

# CHAPTER I

## INTRODUCTION

### **A. Background**

International relations today is not only related to the conflict, military, and politics, but also has involved an economic dimension in the process of relationship among the international actors. Economy has become a part of international relations that is always associated with other dimensions. In his book “Global Political Economy”, Gilpin said that international political economy is the global dynamics of the interaction between the pursuit of power (politics) and the pursuit of wealth (economy), that there is a reciprocal relationship between them (Gilpin, 2001).

Globalization brings countries to compete in improving quality. In the economic dimension, countries continue to focus on the national economic growth, i.e. the fulfillment of national requirements for progress and their prosperity. In this case, energy becomes one of driving force of economic development since it provides an essential input to the economic activity. Energy plays a bigger role in countries at an intermediate stage of economic development, because industrial production often makes a large contribution to economic growth at this stage. The energy intensity of manufacturing, expressed as the amount of energy used to produce a unit of GDP, is generally much higher than that of other economic activities (Energy and Development, 2004). Peter Voser, the Chief Executive Officer of Royal Dutch Shell, said that energy is the “oxygen” of the economy and the life-blood of growth, particularly in the mass industrialization phase that emerging economic giants are facing today as their per capita GDP moves between approximately US\$ 5,000 and US\$ 15,000 (Voser, 2012).

The availability of energy and its affordability can affect economic development. The United States is a clear example of a country who always tries to fulfill their needs in energy, especially oil and gas to increase their economic as well. In this case, Indonesia is the main purpose of the U.S. to dredge their gold opportunity.

Indonesia is the country that has most complete mineral resources in the world (Watch, 2012). According to the Annual Report of BP Migas (2010), Indonesia's oil reserves have been proven totally 4.23 MMSTB (Million Stock Tank Barrels) and the Indonesian gas reserves that have been proven totally 108 TSCF (Trillion Standard Cubic Feet). Moreover, according to the latest findings (2014), SKK Migas claimed to discover new potential reserves of 43.7 MMSTB, which is mostly located in the offshore area. Indonesia's oil reserves are 0.4 percent of world oil reserves and natural gas reserves in Indonesia contribute 1.6 percent of the world natural gas reserves, the 14 largest in the world. Even, before 2006, Indonesia had been an exporter of LNG (Liquefied Natural Gas) in the world for almost three decades (Amri, 2014). Therefore, it was not strange if since 1970 Indonesia has made oil and gas as the maintaining export commodities.

The condition of natural resources in Indonesia that is very potential has made the Multinational Corporations (MNCs) which is mostly come from America interested to invest in the country. It has been a century ago the oil and gas foreign companies were alive in the country and dominated the oil and gas industry strongly. The interest of capital and business networks by managing the development of market for crude oil from Indonesia makes these companies still maintain its existence in this industry (Djoemadi, 2015).

This matter happens since America is an industrialized country that relies on oil and gas. America puts energy as a very important commodity since in a year, America can drain 24.6 percent of world oil consumption. In fact, American population is only 5 percent of the world population. Thus, controlling Indonesian oil becomes very important as an alternative,

especially when the area of the main U.S. oil suppliers in the Gulf churned (Syeirazi, 2009). Moreover, if the U.S., can hold it, it will be a strong grip for them to become stronger state. It is as if Michael Collon said in *Monopoly*, “If you want to rule the world you need to control the oil. All the oil. Anywhere.” (Gupta, 2002)

It cannot be denied that energy need is not just a simple case. It gives a significant impact on the development in each country. Energy here is the oil and gas that can affect geo-political and geo-economy conditions of a country in international sphere, it even can lead to a conflict. Considering that, in 1970 America and Western European countries were experiencing an oil crisis. Geo-political and geo-economy developments of oil increasingly played its role. Hence, it can be said that energy security is closely related to the nation sovereignty. This condition makes the U.S. enrolled its interest agenda through Indonesian government, which is oil producing countries. With its power, the U.S. embraced the liberal principles influencing Indonesian oil and gas policy to apply to achieve their own interest. Energy, particularly oil and gas was the first liberalized sector of various national economic liberalizations, even the liberalization in this sector runs very massive (Hadi, 2012). In The Public Discussion of The Impact of Fuel Price Increase in Jakarta, Deputy Director of Wahana Lingkungan Hidup Indonesia (WALHI), Erwin Usman stated that 84% of national oil and gas production is in foreign controlled. “A total of 329 oil and gas block in foreign hands. If it is placed on Indonesian map, then Indonesia is mortgaged.” (2008).

Oil and gas case always be a warm issue that must be concerned. Moreover, this case raises many controversies and debates. Therefore, the author is interested to withdraw this case into a thesis entitled “*The Intervention of United States in Liberalization of Indonesia Oil and Gas Industry*”. Through this thesis, the author will analyze how the U.S. intervention in terms of the application of liberal practice could occur in Indonesian oil and gas industry.

## **B. Research Question**

How is the intervention of the United States in liberalizing Indonesian oil and gas industry?

## **C. Theoretical Framework**

The author requires theories and concepts that will be used as the basis of this research. In this case is about The Intervention of United States in Liberalization of Indonesian Oil and Gas Industry, the author uses Neoliberalism theory, International Organizations concept, and Structural Power concept to analyze the case.

### **1. Theory of Neoliberalism**

Neoliberal existed in 1980s as one of perspective of international relations. Robert Keohane and Joseph Nye are the experts who ignite the thinking. Globalization, investment, and trade liberalization are the results of an idea of neoliberal. In its practice, public industries shifted to the private ownership in which eventually the private will come into their victory since there are many changes in policies. Neoliberal is going to be more dominant and marginalizing the role of state. Neoliberal wants a declining of state's role as well as the movement of free market and believes that such systems can bring the country towards peace and prosperity. Deregulation, liberalization and privatization are their main concepts of this perspective. Gilpin asserts that in developing countries, deregulation, privatization and other reformations has decreased the role of state in economy. It can be said that neoliberal perspective has changed state-dominated toward market-dominated (Winarno, 2009).

During post-World War II, developed countries who dominated world governments, developed and implemented a set of rules, institutions, and procedures that governed all the aspects and systems of international economic relations management in view of regime of

international commerce that has begun since this time. This period called as *the Bretton Woods System* in which this period is based on three political foundations, such as the power concentration in small number of countries, the existence of a common interest of those countries, and the presence of dominant power runs a leadership role (Kindeleberger, 1973). A strong dominance of the U.S. has made it as a leader of this system. In essence, this system aims to create economic liberalization and free markets. More details, this is the base of neoliberalism.

Today's international economic system cannot be separated from the economic dynamics in the past *the Bretton Woods System*. With an increasingly integrated economic system to go beyond boundaries of state, the market is getting more dominantly interacting each other. The presence of new non-state actors has made the state and market relations is getting more complex and has made the state increasingly loses the authority to regulate its own economy. Based on those values, the U.S. must have a regime and institution that can help to achieve national interests. In this case, the Letter of Intent between Indonesia and the IMF as a fresh wind to the U.S. to intervene Indonesian oil and gas sector. The IMF is one of international organization whose values are essentially governed by *the Bretton Woods System*. In the signing, the IMF gave several requisites contains of neoliberal values, such as replacing existing laws with a modern legal framework; restructuring and reforming Pertamina; ensuring that fiscal terms and regulations for exploration and production remain internationally competitive; allowing domestic product prices to reflect international market levels (Umar, 2012). The values were emphasized by the United States Agency for International Development (USAID) involvement in providing financial aids for oil and gas bill. It is resulting in deregulation, which is changing the oil and gas law to reduce the role of government in national oil and gas political economy; the loss of Pertamina's role as state

ownership enterprise; even the increasing number of MNCs in national oil and gas industry for the success of free market.

## **2. Concept of Structural Power**

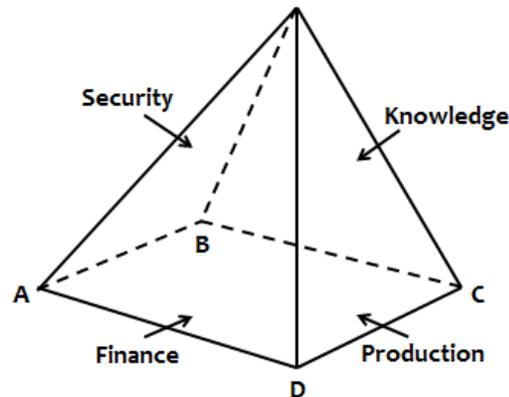
International relations put power as the most fundamental thing since it is the main key of state to success. According to Morgenthau, power means the ability to control the minds and actions of others (Safdar, 2014). State can achieve its interests and even be able to influence or intervenes other states if it has a great power. As in this case, United States with its power as super power state can intervene Indonesian oil and gas industry.

The political processes determined the establishment of market role. Susan Strange in *States and Market* asserted that politics and economics have a bond in which there must be politics in economics process. It means that power as something required in maximizing the state's role in the international political economy. The power determines how the action will be undertaken to achieve the goal. Global political economic structure will be established and determined by the amount of power, where the system includes a variety of actors such as state, international organization, MNCs, and holders of international capital who will work on it.

According to Strange, the structural power is divided into four kinds, there are security structure; economic structure; financial structure; knowledge structure. Those four kinds of structural power are illustrated by a *model of tetrahedron*, where each structure is nudging other structures and shore up each other.

Figure 1.1: Illustration of Structural Power by Model of Tetrahedron

Source: (Strange, 1988)



From those four structures, in analyzing by using the concept of structural power, this case concerns on the production structure, financial structure, and knowledge structure. The structural power of U.S. in the field of production shows that the state has ability to determine the mode of production that can achieve prosperity and use its power to consolidate and maintain the political power, establish rules and regulations as well as build political institutions (Strange, 1988). In the financial structure, with loans and financial aids, the U.S. can strengthen its power in the intervention, considering that financial is an aspect that may affect the business extensive (Winarno, 2009) and even decisive relationship and competition within international economy. While in the knowledge structure, knowledge can be used to maintain and develop the excellence of state. Technology is a form of knowledge used as a tool for enforcement and acquisition of power. Technological development is brought by MNCs combined by management strategies as well as result of state policies and of market trends resulted in a success within international business (Strange, 1988).

### 3. Concept of International Organizations

Grotian, International Relations scholar, assumes that states, like individuals, are ultimately 'sociable'. It means that states have a deeply rooted sense of obligation to create and respect rules of international society. According to Grotian, stems from man's nature as a rational and social creature give risen to a commitment to reciprocity in international dealings

(Meierhenrich, 2012). Gortian's statement has been proven since in this global era, the role of International Organizations is becoming increasingly significant and more important in international system. Globalization brings states toward the integration and interdependence. International Organizations is one of important actor for the state in almost every affair. As the perception of liberal Institutionalists that International Organizations is the arena or forum for the inter-state policy (Andreev).

Alexander Andreev considers International Organizations as bureaucracies with their own logics, norms, and interests, enabling one to look at them as independent non-state actors (Andreev). In addition, Abott and Snidal argue that "International Organizations can become autonomous possess legitimate authority and control over expertise" (Haftel & Thompson, 2006) since they act with their own authority, such as create and implement regulations, set the agendas, even construct the social norms in society (Kaldor, 2002). Because of that, most of states that has bound to those international organizations, has obligation to obey the standard, regulations, and policy that are already set.

By those explanations above, the author uses this concept as the hint to analyze the case. Since in this case, international organizations like USAID, IMF, even MNCs, hold imperative role in the liberalization of Indonesian oil and gas industry not only as a cooperative reason, but also as their own foreign interest by imposing institutionalization or system of liberal through involving in the policy of economic and oil and gas industry in Indonesia (Hadi, 2012). This is exactly described by Martin Khor that one of the main characteristics of globalization is the globalization in the mechanism of national policy-making that are now within the jurisdiction of a government and people in the territory of nation shifted to under the influence of international agencies or big companies as well as economic and international financial actors (Khor, 2002).

#### **D. Hypothesis**

The intervention of United States in liberalization of Indonesian oil and gas is by emphasizing structural power values in terms of financial, production, and knowledge. Then, by production and technology capability brought by MNCs, the U.S. is able to develop their oil company in Indonesian energy. Moreover, U.S. used International Organization such as IMF and USAID to expand the intervention Indonesian oil and gas industry.

#### **E. Research Purposes**

The author has purposes in writing this research. The purposes as follows:

1. To find out and explain the strategy of United States in influencing or intervention the liberalization of Indonesian oil and gas industry.
2. To find out the impacts of oil and gas liberalization by United States.
3. To understand the development or the case of country and its relationship with other countries.
4. As the final project, the requirement to obtain a bachelor degree in International Relations Major, Faculty of Social and Political Science, University of Muhammadiyah Yogyakarta.

#### **F. Scope of Research**

In order to the analysis is not widespread and can be more specific and detailed, the author uses limitations to this research. The range of research about The Intervention of United States in Liberalization of Indonesian Oil and Gas Industry is in 2000-2005 in which that is the day of the intervention occurs.

## **G. Description of Methodology**

The type of research methodology is a descriptive qualitative based on systematic, factual, and accurate data collection about the facts as well as the relationship of a phenomenon.

In accordance with the object of research to be discussed that is specific case study, this research is a case study analysis. Yet, in this research, the author was not directly involved in field surveys but through literature study, which used data from various media such as books, articles, reports, newspapers, internet, thesis, as well as other official data published by the government.

That kind of methodology explains the basic theory, concepts as well as secondary data or facts that are bound to be used in analyzing the problem formulation. So that this methodology will be used as reference material to draw the conclusion and this thesis can be resolved.

## **H. System of Writing**

To get a clear and systematic research, this thesis is divided into five chapters in which there is explanation of the problem within each chapter. This is the designed research planning of thesis “The Intervention of United States in Liberalization of Indonesian Oil and Gas Industry”:

**Chapter I** : This chapter provides the introduction of thesis. This chapter consists of background, research question, theoretical framework, hypothesis, research purposes, scope of research, description of methodology, and system of writing.

**Chapter II** : This chapter provides the explanation of Indonesian oil and gas industry. The outline of this chapter is the history of Indonesian oil

and gas industry since the resources was found in colonial era, old era, new era, up to reformation era.

**Chapter III** : This chapter provides the explanation of the intervention of United States in liberalization of Indonesian oil and gas industry. The outline of this chapter is more explanation about the implications gained by Indonesia due to the intervention did by United States, in which the implications are divided into two objects there are downstream sector and upstream sector.

**Chapter IV** : This chapter provides explanation and analysis of the intervention of United States in liberalization of Indonesian oil and gas industry. The outline of this chapter is more explanation about the way or efforts of the United States in intervene Indonesian oil and gas industry.

**Chapter V** : This chapter provides the conclusion of this thesis.