Journal of Regional and City Planning
vol. 28, no. 3, pp. 161-177, December 2017
DOI: 10.5614/jrcp.2017.28.3.1

Review of "The Chinese Belt and Road Initiative": Indonesia-China Cooperation and Future Opportunities for Indonesia's Port Cities Development

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[Received: 24 January 2017; accepted in final version: 19 October 2017]

Abstract. *This paper aims to elaborate the Chinese Belt and Road Initiative, through a SWOT analysis of the China-Indonesia relation and investment conditions and a descriptive analysis of the impact of the development of Indonesian port cities. The Belt and Road Initiative emerges as a new Chinese government strategy of cooperation with neighboring countries. It will revitalize the existing Silk Road and build a Maritime Silk Road, connecting South East Asia through the Indian Ocean to the Middle East and North Africa. It exhibits similarities with Indonesia's Maritime Toll program. Indonesia's involvement in the Maritime Silk Road offers many opportunities to foreign countries to invest and participate in their economic development. However, Indonesia's Investment Coordinating Board states that Chinese investment realization in Indonesia was no more than 10% in 2014. The output of this paper consists of recommendations for both parties to create a conducive investment climate by getting to know each country well, assuring the realization of planned investment, taking advantage of the China-ASEAN Free Trade Zone and the AIIB, and upgrading the investment system.*

Keywords. *The Belt and Road Initiative, Indonesia-China Relation, Foreign Direct Investment, Indonesia's Port City Development.*

[Diterima: 24 Januari 2017; disetujui dalam bentuk akhir: 19 Oktober 2017]

Abstrak. *Makalah ini bertujuan untuk menguraikan Inisiatif Satu Sabuk dan Satu Jalan (China Belt and Road Initiative (OBOR), dengan menggunakan analisis SWOT mengenai kondisi hubungan dan investasi China-Indonesia dan analisis deskriptif mengenai dampak pembangunan kota-kota pelabuhan di Indonesia. Inisiatif Satu Sabuk dan Satu Jalan muncul sebagai strategi baru pemerintah Tiongkok untuk bekerjasama dengan negara-negara tetangga. Inisiatif ini akan merevitalisasi Jalan Sutra dan membangun Jalur Sutra Maritim yang menghubungkan Asia Tenggara melalui Samudra Hindia dengan Timur Tengah dan Afrika Utara. Hal ini menunjukkan kesamaan dengan program Tol Maritim di Indonesia. Keterlibatan Indonesia di Jalur Sutra Maritim menawarkan banyak kesempatan kepada negara-negara asing untuk berinvestasi dan berpartisipasi dalam pembangunan ekonomi di Indonesia. Namun, Badan Koordinasi Penanaman Modal menyatakan bahwa realisasi investasi Tiongkok di Indonesia tidak lebih dari 10% pada tahun 2014. Hasil makalah ini terdiri dari rekomendasi bagi kedua belah pihak untuk menciptakan iklim investasi yang kondusif dengan mengenal kondisi masing-masing negara dengan baik, memastikan realisasi investasi yang telah direncanakan, mengambil keuntungan dari Kawasan Perdagangan Bebas ASEAN-Tiongkok dan AIIB, dan meningkatkan sistem investasi.*

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ISSN 2502-6429 online

Kata kunci. *Inisiatif Satu Sabuk dan Satu Jalan, Hubungan Indonesia-Tiongkok, Investasi Asing Langsung, Pembangunan Kota Pelabuhan di Indonesia*

Introduction

The relationship between China and Indonesia started centuries ago when Indonesia became part of the maritime Silk Road connecting China with India and the Arabic world. Moreover, diplomatic relations were officially recognized in 1950 when Soekarno, as Indonesia's first president led the country. Until now, many corporations have been set up in Indonesia and China. China (People's Republic of China) is a one-party country in East Asia governed by the Communist Party of China, with a land area of 9,634,057 km^2 and 4.7 million km^2 of water. Bordered by 14 countries by land and neighbored by eight countries at sea, China is the world's third largest country with the largest population in the world. At the end of 2016, China had a population of about 1.3 billion. It is the second largest economy and is among the fastest growing economies in the world. Meanwhile, Indonesia is the biggest archipelago in the world, comprising 35 provinces and 260 million people. The country is located in Southeast Asia in a strategic position between the Indian Ocean and the Pacific Ocean and it is flanked by two vast continents. Indonesia is one of many developing countries with a stabilizing economy, averaging 5% economic growth annually.

Both China and Indonesia are members of the G20, APEC, and in the trading sector, these countries have set up the China-ASEAN Free Trade Zone to boost their export and import. After the APEC CEO Summit that was held in Beijing on July 2014, several meetings were convened by the General Secretary of PRC, Xi Jinping, and the President of Indonesia, Joko Widodo. As the result of these bilateral meetings, the government delegations signed a Joint Statement of Comprehensive Strategic Partnership between the Government of the Republic of Indonesia with the PRC Government. Following the partnership initiative, Indonesia has forged stronger ties with China to boost its economy. Indonesia has joined the AIIB (Asian Infrastructure Investment Bank), which is important for Indonesia to accelerate the development of its infrastructure, including the energy sector; transportation; telecommunications development of agriculture and rural infrastructure; water and sanitation; environmental protection; logistics; urban development; and other productive sectors. China and Indonesia also agreed to establish a maritime cooperation, which is the key to this strategic cooperation. This is a new step to strengthen earlier maritime collaboration between the two countries. Both sides have made efforts to strengthen bilateral maritime cooperation mechanisms in the field of shipping safety, maritime security, and the maritime environment. On November 16, 2015, China won the tender of the Jakarta-Bandung High-Speed Railway project, which can be considered China's first achievement in EPC (Engineering Procurement Construction) of high-speed railway exploring the overseas market and the first high-speed railway business-to-business project dominated by bilateral governments. This project also demonstrates the potential for Chinese corporations to invest in more infrastructure projects in Indonesia. China's cooperation was part of their "the Belt and Road Initiative" in Indonesia (Ran, 2015).

It is fascinating to analyze if the Chinese Maritime Silk Road (the Belt and Road Initiative) could deliver an impact on the development of port cities or even create new port cities in Indonesia. This research aims to elaborate the Chinese Belt and Road Initiative, by reviewing the China-Indonesia relations and investment conditions and analyze the impact of the development of Indonesian port cities. This study makes recommendations for both parties (China and Indonesia) to overcome relation and investment problems to support future investment and will shed light on the discussion whether the realization of the Belt and Road Initiative offers a positive impact on Indonesia's port city development.

General Overview of the Indonesia-China Cooperation in the Road Initiative

The Belt and Road Initiative

On 8 November 2014, during the Connectivity Strengthening Partnership Dialogue, the Chinese President Xi Jinping announced that China would invest US $40 billion in the Silk Road Infrastructure Fund. At the APEC CEO Summit on 9 November 2014, Xi Jinping stated that the Infrastructure Fund would provide support for the establishment of infrastructure, resource development, industrial cooperation, and projects fitting other countries throughout the Silk Road Economic Belt and the 21st-Century Maritime Silk Road. The initiative is officially called the Belt and Road (China FTA Network, 2014). The Belt and Road are the Chinese government's strategy of cooperation with neighboring countries, which received the majority of support of the 18th National Congress of the Chinese Communist Party. The Belt and Road take the ancient Silk Road as a symbol of cooperative development and aim to create a community of interests and responsibilities based on bi-/multi-lateral mechanisms of China and related countries to further regional cooperation with political trust, economic integration, and cultural tolerance.

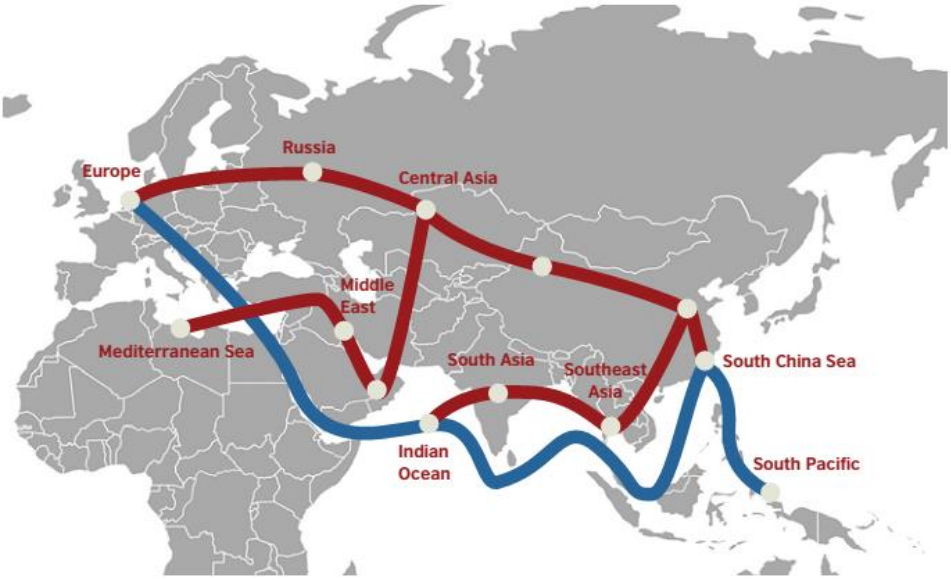

Figure 1. The Belt and Road Initiative Map (The blue routes show the "21st Century Maritime Silk Road", and the red routes show the "Silk Road Economic Belt"). *Source: China-Britain Business Council and Foreign & Commonwealth Office (CBBC), 2014*

The Belt and Road include four main routes: the New Eurasia Land Bridge Economic Belt to the northwest, the Sino-Mongolian Economic Belt to the northeast, the China-South-West Asia Economic Belt to the southwest, and the Maritime Silk Road Economic Belt to the south. The project will cover a population of approximately 4.4 billion, the economic aggregate of approximately US$ 21 trillion, or 63% and 29% of the world total (CBBC, 2014). Most of the countries along the Silk Road are developing countries. The core purpose of the Belt and Road is to utilize China's excess capacity in the funding and developing infrastructure to assist neighboring countries and distant neighbors in improving their ability to build infrastructure, as well as to strengthen economic cooperation with China. This strategy proposal will benefit each party, China as well as the surrounding countries participating in the strategy. Therefore, China establishes the AIIB to realize the Belt and Road Initiative. Figure1 illustrates the Belt and Roadmap plan.

The 21st-Century Maritime Silk Road includes Indonesia, which is strategically an important part of the Belt and Road. In line with Indonesia's 20-year development plan, the current medium-term development plan of 2015-2020 focuses on infrastructure development and improving social support programs in the fields of education and health, which fits the targets of the Road and the AIIB as well. Additionally, Indonesia is a relatively business-friendly country that attracts many foreign investors. Indonesia's government attempts to optimize public service focuses on infrastructure development and attracts investors through the establishment of the One-Stop-Service (OSS) by the Investment Coordinating Board (BKPM). It has encouraged foreign investors by facilitating the business licensing process. The Indonesian government also commits to supply the land for infrastructure investment. The Chinese intention to invest in Indonesia is expected to boost China-Indonesia cooperation in the upcoming years and is considered the way to realize the Belt and Road Initiative.

General Foreign Direct Investment Overview in Indonesia

a. General Investment in Indonesia

Investment is the driver of economic growth and employment. Governments finance investments through the budget for development in public and private investment. Indonesia has a strong need for foreign investment to finance the current account deficit and to generate economic growth. With the increasing contribution to the GDP, foreign direct investment is expected to be a primary source of economic growth, in addition to the government budget for infrastructure. Foreign Direct Investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. The investment realization in Indonesia demonstrates sustainable growth, as BKPM stated in 2013, that foreign direct investment increased by 22.4% from 2012 and makes up 67.8% of the total investment realization (BKPM, 2013). In addition, FDI in Indonesia contributed more than 32% of its GDP (Indonesia Investment, 2016). The figure below shows FDI realization in Indonesia by country of origin from the year 2009 until 2013.

Table 1. FDI Realization in Indonesia by Country of Origin Based on Capital Expenditure in 2009-2013 excl. Oil, Gas, and Financial Sectors (in billion US$).

Rank	Country	2009	2010	2011	2012	2013
1	Japan	685	713	1,516	2,457	4,713
2	Singapore	1,429	5,565	5,123	4,856	4,671
3	US	100	931	1,488	1,238	2,436
4	South Korea	613	329	1,219	1,950	2,205
5	UK	288	276	419	934	1,076
Total of 97 Countries		**10,817**	**16,215**	**19,475**	**24,565**	**28,616**

Source: Indonesia Investment Coordinating Board Press Release, 2015.

Table 1 above shows that the majority of investment in Indonesia originates from Asian countries like Japan, Singapore, and South Korea. Chinese investment in Indonesia is mostly limited to the field of oil and gas. However, as a whole, in QII and QIII of 2015, Indonesian FDI

Realization was contributed by the sectors of transportation, warehouses, communication, mining, energy resources, real estate, industrial estates, and office building (BKPM, 2015). In this case, the investment reaches a wide variety of sectors and encourages China to do so. Indonesia's National Development Planning Agency (BAPPENAS) recorded from 2010 to 2013 that Chinese investment into Indonesia in the construction industry only amounted to 17 million USD, which is far less than the Japanese recorded investment of 82 million USD. Based on the above data, Chinese investment does not even make the top 5. Based on data of 2015, FDI realization was not only focused on one sector but was spread evenly over several sectors.

b. Current Chinese Investment in Indonesia

China used to be a capital importing country but in recent years, it gradually transformed to be one of the most significant capital exporting countries worldwide. In 2014, the amount of Outward Foreign Direct Investment (OFDI) reached 102.9 billion, a growth of 14.4%. Conversely, the capital exported only increased by 1.7%, reaching 119.6 billion US$. According to a report of the Ministry of Commerce of the People's Republic of China (MOFCOM, 2015), Asia is still the largest destination for investment (mainly Hong Kong; many investments in other areas are based on the initial capital invested in Hong Kong). The investment destinations are illustrated in Figure 2 below (Huanqiuwang, 2015).

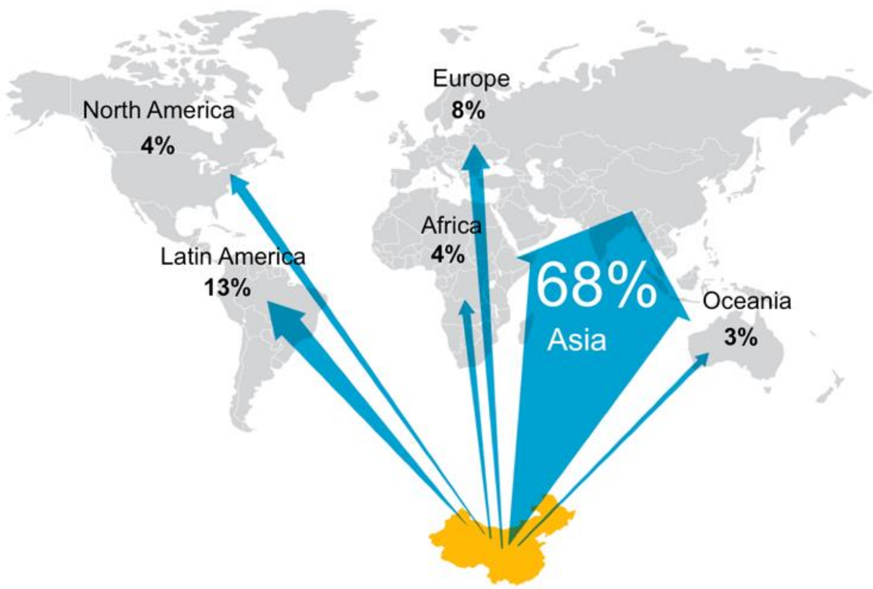

Figure 2. Continental Distribution of China's OFDI Stock, 2013 (Source: http://finance.huanqiu.com/roll/2015-02/5597317.html)

Due to the growing momentum of China's economy, its government encourages corporations to seek business opportunities. The amount of Chinese capital exported in recent years gradually increased, according to Chinese MOFCOM (2015). The amount of non-financial OFGI from 2009-2014 indicates a linear growth in non-financial OFDI. The increase since 2009 is significant and exhibits an increasing average ratio of 11.6%. The past decade, Indonesia has become a popular investment destination of China. The big corporation China Harbor Engineering Co. Ltd. has cooperated with Indonesian firms and invested in Indonesia. However, the realization of China's investment in Indonesia from 2005 to 2014 is only about 7 percent. The lack of the investment realization is the biggest obstacle for success of the Belt and Road Initiative.

c. Overview of Indonesia’s Port Cities

According to Handerson (1986), cities originally develop in coastal areas due to economic efficiency and consumer benefit. Coastal cities are located close to the sea, thus, simplifying the delivery of goods at low cost, while the higher port activity may encourage the growth of urban spaces with the development of warehousing, service companies, and transportation access. When trading is boosted in the port, the urban economy will also rise; the port can fulfill the demand for goods and other commodities. The infrastructures and facilities that are built around the port will pull population into the city (Cheung & Yip, 2009). Nowadays, the major cities in Indonesia are port cities; many big port cities are part of the Chinese Maritime Silk Road, such as Jakarta, Batam, Bangka Belitung, Bandar Lampung, Jambi, Dumai, Medan and Banda Aceh. These cities’ economy relies on the sectors of trade, ports, and fisheries. From 2001 to 2010, the GRDP data of 56 Indonesian cities showed that the GRDP growth in port cities is faster than cities without a port, with a 3:1 ratio. The port generates economic growth, social mobility, and trade in Indonesia. As an archipelago, where most cities are coastal cities, ports are Indonesia’s main economic driving force (Karunia & Djaja, 2013).

The Maritime Toll was initiated by the president of the Republic of Indonesia, Joko Widodo who shares the vision of the Belt and Road Initiative. The Maritime Toll is a solution to overcome the disparities amongst regions in Indonesia and serves mainly to support the development of eastern regions. The Maritime Toll involves the provision of marine transportation services as well as the development of infrastructure and facilities. One of the programs is port construction, which is expected to encourage regional potential. Up to now, several new ports have been opened in Indonesia. The Indonesian government's target is to build 100 ports by 2019. The head of BKPM, Franky Sibarani, stated that"… the cooperation between Indonesia and China can increase the value of investment and development. In particular, the marine toll can be achieved because it is now beginning to be built" (Sindonews, 2016). To develop the maritime toll, the demand for investment increases and China's investment in port infrastructure will contribute a large part.

Method

This research aims to elaborate the Chinese Belt and Road Initiative, by reviewing the China-Indonesia relations and investment conditions, and analyzing the impact of the development of Indonesian port cities. The background for this research is several developments such as the tightening China-Indonesia relationship, the Belt and Road Initiative and its connection with Indonesia, the bad investment climate in Indonesia, and the need of Indonesian coastal cities to growth and development to support the national economy. Investments in development are required since Indonesia lacks financial and skill capital. Meanwhile, port cities are Indonesia’s hope to accommodate and realize the Maritime Silk Road. It is possible that the realization of the Chinese Belt and Road Initiative will have economic and social impacts in the regions where the roads are built. This study was conducted by performing qualitative analysis, in which the data were collected from various policy document and newspapers. The review of the China-Indonesia relations and investment conditions was conducted using a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, a popular framework for analyzing existing conditions and planning for the future. Meanwhile, the impact of the development of Indonesian port cities will be elaborated through theory and research compilation. Finally, the study generates two outputs. First, the SWOT analysis is used to give recommendations for China-Indonesia future investment. Second is the discussion to reveal the possibility of the Chinese Belt and Road Initiative to affect the development of Indonesia’s port cities.

Results and Discussion

The SWOT Analysis is conducted by collecting and evaluating key data. The data are collected and sorted into four categories: strengths, weaknesses, opportunities, and threats. Strengths and weaknesses generally derive from internal factors, whereas opportunities and threats usually arise from external factors. The final step is to develop the SWOT into strategies to obtain the benefits of realizing the Belt and Road Initiative.

SWOT Analysis of China-Indonesia Relations and Investment

<u>The Strengths of Investment in Indonesia</u>

China and Indonesia have a long-term cooperation, which can be seen from several aspects as follows.

a. Both are Members of the AIIB

China and Indonesia are among the members of the AIIB. The AIIB (Asian Infrastructure Investment Bank) is a multilateral development organization of governments, which mainly focuses on infrastructure investment in Asia. For Indonesia, the establishment of the AIIB is necessary to speed up the development of infrastructure in the country, which includes the energy sector, transportation, telecommunications, the development of agriculture and rural infrastructure, water and sanitation, environmental protection, logistics, urban development, and other productive sectors.

b. China- ASEAN Free Trade Zone

The leaders of China and ASEAN Member States (AMS) signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation. In 2009, the leaders signed the agreement on trade in goods and services and investments. It enhances the close economic and trade relations between the two parties and contributes to the economic development of Asia and the world as a whole. Indonesia is one of the prominent member states of ASEAN, and agreements are signed between China and Indonesia on the trade in goods, services, and investments (MOFCOM, 2015). The Free Trade Zone provides greater market opportunities for goods and services in Indonesia without taxes tariffs included or other barriers such as import quotas or subsidies for producers.

c. Current Chinese Corporations as Investment Pioneers in Indonesia

In the past decades, some Chinese firms played a role as pioneers in exploring the Indonesia market and obtained certain achievements. Among these corporations, some demonstrate their power in various sectors. Examples are Huawei Technologies Co. Ltd. and Tencent, Inc. in information and communications, Jiangsu Wei-Wei Mining in the mineral industry, Anhui Conch Cement Co. Ltd. in the cement industry, China Harbor Engineering Co. Ltd. in infrastructure. Huawei has been exploiting markets in Indonesia for 13 years. The Chinese Chamber of Commerce in Indonesia was established to support this investment. It is a non-profit and non-governmental organization and continually provides services and conveniences for companies that want to invest in Indonesia. These pioneers have gathered many experiences of investing in Indonesia that can encourage other Chinese companies to invest.

Identified Weaknesses

a. Local Aversion

To uncover more information regarding the social intention of the relations between the two countries, the authors have done an open survey by randomly taking 101 samples of Indonesians to answer the research questions. Indonesians who disapprove of China as an investment partner opine that China wants to be the top industrial country in the world and it is known for their massive production of goods. However, the products are of low quality and have copyright problems. This leads to disappointment and lowers the Indonesian level of trust to accept China as a partner in development. Social disapproval emerges because Indonesians fear that foreign investment will bring adverse impacts to their culture, the current domination by China on the Indonesian market will be bigger and Indonesia is not ready to compete. Additionally, Indonesians want their country to develop independently from other countries. Learning from the CAFTA (China-ASEAN Free Trade Area), which is applicable since July 2004, Indonesia until now is still dependent on imported goods. The country has failed to benefit from the opportunities of the CAFTA and this was caused by a lack of technology and innovation. The Indonesian society gives confidence to investors to steer the economy. Meanwhile, recent signs of a decreasing growth rate of the Chinese economy made Indonesian suspect that China will not do well in investment. Meanwhile, another social disapproval mostly relates to different cultures and customs.

b. Lack of Realization

On 4 April 2015, the Jakarta Post reported that Indonesia pushes China to realize its investment. The government would ask Chinese investors to follow through on their plans, as the realization of previous Chinese-backed investments has lacked. Of a total US$24.27 billion in planned investments between 2005 and 2014, only $1.8 billion (7%) was realized. It is indicated by statistics from the Investment Coordinating Board (BKPM) that investors fail to find appropriate local business partners because of their lack of knowledge about Indonesia and the investment procedures to process investment licenses (Yulisman, 2015).

c. Complicated Bureaucracy

Indonesia's bureaucracy is known to be long and complex and seems to have become a 'Power Centre' in its right, thus effectively resisting efforts toward reforms: bribery remains rife, and there is no sustained progress in building institutions that enhance the business climate, such as credible courts. As such, Indonesia contains various business uncertainties that harm the investment climate. The lack of coordination is a major biggest problem since Indonesia is known for its hierarchical governance. This kind of governance mostly lacks coordination from the lower levels of government up to of the central government. Investors need to obtain several legal documents from each government level, which makes the investment process complicated and long.

d. Lawlessness of Investment

Lawlessness can be a severe problem of Chinese investment in Indonesia. Local newspapers and magazines have reported that Chinese investors violate the constitution, and break the law and investment agreements. All of it is summarized the following case that represents many other cases. August 7th, 2015, Local Newspaper "Koran Riau" reported that Dumai Palm Oil Refinery Factory by PT. Ivomas Single Lubukgaung / PT. Sinarmas imported hundreds of foreign workers (TKA) of Chinese origin working in the company, which violated regulations. Every company in Dumai city has signed a MoU for recruiting labor in Dumai. In addition, Presidential Regulation No. 72/2015 Article 4 Paragraph (1.2) says that each employer shall prioritize the use of Indonesian workers in all kinds of positions. Clearly, such action by the company broke Regional Regulation Number 10 of 2004 on Labor work, which clarifies the percentage of recruitment, and any business operating in Dumai should oblige to recruit local labor at least 70 percent and 30 percent at most from outside. In this case, local people also interposed the firm and caused some conflicts.

e. Complicated Land Acquisition

The fact that most of Indonesia's land is private property is a bottleneck for land acquisition. Therefore, the Indonesian government issued Law No.2/2012 on Land Procurement for Development in the Public Interest. It aims to speed up the land acquisition process and ensures safeguards for land right holders. However, the implementation of this law is not satisfactory since many conflicts occurred. According to China Export & Credit Insurance Corporation, which issued "The Belt and Road" national infrastructure industry research report, land acquisition difficulties constraining infrastructure investment are Indonesia's second largest problem. Meanwhile, many infrastructure construction projects are delayed and abandoned because of it.

Shang Yongqi and Zhang Yu (2015) found several difficulties in land acquisition in Indonesia, such as:

a. Due to the privatization of land, all levels of government in Indonesia have limited influence on land acquisition.
b. It is hard to confirm legitimate hereditary land tenure. Hereditary land usually belongs to a tribe or family collective; it has no registration based on the core land law in land management authorities, no official land tenure documents, land borders are unclear, and there is an overlapping land ownership phenomenon. This causes difficulties in confirmation of the land area.
c. Difficulty in present landowner identity documents.
d. Inefficiency in working. The industrial expectations for the Indonesian island of Java are weak, while forestry, fisheries, and other natural resources are abundant. Chinese-style operating speed does not match the pace of work in Indonesia, resulting in a slow progress of land acquisition.
e. In case of disputes about land tenure, the proceedings are quite complex and lengthy, and the coordination of government efforts is very limited. Sometimes companies are unable to obtain legal land warrants after the legal proceedings.

<u>The Opportunities of Investment in Indonesia</u>

a. The Belt and Road Initiative and Related Actions for its Realization

The vision and objective of the Belt and Road Initiative have been presented in the preceding part of the article, i.e., vast infrastructure, engineering, and energy projects will need to be built in the coming decades after the B&R Initiative is enacted. In 2014, China launched two new financial institutions, the Asian Infrastructure Investment Bank and the Silk Road Fund, in response to the substantial financing gap of infrastructure investment in Asia. As a member country, Indonesia is very likely to get funding for infrastructure and high-return projects. The Memorandum of Understanding (MoU) on Strengthening Comprehensive Strategic Partnership between the People's Republic of China and the Republic of Indonesia as a result of the Boao Forum for Asia (BFA) Annual Conference in Beijing and economic cooperation was among the topics of the talks between President Xi Jinping and President Joko Widodo. Related cooperation documents were signed afterward, which can ensure the cooperation between two countries.

b. Indonesian Incentives for Investment

The Indonesian Ministry of Industry released the Masterplan for Acceleration and Expansion of Indonesia's Economic Development to direct development and reforms to improve Indonesia's competitiveness. In the plan, Indonesia provides incentives for foreign investment in the form of tax relief in certain industries, including food, textile, metal, mechanics, property, and civil engineering construction.

c. Indonesia has a Large, Growing, and Promising Market

BKPM stated that Indonesia has the fourth largest population in the world, over 61% of which live in urban areas and adopt a modern lifestyle. In addition, Indonesia has a growing market because of its population growth. Moreover, Indonesia's GDP growth keeps increasing with an annual economic growth of over five percent. The future growth potential of the local market, inexpensive labor, the current size of the domestic market, the availability of supply base assemblers, and industrial cluster development makes Indonesia the most promising country for overseas business. Indonesia has an abundance of successful infrastructure investment projects, including toll roads, water supply, airports, railways, power plants, and others.

d. Indonesia Government Solution to Land Acquisition

To address land acquisition issues, in March 2015, President Joko Widodo enacted two regulations to facilitate land acquisition. He amended the old regulation (2012) in three important ways, which includes private entities that are authorized under an agreement with a specified government entity (including an SOE), as a part of a program for providing public infrastructure. The new Presidential Regulations improve the legal framework for infrastructure and private sector investment. As always, however, the regulatory reform also requires appropriate government capacity and commitment to ensure its implementation.

Identified Threats

a. China Lacks Information about Indonesia

A lack of information is the main threat to realize future investments. This threat is caused by language constraint since Indonesians mainly use Indonesian to communicate and Chinese mostly use their Chinese language to communicate; only few communicate in English. Thus, language skills are needed in the future to ensure better information delivery. In addition, the internet, which should be helpful, is also a threat. China and Indonesia use different search engines; Indonesians mostly use "Google" and are sometimes unable to link to "Baidu", and vice versa in China. China's firewall system also makes searching information complicated. Consequently, many investors nowadays find it hard to find information. No specialized agency promotes and introduces Indonesia's investment opportunities in China. It is also hard to find an overview of firms and information on investors in Indonesia.

b. Global Competitiveness

China needs to compete for infrastructure project cooperation with other developed countries like Japan, South Korea, and the USA. Based on BKPM data from the year 2010 to 2015, several Asian countries dominate the investment in Indonesia such as Japan, Singapore, South Korea and Malaysia; other countries also contribute for instance the USA and UK, while each of them contributes more than 4% of the total foreign investment in Indonesia. Meanwhile, China's investment realization in Indonesia is still far below those countries. In early 2015, China won the tender of the first Indonesian high-speed railway investment after competing with Japan. However, in the future, China will face more intense competition. Meanwhile, Indonesia is also faced with global competitiveness and needs its best efforts to compete with other ASEAN countries to attract more foreign investors.

c. Labor Issues

Labor issues in Indonesia are a threat since it influences the investment performance. Currently, demands on salary, benefits, and insurance of workers in Indonesia lack standardization, while wages depend on productivity and are subject to a deal between the firm and its employees. The wage of workers in Indonesia is low; they get a salary, and health and workforce insurance. However, the amount sometimes is deemed unsatisfactory, leading to labor strikes. The lack of skilled labor is also a bottleneck since many workers are unskilled. Moreover, Indonesia now faces competition from the ASEAN Economic Community (AEC).

SWOT Analysis

SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) is a traditional strategic planning instrument. By using the framework's strengths and weaknesses and external opportunities and threats, this tool provides an easy way to create and implement strategies. The SWOT Matrix below in Table 2 shows the analysis of strengths, weaknesses, opportunities, and threats to generate a strategy to realize the Belt and Road Initiative.

Table 2. SWOT Matrix

Internal / **External**	**Strengths**	**Weaknesses**
Opportunities	**S-O** a. Utilizing the AIIB to realize the Belt and Road Initiative by lending sufficient funds to build and develop Indonesia's infrastructure. b. The China-ASEAN free trade zone area can create a large and growing market to support Indonesia's and China's Export/Import Commodities c. Chinese investors should take advantage of the benefits of incentives for FDI for investors and Indonesia's government commitment to easing the bureaucratic process and land acquisition, also considering the current good Chinese investment performance record. d. The Chinese Belt and Road Initiative and Indonesia's Maritime Toll realization will benefit and support both countries.	**W-O** a. With the realization of the Belt and Road Initiative, there will be an exchange of capital, knowledge, resources, culture, and information. b. Indonesia's commitment to ease the bureaucratic process and land acquisition will solve complicated matters and drive the realization of investment. c. Indonesia needs to socialize its laws and regulations and apply decisive punishment for those who violate it.
Threats	**S-T** a. The China-ASEAN Free Trade Zone is an opportunity to participate in the global competition. Indonesia is challenged and encouraged to produce better commodities and resources. b. Utilizing the AIIB provides financial support for infrastructure construction and development. c. Current Chinese investment experience and performance will attract more Chinese investors because existing investors provide information regarding Indonesia's market	**W-T** a. The exchange of information and social respect between both countries will help to deal with the local aversion to China and the lack of information in China about Indonesia. b. The upgrading of the investment system, market engagement, and investment follow up is required due to a lack of Chinese investment realization. Consequently, Indonesia will be stronger in facing global competitiveness. c. The realization of the Belt and Road

Internal / External	Strengths	Weaknesses
	condition.	Initiative will create an exchange of knowledge, resources, and technology. In addition, it will increase the country's capital so labor issues can be dealt with.

Source: Author Analysis, 2016

The China-Indonesia cooperation can be an important antecedent in the realization of the Belt and Road Initiative. Since problems in the China-Indonesia cooperation are a bottleneck for the realization of the Belt and Road Initiative, countermeasures are urgently needed. The following strategies to realize the Belt and Road Initiative are based on the above SWOT Matrix.

a. Get to know the country well

Cultures, traditions, laws, and religions are different in China and Indonesia. The first step in investing and co-operating is to get to know the other country well; this includes its cultures, religions, and social manners. In addition, it is important to respect people who are different from oneself and act in a polite way to be welcomed and to avoid conflicts with local people. People from both countries should create a favorable market climate that can accept people from other countries and cultures and facilitate social inclusion. Corporations need to be aware of the laws, regulations, and ethics in both countries and act in accordance with the differences between the two nations. Still, it is of great importance to ensure the awareness of all the citizens of both countries to eliminate the rooted misunderstanding of the other country. The Belt and Road Initiative will realize the exchange of capital, knowledge, resources, culture, and information. Thus, the local aversion to China will be resolved since both cultures understand, accept, and respect each other.

b. Assure the realization of planned investment

Mutual trust is the foundation of any cooperation. The unrealized investment will cause trust problems and shake the foundations of cooperation. Each company that cannot fulfill its planned investment aggravates the problem and after a few unpleasant co-operations, the impression of inobservance will be deeply rooted in the partner's mind. This will cause unwillingness to cooperate in the future.

c. Take advantage of the China-ASEAN Free Trade Zone and the AIIB

Indonesia increasingly plans infrastructure construction projects and the AIIB and Silk Road funding is available for financing infrastructure projects in member countries. Thus, Indonesia should use this opportunity to boost its infrastructure projects mostly in port construction and sea transportation supply to realize their maritime toll project and to support the Chinese Belt and Road Initiative. In addition, the China-ASEAN Free Trade Zone can create a large and growing market to support Indonesian and Chinese export/import commodities. Aritenang (2009) found that free trade zones lead to knowledge and skill transfer of foreign company expertise to local workers. Overall, free trade zones will bring increasing return with more investment to the country and economic activity.

d. Upgrade the Investment System

Since complicated bureaucracy and land acquisition are bottlenecks for current investment, Indonesia needs to upgrade its investment system to address these issues. Upgrading can start from simplifying the investment process, strengthening the coordination of each level of government, simplifying requirement documents, improving investment protection and warranty by providing laws and regulations, addressing land acquisition problems by Indonesia government accompaniment and support, and setting up a foreign investment promotion agency in China. This way, Indonesia will be able to create a better investment climate.

Analysis of the Possible Impact of Investment on the Development of Indonesian Port Cities

Traditionally, ports are the accelerators of economic development, and the literature describes the economic pull effect of ports. Shipping and port industries are the tools to integrate local and national economies into the international economy. Ports have been built and developed to support economic and transportation activities since the industrialization era (Jung, 2011). Ports are known as the economic catalysts for the region they serve; the agglomeration of services and manufacturing takes place in ports and generates socio-economic benefits (Warf and Cox, 1989; Pettit and Beresford, 2009; Zhang et al., 2009; Danielis and Gregori, 2013). In fact, in most Asian cities, the port has been the economic backbone, and newly constructed ports integrated with ancillary infrastructures have played a major role in boosting economic growth (Akhavan, 2017).

Hoyle (1989) described the evolution of European port cities in six stages, beginning from the first city port, the expanding city port, the modern industrial city port, retreat from the waterfront, and redevelopment of the waterfront. Karunia and Djadja (2013) stated that the role of the port in the city's growth is still great. There are six stages in the evolution of port cities to model Asian countries. Indonesian cities are on the step where an increase in port facilities that requires much labor attracts urbanization; in the next stage, port cities are surrounded by free trade zones where port activity dominates the activities in the city; that eventually becomes a hub port city. There are many benefits from port construction and development. Cheung and Yip (2011) stated that port construction facilitates trade; infrastructures are built to increase the connectivity between the port and the outer areas of the city and to bring the population into the city. The population can be employed in logistic services that make the port more competitive with a more integrated port function.

A large number of studies focus on the relationship between transportation infrastructure investments and regional economic growth; their aim is to study whether investments have positive impacts on the regional economy (Ozbay et al, 2003; Canning and Bennathan, 2007). These studies showed a positive impact of transport investment on regional economic growth (Berechman et al., 2006). This is supported by Song and Geenhuizen (2014), who found that port infrastructure investment has a clear influence and a positive impact on the economy of the four port regions in China. Regression analysis used in this study showed that the coefficients of port infrastructure investment were significant both on the regional and on the provincial level.

Karunia and Djadja (2013) showed that port activity and the growth of cities in Indonesia still affect each other. The role of the port on the growth of the city is still high, explaining that there is no spatial pattern separation between the city and the port. The contrast between the growth of cities that have a port or do not have one seems visible. In Indonesia, the port cities dominate the Indonesian economy. Port cities have a comparative advantage over other cities because of the mutually beneficial relationship between the port and the city's economy (Fugita et al., 1999; Clark et al., 2004). Because of their geographic concentration in coastal areas, the integration between the port city and cities in the center of the land is not good. Karunia and Djadja (2013) also explained that Indonesia is an archipelagic country where the strategic position of the coastal city, besides as port city, is also a major destination of urbanization.

As an illustration, Tanjung Priok is the main port in Indonesia. It plays a role as the hub and node in the Java and Sumatera economic corridors. Tanjung Priok triggered the emergence of an industrial cluster in Jakarta’s peri-urban area such us Bogor, Depok, Tangerang, South Tangerang, and Bekasi or known as the Jakarta Metropolitan Area (Jabodetabek). The infrastructure and facilities that are built around the industrial cluster in Jakarta Metropolitan Area bring the outer population into the cities. Even though Jakarta has the highest population density in Indonesia, its population growth is behind its metropolitan area. According to the Central Statistical Bureau, the annual growth rate from 2000-2010 of Jakarta is only 1,34%, but Jabodetabek’s is 2,79%. The Jakarta Metropolitan Area now leads the economic growth in Indonesia (CMEA, 2015).

As the economy grows in the Jakarta Metropolitan Area, the container volume handled at Tanjung Priok Port has been increasing. It is forecasted that the international container cargo for Jakarta Metropolitan Area will surpass the capacity of the existing Tanjung Priok Port by 2014

. The target effect indicator for the seaport sector is the international and domestic container cargo capacity. Therefore, the government planned the improvement of Tanjung Priok Port as the existing gateway and the development of Cilamaya Port in Karawang Regency as a proposed gateway. Cilamaya will handle the increasing demand for containers to mitigate further traffic congestion, to enhance the connectivity as a new gateway, and to establish an industrial cluster. As Tanjung Priok Port needs additional terminal facilities, especially for international containers, 35% of the container handling volume will be transferred to Cilamaya. As a new peri-urban area, Karawang Regency faces a promising future as a more urbanized area with improved livelihoods in spite of declining rural characteristics (Novianty, 2015).

A similar situation occurs in Belawan Port. As one of five hubs in Indonesia, Belawan Port played a role as the primary hub in commodity flow to the whole of Sumatera (Pelindo Annual Report, 2014). As the port is identified to lack capacity, the government prepared Kuala Tanung Port as the expansion of Belawan Port. Kuala Tanjung is appointed as a national hub port by PT. Pelabuhan Indonesia to anticipate the container handling volume of Belawan Port.

The goals of the Maritime Toll are to support the connectivity and logistic system by increasing the accessibility to the center of regional and national economies development. In addition, the government planned to increase the capacity of 24 ports consisting of 5 hub ports and 19 feeder ports to support the Maritime Toll (National Medium-Term Development Plan 2015-2019). Therefore, it is possible that through the realization of the Belt and Road Initiative and the Maritime Toll, more ports will be built and developed. At the same time, the regional economy of the port regions will slowly grow. The growth will affect economic change from agricultural to manufacturing and activities of higher productivity (Woltjer, 2014). Thus, the realization of both initiatives is urgently needed.

Conclusion and Issues for Future Research

In this paper, the authors tried to elaborate the Belt and Road Initiative, which has a common vision with Indonesia's Maritime Toll. Based on this study, the authors found the strengths, weaknesses, opportunities, and threats of recent Indonesia-China investment realization. From the SWOT analysis, it can be concluded that several strategies are required to overcome the current investment weaknesses and threats. These include the need of getting to know each country well, assuring the realization of planned investment, taking advantage of the China-ASEAN Free Trade Zone and the AIIB, and upgrading the investment system. All of the strategies mentioned before are necessary, and both countries need to be more aware of creating a conducive investment climate.

Handerson (1986) explained that cities originally develop in coastal areas due to economic efficiency and consumer benefit. Coastal cities are located close to the sea, thus simplifying the delivery of goods at low cost, while the higher port activity may encourage the growth of urban spaces with the building of warehousing, service companies, and transportation access. In terms of supporting the realization of the Belt and Road Initiative and the Maritime Toll, the construction and development of ports are urgently needed.

The analysis of the possible effects of investment on the development of Indonesian coastal cities emphasized that port infrastructure investment will affect regional economic growth. This statement is supported by recent studies and theories on port cities and its role in boosting regional economic growth. A recent study found that Indonesian port activity and the growth of cities in Indonesia are related. The study stated that from 2001 to 2010, the GRDP data of 56 Indonesian cities showed that the GRDP growth in port cities is higher than for cities that do not have a port, with a 3:1 ratio. The ports generate economic growth, social mobility, and trade in Indonesia. Indonesia, as an archipelago where most cities are coastal cities, makes ports the main economic drivers of the country (Karunia & Djaja, 2013). The authors believe that through the realization of the Belt and Road Initiative and the Maritime Toll more ports will be built and developed. At the same time, the regional economy of the port regions in Indonesia will slowly grow.

Although this paper is descriptive in nature, it attempted to represent the general conditions of Indonesia-China investment and highlight the essence of the Chinese Belt and Road Initiative. In addition, the paper provided a short discussion to convince the reader that Indonesia can take advantage of the realization of the initiative to grow and develop its economy and create more port cities. Therefore, future research is needed to address the weaknesses of this paper. The scope of this study is too large since it uses the country scope. Future research could use a smaller and more detailed scope. For example, selecting one port construction project as an example of Chinese investment and use it as the research object. Future research could explore the progress of the Belt and Road Initiative in Indonesia, cover a quantitative analysis to measure the type of investment and programs, cooperation progress achievement and its socio-economic-spatial impact on Indonesian port cities.

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