Interaction between Actors in China’s Energy Diplomacy in Indonesia Period 2002-2012

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**Keywords:** Interaction between China and Indonesia, Energy Diplomacy, Non-state Actor, State-Owned Enterprises

**Abstract:** This study aims to analyze the interaction between actors in China’s energy diplomacy in Indonesia by using state actor and non-state actors based on their national energy policy. In this paper, the author analyzes the involvement of the state actors and non-state actors, their role, as well as the interactions that are formed in the diplomatic activities, especially Chinese energy diplomacy in Indonesia in an effort to obtain energy resources. State actors are represented by government officials, while non-state actors are represented by Chinese and Indonesian state-owned energy companies. The author describes and explains the interactions of actors based on three forms of interaction in economic diplomacy by Susan Strange’s theory of diplomacy. First is diplomacy between countries or state-state diplomacy, second is diplomacy between the firm and state or state-firm diplomacy, and third is diplomacy between companies or firm-firm diplomacy. Qualitative methods are applied in this research, by taking data through literature studies. The study found that the three forms of interaction in diplomacy between state actors and non-state actors are related to each other. The connection of interactions in each diplomacy shows the political and economic relations that affect the effectiveness of energy’s agreements between countries.

1 INTRODUCTION

In recent years, globalization has been showing many remarkable changes in the international relations. This is indicated by the development of technology such as the fast pace of production and communication, that pushing the changes of international economic structure that raising the awareness of the international market. Now, the state has to compete with another state through their economic capabilities or wealth for showing their states' power in international relations. In pursuit of that goal, many states have to cooperate not only with other states but also with non-state actors such as multinational firms. These dynamics shows the increase in the role of non-state actors, one of which is international firms or can be called a multinational company in achieving home country’s interests.

Recognizing this, China has undergone a historic economic transformation from totally centrally planned economy and self-reliance to market-oriented economy in 1978. In that policy, they utilized state-owned companies to achieve their interest in economic development. In my opinion, China’s state-owned enterprises are taking a role as a non-state actor. There are several debates which are pointing out that state-owned enterprises can be described as non-state actor. Mostly, the debates focused on China’s perspective because more than half of the firms in China are state-owned enterprises. SOEs provide the largest revenue in China, especially in strategic sectors such as finance, infrastructure and energy. According to Fortune Global 500, Sinopec and China National Petrochemical Company (CNPC) are the second and third SOEs' 'TOP earnings' in 2006 in Asia. The classification of state-owned enterprises as non-state actors is based on the interests they have. Non-state actors have a role to support national interests while the government has a big role in managing or managing the corporate structure.

The strengthening of the active role of non-state actors in state-level cooperative relations, rejects the general idea of diplomacy that state-level cooperation in bilateral diplomacy involves only state actors such as ministries and government officials. Diplomacy also involves non-state actors such as multinational corporations. This shows that there has been a shift in competition for power. Today, competition for power has shifted from competition to wider territory to competition for wealth.
Normatively, bilateral cooperation agreements are supported by the range of time the establishment of a MoU or cooperation agreement between the two countries. However, in Indonesia's energy cooperation relations, Indonesia's energy areas are almost dominated by the Chinese state than other Asian countries, especially Japan which has already established an energy forum with Indonesia. China responds to the global situation by using state-owned energy companies such as CNOOC, CNPC and others in an effort to meet the national interests. On the other hand, the importance of multinational corporations in global competition between countries has led to a decrease in state bargaining power (Stopford and Strange, 1991: 215). The involvement of every diplomatic actor with his own interests in international cooperation leads to complex interactions. The interaction between actors in diplomacy also determines the effectiveness of the established cooperation agreement.

Based on the dynamics and success of the strategy undertaken by the Chinese state, this research aims to see the relation of the non-state actors' role represented by Chinese multinationals toward their national interests through interactions in China's energy diplomacy activities in Indonesia. Therefore, the problem formulation used is "How is the interaction between actors in Chinese energy diplomacy in Indonesia period 2002-2012?"

2 METHOD

This research uses a qualitative approach in explaining the interaction formed between diplomacy actors. The method used in this research is descriptive and explicative analysis. According to Neuman (1997), descriptive analytical methods provide an overview of the situation, social circumstances, or relationships described in detail and specifically by focusing on the "how" and "who" questions (p.39). This analysis is used to illustrate the relationship between Chinese energy diplomacy and the interactions that it establishes. The method of explicative analysis is based on a descriptive analysis which then identifies the reason for something (p.40). Neuman adds that this method provides an explanation of social theory or previous research, then extends it to explain new problems or conditions.

In conducting this research, researchers used the concept of diplomacy by John M. Stopford and Susan Strange (1991). They show that structural changes in the international political economy create a global competition that causes the state not only to interact with other countries but also with multinational corporations through the establishment of bilateral diplomatic relations. In addition, global competition also forces multinational companies to mutually diplomacy one another.

This model of analysis shows that the actors involved in triangular diplomacy are state and multinational corporations as non-state actors. Three sides of diplomacy are intertwined in negotiation and bargaining. the bargaining position of each party is different. Bargaining activities on both sides of the new diplomacy (corporate-state diplomacy and corporate diplomacy) have interdependence relationships with the development of negotiations between countries and countries (Strange, 1992: 14). The interactions formed in diplomacy determine the degree of dependence of each actor and have an influence on the continuity of existing energy cooperation agreements.

The selected period is between 2002 and 2012 because in 2002 it was the first time a memorandum of understanding between China and Indonesia in the energy sector through ICEF was signed. While the analysis ends in 2012 due to the form of 10 years of development of energy cooperation between Indonesia and China. The selection of time also based on a change in energy policy in Indonesia that resulted in a change in the authority of BP Migas that became one of the actors in energy cooperation in Indonesia, as well as the change of leadership in Indonesia during that period. In addition, 10 years time is also considered to show the form of interaction that is formed between Chinese and Indonesian actors. The independent variables of this research are the actors in diplomacy, ie the countries and multinational corporations as well as the fossil energy resources that are the focus of Chinese energy diplomacy. While the dependent variable is a form of interaction that is formed in China's energy diplomacy with Indonesia.
3 RESULTS

3.1 Actors in China’s Energy Policy

The new SOE reforms during Jiang Zemin's reign were established with several major focuses, one of which was the amendment of the law on SOE ownership in 1999. The law provides greater emphasis on SOE ownership to the private sector. Nevertheless, SOE remains dominant in some sectors such as the major industrial sectors with high technology, the public service sector, the country's main national security sector, and the non-renewable natural resources sector.

The energy sector is receiving special attention in China's new SOE reforms. It is because the energy sector is one of the important sectors in the country's economic development in China. In addition, China also carries out energy security policy as a form of effort to secure the national energy supply by establishing bilateral relations with energy producing countries through national energy companies (Ziegler, 2006: 8). Most of the Ministry of China has an interest in SOE, so the increasing role of SOE in economic and energy policy is inseparable from the political interests of the actors. Ministries that are directly involved include, State Assets Supervision and Administration Commission (SASAC), Ministry of Finance (MOF), Ministry of Foreign Affairs (MOFA), National Development and Reform Commission (NDRC), National Energy Administration (NEA), National Energy Commission (NEC), the China Banking Regulatory Commission (CBRC). Each Ministry has its own role in dealing with SOE's Chinese energy.

As one of the instruments in economic and development policy, the energy sector has an important position in government. The positions of energy companies that are directly under the state council or under the ministry have an impact on the increased activities of the state-owned energy companies. Every China's state-owned energy company has its own roles and duties. Kusuma (2008) states that the implementation of China's strategy through state-owned energy companies has different patterns such as exploration, investment, exports, and imports. The division of tasks is intended to maximize the performance and acquisition of desired energy resources. For the oil and gas sector, China uses three state-owned energy companies, namely CNPC, CNOOC, and Sinopec.

The China National Petroleum Company (CNPC) is one of China's oldest state-owned energy companies established in 1988. CNPC is engaged in oil and gas exploration and production for upstream or midstream downstream sectors such as refining, oil and gas processing, distribution, and marketing. CNPC is a state-owned energy company with the largest income and production in China. CNPC's former chairman, Jiang Zemin, also served as director of SASAC and 5th China President. CNPC began to expand its business and became a multinational company in 1993. Since then, CNPC has opened many branches of companies and subsidiaries in export-oriented oil and gas exporting countries. One of CNPC's subsidiaries is PetroChina.

PetroChina Company Limited (PetroChina Co. Ltd) was established in 1999 through a joint-stock company with CNPC. PetroChina Company acts as an oil and gas producer and distributor in China engaged in the exploration, production development (research and design or R & D), refining, transportation, and marketing. Beside to domestic, PetroChina is also actively involved overseas such as investing through acquisitions and mergers with overseas companies and holding shares in Hongkong, Shanghai, and New York. (Mursitama and Yudono, 2010: 115).

China National Offshore Oil Company (CNOOC) is one of China's oldest state-owned energy companies established in 1982. The company is engaged in upstream and mid-downstream such as exploration, development, production, oil refining, engineering services such as oil and gas blocks, logistics services, financial services, and alternative energy (Mursitama and Yudono, 2010: 112). the CNOOC company focused on the offshore sector activities.

The China National Petrochemical Corporation (Sinopec) was formed from the merger of two Ministries, namely the Ministry of Petroleum Industry and the Ministry of Chemical Industry in 1983. Sinopec's main tasks include exploration, development, oil and gas production and petrochemical, refining, storage, transportation and marketing of oil products and petrochemicals. Based on this, Sinopec performs production and marketing both in oil, gas and petrochemical sectors. Beside Sinopec, there are other energy companies involved in the petrochemical subsector. The company is Sinochem. China National Chemicals Import and Export Corporation (Sinochem) is a state-owned energy company that plays a role in the trade of energy industries such as exports and imports. Unlike other energy companies, Sinochem is under the supervision of the Ministry of Foreign Trade and Economic Cooperation (Kusuma, 2008: 37).
Economists consider that generally state-owned enterprises put a burden on the national economic development sector. This is due to several factors, such as direct government intervention, restrictions on corporate budgets, ownership of ambiguous rights, and lack of innovation (Li, 2002: 14). However, the success of China's national economic growth in 1980 and 1990 shows that SOE in China has actually helped the country in improving its economic growth. Besides that, the form of China's state-controlled economic development model created the Chinese economy better than using the free-market model form (in Li, 2002: 15).

3.2 China’s Energy Diplomacy in Indonesia

3.2.1 State-State

In the implementation of energy diplomacy in Indonesia, China uses state-owned multinational energy companies to meet its energy supply. Yet, before that, many Chinese state actors were involved in waging their interests. It started with the Chinese President at the time, Jiang Zemin. Seeing that great potential, the President of China lobbying with Indonesia through President Megawati. In early 2000, contact between high-ranking officials and inter-delegation visits was enhanced and productive. The intensity of the meeting between the two sides, especially at the Presidential level shows positive growth. It should be noted that the most frequent meeting took place during the administration of President Megawati Soekarnoputri with a total of 6 visits in 2002. In addition to meetings with top government officials, China also approached Indonesia with meetings with special envoys, colleagues, parliamentary leaders, and journalists. 

The start of energy cooperation talks took place in 2001, but the implementation of the strategy through the provision of energy-intensive investment funds occurred during the reign of Sosilo Bambang Yudhoyono. This is because of China’s closeness to Indonesia against President Yudhoyono while still serving as Minister of Energy and Resources since the leadership of President Gus Dur. The result of a meeting between Chinese President Jiang Zemin and Indonesian President Megawati Soekarnoputri in 2002 resulted in a joint agreement such as the establishment of an energy cooperation forum or also called Indonesia-China Energy Forum (ICEF).

Officially, the ICEF's energy cooperation relationship began in September 2002. This meeting was attended not only by state representatives but also the owners of capital in the energy sector. From China, representatives attending the forum included Deputy Prime Minister Huang Ju, Deputy Prime Minister Li Keqiang, Vice Chairman of National Development and Reform Commission Zhang Guobao, China International Trade Promotion Council, KADIN of China, CNPC representative Sinochem Corp. , and China National Technical Import-Export Corp., as well as hundreds of other Chinese energy companies. From Indonesia, representatives attending the forum included President Susilo Bambang Yudhoyono, Vice President M. Jusuf Kalla, EMR Minister Purnomo Yusgiatoto, KADIN of Indonesia, Head of BP Migas, PT Pertamina, PT PLN, Telkom, Director of the State Asset Commission, Bali Governor, and hundreds of national energy companies.

3.2.2 State-Firm

Diplomacy between the state and foreign or local companies involves government officials and senior officials of these companies. In this context, the establishment of cooperative relationships between the Indonesian government and China's multinational energy companies is done in various ways such as investment from Chinese companies supported by the openness and ease of access in the legal basis and energy policy of the Indonesian government. The foundation of Indonesian energy law after the national economic crisis supports the existence of foreign multinational companies in the oil and gas and coal mining activities of Indonesia. This has an impact on the strengthening of capital inflows of foreign and local investments in the oil and gas and coal mining sectors, especially China's SOE energy investment.

Since the signing of the ICEF energy cooperation forum in 2002, China's energy investment through state-owned and private companies began to increase. It is calculated that the upstream oil and gas cooperation contracts between Indonesia and the Chinese energy companies formed between 2002 and 2012 is mostly in the form of PSC and JOB-PSC cooperation contracts. The distribution of PSC includes 13 cooperation between PSC and 2 JOB-PSC cooperation. Chinese energy companies using such contracts are mostly energy SOEs such as PetroChina, CNOOC, and Sinochem.

The high level of risk and complexity causes the investment cost in the energy sector to be quite large. According to data from Bappenas in 2009, the need for investment costs in the national energy infrastructure by 2020 for the type of oil energy
reaches US$ 17.3 billion (oil refineries and transmission pipes); for natural gas energy reaches US$ 9.6 billion (LNG plant, transmission line and LNG receiving terminal); and for coal energy reaches US$ 1.34 billion (coal port and coal fire railway).

Until 2012, China has become one of the largest investment source countries in Indonesia. Overall, China's total energy investment in Indonesia has increased annually. It is also expressed by Lepi Tanadjaja Tarmidi, as FEUI Professor, that China's investment value in the mining, energy, construction and other strategic sectors is increasing sharply. In 2007, the total project reached 20 projects which increased to 113 projects in 2010. The realization of energy investment value can be seen through cooperation agreement in ICEF.

<table>
<thead>
<tr>
<th>Year</th>
<th>China's companies</th>
<th>Projects</th>
<th>Investment (US$)</th>
</tr>
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<tbody>
<tr>
<td>2006</td>
<td>1) Chengda Engineering Corp, and Shincuan Chemical Industry Holding 2) Chengda Engineering Corp 3) CNOOC SES Ltd</td>
<td>1) Coal Based Chemical Plant (2x100MW) 2) Power Plant 3) Joint Study South Palung Aru Area</td>
<td>687 million 170 million 1.5 million</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td></td>
<td>858.5 million</td>
</tr>
</tbody>
</table>

| 2008 | 1) CNOOC 2) The Exim Bank of China 3) China Huadian Corporation | 1) Production Contract for PLTU 1 & 2 2) Buyer's Credit Agreement 3) Coal Mine Joint Venture | 642 million 775 million 14 million |
| Total: | | | 1.331 million |

| 2011 | 1) China Railways Group Ltd | 1) Coal Train in Center Kalimantan and South Sumatera | 2.6 billion |
| Total: | | | 2.5 billion |


It should be noted on the table above that such investments are reserved for projects only in the fossil energy sector of both upstream and downstream business activities. From the table shows that the total investment value of Chinese companies increased from US$ 858.5 million in 2006 to US$ 2.5 billion in 2011. The greater the value of the investment can indicate that the relationship between China and Indonesia closer and the existence of China's interests large to the oil and gas sector of Indonesia.

The contribution of Chinese energy companies, especially SOE energy through investment and managers in production activities, proves that China's energy investment flow helps Indonesia in the development of the energy sector and provides welfare to local communities through new jobs. As a result, national economic growth also increased.

### 3.2.3 Firm-Firm

After the inauguration of ICEF energy forum cooperation, many Chinese energy companies both BUMN and private sector started to enter Indonesia. In the forum, the first Chinese energy company to enter Indonesia is China National Offshore Oil Corporation (CNOOC). Earlier in 1993, CNOOC had entered Indonesia by purchasing oil and gas stocks in the Malacca Strait. Following the formation of energy cooperation between the two countries, CNOOC bought back one of the shares of a multinational energy company in Indonesia, the Spanish-Argentine oil company Repsol YPF in April.

CNOOC representatives in Indonesia are tasked to mobilize oil and gas activities such as the exploration, development and production of Indonesia's offshore oil and gas. Until 2011, CNOOC has operated 4 local oil distributions in Indonesia both onshore and offshore. Among them are Batanghari block (Jambi), Tangguh Muturi refinery (Papua), South Aru Palung Block (Maluku), and South Sumatra South Sumatra refinery (South Sumatra). This CNOOC control makes it one of the largest offshore oil source producers in Indonesia. Five years later, in 2005, state-run Energy Corporation China Petroleum and Chemical Company (Sinopec) officially operated in Indonesia. In addition to these three state-owned energy companies, there are other Chinese energy companies involved in oil and gas business activities in Indonesia. Sinochem Company first entered Indonesia's oil and gas activities in 2008 through the formation of an acquisition agreement in a joint exploration of two oil and gas blocks with one of Indonesia's private energy companies, PT Sele Raya. Within 10 years, China's state-owned energy company has managed more than 20 oil and gas refineries in Indonesia. 5 of them have shares of more than 50%. (Petrominindo (2012); Petroleum Report Indonesia (2005-2006)).
In addition to China's energy SOE's, there are many China's private energy companies that form cooperative relationships with Indonesian energy companies. Most of the cooperation agreement was formed from the result of ICEF meeting and Indonesia-China business forum.

4 DISCUSSION

Interaction in the international political economy system involves not only state actors such as government representatives as well as political officials, but also non-state actors such as multinational corporations. In the context of international relations, the state is the main actor and the most important actor because it acts as a driving force in establishing relationships with other countries. The increasing role of multinational companies as non-state actors in a bilateral diplomacy shows a shift in the global economic structure characterized by technological developments and globalization. This has resulted in the state having to interact not only with other countries but also with multinational companies in a bilateral diplomacy. Responding to the development of the global economy, China as a socialist country controls and uses state-owned multinationals in the energy sector as non-state actors that play a role in securing national energy supplies.

China's energy security is a response to national economic growth that encourages the formation of an internationally oriented energy policy. China is developing a series of diplomatic and administrative steps to improve energy security by deepening political and economic ties. The formation of cooperation is conducted in conjunction with energy-producing countries through aggressive investments in oil fields and gas pipelines around the world so that they can directly control overseas energy reserves. The Chinese government's idea of strategic energy security 'is too important to be left' to global market forces, which leads them to maintain control of the sector. Emerging pressures in the global economic system are then answered by China by relying on government agencies such as energy ministries and state-owned energy companies. This is seen in the reorganization of the Ministry of Energy into three state-owned multinational giant energy companies, which include CNPC, Sinopec, and CNOOC.

The dynamics of actor interactions that occur in China's energy diplomacy cannot be separated from the role and influence of state actors in it. This is driven by the situation of the Chinese state as a socialist country. The socialist state refers to the communist system of government supported by the strength of the communist party in China. However, China adopted a liberal economic system with open market access to the outside world. The existence of a liberal economic system for the Chinese state had an impact on the emergence of market competition, so China should make state-owned enterprises oriented multinationals. In the 15th congress of the Chinese Communist Party, it is stated that state-owned enterprises with medium and large-scale enterprises should be restructured as shareholder companies. This indicates that state-owned energy companies have become multinational corporations.

The strong influence of Chinese state actors in the implementation of China's energy diplomacy is seen in response by Prime Minister Wen Jiabao, as Chair of the Energy Group, by establishing the State Council within the government structure to oversee and regulate the security of national energy growth and foreign cooperation in the energy sector. Supervision and support from the Chinese government in these state-owned enterprises increases the effectiveness of exploration or production activities abroad. Government assistance in this activity is based on the policy of the Five Year Plan of China in 2001 calling for an international source of energy. Starting from the meeting between the President of Indonesia and the President of China, the establishment of ICEF energy forum can be realized. Through this forum, the activities of BUMN energy and Chinese private energy companies in Indonesia began to increase significantly. Although large SOEs of Chinese energy such as PetroChina and Sinopec have started operations in Indonesia since ICEF was formed, in fact this forum involves more private companies in energy projects in Indonesia.

In its development, SOE's Chinese energy in Indonesia is more dominant in the energy market than the private energy company itself. This proves that government participation is needed in the energy business activities undertaken by Chinese energy companies, especially private companies. The government's internal support for China's large energy SOE, particularly in the funding or subsidy sector, allows the company to control several areas of Indonesian oil and gas work through the purchase of shares. This is done by the Chinese government with the aim of gaining interest in obtaining energy resources through the operation of its energy SOE.

In the country of Indonesia, the role of energy SOE is categorized as a business actor or business competing for profit. In addition, Indonesia is also interested in obtaining foreign investments,
especially in the energy sector. This business activity cannot move and needs to be supported by the role of government in it to regulate the flow of activities and cooperation.

5 CONCLUSIONS

The interaction between actors formed in China's energy diplomacy in Indonesia takes place in three forms of diplomacy. Beginning with diplomacy by state actors, namely China and Indonesia. The existence of this form of diplomacy is based on the interests of each country. This diplomacy is represented by state actors such as the President of each country, Ministry of EMR, Ministry of Foreign Affairs, Chamber of Commerce, and others. ICEF can be regarded as an energy cooperation umbrella formed between China and Indonesia. Since it was inaugurated until 2012, ICEF has been held four times and has produced dozens of energy cooperation. Energy cooperation agreements formed largely in the form of business-business cooperation.

Indonesia's interest in energy companies is supported through the establishment of legal and policy base that facilitate access to investment in the energy sector. The government as the energy policymaker forms several decisions related to cooperation contracts, ownership of energy working areas, investments or investments, energy management processes, corporate taxes, and others. The existence of legal clarity through resource policy can attract investors to invest in Indonesia.

Indonesia's lack of funding and technology resources requires many investors in the sector. The contribution of Chinese companies in Indonesia's energy business activities are, among others, the investment of companies through the funding of energy projects, drilling of several refineries thereby increasing Indonesian oil and gas production, and opening new jobs. China's high contribution makes its energy companies fast growing in Indonesia.

In terms of firm-firm relations, Energy business activities involving Chinese companies are largely in the oil and gas sector by SOE's Chinese energy such as CNOOC, PetroChina, Sinopec, and Sinochem. These four large energy companies have had easy access to Indonesia since the government intervened through ICEF. Until 2012, China's energy SOE already has several oil and gas blocks in Indonesia with different roles. The role of non-state actors influences the bargaining power of Chinese companies and countries in conducting various offers with the Indonesian side. This is because their role has helped Indonesia in fulfilling its energy interests. Inter-enterprise energy diplomacy involves not only SOE China and Indonesian companies but also other energy companies residing in Indonesia. Based on the interaction formed through diplomacy between countries in the forums and diplomacy between the state and the company, it can show the actors who have links with SOE Chinese energy in Indonesia.

Finally, based on the previous explanation, it can be seen also that the form of diplomacy with the most interaction is in the interaction between companies. This shows that energy cooperation between Indonesia and China is dominated by business-deal forms. However, such interaction will not occur without inter-state diplomacy and diplomacy between the state and the enterprise. Chain of relationship This proves that three forms of diplomacy or triangular diplomacy are related to each other.

REFERENCES


