

**ELECTRICITY INVESTMENT AND INTERNATIONAL GOVERNANCE:
A CASE STUDY FROM INDONESIA – CHINA ELECTRICITY
COOPERATION IN EAST KALIMANTAN, BERAU**

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ABSTRACT

All of the government always try boost the economy sector by accommodate the investment in their country. In Indonesia the cooperation sometimes started by the private parties. However, most of the private sector were based not on the principle of liability or ability in accordance with what is promised by them. The projects run by the Indonesian government should receive special attention, especially electricity projects, where Indonesia is predicted to deficit electricity in 2019. China is one of Indonesia's strategic partners in maximizing the potential of the region through infrastructure development. Especially for power projects with China holding considerable attention for the government of Indonesia, Based on the above statement, this study focused on electricity investment projects with the Chinese and Indonesia side to creating governance for the region and globally. This study needed to know because to understand the prospect of implementation the scheme of Public Private Partnership on both country. The result of this study found that the scheme of Private Public Partnership located in East Kalimantan would give a stabilized in both of the economic and politic steam in the region. However, this scheme is also could take risk in the national compensation benefit in the far future.

Keywords: China, Indonesia, Infrastructure, Electricity, Public Private Partnership

Introduction

As an archipelagic state, Indonesia has its own advantageous principle to create domestic policy and foreign policy such as a *bebas-aktif* foreign policy which already endorsed by the first President and his vice, Hatta (Sukma, 1995) Through the foundational of basic component on the article, he described that Indonesia has enchant the world by the principle of struggle, diplomacy, and independence against colonization by the Dutch empire. In the term of domestic policy after gaining its independency Indonesia has faced an uncertainty destiny where the elite among Indonesian citizens had enclave and

influence the policy. Not only in the elite but also came to the civil society that embedded in the heart of the people. That's why until know why the modern citizen of Indonesia always looking to their civil society that based on the mutual cooperation or *gotong royong* in the entire province of Indonesia not exceptional on the Kalimantan region. After faced a great depression in the era of Suharto, the bureaucracy has learned something new that Indonesia and the regional should be free from dependency by building its own national resilience or *ketahanan nasional* in every sector for example in the energy consumption.

The investment from the foreign company in Indonesia is a key to make a national resilience in every sector as already state by President Jokowi, and it has a very deep moment, as the history of investment in Indonesia is very dynamic in the contextual scope based on the basic law of the country and the political empowerment. From the functional meaning, there are two types of investment in Indonesia as in the regulation of Indonesia did not separate the investment which is direct and indirect. The long journey of investment in Indonesia started in the National Regulation No 78. 1958 about foreign investment which endorsed by Ali Sastroamijoyo cabinet during the existence of the government, however, as the developing of domestic political improvement, the National Regulation No. 78. 1958 has been change by another National Regulation No. 1 1967 (Hasibuan, 2017). Due to the lack of efficiency the National Regulation about capital investment already in Indonesia becoming National Regulation No. 25 2007 as a guideline.

Based on the principle of multiculturalism and representatives belief system which already colors the policy and state system make the spirit of nation-state in every human in the distribution of development. Under the National Regulation No. 1 1967 it was clear that the idea to make the country more develop located in investment sector that were centralized. The meaning of centralized was based on the regulation about the investment was distributed by two different sector which is domestic and foreign sector. Meanwhile as the state, Indonesia has a main duty to make the people developed in all sector like health, education, and their lives. But in the real world not all the investment will give a good opportunity to achieve that moment. For example, the main goal for investment is

to achieve benefit from the country, and of course it will change the real situation through the social, culture and behavior of the people. The main principle of the idea *bebas-aktif* foreign policy was representative from the principle of multiculturalism and belief system in the long history of Indonesia which is *musyawarah* and *mufakat*. The basic things of *musyawarah* and *mufakat* is to stabilize regional political concern that could be change if the idea of investment implemented in the domestic or even wider regional context.

The idea of resilience has bring the characteristic of Indonesia in every sector with no exception in electricity sector. The resilience on electricity sector is the foundation of all development in every countries in the world, without electricity there will no development in all sector. Electricity is the most vital instrument in improving the economy of a nation as well as one aspect in forming a sovereign state in the field of industry. Through a steady and abundant supply of electricity, local people are able to move the economy in the smallest areas of the countryside and the city, the stable electricity supply is the desire of every government because with the stability of electricity supply can create jobs and reduce the cost of a company's production. In addition, almost all industries in the world require electricity in an effort to meet the needs of both small and medium industry operations, where when the expensive electricity price will cause high production costs and this also will affect the community directly. The problem that often arises about the needs of electricity is a classic problem that is often experienced by a developing country.

From the study that released by Outlook Energy Indonesia (OEI, 2016) shown us that Indonesia's electricity consumption in 2014 has reached 199 TWh.

Half of them still dominated for consumer needs with household electricity consumption reached 42%, followed by industrial sector (33%), commercial sector (24%), and transportation sector (0.1%). According with the economic and population growth assumptions, an increase in electrification ratio target will up to 100% by 2030, electricity demand is about to increase significantly by more than six times to 1,205 TWh by 2050 for basic scenarios in 1,491 TWh for high scenarios. This is further clarified with the projected power generation capacity which in 2014 is 51.62 GW consisting of PLN 76%, IPP 15%, and PPU at 9%. Where by using the same scenario in 2050 the capacity of a national power station is in the range of 307 GW far from what is needed by the Indonesian population around 1205 TWh in the lowest scenario. This is certainly far from what is expected and if the policy did not right from the beginning it will leverage to the existence of Indonesian people and would face the electricity crisis.

There are two major problems that can be a turning point to the Indonesian government in the future. One of them is the Presidential Regulation No. 14 2017 which this has revised the electricity cooperation agreement with foreign parties. One of the most important aspect of this partnership is in article 37a on environmental management which in the article concluded that PT PLN (state company), a subsidiary of PT PLN (Persero) or PPL can utilize the waste used by the power plant which are derived from fossil energy in the form of coal according to provisions of legislation in the field of environmental management. This become important when the use of coal energy for electricity will harm the environmental aspect. It could be around the area that coal pollution will cause environmental and waters pollution around the territory. If the

coal is maintained by the Indonesian government is not impossible to be disputed by international activists which already happened in Batang (Supanca, 2015). This project was delayed for four years due to land acquisition issues. The problem surfaced when there was no agreement on land purchase for 29 Ha, as well as the objection of *Greenpeace* International NGOs concerned that Batang power plant will issue 226 kg of mercury per year. With only 0.907 grams of mercury contaminating the lake, the project has the potential to cause a toxic area of 0.1km² that could unfit for consumption.

Meanwhile, as a study from Gandolphe (Gandolphe, 2017) shown us that the demand of electricity in Indonesia is very potential for economic growth but still lack of the development on the infrastructure. She also gave us the probability of the unstable coal price that could be effected to the region or even globally which it could effect to the demand and distribution of production on coal located in Southeast Asia and beyond. Its mean the policy that should be implemented in Indonesia should not far away from the principle of mutual cooperation and *bebas-aktif* foreign policy that could accommodate the stabilization in the domestic or even in the region.

Indonesia – China Electricity Cooperation

The project on electricity supply by initiating cooperation with foreign parties was not a new project to the Indonesian government. In Susilo Bambang Yudhoyono administration, for example, based on the results of studies presented by the ministry of Energy and Mineral Resources, Sudirman Said, capacity of power plant included in

Fast Track Programme (FTP) -1 1 10.000 Megawatt (MW) built by contractor from China is considered very low. The government wants PT PLN to leaseback the plants to Chinese investors. Sudirman said this was one of the issues discussed during President Joko Widodo's visit to China some time ago. The current production capacity of power plants built by Chinese contractors is only 50% to 60%. This capacity is much lower than the power generated by contractors Germany, France, or the United States that reach 75%-80%. Due to low production capacity, electricity distribution becomes not maximal. It means if one of the troubled reactors will lead to the termination of electricity supply and not impossible greatly leverage economy of the country.

In the sense of that, for example, if PT PLN requires electricity for 100 people, this contractor from China is only enough for 50 people. But the value of investment is as big as 100 peoples (with other power plants) but performance is different. It is worth noting that since 2006, the Government of China has been working on 32 power plants with 10 thousand megawatt capacity in Indonesia with loan scheme. The generators were cultivated by Chinese contractors with non-IPP schemes. However, many of the plants are damaged and the plant's reliability is only 60-65 percent. While power plants with IPP schemes do not seem to experience significant problems such as in Simpang Belimbing, which with a capacity of 2 x 125 megawatts can achieve full reliability in the first year of operation.

Although there are many problems that arise it seems that the government of Indonesia cannot withstand the investment turmoil poured by the Chinese government in this case in the field of electricity. Apart from the many projects it is not a problem if the government is ready to show its

commitment in negotiating with Chinese companies and Chinese state-owned enterprises engaged in the electricity sector. Another thing to note is the readiness of human resources in the aspiration that the central government is offering to the region such as in Kalimantan. Its mean, not all of the human resource in each of the province of Indonesia is ready for the infrastructure development.

Related to this, the East Kalimantan province sees the potential of its region as one way by developing cooperation with foreign parties in the electricity sector. When we are speaking on investment in East Kalimantan, especially in Penajam Paser Utara, there are 3 projects planned to be built, namely Railway by Russia, Marine Techno Park by France, and Port in industrial area of Buluminung. In addition, as mentioned earlier is the problem of obstacles in electricity. Governor Awang Faroek, in meeting the needs of electricity is very large then to anticipate this has signed a MoU with the Government of Hong Kong, the Hakka Group and Seven Star International Holding inc., Or JinXin Group Ltd.

The pattern of cooperation that has been embraced by the province of East Kalimantan is PPP or Public Private Partnership, the most fundamental is how the East Kalimantan government distributes this plan to the entire community and its implementation in the future related to the results of studies already mentioned above about the ability of investors in controlling power projects electricity in order to minimize possible risks regarding environmental impacts and readiness of stakeholders, besides that it is also examines whether the cooperation done by East Kalimantan government has been based on guidelines to provide clear benefits to the community, mutual benefit and have equal

position with foreign side. Because in essence if we look at the theory of cooperation should be bargaining that can be obtained by each country.

International Governance

Prof. Dr. I.B.R. Supancana (Supanca, 2015) who has elaborate report on the cooperation project in the field of electricity by applying Public Private Partnership (PPP) system has giving us deep view on the legal aspect. From the result of the studies that have been proposed by Supanca stated that there were a problems that need special attention, especially from the side of the regulation that it is still not be able to protect both parties either the government or private parties. In addition, from the side of the regulation there are several important points that must be addressed between the two parties are: problems such as land procurement, licensing issues, community relations and a definite guarantee of an investment initiated by both parties.

Another obvious example is the implementation of a system of cooperation with foreign private parties in this case is China which is still categorized as a bit of criticism in the form of scientific and research work when the power plant project is experiencing problems such as environmental problems and procurement issues which in principle is still far from the standards established by the international in operating power projects in the territory of Indonesia. In observing cooperation with foreign parties, efforts should be made to understand the interrelationship and dependence of one part or political unit with other parts or other political units in the international and domestic system. This is reflected by the opinions of thinkers in the field of international relations such as

Joseph S. Nye and Robert O. Keohane. They (Keohane & Nye , 1987) argues that in viewing the phenomena of the international system in an era that the creation of renewable technology is required to look into the correlation between power and the interrelationship of one political unit with another. Interdependence can occur in various issues, such as economics and politics. In economic sectors such as trade, investment and finance. Trade transactions have major implications for interdependence compared to international transactions in the form of intergovernmental information. In the success of interdependence in cooperation between two country based on two things, namely power or bargaining power, and international regime. Power and bargaining power are related to interdependence or asymmetrical interdependence conditions, because in theory the interdependence relationship leads to a reciprocal relationship, but in reality a corresponding or symmetrical relationship is rare. Later, the international regime relies on an incompatible or asymmetrical interdependence that provides each party with a view to mutual influence through its political economy in reaching agreement among them.

Dunning theory (Dunning, 1988) has shown us how to look the productivity level is just to look to the government's interference in obtaining profit through this PLC states that every technology is worked through three main phases: start or innovation phase, process development phase, and phase maturation or standardization phase. Each phase has a comparative advantage in producing its products or components. In the province of East Kalimantan seen from the comparative advantage is to produce mineral goods such as coal and other crops such as rubber and chocolate. Especially when he saw the

cooperation with the local government through the decentralization framework, Dunning saw this as one way that the state as one of the sovereign institutions in controlling all aspects of life including its resources was not change the ownership of these resources. However, Salike (2010) has an interesting study in explaining his foreign investment theory and can provide our understanding of the correlation between regional conditions and the motives that are run by multinational corporations. Where there are two main categories of how FDI can happen that is seen based on the motive of MNC that do cooperation with local government by its motivated.

Conclusion

To build the infrastructure, need the spirit and political will from the elites, especially when this infrastructure is a vital instrument to the nation sovereignty in the industrial sector. Electricity is one of the important factors of economic growth. As Bovis (Bovis, 2014) has provided an understanding of the PPP scheme or Public Private Partnership. He defines that there is four type of PPP which is separate in their function to cooperate. First, cooperation with some period of time, second, compensation to the private with direct or indirectly, third, the private take the risk and public facilities may be transferred to the private party. So this system is a system of cooperation by providing compensation to the government and to the company whereas if this system will be used in the future. Therefore, the private sector is also fully responsible for the risks arising from the cooperation between the two parties. Which is not easy with the government that still have a complex connection to bring the new scheme to them. Especially when talked about compensation are the peoples already know the cost and benefit that will get, and in accordance with social transformation.

In this case the compensation provided by the government to the private sector is the advantage of the location that is in a place that is still developing and has a potential future growth rate of the economy is a long-term investment that has been set by Hakka Group Hongkong. By investing in infrastructure such as electricity, and seeing the enormous potential of resources in the Berau region there is still plenty of land for energy sources such as coal and fossils for industrial needs. In addition, the long-term project that has been inaugurated by President Jokowi on Tekno Park marine which, if its development reaches the final stage, this is the largest maritime science park ever in Indonesia. Therefore, the construction project initiated by the Russian Railways in building the Kalimantan railway line is a potential that needs to be supported for electricity needs.

PPP or Public Private Partnership is one of the many ways used by the government to achieve its national goals in the name of infrastructure development and economic equity. There is no definitive reference when the PPP meaning, some scientists wrote that PPP came into force and was used massively in Western Europe, and in the 1980s Britain began using this method to build its infrastructure in the country but the method was more financial or frequent called the Public Finance Initiative PFI. The province of East Kalimantan realize the development programs in implementation of PPP schemes and widely used by most governments in Indonesia which is a fairly new scheme and must be studied also through several stages in accordance with international service standards as well as input from local communities. This is also the main basis of the challenge in power infrastructure development projects initiated by the public

sector by initiating the private sector or private sector.

As Supancana said in his reprot discussing the problematic application of PPP in the study of Law has given us the understanding that in the essence of the application PPP is one of the right tools in providing acceleration and even distribution of development in the territory of Indonesia especially in East Kalimantan, there are some things that need to be studied in the procurement process and cooperation should look to two fundamental aspects, namely internal and external aspects. So as to achieve the balance in the regional and domestic sphere so that the development should be initiated by the government and is a public domain, must prioritize the needs of society both in the environment and welfare of society in the future. Therefore, the procurement process of procurement of facilities and infrastructure that is in accordance with the needs of the community can be met well. This is reflected in the benefit of being able

The problems that often arise when PPP schemes are used by the public sphere by initiating private parties are often emerging such as: land acquisition, licensing, community relations and investment guarantees and safeguards. This should be a problem for developing countries in providing land for public facilities where the interests of both parties are feared will always emerge, where private parties with the consideration of operational costs and unexpected costs is the potential for conflict. Which should be the public domain or government in the budgeting of efficient and affordable public services and meet the needs of society in a sustainable manner.

It also must be understood to all of us that President Joko Widodo has launched

the 35,000 MW program. This electrical program becomes a national strategic program that is confirmed in the National Medium Term Development Plan (RPJMN) 2015-2019. PPP is a model that needs to be assessed when the government uses such a scheme. Nevertheless, the government is well aware of the limitations of its funds so that the involvement of the private sector is needed.

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