INDONESIA-CHINA ENERGY AND MINERAL TIES BROADEN

ZHAO HONG AND MAXENSIUS TRI SAMBODO
Trends in Southeast Asia
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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

The Trends in Southeast Asia series acts as a platform for serious analyses by selected authors who are experts in their fields. It is aimed at encouraging policy makers and scholars to contemplate the diversity and dynamism of this exciting region.

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Indonesia-China Energy and Mineral Ties Broaden

By Zhao Hong and Maxensius Tri Sambodo

EXECUTIVE SUMMARY

• Bilateral energy cooperation between China and Indonesia is not new. It can be traced back to the 1980s. Although the share of Chinese overseas oil and gas upstream acquisitions in Indonesia and the inflow of investment from China were minor, China’s recent investment flow to Indonesia’s mining sector has been increasing rapidly.

• The reason for the increase of China’s FDI in the mining sector is mainly China’s increased demand for coal. When China became a net importer of coal in 2007, it shifted its focus to Indonesia. Coal from Indonesia has become increasingly attractive to the prosperous coastal regions of China, potentially displacing domestic Chinese production that must be transported by rail and shipped long distances from Shanxi and Mongolia.

• Indonesia-China energy cooperation is far from smooth. Public debate over the Indonesia-China energy trading agreement arose in 2009. One of the debates was focused on the LNG price.

• The other concern is the increasing trade deficit with China. Among the ASEAN countries, Indonesia had the highest trade deficit with China after Vietnam. Jakarta believes that the growing non-minerals trade deficit with China is the main impediment to the expansion of bilateral trade and the reason for the trade deficit.

• Rising fears that this widening trade gap might affect its national economic security have stirred debates over how Indonesian industries can remain competitive as the country seeks improved trade ties with Beijing, and in turn, this has aroused domestic economic and resource nationalism.
Indonesia, considered by many Chinese investors to be one of the most promising investment destinations, has seen an increase in regulation changes in a variety of sectors ranging from mining to oil. Consequently, Indonesia is increasingly described as a country where resource nationalism is on the rise. The new regulations, especially the export ban of raw materials will certainly affect Sino-Indonesian energy cooperation.

Nevertheless, based on mutual need and benefit, the relationship between Indonesia and China is likely to become stronger and to grow in the future. Viewed through China’s lens, Indonesia’s bountiful mineral wealth has elevated relations between Jakarta and Beijing to a position of strategic importance.

From Jakarta’s perspective, the importance Washington attaches to Indonesia and ASEAN should not simply be derivative of China’s rise but instead be based on the intrinsic value of the country and the sub-region.

More importantly, both countries are keen to assert themselves on the international and regional stage, and can position themselves as part of a new world order that is more representative of contemporary geopolitical realities. Both countries have visions of becoming maritime powers as well.

Therefore, the strategic potential of China’s investment in energy related-infrastructures and seaports is not limited to enlarging Sino-Indonesian energy trade, but extends to Indonesia-China relations more broadly and fits Indonesia’s ambition of becoming a maritime power.
Indonesia-China Energy and Mineral Ties Broaden

By Zhao Hong and Maxensius Tri Sambodo

INTRODUCTION

Indonesia is rich in energy and mineral resources and has allowed foreign companies to explore and exploit of oil and gas since the early 1960s. As one would expect, Chinese NOCs (national oil companies) have long demonstrated interest in Indonesia’s energy resource development, and have in fact developed oil and gas exploration projects there. After the global financial crisis in 2008, China accelerated its FDI to Indonesia, and for the first time, the level of investment from China was among the top five countries in the last quarter of 2014. This may elevate energy cooperation to a new level.

However, although China has planned to stake a long-term strategic energy investment in Indonesia and its capital has largely been poured into resource and energy-related infrastructure sectors, some factors are pushing the two countries’ energy ties toward difficulties and competition. Rising fears that the increasingly unbalanced trade relations might affect Indonesia’s national economic security have stirred debates over how its mineral industries can remain competitive even as the country continues its trade ties with Beijing. Fearful of falling into a dependency relationship with China, Jakarta implemented a new law banning the
export of unprocessed ore in January 2014. Although the objective is to increase the value added from mineral resources, the new regulations will certainly affect Sino-Indonesian energy resource cooperation. Hence, the questions that require examination are as follows: In what direction is the China-Indonesia energy tie going — towards cooperation or conflict? And can it be expanded into a broader bilateral relationship?

II. OVERVIEW OF THE ENERGY SECTOR

Indonesia is rich in minerals and ranks among the top ten countries in the world for proven reserves of copper, nickel, tin, bauxite and coal. It produces more than 15 per cent of the global nickel supply and 3 per cent of the global copper supply, and it is the world’s largest exporter of coal.\(^3\) The role of energy and mineral resources to the national economy can be observed using three indicators, such as its share of the gross domestic product (GDP) and its contribution to economic growth, export and state revenue. Considering the role of these three dimensions of energy to the economy, we argue that the energy sector has moderately contributed to Indonesia’s economy and coal has become one of the engines of economic growth. The energy sector has become a buffer of national export and contributed significantly to state revenue from tax and non-tax revenue.

As seen from Table 1, the share of three main sectors of energy as a proportion of GDP was about 11.5 per cent between 2010 and 2014, and crude oil, gas and geothermal had the highest share. In 2011, the contribution of energy to GDP reached the highest level and this was due to a rapid increase in coal production. Thereafter, the contribution of energy decreased gradually. Between 2010 and 2014, average economic growth was about 5.7 per cent and the coal sector contributed positively to economic growth while the two other sectors experienced negative growth.

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\(^3\) According the World Coal Association, based on the purpose of use, there are two types of coal. First is steam coal, also known as thermal coal. Thermal coal is mainly used in power generation. Second is coking coal or also known as metallurgical coal. It is mainly used in steel production.
Table 1: Contribution of Energy Sector to GDP (in billions of rupiah)

<table>
<thead>
<tr>
<th>Energy Sector</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Average annual growth (%)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Petroleum, Natural Gas, and Geothermal</td>
<td>336,170</td>
<td>444,068</td>
<td>492,894</td>
<td>519,210</td>
<td>506,445</td>
<td>–2.4</td>
</tr>
<tr>
<td>Coal and Lignite Mining</td>
<td>160,733</td>
<td>253,026</td>
<td>270,519</td>
<td>275,988</td>
<td>251,303</td>
<td>11.3</td>
</tr>
<tr>
<td>Manufacture of Coal and Refined Petroleum Products</td>
<td>233,822</td>
<td>284,099</td>
<td>298,403</td>
<td>310,863</td>
<td>331,743</td>
<td>–1.6</td>
</tr>
<tr>
<td>GDP</td>
<td>6,864,133</td>
<td>7,831,726</td>
<td>8,615,705</td>
<td>9,524,737</td>
<td>10,542,694</td>
<td>5.7</td>
</tr>
<tr>
<td>Share of energy related products to GDP (%)</td>
<td>10.6</td>
<td>12.5</td>
<td>12.3</td>
<td>11.6</td>
<td>10.3</td>
<td></td>
</tr>
</tbody>
</table>

Note: * at 2010 constant price.
Source: Central Bank of Indonesia.
As seen in Table 2, the share of energy-related products as a proportion of total exports was about 27 per cent (on average). Coal has become the major source of export revenue from the energy sector. In 2009, the export revenue from coal surpassed that of natural gas. Sumatera and Kalimantan Island have the largest production and deposits of coal. Indonesia exports 67 per cent of its total coal’s export to Asian destinations like Japan, Taiwan, China and India. Natural gas reserves are spread across the province, but most of the deposits are found on Natuna Island. Natural gas is exported through gas pipelines and mostly as liquefied natural gas (LNG).

Table 3 indicates that the contribution of energy and mineral resources to state revenue can come from two main sources — tax and non-tax revenue. In 2015, the tax and non-tax revenue from oil decreased due to the decline of Indonesia’s crude oil price (ICP). However, the contribution from mineral and coal increased. As seen from Table 3, the contribution of energy to state revenue has declined from about 33 per cent in 2006 to about 10 per cent in 2015. Certainly, this also indicates that the contribution of non-energy tax and non-tax revenue to the economy is rising.

The role of the energy sector in supporting the economy has been changing due to a rapid increase in domestic energy consumption. Oil

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4 There are two gas refineries producing more than 96 per cent of gas in Indonesia, namely Bontang in East Kalimantan Province and Teluk Bintuni in West Papua Province.

5 According to Law No. 33 Year 2004 on the financial budgets of central and local governments, 84.5 per cent of revenue from oil is owned by central government and 15.5 per cent is allocated to local governments such as 3 per cent for provincial government, 6 per cent for district or city government where the production is located, 6 per cent is distributed among districts/cities within the province, and 0.5 per cent for primary education. Similarly in the case of natural gas the allocation between central and local government is 69.5 per cent and 30.5 per cent respectively. Then the 30.5 per cent is allocated as follows: 6 per cent for the province where the production is located, 12 per cent for the district/city where the gas is exploited, 12 per cent is distributed to all districts/cities in the province, and 0.5 per cent for primary education. In 2014, the Minister of Finance allocated about Rp36.6 trillion to the provincial, district/city government.
Table 2: Contribution of the Energy Sector to Exports (in US$ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>4,179</td>
<td>6,190</td>
<td>6,977</td>
<td>10,305</td>
<td>13,765</td>
<td>17,801</td>
<td>26,924</td>
<td>26,248</td>
<td>24,359</td>
<td>20,814</td>
</tr>
<tr>
<td>Crude oil</td>
<td>7,259</td>
<td>7,911</td>
<td>9,380</td>
<td>11,442</td>
<td>8,008</td>
<td>11,219</td>
<td>14,166</td>
<td>12,723</td>
<td>12,188</td>
<td>8,840</td>
</tr>
<tr>
<td>Natural gas</td>
<td>10,243</td>
<td>11,863</td>
<td>12,165</td>
<td>16,254</td>
<td>9,778</td>
<td>12,968</td>
<td>18,196</td>
<td>17,671</td>
<td>15,689</td>
<td>14,942</td>
</tr>
<tr>
<td>Liquefied natural gas</td>
<td>8,734</td>
<td>9,953</td>
<td>9,722</td>
<td>12,785</td>
<td>7,188</td>
<td>9,432</td>
<td>12,961</td>
<td>11,943</td>
<td>10,568</td>
<td>10,294</td>
</tr>
<tr>
<td>Total export</td>
<td>86,995</td>
<td>103,528</td>
<td>118,014</td>
<td>139,607</td>
<td>119,645</td>
<td>158,074</td>
<td>200,787</td>
<td>188,496</td>
<td>182,089</td>
<td>175,290</td>
</tr>
<tr>
<td>Share of energy-related products to total export (%)</td>
<td>24.9</td>
<td>25.1</td>
<td>24.2</td>
<td>27.2</td>
<td>26.4</td>
<td>26.6</td>
<td>29.5</td>
<td>30.0</td>
<td>28.7</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Source: Central Bank of Indonesia.
Table 3: The Contribution of Energy and Mineral Resources to State Revenue (in billions of rupiah)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax revenue from oil and gas</th>
<th>Non-tax revenue from oil</th>
<th>Non-tax revenue from gas</th>
<th>Non-tax revenue from mineral and coal</th>
<th>Non-tax revenue from geothermal</th>
<th>Total state revenue from energy-related sector</th>
<th>Domestic revenue</th>
<th>Share of energy revenue to the total state revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>43,188</td>
<td>125,145</td>
<td>32,941</td>
<td>6,781</td>
<td>—</td>
<td>208,055</td>
<td>636,153</td>
<td>32.7</td>
</tr>
<tr>
<td>2007</td>
<td>44,001</td>
<td>93,605</td>
<td>31,179</td>
<td>5,878</td>
<td>—</td>
<td>174,662</td>
<td>706,108</td>
<td>24.7</td>
</tr>
<tr>
<td>2008</td>
<td>77,019</td>
<td>169,022</td>
<td>42,595</td>
<td>9,511</td>
<td>941</td>
<td>299,089</td>
<td>979,305</td>
<td>30.5</td>
</tr>
<tr>
<td>2009</td>
<td>50,044</td>
<td>90,056</td>
<td>35,696</td>
<td>10,369</td>
<td>400</td>
<td>186,566</td>
<td>847,096</td>
<td>22.0</td>
</tr>
<tr>
<td>2010</td>
<td>58,873</td>
<td>111,815</td>
<td>40,918</td>
<td>12,647</td>
<td>344</td>
<td>224,597</td>
<td>992,249</td>
<td>22.6</td>
</tr>
<tr>
<td>2011</td>
<td>73,096</td>
<td>141,304</td>
<td>52,187</td>
<td>16,370</td>
<td>563</td>
<td>283,519</td>
<td>1,205,346</td>
<td>23.5</td>
</tr>
<tr>
<td>2012</td>
<td>83,461</td>
<td>144,717</td>
<td>61,106</td>
<td>15,877</td>
<td>739</td>
<td>305,901</td>
<td>1,332,323</td>
<td>23.0</td>
</tr>
<tr>
<td>2013</td>
<td>88,747</td>
<td>135,329</td>
<td>68,300</td>
<td>18,621</td>
<td>867</td>
<td>311,864</td>
<td>1,432,059</td>
<td>21.8</td>
</tr>
<tr>
<td>2014</td>
<td>83,890</td>
<td>154,750</td>
<td>56,918</td>
<td>23,560</td>
<td>580</td>
<td>319,697</td>
<td>1,633,053</td>
<td>19.6</td>
</tr>
<tr>
<td>2015</td>
<td>50,919</td>
<td>72,999</td>
<td>22,638</td>
<td>31,679</td>
<td>584</td>
<td>178,819</td>
<td>1,765,662</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: Government state budget, various issues.
consumption has grown much faster than oil production. Since early 1990s, oil production has been declining, and as a result between 1991 and 2013, the growth of oil production was negative. This implies that Indonesia had reached the peak of oil production in the early 1990s and it is necessary to increase exploration activities to find new reserves in order to boost oil production.

In contrast, gas production grew by 9.4 per cent between 1970 and 2013, peaking in 2010. At the same time, its consumption has increased rapidly and the growth of consumption has approached the level of production growth especially after 2000. It seems that only coal shows double-digit growth for both production and consumption. Indonesia is still the largest world’s exporter of thermal coal although its domestic demand is increasing rapidly as well. China and India are two of Indonesia’s largest export markets, accounting in 2011 for 31 per cent and 22 per cent of Indonesia’s total coal exports respectively. Because the growth of gas and coal production was higher than that of consumption, in 2013, the share of export in production for LNG and coal was about 88 per cent and 73 per cent respectively. Nevertheless, growing demand on domestic energy consumption has compelled the Indonesian government to secure energy production for domestic consumption before export, although for gas and coal, production is still higher than consumption (Table 4). To secure domestic supply, the government implements the domestic market obligation (DMO) policy for gas and coal. According to National Medium Term Development Planning, in 2019, the DMO for gas and coal is 64 per cent and 60 per cent respectively or it increases from the current level that is about 53 per cent and 24 per cent respectively. Thus, domestic allocation for coal increases about 36 per cent. A rapid increase of DMO on coal aims to secure a primary energy supply for steam coal power plant after government plan to add 25.8 gigawatt of coal power plant in 2019.

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7 This figure was calculated using information from the Indonesian Energy Handbook – Ministry of Energy and Mineral Resources.
### Table 4: Growth of Oil, Gas, Coal Production and Consumption in Indonesia

<table>
<thead>
<tr>
<th></th>
<th>Oil</th>
<th>Gas</th>
<th>Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td>Consumption</td>
<td>Production</td>
</tr>
<tr>
<td>Growth at</td>
<td>–3.2</td>
<td>5.8</td>
<td>9.4</td>
</tr>
<tr>
<td>corresponding</td>
<td>year (%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Calculated from BP Statistical Review of World Energy, June 2014.*
III. CHINA’S INTEREST IN THE
INDONESIA ENERGY SECTOR

Asia’s energy demand is booming to fuel dynamic economic growth and rising standards of living. The 2012 World Energy Outlook by the International Energy Agency (IEA) predicts that global energy demand will increase by a third from 2010 to 2035, with Asia accounting for nearly two-thirds of that growth.\(^8\) China and India alone will account for half of global demand growth. China, only recently established as the world’s largest energy consumer, accounts for nearly 40 per cent of world energy demand growth from 2011 to 2035.\(^9\)

To fulfil the growing demand on oil, China depends on three National Oil Companies (NOCs): China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec Group) and China National Offshore Oil Corporation (CNOOC).\(^10\) Currently, China’s NOCs are international operators in more than 40 countries, producing 2.5 million barrels of oil equivalent per day of oil and gas overseas (in 2013), and meeting 59 per cent of China’s oil demand.\(^11\) IEA pointed out that the five motivations of NOCs for investing abroad are: (i) to expand oil and gas reserves and production; (ii) to diversify energy supplies to avoid risks; (iii) to become “international NOCs”; (iv) to develop an integrated supply chain; and (v) to gain technical know-how and streamline managerial capacities.\(^12\) The five motivations are pursued with five different strategies.\(^13\) In order to become international NOCs, China’s NOCs develop partnerships through mergers and acquisitions with other NOCs and IOC’s (international oil companies), and this strategy is well reflected in its energy development in Indonesia.

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\(^8\) IEA, World Energy Outlook 2012.
\(^9\) Ibid.
\(^10\) CNPC and Sinopec focus on onshore oil exploration while CNOOC focus on offshore oil exploration.
\(^12\) Ibid.
\(^13\) Ibid.
Bilateral energy cooperation between China and Indonesia is not new. It can be traced back to the 1980s. In February 1988, Petrochina signed an offshore production sharing contract (PSC) with Indonesia. The contract area was located in Tuban, East Java. In 1994, China National Offshore Oil Corporation (CNOOC) obtained 2.8 per cent of the share of an Indonesian Malacca oilfield through capital mergers and acquisitions, starting its first entry into Indonesian energy exploration and development markets; in 2002 CNOOC bought a Spanish oil company’s assets in Indonesian oil fields at a price of US$850 million, and becoming in the process Indonesia’s largest offshore oil producer; in April 2004, Sinopec purchased American Devon Energy’s oil and gas assets in Indonesia as its first entry into the Indonesian energy exploration and development market.\(^14\) In 2005, CNOOC obtained 16.9 per cent of the shares of a British Gas Corporation LNG project in Indonesia.\(^15\) The process of acquisition continued in 2008 with CNOOC purchasing interests in Husky’s Indonesia project which was owned by Canada’s largest energy company, in order to explore the deep water blocks. Further, the Sinopec Chinese NOCs were also interested in constructing storage facilities in Indonesia. The total acquisition in Indonesia between 2002 and 2011 was about US$ 2.45 billion, or about 1.6 per cent of total Chinese overseas oil and gas upstream acquisitions.\(^16\)

Although the share of Chinese overseas oil and gas upstream acquisitions in Indonesia and the inflow of investment from China were minor, China’s investment flow to Indonesia’s mining sector has been increasing rapidly. The latest figures indicate that most of Chinese FDI has flown to the mining sector. As seen from Table 6, in 2014 the share of China’s FDI to the mining sector accounted for 99 per cent of China’s total FDI to Indonesia (Share 4). In terms of total FDI flows to the mining

\(^{14}\) Li Tao, “Qian xi zhongguo-dongmen de nengyuan hezuo” [An analysis of China-ASEAN energy cooperation], *Southeast Asian Studies*, No. 3, 2006.

\(^{15}\) Zhao Ping, “Shiyou jingkou zhanglue da tishu” [Speeding up oil strategy], *Chinese Foreign Investment*, No. 8, 2005.

\(^{16}\) IEA, Update on Overseas Investments by China’s National Oil Companies: Achievement and Challenges since 2011.
### Table 5: Chinese Overseas Oil and Gas Upstream Acquisitions in Indonesia (Jan 2002 – Dec 2011)

<table>
<thead>
<tr>
<th>Data</th>
<th>Company</th>
<th>Assets</th>
<th>Share</th>
<th>Contract value (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2011</td>
<td>Sinopec</td>
<td>Purchased 18% stake from Chevron’s deep-water gas fields (three blocks) in the Gendalo-gehem natural gas development in East Kalimantan of Indonesia. In addition to gas, oil is also produced in these blocks.</td>
<td>18%</td>
<td>0.68</td>
</tr>
<tr>
<td>December 2010</td>
<td>Sinopec</td>
<td>Acquired 18% of Chevron’s Gendalo-Gehem deep-water gas project in Indonesia.</td>
<td>18%</td>
<td>0.68</td>
</tr>
<tr>
<td>2008</td>
<td>CNOOC</td>
<td>Purchase of 50% interest in Husky (Madura) Energy’s assets in Indonesia.</td>
<td>50%</td>
<td>0.125</td>
</tr>
<tr>
<td>2004</td>
<td>CNOOC</td>
<td>Tangguh (BG)</td>
<td>—</td>
<td>0.105</td>
</tr>
<tr>
<td>2003</td>
<td>CNOOC</td>
<td>Tangguh (BP)</td>
<td>—</td>
<td>0.275</td>
</tr>
<tr>
<td>2002</td>
<td>CNOOC</td>
<td>Purchased Repsol’s Yacimientos Petrolíferos Fiscales upstream assets (Southeast Sumatra etc.) in Indonesia.</td>
<td>—</td>
<td>0.585</td>
</tr>
<tr>
<td>2002</td>
<td>CNPC/PetroChina</td>
<td>Purchased Devon Energy Corporation for six blocks in Indonesia</td>
<td>100%</td>
<td>0.585</td>
</tr>
</tbody>
</table>

### Table 6: FDI Inflows to Indonesian (in US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total FDI inflow</th>
<th>Total FDI inflows in Mining sector</th>
<th>FDI inflows from China in Mining Sector</th>
<th>Share of FDI inflow in mining sector to total FDI inflow</th>
<th>Share of total FDI inflow from China to total FDI inflow</th>
<th>Share of total FDI inflow in mining sector from China to total FDI inflow</th>
<th>Share of FDI inflow from China in mining sector to total FDI inflow from China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>8,336.0</td>
<td>1,225.8</td>
<td>299.5</td>
<td>14.7</td>
<td>3.6</td>
<td>19.5</td>
<td>80</td>
</tr>
<tr>
<td>2006</td>
<td>4,914.0</td>
<td>322.1</td>
<td>124.0</td>
<td>6.6</td>
<td>2.5</td>
<td>27.5</td>
<td>99</td>
</tr>
<tr>
<td>2007</td>
<td>6,928.0</td>
<td>1,904.0</td>
<td>178.0</td>
<td>27.5</td>
<td>2.6</td>
<td>8.9</td>
<td>96</td>
</tr>
<tr>
<td>2008</td>
<td>9,318.0</td>
<td>3,609.5</td>
<td>531.0</td>
<td>38.7</td>
<td>5.7</td>
<td>14.8</td>
<td>101</td>
</tr>
<tr>
<td>2009</td>
<td>4,877.0</td>
<td>1,301.1</td>
<td>359.0</td>
<td>26.7</td>
<td>7.4</td>
<td>27.5</td>
<td>100</td>
</tr>
<tr>
<td>2010</td>
<td>13,771.0</td>
<td>1,896.0</td>
<td>354.0</td>
<td>13.8</td>
<td>2.6</td>
<td>18.7</td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td>19,242.0</td>
<td>3,418.0</td>
<td>215.0</td>
<td>17.8</td>
<td>1.1</td>
<td>4.4</td>
<td>70</td>
</tr>
<tr>
<td>2012</td>
<td>19,138.0</td>
<td>1,822.0</td>
<td>335.0</td>
<td>9.5</td>
<td>1.8</td>
<td>15.6</td>
<td>85</td>
</tr>
<tr>
<td>2013</td>
<td>18,947.8</td>
<td>2,486.8</td>
<td>67.6</td>
<td>13.1</td>
<td>0.4</td>
<td>1.3</td>
<td>48</td>
</tr>
<tr>
<td>2014</td>
<td>22,276.3</td>
<td>2,710.7</td>
<td>1,066.9</td>
<td>12.2</td>
<td>4.8</td>
<td>39.3</td>
<td>100</td>
</tr>
</tbody>
</table>

**Note:** Share is in percentage.

**Source:** Calculated from the Bank Central Republic Indonesia.
sector, China’s share increased from 20 per cent in 2005 to 39 per cent in 2014 (Share 3), although the share of its FDI has only increased from 3.6 per cent to 4.8 per cent (Share 2).

The reason for the increase in China’s FDI in the mining sector is mainly China’s increased demand for coal. When China became a net importer of coal in 2007, it shifted its focus to Indonesia. Coal from Indonesia has become increasingly attractive to the prosperous coastal regions of China, potentially displacing domestic Chinese production that must be transported by rail and shipped long distances from Shanxi and Mongolia. As part of a growing effort by Chinese companies to secure future coal supply, in July 2010, Shenhua — China’s largest coal producer — announced a US$331 million coal project in Sumatera, and in October the same year, China’s sovereign wealth fund injected US$1.9 billion into Bumi Resources — Indonesia’s largest coal producer.\(^{17}\)

Energy cooperation between China and Indonesia through equity capital and investment has brought more energy trade between the countries. As Table 7 shows, the total export of energy-related products (HS-27) between 2006 and 2011 increased from US$27.6 billion to US$69 billion, and after 2011, it began to decline.\(^{18}\) We can see that as total exports increased, the proportion of Indonesia’s mineral exports to Japan and Korea declined.\(^{19}\) The share of Indonesia’s exports to China was relatively stable, and the value increased steadily from US$3.1 billion in 2006 to US$8.3 billion in 2013, or on average it increased by 24 per cent per year. This indicates that there have been changes in Indonesia energy’s export market, with China and India becoming more important markets. However, the next section explains that there is a big


\(^{18}\) Between 2006 and 2009, export to Japan and Rep. of Korea declined. This was mainly due to the impact of the global financial crisis that mostly hit those countries.

\(^{19}\) In 2013, Indonesia exported crude oil to two major countries such Japan and US; coal was exported mainly to India and China; while LNG was exported mainly to Japan and South Korea.
Table 7: The Share of Mineral Fuels, Oils and Their Distillation Products (HS 27) Exports from Indonesia (in percentage)\(^a\)

<table>
<thead>
<tr>
<th>Year</th>
<th>China (HS 27)</th>
<th>India</th>
<th>Japan</th>
<th>Rep. of Korea</th>
<th>Singapore</th>
<th>Total 5 Countries(^a)</th>
<th>Total Export HS 27 (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>11.2 (3.1)</td>
<td>2.5</td>
<td>39.4</td>
<td>18.2</td>
<td>4.5</td>
<td>75.8</td>
<td>27.62</td>
</tr>
<tr>
<td>2007</td>
<td>12.0 (3.5)</td>
<td>3.0</td>
<td>40.6</td>
<td>16.6</td>
<td>5.9</td>
<td>78.1</td>
<td>29.21</td>
</tr>
<tr>
<td>2008</td>
<td>11.5 (4.6)</td>
<td>3.4</td>
<td>40.3</td>
<td>14.6</td>
<td>7.0</td>
<td>76.8</td>
<td>39.78</td>
</tr>
<tr>
<td>2009</td>
<td>14.1 (4.7)</td>
<td>6.2</td>
<td>26.7</td>
<td>14.8</td>
<td>7.2</td>
<td>68.9</td>
<td>32.95</td>
</tr>
<tr>
<td>2010</td>
<td>12.9 (6.0)</td>
<td>5.3</td>
<td>25.8</td>
<td>17.9</td>
<td>9.0</td>
<td>70.9</td>
<td>46.77</td>
</tr>
<tr>
<td>2011</td>
<td>12.9 (8.9)</td>
<td>6.9</td>
<td>27.8</td>
<td>16.9</td>
<td>10.6</td>
<td>75.2</td>
<td>68.92</td>
</tr>
<tr>
<td>2012</td>
<td>12.8 (8.1)</td>
<td>7.9</td>
<td>26.0</td>
<td>17.3</td>
<td>10.4</td>
<td>74.5</td>
<td>63.39</td>
</tr>
<tr>
<td>2013</td>
<td>14.4 (8.3)</td>
<td>9.7</td>
<td>24.8</td>
<td>13.1</td>
<td>11.0</td>
<td>72.9</td>
<td>57.41</td>
</tr>
</tbody>
</table>

Notes:
\(a\). HS 27 includes mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.
\(b\). Indicates the sum of China, India, Japan, Republic of Korea and Singapore; figure in bracket indicates in US$ billion.
Source: Calculated from the United Nations Commodity Trade Statistics Database.
challenge in expanding the export market on resource base products after Indonesia implemented the new law on the mining sector.

IV. MINERAL RESOURCE NATIONALISM ON THE RISE?

Indonesia, considered by many Chinese investors to be one of the most promising investment destinations, has seen an increase in regulation changes in a variety of sectors ranging from mining to oil. Consequently, Indonesia is increasingly described as a country where resource nationalism is on the rise. The 2009 Mining Law indicates that Indonesia has become more nationalistic with regard to foreign ownership in the mining sector. Article 112 of that law holds that five years after production, foreign companies that own a mining business license (IUP) and a Special Mining Business License (IUPK) need to divest their ownership. Article 170 also states that five years after the implementation of this law (year 2014), it is imperative that the company process the mineral. The government has also linked the policy on foreign ownership with the existence of smelter facilities. According to the Government Regulation Republic of Indonesia No. 77 Year 2014, divestment depends on the existence of smelter facilities and mining techniques such as underground mining or a combination of open pit and underground mining (Table 8). Thus, as Table 8 shows, foreign companies that do not have smelter facilities can only retain ownership of up to 49 per cent 10 years after production, while foreign companies that have smelter facilities may retain ownership by up to 70 per cent in the same period. However, foreign companies that have smelter facilities can only have a maximum of 60 per cent ownership after fifteen years of production. In the next fifteen years, these companies can retain 11 per cent additional ownership. This policy effectively strips foreigners of their control over mining assets, except for foreign companies that have smelter facilities because they are still a majority in terms of ownership.

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In addition to the divestment policy, another protective policy that the government has placed is stronger restrictions on the export of raw materials. The Indonesian government argues that by imposing export duties, it can control the trading of raw material or ore, increase value-added and ensure availability of mineral resources for the domestic market.\textsuperscript{22} It has imposed export duties on mineral extraction, and stipulated that raw materials be processed domestically from 2014 onwards.\textsuperscript{23} Although this policy has been challenged by countries that obtain raw materials from Indonesia such as Japan, India and China; the Indonesian government argued that Indonesia has strong reasons for defending the regulations, especially for the sake of minimizing

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
Year of & Do not & Has & Underground & Underground \\
divestment & have & smelter & mining & and open pit \\
& smelter & facilities & & \\
facilities & & & & \\
\hline
6 & 20 & 20 & 20 & 20 \\
7 & 30 & — & — & — \\
8 & 37 & — & — & 25 \\
9 & 44 & — & — & — \\
10 & 51 & 30 & 25 & 30 \\
15 & — & 40 & 30 & — \\
\hline
\end{tabular}
\caption{Divestment Policy in Mining and Quarrying Sector (in %)}
\label{table:divestment_policy}
\end{table}

Source: Government Regulation Republic of Indonesia No. 77 Year 2014.


over exploitation of mineral resources, fulfilling domestic demand, and promoting downstream industries.

The government has also placed a ban on the export of certain raw minerals and requires mining companies to build smelting facilities for domestic processing. The first regulation regarding export duties was implemented on May 2012 and it imposed uniform export duties of about 20 per cent.24 In the case of ores, it covered twenty commodities under the HS-26, that is ores, slag, and ash. Although the number of commodities covered under HS-26 was reduced from twenty to ten commodities, the export duties are being gradually increased to 60 per cent by July 2016. As seen from Table 9, the total export of metal products declined significantly after the government implemented export duties in 2012. The export of seven commodities reached a peak of US$44.5 billion in 2011, then declined substantially to about US$29.6 billion in 2014. The share of minerals in total exports also decreased from about 27 per cent to about 20 per cent between 2010 and 2014.25

There are several reasons why resource nationalism in Indonesia is on the rise. The main goal is to strengthen the role of national mining companies. There are five state mining and oil companies including

24 Ministry of Finance Regulation No. 75/PMK.011/2012. In the case of mining and quarrying, the export duties covered mineral-metal, mineral-non-metal, and precious stones.

25 Less than seven months after the export ban policy was implemented, the Indonesian government revised the policy on export duties. First, the government increased the number of HS-26 products covered from ten to eleven commodities. Second, although the export duties scheme is similar to previous regulations, the government aims to ease export duties if the mining company can show serious commitment to building smelter facilities. The export duties are divided into three categories based on the progress in developing smelter facilities. For example, if the progress of constructing smelter facilities reached 7.5 per cent (stage one), the export duties are 7.5 per cent; if the progress reached between 7.5 and 30 per cent (stage two); if the progress is above 30 per cent, the export duties are 0. The export duties are flat up to January 2017. This implies that if one has smelter facilities constructed up to 30 per cent in 2015, and does nothing after that, one can enjoy zero export duties until January 2017.
Table 9: Export for Selected Mineral Products (in US$ million)

<table>
<thead>
<tr>
<th>No.</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18,726</td>
<td>27,444</td>
<td>26,408</td>
<td>24,780</td>
<td>21,058</td>
</tr>
<tr>
<td>2</td>
<td>3,306</td>
<td>3,811</td>
<td>1,886</td>
<td>1,738</td>
<td>1,967</td>
</tr>
<tr>
<td>3</td>
<td>8,149</td>
<td>7,343</td>
<td>5,083</td>
<td>6,544</td>
<td>1,919</td>
</tr>
<tr>
<td>4</td>
<td>1,735</td>
<td>2,439</td>
<td>2,132</td>
<td>2,129</td>
<td>1,814</td>
</tr>
<tr>
<td>5</td>
<td>1,102</td>
<td>1,353</td>
<td>875</td>
<td>652</td>
<td>1,148</td>
</tr>
<tr>
<td>6</td>
<td>1,436</td>
<td>1,218</td>
<td>993</td>
<td>942</td>
<td>1,058</td>
</tr>
<tr>
<td>7</td>
<td>772</td>
<td>869</td>
<td>784</td>
<td>693</td>
<td>665</td>
</tr>
<tr>
<td></td>
<td>35,224</td>
<td>44,476</td>
<td>38,161</td>
<td>37,479</td>
<td>29,628</td>
</tr>
</tbody>
</table>

| Total export of 7 commodities (Nos. 1–7) | 35,224 | 44,476 | 38,161 | 37,479 | 29,628 |
| Share in total exports | 27.15  | 27.45  | 24.93  | 25.00  | 20.30  |

Note: a. We only calculated non-oil and gas exports, the figure in Table 8 is lower than in Table 7.

Aneka Tambang, Inalum, Pertamina, Bukit Asam (BA), and Timah. The government aims to enhance the participation of these national companies and reduce their reliance on exporting resources as an engine of economic growth.

Many observers believe that Indonesia’s resource nationalism is in fact driven by political motivations, reflecting an ongoing struggle between central, provincial and local governments for control over the

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26 Aneka Tambang produces ferronickel, nickel ore, gold, bauxite, and coal. Inalum’s main products are aluminium (ingot) and hydropower (with capacity 426 MW – 513 MW). Pertamina has business in the oil, gas, and geothermal sectors. Tin is the main product of Timah. Bukit Asam has core business in coal mining, power generation, logistic, and methane gas.
The struggle dates back to 1998, when Suharto’s fall thrust Indonesia towards decentralization. Thirty-one years of highly centralized governance based in Jakarta under Suharto had led to deep social and economic imbalances between Java and the outer islands. In response to calls for political and economic decentralization, in 1999 President Bacharuddin Jusuf Habibie moved to limit the central government’s authority to matters of military and policy security. Provincial governments were granted limited independence from Jakarta on social policies, while local and district governments gained control over economic policies, including control over the issuing of mining permits. As in provinces such as East Kalimantan and Southeast Sulawesi, mining plays a big role in the local economy, and conflicting claims over the control of extractive projects became a source of political tension between the central and regional governments. In 2011, president Yudhoyono released the country’s “Master Plan” for economic development through 2025, calling on Indonesia to transform itself from a natural resource exporter to an industrial manufacturing hub. In pursuing this goal, a degree of recentralization is needed to facilitate long-term strategic planning.

Some observers also believe that resource nationalism in Indonesia can be leveraged for officials’ electoral ambitions. Deliberations over the draft of the 2009 Mining Law occurred in the lead up to Indonesia’s 2009 Presidential elections. The same argument was being put forward as campaigns heated up for the July 2014 Presidential election and Indonesia announced an export ban on raw ore in January 2014. Clearly, the logic is that a strong nationalist agenda that privileges domestic industry over foreign investors appeals to popular sentiment and will garner more votes, particularly where it concerns the ownership of natural resources.

Nevertheless, it is believed that without proper and transparent standards in operation and procedures, the divestment of foreign ownership cannot be successful. The experience of Newmont Nusa

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Tenggara (which started to produce cooper and gold in 2002) indicates that a complex conflict of interest among central and local governments, state-owned companies and private companies led to long drawn out disputes on implementation. Thus in 2006, the divestment needed to be implemented but currently it is still left with 7 per cent of foreign shares that need to be sold.

In reality, Indonesia faces a dilemma in implementing the minerals export ban policy. The Indonesian government recognizes the importance of shifting from an economic model heavily reliant on raw material exports to one in which Indonesia refines its own metals, minerals and ores, both for export and more importantly for domestic use in manufacturing industries. The underlying economic rationale put forward by the government for the ban is to stimulate domestic smelting and processing capacity, which will lead to significantly higher value added in mineral exports.\textsuperscript{28} However, such interventions come with substantial risks as the industry may respond to the incentives in ways that are different from the policy intention. Foreign investors may reduce their investment, as investors in Indonesia have often chosen to export raw commodities, because other countries already have well-developed processing capabilities. Most foreign investors do not support the new divestment rules. Investment in the mineral sector is often a long-term proposition, so companies may not want to be involved in a project over which they will have little control in the future.\textsuperscript{29}

Without adequate investment and capital inflows, Indonesia finds itself squeezed between slowing foreign demand for raw materials and the inability to readily shift to greater domestic consumption of key minerals. Overseas processors are less compelled to invest in Indonesia as they can secure ore supplies elsewhere (Indonesia accounted for less than 2 per cent of global production in copper, lead and zinc in 2012 and does not have a major share of reserves for any of these commodities).\textsuperscript{30}


Investment in bauxite and iron ore are more likely to be viable if the raw ore can be accessed cheaply, placing Indonesia at a disadvantage compared to other countries such as China and India. Thus “the export ban will inevitably lead to a dramatic decline of output in Indonesia’s extractive industries, damaging foreign investment and economic growth, and disrupting global mineral markets” \(^{31}\).

The new regulations, especially the export ban of raw materials will certainly affect Sino-Indonesian energy cooperation. China is highly dependent on Indonesia for its nickel, bauxite, copper, and coal. In 2012, Indonesia produced 16 per cent of the world’s nickel ore, and supplied 58 per cent of the world’s nickel import demand and 48 per cent of bauxite import demand. Most of Indonesia’s exports of these metals go to China and Japan. In 2013, China sourced 66 per cent of its aluminium ore (bauxite is refined into alumina before being turned into aluminium) from Indonesia (up from 64 per cent in 2012) and 57 per cent of its bauxite ore (on par with 2012 level). In 2012, about 6 per cent of China’s copper ore imports came from Indonesia.\(^{32}\) China is driving Indonesian coal export growth, but the appetite for Indonesian coal in China is gradually reducing, as the Chinese government has discussed a ban on certain coal imports with low energy content, while favouring higher quality Australian and South African coal.\(^{33}\) In this sense, the export ban in Indonesia might have less impact on China but more on Indonesia itself.

\section*{V. CONCERNS OVER COOPERATION WITH CHINA}

Indonesia-China energy cooperation is far from being smooth. Public debate over the Indonesia-China energy trading agreement arose in


One of the debates was focused on the LNG price. Most people argued that the price agreement for shipping the LNG Tangguh to Fujian, China, was far below the market price. For example, in 2002 the price agreement was US$2.4/MMBtu (million British thermal units) and the maximum ceiling price for oil was about US$25/barrel. In 2006, the market price of LNG increased to about US$3.35/MMBtu and the oil price was about US$38/barrel. In 2006, the first renegotiation was conducted by the government, and the LNG price increased to about US$3.3/MMBtu. The second renegotiation was made in 2010, but this failed. After the Indonesian President Susilo Bambang Yudhoyono (SBY) met Chinese President Hu Jintao in 2012, SBY asked the Minister of Energy and Mineral Resources to renegotiate the contract with CNOOC. Finally in June 2014, the negotiation was concluded and Indonesia obtained a better price on LNG that was about US$8.65/MMBtu.

The other concern is the increasing trade deficit with China. Indonesian trade with China was slightly higher than with Vietnam, but less than with Singapore, Malaysia and Thailand. Among the ASEAN countries, Indonesia had the highest trade deficit with China after Vietnam. Jakarta believes that the growing non-minerals trade deficit with China is the main impediment to the expansion of bilateral trade and the reason for the trade deficit. According to Indonesia’s data, it had a trade surplus of US$820 million with China in 2005, but US$14 billion deficit in 2014 when the oil and gas sectors were excluded. The bilateral trade structures should be blamed largely for Indonesia’s rising trade deficit. As Figure 1 below shows, most of Indonesia’s exports to China are resource-intensive products. For example, Indonesia’s mining products exported to China as a proportion of its total exports to China increased from 26.2 per cent in 2000 to 56 per cent in 2013, while in its

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34 This paragraph is a summary of “Renegosiasi Berhasil, Harga Jual Gas Tangguh Sesuai Harapan” [Renegotiation was successful, the price of Tangguh LNG as we expected], from <http://www.esdm.go.id/berita/migas/40-migas/6862-renegosiasi-berhasil-harga-jual-gas-tangguh-sesuai-harapan.html> (accessed 17 March 2015).

35 Indonesia Central Statistics Agency Figures.
total imports from China, high value-added products such as electrical machinery and transport equipment accounted for over 50 per cent. In this sense, it is understandable that resource nationalism in Indonesia is on the rise.

Certainly, this increasing trade deficit should be largely attributed to the low competitiveness of Indonesia’s manufactured products. There is little evidence that the Indonesian government assisted firms in upgrading their technological capabilities in the 1980s and 1990s. By the mid-1990s, Indonesia lagged behind its East Asian neighbours on most technology indicators. According to Indonesian statistics, its spending on research and development was very low (0.2 per cent of GDP); it had very few patent applications (12 between 1981 and 1990); very few scientists and engineers were engaged in research and development (183 per million of the population); enrolments in tertiary education were low (10 per cent
Figure 2: Commodity Structures of China’s Exports to Indonesia, 2013


of the relevant age group in 1991); and few young adults had science or engineering degrees (0.4 per cent of 20–23-year-olds).\(^\text{36}\) Catching up in the technological field also requires exposing domestic enterprises to the rigours of foreign competition. Because of this requirement, policy makers in China unilaterally liberalized its trade and investment regime as much as, if not more than, their Indonesian counterparts. However, growing fears that this widening trade gap might affect its national economic security have stirred debates over how Indonesian industries

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can remain competitive as the country seeks improved trade ties with Beijing, and in turn, this has aroused domestic economic and resource nationalism.

VI. CAN SINO-INDONESIAN ENERGY COOPERATION BECOME A BROADER BILATERAL RELATIONSHIP?

As the biggest country in Southeast Asia, Indonesia illustrates the diplomatic complexities that are involved in relations with China. At the bilateral level, Indonesia has increasingly become more comfortable with China. Although initially reluctant, Indonesia has forged a closer bilateral relationship with China, culminating in the signing of a strategic partnership in 2005, which was upgraded to a comprehensive strategic partnership during Chinese President Xi Jinping’s visit to Jakarta in 2013. More and more Indonesians see China, compared with the US, as an increasingly positive partner. For example, the Pew Research Global Attitudes Survey released in 2013 showed that China’s favourability in the eyes of Indonesian respondents increased from 58 per cent in 2010 to 67 per cent in 2013, while the number of respondents with a favourable view of the United States rose slightly from 59 per cent to 61 per cent; and 69 per cent of the respondents replied that China will have a great impact on Indonesia, especially in terms of the economy, increasing from 60 per cent in 2008.37

Moreover, the survey also showed that 54 per cent of respondents agreed that China has considered Indonesia’s interest when making international policy decisions, increasing from 50 per cent in 2008. In comparison, only 52 per cent indicated that the United States takes into account Indonesia’s interest in making international policy decisions. Although Indonesian elites like the idea of U.S. engagement in the region and dislike the thought of a dominant Chinese role, they have

far more confidence in the Chinese commitment to the region than they do in the U.S. commitment. Most Indonesians no longer see China as an ideologically threatening state, but as an economic opportunity and challenge.

The growing bilateral economic engagement can be gauged from the fact that despite the global financial meltdown, the two countries achieved the target of bilateral trade of US$30 billion in 2008. Bilateral trade increased from US$19 billion in 2006 to US$68 billion in 2013, registering more than 300 per cent growth in seven years. The countries have agreed to increase the volume of bilateral trade to US$80 billion by 2015. Increasing bilateral trade has helped Indonesia reduce its over-dependence on Western markets. Due to expanding trade with China, Indonesia’s over-reliance on particular export destination countries has decreased. For example, from 2000–12, the export market shares of United States, Japan and Europe decreased from 51 per cent to 37 per cent, while China’s share increased from 3.6 per cent to 12 per cent. It was the Asian emerging economies, mainly China, India and those in ASEAN, that subsequently compensated for Indonesia’s decelerating exports to developed countries.

Based on mutual need and benefit, the relationship between Indonesia and China is likely to become stronger and grow further in the future. Viewed through China’s lens, Indonesia’s bountiful mineral wealth has elevated relations between Jakarta and Beijing to a position of strategic importance. Moreover, in Beijing’s view, recent political reform and economic growth has made Indonesia reemerge on both the international and regional stage with expanded prestige both in the East and West. As it bolsters its strength, Indonesia’s weight and importance in the

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40 Based on IMF Direction of Trade Statistics Yearbook, 2012.
region’s balance of power will only grow, particularly with respect to China and the United States. While welcoming U.S. rebalancing towards Asia, some in Indonesia have raised concerns that Washington has placed too much emphasis on the military dimension of this strategy. From Jakarta’s perspective, the importance Washington attaches to Indonesia and ASEAN should not simply be derivative of China’s rise but instead be based on the intrinsic value of the country and the sub-region.41

In Indonesia’s strategic calculations, China’s importance lies primarily in it being a growing source of foreign investment that Indonesia desperately needs to develop domestic natural resources and infrastructure. It needs a huge amount of investment in its energy sectors, including energy-related infrastructure like gas pipelines and seaports. According to the Indonesia Medium Term Development Plan (2015–19), the government has three top priority sectors to develop — food, energy, and maritime resources. Where energy infrastructure is concerned, if oil and coal production were to decline, gas will become the future of primary energy supply for Indonesia. In response to these targets, the government plans to develop gas infrastructure such as pipelines, gas stations, and city gas networks. Connecting supply locus and market locus among the islands is one of the greatest challenges in optimizing gas utilization. Most of the gas is produced in the eastern part of Indonesia, and it needs to be shipped by sea to the western part. However, Indonesia’s poor infrastructure has been the major problem and challenge.

For example, while its overall index has improved over the past few years, the country’s infrastructure index remains very low: 76th for physical infrastructure; 103rd in terms of quality of ports; and 98th in electricity supply.42 A World Bank study in 2010 found that the cost of


shipping a 40-foot container from Padang to Jakarta is US$600 while the same container can be shipped from Jakarta to Singapore (three times the distance between Padang and Jakarta) for only US$185. The quality of port facilities remains alarmingly low and shows no sign of progress, and the electricity supply continues to be unreliable and scarce. China with its total outward FDI of US$101 billion in 2013 has potentially a big role to play in Indonesia’s infrastructure sectors.

VII. CONCLUSION

Although energy relations between China and Indonesia have thus far generally proved to be mutually beneficial, concerns and uneasiness among Indonesians about the nature and impact of the relations prevail. Thus to what extent the expansion of energy cooperation between the two countries can be reached will depend on whether local communities in Indonesia feel that their concerns are being addressed. Particular areas of concern are the continuing impact of Chinese investment and trade on energy supply, local jobs and the erosion of the competitiveness of Indonesian companies by the growing presence of Chinese companies, the unbalanced trade relations, and perceptions that expanding commercial relations have exerted a detrimental influence on Indonesian foreign policy.

However, compared with some other Southeast Asian countries such as some peninsular ASEAN countries like Myanmar and Vietnam, the dynamics in the overall relations between Indonesia and China are rather different. What is different in the Indonesia case is that there are many other positive factors that may make bilateral resource politics more productive. Although initially reluctant to engage with China, Indonesia has forged a closer bilateral relationship with China, culminating in the signing of a strategic partnership in 2005, which was upgraded to a comprehensive strategic partnership during Chinese President Xi Jinping’s visit to Jakarta in 2013, and has also encouraged Beijing’s close relations with ASEAN. Both are keen to assert themselves on the international and regional stage, and can position themselves as part of a new world order that is more representative of contemporary geopolitical realities. Both countries have visions of becoming maritime powers as
well. Therefore, the strategic potential of China’s investment in energy related-infrastructure and seaports is not limited to enlarging Sino-Indonesian energy trade, but extends to Indonesia-China relations more broadly and fits Indonesia’s ambition of becoming a maritime power.