

CHAPTER I

INTRODUCTION

A. Background

Indonesia, officially the Republic of Indonesia, is a unitary sovereign state and transcontinental country located in the South Eastern part of Asia, positioned on the equator line and laid between Asia and Australia Continents as well as Pacific and Indian Oceans.¹ Indonesia is the world's largest island country, with more than seventeen thousand islands. At 1,904,569 square kilometers (735,358 square miles), Indonesia is the world's 14th largest country in terms of land area and the world's 7th largest country in terms of combined sea and land area.² Located on the equator line, Indonesia is a tropical country which has abundant natural resources like tin, copper, gold, rice, palm oil, tea, coffee, cacao, medicinal plants, spices, rubber, and oil as well as natural gas

As an independent country, Indonesia realizes that international relations and cooperation are undeniably very prominent and essential. Through cooperation, Indonesia aims to achieve a better business, with a result that is bigger and quicker to grasp than when it is administered alone. Thus, with the

¹ Kementerian Sekretariat Negara Republik Indonesia, *Identitas Nasional*. Retrieved January 25, 2017, from <http://www.indonesia.go.id>

² Central Intelligence Agency, *The World Fact Book: Indonesia*. Retrieved January 25, 2017, from <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>

existence of international relations and cooperation, the goal of Indonesia will be easier to achieve as interdependence exists between nations.

Indonesia conducts its relations and cooperation with other states in various areas, whether it is economics, security, socio-culture, education, health, and political areas. The cooperation of Indonesia with other states also varies in its forms: it may be in providing scholarship program for students from both countries to study abroad, providing assistance to natural disaster victims, conducting military training, providing investments, as well as cooperation in import and export of natural resources.

Indonesia, in its international relations and cooperation, conducts both bilaterally and multilaterally. Bilateral cooperation is established when two states have a similar interest and desire to work for it together, the cooperation of Indonesia and Japan in technology area for example. Multilateral cooperation is established when more than two states have a similar interest and desire to work for it together in a bigger scope, for example: the Organization of Petroleum Exporting Countries (OPEC).

Organization of Petroleum Exporting Countries, shortly OPEC, was first established by countries which had similar interests as a response towards Oil Price War in 1960. In July 1960, President Director and CEO of Standard Oil of New Jersey (Exxon today), Jack Rathbone, planned on cutting the oil price of Arabian Light Crude (ALC) to 7%. This idea was supported by 7 giant oil

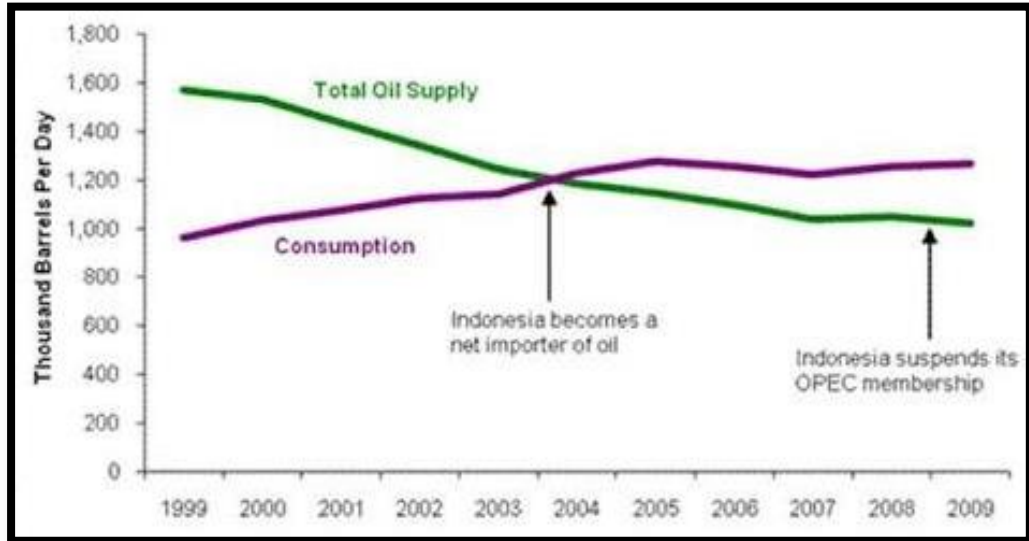
companies (The Seven Sisters), such as Exxon, Mobil, Chevron, Texaco, Gulf, BP, and Shell. By implementing this, they would gain more profits to their companies.

One month after the price cut, Middle East's oil producing countries which had similar interests gathered in Baghdad, Iraq, in September 1960, to fight for their interest from being exploited, and then OPEC was established. Those countries were Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela. As time went on, another States that had similar interests joined this organization, such as Qatar in 1961, Indonesia and Libya in 1962, Uni Arab Emirates in 1967, Algeria in 1969, Nigeria in 1971, Equador in 1973, Gabon in 1975, and Angola in 2007.³

On May 6th, 2008, in the Indonesia Cabinet's Meeting, President Susilo Bambang Yudhoyono discussed about Indonesia's membership in OPEC whether Indonesia was still considered capable being a member of OPEC or not. President SBY said that Indonesia could no longer be an oil exporting country as Indonesia did more import than export activity due to the high rate of oil needs in the domestic area at the moment. Moreover, Indonesia's oil production was gradually decreasing at the time, which made Indonesia decided to focus more on domestic need fulfillment (see figure 1.1).

³ Organization of Petroleum Exporting Countries, *Brief History*. Retrieved January 22, 2017, from http://www.opec.org/opec_web/en/about_us/24.htm

Figure 1.1. Indonesia Oil Supply and Consumption, 1999 – 2009⁴



Source: US Energy Information Administration, International Energy Statistic. (2015). *Short Term Energy Outlook*. Retrieved from www.eia.gov/todayinenergy/detail.php?id=23352

The production of oil in Indonesia declined gradually with 12% rate every year since 1995.⁵ Due to the decline of the oil production, Indonesia could not keep up with the significant increase of demand of domestic oil need. In order to fulfill the domestic necessity, Indonesia became a net importer of oil (the number can be seen in Table 1.1). Then, on May 28th, 2008, Indonesia walked out from OPEC membership. Indonesia stated that they would re-join

⁴ US Energy Information Administration, International Energy Statistic. (2015). *Short Term Energy Outlook*. Retrieved from www.eia.gov/todayinenergy/detail.php?id=23352

⁵ Kementerian Energi dan Sumber Daya Mineral, Direktorat Jenderal Minyak dan Gas Bumi. (2015). *Rencana Strategis 2015 - 2019*. Jakarta.

OPEC when Indonesia's oil production has increased and the export rate has exceeded the import rate.

Table 1.1. Indonesia's Oil Export and Import, 1996 - 2015⁶

Year	Crude Oil		Net Oil	
	Export	Import	Export	Import
1996	38,254.9	9,349.9	10,689.3	10,133.8
1997	38,976.5	9,125.5	10,220.8	11,747.7
1998	36,914.0	10,473.3	8,435.9	10,941.0
1999	35,902.5	11,497.4	7,825.4	12,249.9
2000	29,225.9	11,473.5	8,786.6	13,971.0
2001	32,857.0	14,174.9	7,007.8	11,750.5
2002	29,054.4	15,880.0	7,574.0	15,116.0
2003	26,517.5	16,817.2	7,425.0	13,588.6
2004	23,467.8	18,930.4	6,800.4	15,971.5
2005	21,488.0	15,649.7	5,994.0	21,065.2
2006	18,127.9	14,642.5	7,046.9	18,657.8
2007	18,175.3	15,146.7	6,264.8	19,475.7
2008	18,235.0	12,749.0	5,724.0	22,391.2
2009	17,967.1	15,303.7	5,405.7	19,732.0
2010	18,132.4	14,249.6	7,322.8	25,123.9
2011	17,819.5	13,253.6	6,931.5	28,840.3
2012	14,973.1	12,550.1	5,629.5	28,534.5
2013	13,016.9	16,015.6	5,914.5	29,612.2
2014	12,400.0	16,185.9	5,556.9	29,093.6
2015	25,554.1	18,727.6	4,625.8	25,404.7

Badan Pusat Statistika. (2015). *Impor dan Ekspor Minyak Indonesia*. Jakarta: BPS. Retrieved from www.bps.go.id/linktabelstatis/view/id/1003

On May 7th, 2015, surprisingly Indonesia shown its will to re-participate in OPEC. The Minister of Energy and Mineral Resource, Sudirman Said, said

⁶ Badan Pusat Statistika. (2015). *Impor dan Ekspor Minyak Indonesia*. Jakarta: BPS. Retrieved from www.bps.go.id/linktabelstatis/view/id/1003

that it had already been permitted by the President Joko Widodo. However, Indonesia would not directly become a member yet, Indonesia would temporarily be an observer. Sudirman said that he and the President had discussed it twice and the President gave a same opinion towards this.

This decision triggered many controversies and questions among scientists and the society. It ought to be noted that the main reason why Indonesia resigned from OPEC was because Indonesia imported more oil instead of exporting it, and Indonesia could not follow the number set of minimum production quota that OPEC applied. Moreover, the benefit of being in OPEC is still unclear since OPEC has no “actual” power in changing or determining the procedures in world oil industry, whether in pricing, marketing, nor production. Even though in the middle of 1970s OPEC countries successfully took control of the oil industry, OPEC’s agreement will only be a demand for the oil companies. If they do not fulfill the demand, there will be no problem. Thus, OPEC’s demands will only be merely a sheet of paper before the oil company’s perspectives. Shortly, there is no “real” or significant benefit of being an OPEC member state. Thus, considering even though Indonesia is capable of fulfilling the oil export quota, there is still no significant benefits for Indonesia in rejoining OPEC.

B. Research Question

Based on the description of the background, the research question is:
“Why did Indonesia decide to rejoin OPEC?”

C. Theoretical Framework

In order to analyze the problem, the thesis used the basic framework of thought by using Graham T. Allison’s rational choice model to answer the question raised, as stated in the research question, “why Indonesia decided to rejoin OPEC after its withdrawal in 2008”. These theories helped this research to analyze what the considerations and interests of Indonesia in taking the decision are.

Rational Choice Theory by Graham T. Allison.

Every country uses foreign policy as an instrument to achieve its national interests. Thus, in order to achieve them, the actors try to make decisions to solve problems related to their national interests by choosing the best alternative from several available alternative options, through some calculations and considerations, to maximize benefits and minimize possible costs received.⁷ It may be interpreted that the nature of decision-making itself is rational in which decision makers are seeking the best option that has more

⁷ Lichbach, M. I. (2003). Is Rational Choice Theory All of Social Science?

benefits than costs. Rational decision makers tend to make a decision based on calculated logic and excluding the emotion.⁸

Rational choice theory is a framework for understanding and explaining social and economic behaviors. It is originally from economics used as a standard method of micro economics, distribution, and consumption of goods and services, and also as a model of human decision-making, which is later adopted by other sciences, including political science. For example, the implementation of this theory in politics is used in Presidential Election. Theorists assume that both politicians and voters are rational maximizers.⁹ When someone will choose candidates at election moment, she/he has certain choices of a leader who will be chosen later, she/he would have cost-benefit considerations in him. She/he will consider the risks as well as the benefits she/he will get if she/he chooses candidate A, B, C, or so on.

According to John Scott, the science of economics is seen as the most successful among the other social sciences, which then made scientists from other fields of social sciences followed economic methods in order to achieve success in the field of their study and might successfully be applied. They were trying to build a theory which was adapted from economics that all actions are

⁸ Guzman, A. T. (2008). *How International Law Works, a Rational Choice Theory*. Oxford University Press

⁹ Donald P. Green & Ian Shapiro. *Pathologies of Rational Choice Theory: A Critique of Applications in Political Sciences*. Retrieved on November 8, 2016 from http://pages.ucsd.edu/~tkousser/Green_S ShapiroCH1,%20Pathologies%20of%20Rational%20Choice.pdf

rational and that every human being which is considered to be rational always calculate the advantages and disadvantages of each of their actions before deciding what steps and actions they should take and do¹⁰. In the end, everyone makes decisions rationally and tries to achieve the calculated goals they make.

Further, the law of economic emphasizes that the smallest capital to benefit as much as possible. This is almost very similar to the political behavior that decided to make a particular decision by considering the presentation of gains and losses obtained from several options available. The actor's foreign policy makers and decision makers can rank their state goals, see the advantages and disadvantages of these options related to which one that will be sacrificed, or the result is worthwhile, and can choose the best alternative that could minimize losses and to maximize their gains.¹¹

Stephen M. Waltz in his journal named "Rigor or Rigor Mortis? Rational Choice and Security Studies" stated that:

- a. Rational choice theory is individualistic; for example social and political outcomes perceived as the product of the collective over the individual's choice or as a product of the choices made by a unitary

¹⁰ Scott, John. *Rational Choice Theory*. Retrieved November 8, 2016, from <http://www.soc.iastate.edu/sapp/soc401rationalchoice>

¹¹ Popkin, Samuel (1979). *The Rational Peasant: The Political Economy of Rural Society in Vietnam*. University of California Press.

actor, in this case it can be said that decision makers are the unitary actor.

- b. The actor is trying to maximize its interests (and it is done by an actor) by taking an option that would bring the most to the achievement of its interests.
- c. Rational Choice theory specifies the preference of actors to certain constraints, such as when the actor has a few options offered. In addition, the option must be transitive (if option A is more important than option B and C, then the actor will choose option A). Basically, rational choice theory is a tool to make logical conclusions about how the decision makers make and take a decision.¹²

Table 1.2. Rational Choice Table: Cost & Benefit

Options	Benefits	Cost
Alternative A	Yes	Yes
Alternative B	Yes	Yes

Rational choice theory was used in this study in order to analyze what the intention and purpose of Indonesia’s government in its decision to rejoin the membership of Organization of Petroleum Exporting Countries (OPEC). In the

¹² Stephen M. Walt. *Rigor or Rigor Mortis? Rational Choice and Security Studies*. Retrieved on November 20, 2016, from <http://slantchev.ucsd.edu/courses/pdf/walt-is1999v23n1.pdf>

context of rational choice, policy and choice that are made by the political elites in the government must be heavily influenced by long considerations related to the advantages and disadvantages that would impact the country. Thus, in its application, it was also be mentioned some of the choices faced by Indonesia in rejoining OPEC membership, along with the considerations of profit and loss if either Indonesia decided to rejoin OPEC membership or not.

This research tried to discover the benefit considerations of Indonesia in rejoining the OPEC by analyzing the roles and functions of international organization as explained by Clive Archer and applying them into the rational choice model by Graham T. Allison, as follow:

Table 1.3. Rational Choices: Benefits & Costs of Indonesia's Choices

Available Options	Benefits	Costs
Re-joining OPEC	<ul style="list-style-type: none"> - Easier for Indonesia to import oil from OPEC countries directly; - Indonesia is hoping to get friendly price for oil; - Indonesia can obtain OPEC's classified information towards world's oil research and price; - Indonesia can get OPEC's solidarity aid. 	<ul style="list-style-type: none"> - Indonesia has to pay 2 million USD/year for research purpose
Not Re-joining OPEC	<ul style="list-style-type: none"> - Indonesia does not have to pay 2 million USD/year to OPEC for research purpose 	<ul style="list-style-type: none"> - Indonesia will be more difficult in obtaining import oil from OPEC countries

D. Hypothesis

Indonesia decided to rejoin the membership in OPEC because Indonesia considered that among the rational choices, rejoining OPEC brings more benefits than cost. The reasons are:

Benefits:

1. Indonesia wanted to obtain direct and guaranteed long-term stock of oil from OPEC member states;
2. Indonesia hoped to get friendly price of oil from OPEC;
3. Indonesia wanted to access the classified information and research data from OPEC;
4. Indonesia considered getting a solidarity aid from OPEC member-states if anything happens due to the good solidarity of OPEC member-states;

Cost: Indonesia must pay 2 million USD/year to OPEC for research purpose.

E. Scope of Discussion

In terms of the discussed material to facilitate the research and avoid the difficulty in analyzing the subject of research, this research discussed the

reasons behind Indonesia's decision to rejoin OPEC. The research took the period of study from the before Indonesia joined OPEC in 1962 until the decision of Indonesia to rejoin OPEC in 2015. The actors were limited to Indonesia as the main actor and OPEC as the second actor.

F. Research Method

The type of research used in this study is descriptive, this research tried to explain the reason behind the decision of Indonesia to rejoin OPEC. The data collection techniques used in this research were document studies done by collecting secondary data, in this case the information is derived from several relevant published materials such as books, journals, news, official websites, and internet that were related to the subject of the research.

G. Structure of The Research

In order to help readers in comprehending the study, this research is systematically divided into five chapters. Chapter I is the introduction of the research which consists of background of the research, research question, theoretical framework, hypothesis, scope of discussions, research methodology, and the structure of the research.

Chapter II explains the oil production of Indonesia before joining OPEC in 1962. This chapter describes the condition of Indonesia in oil sector before deciding to join in the oil exporting countries forum. Chapter III talks about the dynamic of Indonesia's relations with OPEC. This chapter chronologically describes the condition of Indonesia when Indonesia joined OPEC in 1962 and after Indonesia withdrew in 2008.

Chapter IV analyzes and discusses the reasons Indonesia decided to rejoin the OPEC's membership again in 2015. This chapter explains the rational choices that Indonesia faced and the comprehensive reasons of Indonesia to take one of the rational choice, which was the decision to rejoin OPEC in 2015. Last but not least, Chapter V is the conclusion of the research.