



JISEA

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Afrimadona, Shanti Darmastuti, Wiwiek Rukmi Dwi Astuti
Industrial Policy as the Application of State Defense in the Era of Industrial Revolution 4.0

Mohammad Ichlas El Qudsi, Indra Kusumawardhana, Volodymyr Kyrychenko
The Garuda Strikes Back : Indonesian Economic Diplomacy to Tackle European Union Protectionism on Crude Palm Oil

Althea S Bestari, Novita Putri Rudiany
The Obstacles of Indonesia-Iceland Cooperation in the Development of Geothermal Energy in Indonesia (2007 - 2014)

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Preface

Following the first edition, we proudly present the second edition of Journal of International Studies on Energy Affairs (JISEA). This journal is more focusing on energy issues within the lenses of International Relations Perspectives, from theoretical aspects to empirical studies with the validation of current emerging phenomena. JISEA was envisioned and founded to accommodate the growing discussions of energy issues in the context of social studies, especially International Relations as energy had become a vital commodity that affects the states' policymaking and implementation. JISEA aims to represent the result of thinking of the International Relations Scholars community, therefore it can span the gap between academic and policy approaches. JISEA is committed to a broad range of intellectual perspectives. Articles promote new analytical approaches, iconoclastic interpretations, and previously overlooked perspectives. Its pages encourage novel contributions and outlooks, not particular methodologies, or policy goals.

The second edition opens wider discussion regarding energy issues and other international phenomena. There are 5 articles published in this issue that exemplify a valuable point of view regarding the studied problems, particularly about conventional and renewable energy cooperation.

The first article, "Industrial Policy as the Application of State Defense in the Era of Industrial Revolution 4.0". This article argues that the industrial policy within a state can be classified as part of state defense strategies because the policy is created by the policy makers. In this case, the policy makers have responsibility for the state defense. The paper uses several case studies in East Asian countries as the literature review. As the results, it concludes that the government should play an active role to formulate the state's industrial policy as policy makers because the citizens' welfare is now directly connected with the development of industries.

The second article, "The Garuda Strikes Back: Indonesian Economic Diplomacy to Tackle European Union Protectionism on Crude Palm Oil" discusses about how Indonesia strengthen its economic diplomacy to overcome the trade barriers of its palm oil in European market. This article elaborates the dynamics of cooperative approach and assertive economic diplomacy approach by Indonesia towards European Union. Three elements of economic diplomacy are uses to explain the maneuver of European Union protectionism on Indonesian crude palm oil.

The third article, "The Obstacles of Indonesia-Iceland Cooperation in The Development of Geothermal Energy in Indonesia (2007-2014)" analyzes the reason why the geothermal cooperation between Indonesia and Iceland slowed down in seven years. The data shows that there was no significant technical cooperation yet between two countries. Using the

concept of bilateral cooperation, this article argues that several political and technical factors hindered any further cooperation regarding geothermal development, such as the absence of technology development plan.

The fourth article, “China’s Petro politics: Its Business and Diplomacy in the South China Sea” elaborates the Chinese strategies in facing the threat of oil scarcity. The Petro politics conducted by China covers three approaches of diplomacy, military and economy to control the oil resources in the South China Sea. As the conclusion, this article argues that the use of economic means within Chinese Petro Politics shows its effectiveness to strengthen its position and influence in the region of Southeast Asia including South China Sea area. Besides, the military and state diplomacy are effective to support the economic means.

The last article, “Cooperation of Indonesia - Iran in The Oil and Gas Energy Sector 2015-2017 Period” by Laode Muhammad Fathun discusses about the dynamics of Indonesia-Iran in oil and gas cooperation. There are several energy cooperation highlighted such as, LPG Purchasing and Oil Refinery Development in East Java Using several concepts such as bilateral cooperation, national interest and energy security, This article argues that within two years of cooperation, Indonesia was able to achieve its national energy interest to increase the production of oil and gas in order to meet the national demand. Based on the cooperation result, both governments agreed to develop wider cooperation in energy sector.

We would like to express our gratitude to all the authors for their contributions to this journal. We also thank all scholars who were kind to provide valuable information and opinion on the review process. All the articles have been sorted through editorial staff who worked hard for JISEA second issue in first volume. We are hoping that the collections of articles will be a valuable insight for all of the readers. We will continuously invite all prospective authors to publish their papers on the upcoming issues.

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Industrial Policy as the Application of State Defense in the Era of Industrial Revolution 4.0

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Abstract

The rapid change in the information technology in the age of Industry 4.0 requires the government to produce an innovative and competitive industrial policy in order to push for an independent economic development. Amids the trend of industry 4.0, states are faced with a challenge of advancing national industries, such as the energy, food and beverage, automotive, electronics, chemical, textile and textile products industries. Using literature review over a number of cases of industrial policies in East Asia, this article argues that a national interest-based industrial policy can be seen as an implementation of the so-called state defense. This is because industrial policy is the product of the thoughts of individual policy-makers who are also the citizens to whom the obligation of state defense applies. Thus, rather than simply asking the general individual citizens to do state defense, the state, represented by the individual policy-makers should also think of their policy in terms of state defense, that is the defense of public interest.

Key Words: industrial policy, industry 4.0, state defense, national interest

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INTRODUCTION

State defense is a concept of defense and security that is state-centric and oriented to traditional threats. Although the definition of state defense has undergone a change from the definition contained in the legislative products of the cold war period, the definition and conception of state defense in general still implies an understanding of security in a traditional sense, namely armed threat. Although in many cases traditional security issues such as armed threats from outside are still relevant to the current world which is overshadowed by the emergence of a trend of power politics, especially in the East Asia region, non-traditional threats are no less important. In understanding state defense, it is necessary to examine the perceptions of factual and potential threats. Defending the state in the national aspect is closely related to non-traditional threat aspects such as the economic, social and cultural fields. Particularly in the economic sector, the economy is a means of domestic stability and is one of the means of determining the bargaining position of each country in relations between countries or international relations. Thus, national economic growth is the country's priority in the concept of state defense. Therefore, adjusting the definition of the conception of state defense with the changing times is a necessity.

Another problem with the concept of defending the state is that it is doctrinaire and implies that the responsibility to defend the state lies only with the citizens. It is not clear who is meant by citizens here, whether all individuals who live in the Unitary State of the Republic of Indonesia (NKRI) or citizens in the sense of the people (which is different from the government). If the concept of citizenship is defined in the first sense, then individual policy-makers who sit in government and who make political, economic and other decisions are also citizens. Therefore, the definitions and obligations attached to the conception of state defense also apply to them.

This problematic conception of state defense may invite criticism by seeing it as conceptual stretching. Our argument is that the

problematization of state defense is not a conceptual stretching because the conception of state defense as stated in the 1945 Constitution is very multi-interpretative so that it opens up space for contestation of ideas and ideas in defining this concept. In this paper, we also try to provide a re-interpretation of the conception of state defense by broadening the subject (actor) not only to the individual Indonesian people but also to individual decision makers. If state defense is directed to safeguard the Republic of Indonesia and protect this country from various threats, then the reinterpretation of state defense that we offer should be acceptable. In this paper, we see that national interest-oriented economic policies are part of the government's state defense action. Thus, defending the country is also the responsibility of decision makers.

The Industrial Revolution 4.0 not only has the potential to overhaul the industrial conditions of a country, but also change various aspects of human life. Safeguarding domestic industries is one of the top priorities for the government. This security is mainly in the form of guaranteed energy availability for industries in the country. Thus, industrial policy within the conception of state defense becomes a relevant topic to be studied scientifically.

METHOD

Methodologically, this is a desk research. In this research, we review some other works related to industrial policy and reconceptualize this policy in order to fit in the realm of state defense we are discussing. In desk research, we collect available secondary data, both qualitative and quantitative, to construct our arguments. In analysing these data, we rely on thematic analysis, employing the axial coding scheme where any ideas representing each theme in our analysis are related to one another to compose a grand narrative of our arguments (Creswell, 2014).

Roughly speaking, this analysis presented here combine the conceptual and empirical analysis. We use conceptual analysis to dissect the idea of industrial policy and put it in a broader context of state defense. We

support out arguments using two case studies which is part of our empirical analysis. We select two cases, China and South Korea, to substantiate our argument about how industrial policies have been incorporated into broader framework of national security strategy.

Despite our reliance on secondary data sources, we also use primary data in the form of government reports and official statistical data issued by government agencies. These primary data are important as valid information for what the governments have been doing to safeguard their economies and how they justified the uses of some neo-mercantilist policies to support their national security.

RESULTS AND DISCUSSIONS

Industrial Policy: An Overview

Industrial policy is one of the solid bases for making economic policies in the post-war period aimed at economic recovery and strengthening of the economic structure. Economic structuring is needed for economic transformation towards strengthening a competitive industrial sector at the global level. In this case, the contribution of an internationally competitive industrial sector is an important asset to support economic growth and wider social welfare. The fast-growing industrial sectors in many developing countries provide great opportunities for social policies to address poverty and inequality between urban and rural areas. Therefore, the industrial sector plays a strong role in generating economic prosperity. One clear example can be seen from the industrial policy in Europe being used as an engine for the post-war European economy to achieve social progress. With increasing globalization, the industrial sector has become an engine for promoting social progress (Soete, 2007).

As an instrument to encourage economic growth, industrial policies are the driving force for the domestic economy. Therefore, each country strives to make industrial policies that are integrated and have a positive contribution in the long run. Various forms or models of industrial policies are widely applied in several countries, from

strengthening state intervention to industrial policies that refer to market liberalization.

Industrial policy is inseparable from policy networks that refer to the state's penetration mechanism into society. These networks facilitate communication between government and industry, mobilize support from community groups, and function to implement government policies. Policy networks can take the form of quasi-government groups, such as industry advisory boards, policy review groups, and think tanks, or the less institutional but patterned relationships between government agencies, legislatures, political parties, banking institutions, trade associations, labor organizations and other social groups.

State power or state capacity refers to the government's ability to extract resources from society, implement policies even in the face of social opposition, and the influence of social groups. In developed industrial countries like Japan, viewed from the country's capacity, the features of the Japanese government are very suitable in promoting industrial competitiveness and encouraging industrial cooperation. This relates to the centralization of the country, the Japanese political system characterized by a unitary government system in which the state bureaucracy is centered on the dominant political party in the country, the Liberal Democratic Party (Fong, 1999).

With regard to the role of the state in industrial policy, China is an example of a country that has succeeded in using its industrial policies to boost economic growth. Lin & Wang (2008) see that China's industrial policy begins with economic reforms that begin with the creation of micro policies such as economic zones and assistance from non-state companies facing budget problems. This economic strategy is then followed by policies at the "macro level", namely liberalization of the price system, fiscal reform, and regulation of competitive exchange rates.

In addition, in order to deal with the entry of foreign companies, the Chinese government made policies to encourage national companies to be more competitive than foreign companies. In this case, the Chinese government made a series of industrial policies that limit FDI in various industrial sectors which are also carried out by national business actors. Foreign investment is limited to minority ownership in the agricultural sector, the automotive industry, chemicals, machinery, paper, securities, shipbuilding, steel and the telecommunications industry. This protectionist policy trend in China was carefully planned as a long-term industrial policy. The role of the Chinese government in industrial policy, among others: First, actively manipulating the currency, Reminbi, is estimated to be undervalued between 25% and 40%. Second, China implements a technical standard policy for the protection of domestic companies from foreign competition. Third, government procurement policies are used to help develop Chinese-owned technology and can provide a market for Chinese national companies. Four, the Chinese government initiated industrial policies that increasingly limit FDI in various industries that are also run by national companies (Hemphill, 2013).

Picture of industrial policy in China confirms a major form of government intervention. In this case, the intervention is aimed at providing a conducive environment for domestic companies. Restrictions on FDI are aimed at making domestic companies more competitive in sectors that are strategic sectors for the government. Regulations on industrial sectors that are opened to FDI can be seen as a form of government caution in liberalizing the industrial sector.

Meanwhile in South Korea, state intervention was carried out during the industrialization period. Machinery imports are strictly controlled to promote the domestic machinery industry. Credit is not usually extended to importers of machines that are already available in the country and, on the other hand, subsidized credit, which often reaches 90% of the value of the product, is extended to domestic buyers of machines. The Korean state prescription for private companies was to

encourage companies to invest in heavy and chemical industries in the 1970s and a ban on investment in consumer goods industries. State-owned banks were also ordered not to make consumer loans. Even tighter controls are placed on the consumption sector, which involves spending foreign currency. The predominance of industrial policy with a view to 'industrial upgrading' has been a hallmark of government intervention. Korea has selected several industries as 'priority' sectors and is providing great support to them. Most of Korea's major industries were designated as priority sectors at some stage and developed through a combination of massive support and great control from the state. 'Designated' industries have priority in obtaining credit and foreign exchange, state investment funds, preferential tax treatment and other supportive measures (Chang, 1993).

The dominant government policy is directed at increasing the competitiveness of Korean industries. In this case, the government implements several restrictions and selects strategic sectors as one of the main elements of industrial development. The form of assistance to the industrial sector is also more focused on priority sectors that have received facilitation from the government. The banking regulations set by the government are also a driving force for the development of the domestic industry.

Korea's experience in industrial policy provides important lessons for developing countries. 1) Competent economic policymakers in Korea choose industrial policies that are more prudent and have long-term impacts on domestic industrial development; 2) Build institutions for recruiting broad-minded elites as economic policymakers will be required to implement industrial policies that are appropriate to developing countries; 3) Depending on the fiscal situation, developing countries may provide export and customs insurance schemes, which are considered non-prohibited subsidies to promote export-related industries; and 4) Infrastructure provisions, as well as tax and financial benefits can also be considered to promote strategic industries (Mah, 2007).

Related to government intervention in industrial policy, Rodrik (2009) argues that there are two models of industrial policy that must be combined, namely: the traditional model in which the government takes certain sectors and provides incentives through various policy instruments (tax credits, subsidies, directed credit) and various sectoral priorities; and new model that focuses on building an institutional framework to address some of the key issues stemming from the implementation of existing industrial policies.

Economic policies that can be used to support national industry can be carried out through government intervention and incentives for the private sector. Government intervention is aimed at building industrial capital to ensure a solid manufacturing base. It is done through high levels of capital accumulation, interest rate controls and selective loan approval policies for investment in capital equipment, and high levels of investment in targeted manufacturing areas. Government policies to facilitate industrial upgrading and diversification should be used in industries with a latent comparative advantage so that once new industries are established they become competitive domestically and internationally. There are two types of government intervention. First, is policy that facilitates structural change by addressing information and coordination problems for industrial improvement and diversification. Such interventions aim to inform and coordinate improvements in the "hard" and "soft" infrastructure necessary for the private sector to grow in line with dynamic changes in economic comparative advantage. Second, are policies aimed at protecting selected companies and industries either in new, too developed sectors or in old sectors that have lost their comparative advantage (Lin & Monga, 2010).

In addition, selectivity and targeting is required in industrial policy, as was done in the European Union in the 2000s. They use policies that focus on Research & Development (R & D), innovation, SMEs and so on. In addition, government officials make investment decisions that sometimes go against the market, sometimes even using state-owned

companies as vehicles, just to build a successful industrial sector (Uvalic, 2014).

From the above description, it can be seen that government intervention in industrial policy can be carried out in several forms ranging from policies for selecting priority sectors, providing facilitation to the domestic industry, limiting FDI, banking regulations to policies to address the dynamics of problems in industrial policy development. This form of policy aims to provide protection and facilitation for the domestic industry. In the end, this policy is expected to be able to encourage economic growth, help solve social problems and develop a more competitive national industry.

Industrial Policy as a Concept of State Defense

Several forms of industrial policies implemented in several countries, such as China and Korea, illustrate how government intervention is aimed at increasing the competitiveness of national industries that are more competitive both at the national and global levels. The strengthening of national industry will ultimately contribute to the creation of social welfare. Strengthening the national industry can be seen as a form of state defense. One of the values contained in defending the country is the value of "Cinta Tanah Air" with one of the indicators "Contributing to the Advancement of the Nation and State" (Widodo, 2011).

This article sees that the awareness of individual policy makers of the need to make policies that are oriented to the interests of the nation and state which are manifested in the form of industrial policies that are prudent and oriented towards people's welfare is a form of state defense. Since the main objective of industrial policy is to promote an independent and competitive national industry in addition to protecting the national economy from the threat of unfair competition from big international business players, industrial policy can be seen as a form of state defense carried out by policy makers.

Industrial Revolution 4 is an era of industrial transformation that is currently happening including industrial production such as robots and the industrial internet of things, augmented reality, and others. Industry 4.0 has and will continue to change many things through its connectivity and digitization in increasing the efficiency of the manufacturing chain and product quality. So, what are the threats to Indonesia? This Industrial Revolution will eliminate a lot of jobs in the world, and of course, including in Indonesia. Thus, a strategy for increasing the competitiveness of national industries and creating jobs is an important form of state defense application played by policy makers.

Why can industrial policy be seen as a form of state defense? First, industrial policies are formulated by individuals. These individual decision makers are essentially citizens, but of course with a special mandate to make policies for the benefit of the nation and state. Because of their citizenship status, the obligation to defend the state is also attached to them. Second, threats are not only military in nature. Even after the cold war, non-military threats, especially economic, outweighed military threats. The increasingly intense economic competition in international business sometimes forces countries (even developed countries) to make protective industrial policies to protect their producers to the detriment of many other countries. In this condition, a policy that protects the state and nation from the effects of unfair competition is the responsibility of defending the state from policy makers.

Third, industrial policy is essentially aimed at strengthening domestic industry and advancing the national economy. As declared by the Indonesian government in the Vision and Long-Term Development Directions for 2005-2025, the vision for economic development is:

"The realization of an economy that is advanced, independent, and capable of significantly expanding the improvement of people's welfare based on economic principles that uphold healthy competition and

justice, and taking an active role in the global and regional economy by relying on the nation's ability and potential." (Bappenas, 2005)

Thus, industrial policies that are oriented towards achieving the above vision are very important and therefore can be seen as a form of state defense for whoever makes these policies.

Through industrial policies based on national interests, the government also facilitates increasing the competitiveness of national industries at the global level. Salsabiela (2017) explains that the government must be able to play an optimal role in helping the national industry to increase competitiveness at the global level. Several supporting policies need to be made by the government to encourage the strengthening of the national industry, one of which is policies related to strengthening human resources in local industries.

Regarding optimal role, the form of government "intervention" to increase the competitiveness of the national industry is needed. In this case, the entry of FDI into the industrial sector needs to be restructured. This arrangement talks about the presence of integrated cross-sectoral policies to emphasize the need for FDI contributions to local industrial development. The mapping of priority industrial sectors that has been carried out by the government must be followed by a series of policies that are implemented and integrated. As has been done by China and South Korea, the government provides a series of incentives and facilities to encourage priority sectors to be more competitive at the global level. This policy will be implemented properly through coordination mechanisms and information that are integrated with one another.

Industrial Policy in Indonesia

The history of the significant development of Indonesian industry began in 1983. 1983-1998 was known as the period of the birth of Indonesia's industrialization policy. This is because, at the end of 1983, the production value of the manufacturing industry increased rapidly due to the government's tight supervision of imports, particularly

imports of machinery. The growth in production value reached 13% on average per year during the 1970s, becoming one of the fastest in the world after South Korea and Singapore (Prawiro, 1998). But then, in 1998, coinciding with the end of the IV five-year development program, the Indonesian economy was hit by the 1998 financial crisis, so a new development policy was needed.

After the 1998 financial crisis, Indonesia's industrial growth, especially non-oil and gas industry, experienced quite intense diversification. The number of industrial companies from textiles and textile products, food and beverage, publishing and printing, rubber, rubber and plastic products, reproduction of recording media and communication equipment, and their equipment has experienced rapid growth (Rochadi, 2014). The government began to pay more attention to small industries because they proved to be more resilient to the economic crisis. Tijaja and Faisal (2014) also emphasize that after the crisis, the pro-labor society, especially workers, began to demand clarity in the recruitment process and wage standards. This resulted in the emergence of a policy of increasing wages but not in line with the growth in company productivity. Thus, protectionism is an alternative in protecting national industries to protect growing industries, such as the automotive sector and transportation equipment, machinery & equipment. On the other hand, governments that are bound by an agreement with the International Monetary Fund (IMF) are also required to issue liberal industrial policies (Rochadi, 2014).

Post crisis to date, industrial revitalization has become the focus of the government in improving the country's economic structure. To actualize export-oriented industries, revitalization is focused on industries that employ a lot of labor (labor intensive) and those that have export capabilities. As a result, it was noted that the role of the industrial sector in the national economy increased, from 23.8% in 2000 to 24.6% in 2004 (Tijaja, 2014). Labor-intensive industries provide the largest share of output, which is around 60% due to the large population of business units.

Furthermore, in 2004, the government launched the National Long-Term Development Plan (RPJPN) with a period of twenty years, namely 2005-2025. In Law Number 17 of 2007 concerning RPJPN 2005-2025, it is stated that the industrial sector is the basis of the strength of a strong economic structure. Thus, the development of the industrial sector is focused on eliminating monopolistic practices and various market distortions. In terms of business scale, Small and Medium Industries (IKM) are built into the foundation of the national industry, by integrating it into a value added supply chain with large-scale industries. In terms of products, product diversification is designed from upstream to downstream so that it is expected to form healthy and strong industrial clusters (Nurfadilah, 2018).

If we look back at the history of the development of industrial policy in Indonesia, one of the goals of national industrial policy that always appears is import substitution industrialization (ISI). The government always targets increasing domestic industrial products, one way is by opening investment taps in the industrial sector. This is done so that local industries can produce raw materials, auxiliary materials, and finished materials, which in other words dominate the upstream to downstream industries. Based on data from the Ministry of Industry, since 2014, the trend of import substitution industry investment has continued to increase. In fact, it is projected to reach 379 trillion rupiah in 2018-2019 (Hastuti, 2018).

In implementing industrial policies, the government must determine which industries have a comparative advantage. The assessment of comparative advantage is carried out by looking at aspects of cost analysis, long-term impact and technology (Syamsudin & Setyawan, 2008). This study finds that the government has implemented this policy, seen from the synchronization of the Ministry of Industry's Strategic Plan with the 2015-2019 Investment Coordinating Board's Strategic Plan. The BKPM Strategic Plan focuses on investment in priority industrial sectors, namely: 1) electricity in order to support energy security, 2) labor-intensive industries, 3) agricultural industries

to support food security and the processing industry for agricultural products to increase added value for exports, 4) maritime industry, 5) import substitution industry for domestic raw materials and consumption, 6) mining product processing industry to provide added export value, and 7) tourism industry.

The balance between national industrial development and the country's openness to investment seems ideal for Indonesia. But in fact, until now, dependence on imported raw materials has not been resolved. This was put forward as one of the main problems in the development of the upstream national industry sector because it still had to depend on imported goods (Setjen DPR RI, 2015). However, these raw material producing countries often limit sales because the economic value of importing raw materials is much lower than that of finished goods. It seems that the orientation of the import substitution industry without the establishment and resilience of the supporting sectors, for example the agriculture, livestock and marine sectors, which is sufficient, has implications for high imports in the upstream manufacturing industry.

Another problem is that the orientation of the import substitution industry which has the foundation of the majority of labor-intensive industries has implications for the difficulty of creating added value from upstream industrial products. The instability of the rupiah exchange rate often has a negative impact on labor-intensive industries, such as rampant layoffs which contribute to increased unemployment (Syamsudin & Setyawan, 2008) and the industry's tendency to reduce working hours and reduce production.

Entering the industrial era 4.0, every country is faced with the challenge of creating industrial policy strategies that encourage comprehensive and sustainable industrial development. The development of digital technology is the main basis for the need for adjustments to existing industrial policies. Strategic steps were carried out by the Ministry of Industry, including making policies to realize the big aspirations of Making Indonesia 4.0, as an integrated roadmap to implement a number of strategies in entering the Industry 4.0 era. According to the

Ministry, there are also quite a lot of demands for new types of work, such as digital data managers and analysts, as well as professions that can operate robotic technology for industrial production processes (Ministry of Industry, 2018). It is hoped that the increase in digital-based industries will increase the competitiveness of national industries at the global level. Thus, when industrial policies are able to increase industrial competitiveness that can adjust to the dynamics of technological development, the government's efforts to advance the national industry can be carried out.

In order to face the industry 4.0, the government has prepared five priority industrial sectors, which include the food and beverage industry, the automotive industry, the electronics industry, the chemical industry and the textile and textile products industry. Some of the strategies that have been prepared by the government in responding to industry 4.0 include the government optimizing the existing supply chain, building digital-based infrastructure and increasing human competitiveness in the industrial sector, especially in the digital and entrepreneurial fields. Besides, the fulfillment of electrical energy needs is also closely related to national priorities in Making Indonesia 4.0. In addition, the government is also implementing an innovation policy through incentives in the industrial sector and its regulations (Nurfadilah, 2018).

CONCLUSIONS

Industrial policy in the conception of state defense is controversial. This is because industrial policies (like policies in general) are the product of collective decisions of stakeholders. Even so, because decisions are made by individuals who are also citizens, this policy can be seen as a form of how strong the commitment of policy makers to state defense.

Although the form of industrial policy represents the commitment of policy makers to the conception of state defense, we need to be careful in linking the successes and failures of this policy with the commitment to defend the state from these industrial policy makers. This is because

policy design requires careful calculations based on cost and benefit considerations. However, in policy analysis, we can measure the desirability of a policy by seeing how much the welfare effect is produced by this policy. Based on the utilitarianism argument, we can measure the success or failure of this policy from how much the level of welfare it gets and how many Indonesians benefit from this policy.

Reflecting on the experience of industrial policy in Indonesia, it can be seen that the commitment to defend the country by policy makers is still weak. The resulting industrial policies have still failed in encouraging the rise of the national industry. For example, local industry players are still dealing with financing problems for industrial development. In addition, the use of domestic industrial products is still minimal. On the other hand, the flow of imported products also makes local industries even more dying.

We are aware that making a great industrial policy is not effortless, especially in an increasingly interdependent economic condition with increasingly stringent trade regime regulations. In conditions where the free trade regime is so strong, industrial policies in the form of subsidies and incentives for national industry will be seen as an indication of Indonesia's weakening commitment to trade liberalization. However, as economist Dani Rodrik emphasized, industrial policy is needed to minimize the negative impact of market failures. Even though this policy is populist economically, it is needed to prevent political populism which is far more risky (Rodrik, 2009). Apart from that, several policies on non-tariff barriers, especially by developed countries, show that the loopholes of free trade regulations can still be utilized.

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The Garuda Strikes Back: Indonesian Economic Diplomacy to Tackle European Union Protectionism on Crude Palm Oil

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Abstract

This paper analyzes Indonesia's economic diplomacy in overcoming trade barriers to Indonesian palm oil commodities carried out by the European Union. Until now, the Indonesian Crude Palm Oil (CPO) industry has experienced tremendous pressure from the European Union (EU) as one of the main export destinations for Indonesian CPO. In order to secure Indonesia's national interests, instead of taking a cooperative approach, the Indonesian government has responded to the EU's discriminatory attitude towards palm oil commodities with a series of assertive economic diplomacy approaches. This assertive economic diplomacy approach is understood by this paper as a form of the "Power-Play End" strategy articulated by Indonesia to secure its national interests in mainland Europe. The main question in this paper is how can Indonesia use this strategy in overcoming trade barriers imposed by the EU on palm oil commodities? Using the concept of Economic Diplomacy which emphasizes three elements, namely the use of political influence and relations, the use of economic assets, the consolidation of the political climate and the international environment - this paper will examine Indonesia's economic diplomacy in related issues.

Key Words: Palm Oil, Economic Diplomacy, Trade Barriers, Indonesia, European Union

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INTRODUCTION

The Indonesian Crude Palm Oil (CPO) industry is dealing with tremendous pressure from European Union discriminatory policy towards Crude Palm Oil (CPO). On January 2018, the European Parliament agreed by vote on its revision of the Renewable Energy Directive (RED) which now prohibits the use of crude palm oil (CPO) in the production of biodiesel for Europe (Wicaksono, 2018). The reasons for the ban include that conventional biodiesel does not contribute to greenhouse gas emissions due to the indirect impact of land use change (ILUC) from biofuels. According to European Commission, ILUC pertains to the When biofuels are produced on existing agricultural land, the demand for food and feed crops remains, and may lead to someone producing more food and feed somewhere else. This can imply land use change (by changing e.g. forest into agricultural land), which implies that a substantial amount of CO₂ emissions is released into the atmosphere (*Indirect Land Use Change (ILUC)*, 2012).

Indonesia government strongly against European Union (EU) decision to implement the Draft Delegated Regulation. Indonesia labelled the regulation as an outright discrimination and a disguised protectionist measure against palm oil (*Indonesia: Europe Do Outright Discrimination Against CPO - The Insiders Stories*, n.d.). Palm Oil is one of strategic leading export commodity for Indonesia, Indonesian exports achieved US\$ 168.8 billion in 2017, a rise of 16.8% compared to the previous year (UN Comtrade 2018). Palm oil is one of the largest contributors to these number, amounting to 13.6% in 2017. Indonesian palm oil exports in 2017 reached US\$ 22.97 billion, an increase of 26% compared to the value in 2016, it makes Indonesia represents as the world's largest exporter of palm oil, surpassing Malaysia, Ecuador, Colombia and Thailand, with an export value of USD 4.2 billion in 2014 (UN Comtrade 2018; Gaol, 2018). On labor industry, based on data from the Ministry of Agriculture (2015), the number of employees working in oil palm plantation companies increased from 718 thousand people (2000) to 3.4 million people (2016). Thus, the number of

workers absorbed directly is around 2 million people in 2000 increased to around 7.8 million in 2016. Smallholder farmers is about 40 percent of total production. On the other hand, there are dominant private enterprises (Wilmar Group and Sinar Mas Group) in producing slightly over half of total Indonesian palm oil output (Suwarno, 2017). In this context, Indonesia is very interested in ensuring that trade between Indonesia and the European Union remains based on free trade. Meanwhile, the ban on the use of palm oil in European industries on the pretext of damaging the environment has ignored the Indonesian palm oil industry's striving to comply with environmental ethics.

The dispute between European Union and Indonesia regarding Crude Palm Oil has been going on almost for a decade. After 2013, the European Union experienced a failure on allegations of dumping against Indonesia for bio-diesel products, thus imposing anti-dumping duties on Indonesian bio-diesel products by applying a dumping margin of 8.8% -23.3%. Where the policy did not continue due to the decision of the Dispute Settlement Body (DSB) from the World Trade Organization (WTO), which stated that Indonesia was not proven to have implemented biodiesel dumping as alleged by the EU (*WTO : Indonesia Tak Terbukti Terapkan Dumping Biodiesel | Gabungan Pengusaha Kelapa Sawit Indonesia (GAPKI)*, n.d.). Post this failure, the EU tried other approach to strengthen its pressure to discriminate against Indonesian CPO once more. In 2017 the European Parliament issued a resolution to prohibit the use of Biofuels produced from Palm Oil (*Palm oil: EU ban won't save Asian rainforests, but here's what might help - Opinion - The Jakarta Post*, n.d.). It does not stop there, in 2018, the EU Commission issued a draft regulation "Delegated Regulation Supplementing Directive 2018/2001 of the Europe Union (EU) Renewable Energy Directive II" or REDD II for short. Cleverly, this draft regulation will limit the effective use of palm-based Biodiesel in the EU through the use of the Indirect Land Use Change (ILUC) concept (*Pemerintah akan kirim joint mission ke Eropa untuk menentang RED II*, n.d.). Although this regulation

One of the EU-28 policies, namely the Delegated Act on Low and High ILUC-Risk Biofuels tends to classify palm oil as “high risk-ILUC biofuel”. Where the negative impact arising from the indirect conversion of forest land into land for biofuel / biodiesel feedstock is described by this regulation as a "sin" that arises because of the high demand for palm oil. This means that there will be more deforestation for the expansion of oil palm plantations in order to meet the raw material needs for the EU biodiesel market (*Strategi Dampak Pemberlakuan Kebijakan RED II ILUC Uni Eropa - Majalah Sawit Indonesia*, n.d.). Based on this paradigm, the EU wants to phase out the use of palm oil as a raw material for biodiesel by 2030.

EU maneuvers that continue to put pressure on Indonesian CPO have made the Indonesian government have to face pressure from EU protectionism. In the context of this phenomenon, Dominick Salvatore in the book "A Model of Dumping and Protectionism in the United State" explains that protectionism is an economic policy of a country that limits trade between countries through trade systems, such as the imposition of import tariffs, quota restrictions, or in the form of a system of increasing tariffs and regulations, as well as various efforts to inhibit imports through pressures given to import destination countries and even import bans (Salvatore, 1989).

In its development, the EU efforts to implement protectionism at a practical level have found new ways apart from trade corridors, namely by using non-trade issues such as health, religion, labor protection and the environment. Protectionism efforts that articulate issues such as health, religion, labor protection and the environment make international trade increasingly intertwined with issues that previously appeared to have no correlation with trade (Aisbett & Pearson, 2012). The EU's efforts to tackle palm oil as an important commodity in the processing of biofuels spans a wide variety of endeavors. There are at least two main issues that can be captured by this paper as a form of EU protectionism against Indonesian palm oil commodities, namely the accusation of Dumping which directly targets Indonesia's foreign policy

in the context of international trade related to palm oil commodities, negative campaigns against palm oil targeting public perceptions in Indonesia. Mainland Europe towards the palm oil commodity, thus giving rise to various agreements codified in the regulations which became the regime in the European Region to prevent the entry of palm oil commodities there. It is at this point that Indonesia's Economic Diplomacy finds its challenges in being able to guard Indonesia's national interests in the trade of palm oil in the European market.

In this regard, this paper analyzes Indonesia's economic diplomacy efforts to overcome trade barriers for oil palm in the European Union. We tried to understand Economic Diplomacy through an IR lens, which is primarily concerned with high politics and national security issues, where national interests are mostly defined in terms of (inter)national stability (Bergeijk et al., 2011, p. 24). We did not use commercial diplomacy, because to the best of our knowledge, commercial diplomacy refers to activity by government service to the business community, which aims at the development of a socially profitable international business venture. This activity involved a commercial diplomat perform their main activities in the host country and usually staff members of a diplomatic mission or a trade promotion organization (TPO)/ investment promotion agency (Kostecki & Naray, 2007). This article did not aim to analyze Indonesian diplomat dealing with trade issue; we want to focus on Indonesia's macro policy to tackle the European Union protectionism toward crude palm oil.

Meanwhile, according to Baine and Woolcock (2003:3), economic diplomacy as a set of activities (both regarding methods and processes for international decision making) related to cross-border economic activities (export, import, investment, lending, aid, migration) pursued by state and non-state actors in the real world. Since 2013 until today, Indonesia has been faced with the dynamics of growing problems related to the EU's efforts to block palm oil commodities' entry in 28 European countries. Rashid defines economic diplomacy as the process of formulating and negotiating policies related to production activities,

exchange of goods, services, labour and investment in other countries (Killian, 2012). Odell offers a broader definition by including additional elements: the existence of policies related to the exchange of money and information, including foreign assistance or official development assistance (Odell, 2018). Based on those definitions, economic diplomacy is an essential element for a country in managing its economic relations with the outside world because international economic considerations do not occur in a vacuum that only relies on market forces as assumed by neoclassical economists. In this understanding, economic diplomacy then becomes an essential weapon for countries to cooperate or conflict in the international system.

In the context of Economic Diplomacy, Nicholas Bayne and Stephan Woolcock explained that the state government must be able to manage three interrelated pressures, namely: (1) Pressure caused by the interaction of political and economic dimensions; (2) Pressure caused by international and domestic dynamics; and (3) Pressure caused by interactions between the Government and other actors, such as companies or Non-Government Organizations (NGOs) (Bayne & Woolcock, 2017). Based on this view, it can be understood that the state is not the only actor in economic diplomacy. The transformation of the global political economy has brought significant changes to various aspects of the life of the nation and state. Susan Strange is the first person to state that a new "diplomat" has been born in the global economic system, namely companies, which has created triangular diplomacy, namely diplomacy between countries and countries, companies and companies as well as countries and companies (Strange, 1991). In subsequent developments, the diplomacy process, especially economic diplomacy, is no longer triangular in nature, but rather a decagon or octagon involving far more actors such as NGOs and international organizations (Killian, 2012).

At this point, the authors argue that the best approach is to understand the spectrum of problems faced by Indonesia through the definition of economic diplomacy which is in line with the realist school of thought, namely "Economic diplomacy has been defined as the pursuit of economic security within an anarchic system" (Lee & Hocking, 2010). If the polemic that occurs at the international level is seen by the state as a threat in the economic dimension (Economic Security) which includes matters of economic welfare and political stability, the state will use an economic diplomacy approach that includes all available instruments, both economic and even political (Kopp, 2004). In that sense, the nation-state must understand that the achievement of national interests in the context of economic diplomacy must also recognize hard instruments aimed at increasing the state's bargaining on certain issues. Sometimes, cooperative steps are ineffective for solving some trade problem between two or more countries.

Countries in responding to challenges caused by global market dynamics require proper economic diplomacy. According to van Bergeijk and Moons, economic diplomacy contains three elements, namely: (a) Use of influence and political relations to promote and / or influence trade and investment, (b) Use of economic assets to increase costs of conflict and strengthen mutually beneficial relationships, (c) Efforts to consolidate the political climate and the international environment to achieve these goals (Bayne & Woolcock, 2017: 3). These three elements are important references for analyzing Indonesia's economic diplomacy efforts in facing EU protectionism against palm oil commodities that have occurred until this writing. Therefore, the analysis carried out by this article will be divided into two parts - first, this paper will provide an overview of EU trade barriers to Indonesian palm oil commodities, then proceed with providing an analysis of Indonesia's economic diplomacy based on the three elements previously mentioned. Thus, this paper is expected to provide an explanation regarding Indonesia's economic diplomacy efforts in dealing with the current polemic.

THE EUROPEAN UNION AND TRADE BARRIERS TO PALM OIL COMMODITIES

Europe is a region whose countries are the largest consumers of vegetable oil in the world, both for food and non-food needs. However, in the European Union, palm oil is not the only vegetable oil consumed by the people of the blue continent. Apart from palm oil, there are three other vegetable oils that are also widely consumed by mainland European countries, namely soybean oil, rapeseed oil and sunflower oil. The European Union introduced the Bio-Fuel policy for the first time through The Directive on the promotion of the use of biofuels or other renewable fuels for transport (2003/30 / EC). Where the policy, known as RED, aims to mitigate the impact of energy use from fossil fuels which affects global climate change. In terms of numbers, this policy aims to increase the spread of biofuel use in the transportation sector by 2% in 2005 and 5.75% in 2010. Because of this policy, the use of biofuels in the European Union has doubled between 2003 and 2005, although this figure was still below the 2% target for biofuel use in 2005. In that year the European Union could only reach 1.4% of the total use of biofuels (Amezaga, 2010).

Starting from there, in 2006, the European Union strengthened its commitment to the future use of biofuels by issuing the EU strategy for Biofuel document based on the Biomass Action Plan. This document provides a basis for the trajectory of biofuel use in EU countries through six strategies for biofuel development in the EU and developing countries. In this strategy document, the European Commission's political decision emphasizes the importance of meeting national targets for biofuel use and biofuel production using the use of sustainable raw materials (*EUR-Lex - l28175 - EN - EUR-Lex*, n.d.).

According to Timo Kaphengst, to fulfil the strategy document's objectives, the European Union was conducting a review of the policies to reposition and actualise policy directions in the region, emphasising the importance of sustainability in energy use in the European countries.

Then, this policy was manifest through a Green Paper publication explaining the new European Union energy policy. This policy focuses on achieving three aspects: the first aspect is sustainability - the big goal pursued from this energy policy formulation is to reduce climate change by intensifying the use of renewable energy and efficient use of energy. The second aspect is competitiveness - this policy aims to increase efficiency and increase competitiveness through the competitive internal EU energy market. The third aspect is to talk about guaranteeing supply security, namely by establishing better coordination among EU member countries to fulfil energy supply in the European region (Schlegel & Kaphengst, 2007). The European Union's grand strategy to encourage renewable energy was gaining reinforcement by the emergence of a renewable energy roadmap in 2007. This roadmap targets 20% renewable energy use for 2020 with a minimum of 10% biofuel use for the transportation sector, thus this roadmap changes the target in the 2003/30 directive. This regulation has also strengthened from previously voluntary to binding and mandatory for EU member states (Amezaga et al., 2010).

Interestingly, after the revision of the 2001/77 and 2003/30 renewable energy policies, it became a 2009/28 directive - this policy contains propositions related to the biofuel industry chosen by the European Union to be developed towards second generation biofuels, namely biofuels originating from reserves and residue. agricultural products, with the aim of having no implications for the stability of food and world forests. The 2009/28 directive regulates several things, including: a target of 10% use of biofuel for transportation, a threshold for reducing the greenhouse gas effect estimated by 2017, the EU can reduce the greenhouse gas effect by 35% and regulates sustainability criteria (De Pous, 2009).

At this point, this paper sees that the regulations codified by the European Union in building environmental regimes in the European region are starting to have a connection with the palm oil commodity which is widely used by business lines in the blue continent. Where the

criteria set by the European Commission regarding biofuel products must be produced from production activities that are environmentally friendly and sustainable, and do not affect forest stability. The definition of criteria related to sustainability is contained in article 17 which states that the biofuel produced must be able to reduce at least 35% of greenhouse gas emissions when compared to the use of fossil fuels. The article also regulates technically the biofuel used, starting from the raw material, the manufacturing process, to the amount of biodiesel produced can reduce the effect of greenhouse gases (Directive 2009/28/EC of The European Parliament and of The Council).

INDONESIA'S ECONOMIC DIPLOMACY: THE THREE STEPS TO STRIKE BACK!

Use of influence and political relations to promote and / or influence trade and investment

To tackle European protectionism, Indonesia uses economic diplomacy to counter European black campaigns against palm oil by leveraging international political networks to promote the worldwide trade in palm oil. According to Hirschman (1985), economic diplomacy is clearly not just about narrow economic and commercial interests. Rather, it involves broad national interests that include political and strategic as well as economic dimensions. Indonesia's maneuvers to strengthen positive promotion of palm oil commodities around the world are a counter narrative to deny European efforts to label palm oil commodities as non-environmentally friendly commodities. Maintaining the image of the oil palm commodity is not just an economic problem, for Indonesia it is a very strategic national interest.

As an example, addressing the issues brought by the European Union in decreasing the use of palm oil, Indonesia issued a claim to reject this issue. Here are a few claims Indonesian government to deny the black campaign carried out by the European Union: 1. The largest GHG (greenhouse gas) emissions globally are carbon dioxide gas which reaches 92% of total global GHG in 2011. 2. The largest sector in

emitting CO₂ is energy consumption / global fossil fuels, this sector contributes 56% of the total, while land development is 12.2%. 3. The largest biofuels emitter country in the world is China, United States, India, Russia, Japan, Germany, Iran, Canada, South Korea and United Kingdom. 4. Country The largest emitters of GHG from global agriculture are China, Brazil, India, United States, European Union and Argentina. 5. Deforestation occurs in countries that have non-tropical forests, Meanwhile, countries with tropical forests tend to experience reforestation (Repository UMY, n.d).

The Indonesian Ambassador to the European Union, Arif Havas Oegroseno, in a seminar on the European Union emphasized the importance of the Indonesian people to conduct research and promoting Indonesian palm oil on a global scene. This marked a culmination of Indonesia's dissatisfaction with the black campaign that became rampant even became advertisements in European television. Some foods even have a palm oil-free logo on the label the packaging. Furthermore, Riaz J. P. Saehu, an official at the Indonesian Embassy in Brussels considers protectionism carried out by EU countries as an act of jealousy over oil palm trees that difficult to grow on the plains of Europe while in Indonesia oil palm trees can thrive (Afrianti, 2014, p.13). For that he supported the existence of animated films that advertised support for palm oil. The film describes the fact that palm oil requires an area of 9 million hectares to make vegetable oil. This area is less compared to sunflower planting locations which require 12 million hectares of land. Nevertheless, many European countries have always relied on sunflower oil as bio-oil (Afrianti, Dewi, 2014).

Moreover, Indonesia also invited Malaysia to jointly fight for free trade related to palm oil. Obviously, economic diplomacy is thus part of—and at the same time an instrument of—foreign policy, concerned with decision-making processes and the employment of political-economic instruments (Bergeijk et al., 2011). Indonesia strengthens its positions against the European Union by fighting together with countries that are equally affected by EU protectionism on Palm Oil and its derivatives.

Coordinating Minister for Economic Affairs Darmin Nasution said that Indonesia and Malaysia agreed to send their respective delegations to protest against the latest European Union regulations regarding palm oil. In the draft rules of the European Union's Delegation Act, palm oil will be banned from turning into biofuel by 2030 (*RI dan Malaysia Layangkan Protes Soal Sawit ke Uni Eropa April - Bisnis Tempo.co*, n.d.).

Indonesia also takes advantage of diplomatic relations to seek alternative markets besides the European Union. The export destination countries for Indonesian palm oil that experienced an increase in 2018 were China by 18%, Bangladesh by 16%, Pakistan 12%, African countries by 13% and the United States by 3% (*Dijegal Uni Eropa, Kemdag berupaya perluas pasar ekspor minyak sawit*, n.d.). For instance, during a current account deficit, the government and palm oil business actors work together to expand and strengthen the export market, one of which is by sending a trade mission delegation to Pakistan. Since 2014, Indonesian palm oil already dominated the Pakistani palm oil market. In 2014 Indonesia had a market share of 72.5% which increased to 83% in 2015 and 82% in 2016 (*Indonesia Kuasai 82% Pasar Sawit di Pakistan - Ekonomi Bisnis.com*, n.d.). This potential is used by Indonesia to overcome EU-EU protectionism by sending a delegation to Pakistan to strengthen the palm oil trade

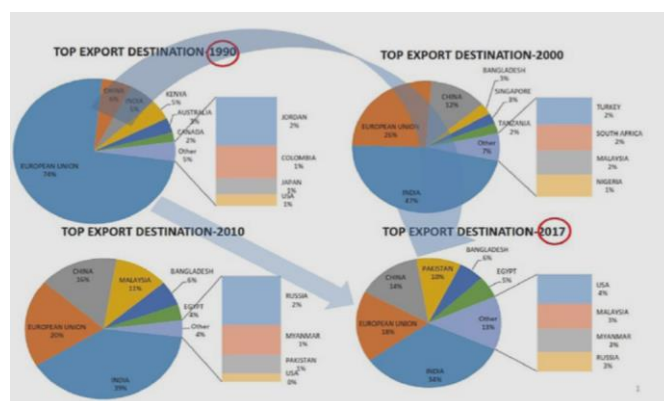


Figure.1 – Fundamental Shift Palm Oil Export 1990-2017 from EU to Asia

Source: Observatory Economic Complexity. MI in Suwarno. 2019.

As illustrated in Figure 1, within 27 years, the Indonesian palm oil export destination experienced a pivotal shift from EU to Asia. Prior to 2000, Indonesian palm oil export significantly went to European Union, in number it accounted for 74%. Whereas, the export to Asia is only about 11% which was to China and India. But, from 2000 a head, it was slightly decreasing export of Indonesian palm oil to EU that is about 26%. In 2010, Export to EU was decreasing about 20 % of Indonesian palm oil export. By then, in 2017, about 70% of palm oil export went to Asia, and only a fraction of 18% went to EU. Indonesian palm oil export to India and African countries increased by 32 and 50 percent year-on-year, respectively and even exports to Europe increased by 15 percent from 4.37 million tons in 2016 to 5.03 million tons in 2017. Albeit increasing 15% of the Indonesian export to Europe, palm oil has been discriminated by the EU (Suwarno, 2017). Indonesia's policy maker also aware about the pivotal shifting in Indonesian palm oil export destination, Indonesia uses this advantage to weaken EU pressure on Indonesian palm oil commodities. Globally, Indonesia promotes openness for any country to buy Indonesian palm products. One of Indonesia's top prospectus destination is China, by anticipating a boost in exports of the commodity to China, the move also presents Indonesia with a respite from its own trade woes from a planned phase-out of palm oil from biofuel in the European Union, and a likely increase in duties by India, its No. 1 export customer (Jong, 2019). The deputy for energy in the office of the coordinating minister for the economy, mentioned that Indonesia was always looking to expand the market for its crude palm oil (CPO), including in China, it's third-largest market.

“We're the biggest CPO supplier. We can dictate the price. “That's the beauty of being the biggest supplier,” Montty said. But boosting exports to China will not mean clearing more forests to plant oil palms. Instead, Indonesian producers will increase yields through better technology and seeds, rather than more acreage (Jong, 2019).

To the best of our knowledge, we agree that Economic diplomacy is a foreign policy practice and strategy that is based on the premise that

economic/commercial interests and political interests reinforce one another and should thus be seen in tandem. Therefore, the way Indonesia exercised their political relations with countries that face the same threat as the protectionism of the European Union and countries outside Europe that need Palm Oil are not only to find a way out in facing European protectionism, but also a form of diplomatic message to the European Union that Indonesia can seek alternative market if Europe behaves unfairly in relation to palm oil trade.

Use of economic assets to increase costs of conflict and strengthen mutually beneficial relationships

This article argues that Indonesia is fighting back against European pressure on palm oil commodities. This argument is based on the following views, if economic security is thought to comprise the economic prosperity and political stability of a nation, it follows that economic diplomacy pursued by a government involves a variety of instruments that are relatively more economic or more political in character. In other words, economic diplomacy involves a 'business end' and a 'power-play end', and all tools (in mirror view: expressions) of economic diplomacy can be placed somewhere in between these two extremes (Bergeijk et al., 2011, p. 16). In a sense, Palm Oil as Indonesia's leading commodity is part of Indonesia's economic security, so that to overcome European Union protectionism, the pressure exerted by Europe will be countered by Indonesia by utilizing all available resources to push back. Luhut Binsar Panjaitan as Coordinating Maritime Affairs and Investment Minister stated that the Indonesian Government had considered implementing a boycott of European products (*Upaya Ubah Diskriminasi Sawit Uni Eropa (UE) : Indonesia Jangan Gelap Mata | Gabungan Pengusaha Kelapa Sawit Indonesia (GAPKI)*, n.d.). To prove the seriousness of Indonesia, the Indonesian Energy and Mineral Resources Ministry introduced the nickel export ban to push local extractors to refine the ore domestically and export higher-value commodities. The ban will take effect in January 2020, two years earlier than previously planned. Using the

2009 Law on Coal and Mineral Mining, which sought to prohibit the export of raw materials five years after the law took effect, Indonesia raises the nickel issue to the attention of all countries that need imports of crude nickel from Indonesia, including the European Union (Iswara, 2019).

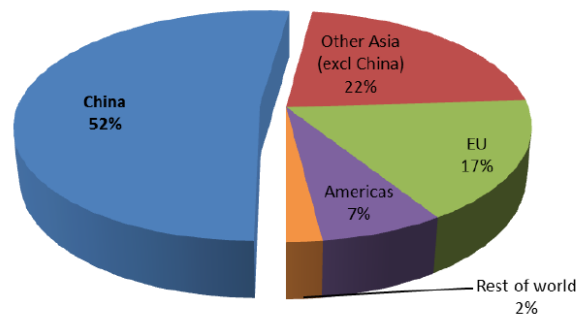


Figure 2 – Share of World Stainless Steel Production, by Region, 2014

Source: International Stainless-Steel Forum and INSG, Stainless Steel in Figures, 2015.

Responding to this trade policy of Indonesia, on November 2020, The European Union launched a complaint at the WTO against Indonesia's curbs on exporting nickel and other raw materials, which are designed to benefit its own smelting and stainless-steel industries (Blenkinsop, 2019). The European Union also sent a Request for Consultation to Indonesia's permanent representative for the WTO in Geneva.

My authorities have instructed me to request consultations with the Government of Indonesia pursuant to Articles 1 and 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), Article XXII:1 of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and Article 4.1 of the Agreement on Subsidies and Countervailing Measures (ASCM) with regard to various measures concerning certain raw materials necessary for the production of stainless steel, as well as a cross-sectoral import duty exemption scheme conditional upon the use of domestic over imported goods (UNION et al., 2019).

Nickel is a very important commodity for European Union countries. Data for 2014 (figure 1) shows that Europe represents 17% of the world's largest stainless-steel producers. To support this market share figure,

Europe really needs nickel imported from various countries, especially Indonesia. This need is proven by the number of world nickel imports in 2019, on which, most European countries are in the top 20 largest nickel importers in the world. Meanwhile, Indonesia has become the second-largest exporter of stainless steel and its share of the EU market has risen from near zero in 2017 to 18% in 2019 (Blenkinsop, 2019). According to the European Commission, the restrictions unfairly limit access by EU producers to raw materials for steel production, notably nickel, as well as scrap, coal and coke, iron ore and chromium. Not surprisingly, the European Union responded to the Indonesian government's policy on nickel by bringing this issue as a case at the WTO.

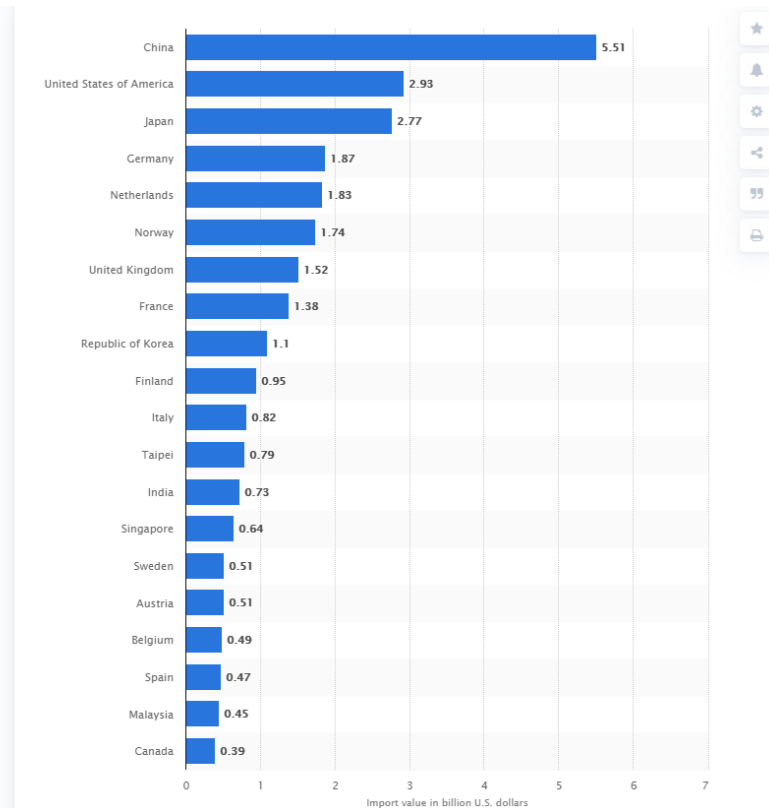


Figure 3 – The world's leading importers of nickel and nickel products in 2019, by country (in billion U.S. dollars)

Source: <https://www.statista.com/statistics/1116992/global-nickel-imports-by-country/>

The Indonesian government is not surprised with the European Union's efforts to sue Indonesia in the WTO. In fact, it seems that Indonesia is waiting for the EU's response to the nickel issue. Indonesian Minister, Luhut Binsar Panjaitan statement, in November 2019, follows the filing of an EU lawsuit challenging Indonesia's nickel ore export ban through the World Trade Organization (WTO) stressed this "Don't ever [let] any country dictates Indonesian policy," (Iswara, 2019). Moreover, President Indonesia Joko Widodo reinforced this statement by stated, "We will face the suit at the WTO. Do not think that we will be nervous because of being sued," (*Jokowi Says Ready to Deal With EU's Suit on Nickel Ban - News en.tempo.co*, 2019).

Based on Economic Diplomacy perspective, Economic diplomacy promotes economic interactions not only for their direct economic gains but also for the indirect benefits of stable political relations. An important element of economic diplomacy is the '[t]he uses of economic assets and relationships to increase the cost of conflict and to strengthen the mutual benefits of cooperation and political stable relationships. By taking the same protectionist measures as the European Union, Indonesia seems to want to increase its bargaining capacity on the issue of palm oil which the European Union has been questioning for the past few years by EU tariffs on Indonesian palm oil-based biofuel— we could say Indonesia is striking back!.

Efforts to consolidate the political climate and the international environment to achieve these goals

The European Union is well known as the main retainer promoting free trade in the global economy but in recent years, it has increasingly adopted a curious double-standard. While adopting free trade within the bloc, the EU has been increasingly lobbied by big businesses to protect domestic industries while targeting competitive foreign industries from developing countries. One of the most egregious cases where this appears to be happening is in relation to palm oil for biofuels - recently classified by the European Commission as unsustainable, which means it cannot be counted toward EU renewable energy targets (*How the European Union's protectionism is hurting developing economies*, n.d.).

Using the REDD+ initiative, European Union attempted to hinder the CPO producing countries exporting activities into European market. The REDD+ initiative has been established at international level to combat deforestation and forest degradation in the tropics, where the vast majority of forest destruction takes place. REDD+ also has major implications for agriculture (the source of another 12% of global GHG emissions), rural development and adaptation to climate change in some of the most vulnerable parts of the world (*Combating tropical deforestation: the REDD+ initiative* | *Climate Action*, n.d.).

Unfortunately, the EU has not done enough to rein in its own direct role in such processes. For instance, the European Commission has long known that the biggest driver of deforestation is not palm oil from Asia, but beef and soy production from Latin America. It is also far from clear that the primary driver of deforestation in those countries is palm oil. For instance, in Indonesia, only 11 percent of deforestation could be attributed to palm oil plantations, compared to 27.4 percent due to tree plantations for pulp, forestry concessions and mining concessions (*How the European Union's protectionism is hurting developing economies*, n.d.).

Responding to this situation, two of the world's biggest palm oil producers, Indonesia and Malaysia – both multi-billion-dollar trading partners with the EU—condemned the policy and threatened trade retaliation. Indonesia filed a lawsuit with the WTO on December 15 after months of criticism of the EU's plan to impose tariffs on biodiesel made from palm oil. The EU's proposal is an attempt to stem deforestation and forest fires linked to the expansion of palm oil cultivation in Indonesia. This legal action also followed by the second largest palm oil producing countries, they will take legal action with the World Trade Organisation against the European Union's "anti-palm oil campaign" via a dispute settlement mechanism (*Malaysia Follows Suit, Files Legal Action Against EU to WTO for Discriminating Against Palm Oil - The Palm Scribe*, n.d.). Officials in both countries have shared that EU policies are restricting trade in palm oil, EU policies under its Delegation Regulation restricts free trade practices.

For instance, The Indonesian Deputy Minister of Trade expressed the view that "The European Union must be consistent with their rhetoric in terms of international trade. Oil palm discrimination clearly violates trade principles regulated in the WTO, " (Sambuaga, interview, 2020). Also, Malaysian Plantation Industries and Commodities Minister Mohd Khairuddin Aman Razali said the policies adopted by the EU in the Delegation Regulation under the European Union Renewable Energy

Directive II have created unreasonable restrictions on Malaysia's sustainability efforts (Chu, 2020).

As mentioned before, Indonesia filed a lawsuit at the WTO following the plan of the European Union to gradually phase out the use of palm oil-based biofuels. The Indonesian government deems that the policy is discriminative and would negatively impact Indonesian exports of palm oil and biofuel to the regional grouping but also would tarnish the image of palm oil and its derivative products in the eyes of global trade. According to Woolcock (2002), ways to consolidate the correct political climate and international political economic environment to facilitate and institute these objectives involved trade diplomacy and covers multilateral negotiations. Therefore, it is the domain of the supranational organizations and institutions such as the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD) and the European Union (EU). Indonesian moved toward filled a lawsuit at the WTO was the first economic diplomacy act to consolidate the international environment view regarding Crude Palm Oil sector.

On July 2020, the WTO Dispute Settlement Body (DSB) has agreed to the second request of Indonesia to set up a panel examining the European Union's Palm Policies in biofuels. The panel will have six to nine months to issue its findings. The United States, Malaysia, Norway, Turkey, Singapore, Thailand, Russia, Japan, Korea, India, Honduras, Guatemala, Costa Rica, Colombia, China, Canada, Brazil and Argentina reserved their third-party rights to participate in the proceedings. This a great achievement from Indonesian economic diplomacy. Indonesia's first request was blocked at the DSB meeting on 29 June, but Indonesia did not falter with this rejection (*WTO agrees to Indonesia palm dispute panel*, n.d.). As the world's largest palm oil producer, Indonesia's interest to fight for Palm Oil as good commodity drive them to consistently maintains that Europe's Renewable Energy Directive (RED) II unfairly discriminates against the vegetable oil and is inconsistent with provisions in the WTO's goods, subsidies and

technical barriers to trade agreements. Malaysia also backed the claim as RED II, which will effectively phase out palm oil from European biofuels by 2030 based on indirect land use change criteria, prohibits its use and restricts trade.

On 9 December 2019, Indonesia once more requested consultations with the European Union regarding certain measures imposed by the European Union and its member States concerning palm oil and oil palm crop-based biofuels from Indonesia. Indonesia claimed that the measures imposed by the European Union appear to be inconsistent with Articles 2.1, 2.2, 2.4, 2.5, 2.8, 2.9, 5.1.1, 5.1.2, 5.2, 5.6, 5.8, 12.1 and 12.3 of the TBT Agreement; and Articles I:1, III:4, X:3(a) and XI:1 of the GATT 1994. Also, Indonesia claimed that the measures imposed by the European Union member States appear to be inconsistent with: Articles 3.1(b) and 5 of the SCM Agreement; and Articles I:1 and III:2 of the GATT 1994 (*WTO | dispute settlement - the disputes - DS593: European Union - Certain measures concerning palm oil and oil palm crop-based biofuels*, n.d.). Responding to this consultation request, On 19 December 2019, Costa Rica and Guatemala requested to join the consultations. On 20 December 2019, Colombia requested to join the consultations. On 23 December 2019, Malaysia requested to join the consultations. On 24 December 2019, Argentina requested to join the consultations. On 26 December 2019, Thailand requested to join the consultations. Subsequently, the European Union informed the DSB that it had accepted the requests of Colombia, Costa Rica, Guatemala, Malaysia, and Thailand to join the consultations. The support of many countries from various regions for the request for consultation is proof that Indonesia's economic diplomacy. Indonesia has succeeded in fighting for fair trade related to palm oil through efforts to consolidate the international environment to pay attention to the inconsistency of the European Union towards free trade.

CONCLUSION

Based on the analysis in this paper. We already discussed Indonesian economic diplomacy in dealing with EU protectionism in Bio-Fuel commodity, especially Crude Palm Oil. Indonesia exercised economic diplomacy to put pressure on the European Union through three elements. Firstly, the use of influence and political relations to promote and/or influence trade and investment, Indonesia uses economic diplomacy to counter European black campaigns against palm oil by leveraging international political networks to encourage the worldwide trade in palm oil. We explained that economic diplomacy is a foreign policy practice and strategy lies on the premise that economic/commercial interests and political interests reinforce one another and should perceive in tandem. We illustrated this activity through the way Indonesia sent a diplomatic message to the European Union that Indonesia can seek alternative market if Europe behaves unfairly concerning palm oil trade and build a counter-narrative to promote palm oil. Secondly, Indonesia uses economic assets to increase costs of conflict and strengthen mutually beneficial relationships; they were fighting back against European pressure on palm oil commodities by exercising bans for nickel import as a strategic commodity for Europe. The pressure exerted by Europe countered by Indonesia by utilizing all available resources to push back. Lastly, to consolidate the political climate and the international environment to achieve these goals, Indonesia attempted to consolidate the international environment through WTO as a multilateral organization covering trade issues. Indonesia filed a lawsuit at the WTO following the European Union's plan to gradually phase out the use of palm oil-based biofuels. The Indonesian government deems that the policy is discriminative and would negatively impact Indonesian exports of palm oil and biofuel to the regional grouping and tarnish the image of palm oil and its derivative products in the eyes of global trade. Those strategic movements were essential for Indonesia in handling EU protectionism toward bio-fuel commodity.

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The Obstacles of Indonesia-Iceland Cooperation In the Development of Geothermal Energy in Indonesia (2007-2014)

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Abstract

This paper discusses the obstacles in Icelandic-Indonesian cooperation related to geothermal development in Indonesia in 2007 - 2014. In the cooperation process that prioritizes geothermal energy use in Indonesia, the interaction between Iceland and Indonesia has not shown significant implementation results, mainly technical geothermal energy exploration. This cooperation has been going on for seven years. The concept of Barriers to International Cooperation developed by Lauri Siitonen, which is a derivative of the idea from Theories of International Cooperation, is used to analyze existing obstacles. This concept explains why cooperation and obstacles can occur due to the interactions of the actors involved. In this case, each country's technical and administrative problems gave impacts on the program's discontinuation to technical cooperation. This research is based on primary data and secondary data with descriptive-analytical methods. This paper's conclusion shows that political and policy factors and technical factors are significant in hindering this cooperation.

Key Words: Indonesia, Iceland, Geothermal, Bilateral Cooperation, Obstacles

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INTRODUCTION

The cooperative relationship between Indonesia and Iceland has been formed in the energy sector, significantly to develop geothermal energy. The progress of this cooperation has been agreed upon since 2007. However, the collaboration between the two countries has not shown any significance until 2014, especially in exploration activities. The cooperation was successful only in implementing the initial phase in 2016 by KS ORKA in collaboration with PT Sorik Marapi *Geothermal Power* in the Mandailing Natal area, North Sumatra (KS ORKA, 2019). This condition has been confirmed by *REmap Analysis* IRENA's that the development of the installed capacity of geothermal power in 2010 was 1.2 GW to 1.4 GW in 2014. In contrast, the initial target was set in 2014 to install 4,000 MW of 44 additional generators (IRENA, 2017). This issue is one of the biggest concerns regarding cooperation, as it just reached the stage of *knowledge transfer*. Meanwhile, the technical cooperation onstage *joint exploration* has not been carried out intensively.

Several activities related to research and development have been carried out. First, after the formation of the *Memorandum of Understanding* (MoU) in 2007, the Government of Iceland gave a mandate to UNU GTP (*United Nations University Geothermal Program*) Reykjavik to organize *workshops* for Indonesian geothermal specialists (Embassy of Indonesia, 2019). Second, organizing workshops on energy and mineral issues has also been carried out to improve the quality of Indonesia's human resources (HR) in geothermal science through organizing seminars, conferences, and others. But in the process, it has just been carried out through a workshop in 2017 by a delegation of the Indonesian Parliament, officials from the Ministry of Energy and Mineral Resources (ESDM) RI, directors of several BUMN and consulting service companies in the energy and infrastructure sector, along with the Indonesian ambassador to Iceland to Iceland. Another discussion was also held in 2017 as several delegations of the Indonesian Parliament had a visit to

ISOR, known as the *Iceland GeoSurvey*, to be precise on 9 August 2017 to take a more in-depth approach Iceland's experience related to geothermal energy utilization (ÍSOR, 2017).

Although cooperation regarding geothermal energy development has been conducted since increasing the *capacity building* for Indonesian experts through education and, the signing of the MoU is considered a new momentum to intensify cooperation in the technology sector. However, technical implementation in geothermal projects was not realized until 2014. In response to this, the two countries agreed to carry out sustainable exploration activities at the cooperation level. In this case, the development of geothermal cooperation is an activity that must be studied continuously considering the geological differences of each country in the world.

In Iceland, the beginning of geothermal development began through an accidental event in 1907, precisely in Iceland's western region. A farmer has been known to discover this energy source until other farmers followed a trend, he created in the 1930s to expand to urban areas. The peak of geothermal energy utilization in Iceland then occurred in 1970, when the world's oil crisis-hit countries. This emergency condition triggered the Icelandic government to take a policy to start promoting the exploitation of geothermal resources to ensure its domestic needs. Uniquely, when the oil crisis ended in 1980 and other countries again switched to conventional natural resources, especially oil, but not Iceland. The government continues to develop geothermal energy as the primary energy resource, especially in electricity generation. The development of geothermal energy in Iceland, which has resulted in total success, has dramatically helped meet its domestic energy needs until now. The community's needs, such as heating, hot water baths, drying agricultural land and agricultural products, tourist attractions, and others, are fulfilled (KESDM, 2010).

Along with the advantages possessed by Iceland, on 12-13 September 2007, a forum was launched by the Embassy of the Republic of Indonesia (KBRI) in Oslo, Norway, in coordination with the Ministry of

Industry, Energy and Tourism of Iceland and *Reykjavik Energy Invest* (REI) (Embassy of Indonesia, 2014). The forum specifically had the theme of the Indonesia-Iceland Geothermal Forum in Reykjavik, Iceland, and was attended by CEOs of companies from both countries in the energy sector. The existence of this forum has finally taken Iceland's attention to see Indonesia as a country with great geothermal potential. Furthermore, the Minister of Energy and Mineral Resources (ESDM) Indonesia, Dr. Purnomo Yusgiantoro, and Minister of Industry, Energy and Tourism of Iceland, Mr. Ossum Skarphedinsson, signed a *Memorandum of Understanding* (MoU) related to cooperation in the geothermal sector in Jakarta on 23 October 2007. The signing was also accompanied by signing cooperation contract between the President Director of PT PGE (Pertamina Geothermal Energy), Bambang Kustono, and REI represented by REI CEO Gudmundur Thoroddsson. The increase in cooperation was marked by a meeting at the *World Geothermal Congress* (WGC) on 30 April 2010, which was initiated by the *International Geothermal Association* and the Government of the Republic of Indonesia by the API) or the *Indonesian Geothermal Association Indonesian Geothermal Association* ((INAGA) in Nusa Dua, Bali (MEMR, 2010). During the meeting, Indonesian President Susilo Bambang Yudhoyono and Icelandic President Olafur Ragnarr Grimsson agreed to increase cooperation in geothermal energy development to establish a Geothermal Study Center, named *Center of Excellence on Geothermal* (Sukhyar, 2010). Unfortunately, a new partnership is only carried out normatively, namely by training experts and so on, even though the MoU has been described in article II regarding *Areas of Cooperation* (MoU, 2007). In point 4 of this MoU, the agreement's expected long-term goal is cooperation in the form of exploration, exploitation, and utilization of geothermal energy. The partnership has been agreed upon in the implementation or utilization stage of geothermal energy development in Indonesia. That way, if there has been an agreement technically, the implementation phase should have been carried out, or the community should have felt the benefits.

Based on the explanation above, it can be seen that the development of cooperation in the practical realm in the form of exploration is still very minimal, while the MoU has been in effect since 2007. Therefore, this paper will answer the question related to the factors that become obstacles in Indonesia and Iceland's cooperation framework in the geothermal sector. In 2014, there were not many exploration projects held by two countries. This paper will be divided into four sections. The first part is an introduction. The second part is a theoretical framework that explains the barriers to bilateral cooperation within international cooperation. The second part is followed by a discussion of analysis related to case studies. The last part is the conclusion.

METHOD

To answer the research question, the author uses the concept of cooperation between countries, which specifically addresses the bilateral cooperation. According to Milner (1992), the idea of cooperation includes two essential elements. First, it has been assumed that each actor's behavior is directed by several goals, where each goal is not necessary to have the same purpose as the other related actors. Still, the point is that they assume rational behavior in their way. Second, the definition of cooperation has been applied in that cooperation has provided *gains* or *rewards* for actors. The gains do not have to be equal for each country, but the most important thing is that they are mutually beneficial. Each actor helps others achieve their goals or *interests* by making various policy adjustments to anticipate their *rewards* own. However, each actor does not always help the other because it is expected to improve the situation itself, leading to policy adjustments (Milner, 1992).

The things mentioned above have the potential to cause obstacles to international cooperation, especially in bilateral relations. The international system's anarchic nature has emphasized the state's egoistic behavior, namely the desire to maximize *relative* and *absolute gain*, in the end, tend to compete with each other. According to Grieco (1988), as a result, states that seek to maximize absolute individual gain,

as well as a fraud that cannot be punished by respective countries, constitute the greatest obstacle to cooperation between countries. Meanwhile, Milner (1992) has stated that the state's structural conditions are more important than the problem of *relative gain*. If the profits generated are low, then the relative gain is essential, and cooperation is impossible because such situations create opportunities for countries to exploit the *relative gains* for their benefit. Barriers to the collaboration between countries stem from not being informed about the status, what the other party is doing, why it decided to do it, and what it might do in the future. Besides, the higher *cost and risk of* reaching and implementing agreements make it more difficult for countries to cooperate (Jervis, 1999). Actors are the leading players in bilateral cooperation, especially governments.

In particular, Lauri Siitonen (1990) explained that it is more challenging to define cooperation in social reality, especially in the case of *international development*, because it also summarizes intercultural issues. The issue of world mineral resources has provided an example of a new power factor in the international system, mostly related to development cooperation on problematic global mineral issues. Control over national mineral wealth and guaranteed access to raw materials will be the main criteria for collaboration among mineral producing and consuming countries. Interdependence between countries tends to raise new issues of global concern, such as maintaining stable economic growth or depleting world mineral reserves. In short, there are three criteria for cooperation, some of which can conflict with others and present barriers in themselves. The first is rational, which, if viewed from a national perspective, may not be reasonable from a global perspective. Second and third, efficiency global issues can turn out to be unequal (Siitonen, 1990).

On the other hand, actors and structures also hinder cooperation because only actors can make politics, even if they do so in a historically developed design (Siitonen, 1990). On the other hand, barriers to bilateral cooperation based on their classification are divided into seven categories (Caldés, Lechón, Rodríguez, & Río, 2018), namely (i)

Political and policy, (ii) Technical, (iii) Legal, (iv) Geopolitical, (v) Public revenue, (vi) Economy, and (vii) Environment. Within the seven factors, political and policy factors and technical factors can be said to have been considered the supporting elements that most influence the successful implementation of the cooperation mechanism. First, political and policy factors include two different, although related factors. On the one hand, political factors include issues related to cooperation mechanisms that are important to policymakers at the national, regional, or local level, which will influence their support or opposition to the cooperation mechanism, separately into political-economic and political-environmental factors. Also, issues related to policy features (uncertainty about future policy frameworks, target ambitions, and design options for implementing cooperative mechanisms). Secondly, technical factors have been linked to technical limitations or supporting factors influencing the cooperation mechanism's successful implementation. This category includes improved systems management through the import of dispatchable electricity, possibilities to promote technology research and knowledge transfer, lack of market and network integration, challenges in calculating related indirect costs and benefits, etc. Operationally, these technical factors lead to technology gaps and technology transfer failures. This category includes a discussion of complexities such as improvements to the management system for transportable electricity imports, the absence of physical technology transfer, and the lack of market and network integration. This technical hindrance is explained in more detail through a mapping written by Adam Mazurkiewicz & Beata Poteralska (2016) regarding the causes of technology transfer failure in large part. One is that technology is too sophisticated, making it difficult to change to make it suitable for production or market demands.

Meanwhile, organizational-economic barriers are the most frequently analyzed group of obstacles in the literature (Mazurkiewicz & Poteralska, 2016). One of the broad spectra of borders is a considerable asymmetry condition between providers and recipients in terms of

having different characteristics, such as skills, prices, cost contributions, internal structure, size, experience, etc. Simultaneously, other obstacles that are also relatively frequent are system barriers (Mazurkiewicz & Poteralska, 2016). The blocks also include the absence of a national-level technology development plan. The public decision-making powers have been unable to support and targets public and private R&D and innovation. On the other side, lobbying or interest groups effectively inhibit change and improvement in the legal system, making technology transfer impossible or inefficient.

Based on this theoretical framework, it can be explained that the Indonesia-Iceland barrier is motivated by operationalization factors, especially in terms of the complexity of the regulations of the two countries and the absence of real technology transfer. Based on political and policy aspects and technical factors as determining factors for the main obstacles, Indonesia-Iceland cooperation obstacles can be identified from an internal (domestic) and external (international) perspective.

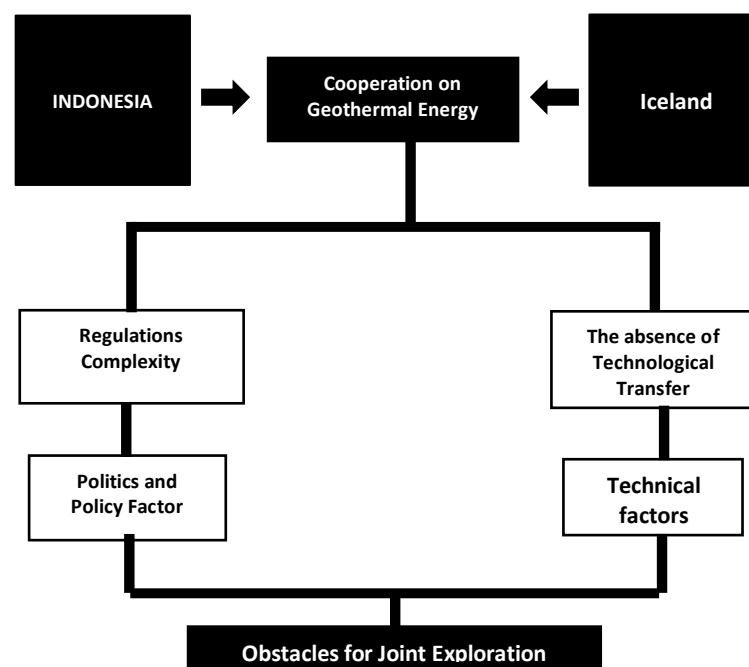


Fig 1. Theoretical Framework

Cooperation between Indonesia and Iceland has been tied to bilateral collaboration that focuses on the geothermal sector. The analysis will focus on the discussion regarding the complexity of regulations in both countries and how these can mutually affect the smooth running of cooperation. Also, the second thing that is of concern is the absence of technology transfer in this cooperation. In general, two main obstacles influence the overall cooperation process, namely policy factors and technical factors. Thus, these two factors can explain the barriers to *joint exploration* because it will result in the discovery of disabilities in the cooperation based on cooperation development dynamics from 2007-2014.

This paper uses a qualitative descriptive-analytical research method. Several ways to collect data in this study are through primary data in interviews and secondary data. This research uses data validity checking techniques through triangulation techniques. We interviewed Mr. Sentot Yulianugroho as *Manager of Government & Public Relations* from PT Pertamina Geothermal Energy to support the secondary data.

RESULTS AND DISCUSSIONS

Alternative Energy Regulatory Systems in Indonesia and Iceland

Geothermal energy sources are abundant as solutions to supply increased electricity production in Indonesia. Based on 2015 data in Indonesia Investments, Indonesia's geothermal energy has reached 40% of the world's total geothermal energy reserves, which is why Indonesia is estimated to have enormous geothermal energy resources in the world. However, the use of geothermal energy in Indonesia is still very minimal due to domestic energy. Indonesia only uses 4-5% of its geothermal capacity (International Geothermal Association, 2015). There are three main reasons for the use of alternative geothermal energy in Indonesia. First, the reality faced by Indonesia's dependency on fossil energy as the primary energy source will be unsustainable for

the long-term national energy needs. Second, climate change has become the main focus of many countries, including Indonesia, to gradually follow-up on renewable energy policies to reduce fossil energy dependence. Third, concerning Indonesia's interest in developing geothermal potential, the regulation has been regulated in Presidential Decree Number 5 of 2006 concerning National Energy Policy by setting a target of the energy mix divided into 17% for renewable which 5% is from geothermal (Kabarbisnis, 2011).

Based on the three factors above, the Governments of Indonesia and Iceland see the potential that exists and sees the concept of international cooperation as one way to realize geothermal energy development in Indonesia. The interest in implementing international cooperation was finally proven by the initiative of the Indonesian delegation's visit to Iceland to agree on cooperation in the form of a *Memorandum of Understanding* (MoU) (KESDM, 2010). The collaboration between Indonesia and Iceland was officially decided on 23 October 2007. In responding to this interest, the government formulated regulations that have not accelerated national energy achievement programs as proclaimed by the government, which targets it in 2025, which hinders geothermal energy to be developed. The commitment of Indonesian President Susilo Bambang Yudhoyono that prioritizes reducing CO₂ emissions by 26% by 2020 is now doubted (Meilani & Wuryandani, 2010) because it has not been able to optimize the utilization and use of geothermal energy. The government's performance has disappointed the Indonesian people with various shreds of evidence that have not implemented the Master Plan for the Acceleration of Expansion of Indonesian Economic Development (MP3EI). One of the reasons regarding the obstacles to cooperation is that the MP3EI development principles do not pay attention to the physical or geographical conditions of Indonesia as a maritime country because most of them are still focused on developing projects on land (Mohamad, 2014). Supposedly, with the president's focal point, which tends to be more prominent in the land area, regulatory obstacles can be appropriately executed according to target.

Meanwhile, Iceland uses geothermal energy as a more prominent player in a country's energy supply. The PLTP produced in 2004 was 17% of the total 8,618 GWh, and in 2009 it was estimated to be 20% or 15,000 GWh, of which 80% will be used in energy-intensive industries (Bjornsson, 2006). Iceland's interest in increasing geothermal energy is obtaining economic benefits from government policies, which can be seen when the total payment for hot water used for heating is compared to oil's consumer costs (Bjornsson, 2006). Geothermal's contribution has also influenced Iceland's prosperity from an environmental perspective because geothermal is an energy source that is less damaging to the environment than fossil fuels. After all, it does not emit CO₂ into the atmosphere (Bjornsson, 2006). Then, the development of geothermal resources also has the expected impact on social life. The population of Icelanders is becoming preferring to live in areas where geothermal is available. *The Master Plan* developed by Iceland is strongly oriented towards *Hydropower* and *Geothermal*, which is being prepared by comparing the economic viability and the impact on the proposed electricity development project's environment. Some projects have been deemed to have environmental effects so severe that their development may not be acceptable.

Through the conditions of geothermal development in Iceland, it can be seen that there is a focus on the product that is still internal or domestic related to its economic and environmental interests. However, at the same time, it can also be seen from another point of view, that is, when internal problems are still being considered, economic improvement can be increasingly concentrated in the international realm through cooperation that has *mutual benefits*. In this case, it can be said that Iceland can make maximum use of its advantages in having experts and technology to provide training and direction to other technicians from other countries, especially Indonesia.

Political and Policy Barriers

Indonesia's internal obstacle is that the government is faced with difficulties in managing and utilizing geothermal energy in protected or conservation forest areas. The wealth of geothermal spots has spread around 80% of Indonesia's geothermal reserves (International Geothermal Association, 2015) in the area. However, based on Law no. 27 of 2003, geothermal activities are categorized as mining, which means that the government has banned mining activities and processes in protected forest areas. The successful implementation phase can see the progress of cooperation in 2016 by KS ORKA in collaboration with PT. Sorik Marapi Geothermal Power in the Mandailing Natal area, North Sumatra (KS ORKA, 2019). Law No. 21/2014 has also been regulated that geothermal energy can be included in conservation forest areas using the geothermal environmental services utilization permit mechanism (IPJLPB). On this basis, the Forestry Law has been adjusted, starting from PP to Ministerial Regulation. Until now, a Minister of Environment and Forestry Regulation has been issued, which regulates how to issue geothermal environmental service permits or IPJLPB (Yulianugroho, 2019). The overlapping or out of sync regulations to intensify the development of geothermal energy has hampered PLTP development. Good governance failure can be seen from the continued increase in energy subsidies, especially electricity, from IDR 3 trillion to IDR 101 trillion in 10 years (2004-2014). Besides, Presidential Instruction Number 5 of 2006 concerning National Energy Policy targets an energy mix of 25% by 2025, but until 2014 it is still at 6% (Wicaksono, 2014).

The regulatory complexity in Iceland has a similar condition to Indonesia. However, many of the projects Iceland has undertaken internationally are mostly driven by individual companies and institutions. The efforts are integrated with strategies and action plans on how and where to focus should be emphasized, so designs should target potential partners, organizations, and financial institutions. This effort is set due to the nature of geothermal development and the importance of government funding and funding from international

institutions so that close cooperation with Icelandic government agencies is required. Iceland's legal framework in geothermal energy is based on ownership of land resources attached to private land.

In contrast, the state owns public land resources unless other people can prove ownership rights. Although resource ownership is based on land ownership, research and use are subject to licensing under the Land Resources Survey and Utilization Law, No. 57/1998 (Law on Resources) and the Electricity Law, No. 65 / 2003. The Ministry of Industry and Innovation is the head organization of the energy sector in Iceland. The Ministry has two ministers, namely the Industry and Trade Minister and the Fisheries and Agriculture Minister. The Ministry has the powers of the Resources Act and the Electricity Act, which are the two main legal actions that form the basis of exploration and utilization of geothermal energy in Iceland. The obstacle to the implementation of geothermal cooperation has been identified by Alexander Richter (2016) in *Mapping the Icelandic Geothermal Energy Sector*. Several factors can correlate to the causes of hampering collaboration with Indonesia. Those are the weak strategy and joint action plans for international promotion covering all aspects of the sector from services, development, and operations to education; and both for electricity production and direct use of heating and cooling. In addition, there is also weak cooperation between relevant ministries and other government agencies in Iceland when questioning international efforts in the geothermal sector, which is very beneficial for the Icelandic geothermal industry (Richter, 2016). Thus, cooperation at the government level and creating a *one-stop-shop* for international relations to promote geothermal in general and the Icelandic sector's supply, in particular, is still weak. Funding is also minimal related to the global promotion and business development; participation in international research projects and the latest developments still need to be renewed for positive steps, so support is necessary to ensure Iceland's involvement.

The lack of official policies and plans that allow geothermal utilization in Iceland has also made it difficult for developers to plan future

developments. This condition also shows that the lack of *clarity* is inhibiting the growth. The master plan the Icelandic government's proposed for hydro and geothermal energy sources is still under construction by the Icelandic government which is slated to clarify which areas will be available for future exploitation (Ketilsson, J., Petursdottir, H., Thoroddsen, S., Oddsdottir, A., Bragadottir, E., Gudmundsdottir, M., Johannesson, G., 2015). It can be seen from the technical obstacles related to regulations in Iceland. There are no regulations that discuss how to cooperate in geothermal development in Indonesia up to the operationalization stage of project development. There are still many internal (domestic) regulatory conditions that must be considered and coordinated in the government system. That way, obstacles to bilateral cooperation related to regulation are significant because a law can be the very foundation determining whether or not an international collaboration will occur.

The problems that we find have been emphasized by Siitonen (1990) that, as a consequence, the dynamics of cooperative development are conditioned by the interest in regulating the elite in society itself, since these elites are more dependent on foreign economic relations than their partners in other countries. The obstacles that occurred and should be overcome were to focus on elites who have interests in it who have committed to increasing geothermal development. All forms of corruption among elites in Indonesia and lack of financial or technical support from the government in Iceland can be executed well. All forms of internal obstacles that have not been resolved or found a solution will be a *spillover* to the international level, especially to establish international cooperation. A cooperation agreement will only be in black and white without any implementation stage, such as technical obstacles related to operations.

The signing of the MoU is a legal umbrella for cooperation between *PT Pertamina Geothermal Energy* and *Reykjavik Energy Invest* (REI). Thus, the negotiation process becomes very significant to achieve the target implementation of the cooperation agreement. One of the hopes for cooperation from the Minister of Industry and Energy of Iceland,

Ossur Skarpheoinsson, is that there is easy access to investing in geothermal energy in Indonesia with an estimated investment cost per MW of around US \$ 3-4 million. The big plan expected by the President Director of REI, Gudmundur Thoroddsson, is constructing a PLTP with a capacity of 500 MW at an early stage (Tempo.co, 2007). According to the International Energy Agency (2008) in Pétursson (2011), the main obstacle that hinders Indonesia's geothermal development for power generation is the lack of law and contract certainty. Business confidence is based on this; unfortunately, investors are afraid of Indonesia. They don't trust the state, the law, or the PLN. The energy sector has identified a lack of clarity and transparency due to inconsistency, insufficient regulatory detail, and poor coordination between governments as the main problems hindering Indonesia's investment. Investors have expressed concern over the lack of legal certainty, difficulties negotiating and enforcing contracts, arbitration and giving judgments, and perceived unequal treatment of domestic versus foreign companies (Petursson, 2011).

The agreement between Indonesia and Iceland has decided that the actor who executes this cooperation is between *The Ministry of Energy and Mineral Resources* (MEMR) from Indonesia and *The Ministry of Industry and Energy* (MIE) from Iceland. The MoU policy decision was quite useful; however, the actors were too general, so that they took the form of a public ministry and less concentrated. Thus, each Ministry's policies can be less specifically directed at geothermal, which causes the implementation process to be hampered. Unfortunately, the diplomacy and negotiation processes that should have been carried out by PT PGE and REI were not as expected. There is an absence of a special agreement, or the *Memorandum of Agreement* (MoA) that specifically regulates cooperation in developing geothermal energy technically and in detail (Yulianugroho, 2019). In the absence of a world government, uncertainty about enforcement often arises in agreements between countries (Odell & Tingley, 2013). Thus, it can be said that the weaknesses of Indonesia and Iceland have in common, namely in the regulatory aspect that comes from uncooperative governance. From the

Indonesian side, the regulations produced by each authorized Ministry are out of sync in promoting geothermal development in Indonesia. Meanwhile, the regulations that encourage an international promotion strategy have been ignored by the cooperation between ministries and related government agencies from the Icelandic side.

Zero Technology Transfer

Iceland is one of the donor countries contributing to geothermal development in Indonesia through its various institutions and companies. Transfer of technology and information becomes the main thing besides financial assistance. Still, the difficulties usually found are interpreting and optimizing it, practical government control problems, language barriers, and technical issues related to marketing, payments *royalty*, guarantees, operator training, and others (Bard, 1971). In the process, Petursson (2011) has concluded that international cooperation through technology transfer has experienced obstacles due to the two parties' lack of performance in delivering information and implementing insufficient expert education activities.

The complexity that hinders technology transfer activities can also be caused by economic aspects, which have been emphasized by Carley & Lawrence (2014), Haraldsson (2014), and Kirari, Adel, et al. (2018). However, it should be remembered that capital fulfillment is not the only crucial thing, but how policies that have been previously decided are related to regulations set and agreed upon in the country. Carley & Lawrence (2014) have emphasized that several actors can strengthen geothermal development, such as government officials, communities, community development practitioners, industry and business leaders, and representatives from non-profit organizations, who collaborate to form a more robust network. Meanwhile, Haraldsson (2014) has focused more on economic development to support other countries' shortages through direct support in developing countries in technical to risk financing. The private sector's role and overcoming obstacles, especially in rural financing *electrification*, can also cause obstructions themselves (Kirari, Adel, Andria, Lakaseru, 2018) due to the absence of

financial assistance from the government, which ultimately cannot continue exploration or exploitation activities.

When talking about technology transfer, it will also be related to the need for high quality and skilled human resources to support Indonesia's geothermal development. Assuming that 30-50 people per year are needed to support 1,000 MW geothermal development in Indonesia, to develop 4733 MW in Indonesia by 2014, Indonesia will need at least 120 people per year, including engineers and geothermal scientists (Saptadji, 2010). This number does not include the number of people required to explore 163 geothermal areas currently still in the preliminary survey stage and for further exploration in 78 regions, which in 2010 were still in the exploration stage (Saptadji, 2010). Pertamina Geothermal Energy (PGE), which the government entrusted to implement this cooperation, has proven that there will be no separate agreement except for human resources training to Iceland since 1982. They were trained to obtain and improve knowledge related to utilization until geothermal energy management (Yulianugroho, 2019).

Besides, PGE has also implemented a collaboration applied in an annual program called the *International Geothermal Convention and Exhibition*, which includes speakers from Iceland (Yulianugroho, 2019). So, you can imagine if the delivery of human resources per year can be maximized and reach the targeted number, less than 2014, there can be a significant increase in *geothermal capacity implementation*. Therefore, the number of human resources sent by PT PGE reflects the minimal development of geothermal energy in Indonesia from 2007-2014. Weak regulations have had a further impact on this stage of technology transfer. This situation is because, in essence, although the national government plays a dominant role in energy governance, challenges that are beyond the scope of the national government that must be managed make energy policy a significant component of global governance and international relations (Florini & Dubash, 2011).

Technical Barriers

Based on the four points described by Adam Mazurkiewicz & Beata Poteralska (2016) regarding obstacles that are likely to affect technology transfer, it can be underlined that there is a technological gap. The technology in Iceland is way too sophisticated compared to Indonesia. There are conditions of geothermal development in Iceland that are more advanced, not only indirect utilization but also direct utilization, which has been successfully applied, especially for *Greenhouse Farming*. Direct utilization must use specific methods different from turbines. Unfortunately, there has been no further discussion until now because the turbines are customized or based on orders with individual specifications that require consideration after-sales spare parts. There are still explorations because Iceland has been more advanced in developing its geothermal energy (Yulianugroho, 2019).

Mazurkiewicz & Poteralska (2016) explain the second point of organizational-economic barriers: the differences in characteristics that occur can be underlined in the elements 'cost contribution, internal structure, and experience' the causes. The three of them have a domino effect that ultimately raises barriers to technology transfer. For Iceland, its internal structure related to geothermal development is quite useful due to the emergency conditions it experienced in the 1970s due to the massive oil crisis so that automatically the government has fully supported the cost of developing geothermal energy. It is not surprising that their experience is also very professional, as evidenced by the quality and quantity that are now successfully utilized through the rapid development of the expertise and technology used. Meanwhile, for Indonesia, the government's orientation is still not entirely focused on developing geothermal energy as a substitute for the depleting energy sources, so it still relies heavily on foreign investors. Besides, internal structures such as the Ministry with inconsistent provisions hamper the smooth running of cooperation, especially in exploration and exploitation activities. Their experience is less honed and quality guaranteed. Even though they have carried out knowledge in Iceland,

the trained human resources will still have problems in the exploration process implementation.

On the other hand, the absence of a technology development plan at the national level, because public decision-making powers cannot create conditions for the coherent promotion, support, and targets for public and private R&D and innovation (Mazurkiewicz & Poteralska, 2016) could be the cause. The lack of coordination between authorities in decision-making has a significant impact on the development of technology needed for exploring activities. It can be seen from Indonesia, which is still struggling with geothermal-related regulatory issues that have been discussed in the previous chapter. Bojang AS (2018) has emphasized that two thoughts argue that domestic politics and foreign policy are two independent 'problems,' while others think that foreign policy and internal politics are 'interdependent' and can collide. In some cases, international factors play a significant role, while domestic determinants are more important in other cases. So that in the end, the impact generated agrees with the fourth point regarding system barriers by Mazurkiewicz & Poteralska (2017), that lobbying, or interest groups effectively inhibit changes and improvements in the legal system, making technology transfer impossible or inefficient. They are not at all able to support the development of technology in Indonesia.

CONCLUSIONS

The complexity of regulations and technology gaps that result in the absence of technology transfer are the two main obstacles to Indonesia-Iceland cooperation. This condition can be proven by each country's internal issues that have become sources of barriers to cooperation development. Indonesia, which has ministries with unsynchronized regulations, even overlaps, so that until 2014 no constraint could execute this issue. At the same time, Iceland struggles with the weakness of a joint strategy and action plan for international promotion, weak cooperation between relevant ministries and other government agencies. Hence, no regulation discusses how to cooperate in

Indonesia's geothermal development to the operationalization stage of project development. The technology gap is another thing to consider because it has hampered the technology transfer process's smooth operation.

The first, second, and third points in the MoU have been implemented but have not been explored in more depth, significantly, and are still very minimal than what is needed by Indonesia to achieve the expected targets. Meanwhile, other points fall under the obstacles to cooperation between Indonesia and Iceland in developing geothermal energy in Indonesia in 2007-2014. In general, the barriers experienced are in constructing the geothermal development project itself, namely exploration, exploitation, and utilization or operation. These three main activities are the result of a technological gap. On one side, Iceland is more advanced in technology ownership. It is still very much considered for transferring technology from Iceland to Indonesia in terms of financing to the risk that it will be a large number of state losses if it occurs. Domestic governance makes international cooperation and the agreements made in the MoU unable to be fully implemented.

Therefore, to overcome the obstacles to implementing *joint exploration*, the Government of Indonesia must work closely with the private sector to reduce geothermal exploration's inherent risks early in the process. The state-owned geothermal developer (Pertamina Geothermal Energy) must be given greater autonomy, budget, and mandate to explore and develop geothermal energy. Likewise, with Iceland, Indonesia must have firm regulations or provisions related to international cooperation in geothermal energy. Moreover, after it is known that Iceland has experienced global promotion should be carefully formulated through the most effective strategy.

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China's Petropolitics: Its Business and Diplomacy in the South China Sea

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Abstract

China faces the threat of oil scarcity which has prompted the country to seek alternative oil sources, Particularly in the disputed South China Sea. This research will discuss the relationship between China's energy needs and efforts to control the South China Sea, describing China's policies (petropolitics) in three approaches, namely diplomacy, military (defense) and economy (business, investment and aid) and its policy implementation to realize the interests of controlling oil resources in the South China Sea. This research uses a descriptive-qualitative method to analyse comprehensively the policy documents and official statements of the Government of China and ASEAN countries, and the analysis is supported by literature studies. Results of this research indicate that of the three approaches, the economic approach such as business and investment by China in Southeast Asia is currently more effective for China to strengthen its position and influence in Southeast Asia and the SCS dispute area and to control the oil in it. Meanwhile, diplomacy and military (defence) approaches use to support this economic approach.

Key Words: China's Petropolitics, South China Sea, Diplomacy, Military, Business Politics, Investment

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INTRODUCTION

China is one of the largest oil consumers of petroleum in the world. This country has even been an importer of crude oil since 1993 (Daojiong, 2005; Stang, 2014; Zhang, 2006; Qinhua, 2007). China needs an adequate supply of oil to make sure the stock of high domestic demand is enough, especially to power the wheels of industry, transportation, and the needs of the household sector and as an alternative / substitute energy for coal which is now predominantly used in China.

To gain these oil needs, in addition to importing oil and domestic exploration, China is also trying to conduct energy exploration abroad (Ploberger, 2013) by relying on China National Petroleum Company (CNPC), China Petro-Chemical Cooperation (Sinopec), and China National Offshore Oil Company (CNOOC). China's coverage area includes Africa and America. In addition to these areas, efforts to diversify the oil sources location are also being carried out by China in the South China Sea (SCS) disputed area, which is strongly assumed of having large oil reserves - even gas - (Wu, 2013; Thuy, 2009; Ham, Montesano & Putten, 2016). Chinese data states that the SCS area has oil reserves of 213 billion barrels or 10 times the reserves of the United States (BBC, 2012). So that China calls this area The Second Persian Gulf (Purbo, 2006).

The SCS itself is an area of dispute between several claimant countries, namely Vietnam, Malaysia, the Philippines, Brunei, China, and Taiwan (Elisabeth & Prayogo, 2014; Junfeng, 2013; Kao & Pearre, 2013; Kosandi, 2014; Green, 2016). Each country mutually acknowledges that part of the SCS area is part of their country, except China. The country claims nearly 90 percent of the SCS area (Santos, 2014). For this claim, in 2014 China published a new map where there are Nine-dash Lines / Nine-dot Line / U-Shaped Line the basis for claims on the SCS (Tharoor, 2014).



Figure 1: LCS Map and Claims Demarcation Lines between Countries
(Agence France-Presse, 2013)

Furthermore, the claim to the SCS was initially driven by an interest to restore China's territory and sovereignty as well as maritime power over the region (Shen, 2015). However, in its development, China is trying to control this area with the aim of obtaining and controlling energy sources, especially oil in the LCS (Chilcoat, 2014). China's efforts to control energy in the SCS based on at least 3 main factors, China's urgency to meet the domestic oil demand, the geographic location of the SCS which is very close to China compared to other regions, and the perception that the SCS is part of China. Apart from these 3 factors, Spegele (2014) states that the LCS has not been explored on a large-scale, so that the energy potential, especially oil, is still very large.

In order to take control of the region, China faces many obstacles, especially Southeast Asian countries' opposition towards China's claims. To deal with this, China has taken several approaches, including Political Diplomacy, such as being willing to discuss the Declaration on the Conduct of Parties in the South China Sea or DOC (Panda, 2015); Offers a Maritime Silk Route and Economic Corridor investment program through the SCS and Southeast Asia; Conducting mining - and maritime - business activities in the LCS area; as well as preparing infrastructure and strengthening the military to placed in the SCS. With these steps, China could strengthen its position and influence over Southeast Asia and the SCS in particular, thus making it easier for China to continue the scenario of controlling oil energy sources in the SCS. China's strategic pattern that puts forward diplomacy, business and investment approaches, as well as strengthening the military to control SCS oil resources Can be classified as petropolitical policies.

Petropolitic policy itself for consumer countries such as China is closely related to the state's way of influencing producers in terms of selling oil energy, including quantity, quality and price. In addition, it is also related to the safety of oil shipments from producing countries to consuming countries, as well as strategically, petropolitic is closely related to state efforts or methods to get oil from alternative sources, to get domestic demand as well as national reserves.

RESULTS AND DISCUSSIONS

China's diplomacy and foreign policy towards ASEAN regarding the South China Sea Issue and statement of art

Diplomatic relations between China and ASEAN related to the SCS issue have tended to not change significantly since China and ASEAN agreed to issue a Declaration on the Conduct of Parties in the South China Sea (DOC) in 2002. This stagnation according to C.P.F. Luhulima is because the DOC is not a treaty or Code of Conduct (COC), but just a political statement to reduce tensions in the disputed area and this statement of willingness to enter into cooperation (Luhulima, 2011). Therefore, DOC is not legally binding, and the parties involved in it may not comply with the statement. With this fact, ASEAN as a Southeast Asian regional organization must encourage all parties involved in the conflict of sovereignty in the SCS to raise the level of DOC to COC (Calica, 2013). The aim is to create bonds between all parties in order to maintain regional stability.

The plan for making the COC itself had actually been initiated and started when the DOC agreed. However, until a decade after that, the COC could not be agreed upon. This happened because the parties to the conflict in the SCS did not find a common ground for their interests, especially territorial interests and sovereignty as well as differences in the attitudes of each party regarding the conflict issue in SCS. This phenomenon then shows at least two things; first, ASEAN's weak performance in resolving territorial conflicts, and second, the parties are not serious about resolving disputes, especially from China in a multilateral mechanism.

However, during Xi Jinping's administration (since 2013), China was willing to formulate the COC more specifically in a consultation meeting.

The meeting that was first held was the 6th Senior Official Meeting on the Implementation of the DOC (SOM-DOC) which was held in Suzhou City, Jiangsu Province, China on September 14-15, 2013. According to the results of this meeting, the respective parties conflict in the LCS committed to realizing a future COC. After the meeting, ASEAN-China held a follow-up meeting that brought together the disputing parties (including non-disputing ASEAN countries). The meetings were the 7th-13th ASEAN-China Senior Official Meeting on the Implementation of DOC; including the Joint Working Group on the Implementation of DOC. As for these meetings, on the 13th ASEAN-China SOM on the Implementation of DOC on 15-16 August 2016 in Manzhouli, Inner Mongolia, China, the following agreed upon:

“...take the Joint Statement of the Foreign Ministers of ASEAN Member States and China on the Full and Effective Implementation of the DOC as a guide and continue to work for the full and effective implementation of the DOC. The parties reaffirmed the commitment to resolving disputes peacefully through negotiation and consultation, fostering rules-based regional framework to manage differences, deepening practical maritime cooperation, advancing COC consultation and maintaining peace and stability in the South China Sea. The parties also exchanged views on ways to enhance institutional building for maritime cooperation and achieve the “four visions” on COC consultation without interference..”

Regarding this description, it is clear that prior to 2013, China's diplomacy towards ASEAN on the SCS issue including the drafting of the COC tended to be stuck compared to after 2013 which tended to melt away. It change in China's diplomatic attitudes and capabilities can be said to be closely closely related to regime change from Hu Jintao (2003-2013) to Xi Jinping (2013-present). In other words, in a relatively short period of time (2013-2016) Xi Jinping brought China become more lenient in facing ASEAN on the SCS issue. On the other hand, this also shows that Xi Jinping's leadership are cooperative and friendly and avoids conflicts with surrounding countries.

Furthermore, the change in strategy carried out by China certainly has implications, one of these related to China's oil politics in the SCS. One of them is analyzed from the relationship between China's interests and what China hopes from exist the COC. Oil as one of the potentials in the SCS has become part of China's interest, especially to make sure its domestic

energy security. Thus, China could just bring its interests to the COC discussion. The COC as the next step of the DOC where it states that parties either bilaterally or multilaterally can conduct maritime scientific research including research related to energy, especially oil.

However, the DOC does not yet have a clause of what to do after the research is done. What is the purpose to explore energy cooperations? Maybe this what China want from the COC discussion, namely a formal and clear mechanism related to energy management and exploration in the SCS. However, China still has to prioritize its national interests related to sovereignty, so it is not easy to find an attitude that reconciles the interests of energy exploration with the interests of sovereignty.

C.P.F. Luhulima said in the book *Dynamics Southeast Asia towards 2015*, once discussed this by saying that:

“... In disputes over maritime boundaries, the attractiveness of access to oil and gas resources on the continental shelf often plays a dual role. On the one hand, it is a motivating factor, encouraging the desire to resolve disputes as quickly as possible so that exploration can start immediately, especially if petroleum prices continue to soar. On the other hand, the presence of these internal resources can also be an obstacle to conflict resolution, because each party is not willing to give up or give up something that it considers its basic rights. There is also concern that if a compromise line is drawn in the disputed zone - and where there are overlapping claims - for joint development, most of the marine resources are in 'the wrong place of the line for the other side. ..'”(Luhulima, 2011)

In addition, C.P.F. Luhulima also stated that, “... dispute resolution built together by relying on the success in developing exploration and exploitation of oil and gas resources.” However, this was very difficult. The problem is, so far various researches on 'oil' from an economic and political perspective or security studies have always caused conflict and another cause is the difficulty in reconciling the interests of the parties in dispute on the issue of energy exploration. On the other hand, how the profit-sharing mechanism is, whether based on territory (which is clearly impossible, because of overlapping claims), or only based on state investment in exploration is also a problem in itself.

Furthermore, the practice of oil - and gas - exploration in the LCS has actually existed for a long time. However, exploration tends not optimal due to territorial conflicts and has instead become a trigger for new conflicts between claimants of the LCS. Therefore, COC need to become the guidelines for exploration activities carried out together. However, as mentioned before, China always wants to dominate; the question is, how is this possible; dominate China's interests in the COC? The answer is probably. However, countries that want to dominate must have another strategy to attract support from other countries that involved in making COC. This is what China has done, buy the supports. How to? China approached the countries involved in the COC bilaterally to then get support at the multilateral level.

With this fact, China will automatically strengthen bilateral relations more than strengthen the multilateral mechanism in resolving the SCS problem. In this context, China actually indirectly rejects exist ASEAN (even other international institutions such as the United Nations) in resolving disputes in the SCS and tends to prioritize the G to G approach in dispute issues. China's behavior is very logical related to its foreign policy which refuses intervention from any party. In other words, China considers ASEAN intervened by other parties and cannot be categorized as a country, so that ASEAN does not have sufficient reasons to mediate the SCS conflict.

Furthermore, this phenomenon from the ASEAN side can actually be said was very detrimental. The reason is, if this assumption is correct, then the desired COC will still be pushed back by China, until this country has the absolute support of most Southeast Asian countries. Thus, later the agreed COC could only represent the interests of China. On the other hand, China's activities as described above, tend to make ASEAN member countries not cohesive or borrow a term often used by C.P.F. Luhulima, there has been a Balkanization in Southeast Asia or in other words, China has indirectly made a divide et empera, aka political division against ASEAN countries.

Furthermore, the dynamics of ASEAN-China relations related to the SCS invited interference from other parties, such as the United States (US) and

institutions such as the International Arbitration Court. In 2013, the Government of the Philippines filed a territorial dispute in the SCS with the International Arbitration Court. However, the Chinese government refused to participate in the arbitration process and conveyed its position through China Adheres to the Position of Settling through Negotiation the Relevant Disputes between China and the Philippines in the South China Sea (also called China's White Paper on South China Sea).

Through this document, the Chinese government states that they have the rights to the SCS and the islands within it, the international community has already found out. Therefore, China will defend that right. In addition, the Chinese Government states in this document that the Philippines has invade and occupation of (part of) the SCS territory and claims to the occupied territories are illegal. China also said that due to exist the International Law of the Sea (especially the one used as the basis for the Philippines to submit a dispute to the International Arbitration Court: UNCLOS III 1982 Results) the dispute between the two countries was getting worse.

In 2016, the International Court of Arbitration issued its ruling declaring China's claim to the SCS invalid or illegal. This also applies to exist Nine-dash Line. Thus, the International Arbitration Court automatically won the Philippine lawsuit as a whole. Responding to this, the Chinese Government for the umpteenth time carried out legal warfare. China refuses to comply with the International Arbitration Court's ruling. The attitude of China rejecting this ruling is very logical because if China complies with the ruling then all Chinese interests in the SCS could be threatened, including the interest to explore oil in the SCS. Various facilities and infrastructure that have been or built-in the LCS will also be useless. Moreover, if China cannot explore oil in the SCS, this will threaten the future of China's domestic energy security, especially if it becomes increasingly difficult for China to obtain supplies from imports. In other words, rejecting this ruling is tantamount to securing the country's future. The phenomenon of China's refusal to comply with decide the International Arbitration Court shows that the power of international law is very weak when faced with the national interests of a country, especially a country classified as a superpower. In addition, this phenomenon also

shows that the state is selfish, must defend its national interests even though it must deal with international law.

On the other hand, the US has also expressed its disapproval of China's claims in the SCS since the 1950s. For decades, the US has always been China's opposition by supporting other claimant countries such as Vietnam (Corr, 2016; Alexander, 2015). The US also tried to encourage resolve the SCS dispute through an international mechanism that was determined by 1982 UNCLOS III result. In 2010, when the ASEAN Regional Forum was held, the Secretary of State of the United States, Hillary Clinton, who was present at the time stated that the United States had an interest in the SCS. Clinton said that conflict resolution in the SCS is the national interest of the United States (Chang, 2010). In 2015, the US conducted the Freedom of Navigation Operation. This operation caused the US to argue with China (Ham, Motesano, & Putten, 2016). In addition, in 2016, the United States and ASEAN held a meeting in Sunnyland, United States. One of the results is a common attitude to solve the SCS problem through international mechanisms that regulate in international law.

Furthermore, some experts said that the US also has an interest in the energy potential in the SCS (Rahn, 2017). In this case, there are three hypotheses related to this form of interest, namely for the interest of US energy security, for the interest of the energy business, or both. However, the geo-economic struggle is becoming dominant, with the US and China competing in doing business and investing in energy in the SCS through cooperation with Southeast Asian countries. This makes the issue of energy and oil politics become dominant in the current SCS conflict.

Responding to US intervention, China used an equal treatment approach, where China tried to compete with the US military and influence in Southeast Asia. The implement of this effort is to place a strong military in the SCS, provide assistance and investment to attract sympathy and strengthen influence in Southeast Asia, and continue to carry out activities as usual (such as energy exploration) in the SCS.

China's Military Power in the SCS and Its Implications for Business and Investment Security and Regional Security

Since 1998, China has begun increasing its military capacity. This is in line with the military modernization program listed in China's National Defense White Paper 1998. These efforts have continued to this day with the general aim of maintaining sovereignty and territorial integrity. Today, China is a country with strong military capabilities. According to the ranking created by the CIA and released on globalfirepower.com in 2016, China's military power ranks third in the world. In addition, every year China's military budget tends to increase. See the following diagram:

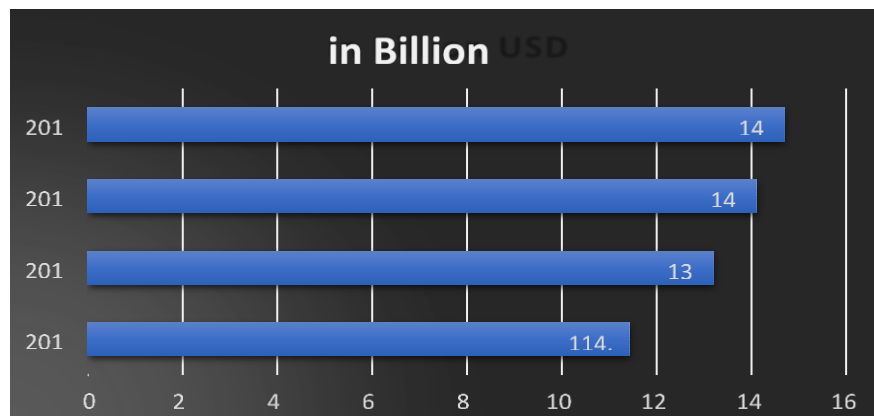


Diagram 1: Chinese Military Budget 2013 - 2016
(Data processed from globalsecurity.org)

Other data states that China's military budget in 2015 was six times greater than the accumulated military budget of Southeast Asian countries, even the difference between the two reached \$ 150 billion (Denyer, 2016). With such a large military capacity and budget, it is no pretense that China is the new giant in the region.

Furthermore, the current development of the international situation has led the Chinese military to not only have the task of guaranteeing sovereignty and territorial integrity as mentioned above, but also to help economic development. This is as stated in China's Defense White Paper 2012. The economic development in question can take various forms, such as securing trade routes, securing business and investment abroad (See: PLA Academy of Military Science, 2013), securing resource exploration.

natural resources, safeguarding maritime resources, or securing supporting facilities such as pipes.

The binding of military power to support economic development was too much in line with the times, where the state not only faces problems or classic issues such as sovereignty, but also contemporary issues in the economic field such as business, investment, trade or natural resources. This is what mentioned in China's Military Strategy 2015 as the effect of economic globalization. Changes that occur in China's military duties are theoretically appropriate considering that economic globalization as referred to in China's Military Strategy 2015 is a very determinant factor create today's international (political) structures (See: Kennedy, 1988; Friedman, 2016), so it is important to respond to this. However, the relationship between the military and the economy is not one-way, but reciprocal. A rapidly growing economy, with or without the support of military power will have an effect on the military power itself (See: Kennedy, 1988), both budget, posture, and duties.

The military and economic strength in China is also associated with energy issues, especially oil; where oil is very important for both economic and military development. Thus, the military has enough reasons to take part in efforts to secure energy. However, it is well-known that China has problems with oil supply, so it must import or look for other sources of oil energy. Therefore, the military is also directed at securing the (oil) trade route as well as securing business and investment in the oil industry at home and abroad.

In relation to the issue of the South China Sea, China has indeed determined it as one of the national interests that defended. As for the LCS itself has two sides that maintained, namely territoriality and its potential, especially oil energy; including various business activities, investment, and oil energy trade routes. Currently China has placed its military in the SCS and is carrying out military base building activities in the region. The Chinese military strength in the LCS mapped through the following picture:

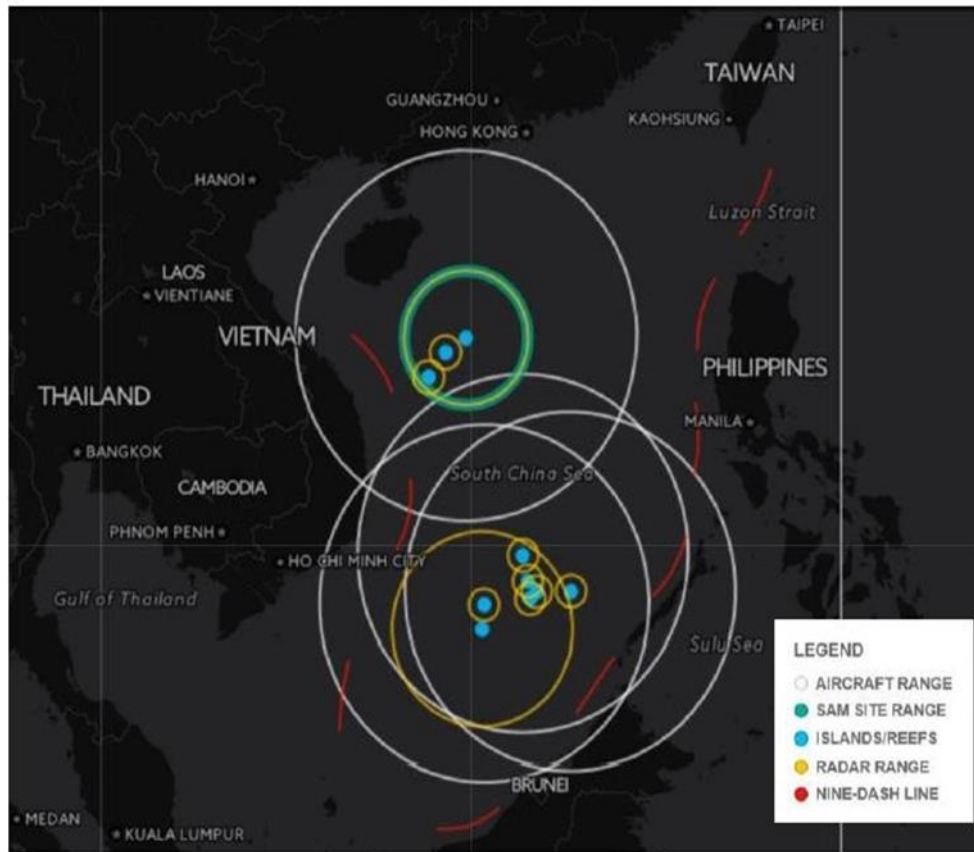


Figure 2: China Military Capability Detection Map in the LCS
(CSIS Asia Maritime Transparency Initiative, 2016)

Furthermore, technically, China has sent warships and fighter jets to the region (Julio, 2015), built military bases (Wong, 2015), and carried out island reclamation in the LCS area (Bloomberg, 2015; Dolven, Elsea, Lawrence, Rourke, & Rinehart, 2015; Sinaga, 2015; Williams, 2015). The various military actions and coercive actions of China could be said as part of psychological warfare. This phenomenon has generally triggered pressure on Southeast Asian countries, especially those claiming the SCS. In order to reduce this pressure, several countries such as Vietnam have held military cooperation with the United States to counterbalance China in the SCS.

Geopolitically, the presence of the Chinese military in the SCS and this coercive action will certainly lead to instability in regional security. This is because China's activities are certainly considered a threat or danger that countries that feel threatened, especially countries around the SCS, must

respond to. However, China itself in its foreign and defense policies tries to change this belief by saying that China's rise is not a threat, but an opportunity. China wants to create a warm atmosphere with the surrounding countries to smooth all its interests, especially in the SCS.

The efforts made by China to create such a warm atmosphere include holding defense cooperation with several countries in Southeast Asia, especially those involved in the conflict in the SCS. One of the collaborations that had been agreed upon during the 2013-2016 period was defense cooperation with Malaysia. Xi Jinping and Tun Abdul Razak (Prime Minister of Malaysia) agreed to hold this collaboration to respond to the situation in the LCS (The Guardian, 2016).

Furthermore, the various descriptions above theoretically show that China is moving with some geopolitical doctrines. The geopolitical doctrine in question is as stated by Alfred T. Mahan, Michael Collon, and Sir Walter Raleigh, namely command the sea, command the trade and natural resources (oil), command the world. As for exist a commad the world clause, it said that China's goal by mastering the SCS is to control the world. If this assumption is correct, then this will clearly be a tremendous threat to Southeast Asian countries as well as the United States and its allies. Thus, these countries have enough reasons to fight China in the SCS. The way this done is by competing interests through diplomacy, foreign policy, and geopolitical battles.

The Politics of Chinese Business in Southeast Asia: Trade and Investment Dynamics

Mahan, Michael Collon, and Sir Walter Raleigh, namely command the sea, command the trade and natural resources (oil), command the world. As for exist a commad the world clause, it said that China's goal by mastering the SCS is to control the world. If this assumption is correct, then this will clearly be a tremendous threat to Southeast Asian countries as well as the United States and its allies. Thus, these countries have enough reasons to fight China in the SCS. The way this done is by competing interests through diplomacy, foreign policy, and geopolitical battles.

ASEAN-China trade could be a form of relations between the two parties besides diplomatic relations. Trade between parties creates a dependency in which each party, one another, is in need of each other. Each party can use trade for profit, expand the market, and to meet domestic needs that cannot be produced alone. The trade of the two parties is also an instrument to measure how strong the diplomatic relations between the two parties are.

Furthermore, since 2010 ASEAN-China has agreed on exist an ASEAN-China Free Trade Agreement (ACFTA) which has been fully implemented since 2015. Through this agreement, all trade restrictions reduced or even removed, thereby smoothing trade flows. With this phenomenon, the level of competition between ASEAN countries and China will be higher, so that trade then turns into instrument power and influence of a country on other countries. Countries that are able to achieve a trade surplus and control the market can dominate the economy in the region, create unbalanced dependence, and exert (political) influence through trade flows. Furthermore, in the 2013-2015 period, trade flows (exports and imports) between China and ASEAN countries show that currently China is more dominant (surplus) compared to ASEAN countries. This can be seen in Table 1.

Furthermore, in 2016, China's exports to ASEAN remained larger than ASEAN exports to China. See the following diagram:



Diagram 2 : China's exports to ASEAN (tradingeconomics.com)



Diagram 3: China's imports from ASEAN (tradingeconomic)

Table 1: ASEAN-China Trade Statistics 2013-2015

See: <https://data.aseanstats.org/trade.php>

Reporter	Partner	Perdagangan Total	2013		2014		2015	
			Export (USD)	Import (USD)	Export (USD)	Import (USD)	Export (USD)	Import (USD)
Brunei	China [CN]	TOTAL	156.446.054	406.387.269	97.143.099	357.739.471	94.925.527	376.994.628
Cambodia	China [CN]	TOTAL	274.411.718	2.992.086.925	356.595.298	7.457.324.319	427.584.607	4.035.231.636
Indonesia	China [CN]	TOTAL	22.601.487.232	29.849.464.777	17.605.944.452	30.624.335.480	15.046.433.777	23.551.454.437
Lao PDR	China [CN]	TOTAL	363.403.664	511.213.190	709.924.375	465.877.787	751.910.971	1.000.824.220
Malaysia	China [CN]	TOTAL	30.719.298.970	33.723.909.207	28.171.813.877	35.314.125.289	25.975.997.319	33.121.503.982
Myanmar	China [CN]	TOTAL	3.053.061.802	3.662.524.391	4.035.374.092	5.026.807.100	4.830.844.950	6.432.330.402
Philippines	China [CN]	TOTAL	6.582.556.741	8.554.076.973	8467.435.296	10.472.223.359	6.393.087.905	11.493.872.525
Singapore	China [CN]	TOTAL	48.350.844.472	43.680.205.137	51.468.965.772	44.373.960.821	47.702.055.003	42.104.645.684
Thailand	China [CN]	TOTAL	27.238.237.893	37.718.471.919	25.084.400.326	38.498.344.668	16.380.870.494	39.839.724.823
Viet Nam	China [CN]	TOTAL	13.205.783.184	36.864.497.204	14.851.577.275	43.721.234.866	16.645.679.405	49.558.231.292
ASEAN	China [CN]	TOTAL	152.545.531.733	197.962.836.995	150.849.173.865	216.311.973.165	134.249.389.963	211.514.813.633

Table 2: Comparison of ASEAN Trade with Several Countries in the World

See: <https://data.aseanstats.org/trade.php>

Reporter	Partner	HS Code	2013		2014		2015	
			Export (USD)	Import (USD)	Export (USD)	Import (USD)	Export (USD)	Import (USD)
ASEAN	Brazil [BR]	TOTAL	9.000.626.028	9.185.217.279	7.685.405.492	10.775.617.123	5.959.100.746	9.902.608.296
ASEAN	China [CN]	TOTAL	152.545.531.733	197.962.836.995	150.849.173.865	216.311.973.165	134.249.389.963	211.514.813.633
ASEAN	India [IN]	TOTAL	41.935.240.203	25.926.651.684	43.325.967.205	24.407.511.283	39.100.748.866	19.452.770.560
ASEAN	Japan [JP]	TOTAL	122.863.231.795	117.903.870.475	120.168.222.894	108.871.256.332	113.694.012.095	124.350.347.567
ASEAN	Republic of Korea [KR]	TOTAL	52.822.992.666	82.139.580.091	51.639.683.718	79.858.725.708	45.808.795.730	76.675.689.069
ASEAN	Russian Federation [RU]	TOTAL	5.243.540.967	14.706.049.095	5.414.416.574	17.121.225.763	3.989.437.071	9.391.603.908
ASEAN	United states [US]	TOTAL	114.509.738.976	92.345.682.838	122.313.842.586	90.172.813.827	129.170.519.690	83.172.433.906
ASEAN	South Africa [ZA]	TOTAL	7.548.957.615	4.449.565.064	6.901.101.840	3.099.136.667	5.138.464.384	2.319.768.476

Geopolitically, the presence of the Chinese military in the SCS and this coercive action will certainly lead to instability in regional security. This is because China's activities are certainly considered a threat or danger that countries that feel threatened, especially countries around the SCS, must respond to. However, China itself in its foreign and defense policies tries to change this belief by saying that China's rise is not a threat, but an opportunity. China wants to create a warm atmosphere with the surrounding countries to smooth all its interests, especially in the SCS.

Given these facts, could be said that China has dominated the Southeast Asian market compared to Southeast Asian countries themselves. Therefore, China can control market phenomena, such as demand, supply, price or distribution. Furthermore, China's position as the market king in Southeast Asia is also supported by the data in Table 2.

Furthermore, apart from trade, another form of economic relations between China and Southeast Asian countries is investment. Investment is also one of the instruments of the strong relationship between China and Southeast Asian countries. Theoretically, Chinese investment in Southeast Asia driven by several reasons, including: (a) Southeast Asia is very close to China, (b) Southeast Asia is a promising market (seen from the population), and (c) the political conditions tends being quite stable.

The exist of Chinese investment in Southeast Asia has at least two dimensions, namely dimensions that show a positive side, such as accelerating infrastructure development, reducing the number of unemployed, and encouraging the rate of economic growth. However, there are also negative dimensions of this investment, such as the threat of domination and monopoly as well as investment which used as a tool to suppress countries in Southeast Asia. Furthermore, the following is data on direct investment from China to Southeast Asia in the 2013-2015 period:

Table 3: Chinese investment into Southeast Asia 2013 - 2015 (data.asenstats.org)

Host Country	Source Country	2013	2014	2015
ASEAN	China [CN]	6,426.18	6,990.12	8,256.45
Brunei	China [CN]	0.00	0.00	0.00
Cambodia	China [CN]	286.75	553.89	537.68
Indonesia	China [CN]	590.78	1,068.21	321.89
Lao PDR	China [CN]	0.00	614.26	665.09
Malaysia	China [CN]	133.13	302.21	275.25
Myanmar	China [CN]	792.60	70.54	52.44
Philippines	China [CN]	6.00	46.61	59.02
Singapore	China [CN]	2,729.90	4,206.60	5,658.60
Thailand	China [CN]	938.86	-81.77	305.47
Viet Nam	China [CN]	948.16	209.56	381.01

In addition, direct investment provided by China is also directed to smoother several other investment programs offered to Southeast Asian countries, namely: the Maritime Silk Route and Economic Corridor. The maritime silk route is a form of investment and trade coöperation initiated by China which routes through the Southeast Asian region (waters); South China Sea, waters of Indonesia, Singapore, the Strait of Malacca, to the exit of the Indian Ocean. Meanwhile, the economic corridor is a form of investment and trade coöperation initiated by China on the Southeast Asian peninsula (mainland). The 13th Five Year Plan called the China-Indochina Peninsula Corridor.

In its development, interpret economic corridors may faster than the to interpret maritime silk route. This is because China before had the Greater Mekong Subregion Economic Cooperation (GMS) with Viet Nam, Laos, Cambodia, Thailand, and Myanmar (Read: Guangsheng, 2016). Meanwhile, the maritime silk route has not been well-developed one of the reasons is because of the conflict in the SCS (See: Hong, 2016; Hui-yi, 2016; Guluzian, 2016) and absent similar cooperation with countries such as Indonesia, Malaysia, and Singapore before. However, China continues to promote the idea of a maritime silk road as part of One Belt, One Road (OBOR) to ASEAN countries so that realized in the future. To support this idea, especially the maritime silk route, China

then built the Asian Infrastructure and Investment Bank or AIIB. Until 2017, there have been at least 70 countries in the world that have contributed to AIIB, while most of them are Asia-Pacific countries. In 2017, AIIB also financed 6 infrastructure development projects to support OBOR in Southeast Asia. Most of them are in Indonesia.

Furthermore, basically, both trade, investment or economic cooperation carried out by China to Southeast Asia are part of the country's economic diplomacy. China seeks to use its economic power (money) to strengthen its relations with the Southeast Asian nation, attracting attention and maybe even buying support.

For example, trade, which is also known as Gods Diplomacy, was successfully used by China to dominate the Southeast Asian market. This phenomenon is of course contrary to the fact that ASEAN has more players when faced with China alone, as well as the Chinese market which is also larger than the Southeast Asian market (seen from the population), so ASEAN should be more dominant than China. The question now is why does China need to make a trade surplus?

Facts show that this country is facing the phenomenon of overproduction (See: Wu, 2016;; Hao, 2016; AEGIS Europe, 2015; Daily Nation, 2016) so that it needs a bigger market abroad. This shows that China is facing an overheated condition that can threaten the domestic economy. This can also be used as a reason for China should promote economic corridors and maritime silk routes.

Furthermore, the question that arises then is how the economic corridor and maritime silk route can save China? As mentioned earlier, the economic corridor and maritime silk route have two dimensions, namely trade and investment. These two things intertwined as a mechanism to save China. When a country joins an economic corridor or maritime silk route, that country gonna have the opportunity to obtain more investment (than just direct investment) from China.

However, the investment will use an aid mechanism stipulated by China in China's Foreign Aid White Paper.

It should be noted that mechanism 1 and mechanism 2 are directly from the Chinese government, but in mechanism 3, the Chinese government represented by a state company such as a Bank. Furthermore, this investment is not unconditional, but China requires countries to trade at least 50% of total investment with China, where one form of trade is that the recipient country will export raw materials to China and China will export technology to the country. recipients (See: Wolf, Wang, and Warner, 2013). In addition, the use of the Bank as a third-party between China and the recipient countries of investment shows that China is using the Bretton Wood strategy similar to the United States which uses the IMF or World Bank to control countries receiving investment help.

Furthermore, what China can then gain by pursuing this strategy in Southeast Asia apart from saving the domestic economy from overproduction. The answer is to solve political problems, including territorial disputes, as well as to exert influence in Southeast Asia. The dispute problem in question is the LCS dispute. In this case, China has succeeded in influencing and even changing the attitudes of most Southeast Asian countries of the issue of SCS disputes with this method. The description is as follows:

Cambodia. This country is the only ASEAN member country that fully supports China. In 2012, the country refused to discuss the SCS issue at the ASEAN Summit which was held in Phnom Penh, Cambodia (Perlez, 2012; Severino, 2012; BBC, 2012). In addition, in 2015, the Prime Minister of Cambodia, Hun Sen stated that "... Ultimately, it is not an issue for ASEAN. It is a bilateral issue between the concerned countries, which need to talk between themselves .." (Evans, 2015). This indicates that Cambodia's attitude is in line with China, consider that ASEAN does not have enough reasons to resolve the SCS dispute problem and support a bilateral and not multilateral approach.

Laos. This country also supports China's position (See: Wong, 2016). The Prime Minister of Laos, Thongloun Sisoulith, when meeting with the Prime Minister of China, Li Keqiang said that, '... Laos supports China's position, and is willing to work with China to support peace and stability in the South China Sea region (Wong & Edward, 2016 'On the other hand, this country also supports China's position in international arbitration related to SCS disputes (Xinglei, 2016).

Myanmar, has also positioned itself as a party that wants ASEAN be neutral (Shihong, 2014). In relation to international arbitration related to the SCS issue, Myanmar does not agree or disagree on the results issued in 2016. However, Myanmar supports consultations and negotiations between disputing countries and supports resolve COC discussions.

On the other hand, Thailand is a country that supports China's position as a peace and stability maker in the South China Sea. Thai Government official, Weerachon Sukondhapatipak revealed that, '... promoting peace and stability in the ocean is important to all parties and Thailand supports China's efforts in this regard.' However, he also said that, '... wants to see peace maintained in the interests of all parties (Macfie, 2016).

Singapore, this country has a fairly consistent attitude to date, namely wanting peace in the SCS area with a multilateral mechanism. This is as stated by the Singapore Minister of Foreign Affairs in 2012 in Phnom Penh that:

"...We are not a claimant state and we have always maintained that by their very nature, the specific territorial disputes in the South China Sea can only be settled by the parties directly concerned. However, that does not mean that Singapore has no interests in these disputes. Singapore's interests in the disputes, and the South China Sea, including on the question of the freedom of navigation, have been stated clearly on several occasions and I do not propose to repeat them here... ASEAN needs to work closely with China, a claimant state, to promote cooperation and manage tensions in the area. A good start is the full implementation of the Declaration on the Conduct of Parties in the South China Sea (DOC) that both sides signed in 2002 to build confidence and

trust amongst the participants. In the same way, ASEAN and China should start talks on a Code of Conduct in the South China Sea (COC) soon..."
(mfa.gov.sg, 2012)

Furthermore, Malaysia, in 2016 agreed with China to hold defense and military cooperation in the SCS (Watt, 2016). Malaysia itself has agreed on bilateral talks with China about the SCS issue (The Guardian, 2016). This agreed upon during the visit of Malaysian Prime Minister Najib Razak to Beijing in the context of new investment (The Guardian, 2016). Some experts consider that Razak's reputation which fell due to the corruption scandal caused distrust of (Western) investors, so that China has made his replacement (Chandran, 2016).

Brunei, In 2016, the Sultan of Brunei, Hasanah Bolkiah conveyed two attitudes related to resolution of the SCS conflict at the 11th East Asian Summit, namely resolving disputes through dialogue and consultation and encouraging ASEAN and China to create stability in the region (Borneo Bulletin, 2016). However, this does not fully apply to the Sino-Brunei bilateral relationship because 'China has reached out to jointly explore deep-sea opportunities for production sharing. Brunei has accepted the deal and made its peace on overlapping sea claims' (Pereira, 2016; The Brunei Times, 2011; Xiaokun, 2011).

Vietnamese. During the 2013-2016 period, China-Vietnam relations related to the SCS issue did not tend to change. Both of them remain a view of defending their respective interests in the SCS. However, in 2014 China sent diplomats to Vietnam to discuss the SCS issue, especially the issue of oil exploration disputes (Perlez, 2014), but the results were still deadlocked (Lipes, 2014). Vietnamese Prime Minister Nguyen Tan Dung even said that, 'China's act also threatens peace, stability, security and safety of navigation and aviation in the region, while causing indignation and hurting the sentiments of Vietnamese people, putting negative impacts on the cooperation between the two. Parties and countries (Lipes, 2014).

Indonesia itself as a country that does not want called a claimant state remains a concern because of its influence as *primus inter pares* in Southeast Asia. Indonesia tends stay neutral and wants a multilateral mechanism to resolve disputes in the SCS. However, since the change of Susilo Bambang Yudhoyono's regime to Joko Widodo's regime in 2014, Indonesia has also started to change its attitude regarding the SCS issue. Analyst Aaron L. Connelly (2017) states that Indonesia under the Joko Widodo regime is currently no longer diplomatically active in relation to the SCS and is more focused on defending sovereignty. In addition, this guided by several factors, one of which is Joko Widodo's goal to attract investment from China (Read: Pattiradjawane, 2015).

Furthermore, based on the description above, it can conclude that at least eight out of ten ASEAN countries have experienced a change in attitude of the issue of the SCS conflict. These countries are Myanmar, Thailand, Laos, Cambodia, Philippines, Brunei, Malaysia and Indonesia. Meanwhile, the other two, Singapore and Vietnam, keep consistent in their attitude (to oppose China). The cohesiveness and similarity of attitude related to the SCS issue that ASEAN countries had in 2002 are starting to fade at this time. This phenomenon is worrying for the future of ASEAN solidity either as an institution or a community and this will benefit China directly or indirectly, now or in the future.

Changes in the attitudes of eight of the ten Southeast Asian countries influenced by a fairly determinant factor, namely investment (as assumed above). Myanmar, Laos, and Cambodia, such as, changed their attitudes because the investment value from China was greater than from other countries such as Japan and the United States. Meanwhile, the Philippines, Thailand, Malaysia, Indonesia, and Brunei also have hopes and interest in investment from China, so it is necessary to show closer ties with China, attract Chinese attention or sympathy, including by supporting China's position and attitude towards the SCS.

Table 4: Relationship between Changes in Attitudes of Southeast Asian Countries and Chinese Investment

N o	Negara	Sikap terkait Posisi China di LCS	Keberada an Investasi China	Kemungkin an adanya Pengaruh Investasi terhadap Perubahan Sikap
1	Brunei	Terjadi Perubahan Sikap	Ada	Ada
2	Filipina	Terjadi Perubahan Sikap	Ada	Ada
3	Indonesia	Terjadi Perubahan Sikap	Ada	Ada
4	Kamboja	Mendukung China	Ada	Ada
5	Laos	Mendukung China	Ada	Ada
6	Malaysia	Terjadi Perubahan Sikap	Ada	Ada
7	Myanmar	Terjadi Perubahan Sikap	Ada	Ada
8	Singapura	Konsisten	Ada	Tidak Ada
9	Thailand	Terjadi Perubahan Sikap	Ada	Ada
10	Vietnam	Konsisten	Ada	Tidak Ada

By considering the table above and then related to the concept of dispute management in security studies, (confrontation, cooperation, and status quo), China's policies related to SCS are direct or indirect and / or interactions / relations between China and other countries. Current and future claimants for LCS are as follows:

Table 5: Relationship between ASEAN Countries and China regarding SCS

Negara	Hubungan dengan China	Kebijakan China terkait LCS
Vietnam	Konfrontasi	Konfrontatif
Brunei	Kerja Sama	Kooperatif
Filipina	Kerja Sama	Kooperatif
Malaysia	Kerja Sama	Kooperatif
Indonesia	Status Quo	Kooperatif

Even so, the relationship between China and ASEAN countries related to the SCS as mentioned in the table above is a current assessment and a prediction for the future, however this can still change along with developments in international politics, the other's influence parties such as the United States, development of interests. each country, China's attitudes and policies related to the SCS, fluctuations in Chinese investment, and the real situation in the SCS area. This shows the dynamic relationship between countries around the SCS area.

Furthermore, the plan to build a Maritime Silk Road as mentioned above must address more wisely and not only focus on investment and trade issues, but also see the geopolitical elements of the route's existence. If seen, the Maritime Silk Road could be said as a route that connects energy-producing regions, especially oil, such as the Middle East, Africa and the SCS. This means that this route is not only a route for energy trade, but also a route to get new energy at the same time for China.

However, the construct of Maritime Silk Road in Southeast Asia will be difficult if China does not resolve the conflict in the SCS. China may face difficulties when it comes to building infrastructure for the benefit of the Maritime Silk Road in the disputed area. But why is China still pursuing this plan? Even to form AIIB and garner support? This is what can then be said as a reverse logic carried out by China; This country creates a trade and investment network first through the idea of the Maritime Silk Road and AIIB as its financial institutions, then carries out bilateral diplomacy to garner support, creates a sense of gratitude to China, then seeks support for dispute resolution then takes control of the SCS (de facto).

Given these facts, could be ingrate the exist of Chinese investment in Southeast Asia is closely related to efforts to master the SCS and its potential. This phenomenon is a form of China's geopolitical and geoeconomic strategy which is arguably very mature.

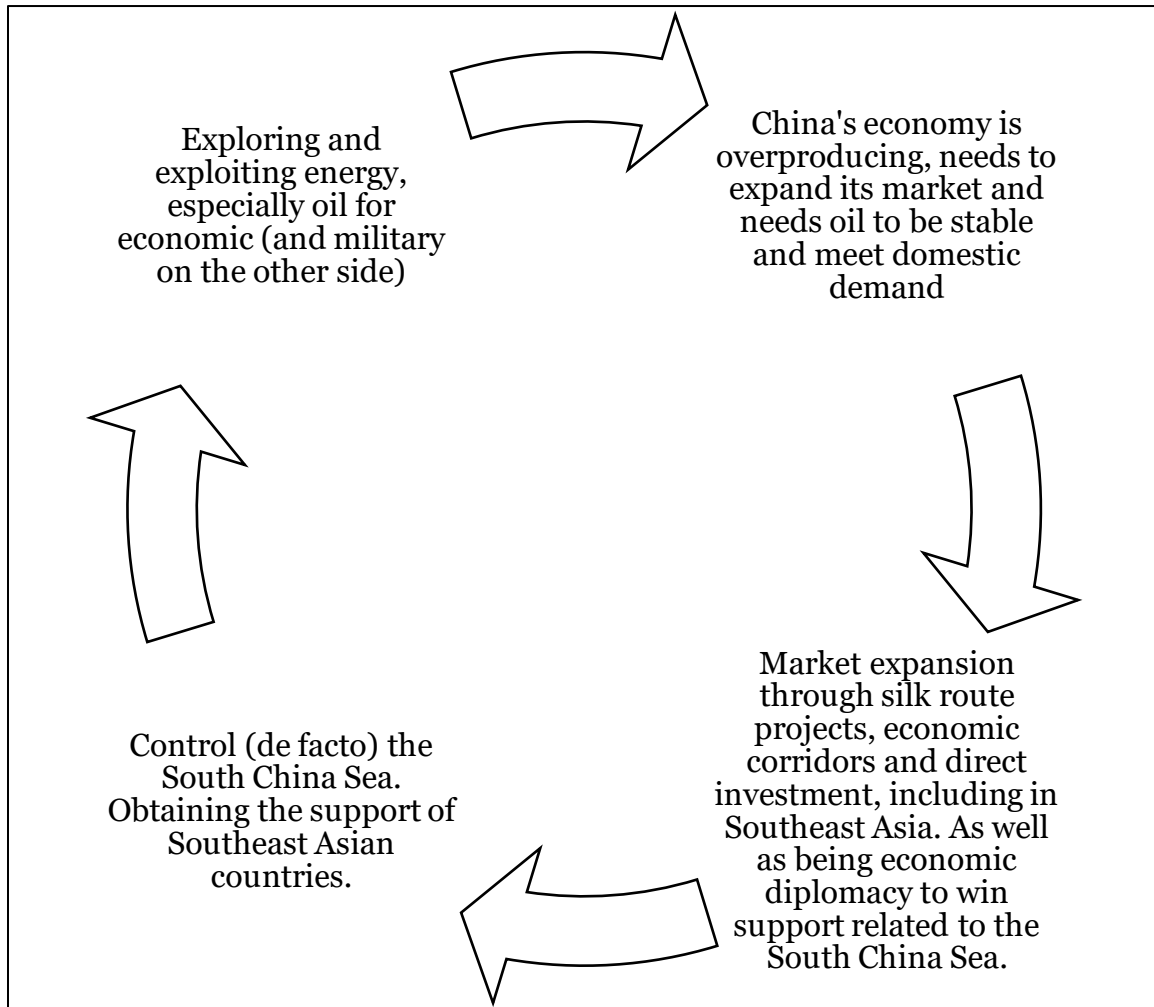


Figure 3: Relationship between Chinese Investment and LCS Issues

CONCLUSIONS

China is currently facing energy security issues, namely threats related to oil supplies. China must meet its increasing domestic needs along with rapid economic growth and as a national reserve. In response to this (potential) threat, China is trying to find alternative sources of energy - oil - such as Africa and America, but also to the disputed areas of the South China Sea. Large oil resources and has not been fully explored predicted will be this region belonging.

To control the disputed area, China faces obstacles, especially resistance from Southeast Asian countries. Therefore, China then implemented oil / petropolitical politics as a way to get oil supplies. This

petropolitical policy spelled out in three forms, namely diplomacy, military, and business and investment.⁷

First, China's diplomatic steps taken an approaching Southeast Asian countries bilaterally (tending to avoid multilateral diplomacy) to resolve conflicts. This shows China's attitude that wants to localize the SCS issue. Second, China opened economic cooperation, particularly investment and trade, provided assistance and loans to facilitate this (political) diplomacy; and Third, China also strengthens its claim by placing the military in the SCS area and building military facilities, including reclaim the islands in disputed areas.

Of the three methods or approaches, economic approaches such as investment policies and assistance by China in Southeast Asia and oil business activities in the SCS are more dominant in China to strengthen its position in the disputed area and to control oil in it. Meanwhile, diplomacy and military (defense) approaches use to support this economic approach. This shows that there is a shift in the way or attitude adopted by China in responding to the SCS issue.

Furthermore, to respond to China about the SCS issue, ASEAN countries suppose to solid and cooperate in defending regional interests. ASEAN must also be able to encourage disputing countries, including China, to comply with international law. On the other hand, there must a balance of power in disputed areas by increasing economic and military independence. Thus, the SCS will be difficult for China to master.

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Cooperation Of Indonesia - Iran In The Oil And Gas Energy Sector 2015-2017

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Abstract

This research is conducted to discuss about the Cooperation between Indonesia and Iran in oil and gas energy sector period 2015-2017. This research uses qualitative research method with descriptive approach. The purpose on this research is to explain to cooperation between Indonesia and Iran in oil and gas energy sector. This research also uses bilateral cooperation theory, national interest concept, and energy security concept. Result from this research, the cooperation between Indonesian and Iran in oil and gas energy sector in the period of 2015-2017, the first is Purchasing of Liquefied Petroleum Gas (LPG) and Crude Oil from Iran with Competitive Price, second, Oil Refinery Development located in Situbondo (East Java). With Impact of this cooperation for Indonesia can to building economic security in energy sector. Then in this research, it is also known that the cooperation between Indonesia and Iran in the energy sector will continue even in the very important.

Key Words: Cooperation, Indonesia, Iran, Oil and Gas, Energy Security

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INTRODUCTION

Indonesia as to developing country has toned energy. Energy is very important for economic development. Energy can build the country's economy where the energy industry itself as a commodity to increase foreign exchange and provide a place of employment for the people in the country. Energy is also one of the drivers for carrying out the activities of a country so that the The more developed a country, the more it needs a very large energy supply. In Indonesia, energy commonly used to carry out activities usually uses oil and gas. Non-renewable energy resources such as oil and gas are increasingly scarce to obtain due to the increasing use in society and industry, making Indonesia's energy supply in a weakened position.

The potential of oil owned by Indonesia for now is not yet significant oil refineries. Indonesia are also still not well managed, moreover the development of the oil and gas sector in Indonesia at this time also still has to be improved considering the increasing number of oil and gas needs in Indonesia every day but not commensurate with the amount available in the country. In addition, oil and gas production and oil and gas reserves in Indonesia are also decreasing.

Data from the last 4 years shows that the number of production and also Indonesia's oil and gas reserves has decreased every year, starting from 2011-2014 Indonesia is only able to produce around 789 thousand barrels of oil per day and only 8,217 thousand barrels per day for natural gas. Indonesia has 3,624 barrels of reserves for oil and 100.3 TCF for natural gas (Directorate General of Oil and Gas ESDM, 2016).

The decline in production and also the reduction in oil and gas reserves in Indonesia in the 2011-2014, is more due to the age of Indonesia's old oil fields, and technical problems such as pipe leaks, equipment damage, and other natural disturbances. Seeing the number of oil and gas reserves that Indonesia has increasingly depleted and the decline in oil and gas production at that time, making Indonesia have to secure oil and gas reserves in the future cooperation with other countries is one effective way to overcome the problems being experienced by Indonesia at this time. In this oil and gas sector cooperation Indonesia sees Iran as a partner country worthy of cooperation, so far the relations between the two

countries are running well, Indonesia and Iran are two countries that have the potential and capacity to complement each other, Indonesia's high growth with a large population clearly requires a high energy supply too. Iran as one of the largest oil and gas producers in the world is able to fill it.

In the energy sector, Iran is one of the countries with high reserves, Iran is the country with the fourth largest crude oil reserves in the world and the second largest natural gas reserves in the world. Iran is also among the top 10 world oil producers and the top 5 natural gas producers. Iran produces nearly 3.4 million barrels of oil per day and 5.7 trillion cubic feet of dry natural gas (ESDM, 2016). In January 2015 excavated in Iran, Iran proved to have around 158 billion barrels of oil reserves, representing nearly 10% world crude oil reserves and 13% reserves owned by OPEC (Organization of Petroleum Exporting Countries).

About 70% of Iran's crude oil reserves are on land and the rest are offshore, most of which are in the Persian Gulf, Iran has also proven that it has around 500 million barrels of oil reserves, mostly offshore in the Caspian Sea. Whereas Iran's natural gas supplies 14.6% of the world's total needs until 2000, only one level below the Bahrain state (ESDM, 2016). Iran has also been actively involved in the OPEC (Organization of Petroleum Exporting Countries) along with Saudi Arabia, Kuwait, Iraq, Venezuela, Qatar, Libya, the United Arab Emirates, Nigeria, Ecuador and Gabon to discuss the oil products owned by their country. Based on the background that has been explained, the formulation of the problem to be discussed by the author in this study is: What are the forms of Indonesia-Iran Cooperation in the Oil and Gas Energy Sector for the period 2015-2017? With the cooperation between Indonesia and Iran, can to build economic interest for increase to energy security sector.

METHOD

This study uses qualitative research. Qualitative research can be defined as an intuitive and systematic research technique to help a researcher produce knowledge in an efficient and coherent way (Bakri, 2016). Qualitative research traditions that are often used include: Phenomenology Studies, Participatory Observation Studies-Symbolic Interactionism, Ethnometodelogy Studies, Ethnographic Studies,

Studies to find Grounded theories or commonly known as Gounded Research, Life History Studies, Hermeneutic Studies, Analysis Studies or Content Analysis , and Case Study. (Bungin, 2012)

Then the focus of this research is to describe and analysis the forms of bilateral cooperation in the oil and gas energy sector carried out between Indonesia and Iran which aims to achieve energy security. The type of research used in this study is descriptive research, which can later be used to describe social phenomena namely cooperation in the oil and gas sector carried out between Indonesia and Iran in detail. Which includes the form of cooperation, forms of development, management, benefits, and the results obtained from the realization of cooperation that has been carried out between Indonesia and Iran in the oil and gas energy sector for the period 2015-2017.

Data collection techniques used by the authors in this study were interviews and library research. The technique used is to conduct interview to Ministry of Energy and Mineral Resources, Directorate General of Oil and Gas, Ministry Foreign Affair, Directorate General Asia Pacific and Africa.with sources related to research. And library research by collecting data by examining a number of literature related to the problems being discussed, both in the form of books, journals, documents, magazines, newspapers etc.

THEORETICAL FRAMEWORK

Bilateral Cooperation and National Interests

Every country cannot stand alone to meet its needs so some countries form a partnership with other countries. According to K.J Holsti (1964), cooperation is: a. Relations between one country and another on the basis of mutual trust and meeting to produce something that is then promoted and reaches an agreement. b. The views or expectations of a country that policies decided by other countries will help the country to achieve other interests and values. c. Approval or certain problems between two or more countries in order to utilize equality of interests or exchange interest. d. Transactions between countries to fulfill their agreement.

Every country in the international world has mutual relations and cooperates between countries to meet the same needs, benefits and goals with each other in terms of politics, economy, social, environment, culture and security. Cooperation between countries generally exists between two or more countries that have their respective regional and non-regional interests. Inter-state cooperation carried out bilaterally only involves two countries as partners in cooperation with interests and goals to build political, economic, social, environmental, cultural and security (Holsti, 1964). In international relations in liberal perspective, many countries collaborate bilaterally and are not based on geographical location, but often the cooperation carried out always tends to have economic and cultural similarities. Bilateral cooperation usually only involves private companies or industries.

In conducting cooperation, each country has national interests that must be achieved. In general, national interests can be explained as fundamental goals and final determinants that direct decision makers from a country in formulating their foreign policy, and the national interests of a country are typically elements that shape the needs of the most vital countries such as defense, security, military and economic welfare (Parwita, 2005).

National interests can also be as a direction for a country to be able to take a decision and also determine actions to establish cooperation with other countries. The fact that all countries must pursue their own national interests means that the state and other governments will never be fully expected, all international agreements are temporary and conditional on the basis of the country's desire to comply. All countries must be prepared to sacrifice all aspects to achieve their national interests (Sorensen, 2009). This concept to use explain to cooperation between Indonesia and Iran for increase national interest to build energy security.

Concept of Energy Security

Energy security is a concept where every country must be able to defend itself and carry out development by prioritizing security and the availability of adequate energy reserves at affordable prices, both oil and other types of energy (Yergin, 2006). Energy is managed based on principles of benefit, rationality, fair efficiency, increased value added,

sustainability, community welfare, preservation of environmental functions, national resilience, and integration by prioritizing national capabilities (Yergin, 2006).

Energy security is related to the availability of energy in the long run, especially related to the time to supply energy in accordance with economic development and sustainable environmental needs. Energy security focuses on the ability of energy systems to compensate for demand and supply, the lack of energy security can have a negative impact on economic activities associated with prices that are not competitive or too volatile. (Agency, What Is Energy Security, 2017)

The concept of Energy Security (Energy Security) must cover several aspects. The first aspect is that there is a threat to Energy Security from political, economic, technical, psychological and environmental threats. The second aspect when viewed from the Security definition includes the price element and impacts on the state, where the price element can influence the uncontrolled fluctuations in an energy source and impact instability in a country's condition. The third aspect is the price of an Energy has a very large influence on the availability of funds and capital to invest in the development and exploration of energy resources. The availability of funds is a very important factor in maintaining the amount of demand for energy resources (Farid, 2015).

The fourth aspect is to manage energy resources by diversifying energy sources. The fifth aspect is to find new energy resources within the region aimed at reducing dependence on energy-producing countries (Farid, 2015). To truly ensure the energy security of a country, the country must do a number of things. First, the state must be able to estimate the amount of loss if the supply of energy sources is disrupted and prepare a number of solutions to the problem. The solution is by rationing and hoarding. Carakedua, guarantees supply from foreign suppliers. The third way is the state guarantees energy security. The three methods can be carried out provided that the state really has abundant reserves of energy resources and has not been explored as a whole (Farid, 2015).

Energy security is one of the international problems and is one part of the foreign policy of countries in the world. Energy sources in the form of oil, natural gas and coal are not only considered as an important part of the

growth of the national economy and international market products, but have very strategic values in national and international political security interests. Based on these conditions, it is oriented to the importance of cooperation between industrial countries and countries that produce energy sources. Collaboration carried out by industrial countries with countries that produce energy sources is the activity of collaborating on trade in energy resources, cooperation activities in finding new energy sources, exploration and collaborative activities in securing energy sources. In relations to the case of Iran-Indonesia energy cooperation, the energy security concept is useful to analyse the characteristics of their relationship for economic development in energy sector stability.

DISCUSSION

Indonesia's Oil and Gas Potential

Indonesia relies on petroleum, natural gas and coal as sources of energy, industrial raw materials, and state income. But as a state income, this sector in the last 5 years has continued to decline. The potential for oil and gas in Indonesia is still quite large, but in remote areas, deep sea, wells and also old oil fields, which are mostly located in eastern Indonesia, have not been explored further. Petroleum production in Indonesia is primarily intended for domestic consumption but in recent years the number of existing production has decreased. In 2014, oil production was only around 789 thousand bpd or decreased to 96% compared to 2013 at 824 thousand bpd. Since 2010, d. 2014 decreased production by an average of about 4.41% per year.

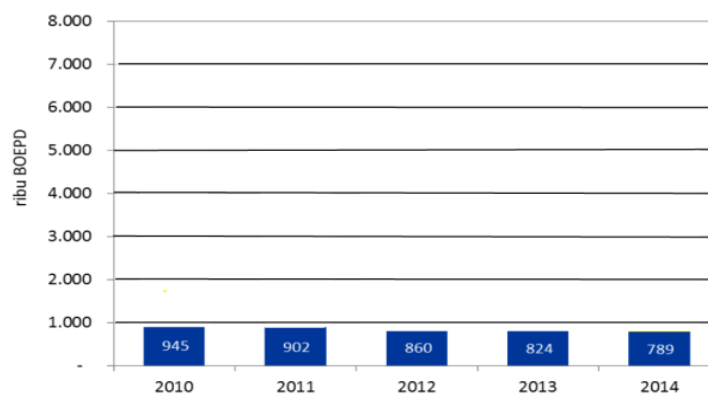


Figure 1 Petroleum Production 2010-2014
Source : DITJEN Migas ESDM

The decline in production can occur more due to the aging of Indonesia's oil fields, and technical obstacles such as unplanned shutdown, pipeline leakage, equipment damage, subsurface constraints and natural disturbances. In addition to decreasing production of petroleum reserves in Indonesia it is now difficult to find more, data from 2010-2014 total proven reserves owned by Indonesia amounted to 3,624.5 MMSTB. This reserve has decreased compared to the previous year of 7.305 billion barrels (Directorate General of Oil and Gas ESDM). One of the things that causes the lack of Indonesia's petroleum reserves that exist today is that no new proven reserves have been found and no exploration has been carried out on wells or oil fields in Indonesia.

The production and reserves of petroleum in Indonesia have decreased but its consumption has actually increased not proportional to the production and reserves it has because this is due to the growing population, the increase in the middle class population, and rapid economic growth which has resulted in rapid consumption of petroleum. demand for fuel continues to increase.

Table 1 of Indonesian Petroleum Consumption 2010-2015:

Unit	2010	2011	2012	2013	2014	2015
Barel per day(Bpd)	1,402	1,5891	1,631	1,643	1,676	1,628

Source: BP Statistical Review of World Energy 2015

The high consumption of petroleum is also influenced by activities in the community that use oil relatively. This increase in consumption occurs in Indonesia, especially in densely populated islands. Until now, Java Island is the region with the most oil and gas consumption due to its large population, which requires a large amount of oil and gas consumption.

Similar to petroleum, the condition of natural gas in Indonesia is also not significant, because the production and utilization of natural gas in Indonesia in the last 5 years continues to decline, natural gas production is only 8,130.00 MMSCFD, and for its utilization of 7,364.13 MMSCFD has decreased by 140 MMSCFD from the previous year (Directorate General of Oil and Gas ESDM). The decline in natural gas production

occurred because no new natural gas reserves were found and the development of gas fields in Indonesia has not yet been developed due to the difficulty of buying gas at low prices and often absorption from gas purchases that are not optimal due to global economic conditions. In addition, Indonesia's natural gas reserves are also getting smaller, currently proven gas reserves are only around 100.3 TCF with a potential of 49.0 TCF and are estimated to only be able to survive for 34 years.

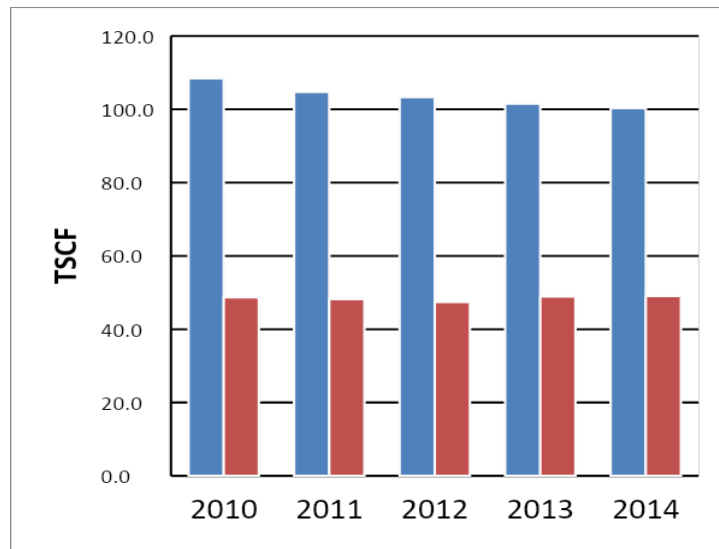


Figure 2 Indonesia Natural Gas Reserve
Source: Ditjen Migas ESDM

If no proven reserves are found, it is feared that natural gas reserves in Indonesia today will no longer be able to meet domestic needs. With such natural gas reserves, the level of natural gas consumption in Indonesia in the past 5 years falls into the category The low one. This is caused by the use of gas among the community not as much as the use of oil. Indonesia is listed as one of the countries with the lowest amount of natural gas consumption. As from 2010-2015, Indonesia consumed natural gas with only 39.7 billion. The amount is still included in a reasonable amount.

Table 2 of Consumption of Indonesian Natural Gas 2010-2015

Unit	2010	2011	2012	2013	2014	2015
Billion	43.4	42,1	42,2	36,5	38,4	39,7

Source: BP Statistical Review of World Energy 2015

Indonesia, despite being said to have high potentials, in recent periods has had to face several obstacles and challenges that are quite complex and have an impact on Indonesia's energy security in the future. Among these obstacles are the drastic decline in oil and gas production in Indonesia, the very low oil and gas energy use, oil and gas energy access is still limited, dependence on imports, and energy prices that are not competitive, and energy subsidies are still very high.

The Indonesian government has made various efforts to increase oil and gas reserves and production, the Indonesian government has not stopped there, in recent years the issue of energy security is one of the issues that has become a challenge in carrying out Indonesia's foreign political activities (Natural, 2014, p. 188) In Indonesia, the government only relies on Pertamina in reducing oil and gas reserves, so far there has been no strategic step prepared to increase the reserves, the provision of oil and gas reserves in the long term cannot be separated from government participation (Indirasardjana, 2014, p. 218). In terms of energy there are several facts that require the Indonesian government to implement policies that are in accordance with the current state of the oil and gas energy sector in Indonesia.

The Indonesian government to take various policy steps and strategies for energy security. The purpose is to ensure the availability and adequacy of energy for the community at affordable prices (Alami, 2014, p. 189). One of the government's policies in achieving this goal is to establish cooperation with countries that have high oil and gas reserves and also have good bilateral relations with the Indonesian state. In accordance with the principle of being free to actively cooperate in the energy sector, the Indonesian government is now widely actively involved in various international energy cooperation frameworks, both bilateral, multilateral and regional cooperation.

Then in the period of 2016 to 2017 the Indonesian government has explored cooperation in the oil and gas energy sector with partner countries namely Iran. In recent years Iran has proven to have high oil and gas reserves, Iran also ranks the top of the country with the support of the largest subsidies for domestic oil consumption, Iran is also the world's energy superpower, and ranks second in OPEC after the Saudi Arabia. With GDP of more than US \$ 12 thousand and a population of only around 77 million, Iran controls the world's largest gas reserves with a total of more than 34 trillion cubic meters and oil reserves ranked third in the world (Indirasardjana, 2014, p. 35). The success of Iran in producing oil and gas every year believes that the Indonesian government can cooperate with Iran, the aim of this policy is to achieve Indonesia's national interest, namely securing Indonesia's energy in the future.

Cooperation between Indonesia and Iran

President Joko Widodo paid a visit to Iran to realize a joint economic cooperation committee with Iran, the Joint Committee of Iran and Indonesia was divided into four committees namely: financial and banking committees, industry, trade and investment committees and energy and work committees Collaboration between Indonesia and Iran has also been established in the oil and gas energy sector. Usually in the context of cooperation in the field of energy there must be national interests to be achieved, one of which is to guarantee national energy security.

There are several fields that are the focus of cooperation between Indonesia and Iran, these fields are: upstream oil and gas cooperation, trade in oil and gas products, gas projects, oil processing, petrochemicals, oil and gas supporting industries, to increasing human resource capacity in the oil and gas sector. During this time, the cooperative relations between Indonesia and Iran have indeed gone well, starting from short-term cooperation in the form of services and trade, which after that began to be developed in the medium and long term. Cooperation between Iran and Indonesia will be deeper in the oil and gas sector with the establishment of cooperation between Pertamina and the National Iranian Oil Company (NIOC).

Cooperation between Indonesia and Iran And Impact to Oil and Gas Energy Sector

This collaboration is in the form of Government to Government (G to G) as a means of diplomacy and also of course the realization of bilateral cooperation as well as supporting the cooperation of Business to Business (B to B) carried out by the state-owned enterprises of the two countries, both related to investment and trade. This collaboration began when the Indonesian government initiated a G to G meeting with Iran in the 1st Indonesian-Iranian Joint Technical Committee on Oil and Gas on February 24, 2016 in the city of Bogor. The meeting resulted in the signing of a Memorandum of Understanding between the Ministry of Energy and Mineral Resources (ESDM) and the Ministry of Petroleum of the Islamic Republic of Iran regarding cooperation in the upstream and downstream fields of oil, gas, refineries and petrochemicals. The logic of cooperation use to liberal perspectives. The cooperation use to you and me another profitable. Cooperation between Indonesia and Ira for increase national interest for economic development.

Both countries' oil and gas cooperation is carried out both upstream and downstream. On the upstream side related to the efforts of the Government of Indonesia through PT. Pertamina to be able to manage and also explore oil and gas fields in Iran, namely Ab-Teymor and Mansouri, while on the downstream side is the realization of LPG and Cruide Oil purchases, as well as plans to build oil refineries in the Situbondo area (East Java) with oil supplies originating from Iran.

Purchasing Liquefied Petroleum Gas (LPG)

One of the cooperation agreements between Indonesia and Iran is the purchase of LPG. In the purchase of LPG, from Iran, it is willing to sell its LPG supply to Indonesia and the Indonesian side can produce it at a relatively cheap price. It aims to support reserves and also increase gas production in Indonesia. In this form of cooperation, PT. Pertamina along with National Iranian Oil Company (NIOC) was entrusted by the Indonesian government to coordinate this activity. In 2016, the purchase of this LPG was agreed to be 600,000 Metric Ton (MT), of which 2 LPG cargoes loaded with 44,000 MT each were sent and traveled around 13 days using verylargegascarrier vessels to the Situbondo refinery. Then on

the next purchase, PT. Pertamina and NIOC signed a Sales and Purchase Agreement (SPA) related to the continued purchase of LPG amounting to 528,000 MT in 2017, with the provisions of 8 cargoes which are part of the agreement between the two countries and 4 other cargoes to be sent according to Indonesia's domestic supply needs. The shipment of 1 initial cargo loaded with 44,000 MT LPG arrived in Situbondo at the beginning of 2017. Then for this type of LPG provided by Iran this type of Propane and Butane is in accordance with the type of LPG that is used daily in Indonesia.

The value of transactions made in purchasing LPG is 220 USD equivalent to 3 trillion rupiah for a total of 12 cargoes per year. With such a price, it can be said that the Indonesian government can do price efficiency, because from the purchase of LPG directly to Iran the Indonesian government gets a competitive price with a value of one year savings of 10 million USD (Martin Hasugian, 2017). In buying LPG from Iran, it can be seen that while exploring the cooperation of the Iranians to give a very good response, the prices that tend to be cheaper given by Iran make Indonesia establish this oil and gas collaboration with more confidence, because of the intimacy between the two, especially during each had become OPEC member countries. In addition, the purchase of LPG at competitive prices has made the Indonesian government able to carry out price efficiency.

Purchasing Crude Oil (Crude Oil)

In the form of further cooperation, the Indonesian and Iranian parties have agreed to purchase CrudeOil from Iran for Indonesia at a cheap price. This CrudeOil purchase is done in two stages. The first phase was carried out on February 2, 2016 and the amount of crude oil purchases amounted to 950 barrels, in the first phase of the purchase it was intended to fill the lack of oil reserves in the Cilacap Refinery. Then for the second stage carried out on February 4, 2017, the total amount of crude oil purchases in the second phase is also 950 barrels intended to fill oil reserves at the Situbondo oil refinery and also to meet oil needs at oil bases in Indonesia (Martin Hasugian, 2017). The shipment of crude oil is also loaded on FOB Kharg Island and from Iran, it is estimated that this oil reserve will last for the next 3 to 4 years.

In this form of cooperation, Indonesia has benefited from the supply of crude oil from Iran so that the existing reserves in Indonesia have increased so that Indonesia is able to meet the needs and consumption of oil in the country, besides cheap prices imposed by Iran can make Indonesia do price efficiency in a purchase transaction, thus Indonesia is also able to save state cash. The collaboration between Indonesia and Iran is in accordance with the concept of energy security which was proposed by Daniel Yergin (2006). Where every country is required to be able to meet domestic energy reserves at a price that is also competitive so that it can provide benefits for the country in meeting energy needs without having to spend expensive costs to buy them (Yergin, 2006).

Construction of Oil Refineries

The oil refineries in Indonesia are indeed very old, the development of oil refineries in Indonesia has not progressed since the last RU IV Balongan refinery. However, the Indonesian government continues to strive for the availability of oil to remain available to meet the needs of the Indonesian people. In this collaboration between Indonesia and Iran, the two governments have agreed to build a private oil refinery in Indonesia to be able to produce oil in their own country.

Based on effort to realize energy sovereignty through the supply of processed oil, this cooperation in the oil and gas sector between Indonesia and Iran has a plan to build an Indonesian oil refinery located in Situbondo (East Java). The construction of this oil refinery is carried out through an Iranian oil company, Naftiran Intertrade Company (NICO), which is a subsidiary of NIOC which has been appointed by NIOC to cooperate with PT. Kilanindo Golden Star (KGS) plans to build an oil refinery in Situbondo with a land area of 35 ha and of course with a supply of crude oil from Iran in the amount of 150,000 barrels per day in the period for the next 15-20 years. The contract value of the construction of this oil refinery is approximately US \$ 5 billion.

In addition, Iran has also prepared a Feasibility Study to determine what type of oil is suitable for use at the Situbondo oil refinery. The need for domestic fuel directly requires the availability of sufficient oil and gas processing facilities. Both installed capacity and production capacity. With the construction of this oil refinery it is a big advantage for Indonesia

to invest in oil processing. Given that the demand for fuel in Indonesia is quite high and Indonesia has a goal of achieving energy security, then Indonesia should need to grow the domestic refinery industry. Then the cooperation in the construction of this Situbondo refinery Indonesia has benefited in securing national fuel stock, and also can reduce dependence on fuel imports because oil can be processed domestically by using work programs that are in line with refinery capacity. professional employment or refinery operations, absorb local labor in the construction of refineries, and can also increase the economy and increase regional income in the vicinity.

CONCLUSION

Cooperation between Indonesia and Iran in the oil and gas energy sector for the period 2015-2017 is mutual benefit. It can be concluded that the first form of cooperation between Indonesia and Iran is the purchase of LPG and Crude Oil to supply domestic needs in Indonesia, second is the construction of oil refineries in the Situbondo area (East Java) with oil supplies from Iran, and third is Management Iran's oil and gas fields are Ab-Teymour and Mansouri. In carrying out this collaboration, Indonesia collaborates with a domestic company, PT. Pertamina while Iran cooperates with the National Iranian Oil Company (NIOC) to facilitate the cooperation. And in implementing cooperation, this collaboration is considered very beneficial for Indonesia in increasing oil and gas production and also achieving national interests to meet the security of the domestic energy sector.

In undergoing this partnership, Indonesia has many advantages including that Indonesia can buy LPG from Iran at affordable prices so that the Indonesian government can make price efficiency and save foreign exchange. In addition to the construction of an oil refinery in Situbondo (East Java), Then the management of the Iranian oil and gas field, Ab-Teymour and Mansouri, brings benefits to the Indonesian oil and gas company Pertamina, with this activity being able to increase Pertamina's experience and competition abroad and also increasing the credibility of the company in the eyes of international sources.

With this collaboration between Indonesia and Iran, Indonesia is able to increase its oil and gas production, in accordance with the period studied,

namely 2015-2017, throughout 2015, the total oil and gas production in Indonesia reached 2,228 thousand barrels, then in 2016, reached 2,249 thousand barrels, and in 2017 reached 2,162 thousand barrels. This number increased compared to the previous year which only amounted to 789 thousand barrels. Then after implementing cooperation in the oil and gas energy sector, between Indonesia and Iran.

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