

CHAPTER I

INTRODUCTION

1.1 Background

The internet has evolved into being one of the most fundamental elements in the lives of people around the world. It has grown to become a prominent component to not only everyday life processes but also to sectors of a larger scale such as business, industrial and government sectors. It has exponentially transformed the way people consume and opened up the world to many new opportunities. The efficiency it presents in the trade of goods, services and information between business and consumer has resulted in an increasing amount of people utilizing this platform. In addition to this, it is through the internet that further realization of the traditional cross-border economics has taken place. In this world characterized by fast-paced technological advancements and an increasingly globalized market, the significance of a world digital economy becomes more and more effervescent

China is considered to be one of the leading global forces of this digital economy. It is the world's largest e-commerce market, accounting for more than 40 percent of the value of worldwide e-commerce transactions.¹ It is home to the biggest e-commerce specialists which is Alibaba alongside other major names such

¹ Jonathan Woetzel, "China's Digital Economy: A Leading Global Force," McKinsey & Company, <https://www.mckinsey.com/featured-insights/china/chinas-digital-economy-a-leading-global-force> (Accessed May 1, 2019).

as JD.com and Tencent.² According to the China E-commerce Research Center, China's cross border e-commerce reaches a scale of 2.6 trillion Yuan with an annual growth of 30 percent and predicts that by 2020, the revenue of China's cross-border e-commerce transactions will total up to 12 trillion Yuan, summing up to almost 40 percent of its exports and imports.³ Apart from e-commerce, China's information and communication technology (ICT) sector is among the most dynamic sectors in the Chinese economy. By 2021, the market projection of China is to reach US\$8.1 trillion, more than half of China's gross domestic production (GDP), according to information technology (IT) consulting firm IDC, China's ICT imports in 2018 totaled US\$528 billion, while its exports reached US\$781 billion translating to a beneficial surplus of exports. Acknowledging the benefits that the digital sector provides for China's economy, this sector draws increasing attention from its government. Policies for supporting the digital economy have been introduced with the aim of capturing more potential growth in this sector as well as providing the platform for Chinese technology companies to flourish.

The Chinese foreign policy related to this matter is implemented through China's Belt and Road initiative. The Belt and Road initiative (BRI) seeks to promote the interests of China by improving regional cooperation and connectivity on a trans-continental scale. The BRI's main aim is to strengthen infrastructure, trade and investment links between China and countries in the Silk Road Economic

² Michael Cheng, "E-commerce in China- The Future Is Already Here," (2017), <https://www.pwccn.com/en/retail-and-consumer/publications/total-retail-2017-china/total-retail-survey-2017-china-cut.pdf> (Accessed May 1,2019).

³ Yu Wang, "The Effect of Cross-Border E-Commerce on China's International Trade: An Empirical Study Based on Transaction Cost Analysis," (2017), <https://ideas.repec.org/a/gam/jsusta/v9y2017i11p2028-d117767.html>. (Accessed May 1,2019).

Belt (South Asia, Central Asia and Europe), as well as the New Maritime Silk Road (South East Asia, Gulf Countries, Africa).⁴ The Chinese government seeks to strengthen cooperation in the areas of policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond.⁵ What most do not realize is that apart from mainly focusing on physical infrastructure, this initiative has a counterpart highlighting the digital aspect of this regional cooperation and that is the 'Digital Silk Road'.

The Digital Silk Road mainly pertains to the core principles of the Belt and Road initiative only that it focuses on situating the internet/ digital platform as the main mechanism of cooperation and enhances innovation in the sector of information and communication technologies. It is classified as an important sub-goal in the overarching BRI initiative. Initially, this concept itself was first introduced to the public as "Information Silk Road" featured in a March 2015 white paper issued by a joint effort of the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China. Furthermore, President Xi Jin Ping has frequently highlighted the digital aspect of BRI in many keynote speeches such as the 2017

⁴ World Bank, "Belt and Road Initiative," World Bank, <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative>. (Accessed May 1, 2019).

⁵ State Council of The People's Republic Of China, *Full Text: Action Plan on the Belt and Road Initiative*, The State Council The People's Republic Of China, (Beijing 2015), http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm (Accessed May 1, 2019).

and 2019 BRI⁶ forums and has encouraged the members along the Silk Road to engage in beneficial cooperation in this sector.

A strategic candidate to this cooperation would be Indonesia. Indonesia lies in the scope of the Maritime Silk Road and has continuously built its economic relationship with China throughout the years. The potential for China's digital expansion in Indonesia is highlighted by certain economic factors. First of all, the market size in Indonesia as a whole is a relatively large one with a growing population of 264 million people. It is regarded as the number one largest economy in Southeast Asia boasting a GDP of US\$ 1.016 trillion in 2017 and is continuing to grow at a 5 per cent growth rate over the last decade. This also translates to Indonesia's high purchasing power parity ranking 8th in the world today.⁷ Also in regards to the international arena, Indonesia is the only ASEAN country to be a part of the Group of Twenty (G20) which is an international forum for the global economic cooperation that accounts for 85 per cent of the world economy.⁸

Second of all, apart from having an expansive and large market, Indonesia is also growing in the digital sector of its economy. With an increasing amount of smartphone and internet usage, Indonesia has reached 143 million people or 54 per cent of the population in internet users which makes Indonesia the most active users of famous digital platforms such as Facebook, Twitter and Instagram. Also,

⁶ Chengevelyn, "Amid Criticism, China's Xi Says Belt and Road Project Can Be 'Shared by the World'," *CNBC*, April 27, 2019, <https://www.cnbc.com/2019/04/27/belt-and-road-initiative-chinas-xi-concludes-bri-forum-in-beijing.html>. (Accesed September 11,2019).

⁷ World Bank, "Overview", World Bank, <https://www.worldbank.org/en/country/indonesia/overview> (Accesed September 11,2019).

⁸ DFAT, "The G20." Department of Foreign Affairs and Trade, July 3, 2019. <https://dfat.gov.au/trade/organisations/g20/Pages/g20.aspx>. (Accesed September 11,2019).

Indonesia's digital economy is set to become the largest in Southeast Asia as well with its market value predicted to triple from US\$27 billion in 2018 to US\$100 billion by 2025.⁹ According to a 2018 study conducted by Google and Temasek, 53 percent of this growth would highly be contributed by e-commerce platforms among the other ICT sectors¹⁰ With a gradual shift to technology-based daily activities, the Indonesia digital economic scene has seen an influx of growth domestically.

Furthermore, in order to capitalize on Indonesia's market potential in the digital economy, President Jokowi is also politically-motivated to accentuate the growth of this sector through its policies. President Joko Widodo's vision on making Indonesia the "Digital Energy of Asia" has further supported and enhanced the digital economic sector in his discussions on trade with other countries. President Jokowi has also urged for a global expansion in the digital economic sector in his proposal at the 2019 G20 Summit in Japan.¹¹ In terms of China, Jokowi and President Xi Jin Ping have had a myriad of discussions on the economic cooperation of Indonesia and China but as of recently discussed the matter of the

⁹ Jakarta Post, "Indonesia's Digital Economy to Dominate Southeast Asia by 2025," *The Jakarta Post*, November 28, 2018, <https://www.thejakartapost.com/news/2018/11/28/indonesias-digital-economy-to-dominate-southeast-asia-by-2025.html>. (Accesed May 1,2019).

¹⁰ Google, *E-Conomy SEA 2018 - Think with Google*, Google publication, https://www.thinkwithgoogle.com/_qs/documents/6730/Report_e-Conomy_SEA_2018_by_Google_Temasek_v.pdf. (Accessed May 1, 2019).

¹¹ Agnes Anya, "Jokowi Urges Global Digital Economy Drive," *The Jakarta Post*, June 29, 2019, <https://www.thejakartapost.com/news/2019/06/29/jokowi-urges-global-digital-economy-drive.html> (Accesed September 11,2019).

digital economy in a bilateral meeting on the sidelines of the APEC Summit understanding the amount of knowledge that China has on the sector.¹²

Acknowledging the factors above, strategic potential can be drawn between China and Indonesia economic interests in the digital economy. Therefore, it would be beneficial to investigate further on this potential cooperation.

1.2 Research Question

Based on the conditions presented above, the following research questions are suggested:

1. What are the compatibilities of interest between the policy agendas of both China and Indonesia regarding the digital economy?
2. What are the manifestations of such compatibilities?

1.3 Research Objective

The objective of this research is to identify the correlation of mutual interest between Indonesia and China in the digital economic sector through their respective policies on the matter as well as identify the manifestations of such compatibilities.

1.4 Research Contribution

The outcome of this research aims to provide illumination on a new sector that has not been extensively explored on in the realm of international relations which is the digital economy and how it merges with the economic and political

¹² Tempo News, "Jokowi Discusses Trade and Digital Economy with Xi Jinping," Tempo, November 18, 2018, <https://en.tempo.co/read/923538/jokowi-discusses-trade-and-digital-economy-with-xi-jinping>. (Accessed May 1, 2019).

relations of a state; in this case China and Indonesia. Furthermore, this research topic would also be beneficial as a knowledge base for further improvement of government regulations in terms of the digital economy and its effects towards the overall development of its main economy. Lastly, this research would also be significant to students looking for reference in this topic as well as general readers who are interested in the innovative elements of international relations.

1.5 Structure of Writing

The first chapter begins with an introduction to the topic of this research which provides a brief outlook on the matters regarding the main topic of the thesis. This section includes background information of the matter, the research questions that are addressed as well as the thesis' purpose of writing.

The second chapter explores the theoretical framework behind the thesis to give theoretical backbone to the research analysis done further in the thesis. In this case, the theoretical framework consists of literature review which aims to give comparative insight on previous literature regarding the digital economy as well as the political economy situation between Indonesia and China. This chapter also discusses the international theories and relevant concepts to analyze the digital economy and its relevancy towards Indonesia and Chinese relations.

Methodology is the main focus of the third chapter which provides an explanation of how this research will be approached, the methods utilized and the technique of data collection involved in the research. This chapter also explains the

method of analysis that is used to be able to analyze the findings in order to answer the research question.

The fourth chapter will include the findings and discussion of the thesis topic. This chapter will include the overall compilation of the research findings in relevance to digital economic relations between China and Indonesia in regards to their respective foreign policy agendas. The data collected will then be discussed and analyzed in the framework of international relations theories and will further be used to answer the overall research questions of this thesis.

Finally, the fifth chapter will include conclude the overall thesis and give a summary of what was analyzed in the previous chapter. This chapter will also enlist recommendations in regards to constituents of the research findings in regards to the fully capitalizing on the mutual benefits that are presented towards Indonesia as well as China in this matter.

