

# Indonesia-China Energy Trade: Analyzing Global and Domestic Political Economic Significance in Indonesia-China LNG Trade

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## **Abstract**

*Indonesia had been the largest LNG exporter for almost three decades since 1977 to 2005. During 1970s and 1980s, Indonesia's energy industry boosted its economic growth that valued 80% of the country's annual exports and 70% of its annual revenues. Meanwhile, Indonesia presents an exceptional case since it decreases its LNG export while it has been developing its largest LNG plant in Tangguh due to prioritizing domestic energy demand. But, since Indonesia eagerly links its economy to China, it uses LNG export as a medium to strengthen Indonesia-China strategic partnership. Tangguh LNG export to China, although it is not Indonesia's largest LNG export contract, reflects a unique case of a developing country's international energy trade. Because it presents evolution of Indonesia's LNG export policy through dynamics of regional and global economic turbulences. This paper analyses the LNG export in the context of Asian economic crisis and its recovery, the peak of crude oil price in 2008 and followed by global financial crisis as the context as well as Indonesia's domestic political dynamics.*

Keywords: international energy trade, Indonesia-China energy cooperation, LNG export policy

## **Introduction**

Indonesia was an early producer of oil started in the 1870s. Up to the Second World War, Indonesia produced 148,000 barrels of oil per day (Arndt 1983; Hunter 1966). Indonesian natural gas industry came to life when it found a large natural gas field at Arun in Aceh Province in 1971, and then discovered gas reserves at Badak, near Bontang in East Kalimantan Province in 1972, totaling about 17.5 trillion cubic feet (tcf) of reserves (Wijarso, 1985). Badak

exported its first cargo in 1977 while Arun followed the suit the next year. Badak and Arun's export had made East Asia the world's largest regional Liquefied Natural Gas (LNG) market (Nugroho, 2010).

The energy industry boosted Indonesia's economic growth during the 1970s and 1980s by accounting around 80% of the country's annual exports and 70% of the central government's annual revenues (Rosser, 2007:39). LNG is also Indonesia's most significant energy export and has been its largest foreign exchange earner (Stott,