonesia's leading source of FDI, but the city is also used to channel investments from China and other Southeast Asian countries, and from Indonesia itself.

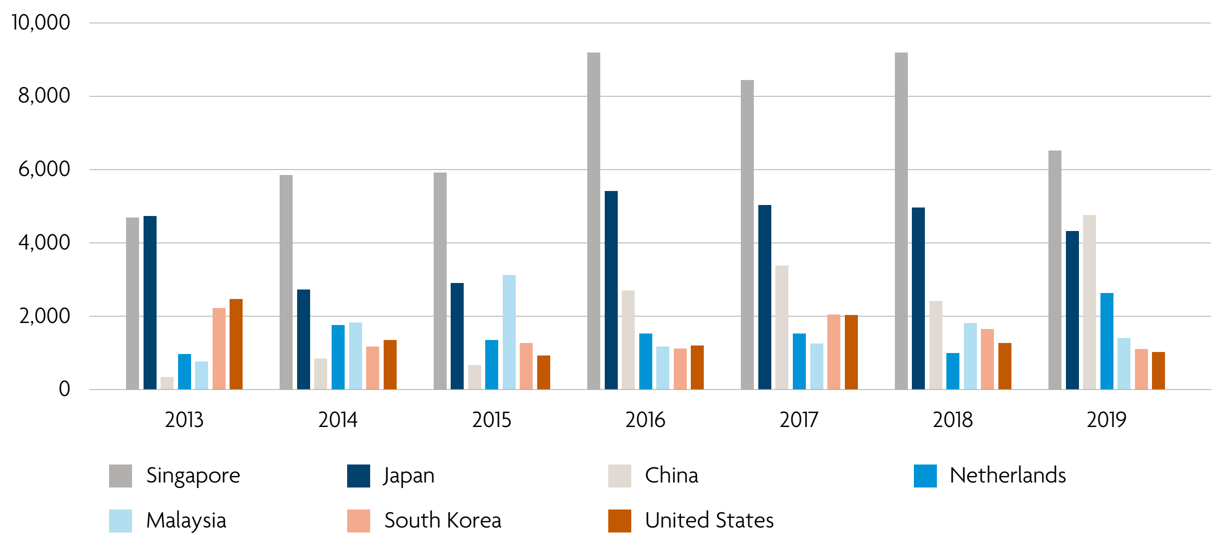
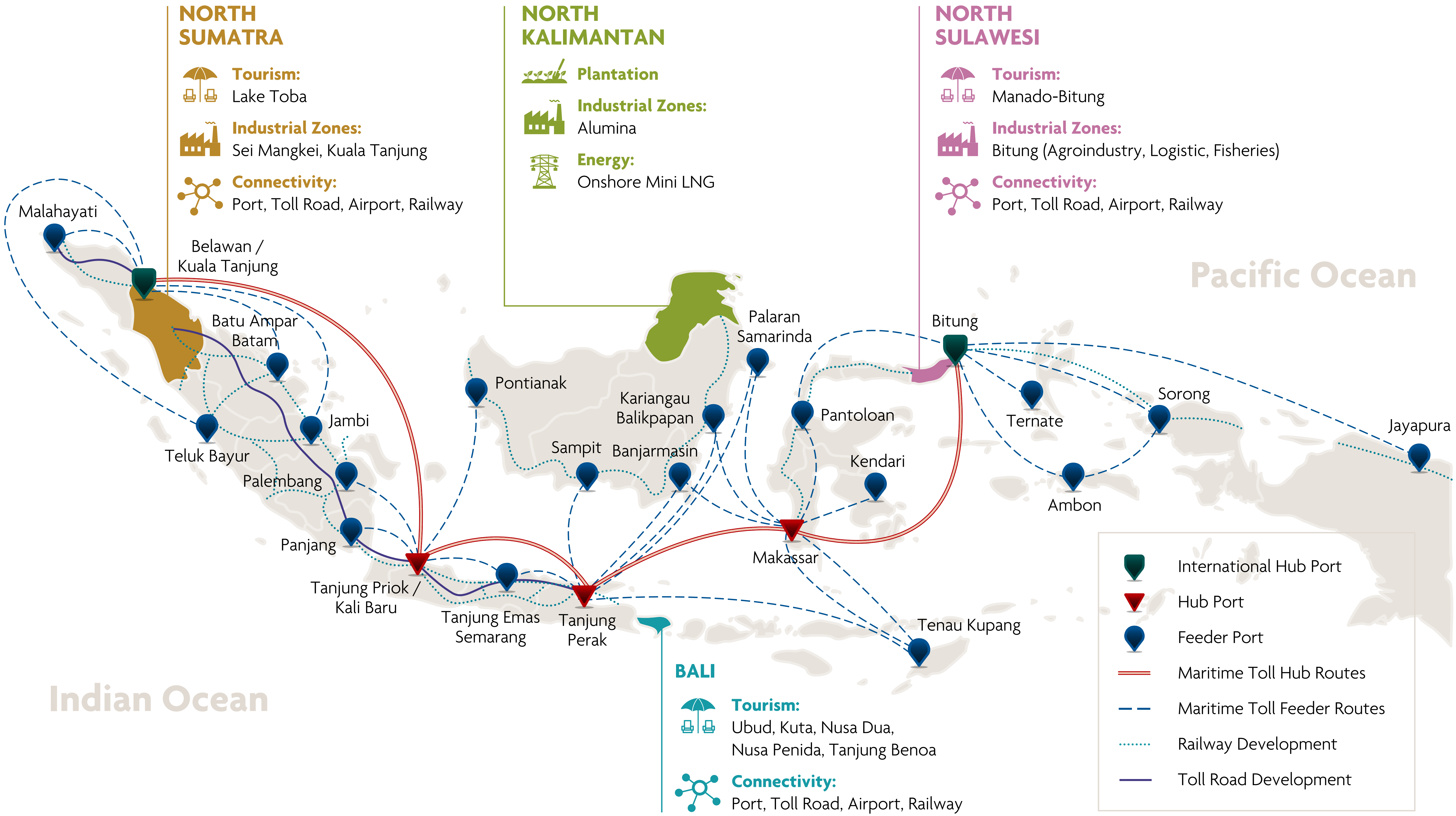


Figure 6. FDI Realisation by Country (US$ Million). Source: BKPM.

Prioritised Regions for Investment

BELT AND ROAD INITIATIVE IN INDONESIA:
A PLAN FOR REGIONAL DEVELOPMENT



Chinese Companies in Indonesia: Opportunities and Learning Curves

Chinese companies investing in Indonesia are gradually moving along the learning curve to understand the country better. Local experts agree that there are certain aspects of the cultures and business models of Chinese firms that need to better conform to the local environment.

LOCALISATION AND CULTURAL AWARENESS

According to a Jakarta-based international consultant, recent experiences in the real estate sector and in TMT suggest that "Chinese investors saw the huge market and young population and were overly optimistic. Before investing, they should have carried out an in-depth feasibility study. If they had, then important cultural factors would have been considered." The views of some members of the Indonesian Chamber of Commerce also reflect this cultural gap. Indonesian companies felt "unfamiliar with the business models of Chinese companies," referring mostly to the investment policies and regulations concerning SOEs.

IMPORTANCE OF BUILDING STRONG LOCAL PARTNERSHIPS

Establishing collaborations with local partners is often required by law, but it is also often the best way to enter the Indonesian market. A Chinese consultant working for the Indonesian government suggests that,

“For mainland Chinese companies, it is fundamental to find the right partner. That is already 50% of their success. A perfect partner needs to have land and a network, but once revenues start, the critical success factor is to understand the local culture and regulations.”

FOCUS ON COMPLIANCE AND SKILLS TRANSFER

Chinese companies are increasingly realizing that compliance is a crucial consideration. A focus on compliance is particularly relevant for anything related to labour. With roughly 2 million people entering the job market each year, Indonesia has strict regulations on foreign labour. The regulations are gradually being relaxed to accommodate foreign investors that need to hire technical staff, but Chinese companies tend to claim a need to bring in labour more often than others. Indeed, there is sometimes a shortage of local expertise and training domestic workers is too time-consuming to keep projects on their tight timelines. But it is nevertheless a source of friction. A senior Chinese consultant who works for the local government advises Chinese firms to

“definitely not bring Chinese workers and instead train local people, understand their character… The local workforce is excellent, [Chinese] companies just need to improve their communication.”

LOCAL POLITICS

China-Indonesia relations have had a difficult past, and while in recent years have seen a significant improvement, the period before the 2019 presidential election was a sensitive time. A way to ensure that Chinese investments will not become a target of conservative parties seeking to foster anti-China sentiments is to comply with local regulations, ensure that investment supports local development, provide good working conditions and training for the domestic workforce, and avoid activities that may bring adverse social or environmental impacts.

IMPROVING THE INVESTMENT CLIMATE

In recent years, the Indonesian government has been striving to improve the climate for foreign investors, despite terminating the country's bilateral investment treaties. In 2018, Indonesia was among the ten economies that made the greatest improvements in the World Bank's Ease of Doing Business index, jumping from 91st to 72nd.

The improvements were mostly in business regulations, access to electricity, and land registration procedures. In July 2018, the government launched an online single-submission web portal, which unified and streamlined the licensing process. While the old system required the fulfilment of all licensing

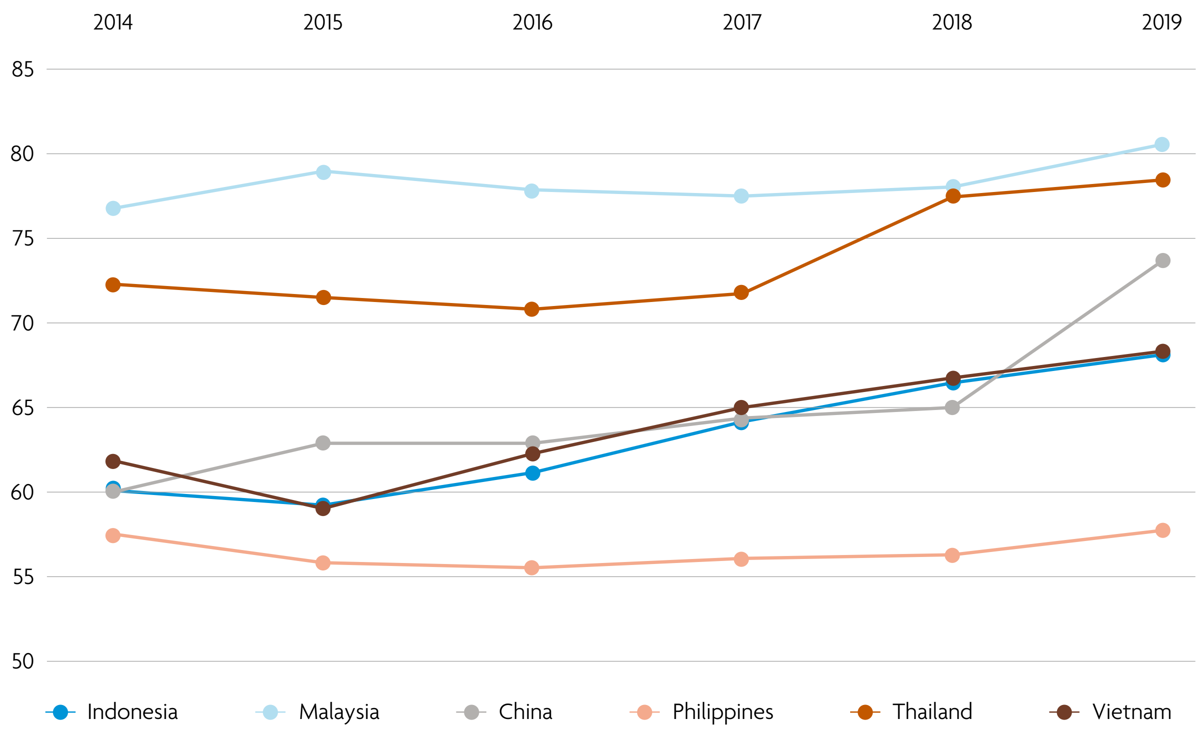


Figure7. Ease of Doing Business Rankings. Source: World Bank.

requirements to obtain a permit, the new system releases the business license within a day and allows fulfilling some of the requirements later.

According to local experts and business executives, Chinese investors expect provinces to compete with each other to attract foreign investment just as in China and therefore to offer very advantageous packages. However, in Indonesia incentives and tax holidays apply to both domestic and foreign investors, and are only applicable to specific geographic areas such as special economic zones or industrial zones.

A Jakarta-based senior Hong Kong official commented that despite efforts to improve the investment environment, in reality companies are actually experiencing more delays recently in dealing with customs clearance and licensing. Another interviewee said, "We handle plenty of cases of Chinese companies trying to apply for a commercial license. At times we apply for companies in the same sector, to the same office, and therefore the same regulations apply, but for some reason every time we need to provide different documentation. This generates delays because the process becomes unpredictable." The new single-submission web portal should improve the situation and make screening more transparent. It is also designed to ensure fairness and avoid corruption, in line with a countrywide corruption crackdown. Despite reports of "money under the table" to free goods from customs and even roadblocks being removed in exchange for compensation to entire villages, many remain optimistic. The Hong Kong official was "hopeful that this will be a temporary situation, as in Indonesia changes may take time to be implemented.

"It is a bit like a woman giving birth. To deliver the baby, she needs to go through labour pains, so this is where Indonesia is at now. We are experiencing a few setbacks, but I am confident the improvements will come."

The Role of Hong Kong

Hong Kong companies and business associations are well-established and well-reputed in Indonesia. The Hong Kong-Indonesia Business Association has become an important connector among the business communities in Hong Kong, China, and Indonesia. Hong Kong companies are eager to provide new technologies, but also professional services to the Indonesian market. Hong Kong's Mass Transit Railway (MTR) company offers a successful example. It has been providing training and advisory services to the Indonesian MRT through its MTR academy. The relocation of Indonesia's capital to Kalimantan may also be a good opportunity to leverage on the city's well-established market for consultancy services on large infrastructure projects. Hong Kong can also provide innovative solutions for financing the much-needed decarbonisation of Indonesia's energy and manufacturing industries. Aside from green certifications and green bonds, the Hong Kong Financial Services Development Council has introduced products such as transition bonds, which help industries become less emissions-intensive.

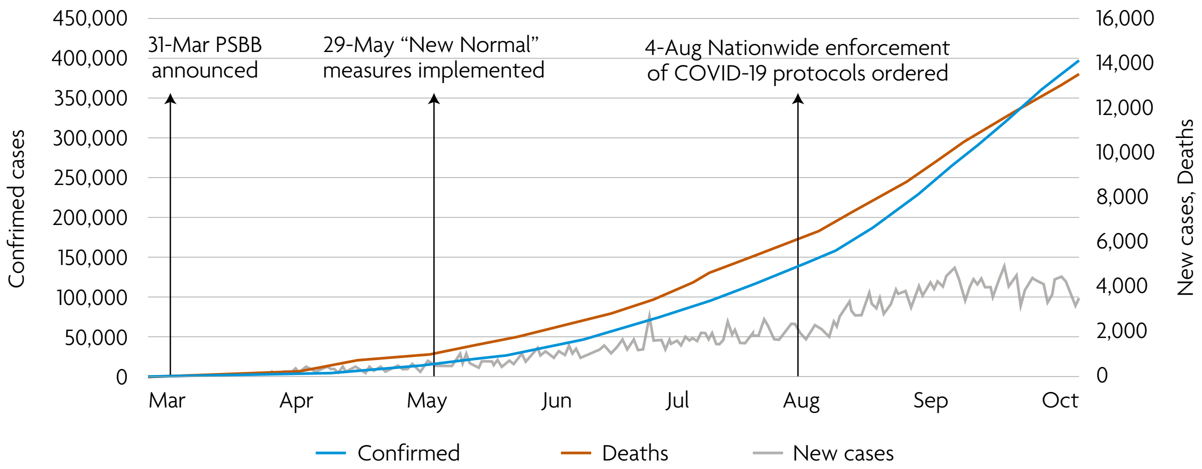


Figure 8. Indonesia COVID-19 Cases. Source: Johns Hopkins Coronavirus Research Center.

The COVID-19 pandemic has severely affected Indonesia's economy. It has led to a sharp decline in government revenue while requiring increased spending to provide economic stimulus. Most industries have been affected, leading to a sharp rise in unemployment. To sustain the economy, the government has raised the budget deficit limit and announced an economic stimulus package.

The first confirmed cases were announced on 2 March 2020. As of 2 November 2020, there were 415,402 confirmed cases of COVID-19 in Indonesia with 14,044 fatalities and 345,566 recoveries. In August, Indonesia's confirmed cases surpassed China's, as key areas of the country had yet to flatten the curve. By October and November a downward trend in new cases seemed to be appearing.

Preventive Measures

On 2 February, Indonesia imposed an entry ban on all visitors who had visited China over the previous fourteen days and suspended all flights between Indonesia and China. On 13 March, President Widodo established a COVID-19 task force and on 31 March he declared a public health emergency. Starting from 3 April the country imposed lockdown policies whose implementation varied regionally. Jakarta was the first to implement lockdown measures, followed quickly by West Java, Gorontalo, West Sumatra and 27 other regencies and municipalities. The lockdown policies required offices, schools, places of worship and public spaces to close, and limited transportation within the regions. However, they did not stop inter-regional transportation services.

In order to contain the spread of the pandemic during Ramadam and Idul Fitri, the Ministry of Transportation imposed a ban on mudik, the traditional mass-exodus of migrant workers returning to their hometowns, restricting travel from 24 April until 31 May.

On 29 May the President ordered the national COVID-19 Task Force to launch "new normal" measures in 102 regencies and municipalities that had been labeled as green zones by the government because they had not been heavily hit by the COVID-19 outbreak. Indonesia's gradual reopening plan included the 5 phases shown in the table.

Economic Impacts

As key regions in the country had not yet curbed the spread of COVID-19 by the fall, the Indonesian economy faces a challenging outlook at the end of 2020. The worst hit are the vulnerable segments of society, in particular the large number of informal workers. According to the Indonesian government, between 1.8 million and 4.8 million people may fall below the poverty line this year, while 3 million to 5.2 million may lose their jobs because of the pandemic.[2]

The ADB, OECD, and the World Bank project that the Indonesian economy will shrink between 1% and 3.9% in 2020, but expect a rebound in 2021.

According to some experts, Indonesia's anti-epidemic measures came too soon, and this, together with widespread unpreparedness among government agencies, companies, and communities, led to a proliferation of cases. As a result, regions like Jakarta had to extend large-scale social restrictions. Still, new cases continued to grow over the summer and in September an expert claimed that it might have been too early to reopen, especially given the deficiencies in Indonesia's healthcare system and the unpreparedness of communities and workplaces across the country.[3]

Period	Key modalities
Phase 1 (1 June)	Industries and services can operate with strict COVID-19 health protocols in place. Malls, shops and markets remain closed, except shops selling masks and health-related items.
Phase 2 (8 June)	Malls, shops and markets may operate with COVID-19 health protocols in place. Stores or businesses that have the potential for physical contact such as salons and spas remain closed.
Phase 3 (15 June)	Malls continue to operate as in Phase 2, and the opening of businesses such as salons and spas will be evaluated. COVID-19 health protocols remain in place. Schools are opened with a rotation system.
Phase 4 (6 July)	Gradual opening of businesses such as restaurants, cafes and gyms with health protocols in place. Outdoor activities with more than 10 people, out of region travel with limited air travel arrangements, and worship activities with a limited number of worshipers are permitted.
Phase 5 (20 and 27 July)	Evaluation of opening social activities on a large scale. It was expected that all economic activities would have been opened by the end of July or early August 2020. However, as the number of cases kept growing, certain restrictions remained in place.

Figure 9. Source: Announcements from the Coordinating Minister of Economic Affairs.

[2] *Akhlas, A. W., 2020. Clouds Thicken over Indonesia's Economic Growth as Uncertainties Persist. https://www.thejakartapost.com/news/2020/06/21/clouds-thicken-over-indonesias-economic-growth-as-uncertainties-persist.html?src=mostviewed&pg=news/2020/03/31/indonesia-announces-rp-405-trillion-covid-19-budget-anticipates-5-deficit-in-historic-move.html*

[3] *Bean, J. P., 2020. Indonesia's 'new normal' a disaster in the making. https://asiatimes.com/2020/06/indonesias-new-normal-a-disaster-in-the-making/*

The travel restrictions induced by the pandemic hit Indonesia's tourism, airline, and hotel industries especially hard. Those industries are a main source of employment and national revenues. Travel and tourism contributed 6% of GDP in 2018 and supported almost 5 million jobs, with an increasing share of tourism coming from China. In March Hariyadi B. Sukamdani, Chairman of the Indonesian Hotel & Restaurant Association, claimed that the estimated losses in January alone were US$1.5 billion, of which $1.1 billion was from cancellations made by Chinese tourists.[4]

Despite the decline in services, Indonesia's current account deficit narrowed due to the strong performance of manufacturing exports (iron and steel, footwear, paper, footwear, vehicles and electrical machinery)as well as fishery products, plastic, rubber, copper, aluminum, and tin. Exports to China remained strong despite the country's production coming back on line and the signing of the phase one trade deal with the US in January 2020, for which China committed itself to importing more manufactured and agricultural products, services, and energy products from the United States.[5] At the same time, because Indonesia is a net oil importer, the fall in oil prices helped reduce the nation's current account deficit.

Most sectors' production took a hit, particularly agriculture, food and beverage manufacturing, and traditional services such as trade, transport, and hospitality. The traditional services employ most of the informal workers. Meanwhile, the digital sector, health, as well as financial and business services saw growth.[5] FDI declined less than in other countries in the region, propelled by investments in manufacturing, mining, and quarrying.

Policy Interventions

Indonesia has one of the largest current account deficits amongst emerging economies. It thus needs to tackle COVID-19 while fighting off recession with limited fiscal resources. Despite this, after declaring COVID-19 a national disaster and establishing a taskforce to deal with the pandemic, on 1 April, President Widodo announced a relaxation of the limits on the state's budget deficit. On 11 May government enacted a regulation which will allow the government to inject capital into SOEs, provide liquidity support to banks, and invest in and provide guarantees to SOEs.

The government subsequently launched a series of stimulus packages. The government's budget revision on 17 July allocated US$46.91 billion for COVID-19 measures. The measures targeted healthcare (US$5.91 billion), social protection (US$13.76 billion), tax incentives and credit for enterprises (US$8.14 billion), credit restructuring and financing for small and medium-size businesses (US$8.33 billion), stimulus for state-owned enterprises and labor-intensive businesses (US$3.6 billion), and support for ministries and regional administrations in the implementation process (US$7.16 billion).[6]

However, a survey by the World Bank indicated that only seven percent of firms had received assistance and that many remained unaware of the new programs. Hence, most of the measures are unlikely to reach the micro-scale firms that are the most vulnerable.[7]

In response, the government renewed economic relief efforts in August and September by launching salary subsidies, tax incentives, and by injecting capital (US$24 billion) to accelerate and streamline the implementation of the NEP system, focusing on healthcare, social protection, ministries and regional governments, microscale, small and medium-sized enterprises, funding for corporations, and business incentives.

The World Bank report also indicated a concern that combating the pandemic may lead to serious cuts in public expenditure on infrastructure projects that are necessary for the country's economic growth. In response, the Ministry of Economic Affairs announced the establishment of two new Special Economic Zones.

The Indonesian government has also established a task force for the development of a COVID-19 vaccine, and the Ministry of Health has signed an MOU with UNICEF to ensure the vaccine can be procured at reasonable prices.

Faced with the worst unemployment levels in nine years, the Indonesian government passed the Omnibus Law[8] aimed at attracting investment by further reducing red tape, relaxing labour laws and the need for environmental impact assessments. However, the law has met with quite a bit of resistance, not only from workers and activists, but also from some global investors and institutions concerned with promoting sustainability in the country.

BRI Projects Update

The pandemic has affected the progress of key investments and infrastructure projects. In February, the government temporarily closed the two major nickel projects by Tsingshan at the Indonesia Morowali Industrial Park in Central Sulawesi and on the neighboring Maluku island of Halmahera until the staff had undergone medical screening.[9] More than 40,000 workers were temporarily quarantined, 5,000 of whom were Chinese. While production in the industrial park remained unaffected, most Chinese staff who returned to China for the lunar New Year were unable to return, and management expected delays in the supply of certain materials and machinery from China.[10] Similar issues affected the progress of the Jakarta-Bandung high-speed rail line.

“ The impact by COVID-19 was strong on the progress of our construction works. We have corrected the project completion plan from 2021 to mid-2022. The spread of COVID-19 happened in conjunction with Chinese New Year; hence, many of our experts returned to China and have not been able to return to Indonesia. Imports of materials were also affected as the protocol implemented by both the Chinese and Indonesian government became more stringent and cuts of transport services delayed the delivery time. ”

Febrianto Arif Wibowo – KCIC Good Corporate Governance & Stakeholder Management Manager

Rising unemployment has aroused some anti-Chinese sentiment. Demonstrators blocked the Kendari Haluoleo Airport to protest against the authorities' decision to allow Chinese workers to enter the country there.[11] Despite this, Chinese investments have continued to materialise throughout the year, targeting especially the digital sector and cloud computing.

[4] *Mufti, R., 2020. RI tourism suffers $1.5 billion loss as COVID-19 hits hard. https://www.thejakartapost.com/news/2020/03/17/ri-tourism-suffers-15-billion-loss-covid-19-hits-hard.html*

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