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**The Political Economy of Chinese and  
Japanese Infrastructure Regime:  
A Case Study of Indonesia (Preliminary Analysis)**

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## **THE POLITICAL ECONOMY OF CHINESE AND JAPANESE INFRASTRUCTURE REGIME: A CASE STUDY OF INDONESIA (Preliminary Analysis)**

Abstract:

Ever since the so-called rise of China has started and particularly after Japan has lost a key Indonesian high-speed railway to China, Sino-Japanese relations have been increasingly posited on a geo-economic rivalry between both states. As a result, perspective on Chinese and Japanese infrastructure investment tends to place the state at the center of explanations and be guided more by what infrastructure projects are imagined to leverage, than what Southeast Asian countries have influenced. Taking issues from existing studies which have overly coalesced the discussion around geopolitical standpoint and norm-based approach, this study brings fresh framings of the political economy of Chinese and Japanese infrastructure regime in Southeast Asia. By using the case study of Indonesia, this study compares the pattern of agenda setting and political settlement that China and Japan have pursued to accommodate state transformation pertaining to the infrastructure development in Indonesia. It also unfolds the 'localized' process of infrastructure regime that has implicated different levels of playing field which Japan and China have encountered in the country. The study puts forward the challenges and prospects for policy engagement by analyzing initiatives, such as Japan's ODA-based projects, Indonesian government's master plan MP3EI, China's Belt and Road Initiative (BRI), Japan's Partnership Quality Initiative (PQI), and Indonesia's proposed PPP (Public Private Partnership) scheme. Offering a unique perspective on the linkage of power configuration and infrastructure regime, this study finds that Chinese infrastructure regime reflects a continuous trial and error in linking capital accumulation with infrastructure agenda due to an uneven expansion of sub-national entities and companies to the infrastructure market. This has led to "de-institutionalization" of policy formulation and implementation in order to accommodate fragmented interests in Indonesia. Whereas, Japanese infrastructure regime demonstrates how infrastructure projects have been historically narrated and intertwined with the rationalization of economy as well as adjusted with the political constellation and economic structure in Indonesia. Such adjustment resulted political settlement that invariably upgraded informalization into "institutionalization" so as to narrow coalitional interests and maintain centralization of authority in a well-coordinated manner.

## 1. Introduction

### 1.1 Filling the gap

Arvind Subramanian, in *Eclipse: Living in the Shadow of China's Economic Dominance* (2011), once predicted that China is going to be a 'peculiar kind of superpower', one whose attraction is more materialistic than heartfelt, "It won't have the soft power the United State has – people wanting to come, people wanting to live, people wanting to emulate it...That soft power is lacking, but that will not impede China" (p.211). Indeed, over the past decade, Southeast Asian countries, that are "geographically close but psychologically distant" have been nevertheless increasingly swayed by China's peculiar soft power (Lam, 2015, p.100) Albeit suspiciously welcomed, China's infrastructure modalities, either in the form of concessional loan or investment, has made tremendous inroads in financing large-scale infrastructure projects. More tellingly, while still a confusing concept to some in OECD countries, Xi Jinping's Belt and Road Initiative (BRI) has seamlessly pave way for China-led infrastructure package.

Especially significant is, the great wall of money has not only fueled an unprecedented need for the infrastructure development, but has also subsequently reshaped the geopolitical realities in which Japan has been greatly challenged (Copper, 2016; Dreyer, 2006; Shimomura & Ohashi, 2013). In 2015, a shocking event of when Japan lost out to China on a five billion dollar deal of the Jakarta-Bandung High Speed Railway (HSR) has further underscored China's rapidly growing importance as a global player in infrastructure development and financial diplomacy. Soon, Tokyo announced the Partnership for Quality Infrastructure (PQI), readily dispensing US\$ 110 billion funding package as counter-actions to retain its influence in infrastructure-financing in the region (Japanese METI, 2016, May 23) Diffusing specific ideals for the importance of 'quality over quantity', Japan is seemingly confident of its posturing so as to strike a point of difference with China's risky infrastructure projects.

Both scholars and pundits since then have been intrigued by this kind of regional

dynamic and have devoted a good deal of attention of it. Much ink has been spilled on two prongs. **First**, on the definitional side, this camp attempts to underpin the difference between China, an emerging partner (non-DAC member) and Japan as a long-standing development partner (DAC member) in the aspect of infrastructure financing, specifically pertaining to rules, norms, and governance. In light of OECD-defined ‘best practice’, China has been criticized on many fronts while in contrast, Japan’s approach has been largely legitimated. Some critics argue that China’s different principles and development philosophy than DAC’s, has hindered existing rules, undermined governance standard, and had negative local economic and political consequences, such as ‘debt trap’, environmental degradation, imported Chinese labor, and natural resources exploitation in an ‘unequal infrastructure for resources’ scheme (Green, 2019; Hodge, 2018). Furthermore, its weakly regulated overseas investment and emphasis on non-intervention often resulted simply irresponsible buck-passing in poorly-governed developing countries. While remain intact in pioneering DAC norms-based arguments, some scholars throw lights on the issue in a different way. Kratz & Pavličević (2018) argue that both Japan and China have altered their approaches to overseas infrastructure development projects due to the stronger bargaining power of host country. This is also related with what Yoon (2018) argues about ‘host country’s outside options’. Outside option is defined as a best alternative for a party during negotiations, should that party withdraw unilaterally from those negotiations. In this sense, insofar as players can use outside options to gain leverage by threatening to walk away (Binmore, Avner, & Sutton, 1989), both China and Japan are prompted to improve their aid or investment approach so as to be the most credible option. For example, in what Kratz & Pavličević (2018) coin as ‘Japan leveling down’, the Japanese government loosen its strict policies by exempting a government guarantee in providing yen loans to sub-sovereign entities of developing countries with several conditions after the failure in the Indonesian project in 2015. On the other side, the ‘leveling up’ China began to reassess its performance by putting more emphasis on safety, environmental protection, and local benefits.

Second camp dominated by international relations scholars is largely guided by geostrategic approach. The BRI is viewed, in the account of realism, as a mix of



geopolitics and geo-economics objectives in which China marshals its economic power for strategic objective and weave neighboring countries' security and economic needs into a Sino-centric network (Beeson, 2018; Vien, Yan, & Blackburn, 2015). As Harris & Blackwill (2016) put it, "The use of economic instruments to promote and defend national interests and to produce beneficial geopolitical results and the effects of other nations' economic actions on a country's geopolitical goals." Norris' proposed economic statecraft concept (2016) offers the representative assessment. BRI regarded as economic statecraft provides more room for Beijing to deliberately manipulate international economic activities to capitalize on, reinforce, or reduce the associated strategic externalities. Two factors in particular speak to the geopolitical logic of the BRI. First, BRI routes conspicuously bypass the maritime checkpoints along with China-led projects like China-Pakistan Economic Corridor, Kunming-Singapore Railway, and East-West Corridor that being a case in point. Given China's enormous financial power and infrastructure construction capabilities meet the growing needs of regional countries for infrastructure development, China may increasingly bolster its political clout (David Arase, 2015; Johnson, 2016; Suehiro, 2017). Second, while Western and Japanese investors are largely private, China's largest companies are SOEs that often involved in controversial and highly risky projects. This background often leads to the assumption that China's economic logic is subordinate to its strategic interest, as Ren, Liang, and Zheng (2010) depict, "How their state cultivates an ideology of 'national pride' in SOEs, making them usually unintentionally indulge national missions in conducting overseas strategies."

Likewise, Japan's PQI is characterized by Tokyo's strategic orientation to win over Southeast Asian countries in exchange for enhancing their security and strategic cooperation with Japan. The ambition was seen in Japan's new aid strategy announced in 2018 in which Prime Minister Abe incorporated Japan's 'high-quality' infrastructure aid into the 'Free and Open Indo-Pacific Strategy' which was announced in 2016. Infrastructure aid is used as a tool to cultivate partnership with recipients, who share with Japan "a grievance" towards the 'China's threat', particularly over lingering maritime and territorial issues (Jain, 2016; Jain & Horimoto, 2016). Additionally, this camp posits that the use of aid is to eclipse Beijing over its long-term infrastructure

plan and strategic influence. Acknowledging Cambodia's contentious position in maintaining ASEAN unity on the South China Sea issue, Abe Shinzo has repeatedly tried to change Cambodia's position through infrastructure support commitment (Yoshimatsu, 2017). When Then Sein government decided to reduce Myanmar's overdependence on China, Abe government quickly provided the country with yen loans for various infrastructure projects, including roads, power plants, ports, and special economic zone (Kraisoraphong, 2017).

This camp also attempts to find the linkage between geopolitical interests and economic interests. In the case of Japan, many view that the connectivity idea and the high-quality infrastructure are aimed to maintain its dominant regional position in infrastructure development and are largely driven by imperative to return to the old path of exporting industrial products and physical infrastructure as part of its effort to revive the stagnant economy (Yang, 2017; Yoshimatsu, 2018). In a similar vein, the nature of mercantilist has also been apparent in China's infrastructure modalities. BRI and concessional loans are often portrayed as Beijing's predatory attempt to kill two birds with one stone – addressing overcapacity at home and advancing its diplomatic clout (Huong, 2018; Johnston & Rudyak, 2017). Like the mercantilism of yore, Chinese infrastructure loan is aimed at and results in the accumulation of foreign exchanges reserves, which at once, converting its industrial overcapacity into a huge trade surplus (Wang, 2017) . It is possible because of the omnipresence of “Chinese bundled of aid, trade, and investment” (Weissenbach, 2011, p.253) in which host countries are required to spend loans by buying infrastructure material from Chinese market and subsequently open up a new channel for transferring resources of both aid and trade. In short, infrastructure associated with both PQI and BRI, has both ‘business ends’ on one side and ‘power play end’ on the other side. It is appropriated to achieve either or both of these aims.

These studies have certainly enriched our knowledge of Chinese and Japanese backed infrastructure development in the region. However, and without wishing to downplay the contribution of these works – should we be surprised by these conclusions? Problematic is, the dominant literature fails to grasp the overall picture of political spectrum of infrastructure modalities led by China and Japan, as the apparent

interpretation, ruefully, is that Southeast Asian voices are muted. In fact, Southeast Asian' path to infrastructure development is not necessarily a blank canvas on which Japan or China can easily and unilaterally push forward their money so as to gain influence and dictate the regional agenda. Infrastructure development in Southeast Asia has been invariably entangled in a politically-difficult situation. Infrastructure, be it loan project or investment project, is central to a multi-dimensional process whereby multiple forms of power interact and reshape the policy, if not unintended outcomes. It thus gives leeway for such process of contestation, negotiation, and compromises within 'multiple rule of game' in multiple site of institution and actors (see Jayasuriya, 2015; Tubilewicz & Jayasuriya, 2015). For instance in Myanmar, why Japan's apparently stricter-aid conditions have superseded China's less prescriptive approach and why have been many large-scale projects such as Mytson Dam postponed? (see Kirchherr, J. Charles, & Walton, 2017; Lamb & Dao, 2017; Sein, Li, & Zhu, 2016; Summers & Summers, 2016). Similarly, in Vietnam, in the face of escalating tensions over defense issue, Vietnamese government nevertheless inked agreement with Chinese contractors that accounted for up to 90 per cent of EPC (Engineering, Procurement, and Construction) contracts for energy infrastructure as of 2012 (see Le, 2017). Indonesia also provides a good case in point to illustrate the overwhelming contradictory outcomes. Although Japan had committed to feasibility studies for the project from 2009, the Indonesian government tuned down a Japanese bid in favor of China - regardless last-minute efforts by Abe and his delegation to provide a better offer than China (see Harding, Chilkoti, & Mitchell, 2015; Yoshimatsu, 2017, 2018). Clearly, the surprising event reminds us of other unexplored aspect of infrastructure development. The main point is that, what concerned Japan the most is not Beijing's rising influence across the country *per se*. Rather, it is how Chinese entry to the 'infrastructure market' has been coalesced into an increasing variety of new political actors and policy entrepreneurs in the recipient state. For example, the state transformation in Indonesia rendered infrastructure policy and decision making a complex process played out among multiple actors of different kinds; something that Japan never encountered before the democratization and decentralization. Both of policy-making and the implementation are contingent upon structural features and

operational mechanism of political system where infrastructure modalities are played out. Certainly, the existing literatures fail to capture such crucial political nature of infrastructure modalities.

## 1.2 Addressing Infrastructure Regime

Against the background, this paper aims to challenge such intellectual boundaries and brought fresh framings of how have Chinese and Japanese playing field in the infrastructure domain been reshaped and played out. Such dynamics can be captured in the political economy of Chinese and Japanese infrastructure regime. As this study puts emphasis on the interstate and intrastate relations, in particular bringing host countries into the frame, the concept of infrastructure regime is presented in a multilevel perspective, that reflects political choices and institutional arrangements that structure multiple forms of power and the organization of a system of provision including resource distribution, social practices, and technologies. The key aspect of the infrastructure regime is the progressive alignment of the daily tasks of many actors; its relative stability on socio-political configurations and economic trends; and how it integrates incremental change around infrastructure development due to state transformation. China and Japan do not race from the same starting line nor run under similar political structures. Both stepped into such geographically uneven and contradictory set of historically process of regional development in a different phase of time. However, similar point they share is that their infrastructure regimes have invariably been accompanied by a complex dialectical process that is shaped by interactions among different levels of groups and interests at the regional and national level (see Hameiri & Jones, 2018; Jayasuriya, 2015). Infrastructures rendered by China and Japan as hallmark of bilateral cooperation, have a dual character. On the one hand, they are truly a vital part of every projects contributing for economic growth and development. On the other hand, they are localized and continuously fixed as an “expression of the politics of everyday experience” and infused with a complex set of

political relationship (see Elias & Rethel, 2016).

Thus, research questions raised in the study are: (1) What are the pattern of agenda setting and political settlement that Chinese and Japanese pursued to accommodate such complex power relations pertaining to infrastructure development in Southeast Asia? (2) How have different levels of playing field affected Japan and China's approach in the face of infrastructure development 'localization'? Arguments developed in this study are not constrained by the imposition of a rigid framework, as the purpose of this article is to open a fresh research agenda and seeks to achieve two objectives. First, it is to provide a contextual overview of the way in which China's and Japan's encounter with either internal political process or host countries' political transformation affected the infrastructure modalities and policy. Second, it does not entirely deny the existence of strategic interests and geopolitical competition, but to offer a more realistic picture, of constraints on the policy options of national states, to domestic institutions, state capacities and objectives, and to ultimately come to a clearer understanding of the conditions under which Chinese and Japanese infrastructure regime can be played out by various scale of interests and power.

The author acknowledges that national differences and diversity in Southeast Asia. But given the size, strategic importance, and diversity within Indonesia itself, regional perspectives are more likely to be mirrored. The present study offers numerous within- and cross-case opportunities both to assess our expectations in the context of mixed or uneven performances and to avoid the small N-problem common in studies of single cases. Only focusing on specific country, can we really delve into the real dynamics of political and economic forces involved in the 'localization'. In so doing, it draws on official data, secondary literature in recent years, interviews across Japan, China, and Indonesia. One caveat: data from Chinese ministry (i.e. Ministry of Commerce 'MOFCOM', Ministry of Foreign Affairs, 'MOFA') and Japanese officials (i.e. Ministry of Economy, Trade, and Industry, 'METI'; Japan International Cooperation Agencies, 'JICA'; Overseas Economic Cooperation Fund, 'OECF', the Japan Bank of International Cooperation, 'JBIC' ) are not cited in equal proportions. This is not an intentional manipulation by the author, but simply a reflection of the fact that Japan has more frequently published Official Development Assistance (ODA) and

investment-related documents.

## 2. Alignment of Interests: Informalization and Institutionalization

Despite four years have passed since Japan lost to China over the controversial Jakarta-Bandung High Speed Railway project, discussions regarding Sino-Japanese relations in the region remain centered on the distinct notion of power and rivalry. Many studies have been published in recent years tend to focus on how Japan counteracts Beijing's hallmark project by promoting 'quality' infrastructure projects (i.e Dadabaev, 2018; Mattlin & Gaens, 2018; Zhao, 2019). However, very few studies, if any, have attempted to compare Chinese and Japanese 'daily interactions' and encounters with host countries' various groups and interests. Often, studies that intended to compare China's and Japan's engagement with Indonesia, particularly in the infrastructure development, have been overshadowed by the analysis of Indonesian independent foreign policy and its pragmatism in "cherry-picking" between China and Japan (i.e Fitriani, 2018; Pattiradjawane, 2016). Those few studies that intend to pay attention to power relations involving China and Japan in domestic levels fail to delve into Indonesian case further due to overwhelming perception that the basis of comparison is almost non-existent. Nevertheless, the fact that two countries tapped into Indonesia under different set of historically process and of political spectrum should not constrain scholars to make an empirically-grounded comparison of Indonesian interactions with the most important countries in the region: China and Japan.

As mentioned in the introduction section, China and Japan stepped into Indonesia under a different set of historically process of regional development and of political constellation. This has dynamized Chinese and Japanese infrastructure regime in Indonesia to reach an outcome that reflects contradictory process, if not unconscious, of conflicts, negotiations, and compromises between diverse groups. Infrastructure regime entails a playing field, rife with adaptation, learning process, and negotiation. Large-scale infrastructure projects and policy associated with the regime cannot be readily understood in a purely physical or material fashion. Instead, they imply an output of political contestation, coalitions, and new alliances in the trajectory of economic development. The state has been basically divided across bureaucratic, capital

forces, different levels of government, where infrastructure can be on the one hand lucrative industry for them to expand capital, uphold incentive, or maintain rent-seeking (Hutchison et.al , 2014). It can liberate the private interests from a range of collective social demands or even giving leeway for expanding capital should they are useful in securing particular national economic or political objectives (Robison, 2009, p.16). Nor is it any exaggeration to say that vast and growing army of consultants have also been the beneficiaries of trends to outsource policy and technical fixes to complex regional infrastructure roadmap. Neither it is wrong to say that infrastructure has been such an open-ended terms in which real implementation reveals new mechanism of resource distribution, including nationalistic policy, and to some extent create new production activity as well as deepening capital network (Hout & Robison, 2009). Clearly, Indonesia epitomizes such dynamics. The level of Indonesia's connection with and penetration by China and Japan pose nuances and features of projects these states plan and negotiate that would be elaborated and compared in the following section.

## 2.1 Japan: From 'informalization' to 're-institutionalization'

Japan has played a leading role in Indonesian infrastructure development that can be traced to its ODA contribution on 20 percent of the toll road construction around greater Jakarta, port development, the development of five airports, including Bali, Surabaya, Jakarta, Palembang, and Kertajati International Airport, as well as Jakarta's long-awaited first subway (MRT). It has also secured full-scale technology transfer mechanism, knowledge on the water resource management through mega-power plants, three large-scale multipurpose dams (known as Karangates, Kali Konto, and Riam Kanan), and Brantas River Basin Development Project (JICA, 2018a). However, stressing such long-term structural dimension and Japanese embeddedness in Indonesia's developmental trajectory, Japanese infrastructure regime has never been one-dimensional result of clearly bounded, intended, top-down practices. State transformation in Indonesia has invariably influenced power constellations by consciously or unconsciously providing power resources to certain group in society, while closing economic and political opportunities for others.

During the New Order era, the idea of infrastructure was subsumed under a vision of development that became known as the ‘Development Trilogy’, consisting of Stability, Growth, and Equity. In a nutshell, Japanese economic cooperation (*keizaikyoryoku*) with Indonesia was promoted in line with the national policy emphasized by Indonesian government. Infrastructure projects were identified and policy was formulated in accordance with Indonesia’s five-year development plan (*Rencana Pembangunan Lima Tahun / Repelita*) (JICA, 2010a; Shiraishi, 1997). For major recipients of yen loans, including Indonesia, OECF and JICA had always carried out studies of macroeconomic conditions and of various sectors of Indonesia based on the *Repelita*. The information was used to analyze development issues and identify the priority of projects through policy dialogue.

Although it looked simple, the *Repelita* contained powerful idea, which more than anything else, implied the New Order’s pragmatic and ideological standard against which all economic policies could be measured. Indonesian state institutions tended to adopt a *Repelita*-based infrastructure development, but actually keep functioning according to different forms of social logics. Key elites, social forces, institution, and conditions mixed in different ways that accounted for the great disparity in state practices. The intermingling of Japan’s politics and such power constellations has led to the process of engagement of different sets of actors while Soeharto remained the sole locus of political power. Both informalization and institutionalization of competing interests coexisted and accordingly added nuances to the Japan-led infrastructure regime.

The infrastructure regime stemmed not from a mere adjustment to the *Repelita*, but also from the political settlement reached among important camps in Indonesia. **First**, technocrats group. This group was in charge of development, thrived in the state of political demobilization, whose expertise had a significant impact on broad economic policies, above all monetary policies and major allocation of resources. During the early phase of *Repelita*, technocrats like Ali Wardhana, Radius Prawiro, Widjojo Nitisastro, Emil Salim, and other ministerial technocrats able to proceed with their reforms – such as trade, privatization, investment, and importantly to pledge support for the National Development Planning Agency (Bappenas). The principal power that Bappenas had,



unlike planning units in other countries, was the budgetary allocation power, while the Ministry of Finance (MoF) was responsible for the allocation of routine expenditure (Amir, 2012; Prawiro, 1998). This kind of configuration thus had a great impact on its effectiveness in national planning and development project coordination as well as implementation. With this authority in hand, Bappenas had been able to exercise a stronger power in coordinating the ministries (considering the chairman of Bappenas also doubled as the Coordinating Minister of Economic Affairs) and other institutions to formulate project proposals and activities in accordance with the national plan. One of institutionalized forms of such project proposal is “master plan” – that has been a key pillar of Japanese infrastructure regime in Indonesia. The master plan approach has been adopted in sectoral projects under the Indonesia-Japan cooperation. Many cooperation projects were identified not based on individual project planning, but on the master plan from the viewpoint of long-term perspective and inter-sectoral coordination (JICA, 2010a). Master plan was communicated at different levels, but most conventionally through the channels of line ministries, mainly Bappenas. In the initial stage, cooperation to Bappenas started when Dr. Saburo Okita was assigned as an advisor to Bappenas in preparing five-year development plans at the national level. A stress was laid on how to work out frameworks for development plan and further generated numerous master plans for specific projects (Ichimura, 2015).

However, practices that circumvent technocratic, top-down reform have always played a significant role in implementation processes of large-scale, planned projects. Underlying informal practices counter-balance the shortcomings of the technocratically-abstract formal system. The more schematic and simplified the formal order, the more failure-prone it is and the more it is in need of informal ‘rescue measures’ in order to function at all, just as addressed by Scott (1998:51), non-conformist practices thus may evolved as indispensable functional conditions for the formal system. Indeed, early years of Bappenas reflected the ‘informalization’ of power relations. The Bappenas was originally founded by Soekarno in 1952 under the name of the National Development Council (*Dewan Perancang Nasional ‘Depernas’*) The immediate task was to formulate Indonesia’s first five-year plan, namely the development plan for 1956-1960 (Pauker, 1962). However, it did not function well due to lack of expertise in development

planning and project implementation. Under Soeharto, Bappenas had the task to design and implement the five-year development plans as well as to draft annual program. In many cases, *puro-fai* (project-finding) mission played a significant role in shaping Bappenas' function. Japanese private sectors even drafted the project proposals on behalf of the local government agencies to apply for ODA. Efforts undertaken to initiate a project, pushing the project for selection, establishing connections with influential bureaucrats and politicians, and other investment in social functions were then connected to *dango* practices (taking turns winning the project). It became a race to get the credits and investment among various Japanese consultants, trading firms (*sogo susha*) and contractors (Söderberg, 1996, 2001). Pacific Consultant International and Nippon Koei are examples of Japanese engineering consulting firms who have been receiving consultant contracts in Indonesia continuously to date. These Japanese consultant firms also maintain their joint venture offices in Indonesia (JICA, 2005).

These informal measures somewhat provided necessary conditions for further institutionalization of power relations and enabling transfer of knowledge. Brantas River project exemplified methodological ability to capture the shift in power reflections and resources allocation. During the early decade of development (1960-1970), the project provided an 'outward' monopoly to Japanese state and non-state actors, including, Nippon Koei, Japanese consultant company. However, this company was also supported by two main subnational Indonesian agencies: Indonesian Ministry of Public Works and Indonesia State Electricity Company (PLN). Over 40 years, this project has developed an informal network dominated by private and state interests. The project originally generated resistance from local groups, due to unequal distribution of power and resource allocation. The resulting Brantas River Basin Development Executing Office (Brantas Office), is an example of a new mode of water resources governance, not only in the Brantas basin, but also in Indonesia, known as the "one river one plan one management" (see Fujimoto, 2013) The new mode of water governance promoted integrated development of infrastructure and management of water resources and simultaneously illustrated shifts in authority and attempts to institutionalize competing interests. Stipulated in the Indonesia's second long term 25-year development plan (1994-2019), authority and responsibility for water allocation

and irrigation management was to be transferred gradually to the district and provincial levels, while national government remain the key authority in water resource related functions, particularly in macro and program planning and budgeting with JICA (Bhat, Ramu, & Kemper, 2005). These kinds of 'formal' institutional fixes pursued through Japanese infrastructural aid are still limited in China-led projects where rule and practice are more *ad hoc* and somewhat generates conflicting agenda.

Second key camp is military network and powerful elites. Indonesia's political economy under technocrats might have helped the country to formulate development plan and get loan assistance, yet it is somewhat less grounded to treat all ODA projects as an apolitical expression of rational choices, technocratic options, and market process. In particular cases, they had relatively little influence on or control over the political and bureaucratic processes that enabled the implementation of contracts, licenses, and other micro-economic details. As coined by Moertopo, (1973:40), "technocrats have been used as a political means to legitimize the bypassing of representative and competitive politics in the name of preventing market distortions against the demands of vested interest." Sometimes, political camouflage and the omnipresence of "technocrats in shadow" during the project formulation were unavoidable. Some projects realized were rooted from the informal negotiation that quite aloof from the technocrats' presence. In turn, some powerful generals worth their salt had leverage over large-scale infrastructure projects. Of the many groups within the strongest elite in Indonesia, the "Soeharto group" appeared to be most powerful, whose members occupied all the key positions in the country and greatly involved in the patronage-ridden network. Roughly, they were divided into the "finance generals", "the money spinner", the "political generals" who worked closely each other (see Borsuk & Chng, 2014; Schwarz, 2000; Vatikiotis, 1993). The most powerful "finance generals" were Alamsjah Ratu Prawiranegara, Sudjono Humardani, Suryo Wiryohadiputro, and Sofjar. Ibnu Sutowo was often tagged as money spinner, because of his remarkable contributions to the government's coffers (at least before the state oil company, Pertamina, reached the nadir under his management) (Robison, 1986). Meanwhile, the most powerful of the political generals were Ali Murtopo and Benny Moerdani. Vital to the early period of the New Order and how the patronage worked were these generals (Borsuk & Chng, 2014)

One of large-scale projects emanated from the alignment of interests with this group is the controversial Asahan project in which Japanese government prepared “a package deal” for Japanese company. Under a Master Agreement for Asahan Hydroelectric and Aluminium Project, Japanese government reportedly prepared grant and loan for 12 Japanese investors for equity participation totalling 411 billion Yen. Such large-scale project was facilitated by the influential “Indonesia lobby in Japan” including Nakajima Shinzaburo (businessmen), Kimura Takeo (a conservative politician and head of Cabinet Secretariat), and Fukuda Takeo (Ministry of Finance) who closely connected with Soedjono Humardani. He is known as the spiritual guru of Soeharto as well as “military entrepreneur”, his position as a presidential adviser, without a formal ministerial role, placed him in an advantageous location from which to become involved not only in domestic affairs, but in international ones as well, in bids to achieve economic stabilization and development. This indirectly claimed by Soedjono, “the idea to establish an alternate channel for oil exports to Japan, was raised around the end of 1971, when I went to Tokyo and talked with Fukuda, as well as Tanaka” (as cited in Malley, 1989, p.57). Loan pledged after *ad-hoc* consultation between the government of Japan and Indonesia, has been provided for relatively large projects, including energy infrastructure (OECD, 1992, p. 140). Relatedly, during four years from 1973 to 1976, Japan offered 110 billion yen loan in total to Indonesia Pertamina that was headed by Ibnu Sutowo for developing and/or rehabilitating 40 oil and gas projects (CIA, 1984; Nishihara, 1976; Shiraishi, 1997).

Accordingly, the third camp is well-connected ethnic Chinese conglomerates. Powerful business conglomerates, in particular ethnic Chinese, partnering with Japanese trading companies, often took part in wielding its economic power to get the government to push for specific loan requests (Doner, 1997; Peter J Katzenstein & Rouse, 1993). Well-connected Chinese conglomerates represented business groups such as Astra, Panin, Sofyan Wanandi, Nyo Han Siang (Bankers Club Indonesia), Prayogo Pangestu, Arief Husni, Salim and Bob Hassan. Japan OECD played a critical role in the forestry project and associated infrastructure such as electricity and transport facilities that were connected with ethnic Chinese big business. While loan information remained confidential, more than 70 percent of OECD general forestry project loans went to

Indonesia and trading companies likely received OECF loans during the period of 1963 to 1981 (Dauvergne, 1997). In addition, although business alliance intertwining ethnic Chinese business and Japanese multinationals had no direct influence in formulating a broader infrastructure cooperation master plan, very often industrial projects these alliances set up continuously reshaped the content of infrastructure roadmap. For example, the yen loan has been directed for economic infrastructure in areas where Japanese investment reached economic viability. The alliance became the enabling factor to link the infrastructure development with the aid trinity (*sanmiitai*) that would be explain in more detail in the following section.

Next camp consisted of nationalist and social-oriented economics, engineering-trained bureaucrats, and *pribumi* businessmen. The surge in oil prices from 1973 saw the replacement of market forms of regulation with the code of conduct at Soeharto's personal discretion. It catapulted a core group of Chinese and some generals to wealth and prominence as the collusion produced important joint ventures between the Chinese and both Japanese and American multinationals (Robison, 1986). Undeniably, the imposition of the compulsory use of local partners for foreign investors, control by the state of all contracts for infrastructure projects, lucrative initiatives in oil and mineral extraction and the state's control over credit, benefited the large Chinese corporations, who faced no competition from foreign or *pribumi* capital (Chua, 2008). Speaking in a similar vein several months later, Mohammad Sadli (1974:18), the first Chairman of BKPM stated:

“In the mind of the political public in Jakarta, the honeymoon with foreign investment and foreign aid is apparently over. The economic progress of the last five years has produced the not so palatable social by-product of conspicuous consumption, a widening gap between the rich and poor, charges of corruption, etc. Since foreign aid and foreign investment have been important elements in the policies of the government, these are now blamed for accentuating the distortions. The criticism is unfair but the mood is there....and the mood in Jakarta is also present in other capital cities in Asia.”

(as cited in Prawiro, 1998, p.160)

Following the Malari affairs<sup>1</sup>, what have been proven is that the emergence of this group – nationalist economics, *pribumi* businessmen, and engineering-trained bureaucrats – as the dominant force that began to reshape government investment policies that were used to take side on ethnic Chinese. Oil wealth and the increasing influence of the economic nationalist paved the way for more affirmative action in the early 1980s. Accordingly, several presidential decrees – the Kepres 14 in 1979 which was amended and reissued as the Kepres 14A and Kepres 10 in 1980 – gave the ‘weak economic group’, a code phrase for indigenous businessmen, a set of priority in obtaining certain government contracts (Schwarz, 2000). Consequently, the Kepres 10 in 1980 paved the way further for the group to have more bargaining powers. For big government projects reiterated in the regulation, a new team was set up to decide on project allocations. Team 10, as it would be known, was headed by Sudharmono, the powerful state secretary, and from 1983, chairman of the ruling party Golkar. In 1983, Sudharmono’s protégé Ginanjar Kartasasmita was appointed as the Vice Chairman of Team 10 (Chua, 2008; Winters, 1996). The recipient of Team 10’s beneficence had salient characteristics, among others, they were selected for their political and personal proximity to powerful officials in the presidential palace, Sudharmono and Ginanjar, the office of state secretary (*Setneg*) as well as for their instrumental value, such as securing support in geographical areas or among social groups where the Soeharto regime felt insecure – in which the larger *pribumis* became active (Schwarz, 2000). Among others, the prominent *pribumi* businessmen comprised Aburizal Bakrie, Fadel Muhammad, Iman Taufik, Jusuf and Ahmad Kalla, Fahmi Idris, Suryo Palo, Bambang Rachmadi, Agus Kartasasmita, Abdul Latief, Hashim Djojohadikusumo, and Subagio Wiryatmodjo. Two important political vehicles for them to get the government-related contracts were the Association of Young Indonesian Businessmen (HIPMI) and the

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<sup>1</sup> While the New Order government has put more weight on Japan in aims to facilitate the government’s stability and development-oriented domestic policy, in mid-January 1972, both government were tremendously shaken by the urban violence, as the so-called Malari affairs, that broke out in Jakarta during Japanese Prime Minister Tanaka Kakuei’s visit. Much of the public protest had based on anti-Japanese sentiment as the Japanese economic expansion have come to symbolize a whole variety of economic grievances, of particular notes when Japanese have partnered with ethnic Chinese businessmen at the expense of local indigenous Indonesian businessmen.

Indonesian Chamber of Commerce and Industry (KADIN) that were closely allied with the economic nationalist camp. They had ensconced in a cocoon of their main cabinet patron, Ginanjar Kartasasmita, who had assumed the portfolio of Minister of Mines and Energy in March 1988 (Rosser, 2002).

Ginanjar Kartasasmita a nationalist figure who gave the strong advocate of indigenous business and a long-time protégé of Soeharto, was educated in Japan and regarded as the bridge (*kakehashi*) between Indonesia and Japan (Kartasasmita, 2013, p.466). In 1993, the triumph of the engineers over the first camp, technocrats, culminated when Soeharto set up a new Cabinet. A number of ministerial position used to be filled by Widjojo's porteges, were transferred to other groups, most notably the nationalist-engineers. The hardest hit for the technocrats was they had lost positions in Bappenas, a strategic post exclusively retained by the economists for years (Amir, 2012). This position was occupied by Ginandjar whose previous positions were Chairman of Investment Coordinating Body (BKPM) and the Minister of Mines and Energy. Ginandjar was somewhat receptive to the trickle-down mechanism that in the economists' perspective would presumably distribute wealth evenly in Indonesian society. He envisioned cooperation between private sector and government for infrastructure projects and put in a lot of efforts on the development of coal-power generating plants in which Japanese private sectors were involved, such as Paiton in East Java that is often referred to as the first and largest of private projects; Tanjung Jati in Central Java; and Cilegon in West Java (Wells & Ahmed, 2006). Ginandjar also initiated the development of large-scale geothermal power plants that unfortunately many were delayed by the 1998 crisis. Business representatives and policy makers I have spoken to in Japan and Indonesia, reminisced how Ginandjar acted as a 'balancer' between the very rational technocrats and irrational military figures and elites, in order to ensure the smooth transition of the project plan to the implementation., Ginandjar (2013:102) also admitted how he maintained policy dialogue with Japanese counterpart, "...I sought the advice of foreign business communities such as the Jakarta Japan Club and the American Chamber of Commerce in Indonesia. They gave me valuable input. Based on their inputs as well as from our own Indonesian Chamber of Commerce and Industry (KADIN) and sectoral business associations, we formulated investment

policies that were business-friendly but that also encapsulated our agenda promoting domestic industry and small and medium enterprises”.

A seamless web of competing interest has simply converted into such a policy network or linkage between industry, bureaucrats, political elites and other interests group under a big umbrella of Soeharto’s development doctrine. Ultimately, this constellation had forged alliances to promote the success of projects as well as to respond to the wider effects of alliances on overall developmental trajectories. This provided technical solutions to tackle ‘time inconsistencies’ – the embeddedness of economic action in social structures with Soeharto as the highest authority in policy making. In time of crisis, Soeharto would have the technocrats group to consult with and turn to nationalist and engineering-based bureaucrats group once he want to reconsolidate the power. Consequently, both institutionalization and informalization enabled Japanese infrastructure regime to work simply as “cohesive force”, starting from the planning, implementation, to the evaluation from the viewpoint of long-term perspective and inter-sectoral coordination. On the one hand, JICA formulated a master plan covering the specific field of infrastructure in accordance with the target set in the Repelita and the METI’s White Paper, while OECF also listed priority projects and analyzed measures for financing. Later, each project listed in the master plan was implemented by means of existing scheme. On the other hand, Japanese private sector can also first identify the project and then develop it in coordination with various other public as well as private sector interests (Kinoshita, 1986). While JICA provided technical cooperation for EPC scheme, at the end of coordination stage, private sectors would take in charge of their respective sector. To some extent, these firms also assisted Indonesia in mounting a financial package for the implementation of a project, identifying which components would be eligible for JICA or OECF financing. The firms may assist in pulling together financing for big infrastructure projects through partnerships with banks or other firms, or both (see Indonesia Country Assistance Study Group, 1999; The Government of Japan, 2004). For example, the 6<sup>th</sup> Five Year National Development Plan (1994-1998) attached importance on the port development with due attention to the regional development of Eastern Indonesia to redress the regional economic disparity. Thus, in 1994, the Indonesian Government formulated an



integrated master plan for sea transportation, namely the Study on Integrated Modernization Plan for Sea Transportation in Eastern Indonesia Vol. I assisted by JICA which comprehensively guides the development of 17 transit ports and 85 small ports in Eastern Indonesian up to the year 2005 (JICA, 1994). Considering the urgency of the development need, Kupang and Bitung were placed in the First Package category and built with use of Japanese Yen loan, amounting 5,250 million yen of OECF loan package in 1996. In addition, the developments of ferry terminals consisting of 8 maritime routes (including 6 routes in eastern Indonesia) were developed by ODA loan based on the examination result of 'National Ferry Network Development Master Plan' conducted in 1992 (JICA, 2010b)

The infrastructure regime is never static. After the *reformasi*, Indonesia has become the world's third largest democracy. The process of democratization reaffirmed and amplified the position of subnational groups and elites, producing a new set of conditions for the "politics of development" which has added nuances to the infrastructure development in Indonesia. *Repelita*-based master plan has lost relevance at power relations in Indonesia. There is no final arbiter of policy, while change in the preference of a decision maker occurs between an initial policy promise and a policy decision that takes place later, as Adam Schwarz suggests, "the president's own 'unstructured, ad hoc style'" (Schwarz, 2016). Infrastructure regime during the Soeharto era was simply nurtured by the political settlement – how Japan unified the process of capital accumulation and of policy formulation in infrastructure development by maintaining "equilibrium of interests" with those aforementioned camps. In contrast, Indonesia's democratization over the past two decades has entailed a much more complex power relations. Institutionally, it becomes complex, fragmented, if not contradictory. There is a shared sense of disillusionment with current political developments, consensus that decentralization does not necessarily bring local democratization (Heryanto & Hadiz, 2005, p.262) nor regional autonomy politics is aloof from constant power struggles among local elites and levels of government (Hadiz, 2003) and greater opportunity for corruption and mismanagement of funds (Aspinall & Kilinken, 2010). Social divisions along ethnic and religious lines, labor and markets, vested political interests of different scale of actors are no longer suppressed as they had

been under Soeharto regime, which thus have a wide scope to intervene in the policy-making and leverage development activities.

Having said that, it is impossible without carefully understanding tensions originating inside the state's boundaries – how to adept with the socio-political dimension of state capture in which old and new political formations coexist, how conflict-ridden infrastructure development is narrated, and how different levels of interests are mediated in Indonesia. Political challenges resulting from the democratization is twofold – Bappenas and decentralization. During Soeharto's administration, Bappenas, whose key figures had strong connection with Japan, was a powerful superagency with combined authority over development budget, planning, and foreign aid mobilization. At times, the chairman of Bappenas also doubled as the Coordinating Minister of Economic Affairs. Yet, now it tells different story in Indonesia (Lindsey & Butt, 2018). Followed by the State Development Planning System Law (Law No.25/2004), the new system transferred all the budgeting functions to Ministry of Finance (MoF) and had Bappenas specialize in planning and evaluation (Government of Indonesia, 2004) . Overlapping authorities between Coordinating Ministry of Maritime Affairs and the Economic Affairs; Indonesia SOEs “crowding out” infrastructure sectors; the ever-changing regulations; have added complexities further.

What become more problematic is, the conflicting nature of liberalization and nationalism has been so apparent in Indonesian infrastructure development. On the one hand, the traditional principle of public interest is that the public nature of infrastructure. Article 33 of the 1945 Constitution of the Republic of Indonesia has often been used as a political means to impede further liberalization. One of paragraphs reiterates that sectors of production that are important for the country and affect the life of the people shall be under the powers of the State. The Article has invoked public perception that infrastructure must be built by government (referring to state-owned utilities providing the infrastructure services), provided at subsidized prices, and come with an economic focus on self-reliance. On the other hand, government alone could not fix infrastructure deficit and thus the financing should come to permit majority foreign equity stakes in infrastructure sectors. As an example, during Jokowi's first five-year term, infrastructure projects comprising 15 airports, 1000 km of new toll roads, more than

3000 km of railways, 24 seaports, and 35,000 megawatts worth of power plants are expected to cost a total of 4,800 trillion rupiah (US\$ 355 billion). However, state budget can only fund less than half of the total costs (Salna, 2018). As such, what tends to happen is that populist-and nationalist-ridden infrastructure policy become pitted against outward-oriented one.

There has to be a financing distribution mechanism that stops people from holding the government hostage over critical infrastructure projects. Particularly since the Yudhoyono's administration, the PPP (Public Private Partnership) has been introduced as a scheme for the infrastructure investment recovery. Presidential Regulation No. 67/2005 was put in force to set out the platform for the national PPP scheme. The Presidential Regulation, coupled with the Ministry of Finance Regulation No. 38/2006, provide government support for the undertakings of infrastructure development by the private sector. Three government organizations were also established to promote the PPP scheme, comprising the "National Committee on Acceleration of Infrastructure Provision" (KKPPI), "Risk Management Committee on Infrastructure Provision" (RMCIP), and "Risk Management Unit" (RMU). Main tasks of the KKPPI are to set up the framework of Public Service Obligation (PSO), act as liaison between PSO and PPP, and to establish compliances of PSO and PPP (ERIA, 2015; Kim et al, 2018).

What has been implicated to Japanese infrastructure regime is that, many projects suspended due to the crisis were subsumed under the scheme of PPP. However, it could not be easily adjusted both politically and economically due to several reasons. First, Bappenas, despite functioning as the promoter of PPP, has limited role. Before the reform and decentralization started, majority infrastructure projects were executed either by central, or by direct appointment to SOEs and/or private firms and Regional Planning Agencies (Bappeda) followed the direction. Now the various Bappeda operating on lower tiers of government do not any longer primarily report to Bappenas but to their respective local authorities (see Government of Indonesia, 2004). Second, decentralization – diverse popular movements and local claimants to state power. Decentralization has led to greater transformation occurring in intra-state that significantly defined policy. On sub-national government level, though there are

proposals currently that at least 20 percent of their expenditure should be investment, there have been drawbacks in the realization of expenditure. It is important to note that sub-national government is not obliged to follow central government rules for PPPs (Ray & Ing, 2016). Infrastructure now, can be a crucial factor causing and enabling the resistance of sub-national groups against subjection under centralized state authority, or forging cooperation between sub-national groups with centralized state authority, depending upon political context. The group does not always match with central's vision of development and designated projects. These local actors and interest groups found ways to informally evade imposed reforms and infrastructure roadmap; rendering most of the supposed successes of roadmap an illusion. These factors have led to the major limitation in which implementation has been very uneven, both horizontally across different parts of the central government and vertically between the central and subnational government levels. With projects unable to be carried out without a multitude of approvals and issuance of licenses across different levels of government points to a key shortcoming of central government institutional reforms. As such, the institutionalization of infrastructure deals through a "master plan", just as done by JICA or OECF together with the Bappenas in the past, does not necessarily conclude a project contract.

In respond to such power fragmentation, what we have been witnessing is that there have been considerable changes in Japanese approach for infrastructure development in Indonesia. Reflected in JICA's works, Japan rather priorities specific program so as to 'unify' fragmented interests among sub-national government before particular project is assessed. Over the past two decades, there have been numerous programs carried out by JICA to make decentralization work, for example, the South Sulawesi Regional Development Program, the North-East Indonesia Regional Development Program, and so forth. That is to say, aside from large-scale project funded by JICA's STEP loan that will be elaborated in the following section, Japan-Indonesia infrastructure cooperation has been subjected to 'intangible services' and policy-based, such as preparatory survey for the PPP scheme, Project for PPP Network Enhancement, Project on Capacity Development for Trade-related Administration, preparation for renewable energy projects (see JICA, 2017, 2018). It

seems that Japanese agencies and private sectors tend to look for ‘contractual perspective’ amidst *ad-hoc* governmentality in Indonesia. There has been an attempt to promote formal and legal dimension of relationship that binds the government and private partner together while together with Japanese agencies enforce partnership-focused perspective that mainly emphasizes the social dimension of the relationship, characterized with mutual commitment and trust.

Worth noting, throughout democracy period, the most apparent re-institutionalization of infrastructure development alongside Japan’s involvement is the Jabodetabek MPA strategic plan, while JICA has carried out the Master Plan Study for Establishing Priority Area for Investment and Industry in Jabodetabek Area in the Republic of Indonesia since May 2011 (CMEA, 2012; Fukuda Yasuo, 2014; JICA, 2012). The MPA has been regarded as a derivative of the development policy of Yudhoyono’s administration, namely the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) and the 2009-2014 Medium-Term National Development Plan (RPJMN). The RPJMN plan has two key factors, namely acceleration and expansion of Indonesian development to boosting value added of the prime economic sectors, developing infrastructure and energy supply, as well as the development of human resources and science and technology. The MP3EI itself is not intended to replace the RPJMN, rather functions as a complementary working document for the above-mentioned development plans. Eight main programs and 22 main economic activities have been identified. In addition, six economic corridors are identified as growth centers and are expected to boost economic development throughout the nation. Investors and business can therefore clearly choose their desire sectors and preferred regions according to their business interest and specialization in accordance with the key economic drivers of the six corridors (Bappenas, 2011). In 2012, the Jabodetabek MPA was approved by the Steering Committee and Technical Committee. The committee consisted of the governments of both countries and relevant organizations. Approximately 1 trillion yen out of 3.4 trillion yen for the MPA was expected to come from international monetary cooperation, including Japan’s ODA. The MPA framework included the North-South line by the Jakarta Mass Rapid Transit (MRT) System which is the first subway in Indonesia, the

Java-Sumatra Interconnection Transmission Line, Cilamaya Port (later replaced by Patimban Port), and the Jabodetabek Railway Capacity Enhancement Project and other Fast Track Projects that were expected to utilize PPP mechanism (JICA, 2012).

The way the utilization of ODA as well as of PPP scheme narrated within the MPA has utterly reshaped the Japanese infrastructure regime whereby trust has been promoted and interests at the national level were harmonized and coordinated. On the one hand, considering the lack of coherent strategy for planning and implementation during the first period of Yudhoyono's administration (2004-2009), the use of ODA and cherry-picking specific projects allowed central government as well as Japan to narrow competing interests and maintain coordination between the Ministry of Finance and the Bappenas. On the other side, the MPA cashed in on the role of intergovernmental cooperation to bring conclusion contracts for suspended PPP projects that inherently depended on governmental support. The MPA thus enabled structural inclusion of private sectors to 'bootstrapping' the highly risky PPP scheme for specific sectors that have been deregulated and backed by off-take purchaser. To offer an example, one of Fast Track Projects listed in the MPA is the Central Java Coal-Fired Power Plant that is the first PPP project based on an Indonesian Presidential Decree. The 2,000 MW power plant has been billed as the largest project of its kind in Southeast Asia and cost approximately US\$ 4 billion largely financed by the JBIC. J-Power and Itochu are major players in the projects and will operate as an independent power purchaser (IPP) with the Indonesian State Electricity Company (PLN) as off-taker. Batang project is originally part of the 10 model projects identified in the 2006 Infrastructure Summit and signed on 6 October 2011. This implies that this project is the only project to date that has passed through PPP cycle specified in terms of the Presidential Regulation No.67 of 2005, No.13 of 2010 and No.56 of 2011 (Amindoni, 2016a; Koji & Hiroshi, 2017).

## 2.2 China: Fragmentation and 'de-institutionalization'

Throughout much of the history of Sino-Indonesian relations, the relationship between Beijing and Jakarta has been fragile and prone to sudden changes. Vehemently

anti-imperialist and pro-non-alignment, Chinese and Indonesian foreign policies were largely compatible throughout much of the late-1950s and 1960s. However, following the ascension of President Suharto, relations collapsed and would only slowly improve up until his fall (Sukma, 1999). Since the dawn of the *Reformasi* era, relations have significantly improved, particularly as Indonesia looked for financial assistance. Interestingly, unlike Japan, the economic cooperation has its roots from multilateral-based relations instead of bilateral relations. In 1997, within the framework of IMF, China provided financial assistance to a number of Southeast Asian countries, including Indonesia in the form of credit and loans. It offered US\$500 million to the International Monetary Fund's US\$43 billion bailout package, as well as providing US\$200 million in export credits to help Indonesia rebound its economy (Fitriani, 2018; Sukma, 2009). Furthermore, at the second ASEAN+3 Summit in 1998, Vice President Hu Jintao proposed a meeting of deputy finance ministers and central bank vice-governors of ASEAN members together with Japan, China, and South Korea. This proposal led to an ASEAN+3 finance ministers' meeting in Hanoi in March 1999, that later was institutionalized as the Chiang Mai Initiative (CMI) in May 2000 (China MoFA, 1998; Ku, 2006).

Although the ASEAN-led regional cooperation has led Indonesia to pursue a deeper bilateral relations with China, infrastructure cooperation – either in the form of concessional loan or investment – had never been institutionalized and been published in a detailed plan. The seemingly-formalization of Indonesia-China infrastructure cooperation has its roots from the first Indonesia-China Energy Forum, that was established in Bali in September 2002, during which six MoU worth hundreds of millions of dollars of cooperation in oil, mining, and power sectors were established. On the surface, the forum has led to a growing number of Chinese companies searching for energy-investment opportunities in Indonesia (“China, Indonesia Hold First Energy Forum,” 2002; “China, Indonesia sign MoU on energy cooperation,” 2006). In 2002, China National Offshore Oil Corporation (CNOOC) bought a Spanish oil company's assets in Indonesian oil fields at a price of US\$850 million, which made it become Indonesia's largest offshore oil producer (Dhume, 2002). In April 2004, Sinopec purchased American Devon Energy's oil and gas assets in Indonesia as its foray into the

Indonesian energy exploration and development market (IEA, 2014). By 2008, it controlled over 33 gas fields and 85 offshore facilities, and produced crude oil from 420 wells. One of the biggest deals also included the sale of natural gas to the Chinese province of Fujian in 2002, with agreed sales prices of US\$2.4 per ton for 20 years (Zhao & Sambodo, 2018).

Furthermore, under the administration of then President Yudhoyono, the relationship was upgraded to a Strategic Partnership in 2005, which saw enhancements in economic, cultural, and security ties. The relationship was upgraded again to Comprehensive Strategic Partnership in 2013 (Xiao, 2018). Accordingly, President Jokowi, known with his ambitious Global Maritime Fulcrum (GMF) program, has been striving to materialize the Comprehensive Strategic Partnership into more concrete outcomes particularly in the maritime infrastructure sector. Jokowi's administration has also been considering a new platform of Sino-Indonesian Maritime Partnership based on two strategies – Xi Jinping's BRI and Jokowi's GMF – that deemed highly complementary to each other (Qiu, 2019).

According to an article written by van der Eng (2017), although China is not the largest donor in Indonesia, the Chinese aid still accounted for 86 completed contracted projects in Indonesia, or an average of US\$ 2.5 billion in aid per year. Referring to Bank Indonesia (2018) statistics, the country's debts to China have more doubled under Jokowi. Excluding loans from Hong Kong, they amounted to \$ 16.7 billion in the mid-2018, 110.5 per cent more than when Jokowi took oath at the end of 2014. Many pundits, including van der Eng (2017) interpreted this figure as the outcome of Jokowi's pragmatic policy towards China. In fact, many projects carried out during Jokowi's administration were emanated from a broader bilateral framework under Yudhoyono's administration that has been played out by different levels of government and business entities. On the one hand, in terms of foreign policy, a Strategic Partnership inked during Yudhoyono administration, were perceived as Yudhoyono's hedging strategy – preferred stronger ties to the United State without undermining relations with China. However, in real practices, the bilateral cooperation framework as well as the China-Indonesia Energy Forum that has been held many times, have been opening up a 'playing field' for political and economic forces in Indonesia to speed up capital



accumulation and leverage economic opportunities through infrastructure development.

There have been many projects planned across different subnational entities that simply led to “de-institutionalization” of infrastructure cooperation. The reason behind the “de-institutionalization” is the power fragmentation taking shape both in China and Indonesia. As China entered into Indonesian infrastructure market in the aftermath of reform, as explained before, technocracy and the Bappenas were no longer a privileged source of ideas and policies. Economic policy-making has become the shared but contested terrain of young professionals, political party representatives, politicians with business background, as well as politician with technocratic backgrounds (Takashi, 2014). Likewise, state transformation in Indonesia also took shape just at the time when China also launched *going out policy* in which state power and authority have fragmented and decentralized with many national and subnational agencies enjoying greater autonomy, including in international affairs and economic cooperation, dissolving the traditional foreign affairs. The commercial imperatives driving the Chinese-led projects overseas has been reinforced by the going out strategy, whereby SOEs, subnational government, and large private companies have been encouraged and supported by the Chinese government to invest abroad (Jones & Zou, 2017).

One important implication of the democracy in Indonesia and China’s going out policy is that these sub-national entities have taken on “development” role that was once monopolized by national central governments even though there were government-level cooperation frameworks provided to broaden and deepen policy dialogue and cooperation in trade and infrastructure. In some cases, under a government-to-government framework, the MOFCOM actively led and pushed policy banks such as EXIM Bank and CDB to provide loans for overseas projects and assigned particular companies or provincial government for the project. Consequently, those banks exhibited higher risk tolerance than other lenders about certain commercial aspect of the projects (Zhang & Smith, 2017). However, more often than not, the increasingly decentralization of state-based economic activities in China has impelled the local governments to compete internationally for project concessions and/or international investments. In China, this is observable as the “retreat of the state” where provincial authorities have taken the lead in the fiscal matters, including the provision of

infrastructure and the investment. These dynamics are shaped by what Chen (2001) and Fang (2005) coined as the “under-central diplomacy” (*zhizhongyingwaijiao*) – a Chinese style para-diplomacy, whereby Chinese MOFCOM (Ministry of Commerce) selects provincial authorities. The officials would thus have the advantage of obtaining first-hand information on Chinese projects on the ground and of expanding their links on the trade and investment as well (Zhang & Smith, 2017). The under-central diplomacy has paved way for alignment of interests among different levels of government in Indonesia and capital forces, such as ethnic Chinese network and organizations (see Chong, 2018, p.82).

Different from Japan, be it loan or investment project, China never have an integrated master plan or a coordinated efforts and policy among line agencies, both intra-state relations and interstate relations. From technical side, the reason behind it is the absence of inter-governmental quasi-governmental organizations like JICA and JBIC that have sorted out and resolved competing interests among key ministries in Japan. The quasi-governmental corporations have supplied and mobilized private sector resources under a well-coordinated plan and acted as a bridge between Japanese stakeholders and Indonesian line ministries in order to achieve consensual deal in central level. Whereas, in China, almost all economic-related activities is centered around MOFCOM while provincial government is often given the discretion to decide on the details and schedule of project implementation (Huang & Wilkes, 2011; OECD, 2008).

Regarding the practices, China’s infrastructure regime allows the flexibility and self-interpretation and opens up to “negotiation” of state directives. Provincial governments across China promote local enterprises (Jones & Zou, 2017; Su, 2012), ranging from industrial infrastructure, energy infrastructure, to tourism infrastructure and they can directly approach local government in Indonesia. Based on author’s recent observation, very often, it turned out that these provincial governments designed many programs and reached out Indonesian local governments – by passing existing political arrangements and try to substitute new forms of ‘consensual deal’ with local elites. The regional governments in Indonesia whose performance legitimacy is built based on development premise for their constituents have been prone to take own initiative to

engage international stakeholders. These provincial and district governments have extensive regulatory authority over local matters and hold the authorization rights for enterprises in their province and district, such as a mining service business license, a building permit (*izin mendirikan bangunan*), and an environmental permit (*izin lingkungan*), site plan license (*izin tata ruang*) (PWC Indonesia, 2016 ). Not rarely, head of regency in Indonesia whose interest are far from the geopolitical mindset, made an official visit to Beijing to look for potential investor – enforcing a bottom-up approach for which unsolicited projects are submitted to local government who later will lobby the central agency for the ‘project status’. For example, the then Governor of Central Kalimantan, Agustin Teras Narang signed an MoU with China Overseas Engineering Group, a subsidiary of the state-owned China Railway Engineering Corps (CREC), on the construction of a 517 km railway, connecting Murung Raya to a port in Seruyan District via Palangkaraya. In 2014, a tender was eventually awarded to the consortium of CREC and two Indonesian companies (Morishita, 2015; Setiawan, 2018). The project was constructed through a consortium model of a PPP scheme. The local government also had more leverage due to a new Railway Law (Law No.23/2007) that reiterated that provincial governments have the authority to issue construction and operation permits for railway network connecting districts and cities within a single province with approval from the central government (“Central Kalimantan Coal Railway Network will be built by 2015,” 2012).

Another turning point of the “deinstitutionalization” is the MP3EI. While Japan used the MP3EI as the main basis to set up an integrated master plan, namely the said MPA Jabodetabek, China instead diversified its infrastructure business through the national plan and put attempts to leverage policy from the bottom-up. To address a backlog in infrastructure investment, the government of Indonesia launched the MP3EI 2011-2015. It reflected Indonesian government’s commitment to increase investment in all types of infrastructure that is particularly related to connectivity in Indonesia. 32 out of 79 infrastructure projects in the MP3EI were listed as PPP projects and it was not including other possible projects or unsolicited projects proposed by private sectors (OECD, 2012; Oxford Business Group, 2014, p. 277). In principle, part of the private sector’s contribution was expected to be in the form of PPP, accounting to 21 percent of

the infrastructure investment. The MP3EI was indeed a selling point for Coordinating Minister for Economic Affairs, Hatta Rajasa, during his visit to Beijing in 2011. Though nothing specific was detailed, Hatta secured the public backing of Wen Jiabao and Chinese investors to support the master plan. The Chinese government reportedly even set up a working group to coordinate Chinese investors seeking opportunities in Indonesia under the master plan. In May 2011, Wen Jiabao visited Jakarta and concluded deals covering 1 billion dollar in preferential buyer's credit – the largest amount China has ever provided for a foreign country – together with US\$ 8 billion in financing contracts for Chinese companies investing in Indonesian infrastructure and large-scale industrial projects (“Indonesia-China Set Up Working Group for MP3EI,” 2011).

In relations to the MP3EI, it is worth reminding ourselves of the nature of infrastructure as economic goods that are derivative projects related to industrial they built. It is different from other commodity because it has spillover effect. MP3EI itself did not emphasize about infrastructure *per se*, rather production centers and mining-related infrastructure project. Among others, Special Economic Zone (*Kawasan Ekonomi Khusus* ‘KEK’) prepared for some areas in Indonesia to become new growth centers has attracted Chinese investors’ interest (Suryowati, 2014). The companies invested there would be offered fiscal incentives like tax holidays and tax allowances as well as on non-fiscal incentives. The KEK is expanded to twelve province across the country with each region offers different specialties, including Sei Mangkei, North Sumatra; Tanjung Lesung, Banten; Mandalika, East Nusa Tenggara; Palu, Central Sulawesi; Bitung, North Sulawesi; Morotai, North Maluku; Tanjung Api-api, South Sumatra; Maloy Batuta Trans Kalimantan (MBTK), East Kalimantan; Tanjung Kelayang, Bangka Belitung; Sorong, Papua; Arun Lhokseumawe, Aceh; and Galang Batang, Riau Islands (“Government to finalize two revised regulations on KEK,” 2019). China so far has expressed interest to build and manage Special Economic Zones (SEZ) in Indonesia that spread over eight areas with each having a respective focus, such as palm oil processing and tourism. Of those zones, Sei Mangkei in North Sumatra and Maloy Batuta in East Kalimantan have already started operations that gained remarkable economic support from Chinese investors (“Sixth Economic Policy Package Indonesia:

Special Economic Zones,” 2015; Soeriaatmadja, 2015)

Another consensual deals made in the local level have been pertained to the coal. During Yudhoyono’s administration, Indonesia-China bilateral coal trade was at one time sizeable enough to influence global market prices and production levels. However, as China increasingly dissociated itself from coal and Indonesia enacted policies to restrict the export of unprocessed mineral ores in 2009, trade began to decline. However, this has led to new pattern of infrastructure cooperation, notably through Chinese investment in Indonesia’s coal production infrastructure (Atteridge, Aung, & Nugroho, 2018). The 2009 Law on Mineral and Coal Mining stipulated that Indonesian coal producers must sell at least 21.47 percent of their coal to the domestic market as many policy-makers and nationalist supporter were concerned that Indonesia’s finite resources have been shipped overseas too quickly and cheaply (Springer, 2018). Hence, aside from building the mineral processing plants (i.e Morowali, that will be explained in the next section), Chinese companies started to enter IPP market – not only acted as mining shareholders, but also coal power plant developer (Zhou & Huang, 2010). One of notorious example is a 380 MW Celukan Bawang power plant in Bali. China Huadian as the 51 percent of strategic investor in the IPP project also took EPC role. Huadian’s subsidiary, the Huadian Hongkong Limited also built a coal steamed power called South Sumatra 8 in Tanjung Enim, Sumatra by setting up Huadian Bukit Asam Power, a joint venture with Bukit Asam, Indonesia state-owned coal mining companies (Kertaraharja, 2015).

On top of that, in spite of growing magnitude of China’s projects in Indonesia, very little is known about them and many of the details remain shrouded in secrecy. The amount of detail behind the high-level statement, such as the official announcement of project concession, is limited. It is also due partly to the fact that one of the striking features of Chinese infrastructure deals has been the existence of ‘straw man’ role played by subnational governments and local elites linked to them (see Mori, 2019; Rickards, 2014, p. 101). While there have been consensual agreements made at the central level, such as the GMF-BRI agreement (still under negotiation), they do not necessarily lead to the institutionalization of interests, just as in Japanese case. Broader alliances of sub-national entities as well as competing interests within intra-state as well

as interstate relations make us hard to conclude China-led infrastructure development in one term.

### 3. Rationalization and Remaking the Narrative

#### 3.1 Japan: Rationalization and infrastructure

Bearing the cooperation packages in mind, the allocation and impacts of Japan's ODA have not been restricted to, nor entirely consistent with the lofty goals of enabling Indonesia ultimately to become less reliant on ODA. Instead Japan's ODA for infrastructure projects has simultaneously been narrated and allocated in ways linked primarily with the rationalization of economy and adjusted with the political constellation and economic structure in Indonesia. During the New Order era, Japan's infrastructural aid by and large aligned with the development priorities of Soeharto, thus subsidizing what Soeharto believed will bring about economic growth and political stability. Thus loan projects and Japanese investment were continuously directed to areas not threatening to, but rather enhancing, state and local capital under restrictive conditions stipulated by the state.

Japanese infrastructural aid to Indonesia had constantly served the purpose of "rationalizing the Japanese economy" and converged with every phases of industrialization taking shape in Indonesia. The focus of the "rationalization" has changed over time, including the creation of a new market, the relocation of Japan's sunset industries, the promotion of regional division of labor among Japanese firms investing in Southeast Asia, and the promotion of the "flying-geese" regional economy. The "structural inclusion" of commercial actors, like *sogo soshu* (trading companies) and consulting companies in the ODA policy-making has enabled Japan's domestic interest groups to have direct access in assuring that those infrastructural aid could be well-linked with their trade and investment interests (Shimomura & Wang, 2012; Soederberg, 2001). As a consequence, Japanese infrastructure regime in Indonesia incorporated a much higher degree of rationalization and peculiarly adapted to Indonesia contradictory nature of economic policies – a mixed system of massive state regulation and liberalization, an old nationalist and the pro-market liberalization.

This can be divided into three phases. **First**, war reparation and trade-based infrastructure. The introduction of Japanese products in countries receiving reparations later brought about the demand for follows up orders as industrial projects under reparations were designed to be dependent on Japanese components and materials. Reparations provided a sizeable export market for products and the *shosha* acted as brokers for all the procurement transactions (Miyagi, 2018). During the 1970s, the “economic cooperation” network helped to coordinate domestic efforts at linking trade with infrastructure needs in Indonesia – relocating heavy and chemical industries affected by pollution constraints and higher oil prices. Government agencies encouraged private sector cooperation in large projects and helped in the provision of special tax exemptions, financing, and information. The network also helped to develop and support what were then considered “new forms of investment” such as turnkey contracts, and “lend-and import” contracts (Stevens, 1997). This network also nurtured Japanese vertical sub-contracting system. In this context, the Japanese system of sub-contracting is quite different; it is pyramidal and multi-layered with a dozen major final assemblers at the top which are served by primary (first tier) sub-contractors which are in turn supported by their own cohorts of secondary (second tier) sub-contractors which in turn farm out work down to the next rung of sub-contractors and so on. At the very bottom exist literally tens of thousands of the cottage-type, family-owned and operated, small production units (Kensy, 2001; Ozawa, 1991).

The **second phase** is oil boom and the growing numbers of energy infrastructure. Settlements of war-related claims have given rise to two important legacies. One was the so-called request-basis method of decision making for determining the volume of ODA each year as well as the specific projects to be supported by ODA. The second was the deep involvement by Japanese business throughout the entire Japanese aid allocation and programming process including project identification, consultancy services, construction, and the procurement of equipment and other materials (Arase, 1994; Indonesia Country Assistance Study Group, 1999). Not only restricted to infrastructure projects such as dam and electricity, these companies also had an extensive role in advancing Indonesian energy-related infrastructure projects. During the period, in a simple term, Indonesian energy policy

was the twofold one of strengthening the position of exportable energy sources as a foreign exchange earner and of developing non-exportable energy resources to fuel the economic growth of the country. During this period, there had been an increase in non IGGI/CGI Loan. The non IGGI/CGI Loan is pledged after *ad hoc* consultation between the government of Japan and Indonesia, has been provided for relatively large project such as energy development and industrial development, which shows strong relationship between two governments (and strong influence of informal relationship between Indonesia-Japan lobby group as explained before) (OECD, 1982). It included the Arun LNG development, Asahan Project, and later ASEAN-Japan Development Fund (see METI Japan, 2000). At the end of 1978, 86 % of Japan's total direct investment in Indonesia took the form of loans rather than equity investment (Hardjosoekarto, 2001). The main reasons for this figure were investment in large projects involving Pertamina led by Ibnu Sutowo, Asahan led by Soedjono Humardani and other resource development projects that were usually made in non-IGGI loans (CIA, 1984; Malley, 1989; Shiraishi, 1997)

The **third** phase of rationalization is the investment-based infrastructure. It was first captured in the 1987 MITI White Paper on the "New Asian Industrial Development Plan" (New AID Plan), which suggested the use of Japan's ODA to facilitate both the relocation of selected Japanese businesses to Southeast Asia and a new international division of labor, especially in manufacturing among Japan and Asian countries. As outlined in the New AID Plan, Japan's public sector would provide yen loans for infrastructure development and send technical experts to assist in coordinating the industrial plans of each regional country. Following the announcement of New AID Plan, the Japan International Development Organization (JAIDO) was established in 1989 by *Keidanren* to provide financial assistance to Japanese SMEs that relocated their facilities abroad. Regardless of its private status, JAIDO received one-third of its fund from the OECD. JAIDO appeared to have a multiplicity of roles mapped out for it, but basically it was to marshal the private sector to take a stronger role in coordination with Japanese ODA efforts (Cronin, 1990; Hatch & Yamamura, 1996). For instance, if OECD yen loans were to be used for building a factory in a country, JAIDO would try to organize private sectors funds to build a road to the facility (Orr, 1990, p. 63). Under the



auspices of the METI, Japanese government working with the private sector set up bilateral ODA-coordinating committees in order to identify and select infrastructure or joint-private investment projects. Such symbiotic relationship would help move lower value-added Japanese manufacturing into lower cost Asian developing countries, or what mainstream views highlight as “a Japan-led flying geese regional order”. Indeed, in Indonesia, deregulation policy proposed by technocrats to transform economy heavily relying on state oil revenues into an industrialized-economy in 1980s coincided with Japan’s increasing needs to promote FDI outflows.

During 1990s, there were prevailing arguments that the engagement of business interests in Japanese infrastructural aid diminished after the government began to untie its aid in the 1980s due to DACs critics (Ensign, 1992). However, the perception in fact was a cursory glance. The use of country-specific cooperation strategies devised by an expanded cadre of Japanese aid experts and the METI had eased the private sectors to select projects and brought with them vertical *keiretsu* network to enhance the integrative effect of Japanese business operations in the region, be it in pure infrastructure projects or industrial-related projects. For Indonesia, the targeted sectors were handicrafts, rubber-based products, electrical machinery, plastics, aluminum downstream products, and ceramics (Terry, 2014, p. 127). From this period forward, Japanese trading giants who had already established their capacity to set up business relations with host countries, functioned no more as procurement brokers, but as investors. By the time, the choices of projects for loan financing have been heavily oriented towards massive infrastructure projects that deemed beneficial for the targeted sectors, among others, industrial estates, transportation, ports, power plants, and telecommunications. Indeed, *sosha* was one of the driving forces behind it. For example, in 1990s, one of top trading company, Sumitomo, built and operated its first Industrial zone, the East Jakarta Industrial Park in Indonesia along with Thang Long Industrial Park in Vietnam (Sumitomo Corporation, n.d.). In June 1994, the Indonesian government implemented a deregulation package which opened up nine new sectors of the economy for private investment. These sectors included electricity, production and distribution, nuclear energy, shipping and telecommunication. In respond to the deregulation, Mitsui, took a lead in the first IPP (Independent Power Purchaser) projects

in Asia through the Paiton Project in Indonesia. Different from previous scheme of ODA that limited their role, through IPP, companies were responsible for the development, construction, and operation of the power project with their rights and power to delegate the sale of electricity in power purchasing agreements (PPA) (McBeth, 1993; Wells & Ahmed, 2006).

Institutionalized government-business partnership made possible such investment-based infrastructure carried out in such coordinated efforts. A series of administrative reforms in 1990s were fixated on such investment-based infrastructure. In 1995, the Japanese government announced the OECF would be merged with the Exim Bank in 1999 to finance a considerable number of economic infrastructure projects in Asia – blurring borderline between ODA and other official flows. The decision in 1996 to allow OECF loans in connection with Build-Operate-Transfer (BOT) or Build-Operate-Own (BOO) projects pointed in that direction (JBIC, 1999). Moreover, in 1990, for the first time, JICA published its ODA Country Policy for Indonesia. Though human resources development and development in social sector in response to poverty reduction and uneven development were identified, but a closer look at the Country Policy reveals that ‘support for industrial restructuring’ and ‘industrial infrastructure’ were the main concern (see The Committee on the Country Study for Japan’s ODA to Indonesia, 1994). For example, as of 1993, OECF spent 95.9 billion yen on Surabaya urban development (to Surabaya City proper such as Gresik Thermal Power Expansion, Juanda Airport Improvement, communication networks improvement, city sewerage, etc) and 59.8 billion yen on Surabaya related development (to Surabaya city and neighbouring areas including East Java transmission line network, improvement of railway and communication networks, etc) totaling 221.9 billion yen. The integrated infrastructure project partially referred to the 1983 Urban Arterial Road System Development Study on Gerbangkertosusila region (Surabaya metropolitan area) and the Indonesian Ministry of Public Works’s plan that placed Surabaya City as a core of East Java in its regional development system (Japan Bank for International Cooperation (JBIC), 1999; JICA, 2011). Yen loan for economic infrastructure has supported economies of scale in areas where Japanese investment have reached economic viability and allowed broader spillover effects into local economics.

However, the 1998 Asian Financial Crisis tested Japan's ability as the leading donor and top investor in the region. In September 1997, with Presidential Decision (Keppres) No.39 Year 1997, the Indonesian government decided to delay the carrying out of 156 projects, equivalent to 65 percent of the total 241 priority projects. At the end of 1997, Indonesia's foreign debt is estimated to have reached US\$ 137.4 billion. Aside from Indonesia's default on foreign debt that hurt the Japanese companies, the invisible exposures were the loan guarantees that some trading companies offered to commercial banks as a lure to get them to finance large infrastructure projects. Some exposures were also in the form of bridge loans to suppliers or their bankers for projects (one of *vertically-keiretsu* financing mechanism), particularly in billion dollar petrochemical and power plant projects that actually may never be finished or not economically feasible, let alone after the crisis (Sender, 1998). The 1997 Asia Financial Crisis brought a major blow to Indonesia and a big dip in the infrastructure investment. For example, in the IPP system, the electricity tariff PT PLN collected from customers was in Indonesian rupiah, while the power charge PT PLN as an off-taker needed to pay to IPP companies involving Japanese private sectors was denominated in US Dollars. Thus, when the value of the Indonesian Rupiah was depreciated, the Indonesian electricity sector went straight bankrupt and IPP companies had to bear the risk (Indonesia Country Assistance Study Group, 1999).

After the period of economic and political crisis ended, under the administration of President Habibie, the government was encouraged to restore delayed strategic projects which deemed critical for the country's development. Those projects included Kualanamu Airport in North Sumatera, the Kancil-Pejagan Toll Road that links West Java to Central Java, and the Solo-Semarang toll road in Central Java (Jegho, 2018). However, during the period, there has been de-industrialization trend and Indonesia lost its competitiveness over China and Thailand. The regulatory environment, state transformation, and institutional changes have discouraged Japan from resuming highly risky infrastructure projects. While under Soeharto regime the process and outcomes were largely predictable thanked to the narrowing coalitional interests (the said four camps), the 'revolving door' after crises inevitably resulted in shorter time horizons and uncertainty over a regime's policy credibility. Policy-makers, JICA officials, and

business representative whom I interview highlight similar point of how their research units used to take in charge for “ODA-related business”, quickly after the 1998 reform, only did a mere “research things” due to declining confidence in the pre-1998 mechanism of infrastructure policy and financing.

A new turning point of Japan-Indonesia infrastructure cooperation is the Special Terms for Economic Partnership (STEP) loans loan and Development Policy Loan (DPL), a new scheme introduced by JICA. The STEP loans launched in 2002 by JICA, for which procurement of Japanese goods and service including contractors and consultants for designated infrastructure projects are required. Through the scheme of STEP, Japan’s aggregate loans to Indonesia totaled about US\$4 billion used for financing several large-scale projects (see following table). Under the STEP mechanism, JICA requires that the prime contractor shall be either of Japanese company or a joint venture (JV) composed of a Japanese company(ies) as the leading partner and a company(s) in a recipient country. Regarding the procurement, not less than thirty

**Table 1: Japan’s STEP Loan in Indonesia**

No.	Project name	Sector	Year of Approval	Amount of approval	Tying status
1	Patimban Port Development Project	Transportation	2017	118,906	Japan tied
2	Construction of Jakarta Mass Rapid Transit Project (MRT) II	Transportation	2015	75,218	Japan tied
3	Construction of Jakarta MRT I	Transportation	2009	48,150	Japan tied
4	Construction of Jakarta MRT I	Transportation	2009	48,150	General untied
5	National Geo-Spatial Data Infrastructure Development Project	Social services	2007	6,373	General untied
6	Engineering Services for MRT Project	Transportation	2006	1,869	Japan tied (consulting)
7	Tanjung Priok Access Road II	Transportation	2006	26,620	Japan tied
8	North Java Corridor Flyover Project	Transportation	2005	4,287	Japan tied
9	Tanjung Priok Access Road I	Transportation	2005	26,306	Japan tied
10	Lahendong Geothermal Power Plant Project	Electric Power and Gas	2004	5,866	Japan tied

Source: compiled by author, data from JICA ODA Loan Project Data

percent (30%) of the total price of contract(s) (excluding consulting services) financed by a STEP loan shall be accounted for by either goods from Japan and services provided by a Japanese company or goods from Japan only, depending on the nature of the project (see JICA, 2018b).

Whereas, the DPL is categorized into commodity loans but quite different from those for financing the balance of payment. The DPL rather is a loan based on policy and institutional improvement support as well as the fiscal policy support in accordance with Indonesia government's National Medium-Term Development Plan. One of policy actions targeted is the strengthening of public-private consultation on trade and investment with the Ministry of Finance of Republic of Indonesia and the Coordination Ministry of Economic Affairs act as executing agencies (JICA, 2013). As of 2013, a total of \$ 98,551 million yen of the DPL loan has been made since 2005. The latest phase of the loan, disbursed in 2013, was counted as 'Connectivity Development Policy Loan', that was used to support the policies and institutions pertaining to the aforementioned MPA Jabodetabek projects. Adding to this, other policy action also included the establishment of a Viability Gap Funding (VGF) as a policy for promoting

**Table 2: Japan's Development Policy Loan for Indonesia**

Project Name	Year of approval	Amount (million yen)	Interest rate	Executing Agency
DPL 1	2005	10,794	1.3	Ministry of Finance
DPL 2	2006	11,729	1.5	Ministry of Finance
DPL 3	2007	11,777	1.5	Ministry of Finance
DPL 4	2008	22,080	0.7	Ministry of Finance, Coordinating Ministry of Economic Affairs
DPL 5	2009	9,293	0.7	Ministry of Finance
DPL 6	2010	8,997	0.7	Ministry of Finance
DPL 7	2010	8,391	0.8	Ministry of Finance
DPL 8	2013	15,490	0.8	Ministry of Finance
Connectivity Development Policy Loan	2013	19,848	0.8	Bappenas, Coordination Ministry of Economic Affairs

Source: compiled by author, data from JICA ODA Loan Project Data

PPP projects and mobilizing private sector for acceleration of infrastructure delivery. In 2012, Sumitomo-Mitsui also acquired a 14.9 percent share in state-owned Indonesian Infrastructure Finance (IIF) that was set up by the Indonesian government in 2010 in cooperation with the Asian Development Bank (ADB), International Finance Corporation (IFC), and Germany DEG (ADB, 2017, p. 2). The IIF is expected to facilitate the development of infrastructure projects in five main sectors, namely power plants, toll roads, telecommunications, ports and drinking water (PWC Indonesia, 2014). Accordingly, the deal also established a business alliance between the Japanese bank and the IIF that would enable the two to cooperate on new infrastructure finance transaction in Indonesia.

Put differently, the institutionalized relationships between Japanese public and private sectors have synergistic effects on the infrastructure regime. Albeit the absence of top leadership, the Japanese public and private actors comprised of major government ministries – MOFA, METI, MLIT, MOF –, government-affiliated organizations – JICA, JBIC, Japan External Trade Organization (JETRO) –, and business associations – Nippon *Keidanren*, *Nissho* (Japan Chamber of Commerce and Industry), and Japan Jakarta Club – actively promote policy dialogues with the central and local governments in Indonesia and attempt to connect the economic rationalization with the policy harmonization.

### 3.2 China : An uneven integration of capital

Recent studies conclude that trinity model of Japanese ODA which combined trade, investment, and aid has been adopted by China. With low savings and no adequate financial institutions, the modernization and expansion of Chinese industries and infrastructure in the first decade of the reform process was financed notably by a series of key ODA loans from Japan, amounting to some USD 9 billion between 1979 and 1995 (East Asia Analytical Unit, 1996, p. 67). It has prompted the unspoken rationale among Chinese policy makers, that if the ‘market approach’ that blurred boundaries between trade, investment, aid worked out well in China, it should also work when the time comes for China to be a donor or capital provider. In late 1980s, the

reform-oriented technocrats whose central policy agenda was to promote Chinese exports suggested an integrated aid policy that was deemed crucial to accelerate the linking up of various instruments of economic cooperation. Shortly afterwards, in 1992, Wu Yi, Minister of the Ministry of Foreign Trade and Economic Cooperation (later 'MOFCOM') proposed the notion of 'Da Jingmao' (big strategy), stressing the integration of aid, trade and investment. 'Da Jingmao', was then authorized as a broad-based strategy of China's foreign trade (Shimomura & Ping, 2015).

To implement the strategy, China has established a wide range of such financing, funded from financial markets with implicit and explicit Chinese government guarantees, with the China Development Bank (CDB) and the EXIM Bank playing a 'public entrepreneurship' role, supplying vision, action, and innovation at a scale and speed that recently outstripped OECD and Bretton Woods development institutions. The EXIM Bank created in 1994 as a policy bank (along with the CDB and the Agricultural Development Bank of China) saw the introduction of concessional loans, with interest subsidies funded from the general budget, to leverage commercially oriented flows. Such concessional loans were targeted for large and medium-sized infrastructure projects (Reilly, 2012; Zhang, 2011; Zhou & Xiong, 2017). The Department of Foreign Assistance under the Ministry of Foreign Trade and Economic Cooperation was responsible for determining the qualifications of the enterprises for bidding. The assigned contractor unit, be it SOEs or local government, had leverage over this system and enjoyed preferential loan provided by the bank (D. Zhang & Smith, 2017).

Though Japan's trinity model of ODA policy provided valuable lesson to Chinese policy makers, the Chinese-version aid trinity does not entirely resemble Japanese aid trinity. The way capital forces and the state dovetailed infrastructure projects with capital accumulation had been completely different from the Japanese capital logic and approach. Chinese style of aid trinity did not provide a unified plan to which extent aid, trade, and investment can be integrated and in what forms the infrastructure development could be carried out. *Da Jingmao* is merely a grand strategy to ostensibly showcase a top-down policy making running from Beijing down to the lowliest units, as depicted by Naughton (2010: 454), "Planning is ubiquitous in China, with seemingly every government organizations having long-range targets and

objectives; yet we will search in vain for a unified vision of the development of the economy that in any way predicts specific outcomes.”

In a nutshell, in terms of concessional loan project, there is similarity between Japan’s early *puro-fai* mission and China’s approach. Chinese Ambassadors and the Economic and Commercial Counsellor’s offices in the host country, in this case Indonesia, played important role, particularly in the loan project. The primary way contractors influence China’s aid is by lobbying MOFCOM and China EXIM Bank to access information on Indonesia’s demands for aid projects and link their commercial strategies with China’s aid programme. These contractors companies are the most active players in seeking for lucrative infrastructure projects and finding local partners and later the Chinese ambassador provided recommendation letter to the Chinese government. This approach somewhat resembled with what happened in Indonesia during the early years of Japanese ODA. However, in the case of China, contract is not always awarded based on the competitive bidding, insofar as the MOFCOM has the authority to directly appoint the company that it prefers.

As is explained in the previous section, there have been serious attempts among Japanese government, agencies, and enterprises to have mutual support over each infrastructure-related policies and to link such policies with Indonesian development plan and economic rationalization. On the contrary, central to Chinese infrastructural regime is that the grand strategy, such as the Belt and Road Initiative (BRI) and going-out policy (*zhou chu qu*) only showcase superficial coherency, while in fact the implementation has been chaotic. State endorses a seemingly centralized policy vision that could by and large, accommodate different levels of interest and achieve social cohesion. Such infrastructure-dominating strategies (i.e *Da Jingmao*, Going Out, BRI), reflects the ways that that all forces – the private sector, centralized SOEs, provincial government, and capital forces have all been gradually mobilized to various sites for capital accumulation. This led to Chinese type of social cohesion in which no consensus on the nature other than the grand vision and extent of coordination among various actors.

Chinese infrastructure modalities that tend to be framed in the discourse of ‘development’, such as self-reliance, win-win solution, new development model and the



like, actually represent an entirely different history and a different niche for Chinese capital forces (see China Machinery Industry Yearbook Editorial Committee, 2018, p. 6) . As such, the diversity of form and scope of infrastructure cooperation, in turn, results in competing and contradictory demands for nation-state policy. Unlike Japan's pattern of capital formation, gradually starting from trade, investment, and ultimately connecting global production activities, Chinese pattern does not imply the existence of only one form of internationalization or capital accumulation in any stage. Different forms coexist and accordingly affect the grand vision of state in practices. This is perhaps why China never had country-specific assistance strategies like Japan have done for decades. Instead infrastructure projects abroad are generally built on project-by-project basis that not all linked to the production. In more simple terms, for example, in Indonesia, by only examining power plant sector, we already can draw a plethora of stories pertaining to Chinese-led projects. It can be a development partner that pursue an environmental-friendly power plant; some also can be monstrous that inking a coal-fired power plant deal only for the sake of seeking a rent and access to coal; other can just act as a passive investor who just want to learn know-how and gain market-share. Chinese infrastructure modalities compound fragmented interests, varying forms of capital structure, and different assemblage of state power. In words of Hameiri & Jones (2016:19), "Different parts of the Chinese state may pursue divergent or contradictory agendas, with outcomes reflecting disorganization and conflict, not grand strategy."

It is China's going out policy that exerted a powerful pull on Southeast Asian economies and constituted an impetus for China-Indonesia infrastructure cooperation. To beginning with, in a 1999 speech on the country's economic future, Premier Zhu mentioned the term 'going-out' (*zhou chuqu*). He asserted a connection between the paucity of resources, especially oil and a need to go overseas, emphasizing, "Domestic development and production of oil can no longer keep pace with the needs of the country's economic and social development, resulting in an increasing imbalance between oil supply and demand" (Zhu, 2001). From the foregoing, Beijing adopted *going out policy* as part of the country's Tenth Five Year Plan in 2001 to encourage enterprises with comparative advantages to make investment abroad, contract for

international engineering projects, and increase the export of labor. Central and provincial governments offered company incentives including tax breaks, cheap land at home, and low-interest funding from state-owned banks to advance international investment (Shuping & Yongsheng, 2014). To support the policy, the State Development Planning Commission was reformed along with bureaucracy streamlined. The Commission was renamed the National Development and Reform Commission (NDRC) in 2003 and responsible to compile a list of overseas opportunities for investment in those resources of which China was in short supply, such as oil, gas and timber and allocated investment budgets (Duncan, 2013). Regarding the MOFCOM, it has the Department of Foreign Aid that primarily responsible for delivering Chinese aid and the Economic Counselor's office that is housed either within the embassy or in larger missions in a separate office takes charge on the aid program coordination. The MOFCOM also contains the Department of Outward Investment and Economic Cooperation, which regulates all Chinese companies engaged in international business with large investments (MOFCOM, 2007). On top of that, SASAC (State-owned Asset Supervision and Administration Commission) were established in 2003. The Commission is a milestone in China's going-out pathway, either outright owns or has a controlling share of 112 powerful SOEs (as of December 2013), some of which are the biggest resource companies in China. Its establishment represented a departure from the said chaotic situation, where multiple government ministries and other bureaucratic entities had leverage over SOEs daily operations. Equally important, together with NDRC, SASAC was tasked to set out fifty multinationals that would be part of the top 500 firms globally by 2015 (Naughton & Tsai, 2015; Song Ligang, 2018).

However, Chinese enterprises, either SOEs or private companies, represent "thousand faces" of China. They demonstrate an uneven integration into international economic activity and ultimately entail a frenzied and continuous trial and error search for capital accumulation. Very often, the boundaries between SOEs as party-state institutions and SOE as independent commercial entities became blurred. There have been also both corrupt and ineffective forces and progressive and productive one and these forces both opposed and complemented each other. Some become a fetter to international accumulation due to liberalization in pursuit of state project, while some

tapped into global circuit of capital accumulation with unrestricted mobility and commercially-driven – more similar to other major transnational companies. In a national level, Indonesia offers the representative assessment of such various settings of Chinese state-business relationship that reshaped the infrastructure regime in Indonesia.

**Firstly**, a mere diplomatic project. During the early years of going out policy, there were numerous cases in which large-scale project were dealt with at a much more centralized level and delivered in the usual form of Chinese turn-key projects. Contracts classified as government-to-government agreements were generally seen as a faster way to develop projects, with the advantages of government guarantees and other facilitation in favor of projects. The relationship between the state (party) and companies, let alone SOEs is quite flexible. Government does not typically manage their day-to-day operations and the firms are largely still in charge of their basic business decisions. Yet, once party committees have a seat at the table when the company are making big calls on investment in cash-strapped projects and the like, means the boundaries between market and non-market arrangement have been blurred (see McGregor, 2019; Wu, 2017).

Delving into the case of Indonesia, the diplomatically driven projects in Indonesia have been typically linked with the “vulnerability” level of Indonesia within regional dynamics. After the crisis hit Indonesia, the government’s relationship with the IMF and Western countries reached its nadir as being frustrated by the “incorrect diagnosis” provided by the IMF for handling the crisis. Nevertheless, the country needed to restore delayed strategic projects which were badly needed for economic growth and attract foreign direct investment in the aftermath of crisis. Such regional dynamics yielded an impetus for China to shape its image as a ‘responsible power’. Moreover, Beijing’s moderate reactions over the 1998 May riots – an atrocious mass killings and rape towards ethnic Chinese women in Indonesia – won wide praise from Indonesian officials, many of whom saw it as how China respected Indonesia’s sovereignty and treated the anti-Chinese riots as a domestic issue (Novotny, 2010; Sukma, 2009). Further infrastructure cooperation was started under then President Abdurrahman Wahid (Gus Dur), who openly stated that he has Chinese blood and his ancestor is Tan Qin Han who was part of Zheng He’s expedition to Indonesia. Soon

after he was sworn in as President, he paid state visit to China. China responded positively to Wahid's overture and subsequently cooperation began to take shape in the form of a Joint Communiqué that was signed during Wahid's visit to Beijing in December 1999 and later in May 2000, the establishment of Indonesia-China Joint Commission for Bilateral Cooperation that was signed by Foreign Ministries of both countries (Weatherbee, 2017, p. 141). The bilateral relations continued deepening during the Megawati period. In March 2002, Megawati made a five-day state visit, not only aimed at boosting trade relations, but also at raising finance for delayed infrastructure projects. The meeting was known as "waltz diplomatic" (*diplomasi dansa*) where Jiang Zemin surprised the guests by inviting Megawati to dance with him and praised Indonesia as "*yuanjin bu ru qinling*" (neighbor is better than a distant relative). The *diplomasi dansa* resulted in the signing of MoUs on some infrastructure projects, including the construction of US\$ 70 million of a double track railroad between Cirebon and Kroya in West Java and the building of a power plant in Sumatra by the state-owned power company, PT PLN (MOFA China, 2002).

Not least important, the meeting also revived the Surabaya-Madura Bridge project plan. Originally, by 1986, the plan to connect Sumatra, Java, and Bali caught the interests of a Japanese consortium and in 1990s numerous feasibility studies and planning for the Suramadu Bridge were set in motions ("60 Years Indonesia-China Relations," 2010). The Asian Financial Crisis, which was also followed by a dramatic political change in Indonesia, halted the project. Under the Megawati's period, it became part of the economic and technical cooperation between China and Indonesia. The 5,438 meter Suramadu Bridge, the largest cross-sea bridge in Indonesia, started construction in October 2005 and was completed on June 10, 2009 after three and a half year of hard work by the Indonesian Public Works Ministry and the bridge's main contractor, China Road and Bridge Corporation (CRBC). The entire project cost US\$440 million, most of the funding came in the form of a soft loan from China EXIM Bank and the rest funded by Indonesia (Chong, 2018, p. 82). Despite numerous problem arising during the construction, the bridge has become the "media darling" both in China and Indonesia. It revived the narrative of "learning from China" and demonstrated "a symbol of the two countries' economic and technical cooperation" –

which later made way for private sectors and SOEs to leverage a move into infrastructure market in Indonesia.

**The second setting** is excessive competition-based infrastructure. As mentioned above, the 2001 target further specified that by 2010, between thirty and fifty state-owned firms should be ‘national champions’, for which the SASAC has been tasked. The going-out period proved to be a transition in yet another respect. The advancement of companies occurred alongside an almost simultaneous influential policy actors and a wide range of interests. China has accordingly become more disjointed, with constant struggle over power, resources, and policy, from inception to implementation cut-throat competition among companies (McGregor, 2010, p. 190) While there are some cases that large-scale projects were politically driven by central government, just as previously discussed, yet in another cases, Chinese corporate leaders with desires to gain profits and be promoted can subtly gloss over their vested interest through infrastructure projects. Contractors tend to use unreasonable bidding prices that are far lower than operating costs to compete in international markets that often outbid foreign contractors ( Zhou, 2018, p.163).

In 2004, China State Council issued the “Decision on Investment System Reform” which formalized the market-oriented investment system instead of the government-driven approach (Shuping & Yongsheng, 2014). In Indonesia, this policy together with other government policies thereafter led to the expansion of Chinese companies to win the “concession” and triggered perverse incentives. For example, the *going out policy* is particularly rapid in the coal-fired sectors where Chinese firms engage in a large number of projects. It was in the 2005 Indonesia Infrastructure Summit<sup>2</sup> that Chinese contractors got the opportunity to set foot in infrastructure market. Indonesia’s then President Yudhoyono, launched an ambitious regulatory reform agenda intended to create a predictable and transparent framework for infrastructure investment. Indonesia that has just rebound the economy from the crisis, first-democratically elected government strived to create model deals that it would replicate in the future. Infrastructure is one of deal that would show the world that

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<sup>2</sup> The first Infrastructure Summit was held in 2005 and resulted in a list of 91 projects. The list increased to 101 potential projects and 10 model projects as part of the second Infrastructure Summit in 2006.

“Indonesia is back from financial crisis and ready to do business” (Epstein, 2005; “Indonesia needs US\$145bil for infrastructure projects,” 2005). One of mainstays of the summit is the Fast Track Project 1 (FTP 1). However, the absence of any government risk-sharing and questions about the project decision as well as the low quality of the tender document caused Japan and Westerners’ half-heartedly submitting proposal for the project. In turn, the risk taker like Chinese companies got the contract of FTP. How they got the contract was allegedly pertaining to the decision of high-level government. Based on confidential sources, reportedly Chinese proposals were too attractive to refuse since they offered to rebuild the electricity infrastructure at a lower price in a shorter time period. More importantly, the contractors did not ask for government guarantee. However, majority projects listed under FTP 1 were delayed, some failed to meet initial expectation. A case in point is none in China, Indonesia can appeal to, as deals were originally driven by individual incentives of the construction companies while the central government and policy bank might even do not know a good deal of knowledge pertaining to the project concession.

Such failed project also demonstrates how competition was exacerbated due to the tendency towards ‘duplicate construction’ (Hu, 2007, p. 111). It is one of a long-standing features as well as problems for enterprises in China. Unlike a well-segmented Japanese *keiretsu* system, it is characterized by simultaneous entry into the same sectors by many localities at the same technological level, which has caused massive waste and inefficient use of resources. There are signs of a new round of duplicate construction found within infrastructure-related projects overseas. Large-scale overcapacity in production has been transpiring since 2009, long before the launch of BRI. Due to lack of regional industrial coordination, many companies replicated other company’s projects – expanding beyond their mandated field in order to solve the excessive outputs. By and large, this has influenced their practices abroad, including in the FTP project.

*Thirdly*, trials and errors-based infrastructure. Different from Japanese-led infrastructure projects that have supported economies of scale and been related with Japanese private sectors’ economic viability, the stumbling block of Chinese companies in tapping into Indonesian infrastructure market is the “incumbency effect” of the most

established investors, including Japan. This implicates that Chinese companies have to capture less explored markets, namely greenfield infrastructure. Majority potential infrastructure projects planned by Indonesian government are considered as greenfield infrastructure projects, that are highly rewarding, yet risky. As the world's largest archipelago, Indonesia's economic activities are spread unevenly across islands, and so are its infrastructure projects. Projects located in outer Java island pose a high level of uncertainty in realized demand from general users. This is often the case, because it is difficult to reasonably forecast future demand in the absence of reliable information at the planning stage. For example, railway projects in Kalimantan or Sulawesi proposed under the PPP scheme that are intended to be used for transporting commodities such as coal and ore, in fact failed to attract investors (see Briginshaw, 2014; Morishita, 2015). Considering fluctuations in commodity stocks and regulation uncertainties regarding commodity-related infrastructure, investors tend to stockpile enough commodities and seek market alternatives, rather than building value chain from scratch. In such setting, Chinese companies instead employ a wider range of methods for capital accumulation than 'traditional' investors, which include labor-intensive extraction and more 'flexible' infrastructure by building related-facilities and public infrastructure surrounding greenfield projects that are expected to encompass several links on a given value chain. Exemplary in this regard is the Indonesian Morowali Industrial Park, a joint venture between the Shanghai Decent Investment Group and PT Bintang Delapan Mineral with investment valued at U\$ 980 million to boost Indonesian competitiveness in nickel downstream processing, including to diversify products such as lithium batteries that never be well-developed in the country before. Not only nickel plants, having backed by commercial financing from the CDB, the joint venture also has its own seaport and power plants, with an airport to be completed by the end of 2019.

Another pattern includes taking ownership by acquiring a share of the rights or a company that already own those rights to a particular license, resource deposit, or project. As an example, Chinese companies that have gained experience and confidence in EPC projects in Indonesia, they begin to carry out a larger scale portfolio investment, in particular, by investing directly in major Indonesian coal mining companies that will supply coal to the power plant (Andrews-Speed, Qiu, & Len, 2016; Mori, 2019). In

2009, the China Huaneng Group jointly with the Guangdong provincial government offered several bids for a majority stake in PT Berau Coal, Indonesia's fifth largest coal producer and finally purchased a 51 percent stake of the company. In 2013, the China Investment Corporation invested \$1.9 billion in Bakrie Groups' Bumi Resources, Indonesia's largest coal company, widely seen as a bailout for the controversy ridden company. Shenhua Overseas, a unit of China Shenhua Energy, one of China's largest coal producers, acquired a minority interest in Bhakti Energy Persada to develop a coal mine in East Kalimantan. The Bukit Asam plant in South Sumatra is being jointly built and managed by a joint venture between China Huadian Corporation; PLN, a state-owned electricity utility, which holds a majority stake in the plant; and the Bukit Asam, an Indonesia mining SOEs while The China Exim Bank is providing the \$1.2 billion loan. Another practice of engagement is that they engaged in large-scale projects without internalizing the asset, such as construction and engineering services for port and bridge by China Harbour Engineering Company in Indonesia. The reason is that the output of the project is directly compensated by Indonesian government by availability payment (AP), resembles with what many industrial observers bemoaned as "merchant mentality", aimed only to grab short-term profits from projects, rather than plan for long-term.

Last but not least, having political supports from the central government, Chinese SOEs has been able to emerge in counter-distinction to the historical or mainstream approach, create novel institutional approach, and ultimately challenge existing governance. The most representative example is the Jakarta-Bandung High Speed Railway (JBHSR) project. While Japan, the long-standing development partner of Indonesia, had undertaken a feasibility study of the JBHSR project for years, the project was eventually awarded to the PT Kereta Cepat Indonesia China (KCIC), a joint venture of a consortium of four state-owned Indonesian enterprises and state-owned China Railway International Group in 2015 (Dharma & Suryadinata, 2019). Insofar as China put forward the business-to-business approach that is diametrically different from Japan's rigid financing system, and then delegated more authority to the SOEs and related ministries from both countries, it has paved way for the newly infrastructure financing scheme – "B to B" – and prompted interests from another companies to



follow the similar path – pioneering all projects related to the high-speed train project at the forefront. Albeit caveats and risks acknowledged, it basically has been of considerable challenge for the historical bloc, Japan.

Heterogeneity among Chinese firms is a pattern that is typically overlooked in favor of generalization that paints Chinese firms as either monopolistic or powerful. Different forms of capital accumulation can coexist all at the same time which eventually affected the grand vision of state in practices. Thus far, it is fair to say that Chinese infrastructure regime has been hinging upon twin processes – state-led initiatives and uneven process of capital accumulation among Chinese companies (and sub-national entities such as provincial government). It behooves us to recall Segal’s (1994:352) argument that, “the only way to ensure China does not become more dangerous as it grows richer and stronger is to ensure that in practice, if not in law, there is more than one China to deal with.” Such twin processes require us to see the provinces and SOEs as somewhat independent actors separate from the central government that reshaped the China-led infrastructure regime in Indonesia.

#### 4. The Politics of Public Private Partnership and Challenges Ahead

From the series of project inaugurations, policy announcements, and other actions in late 2015 and early 2016, it has been apparent that addressing infrastructure deficit is a pivotal agenda for Jokowi’s administration. Many Indonesian islands remain unconnected and as a result, most are self-sufficient economies that do not contribute or benefit from the national economic production and distribution process. In order to boost higher value output and sufficient infrastructure that ensures connectivity, Jokowi asserted his commitment to build new infrastructure on the outskirts of developed areas and in villages outside Java by allocating Rp 314 trillion (roughly US\$ 22.5 billion) in the 2016 state budget. In total, the requirements are massive. US\$450 billion worth of investment is needed to fund its infrastructure plans from 2014-2019, which comprises of six new refineries, 35,000 Megawatts of electricity capacity, and fifteen airports. In this respect, only thirty percent of the funding for these projects can be provided from public spending, while the remainder must be channeled from foreign capital (Suzuki, 2015). PPP thus become one of viable mechanism that the government rely on so as to

boost private sector participation in Indonesian infrastructure development.

In relations to PPP, any references to the BRI and PQI now have connotations of competition between Japan and China and of capital penetration into PPP projects. Just as frequently mentioned by Chinese officials, BRI will drive economic growth and connectivity in Indonesia particularly through port cooperation network and maritime connectivity construction – the once prosperous trade routes in history (Xiao, 2018). In the process, port cities alongside the construction of industrial zone will take on new functions of driving industrial transfer, industrial development, and finally value chain. Likewise, rationale behind Japan-led PQI is to support private sector investment in regional infrastructure, strengthen production base, and bolster economic growth with an emphasis on five elements of quality infrastructure, comprising: alignment with development strategy; stability, safety, and resiliency; economic and financial soundness; local high-quality development and; social and environmental sustainability (Izumi, 2017). Interestingly, there were also deliberate attempts among Indonesian agencies to capitalize on the grand initiative and maintain a narrative that the political effects of BRI-led projects will likely lead to the competition with Japan's PQI and other Western counterparts. In 2015, for example, in responding China and Japan rivalry, Indonesian Coordinating Minister, Luhut Panjaitan commented that “the Sino-Japanese race to invest in Indonesia benefitted the country and presented it with the option to ‘pick whoever it likes’ for the project (Rondonuwu, 2015).

On the ground, progress indeed has been seen. The first stage of New Priok Port (Kalibaru Port) at Tanjung Priok led by Japan's Mitsui & Co have been completed (Mitsui, 2016). The PQI has also made way for PPP projects financed by JBIC, among others the Java 1 Gas-to-Power Project in Indonesia, deemed as flagship project of the JBIC's newly launched Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth. The project, that is also part of Indonesia 35,000 MW electricity vision, involves Sojitz Corporation, Marubeni Corporation, and Indonesia state-energy company, Pertamina. In Sulawesi, China has also involved in the first PPP project in the railway sector (Kameda, 2018). The China Communication Construction Engineering (CCCC) Indonesia set up a consortium of PT Pembangunan Perumahan Tbk (PTPP) jointly with Indonesian companies PT Iroda

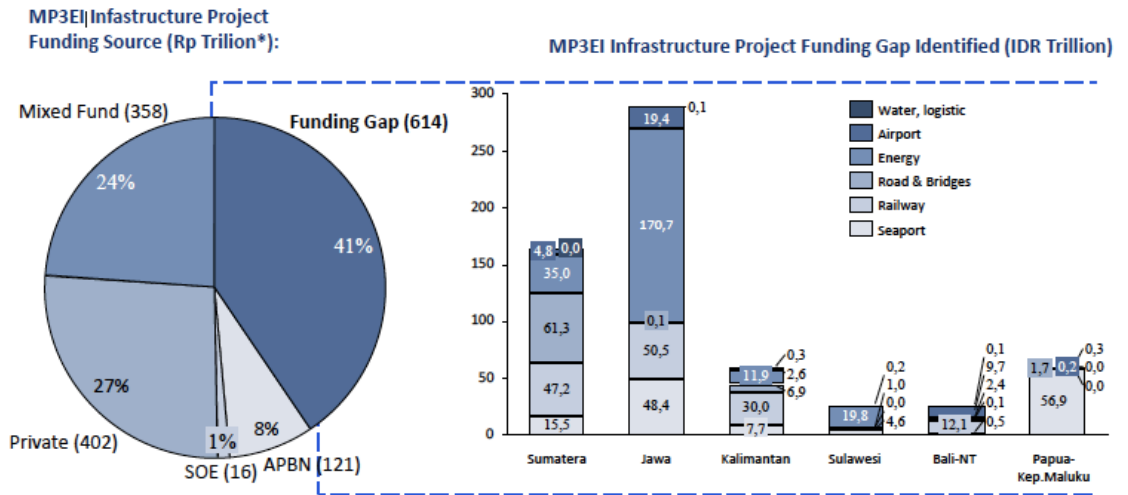
Mitra and PT Bumi Karsa. The consortium won the tender with an investment bid of Rp 1 trillion and an availability payment bid of Rp 246.74 billion for the Makassar-Parepare segment. The project will be carried out under the scheme of the design, build, finance, operation, and maintenance for the period of 20 years (Maulana, 2019).

A case in point is, the fact that these BRI and PQI-led projects have been agreed upon, does not necessarily imply that they will be implemented. Both Japan and China have beset with the very politically-difficult situation in the PPP implementation. The development of PPP in Indonesia has been structurally shaped and constrained by the political, economic, and social logics of the three different arenas in which the multitude of actors involved. In the international level, country leaders are pledging their commitment on the PPP as a “new style of development”, or in Jokowi’s rhetoric word, *mengubah cara lama* (change the old way) (Amindoni, 2016b). In central level, when the international agencies and line ministries interact, a seemingly-coordinated policy follows the logics of bureaucratic/technocratic rule and shows tendencies of strong ‘governmental role’ in facilitating the PPP. Bappenas has regularly published the PPP Blue Book while a number of relevant government regulations also provide more detailed information to private business entities to speed up project implementation (Ganesha, 2018). A crux of the matter is, at the sub-national level, PPP meets local contexts, moral politics, and economic nationalism. For example, local governments begin to experiment with their own versions of the PPP scheme often without a proper risk allocation mechanism and seek ‘investment partner’ that often clashed with central government. Due to different logics within the state, the interaction between these three arenas has led to contradictions, conflicts, and competition. It is somewhat safe to assume that infrastructure would be problem bearers rather than providing solutions.

The first general PPP regulation that applied to all sectors is the Presidential Decree No.7 /1998 concerning Cooperation between Government and Private Business Entities in the Development and/or Management of Infrastructure that was later replaced by Presidential Regulation No. 67/2005 concerning Cooperation between Government and Business Entities in the Provision of Infrastructure. In 2010, in conjunction with the inception of MP3EI, Yudhoyono amended the regulation by

issuing Presidential Regulation No. 13/2010 and introduced *dua jalur kebijakan* (double track policy) in which infrastructure will be funded by state budget and private financing (Parikesit, 2017). Far before the inception of BRI and PQI, both China and Japan in fact have been aligning their interests with the framework. In May 2013, the government published an integrated grand strategy for infrastructure deployment: the Infrastructure Export Strategy. The strategy exhibited a numerical target of tripling infrastructure sales between 2010 and 2020 from 10 trillion yen to 30 trillion yen. Such reforms aimed at improving the yen loan system so as to promote Japanese companies' participation in PPP Projects. The strategy was appropriately linked to Yudhoyono's development policy. Various instruments were introduced, among others the SIAP (Strategic Investment Action Plan) to enact a regulatory and policy reform to encourage private investment and improve the key infrastructure to promote investment. Some large-scale IPP projects have been at the forefront. The aforementioned Batang coal-fired power plant and Geothermal Sarulla plan led by Itochu Corporation; the expansion of Paiton Energy by Mitsui; and the 220 MW Muara Laboh in West Sumatra and the 220 MW Rajabasa in Lampung by Sumitomo Corporation, have been part of the PPP cooperation (Prime Minister of Japan and His Cabinet, 2005; Shimamura & Wakasugi, 2009). On the Chinese side, aside from involving in some IPP projects, Chinese companies have been expressing their interests on the large-scale projects such as the Sunda Strait Bridge project that was listed in the 2013 PPP Book published by the Bappenas. The planned 29-kilometer bridge is the biggest infrastructure project listed in the Sumatra Economic Corridor in the government's master plan MP3EI and later subsumed under the Sunda Strait Infrastructure and Strategic Zone signed by Yudhoyono. The 100 trillion rupiah bridge project was initiated by Artha Graha Network consortium by setting up a consortium, PT Bangungraha Sejahtera Mulia, jointly with Lampung-Banten local government. As the initiator, the consortium was responsible for feasibility study and had privilege to win the tender. Based on *Beijing Review* report, Yudhoyono and Hu Jindao signed an agreement to facilitate a joint investment in the Sunda Strait, that also involved the China Railway Construction Corporation (see Yu, 2012).

**Diagram 1: MP3EI Infrastructure Project**



Source: KP3EI, Coordinating Minister of Economic Affairs

Although Japan and China used different approach to capture the shift in power configuration and resources allocation as explained in the previous section, both posed similar challenges pertaining to the PPP in Indonesia. The Sunda Bridge was left in limbo due to divided opinion among his ministers, particularly between Ministry of Finance and the Coordinating Ministry for Economic Affairs as to whether the project should be funded by state funds, or categorized into PPP projects (“Groundbreaking of Sunda Strait Bridge Project Unlikely to Occur in 2014,” 2013; Wijaya, 2013) . Furthermore, private sectors continued to put leverage on the project, insisting that it is unsolicited projects in which they should have gained privilege access to tendering and construction. Likewise, Japan has actively promoted waste management system by using water-to-energy (WTE) technology in Mamminasata Metropolitan Area, Makassar which basically gained support from the central government. However, with the application of Law No. 23/2014 on Regional Governance and the Law No.38/2007 on the allocation of governmental affairs to national, provincial, and district/city governments, responsibility of handling infrastructure projects (except for ones deemed as National Strategic Projects) has shifted from central to local (province/city/district government) (ERIA 2015). While a detailed engineering design (DED) for regional

landfill carried out by JICA was already implemented, the construction plan was unfortunately backed off due to site disapproval by the new Head of a district in Mamminasata (Damanhuri 2019). Instead of addressing structural problems, the development of regulatory framework further added complexities among different agencies and sectors.

When it comes to PPP, there are no “regulatory fix” appropriately working in Indonesia yet. Neither the “deinstitutionalization” of Chinese infrastructure regime nor “re-institutionalization” of Japanese infrastructure regime could really fit into the current regulatory arrangements insofar as domestic politics have significant leverage on them. Adverse regulatory decisions, breaches of contracts particularly by government, and undefined role of government in the PPP often caused delay or even failure of PPP projects. Conflicts between the policies of the central and local government as well as inclusion of new actors that added complexities often led to PPP implementation organizations not knowing how to proceed and eventually to bear unsatisfactory outcomes. The institutionalized relations and policy-based approach of Japan in Indonesia is too rigid to accommodate such political dynamics while the fragmented approach of China in Indonesia is too weak to maintain policy coherence, regional linkage, and sustainability of a deal. China’s piecemeal approach somehow constrains industry development, the productivity and efficiency of which requires consolidation and better scale economies through larger, multi-year contracts.

In 2015, Jokowi issued a new Presidential Decree on PPP, i.e Presidential Decree No. 38 No.2015, addressed loopholes in previous regulations and introduced an availability payment model as a source of investment return in addition to traditional user payments in order to attract investors. In the following year, Jokowi’s long-list of strategic national projects in Presidential Regulation No.3/2016, most recently revised in Presidential Regulation No. 56/2018, has by and large drawn much interest from China and Japan. Jokowi also shelved a plan to build the Sunda Strait Bridge connecting the islands of Java and Sumatra and claimed that such massive funding should be allocated to the Eastern part of Indonesia instead of Java and Sumatra. Yet, the realization has not yet included many that would normally be thought of as basic infrastructure for economic growth. Rather, what have been included are oil refineries,

mineral smelters, aircraft manufacturing, gas drilling, and the like. Among others, Abadi WK Masela Field and Tangguh LNG Train 3 Project (KPPIP, 2018).

Based on the World Bank's Private Participation in Infrastructure Database, it is still the energy sector that has been attracting the bulk of investments, or 93 percent of Prepaid Payment Instruments (PPI) transactions. The biggest contributor of the figure is the US\$4.3 billion Japan-led Central Java Power Project and the US\$1.8 billion China-led Java-7 Power Station – resulted in US\$6.1 billion in investments. It is fair to say that the number is due to the energy sector now at least the sector that is less regulated than other sectors, such as port (World Bank Data, 2018). One of big caveat in furthering PPP projects in other sectors (port, toll, and railway) is the allocation of control rights. The function of government has always been problematic. By means of PPP, inherently, infrastructure services are carried out by private sector and government provides support, i.e in the form of tax exemption or subsidy or can be as guarantee for finance. What become problematic is, the rise of “governmentality” when the government sought to imprint a mark of their presence in the infrastructure development. Since taking office in late 2014, Jokowi has assigned a number of important projects to the state actors that were initially to be privately financed and implemented. These include the Trans-Sumatra highway, the Soekarno-Hatta International Airport rail link in Jakarta, the Makassar New Port in South Sulawesi, and the privatization of the management of small airport. Further concerns about the crowding out of private investment were fueled in July, when the government issued Presidential Regulation No. 82/2015, which allowed the Indonesian Infrastructure Guarantee Fund (IIGF) to guarantee infrastructure financing through direct loans from international financial institutions to SOEs. Private contractors are thus left with even more limited choices of projects with less desirable returns.

Insofar as the complexity of the risk allocation of PPP projects deterred private investors, numerous big companies as well as medium enterprises business arose within the region on the back of massive global financial inflows in areas like property and digital business, ironically under the name of infrastructure. China Communication Construction Group through its subsidiary, PT China Harbour Jakarta Real Estate Development, developed Daan Mogot City (Damoci) in the West Jakarta, an integrated

residential area. China Fortune Land Development through its Singapore office developed Lavon, under 200 hectare land that would be used as a mixed-use development, with industrial estate being built before the commercial and residential clusters and also Karawang New Industry City (KNIC) that cost US\$ 100 million, claiming the projects as part of BRI. More interestingly Japanese trading companies hop on ride-hailing bandwagon in Indonesia. In July 2019, Mitsubishi Motors Corp invested in Indonesian ride-hailing giant *Gojek*, claiming the necessity of the accumulation of know-how of new mobility services that have been rapidly spreading in the region (Cordon, 2019). Similarly, it has been noticeable that at the present time METI and the JICA are refraining from making feasibility studies for direct investment in infrastructure projects in Indonesia. PQI project surveys carried out by Japan METI so far have been focused around LNG projects in Indonesia while more studies related to economic infrastructure such as ports are carried out in Vietnam (METI, 8 June 2018). Though great strides have been made in the last years, few PPPs have been put into operation. It is rather used as narrative to leverage economic interests and lead to unintended outcome.

## 5. Conclusion

Crucial merits of unpacking the Chinese and Japanese infrastructure regime through domestic political analysis are the flexibility to underpin interstate and intra-state relations from one discursive context to another, and the great emphasis on a process-based understanding of how loan project or investment have been carried out and of how policy is formulated and harmonized across different scales and interests. The analysis helps us to loosely examine how Japan and China's infrastructure modalities transpired in the political domain of fragmentation, decentralization, and internationalization. Both reminded us of how policy can be fluid, dynamic, and even masked the complexity of interlocking patterns of socio-political and economic variables that are such ubiquitous and distinctive.

Japan and China have different methodological ability to capture the shift in power relations and resources allocation that is inherent part of infrastructure regime. Chinese infrastructure regime has been traversing geographically uneven process of



capital expansion and invariably ‘deinstitutionalising’ power relations and policy formulation, while Japan’s regime has continuously facilitated a narrowing of the coalitional choices and institutional alternatives to political and economic forces. To some extent, the nature of infrastructure regime has made Japan becoming more cohesive while China has more fragmented approach in leveraging its infrastructure modalities. However, just as reflected in the politics of PPP, both have been coming to term with the structural issue and complex state-business relationship in Indonesia that led to distinctive forms of appearance of capital accumulation and political fixes pertaining to the infrastructure development.

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