

ECONOMICS WORKING PAPER

Chinese Investments in Industrial Parks: Indonesia and Malaysia Compared

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September 2020

Abstract

Indonesia and Malaysia are keen to use Chinese investments in industrial parks to foster industrial development in their respective countries. This paper seeks to compare Chinese investments in two industrial parks. Specifically, it analyses changes made in the investment climate in each country to facilitate inflows of Chinese investments for the development of the Indonesian-Morowali Industrial Park (IMIP) and the Malaysia-China Industrial Park (MCKIP). Investment climate refers to the FDI institutions in a country that are used for facilitating foreign investments. For Chinese investments in industrial parks, a pertinent question to ask is whether these investments are privileged in terms of FDI institutional arrangements and their differences from the existing investment institutional arrangements in a country. The paper finds that Indonesia and Malaysia made special arrangements to facilitate Chinese investments in the two parks although differences also abound in the way FDI is facilitated.

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1. Introduction

Infrastructural projects have become the focus of Chinese investments in Southeast Asia as these tend to be mega projects. Apart from these investments, there are also investments in other sectors, including manufacturing. Manufacturing investments are equally valued as infrastructure investments in host economies as they can create employment opportunities and enable these economies to hasten industrialisation through technology transfer. In particular, industrial parks are commonly used in developing countries as vehicles for industrial development through the provision of some common infrastructure support for a cluster of firms to locate within a specific geographical location and which will eventually lead to the generation of agglomeration economies. These parks can be used to attract foreign direct investment (FDI) in manufacturing activities. This is especially important in countries where the overall business and investment environment is weak and industrial parks are used to offer a better investment environment on a priority basis, in a limited geographical area, to attract FDI.

At the same time, China is facing excess production capacities and manufacturers are also seeking opportunities to move their production to other countries. As these efficiency seeking investments move outwards, there are many possible host economies in Southeast Asia. These economies vie for FDI by enhancing their investment climate through investment promotion and the provision of various incentives for foreign investors.

The objective of this paper is to compare Chinese investments in two industrial parks; one each in Indonesia and Malaysia. Specifically, the paper analyses changes made in the investment climate in each country to facilitate inflows of Chinese investments for the development of the Indonesian-Morowali Industrial Park (IMIP) and the Malaysia-China Industrial Park (MCKIP). Investment climate refers to the FDI institutions in a country that are used for facilitating foreign investments. For Chinese investments in industrial parks, a pertinent question to ask is whether these investments are privileged in terms of FDI institutional arrangements and their differences from the existing investment institutional arrangements in a country. For example, are special institutions or incentives given to these

investments; are these investments facilitated by stakeholders that have special relations with existing institutions or who can influence decision making in some significant way. It also includes the provision of new infrastructure provided by the government and/or park operators that can enhance the locational advantages of the two parks. Although these investments are driven for the benefit of host and source countries, the outcomes of the parks are assessed in terms of the types of investments and immediate impact on the domestic economy as this paper focuses on host economies. The long-term impact is also explored based on the existing investments, in view of the interests of host economies to tap on industrial park development for their industrial development.

2. FDI Institutions and Chinese Investments in Indonesia and Malaysia

North (1990) defined institutions as constraints on behaviour imposed by “the rules of the game” in society: “Institutions include any form of constraint that human beings devise to shape human interaction.” The definition covers the formal or written rules – political systems, laws governing contracts, crime, product information, the imposition of taxes, tariffs, regulation of banks, universities, etc. It also includes the informal or unwritten rules – culture, norms of behaviour, customs, values, religions, etc.

However, institutions are ineffective when they are not enforced. Enforcement mechanisms are an integral part of the institutional framework of a society for institutions to function fully. Therefore, although North made a distinction between institutions and organizations with the latter denoted as the “players” of the game, we include organizations as part of the enforcement mechanisms for the FDI institutions that are explored in this paper. We define FDI institutions as the rules and organizations that are used to facilitate and attract FDI into a host economy.

2.1 FDI Institutions in Indonesia

Indonesia’s policy towards FDI has shifted from a closed-inward oriented to an open-outward looking policy and later to somewhere in the middle, depending on the domestic political situation (Booth 1998, Hill 2000). Indonesia’s openness towards FDI is reflected in the length of its negative investment list (*Daftar Negatif Investasi* or DNI), which is a regulation that limits foreign ownership in selected sectors that are deemed as strategic or critical for the local economy (Table 1). The business community has been pressing the government to revise the

DNI and open more sectors for FDI.¹ While FDI liberalisation enhances the investment climate for foreign investors, it needs strong political commitment, as an administration risks being perceived as being too liberal which can be very costly for an administration's political legitimacy (Aspinal 2016, Warburton 2018, Gede Wahyu 2019).

Under President Joko "Jokowi" Widodo's administration, foreign investments play an important role for boosting growth.² There are three key ministries that play critical roles in attracting FDI. The first is the Coordinating Ministry of Maritime and Investment. In October 2019, Jokowi made a controversial FDI policy decision by placing investment affairs under the jurisdiction of the Coordinating Ministry for Maritime Affairs, held by Luhut Pandjaitan. This portfolio was previously under the jurisdiction of the Coordinating Ministry of Economic Affairs. Jokowi's decision demonstrates his trust Luhut's capability to push for prioritised major investment projects. Luhut was also assigned to lead the Indonesian delegation to attract investments from China.³ He also played a critical role in expediting the realization on some priority projects, such as smelter development, oil and gas, and tourism among others. Luhut's close relationship with Jokowi gave him enormous influence within the government (Negara and Ramayandi 2020), providing him significant leverage to direct economic policy as he is the gatekeeper for a number of big foreign investment projects.

The second key FDI ministry is the Coordinating Ministry of Economic Affairs, headed by Airlangga Hartato. Airlangga was the former Industry Minister in Jokowi's first cabinet (2014-18). He is also the Chairman of Golkar Party, which supports the government coalition. In terms of job division, this Ministry is responsible for overseeing investment related regulations and licensing. Airlangga is tasked by the President to lead the government's effort to reform investment climate in the country. Specifically, he leads the preparation of the drafting of the omnibus law on job creation and small-medium enterprises empowerment. The law is deemed as critical for providing legal certainty for investors. It is designed to synchronise a number of laws and regulations simultaneously to simplify investment regulations.⁴

¹ Kontan, "Revisi DNI, Menko Airlangga rancang daftar positif investasi ", 11 November 2019. <https://nasional.kontan.co.id/news/revisi-dni-menko-airlangga-rancang-daftar-positif-investasi>. (accessed 30 July 2020).

² The Jakarta Post, "Reinvigorating investment ", October 29, 2019. <https://www.thejakartapost.com/academia/2019/10/29/reinvigorating-investment.html>. (accessed 21 July 2020).

³ <https://money.kompas.com/read/2017/05/27/123104826/cerita.luhut.soal.investasi.china.dan.wanti-wanti.jokowi.soal.komunisme?page=all>. (accessed 21 July 2020).

⁴ <https://www.thejakartapost.com/news/2019/12/13/one-law-to-rule-them-all-government-to-amend-thousands-of-articles-through-omnibus-bills.html>. (accessed 21 July 2020).

The third key ministry is the Ministry of Finance, which is currently held by Sri Mulyani. It is responsible for granting tax incentives for investors upon the recommendation from the Indonesian Investment Coordinating Board (BKPM). Sri Mulyani is tasked to lead the preparation and implementation of the omnibus law on tax reforms, which is designed to give more tax incentives, including tax holidays, for investors.

In terms of investment licensing, BKPM is the designated investment management company dealing with foreign investors.⁵ BKPM is tasked not only to promote investment but also function as a one-stop advisory centre for processing FDI into the country, thereby assisting investors on all the processes for the approval and establishment of a foreign entity in the country.

Under the current administration, BKPM reports to the Coordinating Ministry of Maritime and Investment (Table 1). The current Head is Bahlil Lahadilia, an entrepreneur from the Eastern part of Indonesia and Chairman of Young Entrepreneur Association (HIPMI). Under the coordination of a powerful senior minister like Luhut, who will make most of the investment decisions, Bahlil's role is primarily on implementation, especially for dealing with regional governments to expedite investment realization (Negara and Ramayandi 2020).

The current investment regulations states if a foreign entity intends to operate in Indonesia, a minimum investment cost of IDR10 billion (US\$700,000) is required. Foreign businesses should declare 25 percent of the minimum investment price as paid-up assets of at least IDR2.5 billion (US\$170,000). This is deemed necessary because the government wants to protect local businesses, especially micro, small and medium enterprises (MSMEs). The fixed amount of paid-up equity and asset cost are also used to ensure foreign companies have the funds and a long-term strategy to operate in Indonesia.

Upon completing all the requirements, BKPM will issue an investment registration, which is valid for 1 to 5 years as determined by BKPM. In 2016, BKPM launched a special help-desk to assist Chinese investors realizing their investment in the country.⁶ The desk provides interpreters for the investors and help them to secure permits from the BKPM, with staff who are conversant in Mandarin.

Jokowi is very keen to attract Chinese FDI. After attending the BRI Summit in Beijing in May 2017, Jokowi instructed Minister Luhut to lead a team for preparing the list of projects to be prioritized under the BRI umbrella. The team consists of the Coordinating Economic

⁵ <https://tabloid.kontan.co.id/news/bkpm-pintu-tunggal-izin-investasi>. (accessed 21 July 2020).

⁶ <https://jakartaglobe.id/context/bkpm-launches-special-desk-chinese-investors/>. (accessed 21 July 2020).

Ministry, the Ministry of Planning, and several technical ministries as well as BKPM (Negara and Suryadinata 2018). Indonesia offered four working areas in North Sumatera, North Kalimantan, North Sulawesi and Bali for future BRI projects, but it is not exclusive for the BRI alone (Damuri et al. 2018). China, in turn, agreed to provide grants amounting to RMB100 million to prepare feasibility studies for BRI projects in the four designated locations.

In March 2018, the government passed Presidential Regulation No. 20 on the use of foreign labour. This regulation aims at simplifying the permit application process for foreign workers, hence making the process more efficient and faster, in order to attract FDI in Indonesia.

Several other regulations have also been issued in order to expedite the implementation of national strategic projects (*Proyek Strategis Nasional* or PSN). A project included in the PSN list will be granted an easier licensing process and fast-tracked land procurement, as it gets the full political support from the government.⁷ Currently, there are 245 national strategic projects worth around IDR4,200 trillion (US\$300 billion) on the priority list, which has seen several revisions since 2016. IMIP is placed under the PSN list as it fulfils all the criteria as a national strategic project, including job creation, infrastructure development in remote areas, and linkages with other sectors.

A number of key regulations support the PSN. Government Regulation No. 13/2017 on National Spatial Plan (RTRWN), was released in April 2017. The issuance of RTRWN is important to resolve spatial planning mismatches in the implementation of infrastructure projects. With this regulation, the Minister of Agrarian and Spatial can issue a recommendation of spatial utilization, thereby expediting the process of obtaining project permission. There is also Minister of Finance regulation No. 60/2017 on Procedures for the Provision of Central Government Guarantee for the Acceleration of the National Strategic Projects Implementation, which was released in May 2017. This regulation is meant to support the previous Presidential Regulation No. 3/2016 on the Acceleration of the National Strategic Projects Implementation. This presidential regulation regulates the scope and general requirements and procedures that propose and grant guarantees, as well as allocate state budget obligation on government guarantees to all PSN. The provision of a guarantee is necessary to increase the feasibility of the project and to attract private investors to participate in the implementation of National Strategic Projects.

⁷ <https://kppip.go.id/en/national-strategic-projects/>. (accessed 30 July 2020)

Apart from investment regulations, Indonesia has also ratified several free trade agreements to signal liberalisation efforts to potential investors (Table 1).

2.2 FDI Institutions in Malaysia

Malaysia has long welcomed FDI into the country and has over time established different institutions for attracting FDI (Table 2). The Malaysian Investment Development Authority (MIDA) was established in 1967 under the Malaysian Industrial Development Authority (MIDA) Act as the government's principal agency for the promotion of the manufacturing and services sectors in Malaysia.⁸ MIDA reports directly to the Ministry of International Trade and Industry (MITI), which is the lead agency on all matters related to international trade, foreign and domestic investments, productivity and competitiveness in industrial development.

Besides investment promotion, MIDA is also a one-stop advisory centre for processing FDI into the country, where investors can be advised on all the processes for the approval and establishment of a foreign entity in the country. However, since MIDA does not have the authority to approve all the processes, especially with respect to other agencies such as water and electricity, the government decided to hasten the time taken for investment approvals by establishing a National Committee on Investments (NCI) in 2019. This committee is chaired by Minister of Finance and Minister of International Trade and Industry was empowered by the Cabinet on 8 May 2019 to be the sole approving committee for investments received by all investment promotion agencies including MIDA, Regional Corridors, Halal Development Corporation (HDC), Malaysia Digital Economy Corporation (MDEC), BioEconomy Corporation and the Ministry of Agriculture.⁹

Incentives are also provided for FDI, for targeted sectors¹⁰ which are periodically revised according the Malaysia's prioritised sectors in the country's five-year plans. Special infrastructure such as industrial parks and special economic zones are also used to attract FDI and domestic investments.¹¹

FDI in manufacturing is governed by the Industrial Coordination Act (ICA), which requires the application of a manufacturing license for companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full time paid employees. The manufacturing

⁸ See <https://www.mida.gov.my/home/about-mida/posts/> (accessed 25 July 2020).

⁹ See https://www.miti.gov.my/miti/resources/Media%20Release/Media_Release_-_Malaysia_Approves_Four_Manufacturing_Projects_Worth_Rm5.4_Billion_.pdf (accessed 25 July 2020).

¹⁰ See <https://www.miti.gov.my/index.php/pages/view/532?mid=117> (accessed 25 July 2020).

¹¹ See <https://www.mida.gov.my/home/infrastructure-support/posts> (accessed 25 July 2020).

sector allows foreign investors to hold 100 percent equity for greenfield investments. Mergers and acquisitions (M&A) are allowed and governed by the Guidelines on Mergers and Acquisitions 17 May 2019.¹² Disputes are to be settled in the courts according to the laws of the land and under the relevant Ministries.

Land is a state issue and can be acquired in the relevant state where the manufacturing facility is located. Likewise, foreign employment is permitted. Malaysia has also enacted a Competition Policy under the Competition Act 2010, which came into force on 1 January 2012.¹³

Malaysia has signed seven bilateral agreements (with Australia, Chile, India, Japan, Pakistan, New Zealand and Turkey), and has seven free trade agreements with ASEAN and its Plus partners (China, Japan, India, Korea, Australia and New Zealand, and Hong Kong). It has also signed the CPTPP, although ratification has stalled and it is also a party of the incoming RCEP. Malaysia has 64 investment guarantee agreements, including one with China,¹⁴ as well as 71 bilateral investment treaties, including one with China.¹⁵

There were also special efforts made to attract Chinese FDI into Malaysia during former Prime Minister Najib's administration. This includes his visit to China on 1 November 2016 and the signing of 14 agreements reportedly worth RM144 million, including one for the production of solar cells and modules with Wuxi Suntech Power at the MCKIP.¹⁶ Najib also participated in the First BRI Forum held in China in May 2017 in Beijing to demonstrate his support for BRI initiatives.¹⁷

A Belt and Road Initiative National Secretariat (BRINS Malaysia) was established in 2017 at the Ministry of International Trade and Industry (MITI). The main function of the secretariat is to coordinate, monitor and facilitate BRI projects in Malaysia as well as projects with the involvement by Malaysian companies globally.¹⁸

¹² See https://www.mcmc.gov.my/skmmgovmy/media/General/pdf/Guidelines-on-Merger-and-Acquisitions_1.pdf (accessed 25 July 2020).

¹³ See <http://www.agc.gov.my/agcportal/uploads/files/Publications/LOM/EN/Competition%20Act%202010%20as%20at%2015%20August%202016.pdf> (accessed 25 July 2020).

¹⁴ See <https://www.miti.gov.my/index.php/pages/view/771?mid=167> (accessed 25 July 2020).

¹⁵ See <https://investmentpolicy.unctad.org/international-investment-agreements/countries/127/malaysia> (accessed 25 July 2020).

¹⁶ See <https://www.thestar.com.my/business/business-news/2016/11/01/malaysian-and-chinese-firms-sign-14-agreements-worth-rm144bil/> (accessed 25 July 2020).

¹⁷ See st.com.my/news/nation/2017/05/238998/pm-najib-among-20-other-world-leaders-international-forum-china (accessed 25 July 2020).

¹⁸ See <https://www.miti.gov.my/miti/resources/MITI%20Report/MITI%20REPORT%202017.pdf>, page 22 (accessed 25 July 2020).

The unexpected change in administration in 2018 after the general elections in May (GE14) did not change Malaysia's positive response towards the BRI, despite the campaign rhetoric to the contrary by Mahathir. Instead, the controversial ECRL was renegotiated successfully and reinstated in 2019. Mahathir also attended the Second BRI Forum in May 2019, indicating Malaysia's continued support for BRI projects.¹⁹

Finally, the establishment of National Committee on Investment (NCI) in 2019 was meant to fast-track investment approvals due to trade war and relocation of Chinese investments.

¹⁹ See <https://www.nst.com.my/news/nation/2019/04/483090/dr-mahathir-given-honour-present-speech-pledges-full-support-bri> (accessed 25 July 2020).

Table 1: Key FDI Institutions in Indonesia

FDI promotion agency and one stop agency	FDI incentives	Targeted sectors	Industrial Parks and Special Economic Zones	FDI laws	Land Acquisition	Employment of expatriates	Competition Policy	FTAs, IGAs and BITs
<p>Coordinating Ministry of Maritime and Investment oversees on investment promotion and ensuring investment realization</p> <p>Coordinating Ministry of Economic Affairs oversees overall investment regulations.</p> <p>Investment Coordinating Board (BKPM)</p> <p>Government regulation (PP) No. 24/2018 on Online Single Submission</p>	<p>Upon recommendation from BKPM, Ministry of Finance will decide on type of tax or fiscal incentives to be granted to select investors or tax holiday for targeted sectors</p>	<p>Pioneer industry;</p> <p>Industry which has broad linkages;</p> <p>Industry with added value and high externality;</p> <p>Industry with new technology;</p> <p>Industry with strategic value for the national economy</p>	<p>Industrial parks are supervised by the Ministry of Industry</p> <p>Special Economic Zones are approved and supervised by the Coordinating Ministry of Economic Affairs</p>	<p>Law No. 25/2007 on investment both foreign and domestic.</p> <p>In addition, there is a Presidential Regulation (Perpres) No. 44/2016 on negative investment list (Daftar Negatif Investasi or DNI). This regulation limits foreign ownership in certain sectors deemed as strategic or critical for the local economy.</p>	<p>Yes</p> <p>Government Reg. No. 13/2017 on National Spatial Plan (RTRWN)</p> <p>Presidential Reg. No. 56/2017 on Social Impact Handling in Land Acquisition Process for National strategic project</p>	<p>Yes</p> <p>Presidential Reg. No. 20/2018 on Use of Foreign Labour</p>	<p>Yes</p>	<p>Yes.</p> <p>In 2013, China-Indonesia signed an agreement to develop integrated-industrial parks. This is part of China-Indonesia comprehensive strategic partnership signed by two countries in that year.</p> <p>Through ASEAN, Indonesia is party to several investment agreements with China, India, Korea and Japan as well as Australia and New Zealand.</p> <p>Indonesia has signed and implemented a number of FTAs or PTAs, such as:</p> <p>Indonesia-Japan Economic Partnership Agreement (2007); Pakistan-Indonesia Preferential Trade</p>

<p>(OSS) for integrated investment licenses service.</p> <p>Presidential regulation (Perpres) No. 71/2019, BKPM that previously were under the Office of the Coordinating Economic Ministry has been now put under the coordinating minister of Maritime Affairs.</p>							<p>Agreement (2012); Indonesia-Australia Comprehensive Economic Partnership Agreement (Indonesia-Australia CEPA) (2019).</p> <p>In May 2017, President Jokowi attended BRI Forum in Beijing and offered some projects cooperation under BRI framework.</p>
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Source: Compiled by authors

Table 2: Key FDI Institutions in Malaysia

FDI promotion agency and one stop advisory agency	FDI incentives	Targeted sectors	Industrial Parks and Special Economic Zones	FDI laws	Land Acquisition	Employment of expatriates	Competition Policy	FTAs, BITs and IGAs
<ul style="list-style-type: none"> ● MIDA ● Budget 2020: Govt has set up National Committee on Investments (NCI), chaired by Minister of Finance and Minister of International Trade and Industry 	Yes for targeted sectors, see	Yes based on Malaysia's economic plans, and revised from time to time	Yes listed at MIDA web-site	<p>Generally speaking, there is no legislation limiting the foreign ownership in the share capital of Malaysian companies. However, where a company requires certain licences to operate, equity conditions or requirements to employ a certain number of local employees may be imposed. This is to increase <i>Bumiputera</i> participation in the wider economy.</p> <p>MANUFACTURING</p> <p>The Industrial Coordination Act 1975 requires manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full time paid employees to apply for a Manufacturing License (ML). ML application will</p>	Yes	Yes	Yes	<ul style="list-style-type: none"> ● Bilateral FTAs: 7 ● With ASEAN and Dialogue Partners: 7 ● Malaysia has signed the CPTPP but has yet to ratify it. ● It is also a party of the RCEP which is scheduled to be signed at end on 2020 ● Malaysia has signed 71 bilateral investment treaties (BITs) including one with China, signed in 1988 and entered into force in 1990 ● Investment Guarantee Agreement (IGA) with China in 1988, and which entered into force in 1990

				<p>be processed by MIDA</p> <p>Effective from 17 June 2003, foreign investors can now hold 100% equity for all investments in new projects, as well as expansion or diversification projects by existing companies in the manufacturing sectors, irrespective of the level of exports.</p> <p>Malaysian Communications and Multimedia Commission</p> <p>Guidelines on Mergers and Acquisitions 17 May 2019</p> <p>Dispute Settlement</p> <p>To be settled at the courts under the jurisdiction of the relevant ministries</p>				
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Source: Compiled by authors

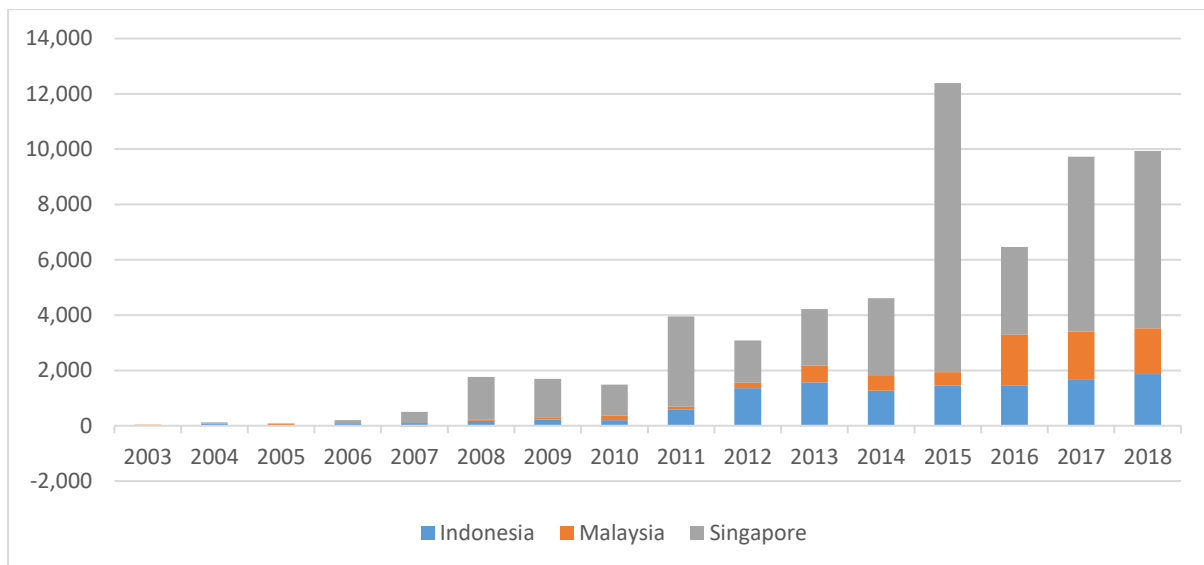
2.3 Chinese Investments in Indonesia and Malaysia

Using Singapore's advantage as a financial hub, Chinese companies conduct their investment strategy in Southeast Asia, through their subsidiaries in the city-state. Figure 1 shows that the first wave came in 2008. This coincided with Tsingshan group's investment in the mining industry in Sulawesi, Indonesia. The second wave came in 2015. This coincided with the signing of comprehensive strategic partnership between Indonesia and China. Since then, Tsingshan has invested significantly in smelter projects in Sulawesi.

During Jokowi's first term (2014-19), majority of Chinese investment was directed to transportation, storage and communication sector, with almost US\$3 billion investment. However, in recent years, there has been increasing Chinese investment in the manufacturing sector. Chinese FDI in the manufacturing sector escalated especially since 2016, after BKPM established a special help-desk for Chinese investors.

Chinese investments in Malaysia escalated after 2013 and grew steadily up until 2018. The investments are spread over a large number of sectors, ranging from infrastructure to manufacturing and services (Tham 2018, Terence et. al. 2020). For manufacturing, China was the largest source country from 2016 to 2019.²⁰

Figure 1: China's outward investment in Indonesia, Malaysia and Singapore (US\$ million)



Source: PRC Ministry of Commerce via CEIC

²⁰ See MIDA, 20 April 2020. <https://www.mida.gov.my/home/10222/news/approved-investments-in-the-manufacturing-servicesprimary-sectors-in-2019-totalled-rm207.9-billion/> (accessed 26 July 2020).

3. Development of IMIP and MCKIP

3.1 IMIP

Indonesia's Morowali Industrial Park (IMIP) is a joint venture between China's Tsingshan Group, and Indonesia's Bintangdelapan Group that was established to develop an industrial estate and integrated nickel-content stainless steel production compound in Bahodopi, Morowali district, Central Sulawesi Province (Figure 2). The industrial park has been heavily endorsed by Chinese and Indonesian leaders, and it is considered part of China's BRI (Damuri et al 2018). But the project does not have a government guarantee as it is a business to business model, which Indonesia considers as the most ideal model for BRI cooperation (Negara and Suryadinata 2018).

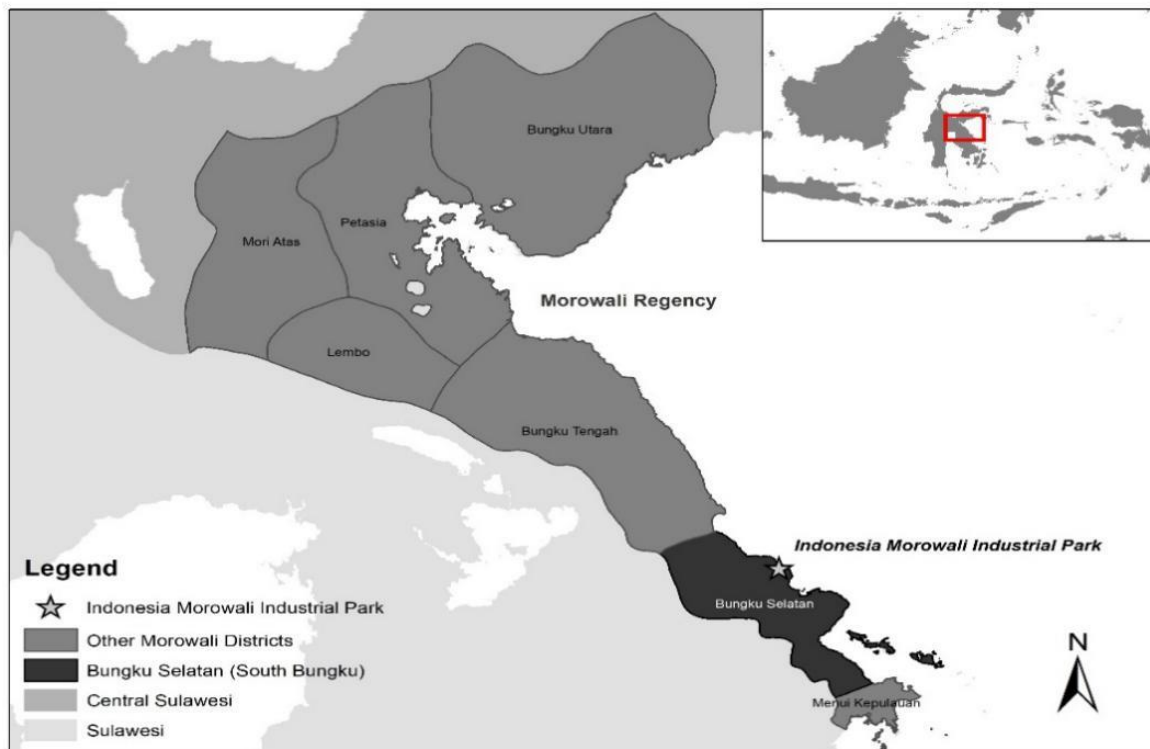
The cooperation to develop IMIP was first announced at a 2013 summit between China's president, Xi Jinping, and Indonesia's then-president, Susilo Bambang Yudhoyono. Both countries agreed to upgrade their bilateral relations under a comprehensive strategic partnership agreement, which covered cooperation in many areas, including economic, trade, finance, fishery, space and tourism.

While it was only launched in 2013, its development can be traced back to 2007, when Bintangdelapan Group started its mining operations in a 47,000-hectare concession in Morowali (Figure 3). The company approached Chinese investors to invest in nickel-based mining activities as China is the largest market for Indonesia's nickel export. In 2009, PT Bintangdelapan Investama (BDI), a subsidiary of Bintangdelapan Group and Shanghai Decent Investment Group, a subsidiary of Tsingshan Group, formed a joint venture to develop the mining industry in the area. The two parties formed PT Sulawesi Mining Investment (SMI), which produced and exported around 3.5 million tons of nickel ore to China in 2013.

In 2014, the Indonesian government introduced a raw-mineral exports ban, aimed at encouraging investments in the country's processing sector in order to create added-value.²¹ The ban triggered a massive influx of Chinese investment, as Tsingshan and Bintangdelapan signed a cooperation agreement in October 2013 to develop a new industrial estate in Morowali, named Indonesia Morowali Industrial Park (IMIP).

²¹ The government relaxed that ban in 2017 through a quota system. Recently, the government decided a complete stop to ore exports from the beginning of 2020 – two years earlier than planned.

Figure 2: Map of Morowali Regency, Central Sulawesi Province



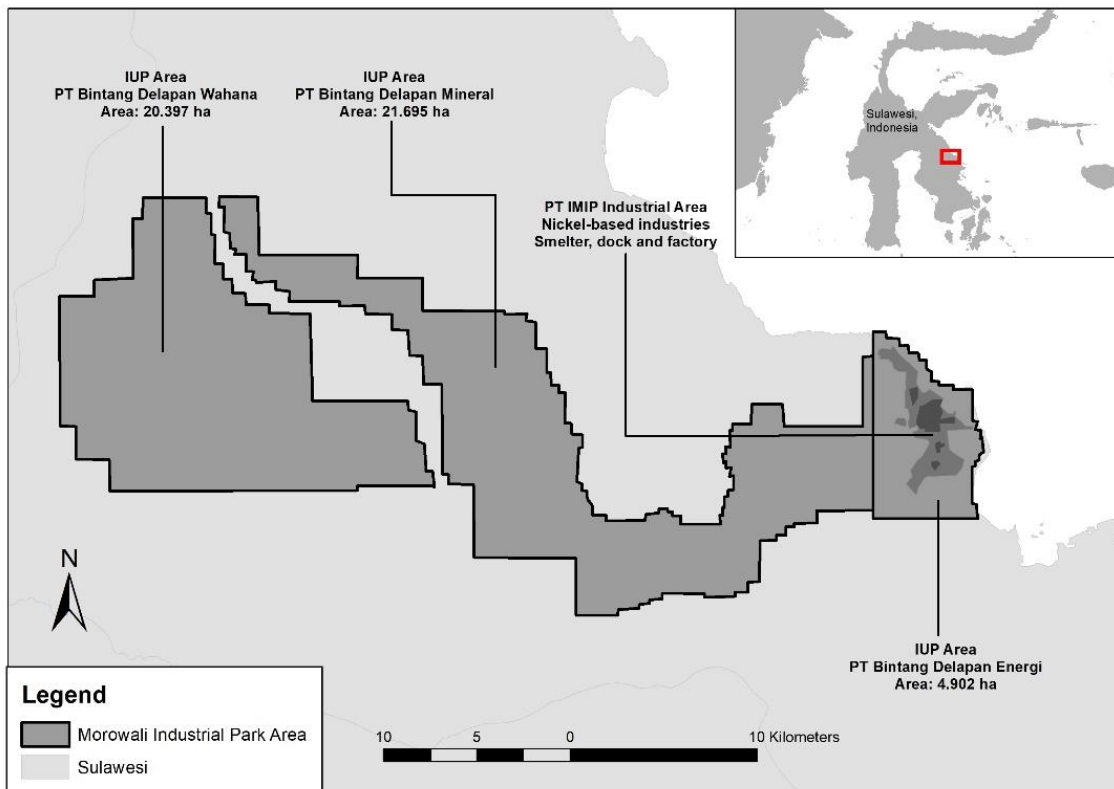
Source: ISEAS-Yusof Ishak Institute

The industrial park occupies an area of 2,000 hectares located in Bahodopi sub-district, Morowali Regency, Central Sulawesi Province (Figure 3). It is positioned in the eastern part of Sulawesi, 300 km away from Palu, the capital of the Central Sulawesi province. IMIP is designed as an industrial estate to supply nickel-based products to China and the world. Shanghai Decent controls a 74.69 percent stake in IMIP, while the remainder is owned by BDI.

Chinese investors decided to build an industrial park in Morowali in order to access the region's rich nickel reserves. Indonesia is estimated to have around 24 percent of the world's nickel ore reserve, mostly concentrated in Central, South, and Southeast Sulawesi provinces.²² Consequently, Indonesia is currently the world's largest nickel producer, with an average production of around 800,000 metric tons in 2019.

²² <https://www.statista.com/statistics/273634/nickel-reserves-worldwide-by-country/#:~:text=As%20of%202019%2C%20the%20total,of%2020%20million%20metric%20tons>. (accessed 21 July 2020).

Figure 3: Map of IMIP and its Mining Concession Areas



Source: ISEAS Yusof Ishak Institute

Nickel is widely used as an industrial material for the production of stainless steel and batteries. Given its importance and scarcity, it is natural for Tsingshan wanted to maintain adequate reserves of nickel for its industrial production of steel. Controlling nickel production in Indonesia is regarded as a strategic decision to insulate the company from fluctuations international nickel prices.

In 2017, IMIP produced 1.5 million metric tons of nickel pig iron (NPI) and 3.5 million metric tons of stainless steel. With this production capacity, IMIP's total sales touched US\$ 2.6 billion, which contributed towards government tax revenues of around US\$100 million in 2018, based on the export duties. If fully completed, according to its Masterplan, by 2024, the project will accumulate US\$ 29 billion investments with an output value at US\$35 billion while the potential tax revenue may reach US\$1.4 billion.

As of now, IMIP directly employs around 35,000 Indonesian workers. The park has also indirectly created opportunities for business, services, and real estate, and has propelled

local industrialization. Based on the government's industrial plan, IMIP has been designated to attract electric-vehicle makers. The industrial park is set to receive another US\$4 billion Chinese-led project to produce battery-grade nickel chemicals. There are three Chinese companies at IMIP that are in construction for the production of battery-grade nickel plants for electric vehicles, namely Tsingshan Holding Group, GEM Co Ltd and Contemporary Amperex Technology Ltd (CATL).

3.1.1 Facilitating FDI at IMIP

Incentives for IMIP

In the case of IMIP, the government has allowed the private sector to take the lead while the government acts as a facilitator and regulator only. The presence of some retired military generals in the company's management board has been deemed a critical factor behind special treatment given to IMIP.²³

Although IMIP is a private-sector led initiative, it has been granted a status as a national strategic project (PSN). Jokowi made the nickel industrial park a PSN, as stated in Presidential Regulation No. 3/2016.²⁴ This guarantees full support from the central and local governments for IMIP to accelerate infrastructure delivery and issuance of relevant regulation as its regulatory law. The status as a national strategic project also paved the way for IMIP to begin developing the industrial complex while waiting for the building construction permit (IMB) to be issued, in addition to the approval from the Manpower Ministry for the use of foreign workers. IMIP receives discretion from the central government to employ foreign workers to expedite the construction of the smelters.

The government further banned nickel ore export in 2020 to ensure sufficient raw materials for IMIP thus expediting nickel smelter development. This is the only metal with an export ban starting in 2020, while all other mineral ore exports will be banned in 2022.²⁵

Foreign Employment

As one of the national strategic projects, the Indonesian government has given discretion for IMIP over the use of foreign workers in order to boost the development of the industrial

²³ <https://www.thejakartapost.com/news/2017/11/15/morowali-a-tale-china-s-grip-rich-region.html>. (accessed 21 July 2020).

²⁴ <https://kppip.go.id/en/national-strategic-projects/>. (accessed 21 July 2020).

²⁵ <https://www.thejakartapost.com/news/2020/01/24/indonesia-to-have-four-new-smelters-this-year-as-mineral-ore-export-ban-nears.html>. (accessed 21 July 2020).

complex. It has been reported in the national media the presence of a large number of Chinese workers working in Morowali Industrial Park. The exact number of Chinese workers at IMIP, and how many of them have proper work permits, are difficult to verify. Except for the company itself, no one from relevant government agencies seems to have the exact figures (Negara and Suryadinata 2019). Some anecdotal evidences say that the number is more than double of the official figures, around 5,000-6,000, and many of them do not have proper work permits and their presence has triggered frictions with local workers.²⁶

However, according to Minister Airlangga, Chinese workers were needed as the technology used in the smelter industry was brought directly by the investor of the country of origin, i.e. China. With the development of the smelter industry, there will be transfer of knowledge through training and assistance by foreign workers to Indonesian workers as for example, in the construction, installation of machinery and equipment, and the production process.

The government also emphasized that foreign workers in the smelter industry are temporary, especially only during project development. During construction, the ratio is 60 percent for local workers and 40 percent for foreign workers. In the production period, the first year the ratio of local workers was 65 percent and foreign workers 35 percent.

After the construction period is completed, the government will ensure that the foreign workers will return to their country and will be replaced by local workers. In the fifth year of the company operation, it is targeted that the portion of local workforce will be 85 percent and 15 percent of foreign workers.

Impact on Host Economy

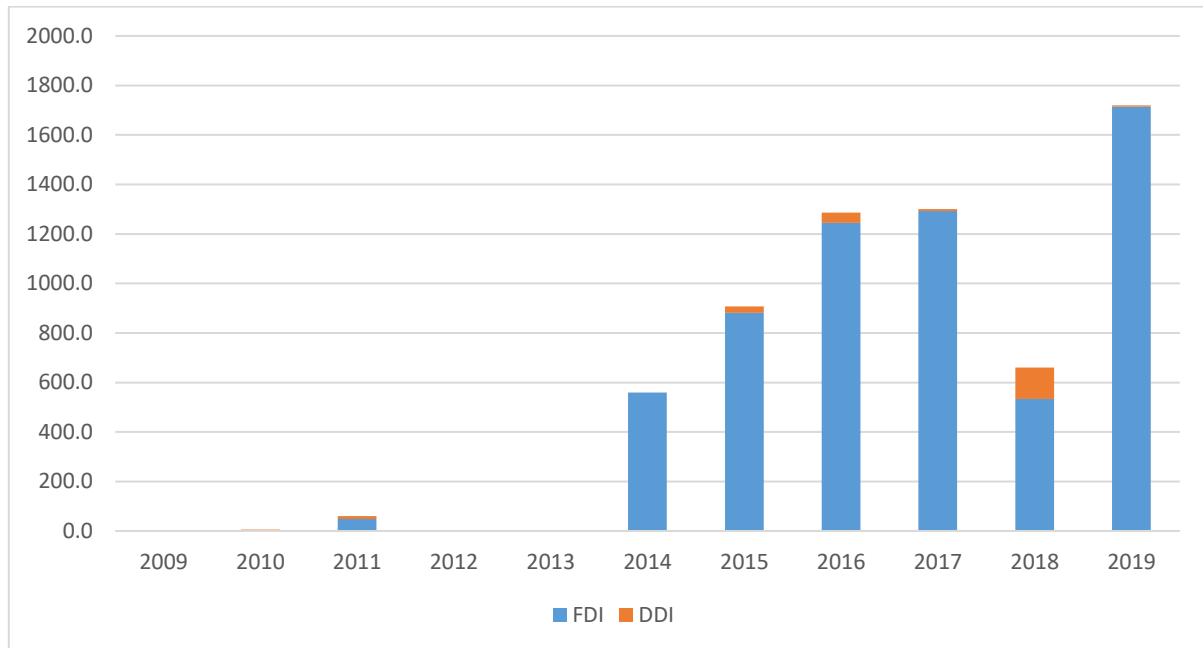
To analyse the impact of the industrial park on the economy, ideally one should use firm level data concerning outputs, exports, employment, wages among others. One can then compare the firm level data with national or provincial level data. At the time of the writing, there is no such firm level data available. Nevertheless, given the significant size of IMIP's investments relative to the economy of Morowali regency or Central Sulawesi Province, we can use regional or

²⁶ <https://www.thejakartapost.com/news/2017/11/15/morowali-a-tale-china-s-grip-rich-region.html>. (accessed 21 July 2020).

country level data to infer the contributions of the industrial park.²⁷ Aside from the Park, there is no other significant manufacturing development at the Regency.

Figure 4 shows FDI realization in the industrial park in Morowali Regency. In fact, all of the FDI in the region was directed to the industrial complex development, while little domestic investments were obtained.

Figure 4: Investment Realization in Morowali Regency, (US\$ million)



Source: BKPM via CEIC

Since 2013, Shanghai Decent has invested over US\$5 billion in developing the infrastructure in Bahodopi regency, e.g. power plant, water supply, houses, telecommunications, seaport, airports, and roads.²⁸ This massive investment has changed the foundation of the region that once depended on agriculture to support its economy.

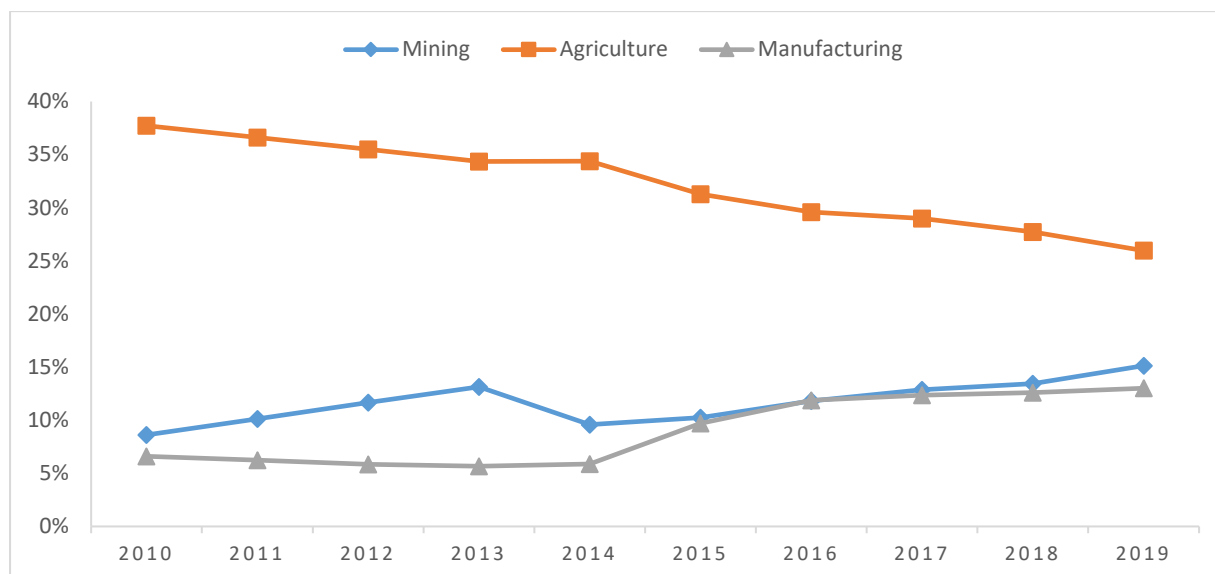
Figure 5 shows that the contribution of mining and manufacturing sectors to Central Sulawesi's GRDP have increased steadily, accounting for 15 and 13 percent of total provincial output in 2019. When IMIP started its operation in 2015, Morowali's economic growth jumped

²⁷ In 2017, total investment to develop IMIP has reached US\$ 5 billion, which is about half of the total GDRP of Central Sulawesi Province in the same year.

²⁸ <https://lokadata.id/artikel/kapital-tiongkok-di-ketiak-sulawesi>. (accessed 21 July 2020).

to 67.8 percent.²⁹ The growth then stabilizes at around 13 percent average since then. In 2019, the regency's economic growth reached 14.5 percent, which is much higher than national growth of 5 percent.³⁰

Figure 5: Sectoral Contribution to Provincial GRDP in Central Sulawesi (Percentage)



Source: BPS via CEIC

The presence of IMIP has boosted the export performance of Central Sulawesi Province. Figure 6 shows that the province's export value has jumped from US\$175 million in 2014 (before IMIP operation) to US\$801 million in 2015 (when IMIP started its operation). Since then, the export performance of the province has been increasing significantly, reaching US\$6.3 billion in 2019.

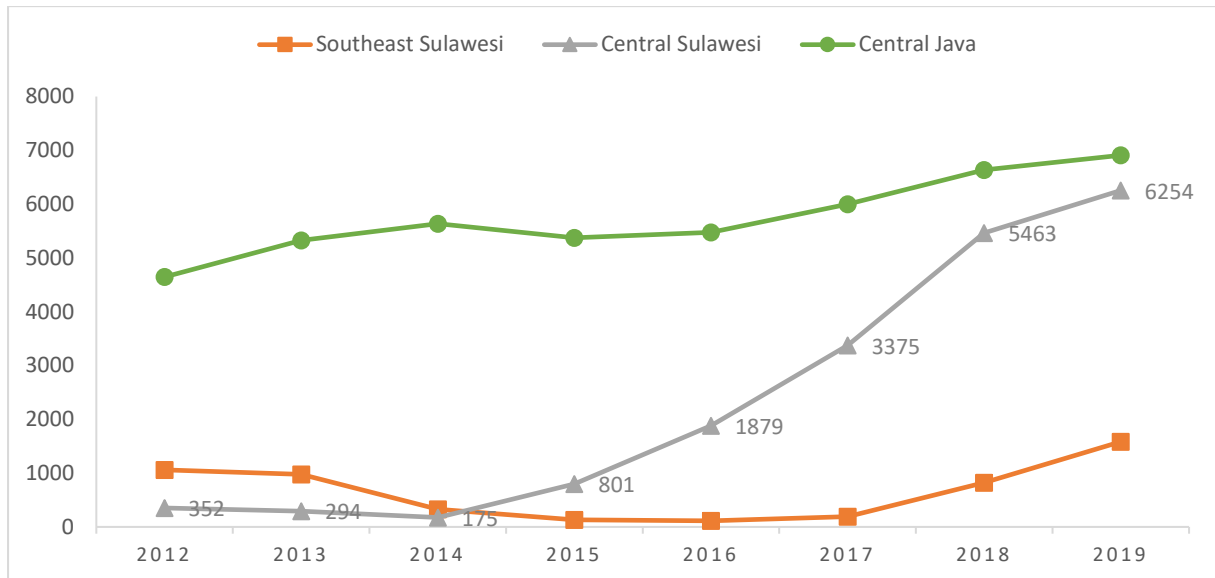
IMIP had developed four nickel smelters with a total expected capacity of producing 2 million tons of nickel pig iron (NPI) per year. Three of its current tenants, PT Sulawesi Mining Investment (SMI), PT Guang Ching Nickel and Stainless Steel Industry (GCNS), and PT Indonesia Tsingshan Stainless Steel (ITSS) together can manufacture 2.5 million tons of hot

²⁹ As a result of the implementation of the export ban on nickel ore in 2014, Morowali's economy grew by 0.09 percent that year.

³⁰ <https://morowalikab.bps.go.id/dynamictable/2017/07/05/10/pdrb-kabupaten-morowali-atas-dasar-harga-konstan-2010-menurut-lapangan-usaha-tahun-2010-2019-juta-rupiah-.html>. (accessed 21 July 2020).

rolled coil (HRC) and 500,000 tons of cold rolled coil (CRC) per year. All of their HRC productions are exported as currently the country has no facility to process this material.³¹

Figure 6: Export Value in Select Provinces (US\$ million)



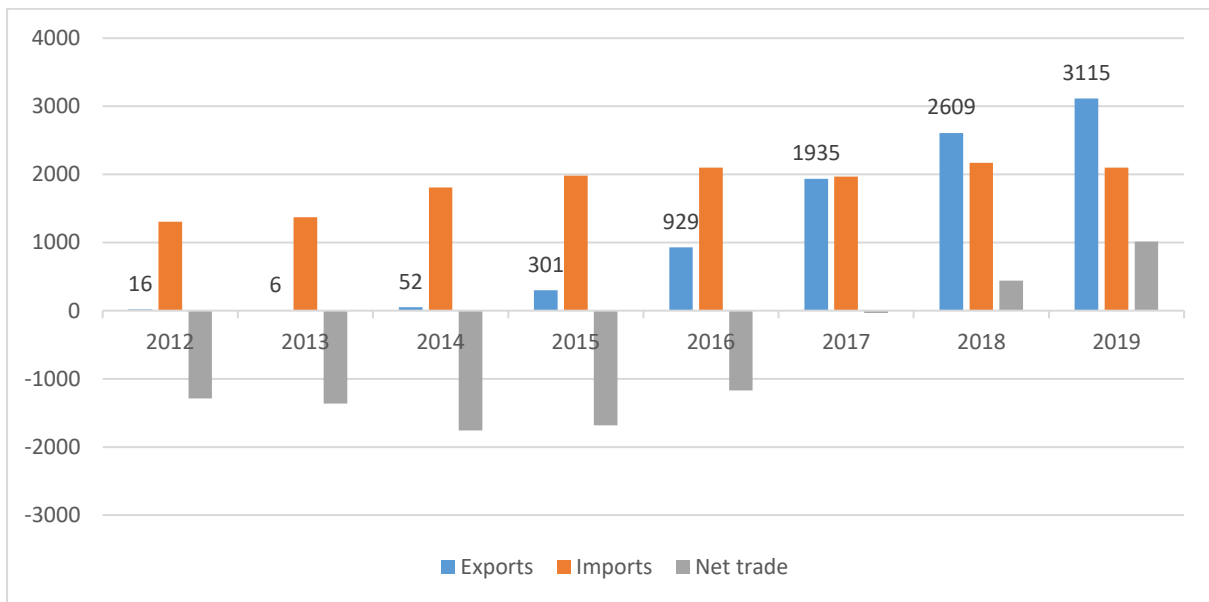
Source: BPS via CEIC

Since its establishment in 2015, IMIP has contributed to Indonesia’s export of iron and steel products (HS 72). It has exported some of its NPI, stainless-steel slab and HRC through its own port inside the Morowali industrial park. There is no firm level export data available. Nevertheless, IMIP had routinely reported its exports to the Provincial Customs and Excise Office in Central Sulawesi, which are later recorded in the national trade statistics. Figure 7 shows the contribution of IMIP in the country’s iron and steel trade. Before its operation, Indonesia experienced a significant trade deficit in the HS 72 sector. After 2016, two years of IMIP operation, the situation has completely reversed as Indonesia gradually garnered a trade surplus in the HS72 sector. Based on Figure 7, the country’s export of HS 72 products has increased dramatically from US\$52 million in 2014 (before IMIP operation) to US\$300 million in 2015 (after IMIP started its operation). The size of export value keeps increasing since then, achieving US\$3.1 billion in 2019.

³¹ <https://www.thejakartapost.com/news/2017/11/15/morowali-investors-jittery-over-policy-uncertainties.html>. (accessed 21 July 2020).

Given IMIP’s significant production capacity relative to Indonesia’s steel and iron production, we assume that this country level data can be used as proxy of IMIP’s contribution to the national economy. Since the sector is only dominated by few large-scale manufacturers, including PT Krakatau Steel, a state-owned company, the role of a large player like IMIP will make a significant change in the national landscape.

Figure 7: Indonesia’s Export and Imports of HS 72 with China (US\$ million)



Note: HS 72 is iron and steel products.

Source: BPS via CEIC

The development of the park has direct implications on the population in the surrounding areas. Bahodopi district in Morowali, which is the epicentre of the Park, has been particularly impacted by the rapid development. The number of residents of Bahodopi has spiked two-fold after IMIP started its operation in 2015.³² It employed 15,000 Indonesian workers in less than five years for its nickel processing industry.³³ Since IMIP’s establishment, Bahodopi has become an economic magnet of Central Sulawesi, attracting workers from nearby provinces for jobs and business opportunities in an otherwise largely backwater region.

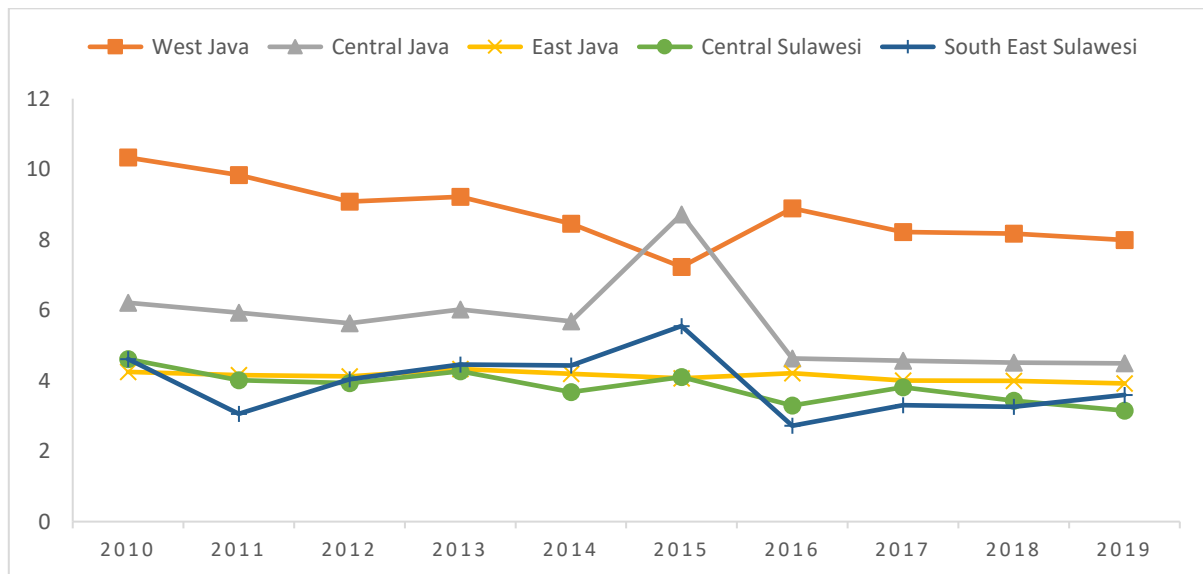
³² <https://morowalikab.bps.go.id/statictable/2017/06/07/191/data-series-jumlah-penduduk-menurut-kecamatan-di-kabupaten-morowali-1999-2015.html>. (accessed 21 July 2020).

³³ <https://www.thejakartapost.com/news/2017/11/14/china-finds-home-morowali.html>. (accessed 21 July 2020).

The Park has also contributed towards reducing the level of unemployment in Central Sulawesi (Figure 8). Figure 8 shows that the Central Sulawesi province has a much lower unemployment rate compared with other provinces. Since IMIP started its operation, many domestic migrants came to Morowali for jobs. This in turn has opened up many business opportunities for the locals, such as renting out places and opening food stalls.³⁴

The existence of a mining industry in the Central and Southeast Sulawesi provinces has contributed to the relatively high level of minimum wage in the two regions compared with other manufacturing-based provinces in Java. Figure 9 shows that, on average, the minimum wage in Central and Southeast Sulawesi is about 30-40 percent higher than the minimum wage level in Java's provinces. IMIP pays relatively higher salary for its employees, which is the reason why many job seekers from other parts of the country are interested to work in the park.³⁵

Figure 8: Unemployment Rate in Selected Provinces (percent per annum)

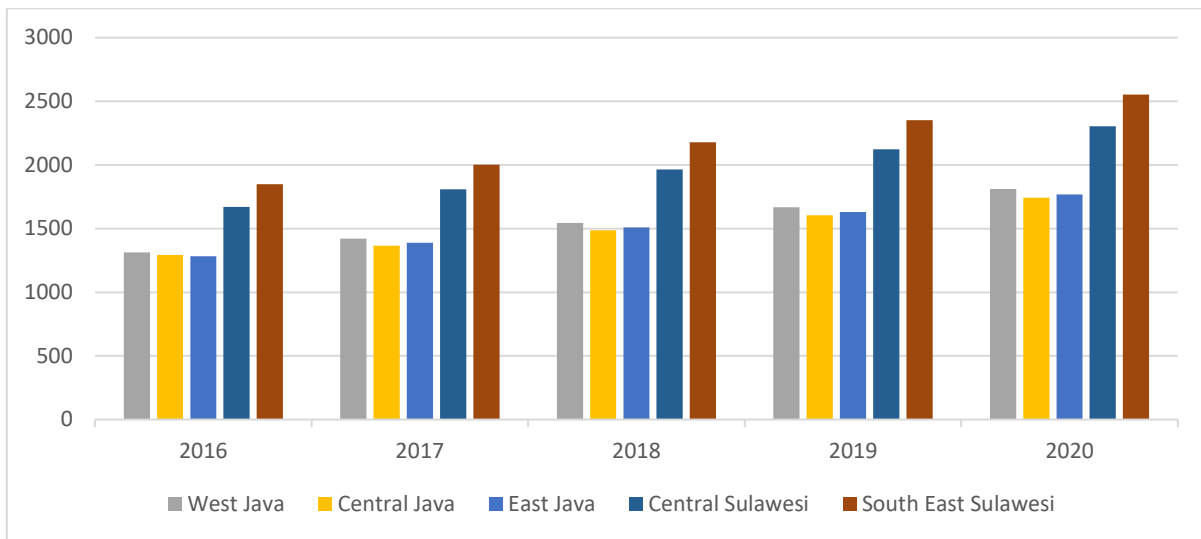


Source: BPS via CEIC

³⁴ Ibid

³⁵ <https://www.thejakartapost.com/news/2017/11/15/anti-chinese-specter-raises-head-c-sulawesi-regency.html>. (accessed 21 July 2020).

Figure 9: Monthly Minimum Wage by Province (IDR thousand)



Source: BPS via CEIC

Based on the discussion above, the development of the industrial park in Morowali to date, has shown some positive impact on the regional and national economy. The project has created new jobs and business opportunities for the local people and SMEs, either directly or indirectly. It has also shifted the labour force from the agriculture to the manufacturing sector, as people shift to a better-paid and formal sector employment.³⁶ The development of the park has also contributed to Indonesia's export revenue, thereby reducing the country's trade deficit specifically in iron and steel commodities.

Since IMIP is strictly protected by the central government, regional administrations do not directly benefit from IMIP's operations. This is because the company pays export duties, mining royalties, foreign workers' levies and even reclamation-guarantee funds directly to the central government.³⁷

Arguably it is still too early to fully assess the overall impact of the project. Without firm level data, it is difficult to accurately measure the additional value-added of the industrial park. Moreover, one may be interested to measure the productivity difference of firms in the industrial park relative to firms in other regions. In the longer term, it is also important to

³⁶ <https://www.thejakartapost.com/news/2017/11/16/farmers-lose-out-industrialized-regency.html>. (accessed 21 July 2020).

³⁷ <https://www.thejakartapost.com/news/2017/11/16/everyone-wants-slice-emerging-morowali.html>. (accessed 21 July 2020).

analyse spillover effects of the project, e.g. backward and forward linkages with other sectors of the economy.

Finally, to ensure sustainability of the project and greater benefit for the community, one also needs to assess the impact of the industrial park on the environment and local people. Smelter industry requires hydrometallurgy, which creates quite a lot of waste or residue. Some are disposed in the sea or spillover to surrounding areas. This triggers massive environmental damage. According to a non-profit Indonesian Forum for the Environment (Walhi), most of the smelters built by China in Indonesia use old, highly polluting technology, and most Chinese-funded projects lacked environmental safeguards.³⁸

3.2 MCKIP

The Malaysia-China Kuantan Industrial Park (MCKIP) is the first industrial park in Malaysia to be accorded a national status. It was launched in 2013 and has a twin park, the China-Malaysia Qinzhou Industrial Park in China. Qinzhou is located in Guangxi which has a vested interest in collaborating with Malaysia due to its ambitious Beibu Gulf Economic Region programme (Ngeow 2019a). In 2008, the central government had included this zone in its national development strategy, leading to an increasing pressure for Guangxi to open up to ASEAN. Guangxi therefore forged friendly ties with 53 ASEAN cities, thereby boosting its trade and economic cooperation and people-to-people exchanges with those regions. Consequently, ASEAN has been Guangxi's largest trading partner for 17 consecutive years.³⁹

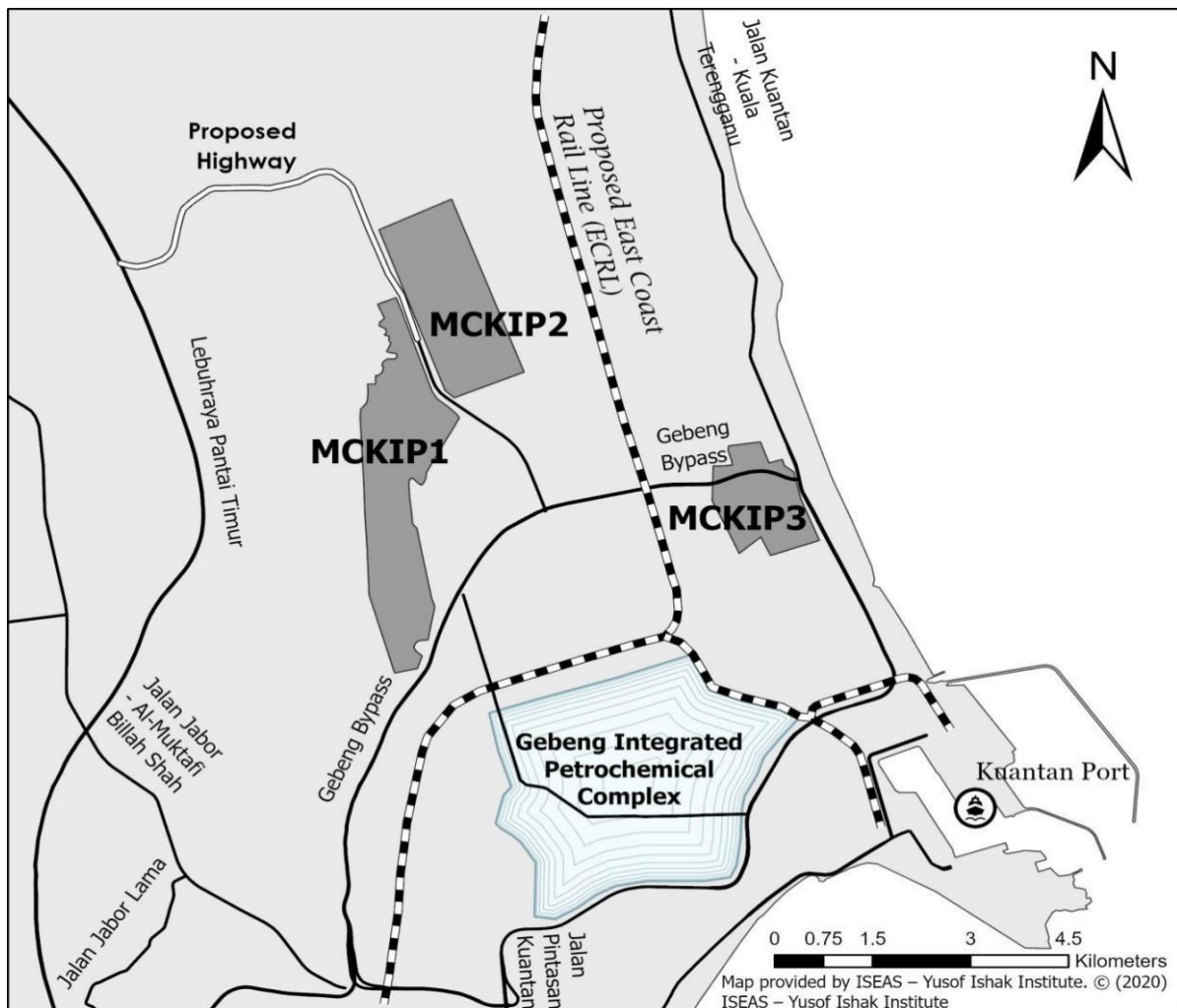
For Malaysia, the choice of Kuantan in Pahang for the location of the Park can be attributed to several factors. Pahang is the former Prime Minister Najib's home state and locating the Park there is a strategic ploy to harness Chinese investments to foster economic development on the less developed east coast of Peninsula Malaysia. Pahang is also Malaysia's third-largest state, while Kuantan it is located roughly halfway up the east coast between Singapore and Kota Bharu and is the ninth largest city in Malaysia. MCKIP is also conveniently located near Kuantan port, which faces the South China Sea. It is connected to the major shipping lanes in the world, serving mainly China, Indo-China, the Far East and the Pacific Rim.

³⁸ <https://www.chinadialogue.net/article/show/single/en/11727-Nickel-mining-resisted-in-Indonesia>. (accessed 21 July 2020).

³⁹ http://www.xinhuanet.com/english/2018-12/06/c_137655675.htm.

A joint-venture was forged between Malaysia (51 percent) and China (49 percent) to develop MCKIP. In the Malaysian consortium, IJM Land holds 40 percent equity while Kuantan Pahang Holdings Sdn. Bhd. and Sime Darby Property together hold 30 percent and the Pahang State Government holds the remaining 30 percent. According to Nikkei (2019), GLCs and government entities like Permodalan Nasional Bhd, Employees Provident Fund, Kumpulan Wang Persaraan and Urusharta Jamaah Sdn Bhd, have invested in IJM, accounting for 44.2 percent of the company’s shares as at 2019. IJM, however, remains independently run as a private listed company, with no representation of the government in its board. Hence, the Malaysian consortium is represented by a mix of private-federal state and the state of Pahang.

Figure 10: Malaysia-China Kuantan Industrial Park



Source: ISEAS-Yusof Ishak Institute

China's consortium consists of two provincial state-owned enterprises (SOEs), namely China Guangxi Beibu Gulf International Port Group (CGBGIP) (95 percent) and Qinzhou Jinqu Investment Company Ltd (QJIC) (5 percent). CGBGIP was established in Nanning in 2007, dealing primarily with the construction and operation of ports, railway and roads. In 2013, it operated four ports in southern China, namely Fangchenggang port, Qinzhou port, Tieshan port and Beihai port. These four ports reportedly handled about 200 million freight weight tonnes (fwt) of cargo in 2012 (Tham 2019). QJIC, was established in 2012, wholly-owned by the Qinzhou City Development and Investment Group Co Ltd, and which belongs to the Qinzhou City Government (Khor 2013). It is involved in the operation and management of state-owned construction assets. Qinzhou City is well-known for its petrochemical and equipment making industries and has a development pattern characterized by energy, paper-making, metallurgical, cereal and oil businesses.

The Park is divided into three plots of land (Figure 10). The first two plots of land (MCKIP 1 and 2), covering about 2,500 acres is earmarked for heavy and medium industries while the third plot (MCKIP3) will be used for mixed developments such as light industries, warehousing, logistics, residential and integrated service centre.

3.2.1 Facilitating FDI at MCKIP

Investment Promotion

Apart from investment promotion conducted by MIDA, there were two other promotional efforts. Since the park is located within the East Coast Economic Region (ECER), it was also promoted locally and at the annual China-ASEAN Expo (CAEXPO) in Nanning by the East Coast Economic Region Development Council (ECERDC) which oversees the development of the region.⁴⁰

Significantly, the Chinese partner in the joint venture also sought out investors from China, especially from the same province. At the launch of the park in 2013, it was announced by the then Prime Minister Najib that four memoranda of understanding were signed, including one between ECERDC and CGBGIP for three projects in the park; a steel plant, an aluminium

⁴⁰ The China-ASEAN Expo (CAEXPO) is an annual event, organised by the provincial government of the Guangxi Zhuang Autonomous Region, at Nanning. It is co-sponsored by the Ministry of Commerce of China and its counterparts in the 10 ASEAN member states as well as the ASEAN Secretariat. It serves to promote friendly cooperation between China and ASEAN, implementation the Belt and Road Initiative and international industrial production cooperation within the China-ASEAN region and beyond. See <http://eng.caexpo.org/gonggao/16th/index.html>

plant and an oil palm refinery.⁴¹ This is line with the strengths of Qinzhou city and the natural resources available at the ECER. CGBGIP was therefore tasked to look for investors for these projects.

Visits to the Park by high level officials from Guangxi province were also accompanied by potential investors from China. For example, in 2016, a delegation led by the vice-governor of Guangxi province brought in more than 80 investors from all over China to view the Park for potential investment.⁴²

Investment Approval and Incentives

The investment projects in the Park are strongly supported by the Malaysian government, where various attractive incentives were given to investors in MCKIP such as import duty exemption, stamp duty exemption, 100 percent corporate income tax exemption up to 15 years, which is five years more than the usual corporate tax exemption as well as existing East Coast Economic Region's (ECER) incentives, (Kee 2019).⁴³

IJM, as the Malaysian partner played an important intermediary role between the Chinese investors and MIDA, the agency in charge of approvals for manufacturing projects and fiscal incentives. This helped to smoothen the investment approval process since the Malaysian partner understands Malaysian bureaucracy better than the Chinese investors.

Accessing Land for the Park

The Malaysian consortium included Kuantan Pahang Holdings Sdn. Bhd. and Sime Darby Property. This is necessary as land is a state matter in Malaysia and the engagement of Sime and the Pahang state is to access the land needed for the Park.

⁴¹ See <https://www.najibrazak.com/en/speeches/the-official-launch-of-malaysia-china-kuantan-industrial-park-mckip/> (accessed 20 July 2020).

⁴² See <https://www.edgeprop.my/content/877125/kuantan-industrial-park-gaining-traction-says-ijm> (accessed 20 July 2020).

⁴³ This includes income tax exemption of 100% for 10 years commencing from the year company derives statutory income derived from the following activities: (i) the disposal of any right over land or disposal of a building or rights over a building or part of a building in an industrial park/free zone; and (ii) the rental of a building or part of a building located in an industrial park/free zone; See [https://www.ecerdc.com.my/en/investment-opportunities/incentives-for-business-and-investments-2/#:~:text=ECER%20INCENTIVE%20PACKAGE%20FOR%20OIL%2C%20GAS%20AND%20PETROCHEMICAL%20CLUSTER&text=products%20or%20activities-Tax%20exemption%3A.tax%20allowance\)%20for%205%20years](https://www.ecerdc.com.my/en/investment-opportunities/incentives-for-business-and-investments-2/#:~:text=ECER%20INCENTIVE%20PACKAGE%20FOR%20OIL%2C%20GAS%20AND%20PETROCHEMICAL%20CLUSTER&text=products%20or%20activities-Tax%20exemption%3A.tax%20allowance)%20for%205%20years) (accessed 20 July 2020).

In 2014, the land for developing MCKIP only measured approximately 729 acres only (IJM 2014). By 2019, the total land size for MCKIP has expanded and stands at 3,500 acres or 14.2 km. IJM Land Sdn.Bhd. (IJML), a subsidiary of IJM, was reported in 2013 to have bought land, including industrial land around Kuantan port for future development.⁴⁴ The acquired land were sold for industrial development under 99 year leases, which are considered to be long for Chinese investors who are face much shorter lease periods in China.

Foreign Employment

Permission to use foreign workers greatly enhanced the attractiveness of the Park. In the case of Alliance Steel, China's specialists in the factory's high technology work such as the blast furnace, were brought in to build the plant at the Park. These specialists helped to shorten the time of construction (Gomez, et.al. 2020).

The number of Chinese workers used was reduced and the plant has plans to progressively replace Chinese workers with Malaysian workers over time, subject to the skill acquisition of the locals through technology transfer programs.

Infrastructure Support: Kuantan Port and Connectivity

Another of the MOU signed at the launch of MCIP by former Prime Minister Najib is between IJM Corporation and CGBGIP for the expansion of Kuantan Port. The port was originally built and operated by the federal government in 1984, but it was privatized in 1998. It is managed by Kuantan Port Consortium Sdn. Bhd. (KPC), which is jointly owned by IJM Corporation Berhad, (60 percent) and Beibu Gulf Holding (BGH, Hong Kong) Co. Ltd (40 percent), with the Malaysian government having a special rights share.

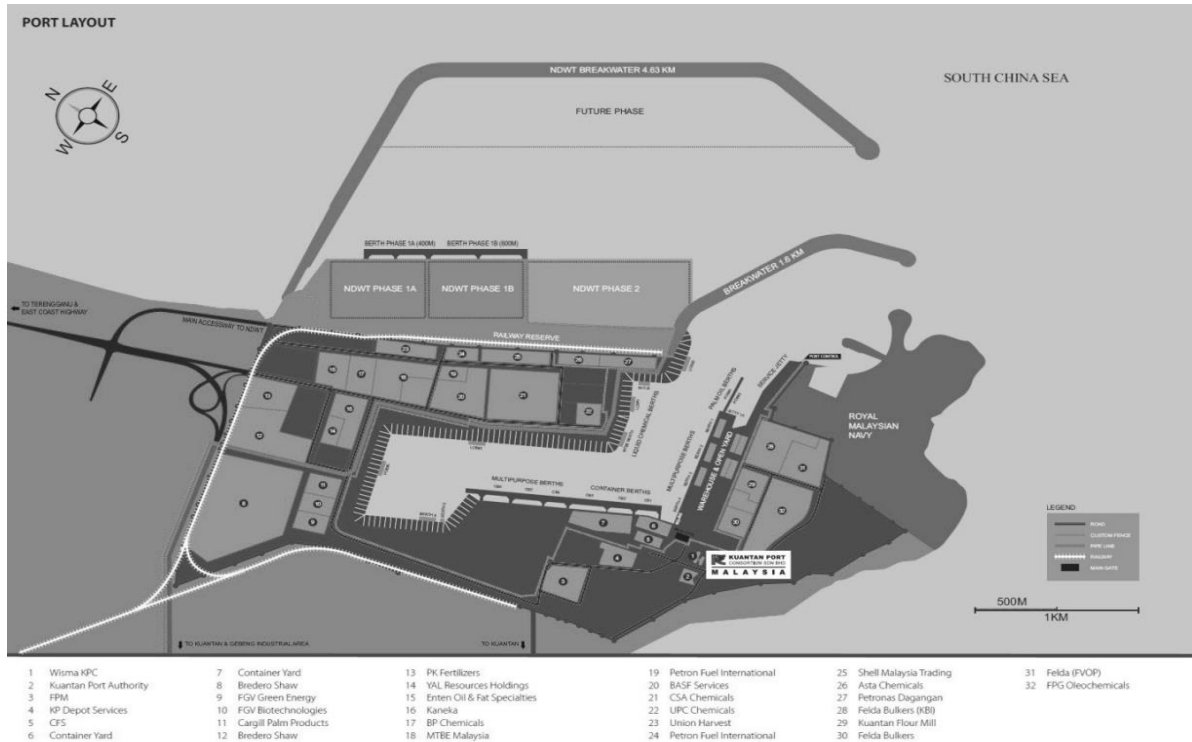
The project envisaged an initial investment of RM 3billion. Federal support is seen in the construction of the construction of the 4.63 kilometres long breakwater, in 2013, with a one-off funding of RM1 billion from the Federal government, using French technology.

The new deep-water terminal is being constructed progressively in three different phases (Figure 11). Its Phase 1 deep-water terminal commenced operation in Q4 2018. The port's annual handling capacity will be doubled to 52 million tons when the new deep-water terminal (Phase 2) is completed. Kuantan Port obtained the Free Zone port status and recently

⁴⁴ See <https://www.theedgemarkets.com/article/ijm-develop-land-near-kuantan-port>

established the Free Trade Zone on 1 April 2019. This will facilitate the volume of transshipment cargo at the port.

Figure 11: Expansion of Kuantan Port



Source: Tham 2019

A key connectivity is the East Coast Rail Link (ECRL), which acts as a land bridge connecting Port Klang on the west coast of Peninsular Malaysia to Kuantan Port on the east coast (see Figure 1). The reinstatement of the ECRL project in 2019 provided an added boost to the links between the east and west coast of the Peninsular Malaysia.

Other infrastructural support to improve the connectivity of MCKIP includes the MCKIP main road and infrastructure, extension of MCKIP main access road to Northern Link Road, and the construction of an elevated diamond interchange near the park (Kee 2019).

3.2.2 Impact on Host Economy

Impact on investment

As of 2019, MCKIP has 10 committed projects with a total investment of almost RM18 billion (RMB 30 billion) and is expected to create 20,000 jobs for the locals in the area (Table 3). Of the two projects that are currently operating at MCKIP, Chinese greenfield investment is reported for the steel factory, Alliance Steel. The spun concrete pile project is manufactured

under one of the subsidiary companies of IJM, namely Industrial Concrete Products Sdn Bhd (ICP), which is the first commercial manufacturer of Pre-tensioned Spun Concrete Piles (ICP Piles) in Malaysia. There is no media announcement on the participation of Chinese investors in this project.

Table 3: Investments at MCKIP, as of October 2019

No	Industry	Investment Value (RM)	Job Creation	Land Size (Acres)
A. Approved and Operating Investors				
1	Modern Integrated Steel Mill	5.6 billion	5,500 (currently employing 3,500 of which 2,400 are non-Malaysians and 2,400 are Malaysians)	710
2	Spun Concrete Piles Manufacturing	92 million	100	16
	Total	5.7 billion	5,600	726
B. Approved Investors				
3	Processed kaolin, porcelain tableware and tiles	533 million	1,000	24.86
4	Battery Manufacturing	420 million	900	41
5	Tire Manufacturing	2.1 billion	1,300	364.62
6	Refinery for Petroleum Based Products	5.1 billion	350	60
7	Laminated Paper Manufacturing	126 million	200	17
	Total	8.279 billion	3750	507.48
C. Committed Investors				
8	Potash Fertilizer Manufacturing	300 million	200	24.71
9	Paper Mill	3.35 billion	2000	10
10	Combined Heat and Power Plant	250 billion	Tbc	10
	Total	3.9 billion	2200	334.71

Notes: Tbc: To be confirmed

Source: IJM, as of 1 October 2019

In November 2019, it is reported that the battery manufacturer, Camel Power (M) has commenced operations.⁴⁵ Camel Power (M) Sdn Bhd is a subsidiary company of Camel Group Co. Ltd. It was established in Kuala Lumpur on March 7, 2017 and its manufacturing plant is located at MCKIP III. The parent company, Camel Group Co. Ltd, is one of the largest battery suppliers for Chinese car maker Geely Automobile Holdings Ltd. Proton has appointed Camel as the vendor to supply Camel Power batteries for the new Proton X70 and future models. Eighty percent of the batteries manufactured in Malaysia was for the export market. About 20 percent of the batteries will be sold in Malaysia while the remaining will be exported to overseas like America, Australia, New Zealand, Africa and Middle East. Camel Power batteries are distributed to all major cities across China and exported to over 40 countries. The company has over 1,000 dealers, 50,000 shops and after market share 22 percent in China.⁴⁶

For approved investments, the implementation may be delayed due to the on-going health pandemic while the breakdown between foreign and domestic is not provided. Committed investments are investments that are still waiting for approval and incentives.

Impact on Employment

This section reports only employment of Alliance Steel (AS) since it is the only manufacturing facility that is fully operational. One of the chief concerns in Malaysia is the use of foreign and local workers. For AS, media reports indicated that 1000 Chinese workers are used compared to 2.600 local workers. This gives a ratio of foreign to local of 0.38, compared to ratio of 0.26 in overall manufacturing and 0.19 in the manufacturing of basic iron and steel in 2016.

AS has however stated that the number of local workers will be increased progressively over time, subject to acquisition of skills by local workers through the training and technology transfer programmes (Gomez et .al. 2020).

Impact on Trade

Since the establishment of MCKIP and AS is to provide traffic for Kuantan Port, the data on Port's throughput indicates and increase in imports and a shift to import of intermediate inputs

⁴⁵ See Maybank IB Research on IJM Corporation, 27 November 2019.

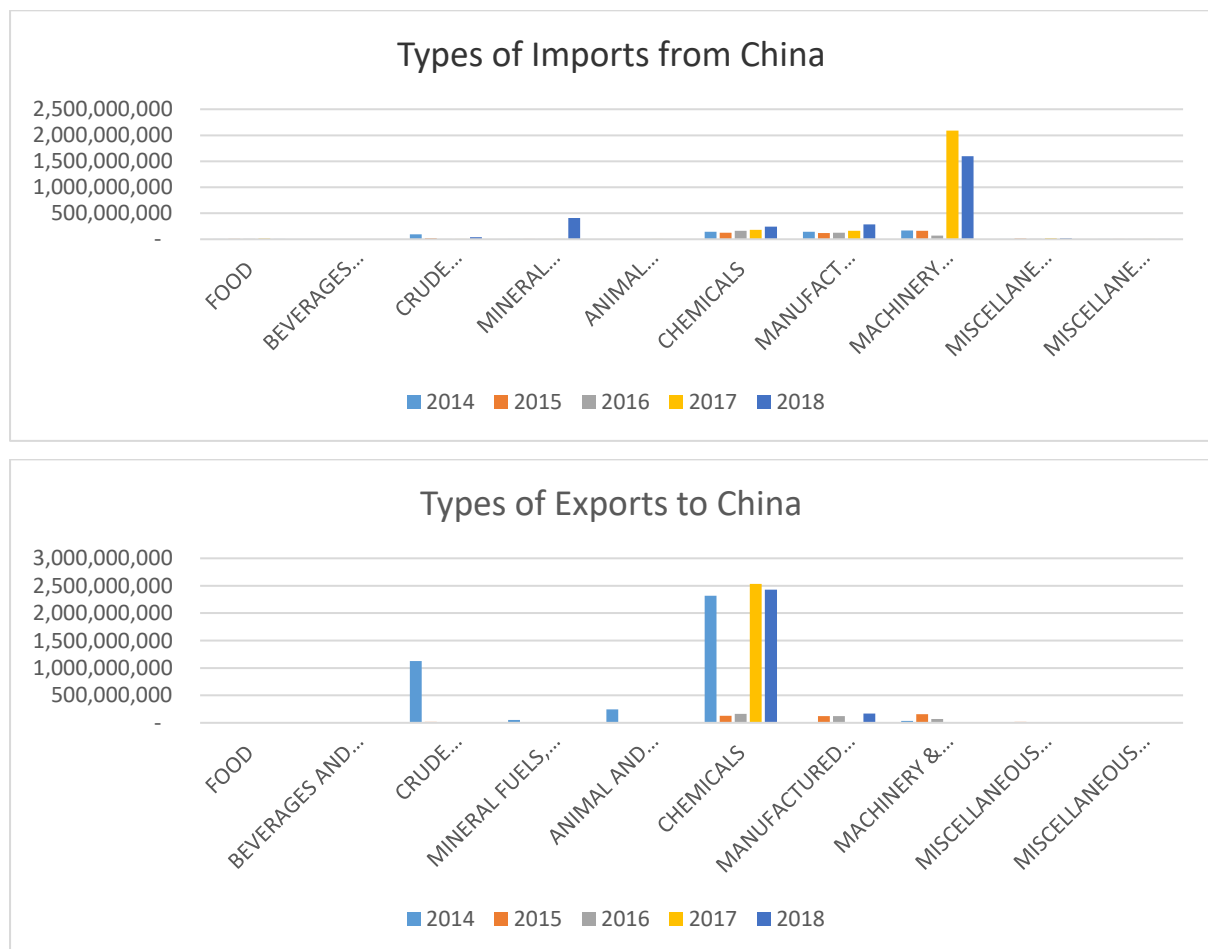
<http://www.bursamarketplace.com/mkt/tools/research/ch=research&pg=research&ac=885726&bb=901932> (accessed 18 July 2020).

⁴⁶ See New Straits Times, 21 March 2019. <https://www.nst.com.my/business/2019/03/471660/camel-power-gets-rm609m-capex-expansionary-mode> (accessed 18 July 2020).

for the construction of AS, but no shift as yet in the exports and export structure, although AS is supposed to export 80 percent of its output.

Although there is no firm level data available, the trade going through Kuantan Port indicates some changes that can be attributed to the construction of AS at the Park. While the Port was used primarily to export natural resources and resource-based products from the east coast region, with little imports due to the lack of manufacturing activities prior to the establishment of the Park (Tham 2019), the construction of AS in 2017 and 2018 led to a jump in imports, specifically in machinery and transport equipment that was needed for the construction of AS’s factory (Figure 12). All the equipment and major inputs needed were imported from China in order to expedite the construction speedily (Terence et.al. 2020). Exports to China increased, especially for palm oil and chemicals. However, exports of steel have not yet materialized in 2018 and may take time to register with the disruption in 2020 due to the Coronavirus pandemic.

Figure 12. Kuantan Port: Imports and Exports from China



Source: Department of Statistics (unpublished data)

Long-term Impact

Malaysia aims to gain from technology transfer from inward FDI. The main forms of technology transfer lie in training and development, as well as through domestic sourcing of component products from Malaysian companies. However, by the end of 2019, there was no evidence of technology transfer through domestic sourcing of intermediate goods. It remains to be seen if these Chinese firms are willing to increase domestic sourcing and help local SMEs learn new technologies to develop their capacity to meet the specifications of the new manufacturing facilities at MCKIP. Ultimately, it depends on costs considerations, which are biased towards Chinese suppliers as they have economies-of-scale, which local producers do not have unless they export.

Alternatively, the Chinese partner at the Park may act as an intermediary in getting Chinese suppliers to relocate their production to Malaysia. This can lead to another round of investments from China's SMEs that are producing the requisite intermediate inputs. This will depend on the changes in China's production conditions and costs, as they evolve over time.

4. Variations and Commonalities

The most significant difference lies in the drivers of the industrial park projects in the two countries. In the case of Indonesia, it is private sector driven with full state support. For Malaysia, the stature of a national park meant that state support was the key driver while the Malaysian partner is effectively a government linked company in terms of equity participation but not in terms of management control. Hence, infrastructural support in Indonesia in terms of building power, energy supply, roads and port are all financed by the private players while Malaysia's federal government financed the connectivity linked to the Park, including part of the finances needed for the expansion of Kuantan port even though the port was already privatised.

Secondly, although both projects were promulgated to drive industrial development in the less developed parts of the country as in the outer islands in Indonesia and the east coast of Peninsula Malaysia, the unemployment rate in the two countries differs considerably, Malaysia's and Pahang's unemployment rate in 2013 was 3.1 and 2.8 percent, respectively while in Indonesia it is 6.0 and 4.0 percent for the Regency in the same year. The creation of employment is less important in Malaysia, given its relatively low unemployment rate as compared to Indonesia. This is partly because Malaysia ventured into FDI-driven industrial development much earlier than Indonesia and agricultural labour was re-directed into

manufacturing and formal employment since 1968. Instead Malaysia is dependent on foreign migrant workers while domestic migration in Indonesia is be used to meet the employment opportunities created by the Park.

Thirdly, Chinese investment in Indonesia is both resource as well as efficiency seeking due to the presence of nickel which is an important input in steel production while it is purely efficiency seeking in Malaysia since there needed inputs are imported into the country for the production of steel (Tham 2019).

Despite these differences, both countries actively sought out Chinese investments in the Park, especially since these were greenfield investments, which were not financed by loans or government guarantees. Both projects were endorsed by the political leader of the day at the respective country, highlighting the extent of political support for each project.

It is also reflected in the special arrangements made to facilitate the entry of Chinese investments in each country (Table 4). Investment promotion were undertaken by Malaysia and also by China due to the mandate given to the Chinese partner to collaborate with ASEAN. For AS, a partnership was formed by China with the provincial government partaking in the new company established in order to tap on loans from the Chinese side for the construction of the steel factory in Kuantan (Terence et.al., 2020). In Indonesia, the private sector has been proactively promoting investment opportunities and inviting investors from China. Once a deal is made and a JV is formed, the Chinese partner started promoting the project, securing financing from Chinese banks, and inviting other Chinese suppliers to come in.

Likewise, special incentives and treatments were provided for investors in the Parks in both countries, which were more than the usual fiscal incentives for FDI. Significantly, special assistance was provided in the form of help-desk for Indonesia while the local partner acted as a local intermediary to handle local bureaucracy in the case of Malaysia.

Essential inputs for manufacturing production such as land and labour were also taken care. Both countries also facilitated the leasing of land for the Park, through the local partners.

Although the use of Chinese workers is a socially sensitive matter in both countries, yet Chinese workers are allowed especially in the construction of the manufacturing facilities. This is to hasten the speed of construction and to enable the manufacturing facilities to be up and running with minimum delay at the desired speed that Chinese manufacturers are familiar with, though this may not be the case for host economies.

Lastly, supporting infrastructure to connect the Park with the external world through ports to support both imports and exports are made in both countries, through private initiatives in Indonesia and via collaborative investments in the case of Malaysia.

Table 4. Comparing Indonesia and Malaysia

FDI Institutions	Indonesia	Malaysia
Investment Promotion	Endorsed by political leader; By Indonesia and China	Endorsed by political leader; By Malaysia and China
Incentives and Investment Approval	Special help-desk for Chinese investors, special incentives for industrial park	Special Incentives and Malaysian intermediary to handle the bureaucracy
Land	Mining operation license (metal mineral) is valid for 20 year and can be renewed two times (each for 10 year)	99 year lease
Foreign Employment	Allowed	Allowed
Infrastructure Support	Minimal government contribution. Private sector build and operate its independent port for export and import	Port for import and export and surrounding connectivity with the rest of Malaysia

Source: Compiled by authors

5. Conclusion

This paper shows that Chinese investments are linked with the host economies' ambition to build its industrial capacity as well as promote its sub-national development. Under the Jokowi administration, Indonesia has seen a rapid increase in Chinese investment. Some of the investment is targeted to promote and develop industrial capacity in backward regions, thus promoting a more balanced development in the archipelagic country. Compared with investors from other countries, Chinese investors are more willing to invest in the outer islands, i.e. outside Java. The latter have long suffered from poor infrastructure and a low level of economic activities. This is why the Indonesian government has been trying to direct BRI investments outside Java. Similarly, Chinese investments are also used to develop the less developed east coast of Malaysia for the Park and port projects, where infrastructure support is inferior to that found in the west coast.

The objective of this paper is to demonstrate that host economies in Indonesia and Malaysia sought to attract Chinese investments in the Park projects by enhancing their investment environment through improvements in their respective FDI institutions. For

Indonesia, there are many hindrances in tapping FDI, including Chinese investments. The constraints include Indonesia's own weak business environment, infrastructure deficit and low human resource quality. Some of its industrial and trade policies are also not compatible with the foreign business interest. Similarly, bureaucratic red-tape and delays abound in investment approvals for Malaysia.

Thus, special investment promotion to Chinese investors with better incentives and treatments were made in both countries. Both countries also smoothed out the processes for the acquisition of land and employment of Chinese workers, though the latter is meant to be progressively reduced over time. Special infrastructure support was also provided in the Park projects in both countries.

While a concrete assessment of the benefits of Chinese investment in the industrial park in both countries lies outside the scope of this paper, preliminary analysis on the impact on the host economy indicates that both projects have increased investments and employment opportunities in the host economies. For Malaysia, a more detailed analysis can only be made when the approved investments are all realised and operating in the country. In Indonesia, since the Park has been operational for a longer period of time, it would appear that the local economy has also benefitted in terms of relatively higher wages, output and exports as well as a reduced deficit in the import and export of steel products.

A longer-term impact in terms of technology transfer to the local small and medium enterprises in both countries remains to be seen. Given the technological gaps between Chinese firms and Indonesian as well as Malaysian firms, the impact on local suppliers, and thus agglomeration effect, is still minimal. Creating agglomeration economies is thus a long-term goal to be developed as each park continues to move forward.

Ultimately, a full analysis of the benefits and costs of industrial park development in the long-term will need more detailed firm level data as well as an analysis on the social and environmental impact. In the interest of transparency as part of the shift towards better governance of FDI in host economies, foreign investors including Chinese investors in Park, should publish an annual report showcasing their contributions to the host economy and/or allow more researchers to access data to assess their development for promoting a better understanding of contributions of Chinese investments in host economies.

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