

CHAPTER I

INTRODUCTION

A. BACKGROUND

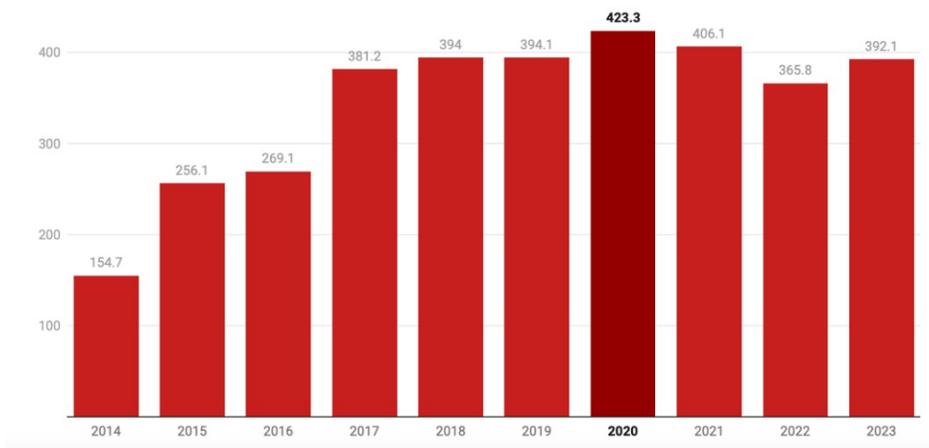
Economic growth needed to be supported by adequate access for the community, and one way to achieve this is by improving infrastructure through foreign investment. In fact, infrastructure is an essential element that is inseparable from the development of a country. Development, in this case the proper implementation of infrastructure development, can influence the Gross Domestic Product (GDP), as well as the Regional Gross Domestic Product (RGDP) (Cornelius & Primandhana, 2022).

The issue of inequality in infrastructure development is often a major focus in the development of infrastructure in Indonesia. In a study conducted by Sukwika (2018), it was found that there is an economic gap between regions in Indonesia that is in line with existing infrastructure gaps, as evidenced by disparities in GRDP. Other challenges in infrastructure development include land acquisition issues, project planning and preparation, as well as infrastructure funding itself (Utomo, 2017).

Seeing how Indonesia needs infrastructure improvements, various countries have taken advantage of this opportunity to enhance cooperation with Indonesia, both in terms of strengthening existing cooperation and opening new cooperation to achieve economic improvement and liberal relations. With this goal in mind, it has become easier for investors, which in turn has created

opportunities for other countries to enter Indonesia and invest in infrastructure.

According to CNBC Indonesia (see Graphic 1.1), government spending on infrastructure tends to increase. Compared to the early period of President Jokowi's administration (2014-2019), there was a significant increase in 2017 that continued until the end of 2018. Entering the second term (2019-2024), the infrastructure budget experienced an increase and a decrease (see Graphic 1.1). In 2023, the budget rose to Rp 392.1 trillion, an increase compared to the previous year (Putri, 2023).



Graphic 1.1 Jokowi's Infrastructure Budget (in Trillions of Rupiah)

Source: Kemenkeu, PUPR. Retrieved from Putri, 2023.

The success of infrastructure development, particularly transportation infrastructure investment during Jokowi's administration, is evidenced by the achievement of 1,713.83 km of toll road construction as of August 2023, making it the longest toll road construction in presidential history, as nearly 70% of the toll roads currently in operation were built during Jokowi's administration (Maesaroh, 2023). Additionally, the "Indonesia-Centric" development strategy, or

building from the outskirts of Indonesia, has been successfully implemented through the opening of several national roads in various regions, including Papua (Priyanti, 2023). These achievements have successfully improved Indonesia's ranking in the IMD Global Competitiveness Index for 2022-2023 in the infrastructure category to 51st place (Setkab RI, 2023).

The annual improvement of infrastructure involves many parties, both in terms of the implementation process and domestic funding, such as the involvement of the private sector and foreign entities (foreign loans and direct investment). In the development plan designed by Jokowi, foreign direct investment (FDI) is one of the important variables. According to the Ministry of Public Works and Housing (PUPR) website (2016), the government supports the entry of investors into infrastructure development through various efforts, such as providing special investment facilities and simplifying regulations to address Indonesia's fiscal *gap* (Baidarus et al., 2018). With the various incentives offered by the Indonesian government, foreign investors from other countries have begun to take advantage of the opportunities available to enhance their national interests in Indonesia.

In the latest report from the Ministry of Investment/BPKM, in the first half of 2023 (January-June), several investment sectors that received the most funding were basic metal industries, metal goods, non-machinery and equipment, and transportation, warehousing, and telecommunications in second place. Investments in Indonesia's infrastructure development, particularly in the transportation sector, often receive significant attention in domestic media due to

their latest innovations, improved accessibility, and their broad role in society. Several countries, such as China, have made significant contributions to Foreign Direct Investment (FDI) in Indonesia.

The enhancement of bilateral cooperation between China and Indonesia began during the administration of President Susilo Bambang Yudhoyono and President Xi Jinping through an initiative outlined in "the Future Direction of China-Indonesia Comprehensive Strategic Partnership" in 2013. This cooperation agreement aims to enhance the economy, trade, fisheries, education, space, and tourism (Rhiedo, 2024). Cooperation between Indonesia and China then reached its peak during the Jokowi administration, where investment development was significant.

In terms of investment development during Jokowi's administration, the realized investment data for the January–June (first semester) period of 2023 reached Rp678.7 trillion, an increase of 16.1% compared to the same period last year (Ministry of Investment/BPKM, 2023).

Based on data from the Ministry of Investment/BPKM during the SBY administration (2004-2014), there were five countries participating in FDI in Indonesia, namely Singapore, Japan, the Netherlands, South Korea, and the United States (see Table 1.1) (Ministry of Investment/BPKM, 2024).

Table 1.1 FDI in Indonesia 2004-2014

	Proyek	Investasi US\$. Ribu
Gabungan Negara	8,503	47,451,290.2
Singapura	5,432	39,611,815.5
Jepang	3,781	17,199,891.4
Belanda	947	14,102,631.8
Korea Selatan	3,870	9,406,326.0
Amerika Serikat	885	7,981,994.6
Inggris	959	7,247,524.2
Kepulauan Virgin Inggris	1,070	6,213,016.0
Malaysia	1,989	5,078,165.6
Mauritius	202	4,426,185.4
Hongkong, RRT	784	2,736,343.8
Australia	1,014	2,495,892.8
Taiwan	727	1,898,789.6
R.R. Tiongkok	1,457	1,821,458.3
Seychelles	89	1,338,173.8
Swiss	244	1,102,779.5
Jerman	517	985,819.4
Perancis	487	896,196.5
Thailand	182	759,393.4
Brasil	14	499,066.6

Source: Kementerian Investasi/BKPM, 2023

When comparing the data with that of 2014-2023 in Table 1.2, Foreign Direct Investment (FDI) continues to increase. Additionally, there has been a shift in the ranking of investing countries, with Singapore, Japan, the People's Republic of China, Hong Kong, and Malaysia now leading the list. The most notable change in rankings is China, which has successfully entered the top three, despite previously being ranked 13th (see Table 1.2) (Ministry of Investment/BKPM, 2024).

Table 1.2 FDI in Indonesia 2014–2023

	Proyek	Investasi US\$. Ribu
Singapura	71,627	89,648,090.2
Jepang	39,384	36,919,733.4
R.R. Tiongkok	21,513	36,392,539.1
Hongkong, RRT	14,483	29,736,179.0
Malaysia	16,276	18,477,918.0
Gabungan Negara	6,247	17,353,399.3
Amerika Serikat	8,207	16,314,671.6
Korea Selatan	31,118	15,868,630.6
Belanda	12,221	14,799,431.4
Kepulauan Virgin Inggris	8,698	6,775,365.4
Inggris	7,309	5,020,819.8
Australia	9,305	3,945,595.8
Mauritius	1,535	3,265,185.2
Thailand	2,273	2,680,757.3
Swiss	2,873	2,545,696.6
Taiwan	5,118	2,305,208.4
Bermuda	106	1,981,715.1
Jerman	5,164	1,638,537.9
Kanada	1,347	1,617,511.7
Perancis	7,524	1,575,811.6

Source: Kementerian Investasi/BKPM, 2023

The similarities between Indonesia's Railway Vision 2023 and China's Belt and Road Initiative (BRI) have enabled China to easily capitalize on the existing momentum and continue to strengthen its economic leadership in Asia (Cai, 2017). The Belt and Road Initiative (BRI) is an initiative launched by the Chinese government in 2013, focusing on collaboration in development, increasing investment flows, and strengthening connectivity with neighboring partner countries (Chang, 2019).

The BRI initiative is a strategic initiative by China to promote global economic growth and enhance international connectivity by developing an extensive network of infrastructure projects covering transportation, energy, and telecommunications. Involving more than 140 countries, China has articulated clear objectives and implementation strategies, emphasizing that the BRI promotes economic progress in participating countries. This initiative operates

under the framework of 'five priority areas of cooperation,' designed to foster mutually beneficial collaboration between China and its global partners (Caskey, 2024).

China then began to increase investment in transportation infrastructure between Indonesia and China, one of which was by building the Jakarta-Bandung Fast Train (KCJB) or high-speed train, now named "Whoosh!", which connects Jakarta and Bandung. Under the auspices of PT.KCIC, Whoosh! was then inaugurated by President Jokowi on October 1, 2023 (Hayat, 2023).

China's involvement in the infrastructure investment sector is not only manifested through programs within the BRI, but also through several other joint venture programs in various sectors, one of which is in the nickel and steel processing industry. Through initiatives within the BRI, China is striving to advance its national interests by securing energy supplies such as oil and nickel. By securing energy supplies, China is enhancing its influence in the Middle East and Central Asia (Riedho, 2024).

One form of this cooperation is manifested in PT. Indonesia Morowali Industrial Park IMIP in Morowali, South Sulawesi. The IMIP area itself has been established since 2013 and officially began operations in 2015. IMIP is a joint venture between Bintang Delapan Group from Indonesia and Tsinghan Steel Group from China, which is the world's largest nickel processing company. This collaboration between Indonesia and China is undoubtedly linked to China's involvement in increasing FDI in Indonesia.

Based on the phenomenon of Chinese investment in Indonesia, researchers

are interested in conducting further research to analyze the strategies used by China to take advantage of investment opportunities in the infrastructure sector in Indonesia, particularly in the transportation, industrial, and energy sectors through PT. KCIC and PT. IMIP. Therefore, the researchers chose the title "**Analysis on China Strategy in Increasing Infrastructure Investment in Indonesia**"

B. LIMITATIONS AND PROBLEM STATEMENT

Based on the author's description in the background, the author limits the scope of this study to the period of Chinese investment in PT. KCIC and PT. IMIP, which began in 2013 and will continue until 2023. The author chose this timeframe to specifically analyze China's strategic approach in establishing bilateral cooperation with Indonesia aimed at increasing investment in infrastructure development, particularly in the transportation, industry, and energy sectors in Indonesia through Foreign Direct Investment (FDI). During this period, the author remains focused on elements related to China's investment strategy in Indonesia.

In this study, based on the limitations mentioned by the author, the problem formulation that arises is:

1. What is China's strategy for increasing infrastructure investment in Indonesia?
2. What are the opportunities and challenges for China in increasing infrastructure investment in Indonesia?

The author will answer the research questions using the concept of The Political Economy of Foreign Direct Investment (FDI) by examining the cooperation strategies between Indonesia and China. The author will then analyze FDI in terms of the roles of each actor involved in the investment process.

C. RESEARCH OBJECTIVES AND BENEFITS

Based on the research questions above, the objectives of this study are:

1. Identifying China's Strategy in Increasing Infrastructure Investment in Indonesia
2. Analyzing China's Opportunities and Challenges in Increasing Infrastructure Investment in Indonesia

The benefits of this research are as follows:

1. For the author, this research is expected to enhance understanding and thinking that can be applied for the benefit of the nation and state.
2. For academics, this research is expected to serve as information and reference for International Relations students regarding China's strategy in increasing infrastructure investment in Indonesia.

D. CONCEPTUAL FRAMEWORK

a. International Political Economy (IPE)

International Political Economy (IPE) is one of the sub-disciplines within International Relations. Specifically, IPE examines economic issues within the global order, focusing on the interactions, interplay, interrelatedness, and mutual influence between various factors and actors in the political sphere of international relations (Maiwan, 2015).

According to Jones (1993), IPE is simply defined as the global interaction between politics and economics. One party in IPE can determine the framework of economic activities and direct them to serve the interests of dominant groups, where the use of power can determine the nature of an economic system.

On the other hand, the economic process means distributing power and wealth, which requires a restructuring of economic relations. Thus, the dynamics of international relations in the modern world are a function of the reciprocal interaction between economics and politics. Ultimately, EPI can be understood within the dynamic reciprocal interaction of international relations. EPI does not focus on systematic discussions of the economy, but rather looks at factors in economics and politics, markets and states in the international arena (Maiwan, 2015).

According to the book "Introduction to International Relations" by Jackson and Sorensen (2013, p. 96), the EPI perspective in analyzing EPI issues is based on three important issues, namely:

- 1) The issue of economic globalization, in this case, relates to how economic relationships spread and develop between countries.
- 2) The issue of roles, in this case discussing who wins and who loses in the process of economic globalization.
- 3) The issue of interests, in this case how we view the relative importance of politics and economics.

In their analysis to determine broad assumptions and values in the field of EPI itself, Jackson and Sorenson (2013, p. 289) then selected three main EPI theories, namely mercantilism, liberalism, and Marxism. In their development, these theories later evolved into Economic Nationalism, Economic Liberalism, and Economic Structuralism.

A. Economic Nationalism

Based on the mercantilist view, the theory of EPI nationalism economy looks at how a country strives to achieve an international economy based on nationalism. In addition to originating from mercantilism, this theory also shares the same values as international trade. In economic nationalism, the state acts as an actor to achieve economic success.

The mercantilists initially saw how politics took precedence over economics, but this thinking began to shift when economic gains also proved to influence the power of the state. The mobilization of economic power in this case to advance industry could not rely solely on market forces, but required political measures (Jackson &

Sorensen, 2013, pp. 287-288).

Economic nationalism looks at how countries are able to maintain their national values amid the onslaught of globalization. Nationalism itself often conflicts with globalization, but in a globalized world, national identity is often linked to the economy because this sector also influences other sectors, including politics and the military. Therefore, economic nationalism "preserves" national identity in the conduct of the global economy.

B. Economic Liberalism

Economic liberalism in EPI is reviewed from the perspective of liberals. Contrary to mercantilists, liberals believe that the state is not the main actor in the economy, but rather new non-state actors, such as individuals and private companies (Jackson & Sorensen, 2013, pp. 291-292). This group believes that the primary actors in the economy are producers and consumers.

In summary, economic liberals view cooperation as a positive-sum game, in which each country gains benefits, and is carried out to achieve prosperity for all individuals in a fair manner. Liberals believe that the economy can be run outside the boundaries of the state. Although the state is not central to economic liberalism, liberals believe that the state will benefit from free trade.

C. Economic Structuralism

Unlike the two previous views, liberalism and realism,

economic structuralism sees how the global economy works as being determined by class. This view originates from Marxism, which argues that the economy is a place for the exploitation of humans. They do not believe that the economy is a means to achieve welfare or national interests, but rather a means to achieve wealth by exploiting power (Jackson & Sorensen, 2013, pp. 294-295).

Marxists see the economy as merely a tool for the bourgeoisie to increase their wealth and for the proletariat, who have the power to regulate it. Workers with longer working hours will receive lower wages due to capitalization. Ultimately, structuralism is based on how the global economy is influenced by class interests.

In this study, the author will use an approach through the perspectives of economic nationalism and liberalism found in EPI to analyze China's infrastructure investment enhancement strategy in Indonesia. The author's findings will then be processed using a theoretical framework.

b. Foreign Direct Investment (FDI)

Foreign Direct Investment is one type of Foreign Investment, in addition to Undirect Investment (portfolio)/FPI. Unlike Undirect Foreign Investment, FDI allows for greater freedom in cooperation, such as establishing companies in the capital-importing country or cooperating directly by establishing a corporation in the capital-investing country. Through FDI, the capital-investing company can also place fixed assets in

another country through national companies from the capital-investing country, while FPI is a passive investment with high volatility used by foreign investors to diversify risk (Winona et al., 2016).

According to Kurniawati et al (2007), one of the reasons countries engage in FDI is because it can provide efficient benefits through ownership, internalization, and location advantages. These benefits can be achieved in FDI because of the considerable "control" exercised through the concept of the state-ship between importers and investors through branches and parent companies (Pratiwi, 2020).

According to Krugman (1991), FDI is an international flow of capital, whereby companies can establish or expand their businesses in other countries, which then provides easier access through foreign control. Meanwhile, according to Todaro (2000), FDI is the investment of foreign funds used to conduct business activities or provide production tools and facilities, such as purchasing land, building factories, importing machinery (technological innovation), and purchasing raw materials. FDI provides assurance for the continuity of development, accompanied by technology transfer, know-how, management skills, relatively low business risks, and profitability (Rahajeng, 2016).

Due to its long-term nature, FDI is often associated with investments in productive assets (Rahajeng, 2016). This can be understood as the political economy of foreign direct investment, which refers to the influence of political factors, such as government policy, regulations,

diplomatic relations, and geopolitical considerations—on the flow of foreign investment into a country. In the implementation of controlling FDI, Moosa (2002, p. 2) states that the definition of "control" in FDI occurs when investors are able to enter the decision-making realm of the host country and participate in the formulation of economic rules and strategies in accordance with their investment realm.

There are various reasons why a country decides to engage in FDI, whether from the perspective of the investor (source country) or the importer (host country). According to Dunning and Lundan (2008), there are four main types of FDI motivation: market-seeking, resource-seeking, efficiency-seeking, and asset-seeking (Mahardika, 2019). With these various reasons, investors and importers then seek to form partnerships to open up new opportunities to meet the needs of each country. To establish such partnerships, diplomacy is required as a primary tool to achieve national interests.

In a book entitled "New Perspectives on Foreign Direct Investment," Froot (2008, pp. 38-40) argues that the reason source countries engage in FDI is to expand their companies' trade and production facilities in various countries. Ultimately, global economic openness will lead to competition between source countries through their investment companies. As source countries seek to gain benefits, host countries, which are the targets or destinations of investment locations, can capitalize on the momentum by accepting various investment offers. Amidst

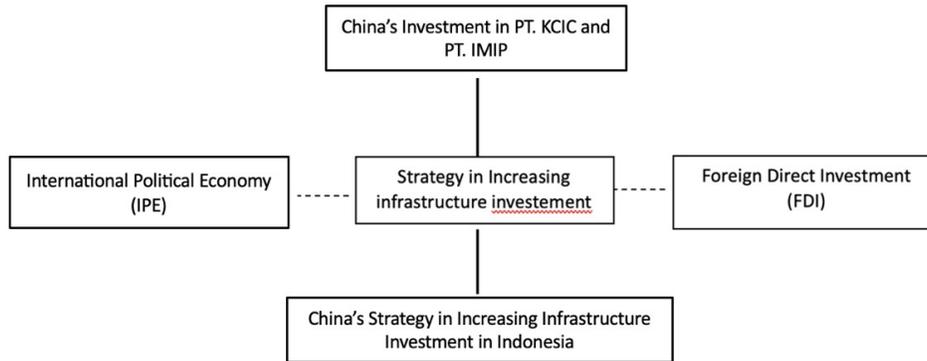
increasing competition, the state as a key player in globalization must be able to position itself and adapt from state retreat to state adaptation (Asri, 2015).

The host country government has the authority to regulate foreign investment flows through various policies. To restrict investment, the government can impose foreign ownership restrictions, impose high tax rates, and implement sanctions against certain investors. Conversely, to attract foreign investors, the government can provide financial incentives, strengthen infrastructure, simplify administrative and regulatory procedures, improve the quality of education, and ensure political, economic, and legal stability (Cangara, 2021).

In the implementation of FDI, one of which is in infrastructure investment development, regulations between the two cooperating countries are harmonized to reach an agreement that fulfills the interests of each country. The involvement of the source country in investment policies often faces challenges related to legal systems (laws), taxation, culture, and language. The source country then seeks ways to reduce these barriers, one of which is by offering tailored incentives to meet the needs of the host country.

c. Operational Table

Table 1. 3 Operational Table



Retrieved by author, 2025

d. Research Arguments

Based on the background, the author has an initial view that China's infrastructure investment strategy is oriented towards economic and political approaches, so there will be several discussions oriented towards the following assumptions:

- a) The Impact of Chinese Investment in Indonesia: Investment in infrastructure is one of the key elements in building a nation. In this context, foreign investment can be seen as an effective means to enhance or strengthen a country's position or influence in another nation that is undergoing development.
- b) Transportation, Energy, and Industrial Infrastructure in Indonesia: Transportation, energy, and industrial infrastructure hold significant appeal, particularly for source countries (investors). Transportation

infrastructure serves as a gateway for source countries to enter Indonesia and enhance their economic influence.

- c) China's Foreign Direct Investment (FDI) Strategy in Indonesia: FDI helps countries build their own economic strength and strengthen their national identity. This study explores how China uses FDI strategies to invest in Indonesia from the EPI perspective.

E. RESEARCH METHODOLOGY

a. Type of Research

This type of research will use a qualitative approach that will focus on describing and analyzing China's role in increasing infrastructure investment in Indonesia. This qualitative approach explains the research assumptions with logical thinking based on the concepts used by the author.

b. Types of Data

The types of data used in this study are primary data and secondary data. Primary data is data obtained directly from the source, meaning that no intermediaries are required. With this data, the author hopes that the research will have various perspectives to develop the research. Secondary data is data obtained from a second party or from data that has been managed. Primary data comes from existing sources, such as literature, whether in books, journals, articles, papers, and other supporting sources that contain information needed by the author.

c. Data Collection Techniques

Primary data collection techniques in this study will be obtained through interviews involving relevant parties in accordance with the proposed title. For secondary data, researchers will use library research or literature study concepts using various literature that will support the preparation of the study.

d. Data Analysis Techniques

Data analysis techniques are qualitative analysis techniques with an inductive approach. With inductive qualitative analysis, the author is able to construct

research using the author's framework and assumptions, which will be supported by concepts and qualitative data. In data analysis, the author attempts to connect various elements of the available data so that they are consistent in the description of the object being studied, data reduction, and the selection of data related to the research title.

F. SYSTEMATICS OF WRITING

The systematic description of the writing in this study is divided into five chapters, namely:

CHAPTER 1 Introduction includes Background, Scope and Formulation of the Problem, Objectives and Benefits of the Study, Conceptual Framework, Research Methodology, and Outline of the Study.

CHAPTER 2 Literature Review on International Political Economy (IPE) and Foreign Direct Investment (FDI)

CHAPTER 3 Overview of Chinese Infrastructure Investment in Indonesia

CHAPTER 4 Analysis and Research Findings In this chapter, the author provides an analysis of the operationalization of the variables outlined in Chapter 1, which will then be applied to the available data to find answers and justifications for the research questions posed.

CHAPTER II

LITERATURE REVIEW

A. International Political Economy (IPE)

The theory of International Political Economy focuses on the discussion of the relationship between politics and economics on a global scale, explaining how a country plays a role in the global economy. According to May (1998), the role of the state is not limited to that of a homogeneous entity, but rather has different capacities and strategies based on historical, political, and economic contexts. In this case, countries need to have adaptive strategies in responding to global changes or challenges.

The three main theories in IPE, namely mercantilism, liberalism, and Marxism, have distinctive perspectives on the role of the state on a global scale. Liberalism in IPE views that markets and price mechanisms in markets have a significant influence on organizing domestic and international economic relations. Thus, the role of the state depends on these two factors. Gilpin (1987) argues that although liberalism emphasizes the role of the market over government intervention, it also recognizes how interdependence in the economy can enhance cooperation between countries through trade and investment (Malawer, 1988). Additionally, Marxism, as a critique of capitalism, views the economy as structured by political systems linked to social relations, leading to exploitation of the working class. Therefore, Marxism opposes global capitalism, as it creates inequality between nations (Gilpin, 1987, pp. 25-41).

Unlike the two previous perspectives, mercantilism emphasizes the role of

the state in economic affairs, asserting that national power is closely related to economic power. Mercantilists view the role of the state as one of the key elements in boosting the economy. Adherents of mercantilism observe how the state actively manages the economy to increase national wealth and power, which is then used to achieve national interests through the economy (Gilpin, 1987, pp. 31-33).

The mercantilist view is reflected in its development in economic nationalism. Economic nationalism itself developed after major economic crises, such as the Great Depression and the financial crisis of 2008. According to Pryke (2012), economic nationalism is often associated with political objectives, as countries seek to assert control over the economy to enhance national sovereignty. Economic nationalism examines the interaction between economic strategies and political motivations in shaping national policies (Pryke, 2012). This can also be understood through how a state formulates its foreign policy. The interests of the state in the mercantilist perspective can be observed in the application of the concept of economic statecraft.

Economic statecraft is one of the concepts in the field of International Political Economy (IPE). Economic Statecraft examines how political and economic s are integrated. This concept refers to the way a country uses economic tools to achieve its foreign policy objectives. Mitchell (2023) explains that economic statecraft is a strategy of using economic incentives by a country to shape decisions in order to advance its geopolitical interests. From an economic nationalism perspective, economic statecraft operations can be seen as a way for

a country to use the economy as a tool of political power, and vice versa, thereby influencing each other.

Countries have several ways of conducting economic statecraft. There are positive approaches, such as awards, incentives, investment, and foreign aid. Negatively, economic statecraft can take the form of threats or sanctions. Realists/mercantilists themselves are quite skeptical that sanctions or economic rewards can force target countries to change their behavior. According to Blanchard and Ripsman (2008), economic statecraft that relies on the exchange of political concessions while considering economic gains or losses will fail unless the economic pressure exerted aligns with political pressure or trivial political demands. This implies that economic sanctions are often ineffective if the demands made threaten the core strategic interests of the target state. In other words, without political or military support, economic measures alone are insufficient to change the behavior of another state. This view aligns with Pape's (1997) finding that economic sanctions rarely achieve significant political objectives.

Economic statecraft, in the realist view, is a complement to power, enabling dominant states to use it to influence opponents or strengthen their position, but calculated in terms of national interests and also relative, taking into account the power of other parties. Additionally, realist/mercantilist perspectives hold that economic policies are useful for fostering national power, such as enhancing economic independence or industrial bases to bolster military strength (Drezner, 2017). Furthermore, economic statecraft can also be employed by

smaller or developing nations to counter larger powers by using economic policies to achieve political objectives or economic independence (Zhao, 2024).

The liberal approach offers a different perspective from realism, particularly by highlighting the role of economic interdependence and international cooperation. Like realists/mercantilists, liberals see that economics and politics are interconnected, but they are more optimistic that economic relations can be a positive-sum game (beneficial to all parties) and a means of reducing conflict. In the concept of economic statecraft, the liberal perspective emphasizes incentives and cooperation, whereby states can offer carrots (economic rewards) or sticks (economic punishments) to encourage desired behavior, assuming that actors act rationally in calculating costs and benefits (Firza, 2020).

According to the liberal view, the effectiveness of economic statecraft is directly proportional to the magnitude of economic influence offered or imposed. For example, liberal democracies impose sanctions on regimes that violate international norms, with the hope of bringing about change (Breslin & Nesadurai, 2023). Additionally, positive economic statecraft in liberal democracies is also seen through development aid and free trade. This more positive form can create win-win solutions, where both parties benefit (e.g., trade agreements). On the other hand, the liberal perspective views collective actions like sanctions as necessary to maintain the international order.

Economic statecraft can be used positively or negatively to achieve national interests. Therefore, the use of economic statecraft to achieve national

interests is related to economic nationalism. In this case, the use of economic statecraft in any way is intended to be a tool used in economic nationalism. Economic improvement and political goals in the concept of economic nationalism using economic statecraft, for example, can be achieved with positive tools such as investment.

In relation to investment, according to Blanchard and Ripsman (2008), the success of economic statecraft itself is seen in terms of developing political factors rather than looking at it solely from an economic perspective. In conducting economic statecraft, there are several important indicators that a state must possess, referred to as 'stateness', namely Autonomy (the state's freedom from societal pressure), Capacity (the state's ability to mobilize resources and implement policies), and Legitimacy (the legitimacy of the state's regime) (Blanchard & Ripsman, 2008).

The use of investment as a tool in economic statecraft opens up opportunities for countries to increase their geopolitical influence, and also has significant implications. Countries can make strategic investments in foreign markets to gain influence and control over important resources or technologies (Breslin & Nesadurai, 2023). Countries such as China then use economic statecraft as a diplomatic measure. This transition highlights how the economy is being utilized as a strategy for geopolitics and national security (Xiaotong & Keith, 2017). The new strategy adopted by China in economic statecraft is related to how Prantyl and Goh (2022) present their thoughts on statecraft as a form of soft diplomacy. In this context, they argue that nations must understand their

position in the global arena and avoid a state-centric approach in conducting statecraft.

IPE explains the global political-economic structure that enables investment, while economic statecraft explains the use of economic influence to achieve foreign policy objectives (investment is used as a political tool). In this study, the author will discuss China's economic statecraft by looking at the trend of increasing Chinese investment in Indonesia through the Belt and Road Initiative (BRI), particularly in the infrastructure sector, using the perspective of international political economy theory, specifically economic statecraft.

B. Foreign Direct Investment (FDI)

The emergence of FDI in today's society is due to the influence of globalization itself. Globalization plays a role in economic openness in the international market by providing bargaining points between actors. Globalization also accelerates economic activity through the reduction of rules in international trade tariffs (Siallagan & Waluyo, 2016).

The involvement of investors as actors in FDI in company operations benefits both parties, whereby investors can continue to pay attention to the dynamics of the company directly and the government at various levels can be assisted by the involvement of foreign parties because currently the government/state cannot act as the engine of growth alone.

FDI is manifested in the global economic system and provides certainty of cooperation through long-term capital investment in another country, providing better guarantees than equity (portfolio) investment because it has less risk of capital outflow due to its short-term nature and policies that can change instantly, which can cause economic vulnerability (Mahadiansar et al., 2021). Due to its long-term nature, FDI is often associated with investments in productive assets (Rahajeng, 2016). In the implementation of controlling FDI, according to Moosa (2002, p. 2), the definition of "control" in FDI occurs when investors are able to enter the decision-making realm and participate in the formulation of economic rules and strategies in accordance with their investment realm.

The phenomenon of FDI today can be seen as a diplomatic tool, especially as a means of economic development. Diplomacy, in its various applications, has

specific goals that need to be achieved and is therefore tailored to the field in which it is used, such as infrastructure development. In relation to FDI, the opening of diplomacy can also be linked to the influence of increased investment in infrastructure, which is further referred to as infrastructure diplomacy. Infrastructure diplomacy is defined as the provision of goods and capital by the investor country (host country) to the importing country (source country). This infrastructure diplomacy is also supported by technology transfer, which provides the latest innovations to the recipient country, ranging from property sales to knowledge transfer. This can enhance human resource capabilities through technological development, thereby supporting local productivity and influencing economic growth (Winona et al., 2016).

In infrastructure financing, legal issues are one of the important considerations for cooperation, including ownership, government projects, dominance, and control/regulatory control. Additionally, social and environmental conditions are also important to consider, particularly whether the infrastructure built will meet the expected needs (Walter & University, 2016a). Therefore, in the infrastructure development process, it is essential to consider whether the existing infrastructure aligns with the economy of the relevant country (Sembanyang, 2011).

In addition to its positive impacts, FDI also has potential negative impacts such as environmental impacts, large numbers of foreign workers, and loss of national sovereignty. Therefore, state policies are needed to regulate the flow of foreign investment from outside the country and to determine how state policies

can influence foreign investment policies. Overall, FDI as a tool for economic growth, both for sending and receiving countries, can be influenced by the relationship between politics and economics.

Political and economic relations in FDI are one of the keys to how money can influence state policy in regulating foreign investment flows. Political stability, for example, is a factor that influences investment decisions. Countries with good political stability can attract investors, while the opposite conditions can hamper the growth of foreign investment. In addition to political stability, other factors that can influence investment growth include the quality of regulations, as countries with clearer policies are more likely to attract investors (Tanaya et al., 2022), as evidenced by the ease of the licensing process (Fatimah et al., 2024).

The source country's strategy in viewing investment opportunities can be seen from the electric paradigm framework, also known as the OLI framework. The OLI framework itself was first introduced by John H. Dunning, explaining the advantages of FDI that can be seen from Ownership (O) related to assets in the form of technology owned by the source country, Location (L) related to the benefits or advantages of the host country's resources or economic market, and Internalization (I) related to the benefits of internal operational control rather than through licensing (Dunning, 1988). In its development, Ren (2024) observed that, in addition to being driven by the three main motivations for FDI based on the OLI framework, institutional factors such as political stability and weak institutions can influence the increase in investment risk. Furthermore, the OLI

framework can also be influenced by government policies such as trade agreements, horizontal and vertical strategies, and global economic changes.

The role of the state in regulating FDI policy can be seen from two approaches, namely protectionism and market liberalization. Instruments of protectionism include tariffs, import quotas, and subsidies. Protectionism itself aims to protect domestic industries and increase state revenue through tariffs. Although it has some positive impacts, such as increased economic independence and higher government revenue, negative effects include rising prices that burden consumers and reduced competition among local industries, which hinders innovation (Mardlatillah et al., 2024).

Unlike protectionism, market policies seek to boost economic growth by removing trade barriers such as tariffs and quotas. With these policies, product efficiency will increase through innovation driven by global competition. This will lead to global market access, which will open up export opportunities for local producers to expand their markets, thereby giving consumers access to cheaper products. However, the negative impact is the weakening of local industries that are not yet ready to compete in the global market (Mardlatillah et al., 2024). A balance between protectionist policies and market liberalization is crucial to protect emerging industrial sectors. Therefore, when regulating FDI, it is essential to consider the efficiency and benefits of FDI for both the host country and the investor.

Because FDI is long-term in nature, the resulting impacts can include economic growth, job creation, and technology transfer. Thus, FDI can be one of

the tools that can stimulate economic growth in Indonesia. However, on the other hand, FDI can also have negative impacts, such as exploited workers, environmental pollution, and even threats to national sovereignty. Government policies are also often the subject of debate regarding how to regulate the effectiveness of FDI to advance the economy itself (Cangara, 2021).

When weighing the pros and cons, investors from the source country are usually more interested in FDI than exporting products or selling licenses to other parties (Cangara, 2021). Companies do this to avoid challenges in cross-border economic activities, such as export tariffs and licensing restrictions that could be detrimental. Meanwhile, for the host country, the advantages of FDI can promote the transfer of resources, expand employment opportunities, and encourage competition, thereby boosting the country's economic growth. However, negative impacts may arise, such as social and environmental impacts, the inability of local companies to compete with multinational companies (MNCs), and even the disruption of national sovereignty (OECD, 2002).

In this study, the author seeks to identify concrete manifestations of economic and political interactions between the two countries from the perspective of economic statecraft, using FDI as a tool to reduce the scope of the researcher's research in the field of infrastructure investment. The concept of FDI supports the author's analysis and is an integral part of the topic of economic statecraft. In this context, the researcher examines the relationship between politics and economics in FDI, where a country's policies influence investment.

C. Previous Research

Previous research is an activity conducted to compare current research with previous studies. The aim is to identify similarities and differences between the results of previous research and current research. This process aims to assess the strengths and weaknesses of the research being conducted.

- 1) Research by Meli Antika et al. (2025) examines China's motivations for implementing the Belt and Road Initiative (BRI) in Indonesia, focusing on four main motivations: reducing dependence on foreign investment, securing energy supplies, enhancing defense stability through maritime infrastructure, and building a global image through economic and cultural partnerships. This study provides insights into China's strategic motivations but does not delve into the specific strategies China has implemented to increase infrastructure investment in Indonesia, such as policies or diplomacy. Further research could address this gap by analyzing China's strategies in greater detail and comparing them with other countries investing in Indonesia's infrastructure sector.
- 2) A book titled "Reflections on a Decade of the Belt and Road Initiative: Opportunities and Challenges for Indonesia-China Cooperation" (2024) provides a comprehensive review of the BRI's progress in Indonesia over the past decade. The book is written by several authors to examine the social, political, and economic dynamics, including both bottom-up and top-down issues. This book is more comprehensive than other studies because it summarizes all the dynamics of the BRI in Indonesia from 2013 to 2023. The

book discusses the opportunities and challenges faced by China in Indonesia in implementing the BRI. Although the discussion is very comprehensive, researchers found that the book does not address China's strategies to increase investment in Indonesia from an economic statecraft perspective, but rather focuses on geopolitical and economic viewpoints. Further research is needed to delve deeper into China's use of economic statecraft.

- 3) Research by Chih-shian Liou (2024) examines the dynamics of China's economic statecraft using a neoclassical realist framework, focusing on how the perceptions of Chinese leaders since the reform era have influenced economic foreign policy choices. Liou highlights that China's strategic transformation, from "Bringing In," "Going Out," to the Belt and Road Initiative (BRI), is not only driven by changes in the international system but also by leaders' subjective assessments of external threats and the capabilities of Chinese state-owned enterprises (SOEs). This study provides insights that the international structure is only one factor, and that leaders' perceptions and domestic reforms of the SOE sector are the main catalysts for the transition to outward economic statecraft. However, Liou does not elaborate specifically on the operational mechanisms and concrete diplomacy implemented by SOEs in various programs, nor how they compare with the strategies of other countries that use similar economic instruments to expand their global influence. Further research could deepen the analysis of SOE operational strategies.

- 4) Previously, there was a study by Liu and Lim (2023) entitled *"When the State Goes Transnational: The Political Economy of China's Engagement with Indonesia"* which examined Chinese state capitalism in the Jakarta-Bandung high-speed rail project, led by Chinese state-owned enterprises (SOEs). This study found that, in addition to economic objectives, the project also strengthens China's geopolitical influence in Indonesia. However, an approach that is too focused on the state leads to inefficiency and dependence on Indonesia's domestic political dynamics. Research gaps that can be explored further include the social and environmental impacts of the project, comparisons with infrastructure investments by other countries, and the role of local governments in project implementation.
- 5) There is a study entitled "China's FDI Project Performance in Indonesia: The Belt & Road Initiative" by Wei et al. (2022), which discusses the performance of Chinese FDI projects in Indonesia in the context of the BRI, showing China's dominance after Singapore in terms of the number of projects, investment value, and employment. While the study extensively discusses project performance, it lacks an in-depth analysis of China's specific strategies to address challenges in the investment process. The journal also highlights the importance of the BRI but does not examine China's strategies, particularly from the perspective of economic statecraft.
- 6) There is a research in from Indonesia by Gerald Theodorus Lumban Toruan (2021) examines the use of the Belt and Road Initiative (BRI) as a tool of Chinese soft power to build hegemony in Southeast Asia, with a focus on

infrastructure investment in Indonesia. The results show that China is strengthening its influence in Indonesia through investment, while still paying attention to Indonesia's national sovereignty. This study does not discuss concrete Chinese strategies to increase infrastructure investment, such as promotion policies or diplomacy. Further research could address this gap by comparing China's strategies with those of other countries in the context of infrastructure investment in Indonesia.

- 7) Research by Geoffrey C. Gunn (2021) examines China's economic statecraft strategy in Indonesia and Timor-Leste, focusing on how China adapts its approach based on the political and social context of each country. In Indonesia, China faces complex domestic political dynamics in investment, while in Timor-Leste, China supports infrastructure development. This study does not discuss China's concrete strategies in increasing infrastructure investment, such as policies or diplomacy, nor does it compare China's investment strategies with those of other countries. Further research could fill this gap by comparing China's strategies with those of other countries in the context of infrastructure investment in Indonesia.