HAVE CHINESE INVESTMENTS IN INDONESIAN AND MALAYSIAN INDUSTRIAL ESTATES BROUGHT LONG-TERM GAINS?

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Chinese companies have tended to conduct investments in Southeast Asia through subsidiaries in Singapore, leveraging the city state's advantage as a financial hub.

For Indonesia, the first wave came in 2008 and coincided with Tsingshan Group's investment in the mining industry in Sulawesi. The second wave came in 2015. This coincided with the signing of a comprehensive strategic partnership between Indonesia and China. Since then, Tsingshan has invested significantly in smelter projects in Sulawesi.

For Malaysia, Chinese investments increased after 2013 and grew steadily up until 2018. The investments are spread over a large number of sectors, ranging from infrastructure to manufacturing and services. In terms of approved investments in Malaysia's manufacturing sector, China was the largest source country from 2016 to 2019.

For Indonesia and Malaysia, Chinese investments are linked with the countries' own ambitions to promote industrial capacity as well as develop outlying and backward regions. Both economies have made special arrangements to facilitate Chinese investments especially in two key industrial estates – the Indonesian-Morowali Industrial Park (IMIP) and the Malaysia-China Industrial Park (MCKIP).

INDONESIA

Indonesia under the administration of President Joko Widodo has seen a rapid increase in Chinese investment. In his first term, most Chinese investment was directed to the transport, storage and communications sectors, with almost US$3 billion in investment.

Chinese investors are more willing than others to invest in the outer islands of Indonesia, as opposed to just the most populous island of Java, which is home to 60 per cent of the 270 million population. The outlying islands have long suffered from poor infrastructure and a low level of economic activities, a factor behind Jakarta's push to direct investments under

Chinese President Xi Jinping's strategy to boost international trade – through the Belt and Road Initiative (BRI) – to those places.

After attending the BRI Summit in Beijing in May 2017, Jokowi instructed Luhut Pandjaitan, Indonesia's maritime affairs minister, whom he trusts and who has great influence within Indonesia's government, to prepare a list of projects to be prioritised under the BRI umbrella. Indonesia then offered four areas – one each in North Sumatra, North Kalimantan, North Sulawesi and Bali – for future BRI investments. China, in turn, agreed to provide grants amounting to 100 million yuan (US$14.8 million) to prepare feasibility studies for BRI projects in the four locations. Since then, a host of different regulations have been instituted by Indonesia to expedite the implementation of strategic projects, including fast-tracking the granting of licences and land procurement.

Currently, there are 245 national strategic projects worth around US$300 billion on the priority list, including the Morowali park. Indonesia has also ratified several free-trade agreements to signal liberalisation efforts to potential investors

The Morowali park is a joint venture between China's Tsingshan Group and Indonesia's Bintangdelapan Group. It is an industrial estate that has integrated nickel-content stainless steel production.

The park occupies 2,000 hectares and employs about 35,000 Indonesian workers. It had total sales of US$2.6 billion in 2017, which contributed towards government tax revenues of around US$100 million. The park has also indirectly created opportunities for business, services, and real estate, and has propelled local industrialisation. Official data shows the park has boosted the export performance of Central Sulawesi province while there has been infrastructure development including roads and power plants.

There are, however, two issues that have caused concern.

First, since the park is a national strategic project, it has been given discretion over the use of foreign workers. The media have reported the presence of a large number of Chinese workers though the exact number – and how many have proper work permits – are difficult to verify. Anecdotal evidence suggests the number is between 5,000 and 6,000, more than double what official figures say, and their presence has triggered friction with local workers. But the government maintains that the Chinese workers are necessary for knowledge transfer to local workers and will train them in construction, installation of machinery and equipment and the production process. They will eventually return to China and be replaced by Indonesians.

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

MALAYSIA

Chinese investments have also been used to develop the less developed east coast of Peninsular Malaysia for the MCKIP and port projects, where infrastructure support is inferior to that found on the west coast.

Malaysia has long welcomed FDI into the country through the Malaysian Industrial Development Authority (MIDA), and it has signed various bilateral and free-trade agreements with Asean, China and other partners such as India, Australia and South Korea.

During the time of Prime Minister Najib Razak from 2009 to early 2018, there were special efforts made to attract Chinese FDI into Malaysia. This included his visit to China in November 2016 and the signing of 14 agreements reportedly worth 144 million ringgit (US$34.7 million), including one for the production of solar cells and modules with Wuxi Suntech Power at the MCKIP. Najib also took part in the first BRI Forum held in China in May 2017 in Beijing.

The unexpected change in administration after the May 2018 general election did not change Malaysia’s positive response towards the BRI, despite the campaign rhetoric to the contrary by former prime Minister Mahathir Mohamad. Mahathir also attended the second BRI Forum in May 2019, indicating Malaysia’s continued support for BRI projects. The establishment of

National Committee on Investment (NCI) in 2019 was also meant to fast-track investment approvals due to a trade war and relocation of Chinese investments.
The MCKIP, launched in 2013 as a joint venture with 51 per cent belonging to Malaysia and the rest to China, is in Kuantan in Pahang. Pahang is former Prime Minister Najib's home state, and there was a strategic ploy to harness Chinese investments to foster economic development in Peninsular Malaysia's less developed east coast. The MCKIP is also conveniently located near Kuantan port, which faces the South China Sea.

As of 2019, the MCKIP has 10 committed projects with a total investment of almost 18 billion ringgit and is expected to create 20,000 jobs for the locals in the area. Two projects are currently operational – one of them Alliance Steel, which is 100 per cent owned by the Chinese.

One chief concern, however, has been the use of foreign versus local workers by Alliance. Media reports suggested the ratio of foreign (Chinese in this case) to local workers was higher than in other sectors, but Alliance said the number of local workers would increase progressively as they acquired more skills. The park's other investors are currently still awaiting approvals or have delayed project execution due to the Covid-19 pandemic.

Malaysia aims to gain technology transfer from FDI, mostly through training and development but also through domestic sourcing of component products from Malaysian companies. But by the end of last year, there was no evidence of technology transfer through domestic sourcing of intermediate goods. It remains to be seen if these Chinese firms are willing to increase domestic sourcing and help local small and medium-sized enterprises to learn new technologies.

CONCLUSION

Early analysis of the outcomes generated by the Indonesia and Malaysia industrial estates suggest both have increased investments and employment opportunities in the host economies.

For Malaysia, a more detailed analysis can only be made when the approved investments are all realised and operating in the country. In Indonesia, since the Morowali park has been operational for a longer period of time, it would appear that the local economy has also benefited in terms of relatively higher wages, output and exports as well as a reduced deficit in the import and export of steel products.

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

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