

## Dynamics of Chinese Investment in Infrastructure Development in Lombok Island

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### ABSTRACT

Chinese investment has become the subject of ongoing debates in international political economy studies. In general, scholars argue that the benefits of Chinese investment not only depend on the relationship between China and host countries but also on various state capacities. Using a case study approach, this paper aims to contribute with other scholars to understand Chinese investment patterns in third-world countries, especially Indonesia. The volume of Chinese investment in Indonesia has increased significantly in recent years. This study will focus on understanding Chinese investment patterns in infrastructure in the Mandalika Special Economic Zone (SEZ) on Lombok Island. This project received a loan through the Asian Infrastructure Investment Bank (AIIB) of 692 million dollars during 2019-2024. This paper argues that Chinese investment has contributed to complex policy-making dynamics at the national and sub-national levels.

**Keywords:** Chinese investment; Lombok; Mandalika Special Economic Zone (SEZ)

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## INTRODUCTION

Chinese investment has been positively received among developing countries along with significant economic development (Camba 2017). China has strengthened cooperation with developing countries in Asia and Africa, asserting its presence with various frameworks, one of which is infrastructure investment in the form of expressways, railways and digital infrastructure (Huang and Pollio 2023). Africa is a strategic partner for China with the value of investment increasing significantly every year. The Southeast Asian region is also an important part of China's cooperation framework, with various cooperation models in various sectors prioritising the agenda in the region. Through the Belt Road Initiative (BRI), China has made Southeast Asia an important region in realising the grand design of development.

One of China's strategic partner countries in the region is Indonesia. Through the framework of bilateral cooperation, Indonesia has adapted to the Chinese investment model. Various strategic projects have been financed by China in the form of schemes, such as the Jakarta-Bandung High Speed Train, Mandalika Special Economic Zone, and various other forms of strategic sector revitalisation. Chinese investment in Indonesia in 2022 is the largest among other regional countries, reaching 3 billion dollars or the equivalent of 45 trillion rupiah (Pransuamitra 2023). This is

certainly in line with the government's policy priority of infrastructure development and revitalisation.

Referring to data from the Asian Development Bank (ADB), the Southeast Asian region requires infrastructure investment of 26 trillion USD in the 2016-2030 period or around 1.7 trillion USD per year (Asian Development Bank 2018). In the period 2020-2024 Indonesia needs 451 million dollars, this figure can only be fulfilled by 37% of the state budget to build infrastructure, the rest will be fulfilled by the private sector and State-Owned Enterprises (BUMN) (Initiative Climate Bonds 2022). This is to ensure growth momentum, reduce poverty, and respond to climate change faced by the Southeast Asian region at large. China has responded to this need for infrastructure revitalisation through its financial institution framework, the Asian Infrastructure Investment Bank (AIIB).

Indonesia's journey as a nation state cannot be separated from the involvement of the People's Republic of China through the growing Chinese diaspora in Indonesia. According to Chinese Foreign Ministry records, the number of Chinese people in Indonesia reached 2.7 million in 1953. Different data was provided by Peking University Professor Wu Shihuang who said the Chinese population totalled 3 million in 1952 (Zhou 2019). The difference in data regarding the number of ethnic Chinese in Indonesia illustrates that ethnic Chinese once played a significant role in the journey of the Indonesian nation. This significant number has led the Chinese government to want to ensure the safety of its citizens abroad directly.

Indonesia-China diplomatic relations, which had been established since 9 June 1950, hit rock bottom in 1967 in the aftermath of the bloody Indonesian Communist Party (PKI) rebellion in 1965. After almost 23 years of frozen diplomatic relations, Indonesia finally reopened its relations with China in 1990. (Sinaga 2013) Normalisation of Indonesia-China relations became an important point in the birth of a comprehensive cooperation framework, China's policy in the 1998 economic crisis became evidence of China's alignment with Southeast Asian countries by not devaluing the yuan currency (Judith F Kornberg & John R Faust 2005).

The normalisation of Indonesia-China relations has been significantly positive, with post-reform governments building a framework of constructive cooperation with China. President Abdurrahman Wahid's administration demonstrated the importance of China's position in Indonesia's foreign policy by making China the first country he visited after being sworn in as president. Indonesia-China cooperation was then continued by the administration of President Megawati Soekarno Putri by agreeing to increase economic and political cooperation. Indonesia-China cooperation increased to strategic cooperation in 2005 after the signing of the Declaration of Strategic Partnership by Chinese President Hu Jintao and President Susilo Bambang Yudhoyono (Sinaga 2013). This signing encouraged the expansion of cooperation in various fields such as politics, security, economy, development, and socio-culture.

The relationship between the two countries strengthened during President Joko Widodo's administration, as the strategic partnership entered the implementation stage. Various infrastructure development cooperation such as toll roads, ports,

railways and other supporting infrastructure were realised. China's phenomenal investment includes the construction of the Jakarta Bandung High Speed Train. The total investment for this fast train project reached US\$6.7 billion with a route length of 142 kilometres. This project will speed up the distance between Jakarta and Bandung from 3 hours to only 40 minutes. (Anon 2019b) China's high-speed train technology is relatively new, China started research on high-speed train development in 2004 and was able to produce high-speed trains in 2008 (Munir 2021). In addition to high-speed trains, China through the Asian Infrastructure Investment Bank (AIIB) finances several strategic government projects.

The development of the Mandalika Special Economic Zone (SEZ) in Lombok, West Nusa Tenggara is one of the strategic projects that received financing from Chinese financial institutions. Total loans from AIIB reached 691.5 million dollars for infrastructure development, and 260 million dollars for the development of Mandalika SEZ in 2018 (Yuniarni n.d.). According to a report released by AIIB, this figure will continue to increase until the planned total reaches 787 million dollars (AIIB 2021). China's investment in infrastructure development shows its seriousness with the running of various projects in various provinces in Indonesia. The ups and downs of Indonesia-China bilateral relations are important to study more deeply, it cannot be denied that there is a clear relationship between development and the ups and downs of Indonesia-China bilateral relations. This paper seeks to analyse the dynamics of Chinese investment in infrastructure development on Lombok Island, in infrastructure that is included in the central government's strategic agenda such as the Mandalika SEZ.

## **FINDINGS AND DISCUSSION**

### **Policy Infrastructure: State-Business Relations (SBRs)**

Studies on China's economic manoeuvres and cooperation with Southeast Asia have been conducted by many researchers, one of which can be seen from research conducted by Xiangshou Yin who looked at the impact of China-ASEAN free trade on regional trade in Southeast Asia. China has made Southeast Asia a strategic partner by changing the direction of its outward looking foreign policy. This policy has at least had a significant impact on China, such as: increased economic growth which reached an average of 9% in the last 25 years; increased free trade cooperation with other regions; increased trade volume in the Southeast Asian region, faster distribution of goods and services in large volumes (Xiangshou Yin 2004).

China's open door policy has had a very significant impact on economic development, especially in foreign trade. Since the open door policy was implemented in 1978, China's GDP increased sharply by 32 times with an average increase of 15% and total trade increased by 41 times with an increase in the value of exports by 16.44% and imports by 15%. The significant growth in the value of exports and imports has certainly made China a major player in global trade. China's position in

global trade jumped rapidly from 32nd place in 1978 to fourth place in 2003 (Xiangshou Yin 2004).

China's development into one of the world's economic powers was supported by the right policy and strategy of China in embracing nearby regional countries as countries supplying raw materials for China's industry. The 1990s became the starting point of the increase in the value of Asean-China trade, the value of Asean trade to China increased fourfold, while China's trade to Asean also increased by double digits (John Revenhill 2006). In its development, the value of regional countries' imports of Chinese manufactures has significantly increased, which is certainly inseparable from China's strategies implemented to regional countries. Indonesia, Malaysia, Thailand, Singapore and Vietnam have directly felt the imbalance of trade in manufacturing with China, the regional countries can balance their trade with China through agricultural products and trade in raw materials (John Revenhill 2006).

Asia became China's first region for investment after its rise. Asia First became the slogan of China's foreign policy that encourages it to accommodate Asian countries, embrace and build constructive relationships with Asian countries. This policy is taken by China because it positions itself as a middle country, therefore China must be able to maintain and embrace its neighbours. China's attitude towards the Asian region is reflected in China's foreign policy which views the Asian region as a strategic area, where regional stability is one of China's vital interests. In the last fifteen years China has implemented a policy of partnership and good neighbourly relations with regional countries such as South Asia, Central Asia, Southeast Asia and East Asia. The main purpose of this policy is to keep the stability of the region safe and prevent internal friction which will indirectly affect China's domestic conditions (Yuliantoro 2020).

China's economic interests in the region are one of the strong reasons the free trade area was formed. China's joining the World Trade Organisation (WTO) in 2001 forced China to increase trade with regional countries. The region's growing market attractiveness to the world market cannot be separated from China's view as one of the region's major powers. The increasing frequency of China-Asean trade is one of the evidences of increasing China-Asean cooperation in a more positive and mutually beneficial direction. China's policies aimed at Asian countries both through the legal framework of regional institutions such as ASEAN and bilaterally have produced tangible results, namely a better image of China in the region.

Infrastructure development, especially in the form of railways and expressways, is carried out by China in almost all parts of Asia, including East Asia, Southeast Asia, South Asia and Central Asia. This policy reminds many people of the Silk Road, which was a famous Chinese trade route in the past. The position of China, which only has a coast in the east, is also one of the challenges in building cooperation throughout the region. According to John Garven, the development of land infrastructure in the form of railways and expressways is the only possible way for China to open up to the western and southern regional countries. There is a coastal position that distinguishes

China from the United States: China does not have an ocean in the west that can connect it with the west and south, so land is the main choice (Garver 2006).

China's ability to apply modern transport technology signals the country's rise. As Garven writes, there are at least two dimensions to this. First, China is now an economic powerhouse, a source of capital that invests heavily in technology. The development of high-tech infrastructure is an expensive project, but it shows the rise of the Chinese economy. Second, these transport links will bring or spread Chinese influence in the region. Good railways and roads will bring Chinese goods, investment, entrepreneurs and even cultural influence (Garver 2006). China's geographical position as a middle country gives it an economic and political advantage.

In another infrastructure investment, Alvin Camba provides an interesting picture through his research on Chinese investment in the Philippines. Camba explains that at least Chinese investment into the Philippines is highly dependent on the regime in power, inter-state relations are divided into two categories: conflictual and cooperative. Conflictual and cooperative state relations are not the only indicators that drive increased investment in the Philippines, but there is another factor, namely state capacity or state's organisational apparatus (Camba 2017). State capacity will determine several types of investment that enter a country, several types of Chinese investment can be categorised as follows (1) State investment, this first type is government investment channelled through Overseas Development Aid (ODA) of sending country aid agencies, this investment is to finance mega projects and infrastructure. (2) Private investment, a form of private investment that usually enters the service and manufacturing sectors. (3) Illicit Capital, this investment comes from private entrepreneurs to partners in the destination country.

Chinese state investment in the Philippines increased during the Arroyo administration, during which time bilateral relations between the two countries were very good. Although this investment was hampered by low government legitimacy, high levels of corruption, strong bureaucratic barriers preventing private investment from entering the Philippines, and of course the stagnation of illicit capital given the complexity of licences. Conversely, when China-Philippines relations are conflictual with state capacity building, state investment declines dramatically. So President Aquino created an alternative dialogue that brought together local and foreign entrepreneurs to create a mechanism for cooperation. This strategy led to an increase in private investment and illicit capital entering the Philippines. (Camba 2017).

China's investment model in various regions cannot be separated from the financing model involving state-owned companies. This involvement has led to the birth of a new state-business order that emphasises state-owned companies with a significant role in a business scheme. The lack of democratic culture in the Southeast Asian region in general has encouraged the development of business phenomena involving state-owned enterprises in China's investment schemes. Through the State-owned Enterprises (SOEs) business scheme, China ensures that various investments can be carried out in accordance with predetermined plans while encouraging innovation in State-business relations (SBRs) (Gomez et al. 2020). This model of

business mechanism is evident in China's investment in the infrastructure development sector in the Mandalika SEZ area, Lombok, West Nusa Tenggara. State-owned business entities participate in the development process through these investments. This can be seen from the involvement of State-Owned Enterprises (SOEs) through ITDC playing a collaborative role with Chinese-owned business entities.

The above description provides an understanding of how Chinese investment enters destination countries of various types, and the conditions of a country's bilateral relations. This paper seeks to see how SOEs interact between countries in the process of strategic infrastructure development on Lombok Island. Interactions between actors such as related financing institutions are one of the interesting analyses in this phenomenon, and of course the relationship between the sending country and the host country.

### **China and Infrastructure Development in Indonesia**

The rise of China as a global power in the 21st century has had a significant impact, both in the political, social and economic fields. The increasing role of China in various fields, both regionally and globally, is one indicator that China is becoming an important part of the global power. China's economy, which is growing significantly and sustainably, is a big capital in playing its role in global politics. The global political instrument introduced by China in early 2013 is known as One Belt One Road (OBOR) or Belt and Road Initiative (BRI), this instrument is China's big framework in integrating the world through sea, land and air routes.

Chinese investment in Indonesia increased significantly after the regime change from President Susilo Bambang Yudhoyono to President Joko Widodo in 2014. Jokowi has held five meetings with President Xi Jinping in less than two years. Both countries are committed to strengthening bilateral relations, particularly in economic cooperation and infrastructure development (Ina Parlina 2016). Jokowi's first foreign visit after being inaugurated as President was China, a month after the inauguration in November 2014 Jokowi had a bilateral meeting with Xi Jinping. There were several agendas agreed and signed in the meeting, including the fields of economy, infrastructure, disaster and space (Ministry of Foreign Affairs 2016).

Indonesia's seriousness in making China a strategic partner can be seen in its participation in the second BRI Forum in Beijing. Indonesia was represented by Vice President Jusuf Kalla with the status of high level delegation, in this forum more than 20 agreements were signed regarding infrastructure development (Foong 2019). China became the second largest investor in Indonesia investing in infrastructure, a clear evidence of China's seriousness in increasing cooperation with Indonesia (Maulia 2018). China's phenomenal investments include the construction of the Jakarta Bandung High Speed Train. The total investment for this fast train project reached US\$6.7 billion with a route length of 142 kilometres. This project is expected to speed up the Jakarta-Bandung distance from 3 hours to only 40 minutes (Post 2019).

Apart from the Jakarta-Bandung high-speed rail project, Chinese investment in other parts of Indonesia is substantial and has become a priority project for the central government. The development of several infrastructures in Lombok Island, West Nusa Tenggara Province, for example. This province has become one of the provinces with a significant level of development. The central government pays great attention to overseeing development on Lombok Island, President Joko Widodo made 4 visits to ensure that development is running optimally. In overseeing development on Lombok Island, Indonesia is exploring various possibilities with foreign investors, one of which is with China through the Asian Infrastructure Investment Bank (AIIB) loan scheme based in Beijing. This paper tries to answer the question of how Chinese investment and analysis of China's potential in infrastructure development on Lombok Island?

### **China Global Investment**

As its economy grows significantly, China is transforming into a global financial powerhouse rivalling the United States. Chinese investments in various countries are starting to be seen, Chinese investments in Africa for example. China's role in development in African countries is quite dominant and relatively more accepted. One of the reasons why Chinese investment is more accommodated by African countries is that the investment model is quite different from western countries. The Beijing Consensus as it is called for Chinese foreign aid applies the values of equality, and mutual consensus. This model is a far cry from the Washington Consensus which emphasises a neoliberal approach, requiring democracy, good governance and poverty reduction. (Adisu, Sharkey, and Okoroafo 2010)

Southeast Asia has become a strategic partner of China since 2017, with half of Southeast Asian countries contributing to China's economic development by becoming trading partners (Gomez et al. 2020). As an investment-friendly region, Southeast Asia, especially with China, is also supported by a political system that is quite different from other regions. Some Southeast Asian countries have a strong character as autocratic leadership (Kurlantzick 2018). This political system is then a catalyst for the development of SBRs in the Southeast Asian region in general. Countries that are considered democracies such as Indonesia, the Philippines, and Timor Leste have experienced a decline in the democracy index and have not been able to consolidate their democracy so as to bring benefits for progress.

China's investment in Africa is relatively small compared to the United States and France, but the significance of China becoming the dominant investor in Africa is important to note. China is the third largest investor in Africa with a total investment of \$72 million (Anon 2019a). China has become a promising investor in Africa, with several economic and development aid programmes already underway for Africa's development. China is the only investor that does not have a history as a colonising country, Britain, France and the United States have a special record for African countries and this shapes the pattern of interaction with African countries (Biggeri and

Sanfilippo 2009). China is significantly driving development in Africa with various motives behind the investment.

Asia became China's first region for investment after its rise. Asia First became the slogan of China's foreign policy that encourages it to accommodate Asian countries, embrace and build constructive relationships with Asian countries. This policy is taken by China because it positions itself as a middle country, therefore China must be able to maintain and embrace its neighbours. China's attitude towards the Asian region is reflected in China's foreign policy which views the Asian region as a strategic area, where regional stability is one of China's vital interests. In the last fifteen years China has implemented a policy of partnership and good neighbourly relations with regional countries such as South Asia, Central Asia, Southeast Asia and East Asia. The main purpose of this policy is to keep the stability of the region safe and prevent internal friction which will indirectly affect China's domestic conditions (Yuliantoro 2020).

There are several cooperation frameworks initiated by China with Asian countries, for example with Southeast Asian countries, through ASEAN China initiated CAFTA (China ASEAN Free Trade Area) in 2001. The establishment of this FTA was a response to regional countries after being hit by the 1998 economic crisis, so that a clear scheme related to the regional free trade area was needed. The establishment of the FTA was driven by two major factors, namely first, the rise of China in the economy and politics which showed positive performance. Secondly, the increasing trade in the region and outside the region and the fundamental changes in the economies of regional countries (Xiangshuo Yin 2004). Chinese investment has significantly increased in ASEAN countries along with the 'go out policy' and the Belt and Road Initiative (BRI) cooperation framework followed by Chinese companies (Cheok and Chen 2019). In this position ASEAN certainly has significance for China and its development. China's focus through Asian First is also evident in South Asia, where Chinese investment is present in various forms in Pakistan and Sri Lanka.

China's investment in Pakistan is much debated given its perceived detrimental impact on the economy. Within the framework of the China Pakistan Economic Corridor (CPEC) cooperation, China invested 56 million dollars, 35 million dollars of which were allocated specifically for the energy sector. This investment is considered detrimental to Pakistan given its low repayment capacity due to the relatively unbalanced gap between Pakistan's export and import volumes. Similarly, China's investment in Sri Lanka in the construction of the Hambantota port eventually dragged Sri Lanka into recession due to its inability to repay debt. China's debt-trap diplomacy scheme forced Sri Lanka to lose control of the Hambantota harbour for 99 years. (Ishaque, Ullah, and Safia 2018) China's investment schemes that have negatively impacted several countries encourage us to understand how Chinese investments are realised.

The spread of Chinese investment to various countries enters through official schemes implemented by the government and not a few enter through private channels in the investment destination country by utilising the presence of the Chinese diaspora.

Through Chinese networks and the Chinese diaspora, investors seek local business partners who are then more familiar with local conditions. About  $\frac{3}{4}$  of ethnic Chinese are spread across Asia, including Indonesia, Thailand, Malaysia, the Chinese diaspora in acting as successful business people, so this method becomes more effective in investing. Another characteristic of Chinese investment is to influence and change policies in the destination country, maximising returns and reducing risks by leveraging Chinese networks. (Knoerich and Miedtank 2018) This character is then referred to as Charm offensive by Kurtlantzick, Chinese investment is likened to two opposite sides of a coin. (Kurlantzick 2007).

### **Increased Chinese Investment in Indonesia**

A new chapter in China-Indonesia relations has been marked since President Xi Jinping's visit to Indonesia in 2013. Xi's speech in front of the House of Representatives (DPR) introduced and promoted maritime and trade cooperation with ASEAN countries, especially with Indonesia. Xi's speech became known as the Belt and Road Initiative, which focuses on infrastructure development and linkages between participating countries (Damuri et al. 2019). China-Indonesia cooperation is strategic for at least a few fundamental reasons; the populations of China and Indonesia combined represent 23% of the global population. Considerable potential can be gained from the population of both countries, in the fields of business, technology, education, social and culture. The GDP of both countries accounts for 13% of world GDP, moreover with the active participation of both countries in global and regional forums such as the G20 and APEC. (Damuri et al. 2019)

The China-Indonesia strategic partnership can be seen from the cooperation framework established, especially under the Jokowi regime. Indonesia has a strategic partnership with China in almost all sectors, cooperation in technology and science became an integrated part of BRI policy after Indonesia-China committed to joint research and information sharing. Chinese investment in Indonesia has increased significantly, with dominant areas of investment including oil, tourism, infrastructure and food processing. China's seriousness is seen from the amount of investment that entered Indonesia, amounting to 2.7 billion dollars or equivalent to 9.2% of total national investment in 2016. Then in 2017 Chinese investment amounted to 8.2% of Indonesia's total national investment (BKPM 2019) The increase in the value of Chinese investment in Indonesia is certainly the result of the trust of Chinese investors and the openness and simplification and acceptance of various provisions for the entry of these investments.

Chinese investment in Indonesia continues to increase every year, China is rapidly transforming as a major investor in various fields in Indonesia. Through the BRI framework, China has become an important part of Indonesia's development, in line with President Jokowi's vision of promoting infrastructure development. The value of Chinese investment doubled in 2019 from \$2.4 billion to \$4.7 billion (Mukaromah 2020). In 2019 the total Chinese investment into Indonesia reached Rp.809.6 trillion

followed by Hong Kong in second place with an investment value of 1.1 billion dollars, followed by Singapore with an investment value of 1.1 billion dollars. (Muhammad Hendartyo 2020) The increase in Chinese investment covers many sectors, one of which is infrastructure development.

The island of Lombok is a concern of the central government in the development of tourism and infrastructure, two national projects are located on the island of Lombok, namely the development of the Mandalika Special Economic Zone in Central Lombok Regency and the construction of an international port (global hub) in North Lombok Regency. Basic infrastructure development is a priority for the central government considering that Mandalika SEZ is predicted to be the location of the 2021 MotoGP sports event. Lombok continues to improve to become one of the leading islands in the tourism sector to rival Bali, the transformation of Lombok at least encourages many investors to invest in the island of a thousand mosques. China became one of the investors who later glanced at Lombok in the Mandalika SEZ strategic project launched by the government.

### **Lombok as an Investment Magnet**

Lombok is one of several island groups in West Nusa Tenggara Province, an island with an area of 4725 Km<sup>2</sup> also known as the island of a thousand mosques, inhabited by Sasak tribes with Islam as the majority religion, followed by Hinduism and Christianity. Lombok's geographical position close to Bali has a significant impact on the development of the tourism sector. With a cluster of beaches, forests and cultural diversity is a special attraction for tourists. Data from the Central Bureau of Statistics, West Nusa Tenggara, the number of foreign tourists increased in 2019, in line with the increasing number of national tourist visits which reached 16 million people. It was recorded that 6,624 people dominated by tourists from Australia, Malaysia and China visited Lombok in 2019, the number of foreign tourist visits decreased relatively compared to 2015-2018 due to the 2018 earthquake (Badan Pusat Statistik (BPS) 2020).

In the tourism sector, Lombok won several awards from various international events, namely becoming the World's Best Halal Tourism Destination and World's Best Halal Honeymoon Destination in 2015 from The World Travel Halal Summit, United Arab Emirates (Anon 2015). In 2016 Lombok became a tourist destination with the second largest visitors in Indonesia after Borobudur temple, Central Java (Lee and Syah 2018). The development of Lombok in various sectors, especially the tourism sector which has increased significantly, has attracted the attention of the central government to prepare an integrated development grand design. Environmentally friendly development that encourages and supports economic development and development on the island of Lombok. Investors from China are eyeing the tourism sector in Lombok, explained by the Consul General of the PRC 20 companies from the bamboo curtain country plan to invest in the construction of basic infrastructure supporting tourism (Septarini 2016).

The Central Government is preparing Lombok as one of the global tourist destinations, through the development of the Mandalika Exclusive Economic Zone (SEZ). SEZ is an area with certain boundaries within the jurisdiction of the Unitary State of the Republic of Indonesia which is determined to carry out functions with certain economic benefits. SEZs are developed through the preparation of areas that have geo-economic and geostrategic advantages and function to accommodate industrial activities, exports, imports, and other economic activities that have high economic value and international competitiveness. There are at least 11 areas developed into SEZs throughout Indonesia (Anon 2020). The inauguration of the Mandalika SEZ development was first carried out by President Susilo Bambang Yudhoyono on 21 October 2011. SEZ development aims to strengthen competitiveness and accelerate Indonesia's economic development in the next twenty years. The foundation of SEZ development in Indonesia is the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) 2011-2025. Through MP3EI, Indonesia is expected to become a developed country by 2025 with a per capita income ranging from USD 14,250 - USD 15,500 with a total economic value (GDP) ranging from USD 4.0-4.5 Trillion (BAPPENAS 2011).

Mandalika is the southern area of Central Lombok which was selected as an integrated development area, in this 1,175-hectare area will be built around 12,000 hotel rooms, 350,000 square metres of commercial space, 120 hectares for amusement parks and a marina with 78 beds. The impact of development also has a major effect on the development of other tourism infrastructure such as sembalun, Gili and other tours (Erviani 2019). As a world-class tourism destination, KEK Mandalika prepares various facilities such as hotels, villas, hospitals, museums, art villages, golf courses, amphitheatres and marinas to facilitate yachts from various countries to dock by promoting environmentally friendly development (ITDC 2016).

The development of the Mandalika SEZ has intensified in the era of President Joko Widodo, in line with President Jokowi's vision of encouraging infrastructure development to support economic development. Through economic diplomacy, the government is trying to encourage investment to finance infrastructure development. One of them is by encouraging investment in various financial institutions such as the Asian Infrastructure Investment Bank (AIIB) which is a financial institution initiated by China. The development of Mandalika cannot be separated from the injection of AIIB financial institutions for the lobbying of the central government through the Indonesian Ministry of Finance.

### **Chinese Infrastructure Investment in Lombok**

Chinese investment in Lombok is divided into two main categories: investment through the local government and Chinese investment which is then managed by the central government. The Integrated Investment & Licensing Coordinating Board, NTB Province in 2019 recorded at least 31 Chinese investment projects on the island of Lombok. This investment is engaged in the tourism and energy sectors, centred in

Central Lombok with a total of 15 projects, followed by North Lombok with 12 projects, the rest in East and West Lombok. Total Chinese investment in 2019 was 617 billion, increasing along with the increase in Chinese investment nationally, the UK, Australia and France are among the top three investors on the island of Lombok. (BKPM-PT 2019) This total investment excludes Chinese investment in several large national projects including Mandalika.

In developing the Mandalika area, the Indonesian government invited China through AIIB to be involved in the development of basic and supporting infrastructure. AIIB approved Indonesia's infrastructure development loan of 691.6 million dollars which was realised in 2019-2024, Indonesia was listed as the second country with the largest loan from 66 members in AIIB. (Anon 2018) Another loan of 260 million dollars is allocated for the development of the Mandalika area, being a loan with a fairly fast and short process. The development will focus on two phases, 2019-2023 and 2024-2026, with major infrastructure development such as roads and drainage; water supply, sanitation, sewerage, and wastewater treatment; waste management; electricity distribution; disaster risk management facilities; public facilities, and public open spaces. (AIIB 2018) Chinese investment on the island of Lombok is also moving in other fields such as the revitalisation of the Jelojok market, one of the traditional markets in the central Lombok district and the construction of the central Lombok regent's office.

Chinese investment in Lombok is also strengthened by the existence of a solid Chinese community under the Indonesian Chinese Association (INTI) and the Indonesian Chinese Social Marga Association (PSMTI). The existence of the Chinese network in West Nusa Tenggara is also one of the catalysts for the entry and development of various Chinese investments on the island of Lombok. Moreover, the Chinese network plays a strategic role by working as a businessman who controls the NTB economy. So this Chinese network acts as a liaison between the local government and several Chinese investors.

The character of Chinese investment in various countries is quite diverse, but there are at least some basic things that need to be considered considering the Chinese investment model. Firstly; Chinese investments leave debts for the host country given the schemes used through Chinese Government Banks. Second; most Chinese projects are not economically viable for the host country given that the development programme is tailored to Beijing's wishes. Third; Chinese investment is not purely economic, but is very thick with political dimensions, geopolitical interests for example to support BRI. Fourth; collaboration between local companies is very small in percentage, even if there is a Chinese diaspora / Chinese network will be a priority. (Panos Mourdoukoutas 2019)

Another challenge for Chinese investors is the issue of ethnicity, anti-Chinese sentiment in various regions in Indonesia, including Lombok is quite large and maintained. The threat of the presence of Chinese labour is also a fairly frequent phenomenon, as many as 500 workers from China, for example, landed at Halu Oleo Airport to work on Chinese projects in Southeast Sulawesi. This issue has become

public consumption which will certainly be a big challenge for China in investing, public sentiment will be even higher if the economic situation does not improve and generate social jealousy that can disrupt economic, political and security stability.

## CONCLUSION

The dynamics of Indonesia-China relations in the political and economic context significantly impact the development of investment on Lombok Island. This causality relationship is influenced by the state investment model which began to eliminate the role of local governments on the grounds of investment effectiveness and regional inability to manage investment. Chinese investment in Indonesia has continued to increase since Jokowi decided to strengthen diplomatic relations with China. It is noted that China has invested in various major Indonesian projects, Fast Trains, Sea Tolls, Toll Roads and power plants. China rose to become the number two investor in Indonesia after previously not being in the top five investors. The value of Chinese investment doubled in 2019 from \$2.4 billion to \$4.7 billion. This increase in investment has an impact on the presence of Chinese investors in Lombok, especially in infrastructure development investment.

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