The Characteristics of China's Multinationals in the Manufacturing Sector Operating in Indonesia[*)]

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Introduction

The emergence of Chinese multinationals is of relatively recent date as compared to other more advanced developing countries in Asia and Latin America. Until 1978, China was practically a closed economy (Hofman, Min Zhao, Ishihara: 191). Most Chinese multinationals are state owned enterprises, because during the Socialist regime private owned companies were not allowed. Only after China started the ideological and economic process of "Opening Up and Reform" (*gaige kaifang*) under the leadership of Deng Xiaoping some 30 years ago, was private ownership allowed and large companies, especially state owned enterprises, could venture into the global market. Private enterprises started late to develop, first in 1984 and even these with less than 8 employees and only in 1994 did the company law explicitly recognized private companies. It took another ten years before private property gained equal status with state property in China's constitution. (Hofman, Min Zhao, Ishihara: 182, 184). Hence, private enterprises is a new phenomenon in China and so are privately owned multinationals.

The term Chinese multinationals in this context is meant FDIs from the People's Republic of China or mainland China, and excludes FDIs from Hong Kong, Chinese Taipei, or overseas Chinese living outside the country.

One of the new successful Chinese entrepreneur is Li Dong Sheng, who founded the TCL company in 1982, which manufactures electronic products and has now become one of the biggest electronics firm in the world, in particular after merging with the Thompson electronics firm from France. Subsequently the firm's name has been changed into TCL-Thompson Enterprise (TTE). (*Kompas* daily news, Jakarta, 9 August 2004). Another big private company is the Citic Pacific Group founded by Larry Rong Zhijan in 1980, now he is the richest man in China. Its fields of activities are in infrastructure, real estate, marketing and distribution. Citic stands for China International Trust and Investment Corporation. Other big private enterprises are for example the Shanghai Fuxing High-Tech Group Company Ltd., Netease.com, and Gome Appliances (*Kompas* daily news, 28 January 2006, p. 62).

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The objective of the paper is to look at the characteristics of China's outward foreign investment to other developing countries, in particular in the manufacturing sector to Indonesia. It tries to capture the specific characteristics of Chinese FDIs as compared to FDIs from developed countries and other developing countries. However, it is to be expected that because of the political system and the historical experience in the past, the characteristics of Chinese multinationals are somewhat different than what is generally common among multinationals from other developing countries.

The paper is organised into seven sections. The first section introduces the background of China's outward foreign investments, the objectives of the paper, and the scope of Chinese FDIs. Section two provides a theoretical analysis of Chinese multinationals, their position in the world, the specific characteristics that deviate from other emerging economies, the determinant factors in China and in the host countries. Section three looks at and analyses Chinese FDIs in the manufacturing sector in Indonesia by business activities and regional distribution. Section four analyses the impact of the ASEAN-China Free Trade Agreement on the flow of China's FDIs into Indonesia. Section five describes the macro-economic condition, the business climate, and the investment law and regulations of the host country, Indonesia. Section six analyses the role of Indonesian Chinese in forming joint-ventures with Chinese multinationals. A conclusion is added as the last section.

Chinese Multinationals and Globalization

Gammeltoft identified three waves of FDIs from emerging and developing countries, the first wave was the period from 1960s to mid 1980s, the second wave lasted from the mid 1980s to 1990s, and the third wave from 1990s to 2000s. Chinese FDIs belong to the second wave and the third wave period. The main characteristics of the second wave FDIs are as follow: for outward FDIs going to developing countries these are investments in the primary sector and difficult-to-trade services like finance and infrastructure, whereas to developed countries are investments in mature, cost-competitive industries like automotive, electronics, IT services, and in asset-augmenting investments. The kind of investments to both country group destinations consist of horizontal and vertical economic activities. The motivation for investing in developing countries is mainly resource and market seeking, while to developed countries it is market and asset seeking. The third wave is basically the same as the second wave, but with enhanced intensities. (Gammeltoft: 8-10).

The kind of industrial sector that is moving to other countries and its intensity depend on a number of factors in the investing country and in the host country. The volume of FDI flows depends on the business climate of the host country, the attractiveness to earn a high return, and the openness of the host country in terms of international investment agreement. If one host country is less attractive for foreign investments, the foreign investors have the choice among many developing countries.

To access the motivation of China’s outward foreign investments, one should look at the determinants for going abroad and the pull factors in the host countries. On the contrary, many developed countries are investing in developing countries just because they are attracted by the low level of wages.

The determinants of China’s outward foreign investments are as follow:

1. Political and economic system, because in the past private ownership of assets was not allowed in China. Consequently, the first Chinese multinationals were state or regional owned enterprises. Private multinationals from China came much later.
2. Macro-economic conditions in China. China itself has a very big domestic market in terms of its large number of population, though its income per capita is still relatively low at the level of US$ 2,010 in 2006 (World Bank, World Development Report 2008: 481). Generally such countries are not very outward-looking. Instead China attracts a large number of foreign firms to invest in the country. China is also known as a country that produces low priced products, sometimes much lower than the existing prices in the target countries, because of the relatively low level of wages but relatively high productivity, low profit rates, and an overvalued exchange rate. The motivation for investing abroad is therefore driven to penetrate the foreign market more intensively, because of existing trade impediments in the target countries. And by investing in that country Chinese multinationals can penetrate the market from within.
3. Level of technological attainment, right now China could generally categorized as being capable of producing the range of products from low-technology relatively labour-intensive final consumer goods to medium-technology medium quality consumer and capital goods. China has not the high-technology level yet as in developed countries. This technology attainment level determines also the kind of technology exported to other developing countries by Chinese multinationals.
4. Open outward foreign investment policy by the government, reasons for outward investments, goals of outward investment, e.g. to fulfill domestic needs, to expand the market worldwide, to get access to natural resources, to earn extra profit, to gain new technologies and new systems of international marketing, or perhaps to develop an

export base to other countries. Chinese multinationals do not come because of lower wages in the target countries, because Chinese goods are already notoriously very cheap due to relatively low wages.

5. Abundant foreign exchange reserves.

Multinationals have of course the choice of investing in a large number of developing countries. As determinants of selecting host countries like Indonesia could be mentioned: competition from other developing and neighbouring countries:

1. Competition from other developing countries in attracting FDIs.
2. The business climate like economic and political stability, security, rule of law and its enforcement especially concerning intellectual property rights, law on land use, and investment facilitations.
3. Investment policy in the host country and easiness in getting an investment approval.
4. The economy like the number of population, the level of income, the level of wages, the activities of labour unions, and the existence of.supporting industries
5. Richness in natural resources.
6. Availability of infrastructure.
7. The quality of human resources and technological absorptive capacity in terms of technological advancement, and the proportion of skilled and unskilled labour.
8. Existing economic and political relations.

When China embarked on allowing the outward flow of foreign direct investments during the period 1979-1983, it was politically driven primarily to search for natural resources to guarantee the fast growth of the domestic economy. And only state-owned trading regional-based enterprises were allowed to invest abroad. But as time passed by and because of the political change in China, increasingly more private owned enterprises are allowed to invest abroad, and the oversea investments become increasingly commercially oriented. This development also brings an impact on the choice of business activities from first natural resources security-based outward foreign investments to the manufacturing sector and lately more to the knowledge-driven sectors. Private companies must seek prior approval from the government before investing abroad. (Invest in Denmark: 3-5). The motivations for investing overseas are expanding new markets abroad, gaining access to advanced technology and management skills, and securing the supply of natural resources (Invest in Denmark: 14-16).

It is the policy of the Chinese government to actively encourage and support outward Chinese foreign investments through facilitation and improving procedures and enhancing the system of services for these investments. By the end of 2006, more than 5,000 Chinese enterprises invested in nearly 10,000 projects worldwide in no less than 172 countries. (2006 Statistical Bulletin of China's Outward Foreign Direct Investment, p. 51)

Chinese multinationals are specific, because especially the big ones and almost all of them are state- or regional-owned enterprises, and their entrance in the global economy is relatively recent. These multinationals are representing the activities of their mother companies in China within the confines of technological capabilities and quality standards. And the characteristics of China's industrialisation are in the fields of "low-wage, low-tech, low-productivity manufacturing at the low end of global supply chain on the one hand, and high investment, high resource consumption and pollution, high exploitation, and high degree of foreign capital/trade dependency on the other" (Lin Chun: 11). In contrast to multinationals from other developing countries, which operate in a limited number of foreign countries, the big Chinese multinationals operate in a large number of countries world-wide (compare Chan-Fishel, Lawson: 64), similar to some South Korean large firms.

Most of the Chinese outward FDIs went to other developing countries in Asia, Africa and Latin America primarily in the field of mining, oil and gas, but also in trade and services, manufacturing and information technology (Gammeltoft: 17f.). The position of Chinese multinationals among developing countries was conspicuous, because as of 2001, out of the 50 largest multinational corporations from developing countries, China was represented by no less than 12 firms (Gammeltoft: 19). China's investments in Africa are mainly directed towards the procurement of natural resources, heavily supported by Chinese banks (Chan-Fishel, Lawson: 63)

In a worldwide comparison, the value of China's outward FDIs were very small indeed, but were increasing very fast from – US$ 152 million in 2003 to US$ 11.3 billion in 2006 (see Table 1).

Tabel 1. FDI Outflows from Selected Countries and the World, 2003 – 2006

(US$ million)

	2003	2004	2006
World	561,104	813,068	778,725
China	- 152	1,806	11,306
European Union	286,106	334,915	554,802
U S A	129,362	222,437	- 12,714
Japan	28,800	30,961	45,781

Source: UNCTAD, *World Investment Report 2006*, New York, Geneva: United Nations, pp. 331-3.

Total China's outward FDI flow worldwide, excluding the financial sector, increased rapidly from a mere US$ 2.9 billion in 2003 to US$ 17.6 billion in 2006. Up to 2004, the greatest portion of the FDI flow went to Asia in the first place and to Latin America in the second place. But after 2005 the greatest FDI flow went to Latin America in the first place and to Asia in the second place. The flow to Indonesia was very small and fluctuating during the period 2003-2006. See Table 2. China's outward FDI stock to the world also increased rapidly from US$ 33.2 billion in 2003 to US$ 75.0 billion in 2006. But the largest share of the FDI stock went to Asia, which increased rapidly from US$ 26.6 billion to US$ 48.0 billion respectively. And China's outward FDI stock to Indonesia, though very small, but is also increasing rapidly from US$ 54 million to US$ 226 million during the period. See Table 3.

Table 2. China's Outward FDI Flow (Non-Finance Part) by Region, 2003 – 2006

(US$ million)

Region	2003	2004	2005	2006
World Total	2,855	5,498	12,261	17,634
Asia	1,505	3,014	4,484	7,663
Indonesia	27	62	12	57
Africa	75	317	392	520
Europe	145	167	395	608
Latin America	1,038	1,763	6,466	8,469
North America	58	126	321	258
Oceania	34	120	203	120

Source: *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*, Table 1.

Table 3. China's Outward FDI Stock (Non-Finance Part) by Region, 2003 – 2006

(US$ million)

Region	2003	2004	2005	2006
World Total	33,222	44,777	57,206	75,026
Asia	26,603	33,480	40,954	47,978
Indonesia	54	122	141	226
Africa	491	900	1,595	2,557
Europe	487	677	1,273	2,270
Latin America	4,619	8,268	11,470	19,694
North America	549	909	1,263	1,587
Oceania	472	544	650	939

Source: *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*, Table 2.

Chinese Multinationals in the Manufacturing Industries in Indonesia

The focus of European investments in Indonesia is to cover the domestic market for selling their products and services. On the other hand Asian investors concentrate more on using Indonesia as their export-oriented production base of manufacturing like garments and consumer electronics, and Americans on oil and gas exploration and mining activities. (Schill: slide 3).

There were great fluctuations in Chinese foreign investments in Indonesia during the period 2002 – 2007, but the general trend was increasing from US$ 33 million in 2002 to US$ 219 million in 2006 and then surged to US$ 900 million in 2007. Up to the year 2006, the value of Chinese foreign investments was relatively small as compared to the leading East-Asian investors like Japan and the four Asian tigers. And in 2007, China surpassed all other East-Asian investors except Singapore. See Table 4.

Table 4. Approved Foreign Investments in Indonesia by Selected Asian Countries, 2002 – 2007

(US$ million)

Country	2002	2003	2004	2005	2006	2007
World Total	9,744	13,207	10,277	13,579	15,625	40,146
Hong Kong	1,712	170	20	102	399	259
Japan	510	1,252	1,684	916	444	598
South Korea	370	122	402	618	2,232	895
Singapore	3,328	519	577	1,267	1,994	5,557
Taiwan	38	137	69	130	219	51
China	33	248	19	205	127	900

Note: Above figures are the values of foreign investments approved by the Indonesian government, which means that the investments might not be realised as planned. At best they are to be interpreted as indications only.
Source: Bank Indonesia. 2008. *Indonesian Financial Statistics*, Jakarta, Vol. X No. 5, May, pp. 158-9.

Total realised Chinese FDIs in Indonesia according to the Investment Co-ordinating Board from 1995 to 2007 amounted to 80 projects with a value of US$ 229 million[1] (see Table A1 in the Attachment). As can be seen the total realised investment value is relatively small. The first and only Chinese FDI that came to Indonesia was in 1995 with an investment value of US$ 1.4 million in the chemical and pharmaceutical industry in East Java. Until the year 2000 the number of investment project was less than 10 projects yearly, but the number started to increase and reached its peak in 2007 with 20 projects. The value of investments increased rapidly and reached its peak in 2001 amounting to US$ 83.3 million, but then dropped sharply to US$ 28.9 million in 2007. By regional distribution, the highest value of investment took place in Central Kalimantan with US$ 51.6 million, although it was only for one project in the wood industry. Next came Banten with US$ 51.3 million and Jakarta with US$ 45.5 million. Other provinces absorbed only small value of investments. (See Table A1).

Realised Chinese FDIs in the manufacturing sector total 70 projects worth US$ 167.5 million. Hence the majority of Chinese FDIs in Indonesia is in the manufacturing sector. For most of the years during the 1996 – 2007 period, the number of projects varies between 2 and 6 projects, except for 2001 which numbers 15 projects and 2004 with 13 projects. The value of investments first increased from US$ 1.4 million in 1995 to its peak of US$ 63.6 million in 2001 but then declined to US$ 23.7 million in 2007. Most of the investment projects are located in Java, particularly in Jakarta. The metal, metal products, machineries and electronic industry is leading in the number of projects with 9 projects, followed with each 8 projects in the chemical and pharmaceutical industry and the transport equipment industry. Next on the list is the textile industry with 5 projects, the wood industry with 3 projects, the paper, paper products and printing industry and the food industry with each 2 projects, and the rest with each one project. In terms of investment value, the highest investment value was in the wood industry with a total of US$ 54.8 million, next followed by the textile industry with US$ 31.9 million, the basic metal, metal products, machineries and electronics industry with US$ 28.8 million and the transport and transport equipment industry with US$ 24.1 million. The absorption in the other industries was relatively small. (See Table A2 in the Attachment).

It was reported by a local newspaper recently, that 400 Chinese entrepreneurs from Guangdong and Indonesian businessmen have signed in Jakarta on September 5, 2008, a memory of understanding to cooperate in 20 investment projects in Indonesia worth US$ 597 million. The joint projects will be in the sectors energy, electricity, plantation estates, agriculture, foodstuff, infrastructure development, and trade. (*Kompas* daily news, 5 September 2008). However, there are none in the manufacturing sector.

Chinese products are generally of low to medium quality and they can invade the market because of the low prices (compared Tarmidi: 205).

Motorcycle assembling companies in Indonesia have only one principal and are producing only for that principal, e.g. like Honda, Yamaha, Suzuki, and others. So do also newcomers motorcycle companies from China. This is because the capital investment value required in these plants is relative low. They also tend to form joint investments with local firms, probably to capitalise on the local market conditions and sometimes on the existing marketing networks, but they do not form alliances with the existing motorcycle assembling companies. (See Attachment 3).

In the car assembling industry, some companies are producing for one principal only like Honda, Hyundai Indonesia Motor, and the Krama Yudha Group who is only producing for Mitsubishi. But in some companies, although they have a main principal they are also assembling for other car brands. E.g. The main principal of the Astra Group is Toyota Motor,

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[1] One should be careful in interpreting even these realised figures, because the data are doubtful due to the weak reporting and monitoring system of the Investment Co-ordinating Board. But it still useful as an overall indicator.

but they accept also side jobs from MAN, Peugeot, Renault, BMW, Nissan, Daihatsu and Isuzu. (See Gaikindo). Newly the company is also assembling Geely cars from China (see Attachment 3). Another company, the Indomobil Group, besides mainly producing for Suzuki, it is also producing other car brands like Hino, Volkswagen, Volvo, Ssangyong, Audi, Nissan, and Mazda. (See Gaikindo). Newly it is also producing the Chery car from China (see Attachment 3). The reason might be, because to built a new assembling plant would involve high investment costs, whereas the future market is not certain yet due to intense competition in the automobile market in Indonesia. Another reason might be, by joining a local assembling plant it might capitalize on the existing sales network and marketing system.

Before 1999, imports of completely built-up (CBU) are prohibited, only cars in completely knocked-down (CKD) condition may be imported. But now, cars in CBU condition may also be imported. However, import duty for CBU cars is much higher than for CKD cars. Since September 2007, the Indonesian government has increased the tariff rate in the passenger car category with the capacity of over 1,800 cc from 20 % to 45 %. But on the other hand, it reduces the tariff rate for imports of cars with a capacity of over 2,500 cc in CKD condition from 45 % to 20 %. (*Kompas* daily news, 29 October 2007).

As can be seen from Table 5, the Indonesian government protects the automotive assembling industry in the country with relatively high import tariffs for CBU vehicles, whereas imports of CKD parts enjoy a much lower tariff, so that there is less incentive to import automotive vehicles in CBU condition. In 2001, the Indonesian government has lowered its import tariff rates a little bit for imports of cars in CBU condition.

Tabel 5. Import Duty for Automotive Products, 1999 and 2001

(in %)

	24 June 1999		2001	
	CKD	**CBU**	**CKD**	**CBU**
Passenger car: < 1,500cc	35	65	35	60
1,500cc – 3,000cc	40	70	40	65
3,000cc – 4,000cc	50	80	40	65
.> 4,000cc	50	80	50	75
Four wheels drive SUV: < 1,500cc	25	45	25	40
1,500cc – 3,000cc	25	45	25	40
> 3,000	25	45	25	40
> 4,000cc	25	45		
Two wheels drive Utility Vehicle:				
< 1,500cc	25	45	25	40
1,500cc – 3,000cc	25	45	25	40
> 3,000cc	25	45	25	40
Truck: < 5 tons	25	40	25	35
5 tons – 24 tons	25	40	25	35
> 24 tons	0	5	0	0
Bus: 5 tons-24 tons	25	45	25	35
> 24 tons	25	45	0	0
Motorcycle: < 250cc	25	35	0	35
≥ 250cc	25	60	25	60

CKD = completely knocked-down
CBU = completely built-up
Sources: 1999 DRI-WEFA, p. 391; 2001 GAIKINDO; motorcycle 1999 Department of Industry.

ASEAN-China FTA

The ASEAN-China Free Trade Agreement signed in November 2004 was for trade in goods, but this agreement will be enhanced with further negotiations on trade in services and also on investments starting 2005. This implies that there will be more open and free flow of capital between the member countries in the region. As the result, more opportunities will be opened and probably more foreign investments will flow from China to Indonesia. The objective of the Agreement is to strengthen and enhance economic, trade and investment co-operation between both parties, and to create a transparent, liberal and facilitative investment regime.

One of the components of the ASEAN-China Free Trade Agreement is the ASEAN-China Investment Agreement, which is hoped to be concluded in December 2008 during the 12th ASEAN-China Summit. The two other components are the Trade in Goods Agreement and the Trade in Services Agreement which were already concluded in 2004 and 2006.

The Investment Agreement implies that foreign investments from China to ASEAN countries will increase and vice versa. Though this is a positive development, but it is not certain yet that the outflow of Chinese investments will go to Indonesia. To attract more Chinese investments into Indonesia, Indonesia must fight by improving its investment and business climate. Many sources predicted that future Chinese outward foreign investments will increase significantly.

But on the other hand, with the Trade in Goods Agreement now in place, it is hoped that trade in goods will also increase as trade impediments are being abolished. As trade becomes more open, it will have an adverse effect on the kind of market-penetration oriented investments from China, because there is no sense in investing in such kind of activities in ASEAN countries since Chinese products are very cheap.

The Indonesian Economy and Investment Regulation

Indonesia is an attractive country for foreign investments, because it has a large population of some 226 million people in 2007 and the population growth rate of around 1.2 % per annum is relatively high. The country is also rich in natural resources like oil, gas, coal, tin, aluminum, copper, silver, gold, nickel, etc. However, due to internal economic, social and political conditions and instability, the business climate is not good, so that many investors refrain from coming to Indonesia. (See Schill) Though the population number in Indonesia is high, but the income per capita of US$ 1,420 in 2006 (World Bank), and hence the purchasing power of the people, is still relatively low. Despite the many internal problems, the economy on real terms could still grow at relatively respectable high rates of 5.7 % in 2005, 5.5 % in 2006, 6.3 % in 2007 and this year is expected to reach 6.2 %.

The Indonesian economy is basically still an agrarian economy, but industrial production has increased rapidly. In 1980 the share of the agricultural sector to total real GDP amounted to 30.7 % and the manufacturing industrial sector only 15.3 %. But in 2007 the share of agriculture in real GDP declined sharply to 13.8 % and the manufacturing industrial sector increased to 27.4 %. Indonesia can be categorised as a semi-industrialised country. For many years it has developed many manufacturing industries in the country. On the one hand it has reached a middle technology level industrialization, as it has an aircraft assembling plant, many automotive assembling plants, some fully integrated computerised textile mills, fertiliser, cement, pharmaceutical industries. But on the other hand, it is still depending on low-technology, low-skilled and labour-intensive technologies like textile and garment, and assembling production in the electronics and automotive industries.

In 1967 Indonesia for the first time enacted Law No. 1 on Foreign Investment and in 1968 Law No. 6 on Domestic Investment. Foreign investments were being treated differently than domestic investments in terms of facilitation and field of activities. The fields of activities for foreign investments were much more restrictive than that for domestic investments. In compliance with the Trade-related Investment Measures (TRIMs) agreement in the WTO, Indonesia has in 2007 revised and enacted a new Law No. 25 on Investments, indicating that there should be no discrimination between domestic investment and foreign investment. Article 4 paragraph 2a stipulates that domestic as well as foreign investment will receive equal treatment in terms of taxation and regulations, however there will be unequal opportunities as certain economic activities are closed for FDIs (Article 12 paragraph 2b). To that purpose the government issues a negative investment list.

The negative investment list distinguishes six categories of investment:

1. Sectors that are closed for domestic as well as foreign investments;
2. Sectors that are open for domestic investors;
3. Sectors that are open for foreign investors under certain prerequisites;
4. Sectors that are open for foreign investments in form of joint ventures, the minimum capital share of local participation is fixed at 5 %;
5. Sectors that are open for local small-scale investors;
6. Sectors that are open for foreign investments, when they have a joint venture with local medium- and large-scale enterprises.

Sectors that are not mentioned in the list above are as such open for a 100 % foreign capital ownership. (BKPM: 2-12, 13). But according to the Presidential Decree No. 77 Year 2007, maximum capital participation for foreign investments in the pharmaceutical industry is limited to 75 %.

The Chinese Connection

Unique for Chinese outward investments, probably also Indian, is that they can make use of the vast global overseas Chinese network. They can find business partnership and form alliances more easily because some of the overseas Chinese still cling to Chinese culture, tradition and language, and the overseas Chinese are generally successful in business, and as fellow Chinese they are trustworthy.

Do MNCs from China operate differently than most western MNCs and consequently need to be approached differently in theoretical terms? There could be two broad categories of reasons why Chinese MNCs might operate differently: most obviously, they could operate differently due to features of their own and those of their home institutional environment. But they could also operate differently due to the institutional environments of the host countries: host countries might for different reasons receive MNCs differently depending on their home country, thus giving rise to different operating practices depending on origins. One obvious reason why this could be the case is due to ethnic networks of overseas Chinese. Much has been written about the role of the Chinese diaspora and overseas Chinese networks in understanding both local economic dynamics within a variety of Asian countries and international exchange relationships between mainland China and other Asian countries. These networks are made up of reciprocal relationships (*guanxi*) built on trust (*xinyong*).

Some authors consider the recognition of these networks pivotal to a proper understanding of contemporary economic affairs in most Asian countries (Redding 1993; Luo 2000). Other authors, however, argue that their influence is overstated and that ethnic Chinese economic communities, like others, are predominantly driven by motives of profit maximization and risk reduction (Gomez and Hsiao 2000; Yao 2002). Buckley et al. (2007) argue that the ability to tap into networks of overseas Chinese might be construed as an ownership specific advantage and constitute a particular location-specific relational asset for Chinese firms. Certain ownership specific advantages are likely to be more pronounced among emerging economy MNCs, such as flexibility, economizing on capital and other resources, familiarity with operations in emerging economy institutional environments, etc. and any ability to engage in trust-based reciprocal relations with pre-established and economically influential communities abroad would constitute a special relational asset for Chinese firms. Within these networks, market information about the most suitable and profitable investment opportunities can circulate with ease, fruitful commercial relationships can be established that facilitate market entry and development, and investment and commercial risk can be reduced (Buckley et al. 2007).

On the basis of official government data on approved outward investment projects from China, Buckley et al. test the hypothesis by correlating the level of FDI from China with the proportion of ethnic Chinese in the host population. With a highly significant and positive coefficient in their multivariate analysis they find strong support for the hypothesis that familiarity between populations is important in the flow of Chinese FDI. It should be remembered, though, that while strong overseas Chinese networks can well make Chinese FDI operate differently than FDI from other countries, the importance of social networks in general is not alien to extant FDI theories, particularly not to network theory and the Uppsala model.

It is especially important to consider the influence of overseas Chinese networks in an Asian context given that Asia is home to close to 90 percent of ethnic Chinese living outside of China. In 1990 there were around 37 million overseas Chinese and two thirds of these were distributed more or less evenly among Indonesia, Thailand, Hong Kong SAR and Malaysia (Poston et al. 1994).

Specifically in Indonesia, the role of ethnicity has been central to the shaping of the modern Indonesian economy. The number of Indonesians of Chinese origin is relatively low, probably around 3 percent of the total Indonesian population. With a total population in 2007 of around 226 million, the Chinese population in Indonesia accounts for around 6.8 million people. These include Chinese descendants holding Indonesian citizenship, another small number with mainland China citizenship, and probably some with Chinese Taipei citizenship. Today there are only few elderly Chinese left who were born in China, since there were no new waves of Chinese immigrants coming from China for the past 60 to 80 years. There is no exact data on the number of the Chinese in Indonesia (see Tan: ix, x)

Though the number is small Indonesian Chinese have dominated Indonesian economic activities for many years, particularly after the colonial Dutch enterprises left the country in the late 50s. They are still a dominant player in the private sector today (Tan: xiii-xviii; Ong Eng Die; Suryadinata: Ch. III). Most of them are active in the private sector because both in the past and today it has been difficult for them to work in government or join the army and police forces.

Originating from the same ethnic group, sharing common cultural backgrounds, having a common language in Mandarin etc. it can be expected that Chinese foreign investors, if they form joint ventures with local partners, would prefer to choose Indonesian Chinese rather than indigenous firms as business partners. (Tarmidi: 203; see also Attachment 3).

Conclusion

1. In contrast to most FDIs from other developing countries, which invested in a selected number of countries only, big Chinese enterprises invested worldwide abroad, especially those engaged in market penetration activities. Though the total volume of investments was still relatively small, they are increasing very fast. They started also relatively late in venturing abroad.
2. Unlike FDIs from other developing countries, due to the past economic system, many Chinese FDIs are big state or regional owned enterprises. The emergence of private enterprises is relatively recent, though some manage to become big enterprises also.
3. China's foreign investments in Indonesia from 1975 to 2007 accumulates to only 80 projects with a total value of US$ 229 million, they are very small compared to total foreign investments in Indonesia and compared to some other investing countries. The investment value of the projects is generally also small.
4. China's foreign investments to Indonesia came relatively late, namely in 1995, picking up in significance only after the year 2000, reaching its peak in 2007.
5. Most of the projects in the manufacturing sector are highly concentrated on the island of Java.
6. China's foreign investments in Indonesia are of mixed entities, some are state- or regional government-owned enterprises and also private firms. In case of joint ventures, their local partners are mostly local Chinese.
7. In the motorcycle assembling industry, they all establish joint ventures with local firms, mostly with Indonesian Chinese, however their local partners are not local motorcycle assembling firms. On the contrary in the automobile assembling industry, they also establish alliances but with existing assembling companies who are local Chinese.

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Attachment

Table A1. Realisation of China's Foreign Investment in Indonesia, 1995 – 2007

Province	Number of Projects											
Sector	1995	1996	1997	2000	2001	2002	2003	2004	2005	2006	2007	Total
Banten												
Non-metalic Mining			1									1
Chemical & Pharmaceutical Industry				1		1					1	3
Transport & Transport Equipment Industry							2		1		2	5
Trade & Reparation												
Other Industries								1				1
Basic Metal, Metal Products, Machi-neries & Electronics Industry									1			1
Textile Industry										1		1
Jakarta												
Transport & Transport Equipment Industry				1			1					2
Rubber & Plastic goods Industry						1						1
Transport, Storage & Communication				1	1	1	1					4
Real Estate, Industrial Estate & Office Building			1									1
Paper, Paper Products & Printing							1					1
Basic Metal, Metal Products, Machi-neries & Electronics Industry									1	1		2
Mining							1				1	2
Construction												
Trade & Reparation					1		1	2	5	2	6	17
Other Services		1						1	1		2	5
West Java												
Textile Industry					2						2	4
Transport & Transport Equipment												

Industry											1	1
Food Industry					1							1
Wood Industry							1					1
Basic Metal, Metal Products, Machineries & Electronics Industry							1			1		2
Trade & Reparation					1		1					2
Central Java												
Chemical & Pharmaceutical Industry								1		1		2
Paper, Paper Products & Printing							1					1
East Java												
Chemical & Pharmaceutical Industry	1	2										3
Basic Metal, Metal Products, Machineries & Electronics Industry										1	1	2
Wood Industry												
Trade & Reparation											3	3
Other Services								1				1
West Sumatra												
Food Industry									1			1
Other Services												
Riau Islands												
Basic Metal, Metal Products, Machineries & Electronics Industry										1		1
Lampung												
Mining										1		1
Bangka Belitung												
Basic Metal, Metal Products, Machineries & Electronics Industry										1		1
Bali												
Wood Industry									1			1
East Kalimantan												
Trade & Reparation											1	1
Central Kalimantan												
Wood Industry							1					1

South Kalimantan												
Mining										1		1
Trade & Reparation												
South Sulawesi												
Trade & Reparation											1	1
East Nusa Tenggara												
Mining											1	1
Trade & Reparation												
Total	1	3	2	3	6	3	11	6	11	11	20	80

Value of Investment (US$ 000)

Sector	1995	1996	1997	2000	2001	2002	2003	2004	2005	2006	2007	Total
Banten												**51,283**
Non-metalic Mining			6,883									6,883
Chemical & Pharmaceutical Industry				525		450					2,578	3553
Transport & Transport Equipment Industry							2,090		12,952		5,500	20,542
Trade & Reparation							60		4,000			4060
Other Industries								650				650
Basic Metal, Metal Products, Machineries & Electronics Industry									6,863			6,863
Textile Industry										8,722		8,722
Jakarta												**45,466**
Transport & Transport Equipment Industry				2,000			1,000					3,000
Rubber & Plastic goods Industry						33						33
Transport, Storage & Communication				223	592	1,543	18,825					21183
Real Estate, Industrial Estate & Office Building			1,000									1,000
Paper, Paper Products & Printing							130					130
Basic Metal, Metal Products, Machineries & Electronics Industry									200	230		430

Mining							460		238		500	1198
Construction							111					111
Trade & Reparation					16		151	2,000	7,507	550	3,075	13299
Other Services		1,000						3,529	263		340	5,132
West Java												
Textile Industry					9,100						14,066	23,166
Transport & Transport Equipment												**17,448**
Industry											600	600
Food Industry						3,900						3,900
Wood Industry							3,071					3,071
Basic Metal, Metal Products, Machi-												
neries & Electronics Industry							2,500			7,000		9,500
Trade & Reparation						100	77				200	377
Central Java												**7,082**
Chemical & Pharmaceutical Industry								1,647		2,250		3,897
Paper, Paper Products & Printing							3,185					3,185
East Java												**6,631**
Chemical & Pharmaceutical Industry	1,432	3,261										4,693
Basic Metal, Metal Products, Machi-												
neries & Electronics Industry										168	1,000	1,168
Wood Industry									0			0
Trade & Reparation											470	470
Other Services								300				300
West Sumatra												**12,853**
Food Industry									7,781			7,781
Other Services									5,072			5,072
Riau Islands												**10,640**
Basic Metal, Metal Products, Machi-												
neries & Electronics Industry										10,640		10,640
Lampung												**750**
Mining										750		750
Bangka Belitung												**220**
Basic Metal, Metal Products, Machi-												

neries & Electronics Industry										220		220
Bali												**177**
Wood Industry									177			177
East Kalimantan												**160**
Trade & Reparation											160	160
Central Kalimantan												**51,595**
Wood Industry							51,595					51,595
South Kalimantan												**1,000**
Mining										750		750
Trade & Reparation										250		250
South Sulawesi												**60**
Trade & Reparation											60	60
East Nusa Tenggara												**400**
Mining											300	300
Trade & Reparation											100	100
Total	**1,432**	**4,261**	**7,883**	**2748**	**9708**	**6026**	**83,254**	**8126**	**45,051**	**31,531**	**28,949**	**228,971**

Source: Investment Coordinating Board, Jakarta.

Table A2. Realisation of China's Outward Foreign Investments in the Manufacturing Industry in Indonesia by Sector and Region, 1995 – 2007

Industry	Number of Projects											
Province	1995	1996	1997	2000	2001	2002	2003	2004	2005	2006	2007	Total
Chemical & Pharmaceutical Industry	1	2		1		1		1		1	1	8
Banten				1		1					1	3
Central Java								1		1		2
East Java	1	2										3
Transport & Transport Equipment Industry				1			3		1		3	8
Banten							2		1		2	5
Jakarta				1			1					2
West Java											1	1
Basic Metal, Metal Products, Machineries & Electronics Industry							2		2	5		9
Banten									1			1
Jakarta									1	1		2
West Java							1			1		2
East Java							1			1		2
Riau Islands										1		1
Bangka Belitung										1		1
Textile Industry					2					1	2	5
Banten										1		1
West Java					2						2	4
Rubber & Plastic Goods Industry						1						1
Jakarta						1						1
Paper, Paper Products & Printing							2					2
Jakarta							1					1
Central Java							1					1
Food Industry					1				1			2
West Java					1							1
West Sumatra									1			1

Wood Industry							2		1			3
West Java							1					1
East Java												
Bali									1			1
Central Kalimantan							1					1
Other Industries								1				1
Banten								1				1
Total	**1**	**2**		**2**	**3**	**2**	**15**	**2**	**5**	**13**	**6**	**70**

Industry				**Value of Investment (US$ 000)**								
Province	**1995**	**1996**	**1997**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Chemical & Pharmaceutical Industry												**12,143**
Banten				525		450					2,578	3,553
Central Java								1,647		2,250		3,897
East Java	1,432	3,261										4,693
Transport & Transport Equipment Industry												**24,142**
Banten							2,090		12,952		5,500	20,542
Jakarta				2,000			1,000					3,000
West Java											600	600
Basic Metal, Metal Products, Machineries & Electronics Industry												**28,821**
Banten									6,863			6,863
Jakarta									200	230		430
West Java							2,500			7,000		9,500
East Java										168	1,000	1,168
Riau Islands										10,640		10,640
Bangka Belitung										220		220
Textile Industry												**31,888**
Banten										8,722		8,722
West Java					9,100						14,066	23,166
Rubber & Plastic Goods Industry												**33**

Jakarta						33						33
Paper, Paper Products & Printing												**3,315**
Jakarta							130					130
Central Java							3,185					3,185
Food Industry												**11,681**
West Java						3,900						3,900
West Sumatra									7,781			7,781
Wood Industry												**54.843**
West Java							3,071					3,071
East Java									0			0
Bali									177			177
Central Kalimantan							51,595					51,595
Other Industries												**650**
Banten								650				650
Total	**1,432**	**3,261**		**2,525**	**9,100**	**4,383**	**63,571**	**2,297**	**27,973**	**29,230**	**23,744**	**167,516**

Source: Investment Coordinating Board, Jakarta.

Attachment 3

List of Chinese Manufacturing FDIs in Indonesia

1. **Sanex Qianjiang Motor International**
   Shareholders: CPI Motor, Taiwan
   Qianjiang Group Ltd., China
   Lion Group, Malaysia
   Sanex Motor Indonesia, Indonesia 65 % (Indonesian)
   Location: Banten (West Java)
   Investment amount: US$ 12 million
   Line of business: production of motorcycles
   Commercialo name: Sanex
   Production capacity: 72,000 units/year
   Production 2004: 15,840 units
   The Qianjiang Group Ltd. Is the first and biggest motorcycle company in China.
   Sources: *Suara Pembaruan* daily news, Jakarta, 1 Juni 2004; Tarmidi: 191-2.

2. **Buana Jialing Sakti Motor**
   Shareholders: China Jialing Industrial Co. Ltd. 50 %
   Buana Jaya Makmur Sakti Motor 50 % (Indonesian Chinese)
   Investment amount: over US$ 13 million
   Location: Banten (West Java)
   Year of establishment: 1996, production started in 1997
   Line of business: assembling of motorcycles
   Commercial name: Jialing
   Production capacity: 5,000 units/month
   China Jialing Industrial Co. Ltd. Was founded in 1979 in Chongqing, Sichuan Province. The company produced 2 million units in 2000 and exports to more than 50 countries. The company has a technological co-operation agreement with Honda from Japan. 74.76 % of the shares are held by the China National Armament Industrial Co. (a state owned enterprise) and 25.24 % by the public.
   Sources: www.buanajialing.com; Tarmidi: 189-90.

3. **Lifan**
   Shareholders: Chongqing Lifan & Honda Motorcycle Manufacture & Co., Ltd.,
   Chongqing, China
   Indonesian firm (most probably Indonesian Chinese)
   Location: West Java
   Line of business: production of motorcycles
   Production in 2000: 30,000 motorcycles
   Commercial name: Lifan
   The company was founded in China in 1992 and produced 1.5 million units of motorcycle engines in 2000 and exports to around 70 countries in the world.
   Now seemingly out of business
   Source: Tarmidi: 192.
4. **Garuda**
   Location: East Java

Source: *Kompas* daily news, Jakarta, 27 July 2005.

5. **Vivamas Qingqi Motor Indonesia**
   Shareholders: Qingqi Group, China 50 %
   Vivamas, Indonesia 50 % (Indonesian Chinese)
   Location: Banten (West Java)
   Year of establishment: 2000
   Investment amount: US$ 1.44 million
   Line of business: manufacturer of motorcycles
   Production capacity: 50,000 units annually
   Source: Tarmidi: 206.

6. **Pan Jianshe Milinia Indonesia**
   Shareholders: Jianshe Industries Co., Ltd., Xiejiawan, Chongqing
   Gajah Tunggal Group (Indonesian Chinese)
   Location: Banten
   Year of establishment: 2001
   Line of business: manufacturer of motorcycles
   Planned production for 2001: 6,000 units/month
   The mother company in China has a technology agreement with Yamaha.
   Source: Tarmidi: 206.

7. **Unicor Prima Motor**
   Shareholders: Wuhu Chery Automobile Co., Ltd, China
   Indomobil Group (Indonesian Chinese)
   Location: West Java
   Line of business: car assembling
   Commercial names: Chery
   Sales in Indonesia: 2006 269 units
   2007 759 units
   The company first produced car engines for Chery in 1997 in Wuhu, Anhui Province, China. Production capacity in 2006 was 500,000 units. In 2005 total sales reached 190,000 units, of which 28,000 units were being exported. The company plans to built assembling plants in the Middle East, East Europe, and South America.
   The Indomobil Group also assembles other Chinese car brands like Fotn and Great Wall.
   Sources: www.chery-indomobil.com; *Kompas* daily news, Jakarta, 23 June 2006; *Kompas* daily news, Jakarta, 15 September 2006; *Suara Pembaruan* daily news, Jakarta, 24 September 2006.

8. **International Geely Corporation**
   Shareholders: Geely International, China
   Gaya Motor (Indonesian)
   Line of business: car assembling
   Commercial name: Geely CK
   Sales: starting July 2007
   Production: 2,000 units. The company plans to export the cars to Southeast Asia.

Geely International has already 20 years experience behind them in the automotive industry and has strategic alliances with Daewo from Korea and Maggiora from Italy. Its production capacity is 650,000 units annually.
Source: *Kompas* daily news, Jakarta, 18 May 2007.

9. **Changhong Elektrindo Utama**
Shareholders: Changhong Electric Co., Ltd, Sichuan, China
Indonesian firm (Indonesian Chinese)
Location: Banten
Investment amount: US$ 1.5 million
Line of business: electronic products
The Changhong company in China has branches worldwide
Sources: www.changhong.com; Tarmidi: 192-3.

10.
Shareholders: Maxim, China
Maspion (Indonesian Chinese)
Line of business: toothpaste