

## **CHAPTER II**

### **INDONESIA-US BILATERAL RELATIONSHIP**

Since acquiring the recognition of sovereignty as a country through the negotiations of Round Table Conference in 1949, Indonesia has an opportunity to connect with the countries in the world. Relations between countries in the field of politics is called diplomacy. Since the beginning, Indonesia's foreign politics had the idea of being free and active i.e. non-related to any countries and take part actively in international forums. The idea was chosen by leaders of Indonesia as the basis of diplomacy in the world but it was not binding on any of the groups in the context of the cold war as we know World War II appeared a conflict between two winners of the war, namely United States and the Soviet Union. The conflict of the cold war was dragging Indonesia to enter into politics abroad US and Soviet Union. The fall of mainland China to the Communists in 1949 and a threat to the influence of communism in the United States made Vietnam improve its foreign political policy against countries in Southeast Asia. U.S. Concerned the stronger the domino theory i.e. against theories that suggesting that countries in Southeast Asia will fall in order to influence Communism from the North (in this case the Chinese Mainland). Indonesia accounted for any country that was vulnerable to communism and which mainly as a provider of natural resources to the United States. Since the start of diplomatic relations in 1949, relations between Indonesia and the United States continued to grow and more and more important in the reciprocal for the two countries. Indonesia and the United States have worked together and become important counterparts in various sectors, especially the economy, education and culture. Economic relations, particularly through trade and investment, will be given priority. United States Chamber of Commerce in Indonesia (AmCham Indonesia) in its latest study findings indicate the total value of bilateral economic cooperation

between Indonesia and the U.S. reached 90.1 billion US dollars per year in 2014 (the last year data are available) or the equivalent of 10 percent of Indonesia's GDP value of total bilateral economic cooperation capable of achieving the projected 131.7 billion US dollars in 2019 or increasing 46.2 percent within five years. The annual compound growth rate of economic cooperation grew 8.0 percent over the past five years (2010-2015), while in the same period Indonesia's GDP grew 5.5 percent. It shows the economic cooperation of the two countries are becoming an important factor of economic growth overall.<sup>1</sup>

Indonesia and the US have a relationship containing a long history but not much understand that the relationship is capable of is worth that much," said the Chairman of Kadin'S U.S. international relations, Myron Brilliant, in the event of "Indonesia-US Investment Summit 2016 ", *Jakarta, Kamis (15/9)*.

Not to mention the sector of capital investment or investment in Indonesia which have long entwined, giant corporations of United States have already plugged their nails on the homeland since tens of years ago, might almost at the country. Call it the parent on Indonesia Freeport in Freeport McMoran in the United States. That is Freeport Indonesia has already run the activity in Garsberg gold mine of Papua since 1967. Freeport is one of many giant corporations of the U.S is running its business activities in Indonesia for years. It is not only Freeport, there is a lot of and even a growing number of companies that extend the contract of U.S.-flagged and its investments in the country.

The last few years, Indonesia has entered the foreign investor radar at a time when the condition of the economy of the developed countries was still basking in the uncertainty.

---

<sup>1</sup><http://detak.co/mendalami-hubungan-ekonomi-amerika-serikat-indonesia/>

The realization of foreign investment (PMA) continued to rise in the last two years.

High rates of consumption of Indonesia society became one of the factors that invite the attraction of foreign investors. Plus, the size of the market of Indonesia as the country with the fourth largest population in the world. Wage labor is much cheaper compared to other countries, including one of the considerations for investors. Therefore, it's natural if many foreign companies, including American companies that enjoy living in Indonesia and getting profits from its business in the country.<sup>2</sup>

### **A. Foreign Investment (PMA)**

Leadership transition for postcolonial President Sukarno to Ir. Soeharto in 1967 gave a pretty fundamental change in the system of diplomacy of Indonesia. One success forms the diplomacy of Indonesia in rebuilding the economy of this nation is through the Intergovernmental Group for Indonesia forum Inter Governmental Group on Indonesia (IGGI). It's an international group founded in 1967 initiated by the United States to coordinate multilateral aid funds to Indonesia. Suspension of payment of a debt was not enough to build the economy of Indonesia. The need for further action in order to make Indonesian economy stable again. Indonesia conducted some researches in the United States, and Europe to establish a forum of donor countries. The idea got a good appreciation. Then, in February 1967 Netherlands called 14 donor countries and five international organizations to discuss the problems of Indonesia in Amsterdam. In the first meeting, 14 countries agreed that Indonesia needed help as fast and efficient as possible. The meeting was then called Inter Governmental Group on Indonesia (IGGI).<sup>3</sup>

---

<sup>2</sup><http://ksp.go.id/hubungan-indonesia-amerika-serikat-akan-semakin-baik>

<sup>3</sup>Diplomasi Indonesia “Pada mulanya ada yang mengartikan singkatan IGGI sebagai Inter-Governmental Group For Indonesia.

IGGI itself has now become a place of discussion or sharing of opinion to achieve the best possible deal for the sake of helping the Government of Indonesia in building the economy. IGGI does not have coercive ties. Indonesia which has huge debts then only relies on assistance from the bank whose value amounted to normal. Indonesia could only accept the help of International Development Association that long-term interest rates are low, it is not available. The Asian Development Bank (ADB) was formed in November 1966 and was still in the process of building the organization. Therefore, the Minister of Finance of Indonesia at that time, FransSeda, said that Indonesia was the discovery of IGGI about a form of cooperation in developing countries and rich nations were very rewarding for both parties.<sup>4</sup>

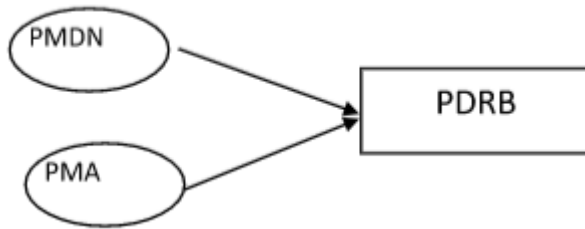
Investment can be defined as the expenditure or investment experience or foreign companies to buy goods production. To add to the country's potential output capabilities and develop long-term economic growth investment essentially is the initial step in economic development Investment can be done by the private sector. cooperation between the Government and the private sector, investment is a way that can be done by the Government to increase economic growth and for the long term can raise living standards.<sup>5</sup>

---

Hal ini ditolak delegasi Indonesia karena kerjasama harus dilandasi prinsip kemitraan. Maka kata “for” diganti menjadi “on”. Jadilah pertemuan tersebut dinamai Inter-Governmental Group On Indonesia.”

<sup>4</sup>Lihat, Frans Seda, kekuasaan dan moral (Jakarta:Grasindo, 1996), hal.333.

<sup>5</sup>Samuelson, Paul A. dan Nordhaus, William D. 1996.Makro Ekonomi Edisi ke-17. Cetakan Ketiga. Jakarta: Erlangga



**Figure 1. The Influence of PMDN and PMA towards PDRB in Indonesia**

Source: Analisis-pengaruh-pmdn-dan-pma-terhadap-pdrb-6-provinsi-di-indonesia.<sup>6</sup>

## 1. PDRB

One important indicator is to know the condition of the economy in an area within a specific period is indicated by the gross Regional Domestic Product data (GDP) either on the basis of the prices or on the basis of constant prices. GDP is defined as the sum of the value added generated by all business units within a certain area, or the entire amount is the value of goods and services calculated using the applicable rates in each year, the benefits that can be obtained are:

PDRB on the basis of the applicable rates/nominal demonstrates the ability of the economic resources that is generated by a region/province. The value of GDP shows a great big economic resources and also shows the income that can be enjoyed by the residents of a region/province (Widodo, 2006: 78) .

---

<sup>6</sup>[https://caridokumen.com/download/analisis-pengaruh-pmdn-dan-pma-terhadap-pdrb-6-provinsi-di-indonesia-5a44dc64b7d7bc7b7a8e0a6e\\_pdf](https://caridokumen.com/download/analisis-pengaruh-pmdn-dan-pma-terhadap-pdrb-6-provinsi-di-indonesia-5a44dc64b7d7bc7b7a8e0a6e_pdf)

## 2. PMDN

In law No. 6 year 1968 and Act No. 12 year 1970 concerning the domestic Investment (PMDN), domestic capital definition in article 1 is firstly mentioned, as follow:

- a. This Act with "domestic capital" is: part of the wealth of the society of Indonesia including rights and objects, both State-owned and private foreign-domiciled in Indonesia that is set aside or is given the space to run a venture capital that is governed by the terms of article 2 of the LAW NO. 12-year 1970 concerning foreign capital investment.
- b. Private parties who have capital in the country in paragraph 1 of this article may be made up of individuals and/or legal entities established under the applicable law in Indonesia. Then Chapter 2 mentioned that, if local authorities are confident in determining local policies and regulations in the area will create a conducive climate to business and investment world. "Domestic Investment" is the use of more wealth as mentioned in article 1 either directly or indirectly, to run the business according to the requirement of or under this Act. Business synergy can be a PMDN between modal state and national private capital for example in the field of mining and agriculture.

## 3. PMA

Foreign investment is the planting of capital to do business in the territory of the Republic of Indonesia that is carried out by a foreign investor whether using foreign capital completely or joint venture with the investor in the country. According to law No. 1 Year 1967 and ACT No. 11 of 1970 on foreign direct investment, the definition of Foreign Investment (PMA) is an investment that is directly conducted

according to the provisions of this ACT or that is very useful in running companies in Indonesia in the sense that the owner of capital directly bears the risk of the investment.

While the notion of foreign capital investment among others:

- a. Foreign means of the payment which is not constitute part of the Indonesia foreign exchange wealth, that with the approval of the Government it is used to finance company in Indonesia.
- b. Exemption or relief from import duties upon importation of capital goods, machinery, or equipment for the purposes of production which can not be produced within the country.
- c. Are located in remote areas, border areas, areas, or other areas that are considered necessary.
- d. Absorb much manpower, including high-priority scale, and including the development of infrastructure

## **B. Economic Bilateral of Indonesia-America**

Until recently United States (US) is still a major force in the world, both in the political, military, and economic. United States is the country with the third largest population in the world after roughly 311.6 million in 2011 (World Bank 2012). Per capita, the income of its population is recorded. \$48.100 making it the largest economic power in the world. Us economy good manufacturing sector as well as the services sector are already quite advanced Indonesia and US economic relations are very close especially since the new order Government.

The efforts of the Government of Indonesia and the U.S. to enhance the economic ties of the two countries are

characterized by the formation of several forums to facilitate dialogue and economic cooperation between the two countries, the Forum and the initiative consists of: a US-Indonesia Trade and Investment Dialogue, Commercial Dialogue, and the Overseas Private Investment Corporation (OPIC). Direct investment (Foreign Direct Investment) from the US accounted for 4% of the total value of FDI in Indonesia. The position of Indonesia against the United States FDI reached its peak in 2005. In 2005, when the stock of FDI in Indonesia was US \$10 billion, U.S. multinational companies dominated foreign investment in Indonesia. Almost 60% of FDI from the U.S. are concentrated in the sectors of oil, gas, and mining.<sup>7</sup>

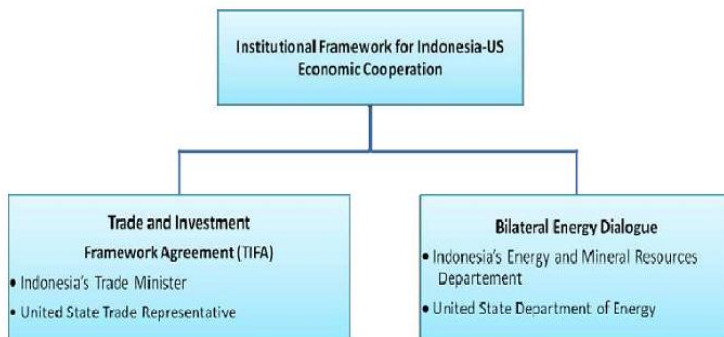
In addition, Indonesia into one of the focus countries of U.S. exports that is listed in the National Export Initiative (NEI), and the US hosts Global Entrepreneurship Program (GEP) to encourage entrepreneurs in Indonesia and the United States Trade and Development Agency (USTDA) Geothermal Development to foster energy cooperation Indonesia trade balance against the United States shows a positive value nonmigas i.e., export of rubber, textile and apparel, footwear and electrical machinery dominated Indonesia sent commodities to the US. The nonmigas export value of Indonesia as a whole is experiencing an increasing trend. In trade relations, the United States is the third largest trade partner for Indonesia after Japan and China, especially during the new order Government. The trade balance shows a value of nonmigas commodities export of Indonesia to the United States from January – September 2012 recorded US \$9.69 billion or of 11,08% of the overall exports of US \$ nonmigas 114, 96 billion (BPS, 2012). Based on the data of the Ministry of industry of Indonesia, Indonesia-United States trade values

---

<sup>7</sup>Hoddinott, J., H. Alderman, J. Behrman, L. Haddad, dan S. Horton (2013) "The economic rationale for investing in stunting reduction", *Maternal & Child Nutrition*, Vol. 9, Issue Supplement S2, hal. 69–82, September.



tend to increase from year to year. The country of destination of exports of industrial products is the United States



**Figure 2. The Framework of Indonesia and America Economic Cooperation**

Source: The Indonesian Embassy to US (2012).<sup>8</sup>

In order to support economic cooperation between Indonesia and the U.S., the U.S. Government has developed several initiatives such as that contained in the Fact Sheet Economic and Trade Cooperation with Indonesia issued by the White House in the year 2010 as follows:

1. US-Indonesia Trade and Investment Dialogue

US-Indonesia Trade and Investment Dialogue, the Government of Indonesia and the United States are routinely involved in discussion of the issues of trade and investment through the US-Indonesia Trade and Investment Agreement (TIFA). Indonesia and the United States have committed to improving bilateral relations, including in the areas of trade and investment. Several meetings have been conducted between the leadership of both countries, including bilateral meetings: in 2005 and 2006 in Washington,

---

<sup>8</sup>Ibid.

D.C. and Bogor; the meeting at the APEC Conference in Santiago, Chile, in 2004, and Busan, Korea, in 2005, and Sydney, Australia, in 2007.

## 2. Export Successes for American Businesses

Indonesia is one of the six National Export Initiative (NEI), which focused on becoming the target of United States exports. As for the areas of export to Indonesia from the United States, is focuses on transport, energy, information technology, environment, education, food/agriculture, health, defense, and creative industries.

## 3. United States Trade and Development Agency (USTDA) Geothermal Development

As seen from Figure 4, one part of Indonesia and United States economic cooperation is the energy field. USTDA and the Government of Indonesia as well as sponsorship from private parties develop some energy related projects, such as the geothermal project of Government and private Cooperation (KPS) in West Java, geothermal projects in the area of Halmahera, and training programs to strengthen the ability of local governments in developing a project-based geothermal energy. Indonesia trade balance against the United States shows a positive value, or in other words, the value of Indonesia's exports to the United States is bigger compared to the value of Indonesia's import from the United States.

United States itself is one of the largest import countries. The value of imports of Indonesia reaches US \$11.55 billion or 8.42% if compared to the non-oil and gas Imports that reached US \$9,83 billion or 6.34 non oil and gas export value of Indonesia to the United States of US \$2.7 billion, while the value of imports of non oil and gas of Indonesia from the

United States amounted to \$3.1 billion, so the US deficit obtained by Indonesia is US \$411.1 million.<sup>9</sup>

“The theory of Absolute Advantage (absolute advantage) was pioneered Adam Smith (Appleyard, Field & Cobb, 2006). It’s explained that an open trade between countries will bring benefit to the two countries. This occurs if one of the countries does not acquire the trade surplus by creating a deficit trade balance for its trading partners. Adam Smith essentially describes each country to concentrate themselves to produce goods that have absolute advantage (absolute advantage), then export the surplus production.<sup>10</sup>

The U.S. has indeed become an important country for Indonesia. From the year 2010 to 2015, III quarter the value of investment that the country occupies the third rank after Singapore and Japan. U.S. capital investment value was recorded amounted to USD 8.24 billion. Special for this year through September, employers accounting for the flow of its investments reached USD 853.7 million.<sup>11</sup>

United States is one of the main investors in Indonesia that his investment grows 23 percent per year over the last five years. State investment as the Uncle Sam plays the six percent of the total foreign investment (PMA) in Indonesia. There are five largest sectors of US investment namely mining 7.2 billion us dollars, trade/repair 258 of million usdollars, the food industry 167 million us dollars,

---

<sup>9</sup>Ekonomi dan Keuangan Indonesia (2011) dan Kementerian Koordinator Perekonomian (2012).

<sup>10</sup>Appleyard, D., Field, A., Cobb, S. (2006). International Economics. 5th Edition. New York: McGraw Hill/Irwin.

<sup>11</sup><https://www.oecd.org/eco/surveys/indonesia-2016-OECD-economic-survey-overview-bahasa.pdf>

industrial tool of 142 million us dollars, and the pharmaceutical/chemical industry of 56 million us dollars.<sup>12</sup>

### **C. Forms of Foreign Capital Investment**

In the business sector of activities, forms of cooperation that are considered very complicated is part of the cooperation between the national capital and foreign capital. This is difficult because many found variation between considerations of capital and power (management) that surely indeed, should really be paid attention to the State of the company. According to Ismail Suny, a form of cooperation between foreign investment and national capital based on UUPMA are three kinds, namely<sup>13</sup>:

#### **1. Joint Venture**

This is a form of collaboration between the owners of foreign capital with the owner of a national capital based on an agreement. This cooperation does not form a new legal entity, so that it is shaped in a contractual agreement or cooperative. This cooperation is not only money, but also provide work experience for the national party. In another case this cooperation is also known as Technical Assistance or Technical Service Contract, franchise and Brand Use Agreements and Management Contract, where this agreement is non-equity joint ventures, Technical Service Contracts is used when the company is in need of skills or ways of working is different, for example the company in question will be modernizing the company. Technical Service is paid by the national

---

<sup>12</sup><http://www.kemenperin.go.id/artikel/13606/Perusahaan-Amerika-Jadi-Penarik-Investasi-ke-Indonesia>

<sup>13</sup>Ismail Suny, tinjauan dan pembahasan UUPMA dan kredit luar negeri (Jakarta: Pradnya Paramita, 1976), hlm. 115

company in the form royalties or payment of an amount of money taken from the sale of the company's products. Franchise and brand use agreements are used when a national or company in the country will be producing goods that have brands and famous name, for example: Coca Cola Van Houten, and so on. Meanwhile the management contract is often utilized in the making of international standard hotels, like for example when building Hotel Indonesia where at first the management was handed over entirely to foreign companies. It was because in Indonesia was still weak national capital, usually large contracts like this associated were usually with the contract of foreign capital investment as Production Sharing contract Work (Working Contract.) and the creation of the Joint Enterprise.

## **2. Joint Enterprise**

The form of this agreement is foreign investment by means of cooperation between foreign financiers and financiers second national where these financiers will form a new company in Indonesia are PT (Indonesia legal entity). The two companies that use a form of cooperation that has only one form of legal entity Indonesia (PT) that management is held by foreign financiers and financiers and the national risk is borne together in accordance to the agreed agreement. The form of such cooperation is also advantageous for foreign financiers, because they can use their own currency that can be exchanged with the value of the rupiah. When foreign financiers do not want to gamble the decision to transfer to their home countries, then the profits can be exchanged for rupiah currency to later invested back in Indonesia as foreign capital. Form of joint cooperation enterprise is most endeared by foreign financiers as well as Government because:

- a. Every effort in Indonesia is need of cash dollars, for the payment of goods that is cheaper and easier to get in Indonesia. On the otherhand it is also for the payment of the salaries of its employees and other spending, where the foreign investor needs the value of the rupiah.
- b. Foreign investor doesn't need to infuse capital in the form of foreign exchange, but such capital can be utilized in the machines or other production results, so that the foreign investor in Indonesia will benefit and not just profits in the future, but also on the time allowed to enter its engines (foreign capital) to Indonesia by non customs, which means they have to export their goods to Indonesia (Overseas) without paying taxes for that.
- c. It is done with the cooperation of the national let alone entrepreneurs who are experienced will reduce the risk for the foreign investor, so planting more capital in Indonesia is the granting of credit than foreign investment in direct. However, the possibility to hold joint enterprise of this kind is very limited, because the entrepreneur Indonesia rarely have large capital.

### **3. KontrakKarya (KK)**

Cooperation is the work contract when foreign capital in instilling Indonesia by forming a legal entity Indonesia (PT) and the cooperation within is already determined (based on contracts), and if the contract has been ended then it should not be returned. Cooperation with foreign capital the national capital in the form of the contract of work occurs when a foreign investor to form a legal entity Indonesia. A legal entity is held with the cooperation of a body of law that applies to the national capital, in a cooperation agreement that is on agreement between the capital

foreign capital and national capital with a period that is already specified for several years.