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## The Reform Initiatives

Merupakan lembaga riset kebijakan yang bernaung di bawah PT Semesta Infomedia Indonesia, berkedudukan di Jakarta.

TRI fokus pada penelitian kebijakan terkait Ekonomi, Fiskal, Kesejahteraan Sosial, Desentralisasi, Lingkungan Hidup & Perubahan Iklim, Tata Kelola Kebijakan yang Baik, Politik & Elektoral, Penegakan Hukum, Ekonomi Digital, serta Usaha Mikro Kecil dan Menengah (UMKM).



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The Reform Initiatives

## Navigating the New Silk Road

*As the BRI continues to evolve, it offers ASEAN countries, particularly Indonesia, a chance to reshape its economic relationships and position in the global economy*

*Since the Belt and Road Initiative was launched in 2013, it has transformed the global landscape of infrastructure development and economic collaboration. China's vision for global connectivity through investments in infrastructure, trade agreements and financial assistance has turned the BRI into a cornerstone of modern international relations, positioning China as a central player in reshaping the economic and geopolitical landscape.*

For Indonesia, which is strategically located along several key maritime routes, the BRI holds both significant promise and profound challenges. Indonesia's inclusion in China's ambitious 21st Century Maritime Silk Road places it at the crossroads of international trade flows, making it an essential partner for China in Southeast Asia. The Association of Southeast Asian Nations, of which Indonesia is a leading member, has also experienced increased connectivity and economic integration with China due to the BRI.

The BRI has significantly increased Chinese investments in Indonesia and ASEAN as a whole, particularly in sectors such as infrastructure, transportation and energy. Projects such as the Jakarta-Bandung High-Speed Railway in Indonesia and major port developments in Malaysia and Cambodia symbolize the deepening economic ties and enhanced connectivity between China and the region. These large-scale infrastructure investments have improved regional logistics, trade routes, and economic integration, positioning China as a key development partner for ASEAN countries.

In the case of Indonesia, its strategic location along critical maritime routes has made it a focal point of the BRI, with major investments aimed at upgrading its infrastructure. However, Indonesia's export economy remains heavily reliant on raw materials such as coal, palm oil, and nickel. In the past five years, these commodities dominated Indonesia's exports to China, reflecting a low value-added trade composition. At the same time, Indonesia imports high-value manufactured goods from China, including electronics and machinery, creating an economic imbalance. This pattern has contributed to a significant trade deficit, emphasizing Indonesia's need to diversify and upgrade its industrial capabilities.

Across ASEAN, a similar trade dynamic exists, with many member states exporting raw materials to China while importing higher-value goods. This has placed ASEAN in a lower value chain position, where the region is largely dependent on resource exports while relying on China for advanced technologies and manufactured goods. This economic asymmetry presents a challenge for ASEAN's long-term economic ambitions.

To address these challenges, Indonesia and ASEAN must focus on building value-added industries and enhancing manufacturing capabilities. By investing in industrial zones, attracting high-tech investments, and fostering technological innovation, ASEAN can move up the value chain and reduce dependency on raw material exports. Furthermore, strengthening digital infrastructure and encouraging regional collaboration on innovation will be crucial for ASEAN to maximize the opportunities presented by the BRI while fostering more balanced and sustainable trade relationships with China.

First, strengthening technological collaboration with China can help Indonesia and ASEAN to move up the value chain. Joint ventures in research and development, especially in sectors such as chemicals and manufacturing, could foster new growth areas for Indonesia and ASEAN's economy. Additionally, partnerships in the digital economy and green technologies can open up new avenues for exports, providing opportunities to produce goods with higher market value. By leveraging Chinese expertise and innovation, Indonesia and ASEAN can enhance their industrial capabilities and improve their position in global supply chains.

Second, Indonesia and ASEAN should leverage existing trade agreements such as the ASEAN-China Free Trade Area and the Regional Comprehensive Economic Partnership more effectively.

These platforms can provide better access to Chinese markets under favorable trade terms, helping to smooth out imbalances in the trade relationship. For instance, trade facilitated by these agreements contributed to a 20 percent increase in Indonesia's exports to China in 2022, demonstrating their potential to positively alter trade dynamics. By maximizing the benefits of these agreements, Indonesia and ASEAN can create more sustainable and balanced economic ties with China.

Third, Indonesia and ASEAN must diversify their trade relationships. Expanding trade ties with other Asian countries, as well as markets in Europe and North America, can help balance trade portfolios and improve economic stability. Diversification provides economic buffers and opens new markets for Indonesian and ASEAN products, reducing vulnerability to external shocks in any region.

As the BRI continues to evolve, it presents significant opportunities not just for Indonesia but for ASEAN as a whole. To fully harness the benefits of the BRI, ASEAN countries must focus on enhancing their domestic industries, diversifying trade portfolios, and negotiating equitable trade terms. For instance, transitioning from merely supplying raw materials to China to developing value-added products can elevate ASEAN's role in the global economy.

The BRI offers ASEAN, and particularly Indonesia, a chance to reshape its economic relationships and position in the global economy. By focusing on industrial upgrading, trade diversification, and strategic use of trade agreements, ASEAN countries can foster mutually beneficial partnerships with China that support long-term growth and inclusive development. This approach will help ensure that the region capitalizes on its strategic position to create a sustainable, competitive and prosperous future.

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