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# Discussion Report Talking ASEAN

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## Regional Competition for Infrastructure Investment in ASEAN

Jakarta, December 19<sup>th</sup> 2019



## Introduction

On Thursday, 19th December 2019, The Habibie Center hosted a Talking ASEAN titled “**Regional Competition for Infrastructure Investment in ASEAN**” at The Habibie Center Building, Jakarta. This Talking ASEAN featured **Faisal Basri, M.A.** (Senior Economist, Universitas Indonesia), **Fauziah Zen, Ph.D.** (Senior Economist, Economic Research Institute for ASEAN and East Asia (ERIA)) and **M. Zulfikar Rakhmat, Ph.D.** (Research Associate, Institute for Development of Economics and Finance (INDEF)) as the resource persons for the discussion, with **Mr. A. Ibrahim Almuttaqi** (Head of ASEAN Studies Program, The Habibie Center) as the moderator.

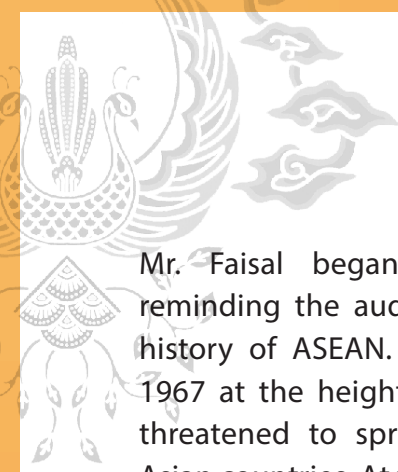
The objectives of this discussion were to: (1) discuss how China, U.S., Japan, and Australia investment in ASEAN’s infrastructure; (2) look up whether the funding from U.S., Japan, and Australia is intending to challenge China’s Belt and Road Initiative; (3) identify the possible opportunities and challenges of ASEAN states with the infrastructure investment.

This discussion report summarizes the key points of each resource person, as well as the question and answer session that followed.

# PRESENTATION FROM THE PANELIST



**Faisal Basri, M.A.**  
(Senior Economist,  
Universitas Indonesia)



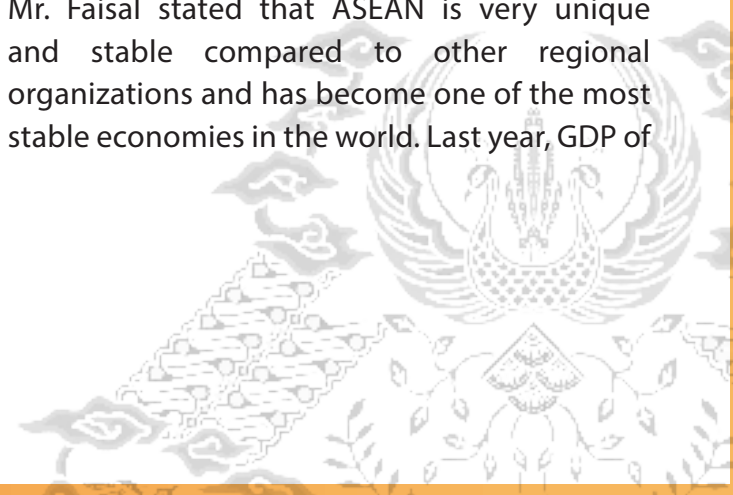
Mr. Faisal began his presentations by reminding the audience about the unique history of ASEAN. ASEAN was founded in 1967 at the height of the Cold War which threatened to spread to other Southeast Asian countries. At the same time, Indonesia, Malaysia, and the Philippines had just ended their *Konfrontasi*. Learning from the past mistakes, ASEAN takes on economic rather than politics or security by ratifying Bangkok Declaration in 1967 which was aimed to accelerate the economic growth, social progress and cultural development in the region through joint endeavors as well as to promote regional peace and stability through abiding respect for justice and the rule of law.

Fast-forward to the ASEAN Community that consists of three pillars, Mr. Faisal emphasized that ASEAN does not follow European Union (EU) pattern due to differences in history, political system, and economic conditions. ASEAN only aims to cooperate and not integrate into a supranational body. ASEAN Secretariat only works as a coordinator and has no power to give authority to any of ASEAN Member Countries (AMS). In ASEAN, there is no measurable instrument for realizing integration. One of the ASEAN pillars, the ASEAN Economic Community, includes free trade in services and free flow of capital. ASEAN Free Trade Area had been implemented since 2002. What is important in ASEAN is 'sharing prosperity'. Integration in ASEAN is done through connectivity. This is relevant to start the role of infrastructure to connect each of AMS. There are three kinds of connectivity,

which are physical, institutional, and people-to-people connectivity. Mr. Faisal's presentation will focus on the first kind of connectivity which is physical that includes transport, information and communication technology (ICT), energy, and infrastructure.

In terms of connectivity, Mr. Faisal stated that Indonesia is the worst due to its vast geographical conditions. Indonesia is a maritime country with more than 17,000 islands but the government only focuses on land transportation which causes the cost of logistics is very high (the highest in the region). Unfortunately, Tol Laut does not affect much. In President Jokowi's era, the sea transportation tends to decrease from 0.34 percent to 0.3 percent. Meanwhile, land transportation increases very sharply and deemed as more important. Air transportation in Indonesia is considered expensive which disables the movement of goods via air because the cost will be very expensive. Sea transportation does not affect much except in the first year of President Jokowi's first administration. After that, it only contributes 2.8 percent to GDP. If Indonesia wishes to cooperate with ASEAN to promote infrastructure development, Indonesia needs to start from its own characteristics. To date, Indonesia only follows the steps and plans that other countries takes without acknowledging its needs first. Indonesia has no intentions to integrate its country to become a nation with strong national economy.

Mr. Faisal stated that ASEAN is very unique and stable compared to other regional organizations and has become one of the most stable economies in the world. Last year, GDP of





ASEAN reached almost US\$ 3 trillion and became the 5th largest economy in the world. Indonesia has the biggest GDP out of all ASEAN countries. Seven out of ten AMS placed in top hundred largest economy in the world. Therefore, ASEAN is very strong and promising which attracts many initiatives from other countries such as Australia, U.S., China, including ASEAN itself supported by Asian Development Bank (ADB) to create ASEAN Infrastructure Fund (AIF). There are more and more investment in ASEAN, from two percent intra FDI that increases to almost 20 percent. The economic growth in ASEAN is divided into three phases. The third phase is what Indonesia aims to achieve which represents the upcoming phase in ASEAN's growth journey, with the region projected to add another US1.5 trillion to its annual GDP by 2022. This is based on PPP (Purchasing Power Parity) and implies that ASEAN is becoming more important.

Mr. Faisal pointed out that although each country in ASEAN is different from each other, ASEAN has almost complete factors of production including labors, natural resources, and higher technology. Investors from outside of the region can choose which factor they want to invest in ASEAN. ASEAN GDP per capita is very advanced. There are advanced and high income country such as Singapore and Brunei Darussalam. However, there is no effort from ASEAN to speed up the process of development in second-tier ASEAN countries unlike EU that has structural adjustment fund to smoothen cooperation among their member countries. It is difficult and rather unrealistic to integrate economies in ASEAN due to their many different characteristics. ADB coined ASEAN as the most attractive regional cooperation in the world as many other countries in other regions want to engage with ASEAN.



Mr. Faisal elaborated the relations between U.S. and ASEAN. For U.S., Asia is getting more importance compared to the relations between U.S. and Europe. This can be seen from the increasing relations between U.S. and ASEAN. However, this changes slightly under President Trump's administration. President Donald Trump requested all ASEAN Leaders to visit the U.S. despite himself skipping a recent ASEAN Summit and Related Meetings between ASEAN and its Dialogue Partners. According to a data from The Economist, two-way merchandise trade between the U.S. and Europe is below U.S. and Asia-Pacific. Mr. Faisal stated that the partnership in Trans Pacific becomes more important than Trans-Atlantic.

Mr Faisal went on to highlight that ASEAN intra-trade has declined instead of increasing at only one quarter of the total foreign trade. Compared to NAFTA that only consists of three countries, their intra-trade is half of their total trade. For EU, it is almost two-third of the total foreign trade. ASEAN, however, is different and unique. By integrating ASEAN market into one market, it is no longer necessary for transnational companies to build factories in every AMS. ASEAN has division of labors and competition among its member countries to attract investors. More foreign investment coming to ASEAN from foreign countries reached almost US\$ 150 billion last year. In the last five years, FDI (foreign direct investment) inflows to ASEAN increase in all countries. Thus, as Mr. Faisal stated earlier, as a community, ASEAN shares prosperity. No ASEAN country is left behind in terms of recipient of FDI. In total, ASEAN received US\$ 18 billion of FDI in the early 90s. In 2018, the number reached up to US\$

136 billion. Intra-ASEAN FDI increases from 2.8 percent to 16.6 percent. This implies that ASEAN is gaining more importance. In Indonesia, intra-ASEAN investment reached more than half of total FDI, mostly coming from Singapore as the center of business.

Mr. Faisal noted that the top investor in ASEAN in 2017 and 2018 is intra-ASEAN. The U.S. was placed at number two in 2017 but dropped to number four in 2018, instead being replaced by Japan, China, and Hong Kong. The growth of investment from China is the highest. However, Mr. Faisal stated that the number is undervalued because some of the investments are coming through Singapore. Regarding ASEAN's window of opportunity, most of the population in ASEAN are young and of working age. Indonesia has the highest amount of working age population. This is the incentive for investors to come to ASEAN, especially Indonesia. Despite that, Indonesia still has issue with the quality of its labors. Mr. Faisal considers ASEAN as unique as each AMS conducts very small trade relations with each other, but relatively high with other countries outside ASEAN. Mr. Faisal also stated that the degree of openness in almost all AMS is very high. For example, in Singapore, their export to GDP reached almost 200 percent. Indonesia, however, has the lowest degree of openness due to its big population and market. This can be seen from the number that decreases from 41 to 21 percent. Indonesia is becoming more inward-looking and unable to export more than what Indonesia produces abroad. On the other hand, the degree of openness of Vietnam increased very sharply, from 54 to 95 percent.

Mr. Faisal suggested in order to develop

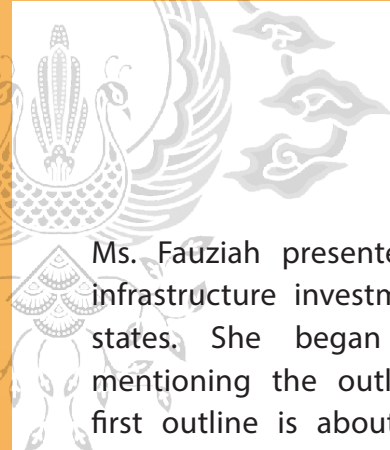


Indonesia's capacity, the most important thing is to integrate the country itself. Then, the second phase would be to integrate with ASEAN in order to increase the efficiency. This will create capacity for ASEAN to absorb better fertility in the world economy. Indonesia has to move forward, improve and cannot be dictated by other countries. Indonesia is unable to play more important roles in terms of trade in ASEAN because Indonesia most exports commodity. For example, Indonesia cannot export palm oils to Malaysia but is able to export cars. So, the state of manufactures export in Indonesia is very small. That is why Indonesia cannot get additional gains from intra-industry trade because it is unlikely to occur if most of our exports are coming from manufacturing goods. Indonesia's share of high-tech products export is also declining. Mr. Faisal suggested that to speed up the process of infrastructure development should be based on the current existing situation. This is why the FDI to Indonesia is relatively small compared to other ASEAN countries. Indonesia is worst in class among emerging Southeast Asian nations, Indonesia attracts the least foreign direct investments as a percentage of its GDP, including FDI in infrastructure. In terms of attractiveness from Japanese point of view, Indonesia is still considered acceptable but lower than Thailand, Vietnam, India, and China. Mr. Faisal concluded his presentation by stating that there is no FDI relocation from China to Indonesia in terms of infrastructure needs.

# PRESENTATION FROM THE PANELIST



**Fauziah Zen, Ph.D.**  
(Senior Economist,  
Economic Research Institute for  
ASEAN and East Asia (ERIA))




Ms. Fauziah presented her perspectives on infrastructure investment in ASEAN member states. She began her presentation by mentioning the outlines of her slides. The first outline is about infrastructure demand in Southeast Asia. She presented a recent publication from Asian Development Bank (ADB) that show the current infrastructure demand in Southeast Asia. However, the numbers shown are not absolute but merely a proxy to forecast the needs. She pointed out that Indonesia cannot fulfil the average number which is about 5 to 5.5 percent of GDP of each country in the region. Compared to the world's demand of infrastructure that is quoted from ADB, OECD (Organisation for Economic Co-operation and Development), and McKinsey, it can be seen that ASEAN only has about one-third or one-quarter from world's demand of infrastructure. Ms. Fauziah also mentioned that all AMS are committed to Sustainable Development Goals (SDGs). Infrastructures built in AMS have direct involvement with at least three SDGs which are goals number 6 (Clean Water and Sanitation), number 7 (Affordable and Clean Energy), and number 9 (Industry, Innovation and Infrastructure). The infrastructures that are built also must contribute indirect impacts on eight SDGs which are goals number 1 (No Poverty), number 2 (Zero Hunger), number 3 (Good Health and Well-being), number 4 (Quality Education), number 5 (Gender Equality), number 8 (Decent Work and Economic Growth), number 10 (Reduced Inequalities), and number 11 (Sustainable Cities and Communities).

Her second outline in the presentation is one important milestone in ASEAN which is ASEAN Economic Community (AEC) related to

infrastructure. Four pillars in AEC 2017 provides guidelines about the objectives of AEC, which are (1) single market; (2) a highly competitive economic region; (3) equitable economic development; and (4) integrated into the global economy. ASEAN under ACCC (ASEAN Connectivity Coordinating Committee) issued MPAC (Master Plan on ASEAN Connectivity) 2015 and MPAC 2025 which involve many stakeholders and scholars, including ERIA. It also contains the list of important projects in the region. There is also ASEAN Vision 2040 that emphasizes on people-centered community and inclusiveness.

Ms. Fauziah mentioned Indo-Pacific as the current hot issue. ASEAN Ministerial Meeting (AMM) in July 2019 and Post Ministerial Conference (PMC) issued a joint communique about the Indo-Pacific Outlook that serves as a guide for ASEAN's engagement in the wider Asia-Pacific and Indian Ocean regions. It also welcomed external partners to work with ASEAN in promoting the principles laid out in the ASEAN Outlook on the Indo-Pacific and to undertake cooperation with ASEAN. The Outlook lays out key element, principles, objectives, and mechanism of Indo-Pacific and identifies four areas of cooperation which are maritime, connectivity, SDGs, and economic and other possible areas of cooperation. This issue is also related to the movement of QUAD (Quadrilateral Security Dialogue) that consists of U.S., Japan, India, and Australia.

Ms. Fauziah explained the importance of ASEAN Centrality. Beforehand, she reminded the audience that the Indo-Pacific physical region is not in consensus which means there are no



clear boundaries of the region. Indo-Pacific is central to East Asia Summit (EAS) that consists of 18 countries: ten AMS, U.S., China, Japan, Australia, South Korea, India, New Zealand, and Russia. All powerful economies in Indo-Pacific are member of EAS thus their movement and decisions are relevant in this region.

U.S. infrastructure engagement has been recognized by President Trump's administration with the Build Act of 2018 that doubled development finance capacity to \$60 billion. Australia has also been showing serious efforts in infrastructure investment in Southeast Asia region. Australia contributed \$2 billion towards the Australian Infrastructure Financing Facility for the Pacific, showing leadership in the use of innovative financing models for infrastructure, and became the second largest donor to the Asian Development Bank. On the other hand, China has initiated the Asian Infrastructure Investment Bank (AIIB) in 2016 and the Belt and Road Initiatives (BRI) in 2013. Currently, China is building the longest high-speed train railways that span about 20,000 km and is longer than the whole world's high-speed railways combined. The current longest railway in the world is located between Yiwu (China) and Madrid (Spain) that span around 6,000 miles and takes 21 days to travel. Pakistan is now a part of China's ally in infrastructure and connectivity. It is estimated that China will play a major role in South Asia, especially in Pakistan. Ms. Fauziah later showed one example of China's new overland route that is faster and more efficient. If one takes a sea route from Beijing to Europe through Suez Canal, the travel will take up to 45 days. But with high-speed train, the travel will only take ten days. Now the travel time from

Beijing to any other places in China only takes less than eight hours. China is very serious in infrastructure sectors and has deep endowment from state funding as well.

Ms. Fauziah then elaborated influential factors in determining foreign infrastructure investment in Southeast Asia region. She stated that ASEAN needs huge infrastructure investment not only physically, but also includes the system. The demand for infrastructure cannot be fulfilled by ASEAN itself hence the need for external support, especially external financing. ASEAN consists of ten countries with differences in many factors, such as in terms of capacity, needs, political views, and geographical situation, therefore it is expected there will be various views towards investment and intervention from outside of the region. For example, Indonesia and Vietnam has different views towards China's investment or Singapore and Cambodia towards investment from U.S. or Japan. This creates internal complexities within AMS. Moreover, ASEAN is a non-binding regional cooperation unlike European Union as mentioned by Mr. Faisal.

QUAD (U.S., Japan, Australia, India) also have different purposes and levels of alliance among themselves towards ASEAN. According to a policy paper by Sasakawa Peace Foundation. QUAD states do not emphasize their Indo-Pacific strategies as counters to China. American leaders have called China a revisionist power, Japan has emphasized the need for "international standards" in infrastructure development, Australia puts importance on Indo-Pacific democracies, and India has more actively promoted a rules-based regional

order. India has been known as a swing state in regional cooperation as they recently withdrew from the agreement. So, there is no clear confirmation whether they will move towards the competition between QUAD and China. It also depends on how AMS view the importance of quality infrastructure because infrastructure is not merely about quality, but also includes the financial side and sustainability. So, it is also related with commitment to achieve SDGs since sustainability issues are fundamental in both quality infrastructure and SDGs.

The factors also depend on the level of physical infrastructure needed or appropriate for each country, from high, moderate, to basic quality. For example, a country needs rural roads to connect remote areas. It is also important to consider the high urbanization rates in the region as urban communities demand more infrastructure. Currently, almost 50 percent of the population in the region lives in urban areas. This number is projected to keep increasing to 60 percent in the next ten years. Financing infrastructure has its own characteristics and principles. One, two, or three deliberately principles-violating projects might be passed by public but will not apply to many. However, this does not apply to the case in Sri Lanka. Ms. Fauziah stated that the Sri Lanka case is the most misperceived case in this term. Regarding the case of Hambantota Port, Sri Lanka cannot repay back the investment from China. However, the case is more about mismanagement of investment and Sri Lanka's debt to China is only ten percent. Sri Lanka issued foreign sovereign bonds to finance their needs, not only infrastructure, because the country has been experiencing declining revenue taxation

and low growth. In terms of ASEAN, Ms. Fauziah stated that she is not concerned about such problems except some cases in Laos and Cambodia.

Other influential factors also include AMS preparation to enter Industrial Revolution 4.0. This is the current hot issue and it is important to consider how AMS should react to the waves of Industrial Revolution 4.0. It also depends on political economy of aid. There is a competition between China and Japan in investing in high-speed train between Jakarta and Bandung. Because Indonesia does not put the project in their priority agenda, the government stated that the project will not be finance by the state budget or APBN (*Anggaran Pendapatan dan Belanja Negara*). Thus, the government should guarantee financial failure in case something happens. Japan did not win the case because they still require government-backed failure. China is more of a risk-taker and offered the project with no government guarantee therefore the won the case. This also happens in other cases such as Dawei Port in Myanmar and high-speed train project in China-Vietnam-Laos-Thailand in Myanmar.

In terms of ASEAN and Indonesia, Ms. Fauziah put importance on ASEAN's position in the regional infrastructure development. The key is to emphasize on what ASEAN wants, not what QUAD or China wants. If ASEAN has acknowledge its needs, then ASEAN will not be worried about who will be investing in the region. Another important geographical situation is Indonesia's proximity to Pacific Islands. Pacific Islands is geo-strategically competed by China, Japan, U.S., and Australia. The concern is Pacific SIDS



(Small Island Developing States) are climate-prone and economically challenging. Ms. Fauziah wrote a paper on financing sustainable infrastructure in Pacific Islands. From the data, it can be interpreted that Pacific Islands' economic trade can be significantly influenced by their big neighbors which are Indonesia and Australia. Indonesia has the potentials to take a leading role in this region because its position in Indo-Pacific is crucial as well as advantageous and vulnerable. If there is a conflict among the big economies such as China, U.S., and Japan, then it may give undesirable impact on Indonesia, especially with the new capital of Kalimantan which is rather close to the Eastern parts of Indonesia. Eastern parts of Indonesia are very potential, especially its youth. Because the Eastern parts of Indonesia are related to the Indo-Pacific issues, it will be a strategical pivot in the region. Indonesia has its own interests in both domestic and regional development. What is important is how far Indonesia will harmonize both agendas.

To end her presentation, Ms. Fauziah gave several concluding remarks. First, competition or not, if AMS are committed to their own principles, the region will be benefited because ASEAN will have more investors from many parties. Second, the key values that are important are to maintain ASEAN centrality and neutrality, choose infrastructure projects appropriately, and keep macroeconomic stability in the region. Third, Indonesia should take a leading role which are geographical, economical, demographic, and environmental roles because of its strategic position. Indonesia has the coral triangles which cover 70 percent of total biota in world, consists of 40 percent

of total population in ASEAN, and 40 percent GDP in ASEAN. Therefore, Indonesia has many potentials to lead the process. Indonesia needs to take serious attention to its role in ASEAN as its roles in G20 and G7 are increasing, as well as being one of the observers in OECD. Ms. Fauziah lastly stated that Indonesia needs to take stronger roles in ASEAN.

# PRESENTATION FROM THE PANELIST



**M. Zulfikar Rakmat, Ph.D.**  
(Research Associate, Institute for  
Development of Economics and  
Finance (INDEF))



Mr. Zulfikar presented his views on regional competition for infrastructure investment in ASEAN by focusing on China based on his area of expertise. He had done many research on China, one of them is the implementation of China's Belt and Road Initiative (BRI) particularly in the Middle East. He elaborated his reasons by stating that several stakeholders and institutions have implemented BRI and according to the mapping competition between major powers in ASEAN, China is the leading power. He would also map out the competition between China and other major powers in ASEAN such as Japan, United States (US), and Australia.


The Belt and Road Initiative (BRI) came into realization after Xi Jinping sworn into the office in 2012. It aims to rejuvenate the historical Silk Road that existed in the 18th century. In order to become a modern 'Silk Road', the BRI has to cover continents that consist of land route and sea route. The land route spans from Xi'an in China to Rotterdam in Netherlands. The sea route spans from ASEAN, Sri Lanka, Africa, The Middle East, and comes all the way to Italy. Referring to the map displayed on Mr. Zulfikar's presentation slides, ASEAN plays a crucial role in the BRI.

Mr. Zulfikar emphasized the difficulty in finding the exact specific data on projects managed under the BRI. He stated that there are only few data regarding which project in under the BRI. The Chinese Government is also uncertain about the project. For example, Mr. Zulfikar did an interview with a Chinese company in Dubai, United Arab Emirates. The

Chinese Ministry of Finance informed that one specific project is implemented under the BRI, but the company itself stated otherwise. After doing a research, Mr. Zulfikar came out with the conclusion that any Chinese investment in other regions after 2013, which is the year when BRI was announced, counts as investment under the BRI. According to a 2018 study by Oxford Economics and the CIMB ASEAN Research Institute, BRI projects in ASEAN countries amount to more than US\$739 billion. Out of all ASEAN member countries (AMS), Indonesia is the biggest recipient of BRI investment.

There are several BRI infrastructure projects that are currently undergoing in ASEAN countries which cover industries such as transportation, energy, and communication. The most important project of BRI is industrial parks that are currently being built by China in AMS. The Chinese government outlines that the main goal of BRI is to rebuild Silk Road by 2049. Thus, all projects under BRI must be finished by 2049 to commemorate the hundredth anniversary of People's Republic of China (PRC) which was established in 1949.

Mr. Zulfikar stated that there are two opinions regarding the implementation of BRI in ASEAN countries which are from outside and within China. Mostly, people from outside of China assume that the BRI is aimed to dominate the world as China is starting to become the next hegemonic power. People from within China are aware that China has a lot of domestic problems, one of the biggest is over-accumulation in terms of infrastructure that began in 2008 during global financial crisis. China's government provided funding to its provinces but it resulted



in over-accumulation. Some resources such as steel, asphalt, and cement had to be thrown away in order to keep the country's economy to be stable. Another problem that China faces is over-accumulation in foreign exchanges. There are currently many US reserves in China which is the reason why the BRI cannot be separated from AIIB (Asian Infrastructure Investment Bank). AIIB is the biggest funding for BRI. He further argued that on the short term, the BRI is aimed to solve many different internal problems within China. However, in the long term, there is an external motivation that affects the implementation of BRI which is for China to spread its influence to the world. The infrastructures and institutions that China is currently working on will be used not only to spread influence, but also to minimize the barriers for investment in the future. At the moment, China is able to travel its good across the world through roads, railways, and other infrastructures that they have built.

Mr. Zulfikar explained China's strategies in carrying out the Belt and Road Initiative. First is by funding the building of many infrastructure projects. The second strategy is through cultural efforts or soft power. For example, in Indonesia, China is building six Confucius institutes that teach about the benefit of China's investments and businesses, one of them is located in Surabaya. This is one of the ways that China does to legitimate its investment in Indonesia. In Saudi Arabia, China is building railways from the Grand Mosque to Mina in the city of Mecca. There are a lot of controversies surrounding this plan, one of which is the issue that only Moslems are allowed to enter Mecca. The debate is about how China would put its thousands of workers into Mecca. China then made an agreement

with one television channel in Saudi Arabia to broadcast a show about Chinese people converting to Islam. In the Middle East, there are many TV shows from China. One of the programs is broadcasting the 'China Dream'. In that program, people are encouraged to follow the best dream that is the China Dream. It is important to note that 'China Dream' is President Xi Jinping's slogan when he introduced the BRI. Slogans play an important role in China's politics. He stated that more cultural efforts are being done in ASEAN countries and argued that this is part of China's soft power in legitimizing its investment under the BRI. The document about BRI itself stated that one of five pillars of BRI is people-to-people exchanges.

China is facing many problems during their implementation of the BRI. First, regarding debt. In terms of opportunities, there are many benefits that a country can gain from China's investment yet it can also cause troubles. Mr. Zulfikar agreed with Mr. Faisal regarding the exaggeration of several problems about BRI, especially the issue about South China Sea. Mr. Zulfikar also shared his opinion that China needs Indonesia more than Indonesia needs China. Indonesian people need to understand and be able to talk in Chinese so it enables them to negotiate with China. One example is the negotiation between Malaysia and China that resulted in China reducing the debt that Malaysia had. Second problem relates to environmental sector. Mr. Zulfikar stated that he had not seen many environmental problems happening in Indonesia. However, there are many reports coming from all over the world about environmental destruction caused by BRI, such as animals gone extinct,

deforestation, river pollution, and many more. The third problem is lack of funding. There are several projects in Africa that are currently being delayed due to lack of funding. Not all projects under the BRI are funded by China alone, many of them are cooperatively funded by China and other parties. One example is Special Economic Zone in Oman that is funded by China and World Bank. One project in Saudi Arabia is the cooperation of China with Islamic Development Bank. In this case, there are many push and pull debates between China and other parties. Mr. Zulfikar stated that such a thing has not happened in ASEAN yet, but it has already happened in other parts of the world that are covered under the BRI.

Another problem China is facing is political consent. This is usually related to the issue of Chinese workers. According to an interview that Mr. Zulfikar did with Chinese government, there are two reasons why China keeps employing their workers for projects in other countries. First, it will increase efficiency. By employing Chinese workers, there is no necessity to switch languages or teach Chinese technologies to the workers. Two, from the opinion of analysts is that by having their people in all parts of the world is part of China's soft power. For example, there is one project between China and Saudi Arabia in Saudi Arabia. Initially, China wanted to import its workers to Saudi Arabia. However, Saudi Arabia wanted to employ its own people, which are mainly Indians, and rejected China's idea. After several negotiations, both came to an agreement to divide their workers. This means that China can be negotiated and the issue of Chinese workers seems to be a little exaggerated.

At the end of his presentation, Mr. Zulfikar mapped out the competition between China and different powers in perspective of investment in ASEAN. First, competition between China and U.S. China still looks up to U.S. even though they never see U.S. as a threat. China is still maintaining its good relations with U.S. but careful in taking actions or setting policies concerning what U.S. will respond. Competition between China and Japan exists in terms of their automotive relations with ASEAN countries. When President Jokowi announced electrical car regulation and the car factories will be in cooperation with China, this triggered competition between China and Japan because Japan has been a long automotive partner with Indonesia. Mr. Zulfikar stated that there might be a strong competition among China, Japan, and ASEAN in the future. Competition between China and Australia began especially after China burnt coals from Australia at the beginning of this year. However, now there is a competition between U.S. and Australia in ASEAN regarding smart cities cooperation.





# QUESTION AND ANSWER SESSION



## Questions

### **Tanggung Chairil (Bina Nusantara University):**

Mr. Tangguh asked Mr. Faisal regarding his statement on the U.S. – China trade war that will have positive impacts on Indonesia and give benefits for investment projects in Indonesia although it will not increase Indonesia's export but increasing import instead. Based on that statement, Mr. Tangguh asked Mr. Faisal's suggestions to President Joko Widodo and the current administration in this current situation with the increasing investment and the dispatch between Indonesia and the European Union over trade of several commodities. Mr. Tangguh also mentioned the recent impeachment of U.S. President, Donald Trump. He later asked all speakers about the impact of this new situation on investments in Indonesia and Southeast Asia.

### **Amb. Faizullah Zaki Ibrahim (Embassy of Afghanistan):**

He noted the importance about the opportunity of investment in ASEAN in the current days. He also stated that the low level of intra-ASEAN exchange. However interestingly, other than China and India as major players in Asia he asked particularly about Central Asia countries in ASEAN. He asked whether Central Asia has any roles in the economic and trade cooperation and exchange in ASEAN.

### **Isaac Grace (Embassy of the Republic of Fiji):**

Mr. Isaac found the research and work in terms of the Small Island Developing States (SIDS) by Ms. Fauziah and Mr. Zulfikar as interesting. He later asked the relevance of their findings with the issues of climate change in terms of its magnitude, accessibility, and competitiveness as well as some of

the risks, specifically with the Pacific Island States. He also asked how it would affect both Indonesia and fellow AMS as a whole in the long term. Mr. Ambassador also expressed his uncertainty about the existence of a framework that governs the BRI project, such as a Term of Reference (TOR), that provides specific governance structure, probably by those who are now being part of BRI holistically. He is aware that more than a hundred countries are waiting to be involved in the project. He asked about whether there is an original framework that governs the projects of BRI or is it merely China's initiatives and therefore the decision-making process and all the other governance structures are actually influenced by Beijing.

## Responses

### Faisal Basri (Senior Economist, Universitas Indonesia):

He started addressing the questions from the audience by stating that in most government presentations, the first structure shown is about global economy affecting Indonesian economy. In fact, the impact of global or neighboring states economy on Indonesia is weak because Indonesia's export is very small. What happens outside Indonesia affects very little to the country. Thus, the trade war by all means may affect negatively to Indonesia, as well as all over the world, but the impact on Indonesia is not significant compared to Singapore or Malaysia, for instance. These two countries have strong economy because their exposure to the world is open, meanwhile, Indonesia tends to be closed which means the impact will be small or insignificant. There are also another impacts on more movements of goods from China to Indonesia, such as textile, steel, cement, and so on. From the latest data, Indonesia's export number from January to November declined by three percent, but from China to Indonesia declines only two percent.

Mr. Faisal suggested to President Joko Widodo and the current administration to not misinterpret or mislead the situation. For example, President Jokowi complained that there is not even one relocation from China to Indonesia, but there is to Thailand, Viet Nam, and Malaysia. Indonesia receives more investment but not in terms of manufacture. As Mr. Faisal had stated before, ASEA is very diverse and not homogenous. Indonesia should not be worried about relocation. In terms of investment, Indonesia is doing great. Indonesia received more than Viet Nam, for example, where Indonesia received US\$ 22 billion last year compared to Viet Nam that only received US\$ 18 billion. Indonesia never relies much on investment, including foreign investment. This happens since the beginning of Indonesia in 1945. Indonesia's foreign investment to GDP only reaches two percent, meanwhile the domestic investment is 32.5 percent to GDP.

Indonesia is the biggest country in ASEAN. If Indonesia treats level playing field, for example the Open Sky Policy in ASEAN where Indonesia opens hundreds of airports in Indonesia to Singapore. But Singapore, that has only one airport in the country, will not open its only one airport to other countries. Indonesia has to use ASEAN as world initial capital, as Mr. Faisal stated before, this will be beneficial in terms of security and stability. Indonesia treats ASEAN members politely. For example, Indonesia never openly criticizes Myanmar for the Rohingya crisis. Instead, Indonesia uses closed-door diplomacy to resolve the issue. According to Mr. Faisal, ASEAN's neutrality in something to be

maintained and the reason why ASEAN should build cooperation with other economic cooperation in Central or South Asia. He also expressed his support for Indo-Pacific Outlook. He stated that if all Asia countries work together, it will create more space for Indonesia to benefit from the cooperation. The importance of neutrality in ASEAN is also the reason why almost all economic cooperation in the world wants to interact with ASEAN. ASEAN has to maintain its cultural characteristics.

ASEAN, however, lacks leadership. In the past, Indonesia with Mr. Soeharto sitting as the president led ASEAN. Mr. Faisal also agreed with Ms. Fauziah's statement that Indonesia fails to bring ASEAN to the forum in which Indonesia is a member of, such as G20, as Indonesia is the only Southeast Asian member in G20. Mr. Faisal lastly expressed his positive sentiment and support towards Indonesia's current foreign minister, Ibu Retno, for her low-profile efforts in enlarging cooperation with other Asia countries.

**Fauziah Zen (Senior Economist, Economic Research Institute for ASEAN and East Asia (ERIA)):**

Responding to the first question about the latest situation in the U.S. which is President Donald Trump's impeachment from the White House, Ms. Fauziah stated that it is better to wait for further developments considering that the U.S. Senate is dominated by politicians from the Republican Party. There are people who assume that the impeachment is an attempt to degrade Trump's popularity before the election in 2020, but others assume that Trump's popularity is already high because there is no strong challenger from the Democratic Party. How the impeachment will impact the infrastructure investment in ASEAN is based on how the mechanism in the investment decisions made in the U.S. Ms. Fauziah stated that the U.S. domestic infrastructure investment still declines quite significantly. In recent years, the report stated that the quality of infrastructure in the U.S. almost all get red flags from their independent assessors. Ms. Fauziah assumed that the new BUILD Act in 2018 and USAID will put their efforts in increasing the quality of infrastructure in the region. Regardless of the current internal politics in the U.S., Ms. Fauziah stated that she was not concerned about the impact of President Trump's impeachment on the infrastructure investment in ASEAN.

Responding to the question from Mr. Ambassador, Ms. Fauziah stated that trade happens when there is a match between two regions. Southeast Asia produces similar outputs and commodities with the rest of Asia. That is the reason why Indonesia exports its commodities to other regions such as Europe and the U.S. Ms. Fauziah then explained that Indonesia still cannot compete with China, Russia or Japan in terms of logistics cost to Central Asia. This is an influential factor which causes Indonesia to have little trade with Central Asia.

Answering Mr. Isaac's question regarding infrastructure financing in SIDS. First, Ms. Fauziah suggested that SIDS as a region should internally strengthen its domestic capacity in terms of management and infrastructure. There are several reports about SIDS that do not meet international standards, such as the state budget, which makes it difficult to check the transparency of how much revenue they gain. Second, SIDS need to strengthen their inter-island cooperation with their closest neighbors such as Australia and China. They are not required to maintain their neutrality because they are able to choose alliance wisely. Because the position of Pacific Islands is very strategic, if China's presence

is increasing in the region, it will raise concerns among Japan, Australia, and the U.S. Ms. Fauziah also suggested SIDS not to create more challenges or enemies with other political movements. Because the location of Indonesia and the Pacific Islands are close, they are able to build good relations which will be beneficial for both. However, the situation in Pacific Islands is rather difficult. The reports on climate change stated that several islands in the region are already sinking. SIDS have the opportunity to access green financing which is why it is important to strengthen the internal capacity and issue the report. SIDS also have bigger and better opportunities in tourism and although the climate is something beyond control, SIDS can raise this issue to attract attention of the world. It will be difficult for foreign investors to invest in infrastructure in the region because of these climate change issues which will make the investment difficult to sustain in the long term.

**Zulfikar Rakhmat (Research Associate, Institute for Development of Economics and Finance (INDEF)):**

Responding to the question about the U.S.-ASEAN relations, Mr. Zulfikar stated that when it comes to U.S. policy, there are bridges that are considered as sensitively and non-sensitively important. For example, the U.S. relations with the Middle East is considered as sensitively important since the U.S. has a long involvement in the Middle East. Mr. Zulfikar affirmed that ASEAN falls under the category of non-sensitively important. He also agreed with Ms. Fauziah that President Trump's impeachment from The White House has no significant impact on ASEAN and therefore the relations between the two parties will continue as the U.S. has established several cooperation with ASEAN in terms of infrastructure investment as well.

Addressing the question from Mr. Isaac about the blueprint or framework of the BRI, Mr. Zulfikar elaborated that the BRI operates under the National Development and Reform Commission (NDRC) which is a state institution under the Communist Party and cross-ministry collaboration (Chinese Ministry of Foreign Affairs, Ministry of Commerce, Ministry of Economic, and Ministry of Finance) who work together to build and implement the BRI. As for the blueprint, the only blueprint that is available for the public is the Vision and Action document. It is a general blueprint that does not show any maps. The map that Mr. Zulfikar used in his presentation is the one published by Xinhua News Agency. He stated that there are many critics about how the BRI is managed because there is no precise map that reveals the official participants or parties involved in the BRI. For instance, there are many reports about the implementation about the BRI in Latin America despite Latin America region is not shown on the map. One of the arguments about the reason why there are no official documents that contain details about the BRI is because it can be adjusted by the Xi Jinping government. As for now, the original or official blueprint about the BRI from the Chinese government is the Vision and Actions document. Mr. Zulfikar stated the difficulty in finding the precise data of Chinese investment under the BRI. There are proper and official data of investment of BRI published by AIIB where there listed all AIIB projects, which some of them are located in Indonesia. Several institutions can provide the data but the data can be different from each other.



### **ABOUT ASEAN STUDIES PROGRAM**

The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights.

The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

### **ABOUT TALKING ASEAN**

Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

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