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Title: China – Indonesia Bilateral Relations: China’s Investment in Electricity Supply in East Kalimantan Province (2013 – 2015)

Bilateral relations is the important factor in order to create stability of good partnership. Across the globe, many governments have devised a number of special relationships in their foreign policy, with neighboring and distant countries, as well as with some multilateral organizations, as done in Indonesia. Indonesia itself is a big country and rich in abundant natural resources. The role of the Indonesian government in various ways that support the development process is an innovation that is desperately needed in this country. As well as the established of bilateral relations between Indonesia and China, it is something very important that both parties help each other in all processes which include in all sectors, such as economic sector. The process includes several activities which one of them is about Chinese direct investments to Indonesia. Indonesian government will certainly strengthen the bilateral relations with the Chinese government following by the visiting President Joko Widodo to Beijing. In a state visited by President Jokowi which received by the People's Republic of China’s President (PRC) Xi Jinping, the two leaders involved to strengthening cooperation in the energy development field. Particularly, the President Jokowi invited the Chinese party to increase for the further flow of direct investment in various fields in Indonesia, where President Joko Widodo has launched a program to increase the electricity capacity up to 35,000 MW. In Indonesia itself, especially in rural areas there are still many problems to faced, such as economic growth, inadequate infrastructure, and also the problem of unstable energy supply. Without a supply of adequate electricity, the activities of local community will also be affected. As happened in the Kalimantan island, especially in the East Kalimantan province, where actually Kalimantan itself is known as abundant producing of natural resources for energy support. However, the lack of facilities and infrastructure which are not supporting for the growth of electrical energy supply in rural areas. This create the polemical for societies and local government because of delaying the activities and quality of life. Electricity is an essential element for development, with the existence of adequate electricity will support all the development activities which has been organized by the government. Under the Joint Statement which was signed and approved by Indonesia and China, both sides have agreed to establish and strengthen the cooperation in various fields, such as trade, investment and economic development, industrial and infrastructure, maritime, technology and culture. But the main thing is the cooperation in energy sector development, which is the power plant developing and investment in rural area, East Kalimantan province.

Key Words: Indonesia, China, Bilateral Relations, Economic Diplomacy, Energy Investment
ABSTRAK


**Kata Kunci:** China, Indonesia, Hubungan Bilateral, Diplomasi Ekonomi, Investasi Energi
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<tr>
<td>AC</td>
<td>Alternative Current</td>
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<tr>
<td>ACFTA</td>
<td>ASEAN China Free Trade Agreement</td>
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<tr>
<td>AMPC</td>
<td>ASEAN Master Plan for Connectivity</td>
</tr>
<tr>
<td>CBD</td>
<td>Central Business District</td>
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<td>CIC</td>
<td>Chinese Investment Cooperation</td>
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<td>DC</td>
<td>Direct Current</td>
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<tr>
<td>DMO</td>
<td>Domestic Market Obligation</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FTP</td>
<td>Fast Track Program</td>
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<tr>
<td>ICBC</td>
<td>Indonesia China Business Council</td>
</tr>
<tr>
<td>IPP</td>
<td>Independent Power Producer</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
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<tr>
<td>LDC</td>
<td>Load Duration Curve</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>Acronym</td>
<td>Definition</td>
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<tr>
<td>---------</td>
<td>------------</td>
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<tr>
<td>MP3I</td>
<td>Master Plan Program for Acceleration and Expansion of Indonesia Economic Development</td>
</tr>
<tr>
<td>MW</td>
<td>Mega Watt</td>
</tr>
<tr>
<td>OBOR</td>
<td>One Belt One Road</td>
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<tr>
<td>ODI</td>
<td>Outward Direct Investment</td>
</tr>
<tr>
<td>PP</td>
<td>Power Plant</td>
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<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
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CHAPTER I

I. Introduction

I.1 Background of Study

Indonesia is one of the big countries which have many islands and produce many natural resources, but the problem is due to the lack of transport infrastructure, agriculture has been held by low productivity, and this problem actually need the better solution in terms of how this country could utilize well the natural resources. In the modern era, many kinds of things can be done in order to promote the quality or to enhance the situation of the country, even it could be in many aspects, such as geographic, economic, political environment, or the tourism. In the terms of geographically, the location of Indonesia is quite strategic which lies between two oceans and two continents at the same waters that have become one of the lifeblood of international trade. This position put Indonesia sea and land borders directly with ten countries in the region. Also, nearby Singapore which is one of the countries fame as the business place. It can make easier the economic activity such as export and import even though the foreign investment. The activity of FDI flows into Indonesia have been experiencing growth and their base has been expanding. Indonesia is one of the three most attractive destinations for multinational companies for 2014-2016, ahead of India and Brazil. In terms of FDI inflows, Indonesia got ranks 4th among East Asian countries, after China, Hong Kong and Singapore.

The development of foreign investment nowadays in Indonesia has been increasing rapidly, especially China investment which is focusing in developing the infrastructure in Indonesia. This is also the way of increasing the economic development which is support the other field in order to improve the life quality of Indonesian societies. Since China had become Indonesia’s fifth largest trading partner and China also is an important market for timber smuggled from Indonesia. The bilateral relations between Indonesia and China has been recognized and there are many beneficial that

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1 UNCTAD World Investment Report 2014
both countries get from their cooperation in the economic field as well, such as trade, finance, infrastructure, industry, tourism until the relations between those communities. Both sides between China and Indonesia issued for the Future Direction of China-Indonesia Comprehensive Partnership in their Joint Statement\(^3\), which will be show the positive results achieve this kind of practical cooperation in various fields. The two countries worked together to safeguard the interests of developing countries to ensure smooth communication and close cooperation at multilateral platforms and institutions. Through the joint statement which is explaining about the cooperation between China – Indonesia in electricity supply will be describing below:

“The two sides support the enterprises of both countries to conduct cooperation on the lease and operation of the first-phase 10,000MW coal power plants in Indonesia. The Chinese side welcomed Indonesia’s new plan to develop power plants for the next five years and agreed to 5 encourage Chinese enterprises to look for mutually beneficial investment opportunities.”\(^4\) - Joint Statement China Indonesia –

However, supporting by the Indonesian Chamber of Commerce and Industry (KADIN Indonesia) stated “Indonesia needs to get the benefit of regional and bilateral cooperation for the prosperity of the people, just like our cooperation with China which has been established for long time. In the future these cooperation should be more productive and both countries should give benefits for both sides.”\(^5\)” Focusing investment in energy sector like electricity or power plant, what we need to see its about the quality of China’s energy. Basically, in the power plant sector itself, China got an award related with that kind of project, it called as China Electric Power Quality Project 2015 which is the highest award for the engineering quality in electric power.\(^6\) The efficiency of investment in this sector actually giving the high benefit for the investor even for the

local societies. The bilateral relations between China – Indonesia will be taking by government to government, so it makes PT. PLN to do the cooperation with Chinese investor and make one of the program called as FTP (Fast Track Program) project of power plant development which have total capacity 10,000 MW. It will be the first phase as the project for supplying the electricity, also continuing with the 35,000 MW as the second phase. Through those programs, both parties hopes that will be increasing the target of energy supply.\(^7\)

All the project will be focusing in Kalimantan island, where the area is low quality of electric power and need the equipment supporting. Based on the Electricity Statistic data, the ratio electrification in Indonesia especially in East Kalimantan since 2013 is about 80.51% and increasing about 84.12% in 2014, which means the supplying energy still needed in this phase. Continuing by the high demand of the electricity also increasing in every sectors, so the ratio electrification and demand should be equal. In order to fulfill the need of electricity supply, Indonesia and Chinese government agreed to implementing their bilateral relations in the agreement of energy supply. China’s side along with the local company work together by doing investing for increasing the electricity.\(^8\)

During President Joko Widodo’s era, he totally initiated this project and provide sufficient electricity to the whole nation. Indonesia needs to safeguard the country’s electricity supply. In 2014, power plants in operation have a capacity only 40,000 MW in total and the figure was still far below the total capacity of Chinese power plant, which stands at 1.2 million MW.\(^9\) In addition, the energy in Eastern area of Indonesia will totally more worst than in Java and this is how China’s investor need to cooperate with PLN and the local government to promote their project in order to increasing mobility and life quality in the Eastern area, even in Central of Indonesia. The total capacity of Chinese power plant and their development could be consider as well. The Chinese

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\(^7\) Report : *The Achievement of Performance in Electricity Sector in 2013* by The Ministry of Energy and Mineral Resources Indonesia  
premier proposed to enhanced cooperation in economic and energy policies, so as to realize the goal of increasing bilateral trade to $20 billion by 2008 and $30 billion by 2010.\textsuperscript{10} It shows that how important the cooperation in economic sector between China and Indonesia especially to develop the energy and infrastructure in Central and Eastern Indonesia.

However, electricity is the most important energy source. Therefore, according to President Joko Widodo, people need electricity to sustain daily life and boost national economic activity. The childrens at the border (central and eastern) need to be able to study at night and the fishermen can keep the fish in a cooler. Small convections, stalls, and small businesses can exists well, and all of those things requires the electricity. On the other hand, see the stage level of China’s investment also has increasing year by year since the Indonesia’s economic and other sector developing rapidly. As explained above, since 2010 the investment has steadily increased and starting from 2013 was $297 million and the highest one happen in 2014 was $800 million and the most frequent sectors investment were metals/mining including energy sector (e.g. power plant and energy extraction) and construction in January 2013 up to 2015.\textsuperscript{11}

\subsection*{1.2 Problem Identification}

Based on the issue that has been mention above, China actually has an important role as business partner which will increasing Indonesia’s economic sector. Also as the top ten foreign investor in Indonesia including in many sectors and how China see the chance and potential based on geographic in Indonesia. President Jokowi also struggles to draw foreign direct investment (FDI) and develop much needed infrastructure. According to Indonesia’s Investment Coordinating Board (BKPM), China is eyeing more than $83 billion in investment in Indonesia. China, which is interested in investing smelters, cement and power plants had promise a flood of cash in the past but these have mostly failed to materialize, and basically China’s investment in energy and electricity has increasing especially outside from Java island which is more focus in central and eastern area that has a high industrial prospects and improving the standard living of local

\textsuperscript{10} Pervical, Bronson. \textit{The Dragon Looks South : China and Southeast Asia in the New Century}. USA 2007. p.65
\textsuperscript{11} \textit{Ibid} p.71
society. Focusing of electricity development in Kalimantan island is the one of innovation projet because of the rate of electrification even lower, just a little over half of the population have access to electricity, particularly in Eastern Kalimantan area. Then, as we know in the other hands even many positive and negative perception related with China’s investment in power plant. Some parties said that China’s investment is worse in terms of power plant investment, but somehow the other parties support it. If we see from other perspective, we know that China’s relationship with Southeast Asian countries is quite well including with Indonesia itself.

So, basically the pattern from this kind of investment should be open nicely. Indonesia has almost 230 million inhabitants, which represent an enormous market. Additionally, the country has abundant natural resources such as timber, fish, oil, natural gas, metals and so on, also enormous biodiversity. Internal demand is growing due to the development of the middle class. So, actually this is what China wants from Indonesia based on the strong points to choose Indonesia as the country to invest. In 2015, President Jokowi has announced the 35,000 MW program improving electricity for Indonesia, which is targeted for completion within the next 5 years, in which 25,000 MW is offered to the private sector or foreign companies and for PLN is only assigned to build 10,000 MW. The project of 35,000 MW must be completed to prevent Indonesia from the power crisis, because the population in Indonesia keep continues to grow, and the economic growth makes the demand for electricity continues to increase. Even some obstacle come because of the issues permits and land acquisition, but President Jokowi still believe and optimistic this project will be realized as soon as possible. Through the 35,000 MW project also scattered throughout the areas in Indonesia. In Kalimantan, PLN build the power plant with the capacity 900 MW and for the private sector they build around 1,735 MW. Although many foreign investors who build plants in Indonesia, the government need to have and using the power to regulate the market or the determination of tariff. Beside on that, the incentives to investment are accessible to all investors,

12 Article of The directory for International Trade Service Providers and FDI from http://www.globaltrade.net/international-trade-importExports/expert-service-provider.html
14 PT. PLN Indonesia : 35,000 MW For Indonesia from http://www.pln.co.id/35000mw/en/#s3
national and foreign. More specifically, these are reductions of duties on imports and equipment goods and additional incentives for export investors and investments made in certain region. Indonesia consist primarily of electrical machinery and equipment, electronic goods and household appliances, textiles and motorcycle, but in fact that Chinese competition has reportedly had a particularly destructive impact on Indonesia large textile industry also for the electricity.

I.3 Statement of Problem


Research Question : How did China support in developing 35,000 MW power plant regarding the East Kalimantan’s project ?

I.4 Research Objectives

a) To examine and analyze People’s Republic of China – Indonesia bilateral relations in involving their participating in East Kalimantan province through the investment of energy sector in order to improve the electricity supply.

b) To explaining several power plant projects and programs conducted by People’s Republic of China and Indonesia in the context of both countries bilateral relations in order to improve the quality of electricity in East Kalimantan province.

I.5 Significance of Study

This study is aims to analyze how the China’s investment could be increasing the mobility in East Kalimantan province especially in electricity industry, which is that area quite poor of electricity development that influence the activities there, which actually has a high potential in natural resources that can be used in order to develop the stability and quality of life. From the current power plant in Indonesia itself, mostly
dominated by the use of fossil fuels, especially coal. While the region that still shortages of experiencing power such as Sulawesi, Kalimantan, Nusa Tenggara and Papua is still using fuel fired power plants, which is the generation cost component is still the largest component. In this modern era, everyone knows that by using electrical energy we can produce various kinds of energy. The Indonesian society need to know the advances in technology make some electrical equipment to be more effective and efficient. Indonesia is rich in energy resources, but installed power capacity is very low when compared with other countries. Through the China’s investment in power plant energy could help and developing the situation and give the benefit for both side.

In August 2010, China Investment Corporation (CIC) announced that in order to secure more resources in Southeast Asia and benefit from increasing trade and investment in the region it would plough US$2 billion in coal, electricity and also port projects in Indonesia including in East Kalimantan province. Through this statement, we know that CIC was interested to invest in this sector and Indonesian government including the societies there, need to support the projects which handle by the state firms, state electricity company and other operator supporters such as the next project’s developers plan to bring the plant online in 2019.

I.6 Theoretical Framework

As we can see from the problem in this thesis that Indonesia needs the electricity industry improvement in order to increasing the economic stability and activities.
Based on the chart above explain about the relations between Indonesia and China create the bilateral relations through the Joint Statement related with the Trade, Investment and Economic Development. By the consent of both parties, then continues by run a program which is investment from China and Indonesia as a receiver. The investment in the electricity field is an innovation that China will also help development in Indonesia. This is a mutual interest in which both sides that should benefit from this cooperation. The roles from the State-Owned Enterprise (SOE) and private sectors of both sides were equally together building and realization all the planning for the projects. Through the power plant (PP) investment expected to Indonesian area which will supply less electricity will be met, especially for areas that are difficult to reach though which is Kalimantan island when the black out still happen and bothering the local society activities. The power plant investment will be divided into several types, such as: hydropower, diesel, and steampower. Each area will be different supplying of power plant due to the condition. Followed by the policy and legal regarding with the FDI activities in order to strengthening the cooperation to achieve the maximal results.
I.6.1 Economic Diplomacy

Basically, in this case we can see that economic diplomacy is very important and giving some role which is as the interest of the country by use of economic instrument in conduct of state to state relations and it goes beyond trade and investment to the resolution. It could be as promoting national economic interest even like natural resources as the power of increasing the stability to other countries.

As what Rana (2007, p.201) defines about the economic diplomacy:

“The process through which countries tackle the outside world to maximize their national gain in all the fields of activity including trade, investment, and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional, and multilateral dimensions, each of which is important.”

Informing and updating potential foreign investors on investment opportunities would become the key point of upgrading the economic and infrastructure of Indonesia. If we back to concept of economic diplomacy which basically concerned not only with the broader diplomatic agendas as they emerge from the processes of market integration such as high carbon economy negotiations, e-commerce agreements, transnational finance negotiations, but also with changes in diplomacy and especially with the emergence of new modes of diplomacy, new diplomatic actors and new formal and informal structures of diplomacy will run effectively. Meaning that the way we do the negotiation as the trade diplomacy in order to attract the China as the foreign investors who invest in electricity industry also becoming the important way. How the government of Indonesia and China can build the good relations in many kind of aspects such as trade or investments in order to make these two country get the benefits.

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1.6.2 National Interest

According to H.J Morgenthau, the national interest could be defined as the idea of the nation in general to achieve the goals. The relation between interest and the national state could change the vicissitude of the time and place. How the nation could be growth as well based on the policy and the vision of the state itself.

“The interest of a nation as a whole held to be an independent entity separate from the interests of subordinate areas or groups and also other nations or supranational groups - Morgenthau –”

Based on the explanation above, Morgenthau has emphasized that the survival among nations is the central element of the concept of the national interest, around which other elements are fashioned according to circumstances. The nation could be strong and great as long as the government and the other actors build the cooperation effectively. For Indonesia, boost the economic performance is the one of national interest and also will influence the regional situation. The country should use the national power as the foundations to show how the country like Indonesia can survive with all the natural resources for boosting the economic development. Beside that, China also has their
national interest that will be in effect along with the foreign policy regarding with the cooperation among countries. As the business partner, China has good relationship with Indonesia until now, the economic cooperation has been build with the role of China to make many kind of project in order to supporting the Indonesia’s situation and condition. So, basically China not only want makes Indonesia as a field advantage for them, but all the efforts made by the cooperation between China and Indonesia also makes China get the role to help Indonesia’s development. Through the One Belt One Road ( OBOR ) China try to expand the infrastructure market. In this cooperation is also expected to be in line with the Indonesian government’s plan on maritime policy, and it could be the first step to identifying opportunities that will be faced. Also, this cooperation will allow to increase in people to people cooperation, cultural exchanges and the basic principles of mutual respect.

I.6.3 Bilateral Relations

In the concept of bilateral relations is certainly familiar thing for the state that has the cooperation and relations with others state. Bilateral relations or bilateralism actually refers to the relationship between two independent regions, including the political, economic or cultural relations. On the other hand, the cultural similarities can further solidify and strengthen a bilateral bond, including the way of diplomacy of those state in order to make strong bilateral trade partner and implement various steps to foster a positive things to boost the state’s development including enhance the economic and commerce.

Guideline for strengthened bilateral relations (2012) defines as the cooperation, joint result, and increased mutual knowledge and understanding between states function, which are extent of cooperation that referring to the scope and level of cooperation between institutions within public sector, private sector and civil society. Shared results including evidence of joint results through sharing of experience, technical expertise and

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17 Thompson, Alexander. *Multilateralism, Bilateralism and Regime Design*. A Journal from Department of Political Science Ohio State University. September 23rd 2013
technology between the partners. Improving the mutual understanding between partners which is created wider effects as a result of institution working together.

Through the bilateral agreements as the important component for bilateralism will show how is it effective for both state to create good cooperation in various sectors. China and Indonesia relationship have been ongoing for centuries and were officially recognized in 1950.\(^{18}\) Year by year until right now the relations has been expand and growing rapidly and reaches some field. Particularly bilateral trade relations which is quite important for both state. Based on the official joint statement that has been agreed and implementation to development process. China’s transformation into a major economic power in 21\(^{st}\) century has led to an increase of foreign investments in bamboo network which is build the overseas network and operate the market in Southeast Asia including Indonesia that share common family and cultural ties.\(^{19}\) In order to strengthening the bilateral relations between China and Indonesia, the implementation process of the agreement is needed and enhancing the good relations as well for both state.

\section*{I.6.4 Foreign Direct Investment}

The economic activities which created through bilateral relations between China and Indonesia also referring to the several activities including the Foreign Direct Investment (FDI) of China’s side to Indonesia. There is some evidence that prove this FDI activity would be promoting the local markets in order to developing good quality of market result. The potential positive or negative effects on the economy might be depends on the nature of sector in which the investment will be taking place. The relations between FDI and economic development of the state must be complex. So, it could be create the positive impact for both parties. Meaning, it is not about for home country but also for host country. FDI itself would increase the productivity, transferring technology and production networks as well. The foreign investor as the party that would

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\(^{18}\) Kai, He. *Interpreting China-Indonesia Relations: Good Neighbourlines, Mutual Trust and All-round Corporation*. Strategic and Defense Studies Centre. Canberra, 2000

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be invest to the host country also knowing that the opportunity to obtain market share. It means that the advantages will be divided into the two parties who handling it. Basically, according to the International Monetary Fund says FDI itself could be defines as the “investment made to acquire the long term interest in enterprises operating outside of the economy investor from home country to the host country.” In additional, FDI also direct activity because of the investor that manage, seeking the control and have the significant influence for the foreign enterprise as what China did to Indonesia. In this case, Indonesia as the host country receiving the direct investment from China which is increasing the amounts of total local productivity, developing any sectors income and reducing the poverty in terms of FDI and local business activities.

I.7 Research Methodology

In this thesis, writer will using several of method to collect the data in order to fulfill and solved this problem.

1. Qualitative method

The writer try to emphasis on the in-depth understanding of a problem than to see the problems for research generalization . The research method is preferred to use in-depth analysis techniques, which studied the problems case by case basis for qualitative methodology believe that the nature of the problem will vary with the nature of other problems. In this thesis, the research has a descriptive and analytical which is the source and data obtained as the result of : data observation, photographs, document analysis of related party and also field notes from the researches in power plant development. The writer immediately perform the data analysis to enrich the information, looking for the relationship, compare and find the pattern on the basis of the original data.

2. Data collection method

The primary data will be collected from any website that related with the problem, such as official website from the Ministry of Industry China and
Indonesia, The China’s Embassy in Indonesia, Indonesia’s Foreign Minister and so on.

3. **The Official Website**

Supporting from the official website that will gathered together with the other sources from another website. Most of the official website will be the one that totally make sure the case.

- www.kemlu.go.id/en/
- www.fmprc.gov.cn/eng/
- www.kemenperin.go.id/
- esdm.go.id/
- www.pln.co.id/
- http://english.mofcom.gov.cn/
- http://www.kaltimprov.go.id/
- http://id.china-embassy.org/

4. **The Scholars Journal**

By knowing and read from the scholars journal, it will also supporting the data for the writer to figure out the scholar’s understanding about the related case and also the writer can mixed between the data and strategy.

5. **Internet Research**

The writer also looking for the supporting information through the internet as the source for this research and will take those kind of information to this thesis.

6. **The Online News Website**

From the online news that appear in many website, the writer also take this as the references to solving and to know more about the problem. Moreover, the problem such as the updating situation in Kalimantan and Sulawesi could be knowing well by the online news. Especially in Economic News.
I.8 Scope and Limitation

In order to have clear explanation and understanding with the case, also supporting by accurate source, the writer will clarify and describing to be more specific case by divided to several points. Since this case related with the infrastructure development and also discussing about the China’s investment in electricity industry in central Indonesia in period 2013 - 2015, which is at that time during SBY period that China’s investment come into top 10 foreign investor that having big effects for the economic development and industry area in Indonesia. At that time, the investment in electricity industry focusing in power plant becoming the popular one of increasing the stability and mobility of the society in Kalimantan island, particularly in East Kalimantan province. Since the infrastructure are not quite supported in there which is not equal with the natural resources that produce from there, the power plant investment could be the innovation for the quality of life and enhance the activities, because the lack of the electricity make this area cannot solve many obstacles that might come to. The innovation might be come from the Indonesian’s government which is developing the power electricity. As PT. PLN holds the right about this, the distributing electricity in Indonesia especially in Kalimantan island need to knowing well first, due to the high natural resources but less of the infrastructure. All the independent power procedures need to secure a state utility purchasing contract and planning before they can build a power plant. As the target from the government and PT. PLN need to make sure this program will be consider as the development state from the cooperation foreign investor (China) related with electricity based on the success of these developers.

I.9 Definition of Terms

• **Bilateral Relations**: The relationship between two independent regions, including the political, economic or cultural relations. It could be says as The cooperation, joint result, and increased mutual knowledge and understanding between states function, which are extent of cooperation that referring to the
scope and level of cooperation between institutions within public sector, private sector and civil society.

- **Economic Diplomacy**: The process through which countries tackle the outside world to maximize their national gain in all the fields of activity including trade, investment, and other forms of economically beneficial exchanges.

- **National Interest**: The idea of the nation in general to achieve the goals. The interest of a nation as a whole held to be an independent entity separate from the interests of subordinate areas or groups and also other nations or supranational groups.

- **Foreign Direct Investment**: Investment made to acquire the long term interest in enterprises operating outside of the economy investor from the home country to the host country.

### I.10 Structure of Thesis

**Chapter 1: Introduction**

In this chapter gives some ideas on the topic of thesis to figure out and showing the general information that writer wants to explain based on the topic. It has divided to several parts such as: *background of study, problem identification, statement of problem, research question, research objectives, significance of study, theoretical framework, research methodology and scope limitation*. First, in the Background of study, as this thesis focused on China’s investment in electric power industry and how does it run. The next step its about the focusing of power plant project in central Indonesia which is those area are lacking of electricity quality.

The writer want to explain how this project will helping and involving the quality of life for the society in there and how the government also support this kind of program. As we know that China already become Indonesia’s top investor especially in metal or mining and energy. Continuing with the statement of problem which is a part where the writer purposes from this thesis and see the result of the research question and research objectives. Then, for the significance of study itself refers to writer’s perspective about
the beneficial of this problem and to whom it will be consider and what is the next. Supporting from the theoretical framework part, the writer will use some of theory that significance and could be collaborate from the theory into the issue.

Chapter 2 : Bilateral Relations of China and Indonesia

This chapter will describing about the bilateral relations between China and Indonesia for general, however more focusing in economic relations in case of foreign direct investment activities. China as the top investors in many aspects could be helping some problem in Indonesia, such as developing the infrastructure, electricity even the market as well. So, basically in this part the writer also explain how this relations will give some effects and feedback for both countries. Since the cooperation actually has been made for a long time ago. Focusing on the issue of investment of electricity, the writer also showing the total of investment per year and how big the is it influence the situation and economic of Indonesia itself. In addition, this chapter will be showing the bilateral agreement and joint statement which is related with the China – Indonesia electricity supply.

Chapter 3 : China’s Energy Investment in Indonesia

This chapter will explain briefly about the direct investment from China to Indonesia in many sectors, but also will be showing the energy sector as well as the focusing of the main program. Then, also showing the type of Chinese companies that doing the investment and total of the investment as well. Also, explaining the China’s role in order to invest and providing energy supply in Indonesia continuing with the type of China’s project or the joint venture by China and Indonesia in order to build any kind of power plant in Indonesia and others rural areas in where the electricity problem still happening.
Chapter 4 : Analysis of China’s Involving in Participate and Providing Electricity Supply in East Kalimantan Province

This part will showing cooperation project between China and Indonesia, and also will be explain electricity condition in East Kalimantan province as well. Along with the power plants project there, and the total investment that China did in those projects. In addition, the total of participating China’s side so far also will be describe in terms of electricity supply. How big the China’s role as the partner for Indonesia to providing the energy to boost economic situation in East Kalimantan province. Since the China’s quality in power electricity is quite good, so Indonesian’s government will soon commence the construction of mega power and supporting by PT. PLN also would sign some contracts for the development of the 35,000 MW power plants. The total of investment in the power plants and supporting electricity infrastructure which would be built by PT. PLN and independent power producers (IPPs). The power plant projects are an efforts to create more equal access to electricity, fix infrastructure to bottlenecks and boost economic growth. Monitoring the China’s party which is related with their result for East Kalimantan province along with the Indonesia’s State-Owned Enterprise or private sector activities and goal’s achieving as well based on their main agreement cooperation.

Chapter 5 : Conclusion

This chapter will showing the conclusion to review whole chapters that have been discussed in this thesis and recommendation also given in order to making complete this thesis.
CHAPTER II

BILATERAL RELATIONS OF CHINA AND INDONESIA

II.1 Influencing of Bilateral Relations

China and Indonesia have been in bilateral relations for several years. The strong relationship both countries have created the good interaction among those parties. The diplomatic relations between both countries established since 13 April 1950, and more stronger since 1980s because in that era President Soeharto and the Foreign Minister of China Mr. Qian Qichen has met and discuss the resumption. However, along with the progress of China, a change of leadership in Indonesia as well as the interests of Indonesia on economic factor, the relationship between the two countries is getting increasing. Particularly since the year of 2000, Chinese government also often to visited Indonesia until recently under leadership of President Joko Widodo. China and Indonesia bilateral cooperation is a diplomatic relationship which is idealistic and competitive. The number of things that beneficial from this cooperation will create a bilateral relations which dynamic and stable, along with competition of China’s products that have proliferated in the Indonesian market, create market conditions in Indonesia also have to balance the income distribution for distributing the products of China which has occupied the market rate on the system distribution. But, behind the economic competition the two countries between Indonesia and China, both countries have showing more their diplomacy in another field such as in the economic development, transport and infrastructure, social, cultural and energy development as well. This is prove that China and Indonesia are having effective relationship which is sustainable and beneficial each others, where the bilateral relations is needed to support each other in an effort to increase the intensity of supporting the parties trust.

On the other hand, related with the China’s product that are booming in controlling the Indonesian market, it also makes the Foreign Direct Investment (FDI) of

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21 Ibid.
China to Indonesia also getting higher and strong. China could understand the Indonesian market situation and condition. The potential that Indonesia has quite high, so China would like to developing to minimalize the weaknesses as the orientation of China. It became an innovation of China that has been used Indonesia as the target, because Indonesia still needs new ideas to improve the economic welfare of society. In addition, as a partner in Indonesia, China will also have a positive effect on Indonesia where the resulting impact will be felt from both sides. Because, basically the bilateral relations can be defined as a concept of interaction between the two countries cooperative relations of mutual benefit. Where both parties have agreed to complete on the basis initial agreement as the fundamental. In addition, based on the geographical location also is the factor which is no longer a barrier for both countries, it cause of higher dependence of both parties, the less likely obstacles will arise. This established bilateral relations will continue as long as their created specific goals and the roles of both government to deal with it. As what have mentioned in the previous chapter about the definitions of bilateral relations itself, it could be pointing to the role of the state and national interests as well. In this part, writer also would like to emphasized that bilateral relations between two countries in this world basically can not being independent from the national interest of each countries, because the national interest is a vital element which is include the survival of the state, independence, territorial integrity, security, even the economic welfare.\

Along with the implementation of the bilateral relations, in this case of China and Indonesia cooperation finally made up their bilateral agreement on 2004 in order to solving any kind of problems in Indonesia. There are many types related with the problems, such as developing infrastructure, trade and investment, mining and energy developing and so on. However, in this case the cooperation will be focusing in the investment activities in electricity sector. In addition, the leaders of two sides also have to maintain and figure out the mutual understanding, increasing the trust, laying the foundation for healthy and steady development of bilateral relations. China and Indonesia

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using this opportunities to proving the improvement and growth of cooperation. Both sides also agree to establish and develop a stable and also long term relationship of good neighbourhoods and mutual cooperation that reached the Bilateral Agreement on the following:

“The two sides agree to take full advantage of the existing forums of consultations to explore ways of bilateral and multilateral cooperation in all areas. The two sides will continue to maintain and strengthen such mechanisms as the Joint Commission on Economic, Trade and Technical Cooperation; the Joint Commission on Science and Technology Cooperation. The Joint Commission between the Governments of China and Indonesia headed by the two Foreign Ministers.”

“The two sides will increase their friendly cooperation in such areas as trade, investment, science and technology, industry, energy, transportation, mining, people-to-people contacts as the basis of equality and mutual benefit, mutual respect and mutual understanding, with a view to promoting lasting peace, stability and prosperity of the region and the world.”

Through the bilateral agreement, both sides agree to increasing the problems and solving any issues that happen in Indonesia, especially in economic side. The strong bilateral relation makes China doing the Foreign Direct Investment (FDI) faster in Indonesia by seeing the opportunity and situation. In order to boost economic welfare, the direct investment activities could be the effective way to solving the problem including energy investment also. However, the energy investment from China showing the role’s of China itself as the existence of partnership relations. Regarding with the main project about the electricity supply, China and Indonesia also agreed to declare their Joint Statement Partnership in 2012 in order to strengthen the cooperation to solving the problem that their face. Back to the main issue about the electricity supply and developing several project regarding expanding the power plant, there is the explanation of Joint Statement Comprehensive Partnership below:

“On energy, both sides recognized the need to ensure energy security in the light of growing demand for affordable energy supplies as a necessary condition to

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24 Ibid.
ensure their sustainable national development”

“The two sides support the enterprises of both countries to conduct cooperation on the lease and operation of the first-phase 10,000MW coal power plants in Indonesia. The Chinese side welcomed Indonesia’s new plan to develop power plants for the next five years and agreed to encourage Chinese enterprises to look for mutually beneficial investment opportunities”

“The Indonesia side welcomed the Chinese side to participate in the construction of the 35,000MW power plant in the next phase and stands ready to explore cooperation in the planning, construction, operation and maintenance of electrical grids with the Chinese side.25”

Based on the joint statement above, the sustainability development in Indonesia regarding electricity supply will be continuing as well. Another activity which is increasing the supply such as direct investment from China side to Indonesia is welcoming, it means that the highest investment in Indonesia, the more develop the situation here. Meanwhile, the China’s government along with the local company also PT. PLN will be running their project which is divided into two phase, because for the supplying the electricity power is not easy and it takes a time. Everything about the electricity project is not a thing that could be doing instantly. There will be many process on it. Currently, the total number of Chinese enterprise in Indonesia also growing up every year. It could be in the private sector even governmental would be taking place in order to achieving the goals along with their roles.

II.2 China’s Policies Orientation Towards Indonesia

The existence of China and the partnership relations with Indonesia makes China also implementing the policy toward Indonesia as their partner. The relationship that have been made should be run effectively and it will be impacting for both sides. Meaning, there is no party that taking a place independently to achieve the benefit. All of the ways that China did it is only for create the objective. Throughout the policy, China would like

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to implement these goals toward the partnership from Southeast Asia countries, including Indonesia. China has been making relations and strengthen to another countries, they make the relations first, then continue with the policy and agreement for the future comprehensive goals. As what China did in Southeast Asia, the relationship with these state is not only about the Chinese government’s effort to deal with the Southeast Asia’s leader. Even though that is the main point of the policy which is describing the government to government. Also, it supporting by the various acts of non-state actors related with their statement, declarations and so on. Developing the implementation of the goals and estimate the objectives of Southeast Asia’s countries policies towards China and the ways of achieve that will be the key point from both sides. As well as maximizing the benefits, achieve the win solution and overcome the countries exclusion and also promote the regional common development in Southeast Asia including Indonesia.

China’s relations with Southeast Asia cannot be complete without giving a consideration to the bilateral relations with the key point of it. China have to define and promote the interests in Southeast Asia, particularly in Indonesia region and dealing with every aspects in that region. Through the bilateral agreement, Indonesia attract China in order to providing their innovation and mutual interests. On the economic side, which is the main point of the project, the prospect of economic benefits have been classified as a factor considered by the Indonesian government. Many private sectors also seeking for the potential in Indonesia and the challenges that will be facing by China. This is called as the beneficial cooperation and making the mutual trust as well from both parties. Comprehensive relationship between China and Indonesia will create the long term partnership. Those countries will be involving the regional potential and enhance the harmony relationship among the countries. On the other hand, expanding the scope and explore new ways for cooperation and promote the peace through cooperation also becoming the orientation policy and the objective as well.  

Meanwhile, based on the China’s policies on Asia-Pacific and Relations with other Major in Southeast Asia will be explain in following below:

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• Promoting the common development and lay a solid economic foundation for peace and stability in the Southeast Asia region including Indonesia. Also, enhance the convergence of economic interests as the important basis for state to state relations. In the part of common development, China actively promoted the Belt and Road initiative to establish the Asian infrastructure and silk road, and Chinese party also welcoming the participation by all countries for mutually beneficial outcomes.

• Building and strengthening the partnership as the innovation for peace and the stability region, even looking up from the national interest and potential of the state also the unique diversities. Become the partner and having the same values and ideals in order to overcome differences.

• China implemented the principle of amity, sincerity, mutual benefit also inclusiveness for developing relations with partnership countries. In order to keep stability and improving, China as the partner of Indonesia implementing the mutualism benefit based on the cooperation.

• Having the specific focuses based in the condition and national interests of the state. Due to the geographic and other factor of every countries are quite different, also they would like to get rid of poverty and realizing affluence and prosperity. Both sides are willing to adopt a cooperative, peaceful and consultative approach to achieve the goals without any expand the conflict.27

Through the statement policy which has been explain above, the relations of China and region of Southeast Asia, particularly Indonesia is very clear. What did China create from their policy is very important to having long term and mutual benefit cooperation. China’s side applying their action to implement such as Belt and Road Initiative or silk road which is run in the sea that connecting several state in order to increasing the economic activities. Also, China proposed dual track program system which is settle the

South China sea. These two program actually showing that China seriously build the strength relations along with their neighboring partner or another countries. The implementation based on the policy, continuing with the bilateral agreement and joint statement there are several program that need to implementing, such as electricity supply and power plant program as well. China and Indonesia hoping there will be create good result based on the cooperation. In this case, the role of China is very important in order to providing the electricity supply through direct investment.

II.3 Role of Stakeholders to Increase Cooperation

The relationship that has been build is not literally easy to accomplish without any support from other stakeholders which is important part to supply the electricity power. Having the good cooperation makes some parties will be having their roles in order to help the Chinese side to providing the electricity supply, and the stakeholder’s roles will be explaining in the following below:

II.3.1 China and Indonesia

The roles of China and Indonesia in this case is very important, whether from the government or the companies side. Based on the previous sub chapter has been explain through the agreement, both sides has agreed to cooperate in order to solving the problem of electricity case. Meanwhile, the roles of both companies also quite important where the companies from Indonesia doing joint venture with China’s side. It could be the good way for both sides that can makes the project more easy and run effectively. The China’s government also inviting the private sector to join with the power plant project development, so it is not only with the State-Owned Enterprise (SOE) that could be taking over. After all, the cooperation between China and Indonesia will be going smoothly supporting by the China’s policies towards Indonesia.

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II.3.2 Local Government

There is always supporting by the local government even though the main controlling and policy will be taking from the central government. But in this case, the roles of local government also really important in order to support the project in every single step. The implementation of local government’s function for public welfare especially in rural areas, the societies more closing with their local government and in the some certain condition they have to fulfilling the societies needs. The local government can estimate and also knowing what the resources which are available and unavailable in their area in order to accomplish people’s needs, boost the economic activities and the service allocation for public.

Figure out the area’s potential also will be the good things for local government to developing the region as well along with the cooperation with the Chinese company. Particularly, in the energy sector there will be many resources which could be using as the renewable or non renewable energy to supply the power for electricity. Furthermore, regarding with this issue, the role of local government can run their principle and functional themselves as wider as they can. Based on the supporting role by the local government in order to accomplish the project, the authority of local government is really exist and the potential to improve social welfare based on the condition and potential of the region.30

II.3.3 PT. PLN

PT. PLN has became the one state-owned company which is also having big role in this project regarding the electricity supply. Where basically PT. PLN should be understanding more about this. Along with the government even center or local and also Chinese party as the investor, PT. PLN also declared their statement in order to achieving the point of the project. Even though PT. PLN was the party that handling and controlling the system electricity, it does not means that they will be working alone in this case. Everything can not be like run independently, there must be another parties who actually support all the way as what have mentioned in the previous chapter. In case for manage

30 Law No. 32/2004 concerning about Local Government
electricity as well as responsibility and objectives of PT. PLN in case of electrical services are intended for the Indonesian societies in order to make the improvement welfare and prosperity living that equitable. Based on the Law which is related with the electricity that basically PT. PLN following this as the center of running the program will be explain in the following below:

Article 4 paragraph (1) of Law No. 30 / 2009 on Electricity mentioned that:

“Implementation of the electricity supply business by the government and the local government carried out by State-Owned Enterprise and Regional Owned Enterprise.”

(2) “Agency of private enterprises, cooperatives, and governmental organizations can participate in the electricity supply business.”

The legislation provides opportunities to the private sector to join and participate for run the electricity supply business and it means that PT. PLN will no longer alone to do this. That also same with the PT. PLN’s program which is giving the chance for private sector and also foreign investor which has good reputation will be creating good cooperation in terms of economic development and quality living through increasing the electricity capacity in rural areas.
CHAPTER III
CHINA’S ENERGY INVESTMENT IN INDONESIA

III.1 The Definitions of Foreign Direct Investment

The economic activities recently has been the major thing for any countries to improve and exist in this globalization era, which is those countries may come into and showing the strength in many aspects. The development of activities such as export, import, even investment also becoming quite often happened in developing countries. Basically, foreign direct investment refers to direct investment equity flows in the reporting economy. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.\(^{31}\) The investment is direct because the investor is seeking to control, manage, or have significant influence over the foreign countries or enterprise. Meaning, the investor can take over directly what will happen, see the risk and condition. FDI also provides a means for creating direct, stable and long lasting links between economies.\(^{32}\) Under the right policy environment it also serve as an important vehicle for local enterprise development, and it also help improve the competitive position both the recipient and the investing economy. In addition, FDI activity actually also can increasing the situation and quality of recipient (home) country, because as the writer see FDI has become the major source of external finance, which means if one country with limited amount of capital can receive finance beyond national borders from the wealthier countries. Supporting with export activities also can make the economic of the countries growth rapidly.

Moreover, direct investment include inward and outward financial transactions or position between directly and indirectly owned and unincorporated enterprises. Direct investment also referred to as foreign affiliates (subsidiaries, associates, unincorporated business) that are either directly or indirectly owned by the direct investor or their non resident branches. This made the relationship of FDI will exists in different economic situation, which is the voting power are determined using in this session. Such as a


foreign investor which actually is an entity resident in one economy that has acquired, even directly or indirectly, at least 10% of the voting power of a corporation/enterprise, resident in another economy. A direct investor could be classified to any sector of economy and could be any following of these:

- An individual: taking by the only single party
- An incorporated or unincorporated enterprise: taking by the producer unit which is not incorporated as a legal entity separate from the owner (household, government or foreign resident)
- A public or private enterprise: taking by the both parties as a legal from public or private sectors
- A government body: taking as a legal and based on the agreement from the related government.

Based on the classified type above, the case of China and Indonesia cooperation could be taking as the public or private enterprise and also a government body, because this electricity supply project taking over by the China and Indonesia government and supporting both companies whether it is SOE or private sectors. On the other hand, a direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly 10% or more of its voting power if its incorporated or the equivalent for an unincorporated enterprise. Which means that the vote will also affect the investment activities.

III.2 Applying the “ONE BELT, ONE ROAD” as the Economic Vision of China

The One Belt, One Road (OBOR) launched by President Xi Jinping in 2013 as the stated aim to connect major Eurasian economies through the infrastructure, trade and investment. The initiative from President Xi Jinping will specify into 2 contain international trade connections, which are: based on the land “Silk Road Economic Belt”

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34 Ibid, p. 47
35 Ibid, p. 50
and for the oceangoing “Maritime Silk Road”. Basically, the word of “belt” itself refers to the network of overland road and rail routes, oil and natural gas pipelines and other infrastructure projects. The stretch route will be start from Xian ( Central China ) through the Central Asia. For the “road” is the maritime equivalent that setting the network of planned ports and other coastal infrastructure projects from the Southeast Asia to East Africa and the north area in Mediterranean sea. The part of OBOR actually quite large which is including 65 countries with 4.4 billion people and its around 40% of the global GDP. This vision for OBOR itself its going well beyond the infrastructure, envisioning closer coordination of economic development policies, harmonization of technical standards for infrastructure, removal of investment and trade barriers, establishment of free trade areas, financial cooperation and “people to people bonds” involving cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges, and volunteer services. How OBOR works actually is the part of China’s government innovation in order to build trade route more smoothly.

![Image of One Belt One Road]

*Figure III.1 The Map One Belt One Road*  
*Source: chinagoabroad.com*

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37 Journal DRC - CIRSD Silk Road Forum, October 2015 held in Madrid, Spain

38 *Ibid*
From the map above, that we can see how OBOR will going to spread their trade and business activities in the whole route. Trying to stimulate not only in Asian but also in global economic growth and make it sustainable. Monitoring with the situation, China would be able to secure, particularly for the countries that undeveloped infrastructure, low investment rates, and low per capita incomes. In order to make sure these could be the experience to boost the trade flows and benefit from the infrastructure development. The existence of China’s roles through OBOR will try to keep and securing the energy and materials supply, which is currently are dominant get shipped through the Strait Malacca and the South China Sea. There are some reason that makes China can succeed in this trade activities, that’s because of the network effects, leadership, finance, and also supporting by the current stage of China’s economic development. According to the writer, the network effects in here can be explain as the connecting system based on the geography side which is the similarities from the ASEAN countries and China. The ASEAN Master Plan for Connectivity (AMPC) showing that the connection among those countries location are strategic. In the transport connectivity side, can bring the members or participating countries more closer to one another, this can facilitating better access for trade, investment, people to people, even though for tourism as well. In 2015, China put great emphasis on the neighborhood diplomacy, and also extending the investment and official development assistance in order to run the infrastructure finance which became the way of winning the support and goodwill the neighborhood developing countries.39

For Indonesia perspective, OBOR also has give some benefit to increasing the economic development, particularly for the trade activities among neighboring countries. Based on the maritime side, President of People Republic of China even choose Indonesia as the first place to catapult Plans Maritime Silk Road revive the 21st century, with the line policies of President Jokowi: return to the sea.40 Although it has long been coined, many people still do not understand yet this initiative, including in Indonesia.

39 Article “One Belt, One Road” projects by Lucio Blanco Pitlo III from https://verelce.wordpress.com/2015/08/10/one-belt-one-road-project/ published on August 10th 2015
There are still many people who does not know more about the policy of the New Silk Road. As we might see, Indonesia has big potential for economic growth, also rich in natural resources and predominantly with middle class society. Indonesia also in the list of cooperation between China and the Islamic countries because mostly the population in Indonesia is Muslim. By seeing this, the confidently Indonesia will take the benefit from the cooperation with China. The understanding of the silk road concept is really need in this case, because by joining the global production network, it will produce more job opportunities and increasing the standard living. Currently, the era and situation has changed, China no longer a country that simply exporting goods to the other places. No longer synonymous with the “cheap goods”, but vice versa China already build the new innovation to help the other countries build the industrial base. The elements of production such as wages, land, are no longer economical to produce anything in China. So that’s why China moved their production activities abroad through OBOR. In addition, without rob the jobs from other countries. China propose a model cooperation among countries, for China itself understanding there is no country that can grow alone. All the countries should take and see the benefit from this initiative, including Indonesia.

III.3 China’s Foreign Direct Investment in Indonesia

According to Xinhua news agency, China retains the title as the third largest investor in the world for two years in a row since 2012. Outward direct investment (ODI) of China reached the highest level in 2013, which is US $ 108 billion. The amount is an increase of 22.8 % from the previous year. On the Chinese side, the Chinese government and also the companies would like to build the nice relations and engage more actively in commercial relations with Southeast Asia, particularly Indonesia. Indonesia is included in one of the popular destinations for investment. In this side, there is a something that valuable for China to Indonesia that the strong and increasing interest in the extent and nature of Chinese business activities in the region. Based on industrial sector, about a half of all China’s investment abroad are invested in the energy and electricity sector since

A lot of China’s companies would like to join and do the investment in Indonesia, regarding to the strategic location and also supporting by the good bilateral relationship both countries. China have something special during do the investment activities, this is called as special characteristic of Chinese outward investment which is they can engage with the vast global network of overseas Chinese.

The investors can find the business partners and form alliances easily with communities such as sharing the same culture, tradition and also the language. The overseas Chinese are generally successful in business and seen as trustworthy partners. Chinese also will apply this kind of characteristic in order to deal with others countries as their partner business. Based on the ethnics side, many Indonesian ethnic Chinese also dominated nowadays, which also can increasing the chance of investment from Chinese companies. The role of ethnicity has been central to the shaping of the modern Indonesian economy. In here what the writer means it is about how many Indonesian Chinese also can speak Mandarin, this is one of strong reason to improving economic activities in Indonesia. The communication is the way of their major thing that applying in every kind situation to start up their business. The way they approaching has becoming the activity of diplomacy for both countries. The government’s role also needed in this case, whether is Chinese government or Indonesian government. Considering the evolution of Chinese investment in Indonesia over the time, investments itself has been evolved from being individual and isolated projects to more systematic properties. Chinese companies have acquired a broader sectors presence in Indonesia which is the energy, electricity, and manufacturing sector that companies invested.

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Based on chart above showing that China actually has build good relationships in Southeast Asia region, which is spread their investment activities for the whole Southeast Asia including Indonesia. For China, Southeast Asia has been viewed as both potential market and investment base, given proximity and land links. Generally, the market in Southeast Asia with the population nearly 600 million that actually attractive and given the Southeast Asia in many place related with the economic activities. Many types of goods are produced and among country members are enjoying. So far, this is what made China contributed to increasing the investment into industrial sector. As the diagram mention, In the year of 2009, Indonesia has the highest position of investment included $799 million. Compare with Thailand which is only $ 448 and Vietnam is $ 728. China’s has their own perspective to see Indonesia as beneficial country. Indonesia’s natural resource is the one of reason and key for China to increasing their contribution.  

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In 2013, the investment from China has been increasing rapidly in many sectors since China try to following the Indonesia’s program in this era. The total investment reached about US $ 32.8 billion which are in mineral processing, energy and electricity, communication, and property sectors.\textsuperscript{44} Intensification of China’s investment in the property market especially in the capital city, Jakarta, through the financing company (fund) or the developer has gained strength in the last two years. For example such as Hongkong Land Holding Limited and also Sonangol land. Both of these Chinese company aggressively self-adhesive grip funds in commercial properties with a high profile in the central business district (CBD) in Jakarta. One of those company, Hongkong Land Holdings Ltd develop residential projects in BSD City, South Tangerang. This project also developed around 68 hectares, which is they bought the land from PT Bumi Serpong Damai Tbk.\textsuperscript{45}

\textbf{Figure III.3 Development of China – Indonesia Project Cooperation in Property Field}

Source: navaparkbsd.org

\textsuperscript{44} Industri E-paper Bisnis Indonsia : China Genjot Investasi di Indonesia from http://industri.bisnis.com/read/20131001/257/166270/china-genjot-investasi-di-indonesia Published on October 2013

\textsuperscript{45} The Official Website of Nava Park available on http://www.navaparkbsdcity.com/ published on 2012
Previously, the company's world class giant has been collaborating with PT Brahmayasa Bahtera which is the business wing of Astra International. They built a multifunctional project consisting of apartments, offices, and hotels, also in the broadway district. This is showing that the middle market in Indonesia has big potential for China. In addition, as writer said before, there are other investors who also were interested in Indonesia, even the numbers quite a lot. They are motivated to diversify its business beyond their core business. According to Associate Director of Research and Consultancy Knight Frank Indonesia, the China’s core business are manufacturing, electricity, mining, telecommunications and even building materials. But, they are not investing in large scale, that’s only in medium and small scale. The funds they invested in major projects with the expectation of huge profits.

III.4 Total of China’s Energy Sector Investment

The investment activities which held by China has been increasing rapidly particularly in energy sector. Also by seeing the potential that Indonesia has, China do not doubt about the cooperation and investment what they did. According to Indonesia’s Investment Coordinating Board (BKPM) said that China companies has investing over $2 billion on renewable energy industry. The energy sector is not only promising for the good plan, but it has something that could be create and enhance the country’s image in terms of the developing situation and condition for more better. Through the strengthening the cooperation and one partner helping by doing investment, it also will becoming the key point for increasing the potential what Indonesia has. In another word, it could be say as the mutual benefit which completing each others since they have created partnership relations.\(^\text{46}\) The Chinese side interested to invest in energy sector which actually divided into several part, one of that part is related with the construction and increasing energy for infrastructure developing. It will also conducting by the supplying energy for electricity capacity for supporting the activities. China are going

continue to encourage to invest more and help speed up Indonesia’s economic growth. Also, both countries have recorded investment cooperation more than 3,000 projects over the last year, which is approximately one fourth of Indonesia’s electricity is generated by power plant that built by China.\textsuperscript{47} Therefore, based on the program Master Plan on Acceleration and Expansion of Indonesia’s Economic Development (MP3EI) explain that on the infrastructure development, Chinese side would like to affirm their commitment to participating in the energy and infrastructure development projects.

Meanwhile, for the realization of the investment from China to Indonesia in the first quarter in 2013 reached US $ 60.2 million with 99 projects and the investment is expected to increase if it is involved in Indonesian infrastructure projects in the Master Plan for the Acceleration and Expansion of Indonesia’s Economic Development (MP3EI).\textsuperscript{48} By this projects also the numbers of investment getting involve year by year.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Chinese Investment in Indonesia in 2013 and 2014 (by top sector)}
\end{figure}

\textit{Source : Control Risk Chinese Investment in Indonesia}

Based on chart above, the most frequent sectors for investment were metals / mining which is 34.8%. Also continue by the other sectors which is 24.2%, those are supporting

by the IT / telecommunication, property, finance and manufacturing. For energy sector is 21.4% including power plant construction and energy extraction. The last is construction sector that mostly in infrastructure development is 19.6%. These investment in every sector basically quite important for the development condition in Indonesia, since many areas that need some improvement. Regarding with the company type, the total of investment will be explain in the chart below.

*Figure III. 5 Chinese Investment in Indonesia Based on The Company Type*

*Source: Control Risk Chinese Investment in Indonesia 2013 – 2014*

In this chart showing that State Owned Enterprise (SOE) being the major total of the investment which is more than half reach about 68.0% and for the private Chinese firms is 32%. Basically the private firms have increased the investment from 2013 to 2014 while the percentage of total investment from private firms accounted almost get the exact same percentage in both years. However, according to the Chinese Ministry of Commerce the consistent of broad trend this outbound investment probably will increasing, comprised of private firms rather than the SOEs in the future. See the development of private firms and the way of their teamwork with the local entrepreneurs.

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also allows the total of investment will growing up. For example, in the year of 2015 one of the Chinese private company, China’s Minsheng Investment Corp, Ltd (CMI) announced that they will lead the group of private firms to invest US$ 5 billion in Indonesia. This investment made by this company in order to make a commitment to support China and Indonesia relations in economic challenges and also providing investment for growth. In addition, CMI also arrange the strategic to increasing the investment by the private firm and this also prove that Indonesia has become the key focus markets for China, whether its from SOEs or private sectors when it comes to going global which is the development stages of Indonesia itself. Meanwhile, most of Chinese investor also has partnered with the Indonesia China Business Council (ICBC) in its investment in Indonesia. Nowadays, the demand from the Indonesia’s market are being met by China’s mature industrial and another supporting sectors. It will be stimulate the local economy by improving the infrastructure and industrial sector in order to creating jobs, meanwhile for China the transfer of their capacity will show an improvement for the Chinese companies.

Regarding with the industrial sector, in the chart below will be explain the total average size investment deals since 2013 which is US $ 1.759 million, compare in 2014 is US$ 1.636 which is get decrease. However, as the writer said before in 2015, the total average of investment particularly by the private companies getting more higher. Even though in here the SOE still exist in the top position with US$ 2.232 and for the private US$ 1.160

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50 Article News Online Xinhua news : Chinese private companies to invest $5b in Indonesia from http://www.chinadaily.com.cn/business/2015-04/21/content_20497616.htm
51 Ibid.
However, in this case the private sector would like to balancing and increasing their performances in industrial and manufacturing sector which is continuing to construct the industrial parks. Basically, this park will bring in a wide array of sectors and also industries to the Indonesian market. If we see in the chart above, the energy sector occupy in the first position with the higher total which is US$ 4.487, continue by the construction US$ 2.880 and metals/ mining US$ 1.127. These total numbers of investment showing that how it will supporting the performance running in the industrial park. Building some project while Indonesia continue to produce more demand as the part of improvement the infrastructure. Also, this is the one of opportunity for Chinese companies to effectively and comprehensively test and run their technological in industrial sector and applying the managerial capabilities in another markets.\textsuperscript{52}

III.5 China’s Investment Management Strategy and Principals For Helping Boost the Economic Development

Development of China business strategy is an interesting and iterative process, which is the firm’s business strategy could serve as a point of departure. China is driven by a hybrid economic system that contains elements of central planning and market forces. No wonder that China need to arrange their own strategy and management in business activities such as investment in order to increasing and will be done effectively. For the Chinese companies, both SOEs or private firm need to focusing on the economic situation their state partner. Active to knowing the condition and coordinate between supply and demand. The products and services will become the shape from their investment. This is the result as the key point in business activity to develop of a viable marketing program. As we know that Chinese investors are involved in a handful of projects in Indonesia, including the planned construction of medium-speed train connecting Jakarta to Surabaya and as well as a number of power plant projects. The way of strategy marketing can we see in every project that held by Chinese company, before run the project, first of all the China introducing about their product in order to attract the demand from their costumers. Mostly, the Chinese company basically also has a role as the marketer. In the economic diplomacy way, they would like to show and offering the opportunity. There are 2 of strategy that China going to apply in running their business and trade performances:

- **Strategy of improvisation**: ability to react swiftly and creatively to the changing business environment and new opportunities is essential to survival.  

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the improvisation is the way to prove their performances so far and make them more active in handling every situation.

- **Strategy in partnership development**: paving the way to smooth business acquisition, integration and consolidation. This part is very important for China which is build the trusting each others as the business partnership could be the good way to run the business. Figure out the potential from the business partner and giving some feedback as well.

For China companies that operating in the international market where societal values are quite important, especially the corporate cultures differ could be more challenging. Therefore, China companies especially private sector would like to make the decision making in their investment activities. Appropriate discretionary power is granted to investment based on the specific product characteristic, run the right project, and having the principles of proper accountability in order to ensure the gradual progress in investment performance. This approach aims basically is to fully incentivize investment and encourage the accountability, flexibility and disciplined management.

If talk about the principles of the investment, one of the head Chinese private company, the CIC would like to share their commitment to being a prudent, professional, and responsible investor operating globally with good reputation and being the example of company that can show their performances in the international market.\(^{56}\) According to Annual Report 2014 of the China Investment Corporation (CIC), there are 4 principles that related with their investment activities as the private company, which are:

1. Invest on the commercial basis, which is the objective is to seeking maximum returns for the shareholder within acceptable risk tolerance.

2. Being a financial investor and do not seek control of the companies

\(^{56}\) *China Investment Corporation Annual Report 2014*. Investment activities p.21
3. Being the responsible investor, abiding by the laws and also regulations of China and recipient countries or regions and conscientiously fulfilling the corporate social responsibilities.

4. Pursuing the investment based on in depth allocation framework to ensure prudent and disciplined approach both in decision-making and the investment activities.

By conducting the principles and knowing the investigation of the investment management and economic responsibility, it also become the important thing for China to improve overseas investment management and increasing the competitiveness market. Also, it will enhance the auditing investigation in order to promoting the accountable management, sound and effective enforcement of internal control and risk management. Meanwhile, regarding with principles there will be the philosophies based on the characteristic and understanding of the investment management, there will be some explanation below:

- Guided by the company’s concept and take a holistic and discipline approach to analysis and management to ensure well integrity and stability result
- As long-term investor, we are well positioned to strengthen the cooperation

By these kind of philosophies, the writer see that CIC itself would like to review the public market strategies and sub strategies in accord with the asset of allocation goals to bid the refine and consolidate the public markets investment management. The actively role in pursue the long term investment with focusing the real assets with stable return while prudently implementing the post investment management of invested projects.\(^5\)

China believe that focusing with the refining in house investment and improving the management systems and also procedures for investment analysis are the most important. On the other side, emphasized the long term value investment and in depth fundamental analysis itself also being the important part, supporting by the improve the performance evaluation system for research analysis to better integrate research for the investment activities. In the explanation below there will be some of type investment regarding with

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\(^5\) *China Investment Corporation Annual Report 2014. Investment activities p.38*
the strategy and principals management based on the investment’s type for China, including with the private companies:

- **Long term investments**: by this investment, response to the market environment featuring excessive liquidity and fierce competition for quality assets is the number one. Because based on the quality assets itself will be describing how does it work and could it be run effectively. Therefore, there will be another thing that China need to focus in this part, which is more proactively to strengthen exchanges and cooperation with domestic and foreign companies, also with the peer institutions in order to enhance further the capabilities for deal sourcing and investment management.  

In addition, in Indonesia itself, the long term investment from China could help this country to develop new production bases which is make an import contribution to the country’s future economic growth especially for the long term.

- **Direct Investment**: For direct investment, China adjusted and optimized the assets allocation among industries and strategies based on through analysis first, because of this they will know well related with the industry trends and regional markets itself. In addition, they will weighted the long term assets investments towards the real assets. By generating the steady cash return and paid more attention to exploring the infrastructure investment and see the opportunities that exist in the emerging markets. Also, including with the greenfield projects and keeping close watch on mature assets in the developed markets. For Indonesia, its also giving the benefit which is increasing the dependent on exporting primary products, cause of the trade relations with China.

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58 *China Investment Corporation Annual Report 2014*. Investment activities p.38  
59 *Ibid*. p.39
Fund Investment: Based on the fund investments, the company will be sized the opportunity for new rounds of fundraising. In here, the company will continue the extensive communication and exchanges with the external partner and also industry partners to be more proactive in exploring the opportunities investment cooperation. In the end, the result will be the total number and value of the deals investment that increase significantly.  

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60 China Investment Corporation Annual Report 2014. Investment activities p.39
CHAPTER IV

ANALYSIS OF CHINA’S INVOLVING IN PARTICIPATING AND PROVIDING ELECTRICITY SUPPLY IN EAST KALIMANTAN PROVINCE

IV.1 The Electricity’s Condition in East Kalimantan Province

Kalimantan is the one of island which is rich of natural resources and one of the province, East Kalimantan also become the produce of gas and rock which is as basic material for energy supply. However, even the natural resources very sufficient, it does not mean that the quality of electricity could reach out of until all areas in East Kalimantan province. The lack of electricity and the limited of infrastructure makes the uneven distribution of electricity and unstable supply. The existence of power plant as the main transmission energy resources for distribute to all places. Since the year of 2000 until today, the electricity was very limited conditions in East Kalimantan.\textsuperscript{61} As a result, some areas in times of peak load in the afternoon and evening, industrial area and public areas are losing the electrical power and need to uses their own generator for having the power. This is made East Kalimantan province has facing with the electrical crisis. The local government cooperate with PT. PLN trying to renewable the energy in order to produce support the power development. Coal and gas are the main resources of the material for developing the energy supply. Meanwhile, the low capacity that happen there is totally inhibit the growth of the local economy. The local government try to utilizing the energy resources as optimal as possible. Plant development directed to the center of Steam Power Plant (PLTU). However, apparently the realization was difficult. Electrical system in East Kalimantan is currently divided into two systems, many of those are focusing in Diesel Power Plant ( PLTD ) as the center power.\textsuperscript{62}

The power generator in East Kalimantan province is combination of PLN and the generation of IPP (Independent Power Producer). Based on the PT. PLN data, the total

\textsuperscript{61} Report : Electrical Condition by Ir. Sukahar, Deputy Manager Operational PT. PLN of East Kalimantan Province 2012

\textsuperscript{62} Data of region development : Power plant condition in East Kalimantan available from https://kalteng.go.id/ accessed on 12\textsuperscript{th} November 2016
capacity in each area in Kalimantan island is still below 1,000 MW. Back in the previous years which is 2010, the composition of the generation was for PLN, and Diesel Power Plant (PLTD) amounted 247 MW, Gas Power Plant (PLTG) 40 MW, continue with 60 MW Gas and Steam Power Plant (PLTGU) and the total capacity of PLN is about 347 MW. Meanwhile, the capacity of the IPP is 45 MW and the total of combination of both PLN plus the IPP amounted to 392 MW. The PLN’s East Kalimantan region also rented generators to cover the shortage of power supply in working area in order to add more energy supply. This rent generator actually can reach the capacity up to 138.35 MW.

Figure IV.1 Map of Electricity System in East Kalimantan Province
Source: Laporan Penyusunan RUKD Provinsi Kalimantan Timur 2013

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The map above explain about the electricity system in East Kalimantan province, which is each areas in there have their own capacity for supply the energy power. The power outage quite often happen in there and the local government together with the local communities also do some effort in order to increasing the electricity quality. Based on the information from the map also showing that how little the total capacity in each areas in East Kalimantan.

Through the Joko Widodo’s program 35,000 MW also intended to East Kalimantan which is the total electricity about 10,000 MW and all the areas will get the impact with the good quality of electricity. Dividing the number of this capacity is a combination of Northern and Eastern Kalimantan province. The government also believe that the capacity 10,000 MW will be meet the needs of local societies and province developing. Also, the government wants electrical connectivity system in Kaltimra (North and East Kalimantan) not only concentrated on Mahakam system, but also need to be built in Sungai Kayan so could be reducing the burden and leveling of electricity in that area. Since few years ago, the sector Mahakam is a place where the flow of electrical energy distributed to all areas in East Kalimantan. There are some companies which has been set up their plan that ready to realizing the construction of power plant 10,000 MW in East Kalimantan. The companies here are combination between local company and private. The regulation should be dependent of PLN, which is the party that giving permission on that. They are ready to build throughout granted permission by PLN, because the key is in PLN. Energy actually just need to stay organize. East Kalimantan province also has power plant in Karingau, Balikpapan with capacity of 2 x 200 MW, then in addition there are also Gas Power Plant in Kutai Kartanegara with a capacity of 2 x 100 MW which is still hampered by number of rules. The problem still following the increasing and quality of electrical system in here.

Based on the explanation above, it can be concluded that the scale of electrical capacity in East Kalimantan could be say as little to medium only, not in huge scale. The point is about the capacity which is need to reach up to 10,000 MW to ensure the equitable of electrical impact and prosperous life the local societies. If the generators can

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operate optimally, it can be supplying to less area in order to fulfill household needs and industrial development. Since the Mahakam System has been the place to piled all those energy to spread out, it makes Mahakam lost of controlling and full of capacity which is cannot bear the huge load of power. Generally, power outage was happen spontaneously or it was planned by PLN, because of the situation that does not support for power supply. It was planned due to routine maintenance of plant machineries and the cable tension, while it was occur spontaneously due to an interruption in these tools and plant equipment, as well as fuel supply delays and the excessive use by the societies. Mahakam system has riveted by five plants that use diesel fuel as well, and one is using gas and steam power. Blackouts in this system occurs for several reasons, which are because of the peak load of an average 160 MW up to 195 MW, so that plant should operate beyond the ability and it also out of the procedure. As a result, the power plants are susceptible to damage and not functioning properly. The supply which is not ideal and working system of turbine plants are also irregular. In addition, this imbalance also makes the engine power plant is functioning optimally. Many things that PLN need to observe and figure out in this case, regarding with the supply, engine, and quality of power plant itself in order to produce the power and long lasting work. As well as the using of diesel for the long term, particularly for the turbine engine that actually not used to be using the diesel, it has became serious problem. Changes the procedure is totally makes the engine itself no longer work as well.

On the other hand, the use of diesel continuosly can lead the engine’s damage rapidly. Another thing is about the filter of plant that need to be replaced every day. While the cost required about five up to ten million rupiah. Whereas when using gas, the filters need to be replaced only once a month. In addition, plants also should be treated and service, when the services is going on and the power output was reduced. It means the power not high as usual when its on service. It is also has became the other cause of blackout. PLN should have the ability of sufficient funds for investment of new plant construction, this is a subject matter that is significant in this case. Also, plus with PLN’s plans to turn off the diesel generator with a capacity of 100 MW because of the huge

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This critical condition was not proportional along with the wealth of natural resources in East Kalimantan.

Therefore, this actually can be anticipated and minimized by the cooperation between government of China and Indonesia along with the support by PLN which is invited the foreign investor especially China in order to do direct investment in energy sector, so there were no power outages in large quantities and the time limits can not be determined. The PLN’s target should be realized as soon as possible due to lack of condition in East Kalimantan. Based on the calculation from PLN, they emphasized that in 2017 the power will reach up to 1,030 MW which is can resolve the high power up to 630 MW.

Related with the case in East Kalimantan province, basically an electric power system is a network of electrical components used to supply, transfer and use electric power. An example of an electric power system is the network that supplies a region's homes and industry with power or sizable regions, this power system is known as the grid and can be broadly divided into the generators that supply the power, the transmission system that carries the power from the generating centers to the load centers and the distribution system that feeds the power to nearby homes and industries. The electricity system consists of three phases, which are: generation, transmission and distribution of electricity. Electricity does not exist as a natural resource and it is therefore necessary to generate it. Generating energy means transforming into "electricity" the power obtained from primary sources. This transformation occurs in power plants. Transmitting electricity means transferring the power produced in the plants to consumer areas. Meaning that the function of electricity itself has a big role in this world. In the past, the minimum of used the power electricity was became the something that very rare, especially for the developing country like

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69 Official Website Systron Power technology available on http://www.systronpower.com/technology-business published on 2010

70 Terna Official Website available on https://www.terna.it/en-gh/sistemaelettrico/cos%C3%A8ilsistemaelettrico.aspx published on 2011
Indonesia, because in the past the technology not supported and the development also quite slow.

Comparing with the others developed countries which more modern and high of technology. The rate of developing countries can moving toward the distant goal of rural modernization is largely determined by the direct and indirect energy flows into agriculture, which is agriculture is the most important to do the activities in order to use it as effectively as possible. On the other hand, it also expected to make up a larger fraction of energy consumption in the future than at present. The standard of living or quality of life achieved in any community and for any group of people may be measured, for practical purposes by the quantity of total energy used per capita.\textsuperscript{71} It has been widely recognized that the preceding statement is more appropriate for societies in which production and distribution of energy secure and widely spread than for LDCs. As the writer see that nowadays the higher income of a country, the greater is its electricity consumption and the higher is it’s the level of human development. The existence of electricity totally help to increasing human development and societies activity, so in order to improve human development, the electricity itself should be incorporated into the basic public services construction to enhance the availability of electricity for low income residents. Based on the basic electrical theory, there will be some of quantities that will be explain below:

- **Electrical Current**
- **Potential Difference (Voltage)**
- **Power**
- **Resistance**

These basic electrical theory showing that how important it is to measure the quality of electricity. Such as the conductor, when the electric circuit flows through it and then the magnetic field will be develops around the conductor. Meaning, it will be increasing the power capacity. Current in here is measured in amps. Also, there will be potential difference which is often referred as voltage. The generator showing that to generate the electrical power, a coil is mounted close with the magnet in order to spinning.

\textsuperscript{71} V, Dalal, J. Energy Covers. 1973. P.85
on a shaft. As the poles of the magnet sweep past the coil, voltages of alternating polarity are induced in the coil.\textsuperscript{72} Even though the basic electricity relationship is about the fundamental generator. So, regarding the investment from China, knowing the equipment well is the best thing. Such as the output, known the system and the alternating current, whether the type of power electric utility companies supply to businesses and homes.

- \textit{Alternative Current (AC) and Direct Current (DC)}

For the AC, This type of electricity commonly used in homes and businesses throughout the world. Meanwhile, for the DC is continuous in one direction, which is the current in AC electricity alternates in direction.

- \textit{Electricity Works in The Power Plant}

As the previous part mention that generator has the important usability to create and moving the energy. Regarding how does it works, the power plant itself produce three phases of AC power simultaneously, continue with the others four wires coming out of every power plant.\textsuperscript{73}

On the other hand, the existence of energy from the natural resources also very important for living standard of societies in rural areas. As we know that Kalimantan and Sulawesi produces so many energy resources. How Indonesia as the state can use the energy as well for development. Meanwhile, supporting by the policy and economic strategy also can improve the total development effectively together with China as the business partnership. The chart below will explain about the type of energy that can using to improving the electricity’s quality.

\textsuperscript{72} Article \textit{The Electricity Forum : Basic Electricity – Electrical Definition} from http://www.electricityforum.com/basic-electricity.html copyright 1996 - 2016

From those kind of energy, the using of electricity development programs are included by the non-renewable and renewable energy which is the process of power plant itself could be run from both energy. Each energy has the different power of moving process.  

**IV.2 China’s Point of View of East Kalimantan Province**

As the official partner business for Indonesia, China has their own view to look at Indonesia as the state that high and rich as natural resources. Through the strategic partnership also makes China would like to join in various sector in order to help developing the condition in Indonesia, particularly in East Kalimantan province. The Joint Statement in Energy Developing and Infrastructure has signed by both parties. China agreed and interested to work together with Indonesia’s local company. The huge potential that East Kalimantan has, it such a big chance for China to show their role as partner for Indonesia as well. Meanwhile, based on the information from PLN that Indonesia consumes more coal due to power plant development, and East Kalimantan region has role as the producer. This is the point what China see from this chance, plants project accepted by China’s side and they trying to run as soon as possible following by the regulations from Indonesian government.

On the other hands, China also established and strengthen the strategic relations on national energy supply by doing investment activities based on the agreement. China trying to figure out the condition and current situation in East Kalimantan as well.

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Monitoring every single things in that region, divided those things that important and not important. Then, China’s side through the diplomacy way asked Indonesia regarding with the sustainability development. Vice versa, Indonesian government and PT. PLN as well accepted and more open minded with all the suggestions and opinions by China’s party related with the plants project. Indonesia realized that they have no power and enough cost too manage the natural resources and producing the good quality of electrical power. China’s investment here could says as the luckily partnership that Indonesia ever had. Because, the condition in East Kalimantan currently really need something new to enhance the quality and quantity of their power energy. As what have mentioned on the previous part, PLN itself would like to improving the transmission, generation, and distribution. It is not only one thing, but all those things are related each others so can makes the electrical power spread out easily. The power that East Kalimantan has is very huge, and it depends on the government how they can manage it as well. As the state-owned electricity distributor, PLN explained that Indonesia needs a total 81 million tons of coal for domestic power generation.\textsuperscript{75} Coal as the natural resources and as the basic power for energy supply should be using as good as possible.

\begin{table}
\centering
\begin{tabular}{|l|c|c|c|c|c|c|c|c|c|}
\hline
\hline
\textbf{Production} &  &  &  &  &  &  &  &  &  \\
\textit{(in million tons)} & 217 & 240 & 254 & 275 & 353 & 412 & 474 & 458 & 376 \\
\hline
\textbf{Export} &  &  &  &  &  &  &  &  &  \\
\textit{(in million tons)} & 163 & 191 & 198 & 210 & 287 & 345 & 402 & 382 & 296 \\
\hline
\textbf{Domestic} &  &  &  &  &  &  &  &  &  \\
\textit{(in million tons)} & 61 & 49 & 56 & 65 & 66 & 67 & 72 & 76 & 80 \\
\hline
\textbf{Price (HBA)} &  &  &  &  &  &  &  &  &  \\
\textit{(in USD/ton)} & n.a & n.a & 70.7 & 91.7 & 118.4 & 95.5 & 82.9 & 72.6 & 60.1 \\
\hline
\end{tabular}
\caption{Indonesian Production, Export, Consumption & Price of Coal}
\end{table}

\textit{Source: Indonesian Coal Mining Association (APBI) & Ministry of Energy and Mineral Resources}

Based on the table above, it shows how Indonesia as the producer and the user of what they have being produced. Focusing on coal energy as the power of increasing the infrastructure through the electricity system on the plants, China also seeing this as the duty for them to managing the coal that quite increasing each years. Even though it getting lower in year 2016, however it does not makes China going down to. Together with Indonesian government which is always supporting every single ways, chance, and the ability between two parties, China and Indonesia. China’s government also invited the private company to join investment on energy sector, and as explained in the previous part which is not only the state-owned company, but private company also participate in this time. Together with same goals to build the new innovation for the better future in East Kalimantan province. Even though during the project activities China found many obstacles, but it does not makes China surrender to work together with Indonesia. As we know in East Kalimantan province, some of regions that lack of road which means that its quite difficult to reach the location’s project.76

However, China’s side looks there will be a potential from the region even the infrastructure do not support. In addition, China also likes to build something that from nothing to something. It means that they would like to trying boost the economic condition in East Kalimantan province. Meanwhile, there is another reason why China interested with this province is because the influencing from PLN itself. By seeing the regulations and the vision of PLN its also made China would like to moving as soon as possible and showing their passion on it.

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As the investor, China need to figure out and understanding the policy what have PLN made on this. Coal is the non-renewable energy that Indonesia’s party actually need to keep and developing the natural resource. Also, the innovation to expand the coal as the power until reach the small region is the thing that PLN together with IPP and forgeign investor need to do. PLN as the high buyer of coal should find the way how to manage it all without get any problems. Even its quite hard but at least they can realization and running the plans as well. On the point number 5 explain about to increase the coal quality which means that with the clean coal technologies. In here, China’s role one more time is very important to do the plants project with the plan that they have made before related with the quality, not about the quantity.  

Even though they produce many coals but the quality is low, it means that the energy supply will not going well. So, PLN hopes that will be any changes during the investment activities from China which could help to boost the economic and life quality of peoples in East Kalimantan as well. The increasing of access electricity by using the coal energy for people also need the full support from central and local government too, so that’s why the electricity access to remote areas will be increased as well. It could be the good way to utilize the potential resources in each areas. So, the cooperation with

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77 PT. PLN Data Coal Supply’s policy PDF available from www.bumn.go.id/pln
accessed November 13th 2016
China also need to doing well regarding the partnership in economic development and infrastructure activities.

**IV.3 China’s Electricity Project in East Kalimantan Province**

Through the agreement between China and Indonesia which has been explain in the previous chapter and also the roles of PT. PLN which is to distribute all the things related with the energy and manage the systematical of power plant in order to run the projects. Through the PT. PLN’s policy which more open with private sectors that would like to join and invest in energy sector in order to help PT. PLN in financial side or even the plants engine. Meanwhile, as what have mentioned in the previous part that the project development of electricity parties included in the Independent Power Producer (IPP). From the total of 35,000 MW power, PT. PLN has divided into 10,000 MW will be taking by PLN, and the rest 25,000 MW will be taking by the private sectors and foreign companies. So, this kind of project energy development actually are open for those parties, but the government emphasized and focusing with the Chinese investor based on the cooperation in Joint Statement in developing energy sector. Also, it is supported based on the Law No. 30 / 2009 about Electricity on the Article 4 paragraph (2) that mentined “Agency of private enterprises, cooperatives, and governmental organizations can participate in the electricity supply business”. In Kalimantan itself, each region need at east 1,000 MW of supply electricity, because most of the capacity in those area is below 1,000 MW. China as huge state and as the business partner with Indonesia trying to approach and observe what happen with the East Kalimantan’s situation and what makes East Kalimantan lack of electricity. This is the way of China’s work and put their place as partner with Indonesia.

On the other hand, China’s government also invited all the Chinese company whether its state-owned or private company to join in this project. The project will be divided into 2: Project Support Mahakam and Maloy Project. In the year of 2013, these project started and has been done in 2015. Time has changed, currently the private

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78 PT. PLN Data PDF : 35,000 MW for Indonesia
80 Official Website of East Kalimantan’s Government : *KIPI Maloy Potential* available on [http://www.kaltimprov.go.id/hal-potensi-kipi-maloy.html](http://www.kaltimprov.go.id/hal-potensi-kipi-maloy.html)
Chinese company has big role in investment activities in energy sector. Building power plant and together signed the agreement with local company as Joint Venture to develop plants. Another company try to supply the equipment for power plants. Basically, many things that China’s side can do in this project and all it depends on the agreement from both sides.

Based on the view and see the reality what happened in East Kalimantan along with the natural resources that they have, China try to do some innovation by doing something on the plants with using the natural resources there such as Gas and Steam power plant. Particularly with the CIC group that supervise the Chinese companies which is going to invest. The Chinese government also take the role to keep monitoring the companies which has joined. The local government really accepted the offering from Chinese companies and keep communicate intensively related with the project. The serious plan that have been made by Chinese side is something that innovation for East Kalimantan as the province that could say lucky on this, because the aid and roles from Chinese government trying their power in order to develop electrical quality through the potential of natural resources in that province. The Chinese companies that doing investment and cooperate with local company will be explain below.

**IV.3.1 China Shenhua and Adaro Energy (Project Support Mahakam)**

Both companies has agreed the Joint Venture cooperation to build the power plant by using the coal power as the basic energy. In here, China’s side do not work alone which is there is partner from local company that joined together to run the plant project. Developing of this plant has capacity up to 2 x 300 MW or equivalent to 600 MW and once operational will be supplying to the network owned by PT. PLN.\(^ {81}\) Even though the scale of capacity not too high, but at least this is a chance for China to invest as long as using their power to develop the power plant together with local company. It would be beneficial and influence the situation and condition in East Kalimantan as well. However, in this project the director explain that the composition of ownership in this is 51%.

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owned by China Shenhua and the remaining 49% by Adaro.\textsuperscript{92} It means that mostly China take over this project with their investment on this and the project also will be financed with the project financing scheme, where most of the total investment depends on the agreement between the parties.

Then, the electricity from the plant will be supplied to the integrated transmission network owned by PLN and distribute to East Kalimantan province, particularly in downtown area. Meanwhile, this project actually also agreed by both parties through the agreement of both companies also follow up of the holding Indonesia China Trade, Investment, and Economic Forum which is organized by the Chamber of Commerce and Industry of Indonesia (KADIN). Before starting to build plants near by the coal mine, and China Shenhua will start mining the low calorie coal as an energy source of the power plant.

\textit{Figure IV.4 Process expanding the power generation for Indonesia’s growing demand for electricity in East Kalimantan


However, China also will contribute to produce high quality and affordable electricity in Kalimantan together with Adaro. They will create the maximum value from Indonesian

coal, including encouraging economic development in East Kalimantan province. So, through this project the energy will not focusing only in Mahakam system that controlling the energy load from some plants, but this will be the additional support for Mahakam system. Earlier, the director of Adaro Energy explained that the company plans to build a power plant with a capacity of 1000 MW per year. However, the plans quite hard to run for recently due to condition that not support. It needs the extra source, engine and equipment and also the fast timing to build regarding with the deadline situation in this province.

As the government says, they require additional electricity capacity as much as 4000 up to 5000 MW every year. If this energy load all charged to PLN, confirm they can not afford it. Luckily, from the government project 35.000 MW, half from 25.000 MW it could be take over by Independent Power Producer (IPP) and the foreign investor. Although, the target could not reach up to high scale but at least the project now already made local government satisfied when the actual capacity only 40%. According to the investment in the energy sector is quite expensive with the Internal Rate of Return (IRR) were not high but it is constant every years. So, the good thing is China’s investment in this plants project called as half scale which is enough for supplying energy. Meaning, the national development planning minister ensure that the government requires an investment from national and international private companies to participate to build power plants in the next five years.83

Based on the information from the government that Indonesia need huge cost to build 35,000 MW power plants including in East Kalimantan province. Figure out the cost problem in this project, China Shenhua trying to invest half on it, which is handling 51% including the cost and running the machines.84 Following by the huge additional capacity of generation, transmission and distribution. According to the company’s policy of investing in electricity, the project will be financed through project financing where the most financed by non-recourse project debt financing.

83 PT. PLN Data PDF : 35,000 MW for Indonesia accessed on November 28th, 2014
From the explanation above, the participating of China Shenhua will be divided into 3 types, which will be elaborate below:

1. Financing: based on the financing that China Shenhua taking 51% from the cost which is 30 billion USD.  
2. Distribution of equipment: the equipments and machines support for developing power plant support Mahakam also distribute from China Shenhua (capacity up to 600 MW)  
3. Workers: the workers also from the China Shenhua company which joined with the local company’s workers of PT. Adaro as well

However, in this case Domestic Market Obligation (DMO) not only focusing on the quantity of energy resources, but also the quality of coal fired power plant as the basic sources developing. Luckily, China Shenhua is the one of China’s largest coal producers company which is can be trusted to handle this project.

### IV.3.2 Additional Projects (Maloy Project Power Plant)

The other projects also coming with China’s private company which is Kwan Yin Energy International cooperate with the local company PT. Ifat Samboja Energy. The potential that East Kalimantan had is the special thing that attract the foreign investor especially China to join and invest on it. Actually, in this project, China would like to run related with developing of international port Maloy and power plant in the industrial area which is located in Kutai, so it called as 2 in 1 project. Kwan Yin Energy International invest about 1 billion USD (equals to 1,000 million USD) for both project which will be divided into 50% and power plant in the industrial itself reach up to 800 MW to support the factory activities. On that occasion, local government still like the same which is open for foreign investment activity, particularly in the acceleration of economic development and regional infrastructure. The local government stated that they really open and hiring private investors from local even foreign companies. East Kalimantan

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85 PT. Adaro Energy Indonesia : Report from Tri Hasanah as Finance Staff Department PT. Adaro Indonesia
has several industrial areas which being developed, so basically for factories and others activities industry, there is Maloy Batuta Trans Kalimantan Economic Zone (MBTKEZ) located in Kutai region. This areas basically quite interesting for developing the plants as the support panel for infrastructure due to industrial area. The explanation in this project will be elaborate below:

1. Financing: based on the financing that Kwan Yin Energy taking the cost about 1 billion USD the power plant building to support industries and port

2. Distribution of equipment: the equipments and machines support for developing power plant focusing in industrial area and also developing the international port also distribute from Kwan Yin Energy company (capacity up to 800 MW)

3. Workers: the workers also from the Kwan Yin Energy company and cooperate with the workers from PT. Ifat Samboja Energy.

The intention of Kwan Yin Energy International to build power plant must be very strategic in accelerating the development of the industrial area. The cooperation between both companies has agreed to take over this project and this China’s company also experienced in business activities in various countries, so there is no need to doubt the ability of this company. The decision has made by this company is like business to business between China and local company. Infrastructure in Maloy recently still in the low condition, because the progress developing still on going, and the power plant capacity in there about 2 x 100 MW.\(^{87}\) Indonesian government would like to focusing investment by using national natural resources, which is coal. So, China as the partner business could help through the investment and their ability to handle all the energy problem in this region.

**IV.4 Beneficial’s gain from Mahakam and Maloy Projects**

Through the projects Mahakam and Maloy, there have been created the results and benefit for the living quality in East Kalimantan province. From the generation for power

\(^{87}\) Official Website of East Kalimantan’s Government: KIPI Maloy Potential available on [http://www.kaltimprov.go.id/hal-potensi-kipi-maloy.html](http://www.kaltimprov.go.id/hal-potensi-kipi-maloy.html) accessed on 15th November 2016
plant itself in Mahakam’s project gain up to 600 MW\textsuperscript{88}. However, the benefits that gain from the relations between China and Indonesia is the main point on this issue. Through the relations and then continue with the projects is the implementation from this cooperation. Starting from the entire field, particularly for Indonesia as a whole until coming to the specific part into East Kalimantan province. It show that the relations and cooperation which build by China and Indonesia has been work as well. Through the agreement and FDI, then continue with the other steps that supporting to run the target in the cooperation and achieve the goals.

Based on the explanation on the previous chapter and see how is it works, there are so many beneficial things that both sides got from this, including Indonesia as the party who receive the benefits as well. However, it does not mean that China’s side do not get as a party as the investor. Both countries did a great job in order to achieving their mutual goal, particularly in electricity developing aspect. Meanwhile, from the general part there will be many beneficial aspects from this cooperation, which is going to explain below:

- **Strengthening the cooperation**: Through the bilateral agreement and the implementation between China and Indonesia side, it is automatically will strengthen the relations both sides which is through the projects in East Kalimantan province. However, it also taking place China as the first party that also doing the investment activity in the other fields.

- **Transferring technology and knowledge**: The cooperation between China and Indonesia also created the beneficial things such as transferring technology and knowledge, which means that from the projects also China’s side willing to share their ability and knowledge in order to running the projects along with the knowledge in electricity development. The technology that transferring such as:
  (a) Engines for development power plant’s project in East Kalimantan
  (b) Sharing the experience among the workers due to joint venture project
  (c) Machines for managing the natural resources

  Through the joint venture between China and local company also build the sharing mindset and knowledge regarding with achieving the goals. It is also

occur in the other fields which is not only in infrastructure aspect, but also social welfare, economic, tourism and so on.

• **Creating the innovation**: This part basically also the benefits from the cooperation, because the existing of strong relations between China and Indonesia will create something good as the innovation. Innovation in here is the ideas that came up from both countries as their contribution as the partner.

(a) China created the idea of support the electricity supply in East Kalimantan
(b) China do contribute as the partner for Indonesia

Both countries agreed that they will create the mutual understanding and beneficial. So, from the situation and condition that happen in Indonesia currently, China trying to help and play their role as well. As what previous mentioned about China invest in property aspects, energy and until now coming to the electricity supply. These kind of activities that China did could say as an innovation in their relations. On the other side, the existence of this cooperation also opening the chance for job fields to the workers.

The implementation of benefit’s from those projects will be taking place in the distribution energy of power plant will make based on the energy system. On the previous paragraph has been describe about the making process from the coal fuel, then continuing by the transformation from the coal energy into the steam power plant. In the figure below will explain the transformation and connectivity step by step until the power reach into the home.
The energy comes from the power plant and then going to step up transformer to the tower, from the tower distribute to transmission, substation, and distribution home. Next will be reach to transformers and in the end the power electricity going to connect to the home. The process of getting electricity itself actually by these 3 part, which is: Generation, Transmission, and Distribution of Electricity. The first process in the delivery of electricity to consumer is the process of generating electric power from the other sources of primary energy, such as water, gas, sun, steam, wind, east, fossil.\textsuperscript{89} This is why the power plant has big role in order to develop in quality of electricity regarding with the standard living societies, such as for developing activities, reducing the electrical problem (blackouts) and so on. Basically, both projects have the same value and benefit for East Kalimantan’s province, which will be explain below:

1. **Project’s Support Mahakam**: the capacity gain up to 600 MW for support the Mahakam sytem that will be function to support enhancing the entire East

\textsuperscript{89} Article Electricity System Operator : How Electricity Gets to You from https://nsong.org/Pages/ContentPageLink1.aspx copyright 2016
Kalimantan’s electrical system for current situation, but it will be reach up to 1,000 MW in the next phase.

2. **Maloy Project**: the project is 2 in 1 which is also taking place in building the international port and also power plant in factories area which is reach up to 800 MW and it was help the condition in the industrial area in East Kalimantan province, exactly in Kutai area.⁹⁰

Regarding with the results, this is how Project Mahakam and Maloy show the benefits from the power plant. Through this figure, we can try to understanding more deep about the quality and quantity of Indonesia’s electricity system which is really influencing the living situation, particularly what happening in East Kalimantan province through Mahakam and Maloy Project. Some of places in Indonesia still lacking of electric quality. It could be from the electricity system, the equipment, or the other factors related with the quality of power plant itself.

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CHAPTER V
CONCLUSION

Based on the bilateral relations that has been made between China and Indonesia, both sides agreed to strengthening their cooperation in various sectors, especially in energy supply. Based on the Bilateral Agreement that explained about the two sides would like to taking full advantages for both sides. It means there will be create the mutual benefit from the cooperation. Therefore, they also would like to increasing good and friendly cooperation particularly in supplying the electricity in rural areas such as Kalimantan island. The mutual respect and understanding will be the key point to strengthen and the way for both sides to accomplish their goals. Foreign Direct Investment (FDI) is the one good way to increasing and boost the economic growth in Indonesia. Then, China as the partner of Indonesia has agreed to doing investment in electricity supplying. The investment also will be related with the fund along with the workers, distribution, and equipment for building the power plant projects.

Therefore, because of the bilateral agreement has been made and figure out the situation as well, the step going continue with the Joint Statement Comprehensive Partnership which is explaining more specific about the plan ahead related with the electricity supply investment from China. Indonesian government accepted and welcoming the Chinese side to join with the project 35,000 MW like what stated in the Joint Statement: The Indonesia side welcomed the Chinese side to participate in the construction of the 35,000MW power plant in the next phase and stands ready to explore cooperation in the planning, construction, operation and maintenance of electrical grids with the Chinese side. It means that China will not only doing in the one side only, but will be working in the many sides such as fund, construction, and so on. Along with the policy orientation by China which now more emphasizing in building and strengthening partnership, promoting common development, implemented the principle of sincerity, mutual benefit and understanding and having stable relationship.

Through all of these kind of cooperation, strengthening the bilateral relations in every aspects would be the first consideration for both countries. Due to situation and condition in Indonesia which make China would like to trying develop and increasing
their participations in order to help Indonesia’s economic growth. By seeing the Indonesia’s potential also made China interest to do investment activities based on the agreement which made and signed both countries. China has been investing with the huge total which is reaching about 2 billion USD in renewable energy sector and the total all energy investment about 4.887 USD. It proves that the energy sector investment has been the top high position rather than others sector. Then, there is no doubt for China to investing in Indonesia because of feeling of mutual trust as the partnership. On the other hand, the potential that Indonesia has also makes China interesting and would like to offering the changes for the better future of Indonesia. Enhance and boost the economic development through increasing the energy and infrastructure are the main program for China – Indonesia partnership cooperation.

A lot of problem there related with the electricity which is need to faced. The energy capacity does not reach out until the small area in East Kalimantan, also the electrical distribution uneven is the root of the problem. This kind of problem actually has becoming the crisis of electricity that the local government and State-Owned Enterprise of China or Indonesia need to find the solution due of the situation that does not support for developing the energy. However, the main problem that always happen is about the power outage, no matter the location it is whether in downtown even in small areas. This phenomenon widespread about power outage that happen in many areas in East Kalimantan like a tough homework for PT. PLN, because almost every day power outage occurs in turns. The number of costumers is increasing every year, it makes PT. PLN need to balancing between the demand and supply. How the electricity could distribute to every household, industries, and others place without get some problem. The electricity’s condition in East Kalimantan is below 1,000 MW. PT. PLN itself try to be more open minded to welcome and accepted all the parties, whether it is State-Owned Enterprise from the China side or the private enterprise. It means that the PLN’s program has attracted the foreign investor particularly China to help improving the energy supply in East Kalimantan. After all, China finally invest about 51% which is 30 billion USD in Mahakam support project, and then continue with the 1 billion USD for Maloy project. These project actually not only taking by fund, but supporting with the distribution and building the power plant as well.
Along with the supporting by the Indonesian government, SOE, and the private enterprises it could be the good way for achieving the goals between Indonesia and China related with their strategic partnership for building another power plant project in East Kalimantan. As what the company of Adaro Energy and Shenhua did together to build the project. Following by the rules and regulation related with the agreement and joint statement, this is one thing that China need to figure out the policy and system in Indonesia. On the other side, strengthen with the Law No. 30 / 2009 regarding with the Electricity Power which is explain that PT. PLN will not working independently to fulfill the people’s needs but there are many parties that having good reputation which could be help to provide more supply in electricity sector. Along with the PT.PLN’s program that emphasized for 25,000 MW will be taking by the Independent Power Producers (IPP) and foreign companies which is China.

The potential that East Kalimantan province has will becoming the answer of the problem that Indonesia government facing, because still many areas in Indonesia that lack of electricity then it cause of blackout problem in the long term. It also because of the capacity that actually not complete yet to fulfill the electricity’s needs. The lack of equipment or manage the power plant also the reason why the blackout still happen until now on. It means that the quality of the power plant along the resources that supporting for the plants must be focus on and this is will be the main duty for Indonesian government to solving this problem. China need to be ready and exploring this cooperation in the planning, construction, operation, and maintenance. Both sides agreed to conduct the cooperation on the power plant construction through sustainable environmental technologies on mutually beneficial basis. Along with the increasing demand for electricity as a primary need, the relations between supply and demand here are not balance. The condition does not support to supply the energy through infrastructure, particularly in East Kalimantan. Through the joint venture China and Indonesia there are 2 projects that will be run : Mahakam project and Maloy project which supporting by the transferring technology for development generation and transmission of projects.
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