

CHAPTER I

INTRODUCTION

A. Background

State-owned enterprise is a national entity that concern on providing goods and services from national wealth which are purposed for economic development. It is also a part of economic cycle in Indonesia.¹ According to the Law of Indonesia number 19 of 2003 about state-owned enterprise, in which state-owned enterprise has an important role in improving national economy in order to achieve the welfare of society. Based on data, the overall assets of state owned enterprises in the last 4 years or from 2015 to 2018 grew an average of 12 percent.² In 2018, the assets reached Rp 8,092 trillion, up 12 percent compared to 2017.³ This is the proof that state owned enterprises have a big value for the national economic development.

In that case, the law has clearly stated that state-owned enterprise has big role to develop national economy. Recently, many state-owned enterprises have expanded to international arena. This triggers a good breakthrough along with other corporations. In which, it also supports a diplomacy of state through economic.⁴

Diplomacy is an essential pillar for a sovereign state. It cannot be separated from one of the ways of diplomacy for a country to build national development. Indonesia is a country that makes the economy as the foundation of national

¹ MediaBUMN. (2019) *Apa itu BUMN? Pengertian BUMN, Sejarah dan Daftar BUMN di Indonesia*. Retrieved from <https://mediabumn.com/pengertian-bumn/>

² Setiawan, S. R. D. (2019, April 14). *Sepanjang 2018, Total Aset BUMN Capai Rp 8.092 Triliun*. Retrieved from <https://money.kompas.com/read/2019/04/14/192233926/sepanjang-2018-total-aset-bumn-capai-rp-8092-triliun>

³ *Ibid.*

⁴ Suara Merdeka. (2019). *Diplomasi Ekonomi sebagai Fasilitas*. Retrieved from <https://www.suaramerdeka.com/amp/smcetak/baca/209450/news/>

development because basis of government conduct is social welfare.⁵ Therefore, Indonesia uses economic diplomacy to gain an advantage from the existence in global economic partnership. Recently, Indonesia starts to concentrate and focus on trading and investment project abroad. Those two factors are aimed to national development project. In other word, the economic diplomacy will become a starter of this project.⁶

In its implementation of economic diplomacy before becoming a priority, economic diplomacy of Indonesia which is reflected by the Ministry of Foreign Affairs did not have a role or a minimal role in managing Indonesia's economic policies, both for policies that were both external and internal. Some of the main economic external activities are carried out by other Ministries such as the Ministry of Trade and *Badan Koordinasi Penanaman Modal* (BKPM) for investment and financial activities.⁷

After several years, Ministry of Foreign Affairs had controlled economic activities regarding to the economic diplomacy project. Indonesia's economic diplomacy achieved a realization value in 2015 until 98.32% from the target of 79%.⁸ Indonesia also succeeded in completing the agreement in the economic, financial, and development fields at the bilateral, regional, and international levels as many as 66 agreements, exceeding the specified target of 48 agreements.⁹ Ministry of Foreign Affairs also managed to establish economic ties with

⁵ Besley, Timothy (2006). *Principled Agents? : The Political Economy of Good Government*. Oxford : Oxford University Press. p.11

⁶ Kementerian Koordinator Bidang Perekonomian Republik Indonesia. (2017). *Investasi dan Perdagangan sebagai fokus utama Diplomasi Ekonomi Indonesia*. Retrieved from <https://ekon.go.id/berita/view/investasi-dan-perdagangan.3715.html>

⁷ Killian, Erza (2012). *Paradigma dan Problematika Diplomasi Ekonomi Indonesia*, Retrieved from <http://journal.unair.ac.id/download-fullpapers-jgsd095c88cd12full.pdf>

⁸ CSIS Working Paper Series. (2018). *Analisis Kinerja Kementerian Luar Negeri (2015-2018)*. Retrieved https://www.csis.or.id/uploaded_file/publications/analisis_kinerja_kementerian_luar_negeri_2015-2018_.pdf

⁹ *Ibid*, 21.

potential markets in other regions such as South Asia , Central Asia, and several countries in the Latin American region. The implementation of economic diplomacy has been carried out in a more coordinated manner, involving state-owned enterprises and also the private sector that supports international trade. Moreover, there are four priorities of foreign policy which are stated by Ministry of Foreign Affairs in Jokowi’s era such as maintaining the sovereignty of Republic of Indonesia, protection of Indonesian citizens abroad, economic diplomacy, and the role of Indonesia in the region and globally.¹⁰

In recent years, the government of Indonesia has decided to make economic diplomacy becomes one of the ways in diplomacy due to its essential function in national development plans. Economic diplomacy becomes crucial in relations between countries because it will give an impact for the national development.

Kode SS	Sasaran Strategis (SS)	Kode IKU	Indikator Kinerja Utama (IKU)	Tarikh 2018
(1)	(2)	(3)	(4)	(5)
B.2	Diplomasi Ekonomi, Sosial dan Budaya yang Kuat	IKU B.2.1	Indeks Diplomasi Ekonomi, Sosial dan Budaya	94,48
		Sub IKU 1	Jumlah Kesepakatan di Bidang Ekonomi, Sosial, dan Budaya	83
		Sub IKU 2	Persentase Kemajuan Penanganan Perdagangan Bebas dan Investasi	100%
		Sub IKU 3	Jumlah Data Economic Intelligence Negara/Wilayah Asing yang Dimiliki	127
		Sub IKU 4	Jumlah Database Kebijakan Perdagangan yang Dimiliki di Forum Multilateral	82
		Sub IKU 5	Persentase Bantuan Kerjasama Timbul yang Membantu Pelebaran Ekonomi	70%
		Sub IKU 6	Persentase Posisi Prakteks/Rekomendasi di Bidang Ekonomi dan Sosial Budaya yang Diuraikan pada Forum Regional dan Multilateral	89,75%
		Sub IKU 7	Jumlah Promosi Trade, Tourism, and Investment (TTI)	90
		Sub IKU 8	Persentase Naik/turun Mengenal Kebijakan Indonesia di Bidang Ekonomi, Sosial dan Budaya yang Dituar di Berbagai Media Berteknologi Asing	90%
		Sub IKU 9	Persentase Diskursus Mengenal Kebijakan Indonesia di Bidang Ekonomi, Sosial dan Budaya yang Didiskusikan di Berbagai Forum Internasional	80%
			Indeks Pelaksanaan dan Peningkatan	

Figure 1 Performance Agreement of on Economic Diplomacy, Social and Culture in the Ministry of Foreign Affairs

¹⁰ Kemenlu. (2019). *Menu paparkan capaian 4 prioritas*. Retrieved from <https://kemlu.go.id/athens/id/news/34/sampaikan-pernyataan-pers-tahunan-menlu-paparkan-capaian-4-prioritas-inidiplomasi>

Of course, this has been observed by the government in order to conduct economic diplomacy well-maintain. It can be seen from the government's seriousness in building cooperation with other countries. It would be reflected in the performance agreement of the Ministry of Foreign Affairs.¹¹

In essence, economic diplomacy emphasizes the government's efforts to increase the capacity of its trade markets such as production, import-export policies, distribution of goods, and services within the international trading scope. Economic diplomacy will link with international trade. It is one of the important aspects of every country in term of economic. Within international trade, the economy will create a relationship that affects one country to another country. International trade generally is an activity that aims to improve the welfare of the state — one of them by doing export and import activity between countries. It is focused on allocation of economic assets between countries.¹²

In the modern economic era, companies tend to expand abroad. This is also part of diplomacy through cooperation, at least there will be some benefits such as the ease of entering a new marketplace, strengthening competitiveness, and increasing the productivity of the company and give national income from doing export-import. It also relates with the idea of globalization that institution will be influenced after the existence of industrial revolution¹³. Globalization and interdependence in term of national economies will be very important action.¹⁴

¹¹ Kemenlu. (2018). *Perjanjian Kinerja Kementerian Luar Negeri Indonesia*. Retrieved from <https://www.kemlu.go.id/AKIP/PK%20MENLU%202018.pdf>.

¹² Vijayasri G.V. (2013). *The Important of International Trade in The World*. International Journal of Marketing, Financial Services & Management Research. Retrieved from <https://pdfs.semanticscholar.org/0c65/06f1ab891cb40206230f6d841cb7e11796a7.pdf>

¹³ Allen, R. (2011). *Global Economic History : A Very Short Introduction*. Oxford : Oxford University Press

¹⁴ Gilpin, Robert (2001). *Global Political Economy : Understanding the International Economic Order*. Princeton : Princeton University Press.

Gradually, it will become an integration of economy as well as trade and international cooperation grow rapidly¹⁵. the global economy creates easiness for companies to gain access for cooperation. It can be achieved through a bilateral or multilateral approach. Within a huge chance of bilateral and multilateral approach. The manufacture industry sector is one of promising one. This sector provides significant economic growth in Indonesia. Indonesia's manufacture industry is growing up step by step. In addition, Indonesia is in the transition from an agrarian-based economy to a semi-industrial economy.¹⁶ In order to increase national economic growth, manufacture industry also plays an essential role in international trade because indirectly manufacture industry has promoted the best quality goods from Indonesia. At least, the technology will determine the grow of trade of an industrial nations.¹⁷ The manufacture industry sector is a reasonably stable sector and one of the pillars of the country's economy within a positive growth rate.¹⁸ Furthermore, the economic's experience will arise when efficient of production requires specific skill in specific field.¹⁹

From various types of Indonesia's manufacture industries that penetrate the global market, PT INKA (*Industri Kereta Api*) has become one of the public highlights lately. It is an industry that produces train product for a domestic and foreign commodity. PT INKA is a state-owned company that conducts international trade activities in several countries. It is

¹⁵ Kenen, Peter (2000). *The International Economy*. Cambridge : Cambridge University Press.

¹⁶ Ratuwalu, B. (2016). *Transisi Masyarakat Agraris Menuju Masyarakat Industrial Indonesia*. Retrieved from www.e-journal.president.ac.id.

¹⁷ Kenwood, A.G. and Lougheed, A.L. (1999). *The Growth of the International Economy 1820-2000. Fourth Edition*. New York : Routledge.

¹⁸ Peran Penting Industri Manufaktur dalam Perdagangan Internasional. (2016). Retrieved from <https://news.detik.com/adv-nhl-detikcom/d-3350486/peran-penting-industri-manufaktur-dalam-perdagangan-internasional>.

¹⁹ Oatley, Thomas (2011). *International Political Economy*. London : Pearson Education. p.92

a good thing for Indonesia to increase the higher market level. That is the international market. It cannot be separated from the role of PT INKA that always increase in all aspects to be able to compete with other state-owned train companies or industries abroad. In 2016, Bangladesh became a state destination for PT INKA.

Bangladesh is a South Asian country that has a dense population within an estimated 168 million people.²⁰ The most populous region is the big city area, including the capital city of Bangladesh - Dhaka. There are many improvements including the economic sector that need to be developed by the government. As a densely populated country. Of course, the level of mobilization is quite high. One of the facilities used by residents who work in cities are commonly public transportation.²¹

Train in Bangladesh is one of the leading transportations that is useful by citizens. Unfortunately, the government still overcome transportation problems that need to be improved for its citizens in terms of cities integration and urbanization planning.²² It also becomes the concentration of Bangladesh's government to provide good public transportation for residents and foreigners because transportation is an important part of the realization of a well state.

The significant achievements that made by Indonesia and Bangladesh are such as of mutual cooperation. PT. INKA becomes an important actor as Indonesia's representative. In doing economic diplomacy, all of sides will support together in supporting economic diplomacy including state-owned enterprise. It is the proof that PT. INKA has already produced

²⁰ World Population Review. (2019). *Bangladesh Population* Retrieved from <http://worldpopulationreview.com/countries/bangladesh-population>.

²¹ Zulfikar.A.(2017). *Public Transportation in Bangladesh*. Working Paper, p.7. Retrieved from https://www.researchgate.net/publication/318727300_Public_transport_in_Bangladesh

²² Reazul, A. S. M.. (2003). *Sustainable transportation policy for Dhaka city, Bangladesh. (Thesis)*. University of Hong Kong, Pokfulam, Hong Kong SAR. Retrieved from http://dx.doi.org/10.5353/th_b3126098. p.3

an export quality product and competitive in global market. Noted by PT. INKA, it has already linked around ASEAN countries cooperation such as Malaysia, Philippine, and others.²³ Then, it expanded to several countries in South Asian such as Bangladesh to support economic diplomacy of Indonesia. Moreover, the achievement that PT. INKA has done towards Bangladesh is appreciated by Prime Minister of Bangladesh.²⁴ In infrastructure sector, it must support by train that mobilizes the society. Therefore, PT INKA agrees to cooperate with Bangladesh in accommodating train product.

By giving a glimpse of information, this research will emerge the research question by how are the impacts of PT.INKA's involvement in achieving the goals of economic diplomacy between Indonesia and Bangladesh?

B. Research Question

According to the background information that has explained above. The research question of this writing would be;

How are the impacts of PT.INKA's involvement in achieving the goals of economic diplomacy between Indonesia-Bangladesh ?

C. Theoretical Framework

In this research, the researcher reveals a concept which relates with the topic. That is Economic Diplomacy

Economic Diplomacy

In the international arena, the relation among countries become an essential thing. It could be said as the interaction among actors can be achieved through communication, one of them is diplomacy. Diplomacy can generally be understood as a way of managing relations between nations through

²³ INKA. (2018). *Kinerja Perusahaan Annual Report dan Rencana Jangka Panjang Perusahaan (RJPP)*. Retrieved from <https://www.inka.co.id/corporation/19>

²⁴ Diplomasi. T. (2017). *Diplomasi Ekonomi Secara Total*. (2017). Retrieved from <http://www.tabloiddiplomasi.org/diplomasi-ekonomi-secara-total/>.

negotiating paths. The primary purpose of diplomacy is to find solutions to problems that arise in relations between countries by prioritizing negotiations to avoid as far as possible the use of violence, which often harms many parties.

According Moons and Bergeijk on their journal stated that economic diplomacy contains three elements,

“(a) the use of political influence and relations to support and / or increase trade and investment, (b) the use of economic assets to increase the conflict cost and enhance mutually beneficial relationships, (c) consolidate the international political situation in economic sector to achieve the goals”.²⁵

In a specific term, economic diplomacy is the process across the world to maximize their political gain in all the fields of activity, including trade, investment, and other forms of economically beneficial exchanges, where they enjoy the advantage. It has bilateral, regional, and multilateral dimensions, every part is essential.²⁶ To accommodate it, economic diplomacy also covered a lot of international economic activities in the forms of

- Export & Import
- Investment
- Lending
- Aid
- Free trade agreement, etc.²⁷

The broad scope of economic diplomacy and the subject matter of international economics involves relation among sovereign state.²⁸ It requires active participation not only from

²⁵Bergeijk, P.A.G., dan S. Moons. (2009). “*Economic Diplomacy and Economic Security*”, New Frontiers for Economic. Retrieved from [https://www.researchgate.net/publication/228213995 Economic Diplomacy and Economic Security](https://www.researchgate.net/publication/228213995_Economic_Diplomacy_and_Economic_Security)

²⁶Kishan S. Rana. (2007). *Economic Diplomacy: the Experience of Developing Countries*. <http://www.cuts-citee.org/CDS03/pdf/CDS03-Session1-02.pdf>,

²⁷Bergeijk, P.A.G., dan S. Moons. (2009).*Loc.cit*

²⁸Krugman, Paul and Obstfeld (2008). *International Economics : Theory and Policy. 8th Edition*. Boston : Addison-Wesley.

state actors, such as the foreign ministry and the ministry of trade, but also from non-state actor such as PT. INKA. Therefore, effective partnership and collaboration between states become point of the keys to success behind the implementation of economic diplomacy. More than that, Killian said that economic diplomacy in Indonesia needs to be involved in several points. Those are external economic management, policy management, role of non-state actors and function of economic aid.²⁹

In modern system, some of the most critical roles and aims of diplomatic missions is to assist the participants of international economic relations in the work of their own countries on the host country's markets, to protect and monitor the observance of the country's interests in the course of their activities and to organize them without interference in their economic activities, representing its own country, where the financial, economic and political situation leads to its recognition as a reliable foreign trade partner, helping its participants to carry out international trade activities, organizing negotiations.³⁰ To enhance economic diplomacy, it is influenced by several factors. According to Baranay on his journal, economic diplomacy is affected by (1) process of internationalization and interdependence of world economic system that resulted global and regional integration. (2) expansion of market area will liberate national economy and international trade activities and investments.³¹ Moreover, based on Ye Hao on his journal, economic diplomacy also will be addressed to interest oriented. Economic diplomacy carries

²⁹ Killian, Erza. (2012). *Paradigma dan Problematika Diplomasi Ekonomi Indonesia*, Global & Strategis, p.172

³⁰ Baranay,P, (2009). *Modern Economic Diplomacy*. Latvia, Publications of Diplomatic Economic Club, p.7 Retrieved from http://www.dec.lv/mi/Baranay_Pavol_engl.pdf

³¹ Ibid. p..5

out the cooperation of trade towards countries involved agreements.³²

In economic diplomacy, a country will carry out economic cooperation which certainly has a positive objectives and impact on the countries involved in it, in general it will have an impact on increasing foreign trade and investment. The value of trade and investment will increase with trade agreements agreed by the countries involved. and expanding export commodity markets to various countries. For the recipient country will have an impact that is the fulfilment of the country's needs, the development of the country's economy, and also to encourage the advancement of technology which they are needed.³³

Relating to the issue, application of economic diplomacy reflects to this cooperation. It means the existence of Ministry of Foreign Affairs and other both government agencies will support economic diplomacy. The use of economic asset means the assets of Indonesia (PT. INKA as state-owned enterprise) that will enhance mutually relations. Also, the consolidation in economic sector under bilateral relation between Indonesia and Bangladesh also give an improvement in foreign trade and invest and it valued in economic diplomacy. It indicates that the involvement of PT. INKA in economic diplomacy revealed a significant impact for Indonesia as home country and Bangladesh as recipient of Indonesia's economic diplomacy. In this case, the actors are Indonesia's Ministry of Foreign Affairs, PT INKA as representative of Indonesia's state-owned enterprise and the government of Bangladesh.

Therefore, this research will analyze the impact of PT.INKA's involvement in achieving the goals of economic diplomacy between Indonesia and Bangladesh in 2016-2018.

³² Hao, Ye. (2014). *Some Thoughts on Deepening Economic Diplomacy*, China Institute of International Studies,. Retrieved from http://www.ciis.org.cn/english/2014-01/20/content_6623715.htm

³³ Indriani. (2018). *Dampak Kerjasama Positif dan Negatif Antar Negara*. Retrieved from <https://greatedu.co.id/greatpedia/dampak-kerjasama-positif-dan-negatif-antar-negara>

D. Hypothesis

After knowing the materials above, the researcher could make a hypothesis. Therefore, the impacts of PT. INKA's involvement in economic diplomacy between Indonesia and Bangladesh were:

1. The improvement of Indonesia's economic diplomacy in foreign trade and investment.
2. The development of Bangladesh mass transportation. Especially in railway sector

E. Purpose of Research

1. To find out the significant impacts of state-owned enterprise' involvement in economic diplomacy.
2. To know how important of the cooperation of Indonesia – Bangladesh for both actors.
3. To enrich the knowledge of International Relations issues.

F. Research Method

Research Method is a form of rules, activities and procedures which are used by actors in a discipline³⁴. In other words, the methodology is a process to investigate within specific ways to achieve objectivity. Based on the title, the analysis will focus on Indonesia's economic diplomacy that run by state-owned enterprise (PT. INKA) within cooperation with Bangladesh's government. In doing social research, it must concern on elements of social theory such as observations, facts, laws as well as the concepts and variables that relates with topic.³⁵

In order to achieve it, the researcher used a qualitative methodology. This method will reveal the behavior and perception of a target in particular topic. As well as the

³⁴ Jatmika, Sidik. (2016). *Skripsi, Metodologi & Romantikanya*. Jurusan Hubungan Internasional UMY & Samudra Biru Publisher. p.83

³⁵ Babbie, Earl. (2009). *The Practice of Social Research 12th Edition*. Chapman University. p.87

qualitative methods originated in social and behavioral sciences.³⁶ The qualitative method intended to focus on the behavior or action analysis. This method will ease the author to analyze the conduct of the actors.

In the technique of collecting data, the researcher used a secondary source. A secondary source could be obtained from books, journal article, report news, credible website which relates to this topic.

In this research, the method of analysis would be a descriptive approach. There will be a description of the impacts of PT.INKA's involvement in economic diplomacy between Indonesia and Bangladesh.

G. Scope of Research

This research will be limited from 2016-2018. This timeframe will avoid over explanation toward the case of PT INKA cooperation activities. The timeframe will be highlighted from 2016 since the cooperation between PT. INKA Indonesia and Bangladesh's government towards export train commodity. Then, continuously until 2017 when the government of Bangladesh took a plan to re-cooperate with PT INKA and was preparing export train commodities in 2018.

H. Outline

This writing is divided into five chapters. These are:

Chapter I

The first chapter involved Background, Research Question, Theoretical Framework, Hypothesis, Research Methodology, and Scope of Research.

Chapter II

The second chapter discussed state-owned enterprise and Indonesia's foreign policy to develop state-based corporation. It contains of introduction of state-owned

³⁶ Bhat, Adi. (2019). *Qualitative Research : Defintion, Types, Methods and Examples*. Retrieved from <https://www.questionpro.com/blog/qualitative-research-methods/>

enterprise as well as its policies in developing state-owned enterprise.

Chapter III

The third chapter explained the development of PT.INKA Indonesia in international trade and investment. It discussed a certain descriptions of PT. INKA's track record in entering global market.

Chapter IV

The fourth chapter described the significant impacts of PT. INKA's involvement in economic diplomacy. This chapter emphasized the proof of hypothesis. It discussed about the improvement of Indonesia's foreign trade, investment and the development of Bangladesh mass transportation.

Chapter V

The fifth chapter concluded the materials that have been analyzed in the previous chapters generally.