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# Trends in Southeast Asia

THE GROWING "STRATEGIC  
PARTNERSHIP" BETWEEN INDONESIA  
AND CHINA FACES DIFFICULT  
CHALLENGES

LEO SURYADINATA

**ISEAS** YUSOF ISHAK  
INSTITUTE

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# FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# The Growing “Strategic Partnership” between Indonesia and China Faces Difficult Challenges

By Leo Suryadinata

## EXECUTIVE SUMMARY

- Jakarta–Beijing relations have experienced significant progress, especially since the Yudhoyono presidency.
- Economic links between the two countries have expanded rapidly and tourism and cultural exchanges have also shown improvements.
- Issues that may affect Indonesia-China relations negatively in the future include:
  - mainland Chinese workers in joint projects;
  - the Exclusive Economic Zone (EEZ) of the Natuna Islands;
  - the rise of *pribumi*-ism in Indonesia;
  - domestic anti-Chinese sentiments; and
  - changes in China’s policy on Chinese overseas.





# The Growing “Strategic Partnership” between Indonesia and China Faces Difficult Challenges

By Leo Suryadinata<sup>1</sup>

## INTRODUCTION

Indonesia established diplomatic ties with Beijing in 1950 soon after the founding of the People’s Republic of China (PRC). Relations began steadily but experienced a hiccup in 1959–60 due to Jakarta’s ban on retail trade, which affected many ethnic Chinese in Indonesia. This resulted in a Chinese Indonesian exodus to China, but cordial relations were quickly restored when Sukarno returned to power.<sup>2</sup> As the Indonesian Communist Party (PKI) grew to become a major actor, Sukarno moved further to the left: Sukarno’s Indonesia and Mao Zedong’s China eventually established the Jakarta–Hanoi–Beijing Axis during the 1962–65 period.<sup>3</sup>

The struggle between the PKI and the Army led to the 1965 abortive coup and the dissolution of the PKI, followed by the fall of Sukarno and the triumph of the Army represented by General Suharto. Suharto considered the PRC, which supported the PKI, a major threat, and he froze diplomatic ties for twenty-three years until 1990. Tensions

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<sup>1</sup> Leo Suryadinata is Visiting Senior Fellow at the ISEAS – Yusof Ishak Institute, Singapore. He would like to thank Mr Daljit Singh, co-ordinator of the Regional Security and Political Studies Programme at the institute for his comments and suggestions.

<sup>2</sup> David P. Mozingo, “China’s Policy toward Indonesia”, in *China in Crisis*, Vol. 2, edited by Tang Tsou (Chicago: The University of Chicago Press, 1968), pp. 333–52.

<sup>3</sup> Sheldon Simon, *The Broken Triangle: Peking, Djakarta, and the PKI* (Baltimore: John Hopkins University, 1969).

remained, however, and it was only after the fall of Suharto in 1998, and especially after the departure of President B.J. Habibie, that the relationship between Jakarta and Beijing became cordial again. Abdurrahman Wahid (Gur Dur) and Megawati Sukarnoputri started the improvement in relations. Both presidents were in office only for a short period, however, and more significant improvement took place only during the Yudhoyono presidency, which lasted for ten years, and in the subsequent Joko “Jokowi” Widodo period.

Indonesia today is a populous and resource-rich country but has a weak state with major economic and political problems. The Jokowi government has been eager to develop Indonesia’s economy, while China now is an emerging superpower with surplus capital, goods and labour in need of overseas markets and development opportunities. It is obvious that there is mutual need between Indonesia and China. However, various issues in this cooperation remain, but in the short term, it appears that there will be more cooperation than competition.

## **THE YUDHOYONO PRESIDENCY (20 OCTOBER 2004 TO 19 OCTOBER 2014)**

China in the twenty-first century has been eager to improve relations with Indonesia. Even before Yudhoyono was officially sworn in as president, the PRC had sent a high-level trade delegation to meet him at his residence in Bogor to discuss future cooperation.<sup>4</sup>

During the tsunami disaster in December 2004, Beijing rushed to provide humanitarian aid to Banda Aceh, sending a medical team and pledging to donate US\$63 million in aid.<sup>5</sup> Prime Minister Wen Jiabao attended the tsunami aid summit in Jakarta on 6 January 2005 to discuss and coordinate the assistance programme.

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<sup>4</sup> Derwin Pereira, “Reality bites for Yudhoyono”, *Straits Times*, 25 December 2004.

<sup>5</sup> <<https://www.un.org/sg/en/content/sg/press-encounter/2005-01-06/secretary-generals-press-conference-special-asean-leaders>> (accessed 28 August 2017).

Yudhoyono moved closer to China by signing the Strategic Partnership joint declaration in 2005. In 2013 the “Strategic Partnership” was upgraded to “Comprehensive Strategic Partnership”. The first one was signed between Hu Jintao and Yudhoyono when China was still using the term “peaceful rise”, while the second was signed between Xi Jinping and Yudhoyono when China quietly dropped the term “peaceful rise” and replaced it with “China’s Dream”.

These two MOUs cover cooperation in economy, politics, culture, defence and security. The first MOU was shorter and less detailed than the second one. With regard to defence and security, the first MOU noted that both Yudhoyono and Hu Jintao agreed “to enhance the implementation of the Declaration on the Conduct of Parties in the South China Sea as a means to make the South China Sea a platform for cooperation and a bridge of friendship”.<sup>6</sup>

In the second MOU, this clause became much more detailed and specific. It noted that:

The two Leaders agreed that it is the common responsibility of the countries in the region to maintain peace and stability in the South China Sea. China, Indonesia and other ASEAN countries should work together to fully and effectively implement the Declaration of the Conduct of Parties in the South China Sea (DOC), enhance mutual trust, promote cooperation and maintain peace and stability in the South China Sea. They agreed to work to the eventual adoption of a Code of Conduct (COC) in the South China Sea, following the principles and spirit of the DOC.<sup>7</sup>

The clause in the 2013 version that says that “peace and stability in the South China Sea is the common responsibility of the Southeast Asian countries,” can be interpreted to mean that there is no role for countries

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<sup>6</sup> <[http://en.people.cn/200504/26/eng20050426\\_182767.html](http://en.people.cn/200504/26/eng20050426_182767.html)> (accessed 4 May 2017).

<sup>7</sup> <<http://kemlu.go.id/Documents/RI-RRT/Joint%20Statement%20Comprehensive%20Strategic%20Partnership.pdf>> (accessed 4 May 2017).

outside the region in matters concerning the South China Sea. It is not clear if this was really the intention of Yudhoyono to exclude non-ASEAN countries from the South China Sea dispute.

Bilateral trade and investment from China continued to grow. One of the major joint projects was the Suramadu (Surabaya-Madura) Bridge construction of which started during the Megawati presidency (August 2003) but continued into the Yudhoyono presidency.<sup>8</sup> This was a project between China's state-owned enterprises (SOEs) — China Road and Bridge Corp. and China Harbor Engineering Co. Ltd — and two Indonesian SOEs: namely P.T. Ardhi Karya and P.T. Waskita Karya Persero.<sup>9</sup> The 5.4-kilometre bridge, the longest in Indonesia, was opened in 2009 after about six years of construction.<sup>10</sup>

Construction work had been halted for a period at the end of 2004 due to lack of funds, and the Chinese companies brought their own workers in order to finish the project. Back then, this did not become a political issue in Indonesia.

Chinese companies were also invited to help build power plants and engage in mining. The China Power Company, for instance, invested US\$17 billion to build power plants in Kalimantan. It would take seven years to complete the project and by 2015, the power plant would have completed its first phase which would generate 700 megawatts of electricity.<sup>11</sup> The Jilin Horoc Non-Ferrous Metal Group Ltd also invested US\$6 billion to build nickel smelters in Southeast Sulawesi.<sup>12</sup> Workers from China were employed to build these plants and in the mining projects.

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<sup>8</sup> <<http://news.detik.com/advertorial-news-block/1145224/jembatan-suramadu-warisan-megawati>> (accessed 18 August 2017).

<sup>9</sup> <[https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxjQkDDP1mXWo6uco/wiki/Suramadu\\_Bridge.html](https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxjQkDDP1mXWo6uco/wiki/Suramadu_Bridge.html)> (accessed 19 August 2017).

<sup>10</sup> Ibid.

<sup>11</sup> The power plant was started when Jero Wacok was the Indonesian Energy and Mineral Resources Minister (2011–14) <<http://jakartaglobe.id/business/china-invests-17b-in-power-project/>> (accessed 7 July 2017).

<sup>12</sup> <<http://news.detik.com/adv-nhl-detikcom/1725967/hatta--jilin-horoc-investasi-6-miliar-dollar>> (accessed 21 August 2017).

Again, Indonesian opposition groups did not make an issue of it, in contrast to the criticisms later raised by them on similar matters during the Jokowi administration.

What were the reasons for this? Apparently, during his first term, Yudhoyono enjoyed much support from major political parties, including Islamic parties as they were included in the cabinet, and radical Islam was tolerated.<sup>13</sup> During that period, China's image in Indonesia was still good and there was no hostility shown by Indonesian Muslims towards China or the ethnic Chinese in Indonesia. Further, tensions over the South China Sea issues were still relatively low.

Towards the end of his presidency, Yudhoyono responded positively to an appeal from the ethnic Chinese community by issuing a presidential decree to replace the derogatory term *Cina* with *Tionghoa* and *Tionggok*.<sup>14</sup> The derogatory term was first introduced during a military seminar in Bandung after the 1965 coup attempt, and was later adopted by President Suharto to refer to the PRC and the ethnic Chinese through the Circular of Cabinet Presidium No. SE-06/Pre.Kab/6/1967. Gus Dur and Megawati, both civilians, failed to revoke the term when they were in power. Perhaps only a president with military background had the necessary stature to revoke the Circular issued by Suharto, who was an ex-military general. The abolition of the derogatory term was symbolic but it sent signals to both China and the Chinese Indonesians that his government was friendly towards them. Many therefore have argued that friendly Jakarta–Beijing relations started during the Yudhoyono presidency.

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<sup>13</sup> Robin Bush, "Religious politics and minority rights during the Yudhoyono presidency", in *The Yudhoyono Presidency: Indonesia's decade of Stability and Stagnation*, edited by Edward Aspinall, Marcus Mietzner and Dirk Tomsa (Singapore: Institute of Southeast Asian Studies, 2015), pp. 246–47.

<sup>14</sup> For an analysis of this presidential decree, see Leo Suryadinata, "An End to Discrimination for China and the Chinese in Indonesia?", *ISEAS Perspective*, no. 26/2014, ISEAS – Yusof Ishak Institute, Singapore.

## **THE JOKOWI PRESIDENCY (20 OCTOBER 2014– )**

The cordial relations continued when Jokowi assumed the Indonesian presidency on 20 October 2017. The most prominent advances were arguably in the economic field, especially in bilateral trade and FDI.

### **Bilateral Trade and China's FDI to Indonesia**

Beijing is now Indonesia's top trading partner, having surpassed Japan, the United States and Singapore (see Figure 1). By June 2017, Indonesian exports to China amounted to US\$9,127.1 million (making up 12.6 per cent of Indonesian total exports), while Indonesian imports from China were worth US\$15,755.5 million (consisting of 26 per cent of Indonesian total imports).<sup>15</sup> Apparently the trade has always been in favour of China.

The increase in China's foreign direct investment (FDI) in Indonesia is most dramatic, having jumped from position no. 9 in 2010 to no. 3 in 2016 (see Figure 2). In 2010 during the Yudhoyono presidency, China's FDI was at only US\$0.17 billion, but in 2016 during the Jokowi presidency, it had jumped to US\$2.67 Billion. It still lags far behind Singapore's (US\$9.18 billion) and Japan's (US\$5.40 billion).<sup>16</sup>

### **Socio-Cultural and People-to-People Relations**

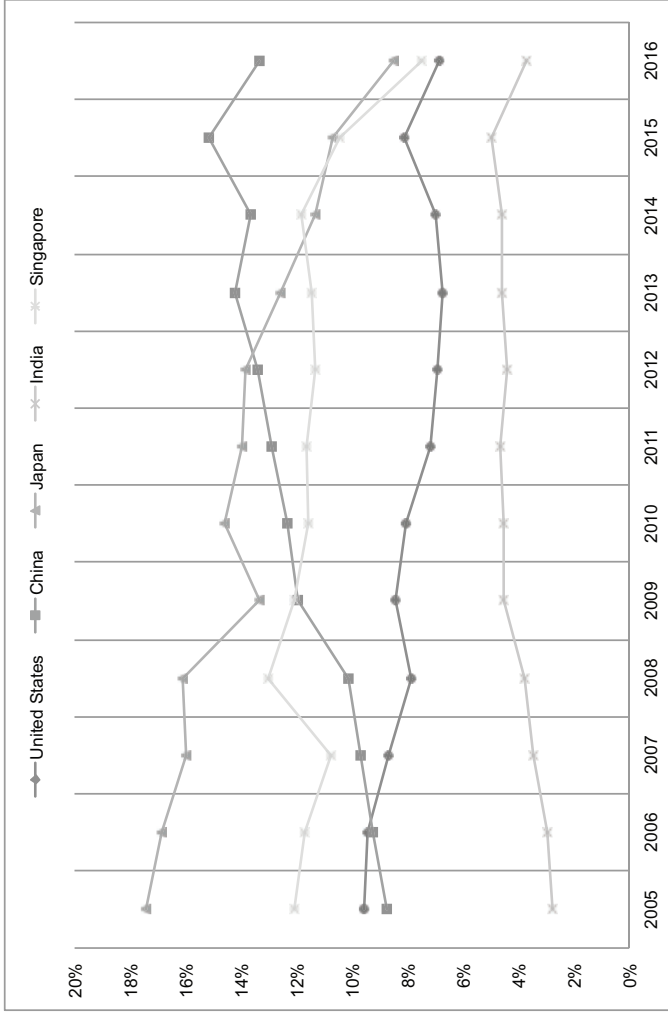
During the Yudhoyono presidency, the socio-cultural aspects of the bilateral relations also assumed some prominence when in 2010,

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<sup>15</sup> <[https://www.bappenas.go.id/files/update\\_perkembangan\\_ekonomi\\_investasi\\_dan\\_perdagangan/Infografik%20Perkembangan%20Perdagangan%20Luar%20Negeri%20Indonesia%20Bulan%20Januari-Juni%202017.pdf](https://www.bappenas.go.id/files/update_perkembangan_ekonomi_investasi_dan_perdagangan/Infografik%20Perkembangan%20Perdagangan%20Luar%20Negeri%20Indonesia%20Bulan%20Januari-Juni%202017.pdf)> (accessed 1 September 2017).

<sup>16</sup> Xie Feng, China's former ambassador to Indonesia argued that if the investment of China through Hong Kong and Singapore were included, China may be the largest investor in Indonesia. See Xie Feng, "‘Orkestra Angklung’ RI-China", *Kompas*, 8 May 2017, p. 6.

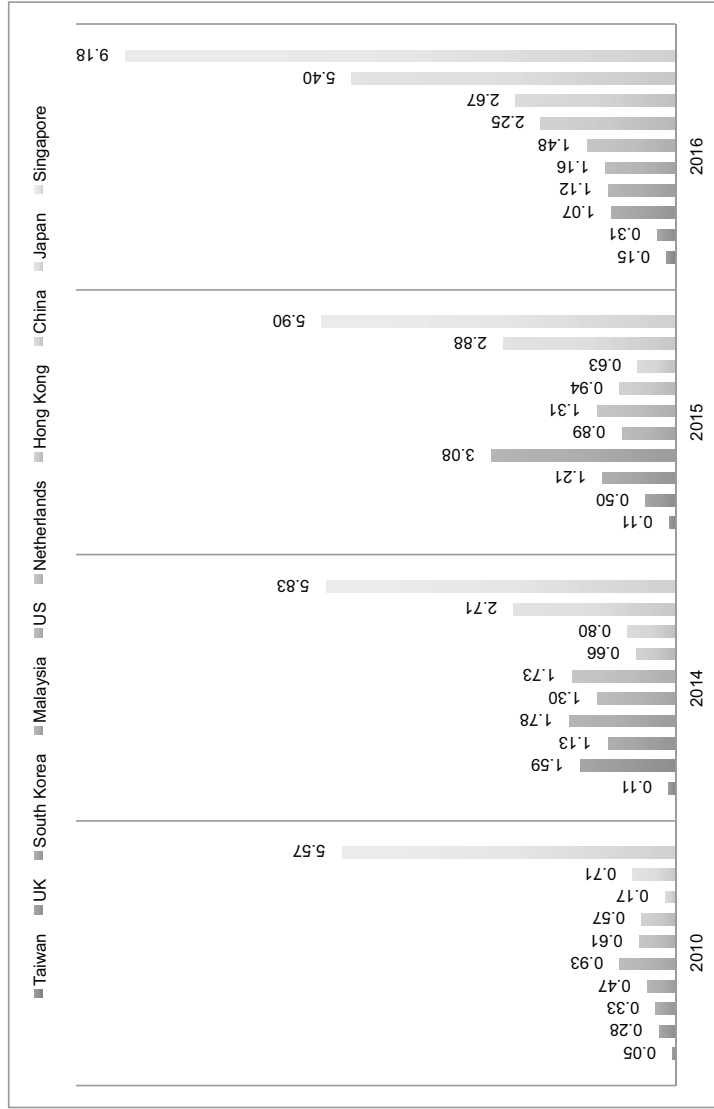
**Figure 1: Share of Total Trade with Select Indonesia's Key Trading Partners (%)**



Note: This figure is taken from a forthcoming manuscript “China’s Maritime Silk Road Initiative and Indonesia”, by Siwage Dharma Negara and Leo Suryadinata.  
 Source: Ministry of Trade.



**Figure 2: FDI Realization (in US\$ billion)**



Note: I would like to thank Dr Siwage Dharma Negara for this graph.

Source: BKPM via CEIC.

China's Confucius Institutes (CI) were established. There were and are six Confucius Institutes in Indonesia, four in Java, and one each in Kalimantan and Sulawesi. These CIs are established within regional universities, many of which are private universities. One is at Maranatha Christian University, in Bandung and another is the Islamic Al-Azhar University, in Jakarta.<sup>17</sup> There is no CI at major state universities, in particular the University of Indonesia (Jakarta) and Gadjah Mada University (Yogyakarta), which are the most influential institutes of higher learning in the country.

The Confucius Institutes established in Indonesia are not called Kongzi Xueyuan (孔子学院) but Pusat Bahasa Mandarin (Mandarin Language Centre), as Confucianism in Indonesia is recognized as an organized religion (Agama Khonghucu). The institutes are often paired with Chinese universities in China. For instance, Al-Azhar University is paired with Fujian Normal University, while Hasanuddin University is paired with Nanchang University. There is still no evaluation on the performance and impact of the CIs in Indonesia. Judging from the number and location of these CIs, their achievement may still be insignificant.

There was a serious shortage of Chinese language teachers in Indonesia, and China offered scholarships to train Indonesian students/teachers in Chinese universities. In recent years, China has also increased its offer of university scholarships to Indonesians, and according to the Chinese ministry of education, there are 14,000 Indonesian students studying at Chinese universities.<sup>18</sup> A former Chinese ambassador to Indonesia, Xie Feng, noted that China has become the second favourite country for Indonesian students to study in.<sup>19</sup>

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<sup>17</sup> Leo Suryadinata, *The Rise of China and the Chinese Overseas: A Study of Beijing's Changing Policy in Southeast Asia and Beyond* (Singapore: ISEAS – Yusof Ishak Institute, 2017), p. 105.

<sup>18</sup> <[http://www.moe.gov.cn/jyb\\_xwfb/xw\\_fbh/moe\\_2069/xwfbh\\_2017n/xwfb\\_170301/170301\\_sjtj/201703/t20170301\\_297677.html](http://www.moe.gov.cn/jyb_xwfb/xw_fbh/moe_2069/xwfbh_2017n/xwfb_170301/170301_sjtj/201703/t20170301_297677.html)> (accessed 29 August 2017).

<sup>19</sup> Xie Feng, “‘Orkestra Angklung’ RI-China”.

The number of Chinese tourists to Indonesia has also soared. In 2016 alone, there were 1.4 million Chinese tourists in Indonesia, and the number should easily reach 2 million by the end of 2017. Jokowi would like to receive 10 million Chinese tourists by 2019, and according to former Chinese ambassador Xie Feng, this target would not be difficult to achieve.<sup>20</sup>

## ***Tol Laut* (Maritime Fulcrum) and the Modern Maritime Silk Road**

The politically most significant collaboration during the Jokowi period has been in maritime projects. It appears that there is some convergence between Jokowi's *Tol Laut* (maritime toll road) and Xi Jinping's Modern Maritime Silk Road. Jokowi first mentioned the idea of *Tol Laut* during the presidential debate in May 2014. What he meant was to connect the western port of Belawan in Sumatra with the eastern port of Sorong in Papua Barat. In his view, the large disparity in the price of goods in Java and Papua was due to maritime transport being underdeveloped.

To develop its maritime transport system, Indonesia requires large ships and harbours with modern facilities. Vice-President Jusuf Kalla noted that Indonesia would have 24 deep-sea harbours; and the old ones would be upgraded to modern and international standards. With international harbours in western and eastern Indonesia, the country's maritime trade would improve.<sup>21</sup> Jokowi established a new coordinating ministry of maritime affairs and appointed Dr Indroyono as his new coordinating minister, with four ministries under him, namely Ministry of Maritime and Fishery, Ministry of Tourism, Ministry of Transport and Ministry of Energy and Mining.<sup>22</sup> This would enhance the production

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<sup>20</sup> Ibid.

<sup>21</sup> Wahyoe Boediwardhana, "24 Ports prepared for Jokowi's 'sea toll road'", *Jakarta Post*, 30 October 2014.

<sup>22</sup> Linda Yulisman and Hasyim Widhiarto, "Maritime vision still sketchy", *Jakarta Post*, 28 October 2014.

of fish domestically and assist 2.4 million fishermen to modernize. In addition, this coordinating ministry would exploit oil and gas resources, develop national and international maritime transportation, and turn Indonesia into a “Global Maritime Centre” within ten years.<sup>23</sup> Huge investments and advanced technology would be needed, as well as involvement from the private sector and foreign players. One week after Jokowi’s announcement of the establishment of a new coordinating ministry of maritime affairs, the American Secretary of the Navy Roy Mabus who visited Medan to meet the crew of the *USS Rodney M. Davis*, a guided missile frigate that had just conducted a joint exercise with the Indonesian navy, expressed American willingness to improve maritime cooperation with Indonesia.<sup>24</sup>

On 2 November, a few days after the U.S. statement, Chinese Foreign Minister Wang Yi visited Jakarta for two days, and met with both President Jokowi and Foreign Minister Retno Marsudi. He announced that China would participate actively in building Indonesia’s maritime power, largely through assisting Indonesian infrastructure development.<sup>25</sup> Jokowi said that “Indonesia is on the way of developing into a maritime power, while China proposes to build the twenty-first century Maritime Silk Road; the two initiatives highly fit with each other.”<sup>26</sup>

In fact, in October 2013, President Xi Jinping, in his speech in the Indonesian parliament, had talked about the New Maritime Silk Road

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<sup>23</sup> Dr Indroyono was replaced by Rizal Ramli after less than a year, and Ramli was replaced by Luhut Pandjaitan in the second cabinet reshuffle. See “Menko Maritim, dari Akademisi ke Aktivistis hingga Militer” <<http://maritimnews.com/menko-maritim-dari-akademisi-ke-aktivis-hingga-militer/>> (accessed 17 August 2017).

<sup>24</sup> “US seeks to improve maritime cooperation with Indonesia”, *Jakarta Post*, 28 October 2014.

<sup>25</sup> Leo Suryadinata, “Indonesia to be Maritime Power? Not so fast”, *Straits Times*, 11 December 2014.

<sup>26</sup> “Indonesian President Meets FM” <[http://english.gov.cn/state\\_council/ministries/2014/11/04/content\\_281475005311373.htm](http://english.gov.cn/state_council/ministries/2014/11/04/content_281475005311373.htm)> (accessed 17 August 2017).

and offered Indonesia and other ASEAN states funds from the China-ASEAN cooperation fund for closer maritime cooperation. There was no clear response from Indonesia at the time.

The Economic Silk Road on land and the twenty-first century Maritime Silk Road were soon put together to become the “One Belt One Road” Strategy (now “One Belt One Road” Initiative, or BRI).

## **Indonesia’s Support for AIIB**

Cordial relations between Jakarta and Beijing can also be seen in Jokowi’s decision to join the newly established China-led Asia Infrastructure Investment Bank (AIIB). When the AIIB was launched on 24 October 2014, Indonesia was absent together with South Korea and Australia.<sup>27</sup> However, during the APEC meeting in November, the Indonesian finance minister took the opportunity to sign an MOU to join the AIIB as its twenty-second founding member. Moreover, President Jokowi also invited President Xi Jinping to visit Indonesia in 2015 to attend the Sixtieth Anniversary Afro-Asian Conference and the Sixty-fifth anniversary of the establishment of diplomatic ties between Jakarta and Beijing. Later, in February 2016, an Indonesian bureaucrat Dr Luky Eko Wuryanto, was appointed a vice president of the AIIB.<sup>28</sup>

Jakarta’s expectation to get China to support its infrastructure projects via the AIIB has only been realized partially. In January 2017, the AIIB announced that it would “finance three potential projects in Indonesia, namely the Sumatra toll road, power plants, and dam maintenance and operation”.<sup>29</sup> Operation and maintenance of dams would cost US\$300 million, whereas the toll road and power plant construction would cost

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<sup>27</sup> Jokowi officially became the President of Indonesia on 20 October 2014. It seems that it was too soon for him to respond to the AIIB which was launched on 24 October 2014 as he had not even announced his cabinet at the time.

<sup>28</sup> <[http://news.xinhuanet.com/english/2016-02/05/c\\_135078283.htm](http://news.xinhuanet.com/english/2016-02/05/c_135078283.htm)> (accessed 17 August 2017).

<sup>29</sup> <<https://en.tempo.co/read/news/2017/01/02/056831789/AIIB-to-Finance-Three-Indonesian-Projects>> (accessed 20 August 2017).

US\$7.5 billion and US\$1.8 billion respectively.<sup>30</sup> AIIB also decided to establish a representative office in Jakarta. During the first One Belt One Road Initiative (BRI)<sup>31</sup> Summit in May 2017, Jokowi proposed six projects to be financed by the AIIB, but with disappointment results.<sup>32</sup>

Jokowi's maritime power dream is still at the planning stage and the vision is still sketchy. Initially Jokowi was merely interested in developing maritime transportation rather than maritime power as such, but later the concept was transformed into a "Maritime Fulcrum". To realize this, Indonesia requires a lot of infrastructure investments.

## **The Jakarta–Bandung High Speed Railway (JBHSR)**

The first concrete Indonesia–China project linked to BRI was the Jakarta–Bandung High Speed Railway (JBHSR). Initially, the JBHSR was proposed by Japan during the Yudhoyono presidency and it was believed that Japan would win the project as it has the technology and had conducted a feasibility study on the project followed by another study regarding the first phase of JBHSR, in all costing Japan more than US\$4 million.<sup>33</sup> By March 2015, during the Jokowi presidency, the Japan

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<sup>30</sup> Ibid.

<sup>31</sup> In fact, the One Belt One Road Initiative is known as One Belt One Road Strategy, which is the direct translation from the Chinese term *Yidai Yilu Zhanlue* 一带一路战略. It is abbreviated as OBOR Strategy. Only later, the English translation was changed to One Belt One Road Initiative, while the Chinese term remained unchanged. The Chinese term was later changed in a speech by Xi Jinping. Strategy has now been changed to Initiative (*Chang yi* 倡议).

<sup>32</sup> Beijing and Jakarta only signed three documents. The first one is related to an action plan for implementation of comprehensive strategic partnership for 2017–22; the second is for a Rp150 billion (US\$11.25 million) grant to a site study on infrastructure development; and the third one is a financing agreement on Jakarta Bandung high-speed railway project. See Siwage Dharma Negara, "The Importance of Obor to Indonesia", *Jakarta Post*, 28 May 2017.

<sup>33</sup> "Patah Hati Saudara Tua", *Tempo*, 18 October 2015, p. 88.

team had submitted the draft plan to Bappenas (Badan Perancangan Pembangunan Nasional), the Indonesian National Development Planning Body. In April 2015, the Japan International Cooperation Agency (JICA) submitted the plan to the Indonesia's Coordinating Minister for Economic Affairs.

However, Rini Sumarno, who is the Minister for State-Owned Enterprises (Badan Usaha Milik Negara or BUMN) in the Jokowi cabinet, signed an MOU on 27 March 2015 with the chairman of the Development and Reform Committee of China. According to *Tempo*, an influential journal in Jakarta, the MOU stated that China would offer US\$5 million to conduct a feasibility study regarding the building of JBHSR.<sup>34</sup> By August 2015, the chairman of Development and Reform Committee of China had submitted the plan to President Jokowi.

In the same year in July/August, the Special Envoy of Prime Minister Shinzo Abe visited President Jokowi, and on 28 August, submitted their revised plan to Jokowi. These two plans were sent to the relevant ministries for review.

When the building of the JBHSR was first proposed, many observers, including a few ministers, had disagreed with the proposal, saying that the distance between these two cities was too short to warrant the huge investment. Some argued that the existing railway was sufficient and if a higher speed railway was to be built, it should at the most be of medium speed. On 3 September 2015, Jokowi rejected both proposals from Japan and China. However, he stated that if the high-speed railway was to be built without using the money from the Indonesian government budget, he would reconsider.<sup>35</sup>

### *Comparing the Proposals of Japan and China*

Japan has no state enterprises similar to those of China and Indonesia. Therefore, it is impossible for Japan to change its proposal completely

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<sup>34</sup> Ibid.

<sup>35</sup> Ibid., pp. 86–88.

in order to fulfill the Indonesian requirements. China is different; it was able to re-tailor its plan to Indonesian needs.<sup>36</sup>

The Japan proposal was as follows: Japan would build 140 kilometres of high-speed railway for a speed of up to 320 kilometres per hour. The total investment would be about US\$6.2 billion (Rp89 trillion).<sup>37</sup> The Indonesian government would be responsible for 15 per cent of the capital, to be used for purchasing the required land, payment of special taxes, repair, and management expenditures. The High Speed Railway Company should be responsible for 10 per cent of the capital. The Japanese government would give 75 per cent of the loan to the Indonesian SOEs, at annual interest of 0.1 per cent to be repaid over forty years. However, the Indonesian government should guarantee 50 per cent of the capital loan. The JBHSR would have five stations, and the project would start in 2017, be completed in 2019 and the system operational in 2021.<sup>38</sup>

According to the Chinese proposal, China would build 150-kilometre (later it was changed to 140-kilometre) high-speed railway capable of taking train speed of 350–380 kilometres per hour.<sup>39</sup> The total investment would be US\$5.5 billion. China's state companies would bear 40 per cent of this while Indonesian state companies would bear the remaining 60 per cent. The capital would be given by the China Development Bank at 2 per cent interest annually to be paid over a forty-year period, with a ten-year grace period. In other words, Indonesia would have fifty years to repay the Chinese loan. The Indonesian government would not have to provide capital to build the JBHSR or make any financial guarantee. There would be eight stations, and the project would start in September 2016, be completed by 2018 and be operational in 2019.

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<sup>36</sup> There are two tables of comparison, both published in *Tempo*. The first table was published on 18 October 2015 (p. 87), while the second one was published on 14 February 2016 (p. 81). The second table appears to have been revised from the first one. I have used both tables in this paper.

<sup>37</sup> “Patah Hati Saudara Tua”, *Tempo*, 18 October 2015, p. 87; “Akrobat Proyek Kereta Cepat”, *Tempo*, 14 February 2016, p. 81.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*



If we compare the two proposals, it is obvious that the Chinese proposal is the more favourable deal. The most important item for Indonesia was that while the Japanese proposal required the Indonesian government to provide the capital and financial guarantee for the project, the PRC proposal made no such demand.

On 22 September the Chinese proposal was heatedly debated between Rini and three other ministers, namely the Co-ordinating Minister for Economic Affairs Darmin Nasution, Finance Minister Bambang Brodjonegoro and Minister for Development Planning Sofyan Djalil. Rini reported that the four SOEs (Indonesia's State Railway Company, Perkebunan Nusantara VIII or state-owned forestry company, Jasa Marga Company, and Wijaya Karya company) would be involved in the project and they would be able to finance the JBHSR project,<sup>40</sup> while the other ministers were doubtful that the four SOEs were capable of financing the gigantic project and repaying the debt. These ministers were also not comfortable with the commercial arrangement with the PRC and questioned the viability of the project.<sup>41</sup> Nevertheless, Rini insisted that P.T. Pilar Sinergi that she led would be able to repay the debt. Despite strong opposition from many cabinet ministers, Rini was able to push the Chinese proposal through and have it accepted by President Jokowi.

### *China's Victory and Problems*

Jokowi sent Sofyan Djalil of Bappenas as special envoy to Tokyo to convey his decision on the JBHSR project, which caused great disappointment in Japan. On 21 January 2016 the ground-breaking ceremony was held in Bandung, signalling the official start of the project. President Jokowi attended the official function while President Xi Jinping sent a written

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<sup>40</sup> "Patah Hati Saudara Tua", p. 86. It was reported that on 2 October 2015, the above four state companies officially formed P.T. Pilar Sinergi BUMN Indonesia, or the Pillar of Sinergy for State Owned Enterprises, see <<http://www.wika.co.id/id/pages/pt-pilar-sinergi-bumn-indonesia>> (accessed 20 August 2017).

<sup>41</sup> "Patah Hati Saudara Tua", pp. 87–88; "Akrobat Proyek Kereta Cepat", p. 81.

message congratulating Jokowi, and describing the project as “the early harvest of the strategic connections between China and Indonesia”.<sup>42</sup>

But not all was well. The Minister for Transport Ignasius Jonan was not present at the ceremony. A few days later, the minister revealed that not all the permits to build the high-speed railway had been approved as the documents had not been fully submitted to the relevant departments.<sup>43</sup> One of them was a permit regarding environmental impact. Some argued that many Chinese documents were still in the Chinese language and the Indonesians were unable to process them. The Chinese foreign minister commented that the report was incorrect and the project was moving ahead as scheduled.

Jonan was later removed from the transport ministry but returned to the cabinet as mining resources minister. By mid-March 2016, all permits for the project were reported to be in order.<sup>44</sup> However, as late as mid-2017, land acquisition had not been completed,<sup>45</sup> and the Chinese bank had not released the required funds. It is highly questionable if the project can be completed in time.

Below are some further problematic issues in Indonesia-China relations.

## **Mainland Chinese Workers and Anti-Jokowi Smear Campaigns**

One of the problems in Indonesia–China relations is the issue of Chinese workers being brought in to work on Chinese projects in Indonesia when

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<sup>42</sup> See *Yinhua Ribao (Harian InHua)*, 22 January 2016.

<sup>43</sup> Farida Susanty, “Limited guarantee for high-speed rail”, *Jakarta Post*, 4 February 2016; also Farida Susanty, “Government not to grant KCIC exclusivity”, *Jakarta Post*, 10 February 2016.

<sup>44</sup> *Yinhua Ribao (Harian InHua)*, 16 March 2016.

<sup>45</sup> Until July 2017, only 55 per cent of the land needed to build the railway was acquired by the authorities. See <<http://nasional.kompas.com/read/2017/07/25/21522441/pembebasan-lahan-kereta-cepat-jakarta-bandung-baru-55-persen>> (accessed 21 August 2017).

Indonesia still has many unskilled workers who are jobless. Foreign workers are not allowed in Indonesia, unless they have special skills that are not available in the country. The mainland Chinese workers issue has been used to criticize the Jokowi administration for being pro-China at Indonesia's expense.

No doubt, Jokowi has seen China as a major source of Indonesian infrastructure projects as well as a source of tourists. He went to Beijing in 2014 soon after the formation of the AIIB to invite China to invest in Indonesia; later he also asked President Xi Jinping to encourage Chinese tourists to visit Indonesia. An MOU was signed between Jakarta and Beijing, which stated that Indonesia would like to receive 10 million Chinese tourists by 2019.

Soon, various groups started black campaigns against the Jokowi administration and China. In May 2015, for instance, the vice prime minister of the PRC, Madam Liu Yandong, made a speech at the University of Indonesia calling for an intensifying of interactions between the people of the two countries. The anti-Jokowi groups spread rumours in the social media that Liu Yandong had mentioned that about 10 million new Chinese migrants would be coming to Indonesia over an unspecified period, and Indonesia would be "ruled by the Chinese".<sup>46</sup> This fiction circulated in the Indonesian social media and small newspapers for some time.

In June 2015, social media belonging to anti-Chinese and anti-China groups and small newspapers (such as *Pos Kota*) made further issue of the presence of Chinese workers in the Sino-Indonesian joint projects. One of the projects, the cement factory in Lebak (Banten), was said to have hired 799 Chinese migrant workers, mainly doing non-skilled work.<sup>47</sup> The company responded that it only hired 400 Chinese workers who have special skills.<sup>48</sup> It was also claimed that joint project companies

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<sup>46</sup> Ibid.

<sup>47</sup> <<http://industri.bisnis.com/read/20150626/12/447727/waduh-para-pekerja-asal-china-di-lebak-suka-bab-sembarang>> (accessed 28 August 2017).

<sup>48</sup> <<http://poskotanews.com/2015/08/20/heboh-ratusan-wn-cina-bekerja-di-pabrik-semen-di-lebak/>> (accessed 28 August 2017).

in Bali and Kalimantan also hired many Chinese “migrant workers”. The issue was eventually debated in parliament. Manpower Minister Hanif stated that the Chinese workers had legal permits and once the projects were completed, they would return to China.<sup>49</sup>

*Tempo* soon published a special issue (6 September 2015) on Chinese workers in Indonesia. The cover carried a caricature of President Jokowi wearing a uniform worn by Chinese workers, holding a hammer inscribed with the words: “Welcome, Workers from ‘Cina’.” The magazine noted irregularities in the employment of Chinese workers, pointing out that many of them were in fact blue-colour workers who could be replaced by Indonesian workers.<sup>50</sup>

*Tempo* claimed that China-Indonesia joint projects were supposed to be at a ratio of one Chinese migrant worker to ten Indonesian workers, but the managers were employing mostly Chinese migrant workers.<sup>51</sup> It claimed that by May 2015, there were 25,000 Chinese migrant workers there, higher than the previous year’s figure of 16,000, all at a time when 7.4 million Indonesian workers with primary and junior school education were going about jobless.<sup>52</sup>

Indonesian Vice President Jusuf Kalla in September 2015 clarified that the Chinese workers worked for special projects and did not therefore take away Indonesian jobs. On the contrary, these projects created more

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<sup>49</sup> <<http://setkab.go.id/inilah-penjelasan-menaker-hanif-dakhiri-soal-isu-eksodus-tenaga-kerja-asing-asal-china-ke-indonesia/>> (accessed 20 August 2017).

<sup>50</sup> “Penggali Tanah dari Jauh”, *Tempo*, 6 September 2015, pp. 94, 100.

<sup>51</sup> “Kalau ada pekerja level bawah, pasti pelanggaran”, *Tempo*, 6 September 2015, p. 102.

<sup>52</sup> “Banjir Pekerja dari Negeri Panda”, *Tempo*, 6 September 2015, p. 99. In the 2017 Indonesian National Survey conducted by the ISEAS – Yusof Ishak Institute, 26.6 per cent of respondents think that Chinese migrant workers should not be allowed at all, while 50.2 per cent think that they should be allowed to work but the government should limit their numbers. See Diego Fossati, Hui Yew-Foong and Siwage Dharma Negara, *The Indonesian National Survey Project: Economy, Society and Politics*, Trends in Southeast Asia no. 10/2017 (Singapore: ISEAS – Yusof Ishak Institute, 2017), pp. 40, 44.

employment opportunities for Indonesians.<sup>53</sup> Manpower minister Hanif also reported that between January 2014 and May 2015, 41,365 Chinese workers were allowed to enter Indonesia of whom 12,837 were still in Indonesia.<sup>54</sup>

This issue of Mainland Chinese workers re-emerged at the end of 2016, coinciding with the Jakarta Governor Ahok's court case and Jokowi's statement in Kalimantan.

On 5 December 2016, Jokowi during a visit to Balikpapan in Kalimantan said that he had signed an MOU with Beijing that by 2019, he would like to have 10 million Chinese tourists visit Indonesia. He stressed that these people would not be workers. There were only 14,000 Chinese workers in Indonesia (later he corrected the figure to 21,000). Jokowi further explained that Indonesia needed the income from tourism to pay for infrastructure development, as the revenue from taxes was insufficient. He explained that Chinese tourists were sought by all countries and Indonesia had been able to get only 900,000 Chinese tourists, far behind the numbers that visited Indonesia's neighbours.

Rumours circulated in social media claimed however that there were 10 to 20 million Chinese migrant workers in Indonesia. On 23 December 2016 Jokowi ordered the police to investigate the source of the rumours and to arrest the culprits.<sup>55</sup> A few days earlier, five Chinese migrants were arrested in West Java for planting imported chili plants that were tainted with a plant pathogen.<sup>56</sup> The report was presented as if there was a

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<sup>53</sup> "Don't Misinterpret the influx of Chinese Workers: VP", *Jakarta Post*, 3 September 2015.

<sup>54</sup> Ibid. According to the Indonesian Manpower Minister, the Indonesian labour force is about 129 million strong, while the total of foreign workers is 70,000, which constitutes only 0.1 per cent of the total labour force. See "Banjir Pekerja dari Negeri Panda", *Tempo*, 6 September 2015, p. 102.

<sup>55</sup> <<http://bisnis.liputan6.com/read/2686295/jokowi-minta-polri-tindak-penyebar-isu-tenaga-kerja-china>> (accessed 30 August 2017).

<sup>56</sup> <<https://international.sindonews.com/read/1164080/40/china-sangkal-pakai-benih-cabai-sebagai-senjata-biologis-di-indonesia-1482136248>> (accessed 30 August 2016).

mainland Chinese “conspiracy” to ruin the Indonesian economy. Beijing’s ambassador denounced the black campaign to link the behaviour of Chinese individuals with their government.

## **Natuna Islands and the Exclusive Economic Zone**

Another issue that can affect Jakarta-Beijing relations is China’s policy towards the South China Sea in general and towards the Exclusive Economic Zone (EEZ) relating to the Natuna Islands in particular.<sup>57</sup>

China has claimed almost 90 per cent of the South China Sea to be its “territory”. However, regarding Indonesia, Beijing recognized Natuna Islands as Indonesian territory while it has been ambiguous about its EEZ. Prior the Jokowi presidency, Chinese fishing boats did enter the Natuna EEZ waters and were often confronted by Indonesian patrol boats, but both sides handled the encroachments quietly.

However, since Jokowi became president, the issue has been handled differently. On 19 March 2016, a Chinese fishing vessel encroached into Natuna waters but escaped detention by the Indonesians due to intervention by a Chinese coast guard vessel, though several Chinese fishermen were caught by the Indonesian authorities. Unlike in the past, the incident was publicized by the Indonesians, which captured national and international attention.<sup>58</sup> Jakarta also began to strengthen its military presence, including a plan to deploy fighter jets on the Natuna Islands.

There are two views on the Natuna incident within Indonesia: One sees it as a territorial dispute between Indonesia and China, while the other regards it as just an illegal fishing issue. The former view in effect

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<sup>57</sup> For a more detailed discussion on the Natuna issue and China, see Leo Suryadinata, “What does Indonesia’s renaming of part of the South China Sea signify?”, *ISEAS Perspective* issue 18 August 2017, no. 64.

<sup>58</sup> Risal Sukma argued that the old approach of quietly settling the issue did not work, therefore Indonesia decided to use a different strategy. Rizal Sukma, “Indonesia and China need to combat the IUU problem”, *Jakarta Post*, 31 March 2016.

makes Indonesia one of the claimants in the South China Sea because of its EEZ problem with the PRC. Many Indonesian military figures and scholars hold this view and want to bring the issue to international arbitration.

The government, however, sees this mainly as a dispute on illegal fishing in Indonesian waters. Nevertheless, Jakarta has demanded that Beijing respect the Indonesian EEZ as it rejects the Chinese concept of “traditional fishing grounds”. Dr Rizal Sukma, Indonesian ambassador to the U.K. who is believed to be one of the foreign policy advisers to Jokowi, suggested that China help Indonesia combat IUU (Illegal, unreported and unregulated) fishing. And, as China and Indonesia are strategic partners, China should also respect Indonesian territory.<sup>59</sup>

Beijing continues to adopt an ambiguous policy regarding the Natuna Islands issue. The Chinese foreign ministry has never *openly* declared that part of the Natuna EEZ belongs to China. To be sure, Beijing does not want to antagonize Indonesia as both countries are “strategic partners” and China needs Indonesia to realize its “One Belt One Road” initiative. Furthermore, China would not want Indonesia to join other claimants in ASEAN to oppose China in the South China Sea. Lastly, it does not want to push Jakarta into the U.S. camp.

It is not surprising that on 13 April 2016, China sent Song Tao, head of the international department of the Chinese Communist Party (CCP), to meet Jokowi amid ongoing Natuna tensions. Soon after the meeting, Pramono Anung, the cabinet secretary, stated to the press that “the matter is considered to have been settled and it was also considered as a misunderstanding.”<sup>60</sup> Pramono noted that both sides agreed that the South China Sea issue “would be settled peacefully without the involvement of other party (pihak lain)”. He also believed that “in the future, China and Indonesia will respect each other’s territorial waters”.<sup>61</sup>

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<sup>59</sup> Ibid.

<sup>60</sup> “Indonesia-China sepakat insiden di Natuna dianggap Selesai”, Kompas.com, 13 April 2016 (Its original text: Hal itu sudah dianggap selesai dan dianggap kesalahan).

<sup>61</sup> Ibid.

The statement is ambiguous and it was made not through the ministry of foreign affairs, but by the cabinet secretary. The *Jakarta Post* reported that “Pramono said that the incident had been settled after Beijing acknowledged Indonesia’s full sovereignty over the Natuna waters.”<sup>62</sup> It was also reported that “Jakarta and Beijing expressed strong desire to improve relations at all levels.”<sup>63</sup>

However, on 14 July 2017, the Indonesian deputy minister of maritime affairs launched the new map of the Republic of Indonesia which renames part of the South China Sea that falls within Indonesia’s EEZ, as North Natuna Sea. China responded the next day that it was senseless to do so and did not help the situation in the South China Sea.<sup>64</sup> On 25 August, China’s ministry of foreign affairs sent an official letter to the Indonesian ambassador in Beijing, expressing its opposition to the name change and “requested” Indonesia to rescind its decision. It urged Indonesia to work together with China for peace in the South China Sea.<sup>65</sup> Indonesia remains adamant, and the Natuna issue has not really been settled.

## The “Chinese Problem” in Indonesia

By the end of Suharto’s rule the majority of Chinese Indonesians had been Indonesianized in the sense that they had become Indonesian

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<sup>62</sup> Ina Parina, “RI, China Strengthen economic, political relations”, *Jakarta Post*, 14 April 2016.

<sup>63</sup> Ibid. After the 19 March 2016 incident, there were two more incidents which took place on 27 May and 17 June of the same year. But there has been no reported incursion after the 17 June. See Leo Suryadinata and Mustafa Izzuddin, *The Natunas: Territorial Integrity in Indonesia-China Relations*, Trends in Indonesia 2017 no. 5 (ISEAS), pp. 1–2.

<sup>64</sup> Leo Suryadinata, “What Does Indonesia’s Renaming of Part of the South China Sea Signify?”, *ISEAS Perspective* no. 64/2017, 18 August 2017, ISEAS – Yusof Ishak Institute, Singapore.

<sup>65</sup> <<http://www.channelnewsasia.com/news/asiapacific/china-demands-indonesia-rescind-decision-to-rename-part-of-south-9179992>> (accessed 11 September 2017).



citizens, adopted Indonesian names and received Indonesian national education for thirty-two years.

Yet major anti-Chinese riots took place on 12–15 May 1998 just before the fall of Suharto. Apparently this was due to both political and economic issues. The ethnic Chinese economic position had strengthened during Suharto's rule while the indigenous ruling class also became rich. However, the 1997 economic crisis seriously affected Indonesia. The Suharto regime was unable to deal with the crisis and elements associated with the ruling group used the ethnic Chinese issue to divert the people's attention. There was massive anti-Chinese violence in the form of looting, killing and rape.<sup>66</sup> Although Suharto was still forced to step down, his family and group interests were protected.

The Jakarta gubernatorial election campaign in 2016–17 provides a good example of how religious and ethnic issues can be used and misused. As the parliamentary election and the presidential election of 2019 approach, *pribumi*-ism (indigenism) as a political stance can be expected to increase. Even the ambitious Indonesian military commander, General Gatot Nurmantyo, has used this means to gain popularity.<sup>67</sup>

The situation today has been complicated by Beijing's change in policy towards Chinese overseas. In recent years, especially during the Xi Jinping presidency, China has emphasized the protection of the Chinese overseas and considers ethnic Chinese as part of the "Chinese Nation" or *Zhonghua Ernu* (中华儿女 sons and daughters of China). The new policy tends to blur the distinction between Chinese citizens and foreigners of Chinese descent and regard both as "Chinese".

During the 1998 anti-Chinese riots, China adopted a "hands-off policy" towards the Chinese Indonesians. It made no official protest

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<sup>66</sup> For a good analysis of the anti-Chinese riots in 1998, see Jemma Purdey, *Anti-Chinese Violence in Indonesia 1996–1999* (Singapore: NUS Press, 2006), pp. 106–41.

<sup>67</sup> Leo Suryadinata, "General Gatot and the re-emergence of Pribumi-ism in Indonesia", *ISEAS Perspective* no. 49/2017, 7 July 2017, ISEAS – Yusof Ishak Institute, Singapore.

against the violence carried out Indonesian citizens of Chinese descent.<sup>68</sup> With Xi Jinping at the helm, and with the rise of China and of Chinese nationalism, anti-Chinese violence in Indonesia is likely to see China intervene by making demands on the Indonesian government; or even sending ships and planes to evacuate the Chinese. This would have negative effects on China–Indonesia relations.

## PROBLEMS AND PROSPECTS

Indonesia–China relations have improved over the last two decades since the fall of Suharto, especially in the economic sphere. During the Jokowi presidency China’s investments have increased dramatically and China remains one of Indonesia’s major trading partners.

Among factors that can affect the relationship negatively are the use of Chinese workers in Indonesia which might trigger anti-China campaigns; and the Indonesian EEZ around the Natuna islands which, if not handled properly, will affect Jakarta–Beijing ties.

The ethnic Chinese issue is also worrying. Beijing has changed its policy towards the Chinese overseas and attempted to make use of ethnic Chinese to serve the national interests of China. This may trigger hostile reactions from Indonesia. If there is large-scale anti-ethnic Chinese violence in Indonesia, there is high possibility of Beijing’s intervention.

In short, Indonesia and China have started to establish a “strategic partnership” but the partnership is not yet solid as many problems are yet to be resolved.

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<sup>68</sup> For an analysis of the anti-Chinese violence in May 1998, see Suryadinata, *The Rise of China and the Chinese Overseas*, pp. 53–68.

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