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# NIKKEI Asia

Nov. 2-8, 2020



## NEW DISORDER

How Trump refashioned U.S.-China relations



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Reuters

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THINGS TO KNOW

## SK-Intel NAND deal and the chip sector shake-up

U.S. chipmaker Intel's sale of its NAND flash memory business to South Korea's SK Hynix may spark a new tech Cold War. Here are five things to know about the deal.

### 1 | Why did the companies agree to the deal?

NAND flash memory is used to store image and other data on devices such as smartphones and digital cameras. SK Hynix has been eager to increase its share of the NAND flash memory market to boost profitability, while Intel told investors it was considering selling off its money-losing NAND business.

SK taking a controlling stake in Kioxia, which is likely to be a major obstacle to SK's ambition to acquire Kioxia. Meanwhile, China's Tsinghua Unigroup developed a rapidly growing NAND business at its subsidiary, Yangtze Memory Technologies. The Beijing-backed unit will likely expand production regardless of profitability, fueling the market-share battle.

### 2 | What is the impact of the deal on the NAND industry?

The NAND flash memory sector is consolidating, as it is hard for manufacturers to make a decent profit with six players competing fiercely. Experts believe SK will keep seeking buying opportunities, even after the Intel deal. U.S. players Western Digital and Micron Technology are also thought to be mulling consolidation options. SK's latest move may spur them into action.

### 4 | What are the implications for the U.S.-China tech conflict?

Intel makes NAND chips at its fab plant in Dalian, China. The escalating U.S.-China tech conflict threatens U.S. companies' ability to continue running chipmaking plants in China. Beijing is believed to favor handing over the Dalian plant to a South Korean company. The SK-Intel deal is a rare positive development in the semiconductor sector for China.

### 5 | What is Intel trying to achieve?

In its quest for better profitability, Intel decided to offload the NAND plant as it reevaluates the integrated device manufacturer model, under which a chipmaker designs and manufactures chips in-house, and sells them under its own brand. Some industry experts believe there is a possibility for Intel to turn completely fabless in the foreseeable future. **N**

### 3 | Will the NAND market become an oligopoly?

Western Digital has partnered with Japan's Kioxia Holdings in operating NAND plants in Japan. It strongly opposes



Mobile memory chips made by SK Hynix.

Reuters

KEN KOYANAGI, Nikkei Asia Editor-at-large



# Thailand: Kingdom of Enslavement

Ignoring reasonable reform demands could force the end of the palace-military nexus



Thongchai Winichakul is an emeritus professor of history at the University of Wisconsin-Madison in the U.S.

THONGCHAI WINICHAKUL

Thailand has always characterized itself proudly as the “Land of the Free.” As Thais often say, the word “Thai” literally means being free, or independent. But after security forces moved in on youth protesters camped in front of Government House in the early hours of Oct. 15, there is once more a bitter aftertaste: Thailand is not a kingdom of the free but of the enslaved.

The coup in 2006 against the second elected government of Prime Minister Thaksin Shinawatra was backed by the palace and the Privy Council headed by Prem Tinsulanonda, a former army chief and prime minister. Thailand’s weak democratization efforts have been spiraling downward ever since. In the last 14 years, two elected governments were ousted in “judicial coups” and one in 2014 by a regular military coup. The latter delivered army chief Gen. Prayuth Chan-ocha to the premiership -- where he remains ensconced to this day.

During that same period, the palace-military nexus has remained intact, and protests against authoritarian rule have been violently suppressed three times -- with the deaths of over 90 people in 2010. Since 2014, Prime Minister Prayuth’s government has morphed from a junta into a quasi-democratic coalition by way of a military-dictated constitution and an unbalanced election system.

Only the naive and blind would see this as a democratic regime when it depends for its



security on an unelected senate and a fickle, pro-establishment judiciary. With an economically weakened press and powerful business interests in play, the voices of ordinary people are deeply repressed. The real Thailand is anything but the land of the free.

The latest actions by security forces against youth protesters continue a long tradition that has been particularly well-honored over the past six years. Once again, we are witnessing reckless and heartless treatment of high school and college students -- the very people who will one day have to take responsibility for the state of the nation bequeathed to them.



Reuters

To the outside world up to 2006, Thailand was ostensibly a parliamentary democracy. In reality, the Thai version of the Westminster system has been dominated by the monarchy throughout -- a royalist democracy that explicitly outlawed even criticism of the monarchy. The coup in 2006 confirmed that the royalist-military nexus was prepared to cast off any democratic facade to ensure its survival. The much more forceful and decisive coup of 2014 was necessary to shore up this relationship in the twilight years of King Bhumibol Adulyadej’s reign, and to secure

the succession.

It is unfortunate that the protesters’ demands for reform of the monarchy -- not its abolition -- have not been taken seriously since they are key to securing the institution’s lasting future. Over the past two decades, strong criticism has brewed over the monarchy’s influence over politics, particularly its endorsement of military coups. This was mitigated to a significant degree by the genuine reverence the late king accrued during his 70-year reign. His successor does not enjoy that protective aura.

In just four years since his father’s death, King Maha Vajiralongkorn has made a number of serious transgressions that have stoked controversy, including the transfer of the crown’s wealth into his own name. Despite being titular head of the military, the king has taken direct command of the two most powerful army regiments stationed in Bangkok. He also forced amendments to the new constitution according to his personal needs after it had been approved by national referendum in 2016.

These actions have gone unchallenged in public, in part because the draconian law of lese-majeste -- which outlaws any criticism



of the monarch -- shields the king from any accountability. Youthful demands to place the king above politics and strictly under the constitution would benefit both democracy and the monarchy in the long run. There have been detailed suggestions on the necessary constitutional amendments and instruments to use, but the government has lent a tin ear to them and seems intent on simply annihilating the reformist movement.

It has to be said that the Thai state has never really worked in the service of ordinary people. For centuries, feudal regimes have cast themselves as “protectors” of the people. But the real question is: protecting whom from what?

Official Thai histories play up battles with intrusive foreign adversaries, but how much was this really about ensuring the king was powerful enough to ward off domestic rebellions? People had to comply with this protection to avoid punishment. In some ways, it was a form of slavery under a mafia-like state providing protection from itself.

The modern Thai state, from the absolute monarchy of old to the authoritarian regimes of today, has never really relinquished this mentality or the power that sustains it. In this latest battle, the state is trying to prevail over the pro-democracy movement by arresting its leaders in order to weaken and quell its supporters.

But this strategy could backfire. Within 12 hours of the Oct. 15 crackdown, a large crowd peacefully defied the emergency decree’s ban on large assemblies by occupying a major intersection in one of Bangkok’s main retail and business districts. They also promised more rallies in the coming days around the capital.

The fight burning in the hearts and minds of this young generation is beyond state control.

By clinging to the past and to domination, the monarch and the military have failed to engage with peaceful calls for reform, placing the kingdom on a turbulent downward path. By ignoring the need for necessary change, the old order may be digging its own grave. **N**

Pro-democracy protesters occupy a main road in Bangkok’s central business district on Oct. 15.

“The fight burning in the hearts and minds of the young generation is beyond state control”

Only the naive would see Prime Minister Prayuth Chan-ocha’s government as a democratic regime.



# Business as usual is hurting Myanmar

The country should use the coronavirus crisis to help end 30 years of crony capitalism



THANT MYINT-U

**M**yanmar's government needs to provide urgent financial assistance to tens of millions of poor and working families who have been hit hard by the COVID-19 economic downturn.

It should also use the pandemic-related crisis as an opportunity to transform the economy away from the crony capitalism of the past 30 years and toward a fairer, industrialized and greener future. Achieving this economic transformation is the key to strengthening prospects for peace and democracy. The alternative is a path to generations of ethno-nationalist extremism.

Since March, the government has worked hard to protect its citizens from COVID-19. Until recently, the spread of the virus had been minimal. Despite an outbreak centered in Yangon, the overall number of infections has been relatively low, with approximately 45,000 cases and 900 deaths as of late October, in a population of 45 million.

The economy, however, has been in a tailspin. Disruptions to trade, especially with China, and a collapse in tourism, garment exports and remittances from millions of migrant workers have devastated household incomes. A first round of lockdown measures in April left millions of informal workers -- entirely dependent on daily wages -- with no jobs. Today, with new lockdown measures in place, a majority in Yangon faces serious challenges simply feeding themselves and their families.

In May, ministers told parliament that up to 5% of gross domestic product -- around \$3.5 billion -- in additional spending might be possible. Since then, more than \$1 billion has been made available from other parts of the government budget, and international financial institutions have contributed nearly \$1 billion more. Fiscal deficits are low, as are Myanmar's levels of foreign and domestic government debt. But since April poor families have received a maximum of two cash grants of about \$15 each and a single parcel

of food. Some businesses have received loans from a government fund, but these total only around \$150 million.

It is not easy for the government to roll out big spending. The mechanisms for disbursement are weak, and there are justifiable fears that money might wind up in the wrong pockets. But the real constraints are ideological, including an unchallenged neoliberal commitment to markets, balanced budgets and minimal social spending, and an instinct that help for the poor best comes from private donation. Rather than lay the foundations for a permanent system of social protection, the hope is for a quick return to business as usual.

But the last thing Myanmar needs is business as usual. It is a country with a long history of underdevelopment. The colonial economy was based almost exclusively on the export of primary commodities and the exploitation of imported Indian labor. After independence in 1948 came a left-wing reaction that was soon mired in civil war and international isolation.

In 1988 a military junta ushered in a new age of capitalism, tied intimately to Myanmar's landscape of rival armed organizations and China's giant industrial revolution next door. New markets fueled land confiscation, environmental degradation and the displacement of minority peoples, producing the most unequal society since colonial times. Reforms since 2011 have attenuated some of the worst aspects of Myanmar's capitalism, but growth has been largely the result of external forces, including the lifting of Western sanctions and demand for unskilled Myanmar labor abroad. Inequalities have deepened.

There is little doubt that elections in November will be won by Aung San Suu Kyi and her governing National League for Democracy. Politics in Myanmar is largely about trust, and the Burmese-speaking majority trusts no political figure more than Suu Kyi. Minority communities may vote for their own ethnic-based parties, but this may have little overall impact because of the ethnic mix in most constituencies in Myanmar's first-past-the-post electoral system.

The tremendous economic pain and anxiety faced by ordinary people has as yet found no reflection in Myanmar politics. But over the coming years the social forces that will shape the



Getty Images

next generation will come to the fore. The default scenario is that the poor Burmese-speaking Buddhist majority and minority communities will be set against each other around issues of identity, rather than brought together around a vision of shared prosperity.

What is needed is a far more strategic approach to development. Myanmar has tremendous potential, not least because of its geographic position at the heart of Asia. Realizing this potential will require a massive mobilization of domestic capital and foreign investment for health, education, transport and green energy infrastructure, around a clear vision of an industrialized, urbanized Myanmar.

This means refocusing development away from GDP growth to the advancement of national institutional capacities, both government and private, including in manufacturing, research and innovation. It also means reforming bureaucracies to serve a development agenda, and harnessing markets to a strategy for a fairer and more equal society. Development that is good for everyone, including the poorest and most vulnerable, can be the thread that stitches together a country traumatized by seven decades of armed conflict and still riven by ethnic division.

The first step must be direct financial aid for the poor. But the post-pandemic world will be radically remade by new technologies, climate change and shifting geopolitics. Myanmar has the capacity to mobilize billions of dollars in hitherto unused fiscal and monetary firepower, together with billions more in foreign borrowing, to kick-start ambitious new initiatives to create jobs, develop institutional capacities and reshape the economy. There is no time to lose. **N**

“The tremendous economic pain and anxiety faced by ordinary people has as yet found no reflection in Myanmar politics”

Volunteers prepare packages of dry rations of food and commodities for distribution to low-income families in Yangon in April.



Reuters

Thant Myint-U is chairman of U Thant House in Yangon and author of "The Hidden History of Burma: Race, Capitalism, and the Crisis of Democracy in the 21st Century."

A supporter of the NLD wears a mask featuring Aung San Suu Kyi. Politics in Myanmar is largely about trust.

# Japan must play bigger role in nuclear arms reduction talks

Joining nuclear-ban treaty meetings as observer is crucial

A multilateral treaty banning the development, possession and use of nuclear weapons to bring about their complete elimination will enter into force on Jan. 22 next year.

But because the U.S., Russia, China and other nuclear-armed powers have refused to sign the Treaty on the Prohibition of Nuclear Weapons, the actual impact of the accord will be limited. Still, the agreement sends an important message to the nuclear powers that an international legal framework to outlaw nuclear arms has been firmly established.

Against this backdrop is Japan's self-appointed, and increasingly important, mission to serve as a bridge between the nuclear powers and non-nuclear countries to prevent the gulf between them from widening.

The nuclear powers have rejected the treaty as being unrealistic. The U.S., the U.K. and France have argued that the accord "offers no solution to the grave threat posed by North Korea's nuclear program, nor does it address other security challenges that make nuclear deterrence necessary."

Japan has also opted out, saying it cannot deny the need for nuclear deterrence when it depends on the U.S. nuclear umbrella for its security. South Korea and Germany have adopted the same position.

As the only country that has ever suffered nuclear attacks, however, Japan has a duty to help teach the world about the inhumane nature of nuclear arms.

To change, even if slightly, the reality of its dependence on nuclear weapons, Japan should provide active policy support for arms reduction talks and the establishment of nuclear-weapons-free zones. The country needs to have more in-depth debate on what it can do to help the world eliminate nuclear arms.

This debate should include whether Japan should take part as an observer at conferences for the nuclear prohibition treaty. These meetings will be held regularly to discuss specific issues about the implementation of the accord. Komeito, the junior partner of the Liberal Democratic Party in Japan's ruling coalition, has already requested the government to let the country join the conferences as an observer.

In his address at the Hiroshima Peace Memorial Ceremony in August, then-Prime Minister Shinzo Abe said, "Japan will lead the international community's efforts to bring about a world free of nuclear weapons by serving as a mediator bridging the gap between countries with different standpoints."

But if these words are not backed up with action, they can hardly be expected to resonate among survivors of the atomic bombings of Hiroshima and Nagasaki, let alone spur the world into action. Japanese Prime Minister Yoshihide Suga should map out a plan for how the country will contribute to the cause of a nuclear-weapons-free world, while pushing for participation in the conferences as an observer.

The Treaty on the Non-Proliferation of Nuclear Weapons (NPT) is an international framework for tackling challenges posed by nuclear arms, and its signatories include nuclear powers. The parties to the treaty will meet next year for a review of how the NPT is being implemented. The review conference in 2015 ended without a consensus between the nuclear powers and non-nuclear nations.

If next year's conference fails as well, the NPT regime itself could fade into irrelevance. The world is staring at a looming crisis. **N**



People show their support for the Treaty on the Prohibition of Nuclear Weapons in Hiroshima, Japan, on Oct. 25.



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# ALTER, EGO

President Donald Trump's China policy is here to stay, no matter who wins

RICHARD MCGREGOR Contributing writer

**I**n mid-2018, just as Donald Trump was launching his first broadsides in a trade war against China, I arrived in Beijing on a semiregular trip to try to grasp how the country's political establishment saw the U.S. president.

That May, Trump had announced tens of billions of dollars of tariffs on Chinese goods. Soon after, with Beijing still scrambling to respond, the U.S. president announced a fresh set of import taxes.

In public, Beijing responded robustly in kind, with the Commerce Ministry announcing matching tariffs on U.S. imports and declaring that China was "absolutely not afraid of a trade war."

In China's powerful ministries and prestigious think tanks, I had fully expected the elite disdain for Trump and his hardball tactics that prevailed in Washington would be mirrored in Beijing.

But rather than scorn, the opposite turned out to be the case. To my surprise, the officials and scholars either feared or admired the U.S. president. Whereas his critics in the West found nothing but cynicism and chaos in the president, many officials and scholars in China saw strategic calculation and tactical genius.

For all their public bluster, the Chinese in private struck a less confident tone, seemingly thrown off balance by the double whammy of tariffs and Trump's untethered, confrontational tactics.

The usually confident bureaucrats and scholars, who in the past had generally dismissed the latest broadside from the U.S. with a kind of

this-too-will-pass shrug, seemed confused and occasionally fearful.

In multiple conversations, the officials and scholars were desperate for insights into how to handle Trump and game out his next move. Naturally, I had little to offer them on this count. I told them that if Trump's closest advisers had no idea what he might do next, then nor did anyone else.

The growing band of critics inside China of President Xi Jinping's increasingly illiberal rule were transfixed for different reasons, gleeful at how the U.S. president, more than any of his predecessors, had been able to rattle the Chinese leadership.

Today, the businessman-turned-politician has become widely viewed as an accelerant of American decline, capped off by the abysmal response to COVID-19. It is clear that the U.S. is weaker, and China stronger, as his four-year term draws to a close.

But the chaos of the past few months, culminating in the Sept. 26 COVID-19 superspreader event at the White House, is overshadowing an examination of the once-in-a-generation overhaul of U.S.-China policy that he has presided over.

Even less well-appreciated is that many allies in the region welcome the change in policy, if not the manner of its execution.

In Washington, getting tough on China has become one of the few bipartisan positions in an otherwise deeply divided polity. Should Joe Biden win the presidency, the contest between the U.S. and China across multiple domains, on everything from trade to technology, is set to endure -- and, in all likelihood, intensify.

"The debate has shifted from why a new approach is needed," said Charles Edel, a State







AP

Confrontational style: The flight deck of the USS Ronald Reagan steaming in the South China Sea in July.

Department official in the Obama administration. "Now, the question is what that new approach should be, and how it should best put into effect."

The end of the first term may also be obscuring the valuable practical lessons the Trump era offers, on how the U.S. can push back against China to check the relentless upending of the status quo that it has successfully pursued since the 1990s.

The episode with tariffs in mid-2018 represented a moment when Trump, ever so briefly, was a symbol -- in China, at least -- of something the world used to be very familiar with: a powerful America with the ability to dictate terms to rivals.

Mark Leonard, the British commentator, another visitor to Beijing in mid-2018, wrote in *The Financial Times* around this time that the Chinese described Trump as a "master tactician, focusing on one issue at a time, and extracting as many concessions as he can."

"But they also see him as a strategist, willing to declare a truce in each area when there are no more concessions to be had, and then start again with a new front."

Trump's ability to frame issues to his --- and America's -- advantage in foreign policy has won begrudging praise from one of Hillary Clinton's and now Joe Biden's senior foreign policy advisers, Jake Sullivan.

"I do think that Trump shaking things up to a

## China and the U.S. undertook 21 military training exercises together (2015-20)



For China, the number is second only to Russia (22). But it's low for the U.S., whose closest training partners are Australia (86) and Japan (79)

Source: Lowy Institute

certain extent in terms of [how] he described and framed certain issues relating to American foreign policy created more space for a serious reckoning that was long overdue," Sullivan said in a recent Lowy Institute podcast. Trump was particularly skillful in connecting the economic suffering of the American middle class with global trade and the rise of China.

Trump's confrontational tactics were quietly welcomed in Japan, too, although more so on national security issues than trade. Among Trump's fans were then-Prime Minister Shinzo Abe's foreign policy advisers, who had often despaired about former U.S. President Barack Obama's more collegial approach. Obama, for example, reined in the Department of Defense

when some of his top military advisers wanted to push back more strongly against Beijing's island-building in the South China Sea.

An anonymous senior Japanese official, writing in *The American Interest* magazine this year, acknowledged the shortcomings of Trump's China and Asia policy.

"But if you ask [Japanese policymakers] if they miss the Obama presidency, most of the same people would also respond negatively -- perhaps more so," the official, who has yet to be unmasked, wrote.

"For countries on the receiving end of Chinese coercion, a tougher U.S. line on China is more important than any other aspect of U.S. policy.

"Asian elites, in Taipei, Manila, Hanoi, and New Delhi, increasingly calculate that Trump's unpredictable and transactional approach is a lesser evil compared to the danger of the United States going back to cajoling China to be a 'responsible stakeholder.'"

The article did not win universal endorsement in Japan and the U.S. In the case of Japan, Obama's advisers pointed out, correctly, that Washington had given Tokyo everything it asked under his presidency, including a U.S. pledge to defend the Senkaku Islands, which are claimed by China.

"The reality is that Obama's stance toughened through the course of his two terms -- he started out much more open to engagement, but became jaundiced as time went on," said Toshihiro Nakayama, professor of American politics at Tokyo's Keio University, in reply to the anonymous article. "Had Hillary Clinton won, U.S. policy would have been as tough, or even tougher, than the one that has taken shape under the Trump administration."

Obama's advisers acknowledge privately, however, that Trump has provided a reminder of just how powerful the U.S. can be when it decides to throw its weight around -- something they were loath to do.

Trump had his supporters in Australia as well. In part, this was ideological, as the conservative government in Canberra was more naturally aligned with Republicans in Washington.

But Trump's harsh rhetoric was often encouraging at a moment when Australian policy toward China had taken a hard turn, leaving Canberra feeling isolated and exposed to Beijing's reprisals.

Occasionally, the Trump administration has eschewed the pretense of strategy and used brute force to get its way diplomatically on China, with significant results. U.S. sanctions on Huawei Technologies are a case in point.

A year ago, Washington's campaign to stop countries around the world, particularly developed nations, from adopting the Chinese telecommunications giant's standard for 5G services seemed to be failing.

The U.S. was even struggling to convince the U.K., Washington's closest and longest-standing intelligence partner, to agree to push Huawei out of its preeminent position in the U.K. telecommunications network.

Months later, the full-throated campaign led by Mike Pompeo, the U.S. secretary of state, has borne fruit. The U.K. has come on board, as has much of Europe -- though not yet Germany. Japan, Australia, Canada, Singapore and New Zealand, among other countries, have all chosen non-Huawei providers.

The Huawei campaign, then, was a reminder of how formidable American power remains, even at a moment of relative decline. The pressure on the Chinese company has been intensified by Trump's restrictions on sales of technology to it.

Still, whatever praise Trump's critics might have had for the president's ability to build leverage with China, they are disparaging about the way he squandered it. In Jake Sullivan's words, while there was merit in Trump's diagnosis about America's foreign policy, his

IN WASHINGTON, GETTING TOUGH ON CHINA HAS BECOME ONE OF THE FEW BIPARTISAN POSITIONS IN AN OTHERWISE DEEPLY DIVIDED POLITY. THE CONTEST BETWEEN THE U.S. AND CHINA IS SET TO ENDURE -- AND, IN ALL LIKELIHOOD, INTENSIFY

Trump and Chinese President Xi Jinping in Beijing in 2017.



AP

Wataru Ito

"A tougher U.S. line on China is more important than any other U.S. policy." Trump and then-Japanese Prime Minister Shinzo Abe in 2019.



**TRUMP'S OWN DEEP PERSONAL FLAWS – HIS SUSCEPTIBILITY TO FLATTERY, A PREDILECTION FOR DICTATORS, AND UTTER ABSENCE OF PRINCIPLE – CONSISTENTLY UNDERMINED HIS PUBLIC POLICY POSITIONS**

In the middle: Trump with Southeast Asian leaders in 2017.

prescriptions for a cure have failed.

This is the key critique of Trump on China. Trump has sown chaos at home and abroad, leaving him little ability to execute any sustained strategy in either place, if there ever was one. Trump has relentlessly attacked South Korea over the cost of troops in the country, for example, and threatened both Seoul and Tokyo, two allies, with tariffs on automobiles. He also alienated many in Europe, especially Germany, through constant disparagement of NATO, the European Union, and the continent generally.

“Trump masquerades hostility as strategy,” Robert Zoellick, the former World Bank chief who served in Republican administrations, wrote in *The Washington Post* in October.

In the case of the tariffs, for example, Trump’s initial action put Beijing off balance. But the limited trade deal that followed addressed none of the core complaints about China’s behavior in Washington.

Many government officials in the U.S. who served Trump and backed the hardening of China policy agree with this critique. Notable hawk John Bolton, who served as national security adviser, recounted in his memoirs how Trump had backed China’s detention of Uighurs in meetings with Xi Jinping and asked the Communist Party leader for support in his reelection campaign. (Other Trump officials denied hearing these comments.)

In other words, Trump’s own deep personal flaws -- his susceptibility to flattery, a predilection for dictators, and utter absence of principle -- consistently undermined his public policy

positions and broader U.S. interests.

Trump has presided over, and indeed, encouraged, a corruption of American institutions, putting them at his own political service. Anyone, be they a Democrat, Republican or a nonpartisan civil servant, has been punished if they stray from his self-serving, self-aggrandizing diktats.

On top of that, Trump has recklessly presided over an atrophying of the U.S. government. Beijing, by contrast, has assiduously amassed enormous state capacity which it expends in a disciplined, if brutal, fashion.

COVID-19 has been a telling episode in this respect, for both political systems.

In China, the Communist Party mishandled the outbreak, punishing doctors and journalists who sought to sound the alarm about its spread in Wuhan in December and January.

But once the central authorities acted, the various levels of government were able to apply their unchecked powers to rein in the virus. China’s economy is bouncing back as a result.

In the U.S., Trump either lied to or misled the public about the pandemic, swung between praising Xi and blaming him for the virus, and then used the issue to attack political opponents.

As a result, in the end, COVID-19 simply became another battleground in the nonstop, never-ending partisan cultural wars in the U.S., draining the American political system of further capacity, at home and abroad, and at the cost of hundreds of thousands of lives.

The most conspicuous area of Trump’s failure on China has been in the area he has mostly focused on, trade -- at least, according to the benchmarks he set himself when he came to office.

America’s bilateral trade deficit with China when Trump came to office in 2016 was about the same as in 2019, roughly \$345 billion. China’s exports are continuing to rise, even in the wake of the pandemic, outpacing the increase in U.S. sales abroad.

The one significant trade deal he signed with China, inked in early 2020, has fallen well short of its targets. So far, according to the Peterson Institute for International Economics in Washington, China’s purchases of U.S. goods they promised to make this year are running at about one-third of their commitments. The pandemic is partly to blame, but there is a substantial shortfall nonetheless.



AP

The tariffs themselves have been costly for American consumers along the way, amounting to “one of the largest tax increases in decades,” in the words of the nonpartisan Tax Foundation in a 2019 report.

Trump repeatedly said that the tariffs were being paid by China, whereas, in fact, most were paid by consumers at the checkout in the form of higher prices.

Farm subsidies, used by Trump to cushion the impact of China’s retaliatory tariffs against U.S. grain and food exports, have also been expensive. They reached a record \$37 billion in 2020 -- more than the Agriculture Department’s entire discretionary budget.

Whatever gains Trump might have made, in other words, have been overwhelmed by the political and financial costs of obtaining them.

Seen through this lens, Trump’s China trade policy, at the end of the day, is much like the line from Shakespeare’s “Macbeth”: “It is a tale, told by an idiot, full of sound and fury, signifying nothing.”

Ryan Hass, who served on the National Security Council in the Obama administration, put it more diplomatically in a paper for the Brookings Institution, in arguing that Trump’s confrontational China policy has delivered few gains.

“Areas of confrontation [with China] have intensified, areas of cooperation have vanished and the capacity of both countries to ... manage competing interests has atrophied,” he said.

On trade, Hass said the deal “left untouched the Chinese behavior that precipitated the trade war to begin with.”

“U.S. negotiators settled instead for a series of pledges of policy reforms Beijing had already decided to take and a set of purchasing targets of

Ratcheting up the pressure: Meng Wanzhou, chief financial officer of Huawei, in Vancouver in September. Huawei is fighting Meng’s extradition to the U.S.

American products that China will not meet.” Any judgment of Trump’s China legacy, and the challenge facing a potential successor, must take into account Beijing’s own behavior, along with the rise of Xi Jinping as a global political force.

America’s status may have plummeted under Trump, but China’s position has not risen in tandem with this fall, even though Beijing had substantial opportunities to advance its global position.

Beijing’s “wolf warrior” diplomacy has brought into the open the kind of aggressive Chinese positioning that has long been a feature of closed-door interactions with the country’s diplomats.

China’s growing economic and military power, and Xi’s own forcefulness, has emboldened Beijing to push harder on many fronts, including

**\$177 billion**

in outward foreign capital investment from the U.S. to China over the last decade (2010-19)

**\$56 billion from China to the U.S.**

Source: Lowy Institute

Power moves (Lowy Institute Asia Power Index\* rankings for 2020)

Rank, country	Index score	From 2019 score	Comments
1 U.S.	81.6	↓	The U.S. remains the most powerful country in the region -- but registered the largest fall in relative power of any Indo-Pacific country in 2020
2 China	76.1	→	China has emerged diplomatically diminished from the pandemic, but Beijing is holding ground in its overall power
3 Japan	41.0	↓	Japan, the quintessential “smart power,” will take most of the decade to recover from the pandemic’s economic fallout
4 India	39.7	↓	India falls just short of the “major power” threshold in 2020, and its position as a future peer competitor to China has become less certain
5 Russia	33.5	↓	
6 Australia	32.4	↑	Middle powers -- Vietnam, Australia and Taiwan -- are the only ones to gain relative power in 2020
7 South Korea	31.6	↓	
8 Singapore	27.4	↓	
9 Thailand	20.8	→	
10 Malaysia	20.7	↓	

\*Index ranks relative power of states in Asia, covering 26 countries and territories including Russia and U.S.; consists of eight measures of power, 30 thematic submeasures and 128 indicators  
Source: Lowy Institute



should Trump be defeated.

Both Biden and Rice, at one point, embraced Beijing's concept of a new era in "great-power relations," which Tokyo saw as a kind of "G-2" concept which would exclude allies like them in favor of U.S.-China deal-making.

The Obama administration eventually shunned the idea when they realized that Beijing was telling other countries in the region to butt out of contentious issues because they would be solved in tandem with the U.S.

Biden's potential advisers range widely in their views, from national security hawks to multilateralists who will want to focus on cooperation on issues like climate change and fighting pandemics.

Trump has killed a number of multilateral agreements. He withdrew from the 2015 Paris climate accord, ditched the 2015 Iran nuclear deal and pulled the U.S. out of the Trans-Pacific Partnership.

Biden is likely to reverse all three decisions, though getting the U.S. back into the TPP (now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership) will take work.

The U.S. Congress and the remaining members of the pact would both have to agree. China itself is now discussing whether it should try to join. Another regional agreement -- which China is a part of, but the U.S. is not -- the Regional Comprehensive Economic Partnership (RCEP), could be signed in November.

Ultimately, political style aside, Trump may prove to be prophetic in his questioning Washington's postwar role in Asia. After all, he was elected on a platform of "America First," a popular slogan.

Put another way, at a moment when, more than ever, countries in the region want the U.S. to play a balancing role against China, America itself, or at least American voters, may be less interested than ever.

As Australian China scholar John Fitzgerald noted: "Neither China under Xi Jinping nor the U.S. under Donald Trump is committed to upholding the old order." Where, he asked, does that leave the rest of us? **N**

Richard McGregor is a senior fellow at the Lowy Institute think tank in Sydney.

Responsible stakeholders: Then-U.S. Vice President Joe Biden, left, chats with his Chinese counterpart Li Yuanchao in Beijing in 2013.

AMERICA'S STATUS MAY HAVE PLUMMETED UNDER TRUMP, BUT CHINA'S POSITION HAS NOT RISEN IN TANDEM WITH THIS FALL

in Taiwan and in the South China Sea.

"The Chinese do have an aspiration for great power status by virtually every measure of comprehensive or composite national power that you can measure," said Chad Sbragia, a deputy assistant secretary of defense, in September, following the release of the Pentagon's annual report on the Chinese military.

But COVID-19 has shown how Chinese diplomacy has seemingly unlimited capacity to alienate not just the developed world, but potential partners in the region as well.

China's aggressive cover-up of the origins of COVID-19 and its ferocious reaction to any criticism on that front has been a disaster, as was the heavy-handed "mask diplomacy" which followed.

China is now attempting something of a diplomatic recovery, with a focus on Southeast Asia. Beijing has already promised Indonesia, the region's most populous nation, that it will be one of the first to get a vaccine when one is available.

Beijing's job, though, for all their missteps, has been made easier by the political upheaval in Trump's America and the subsequent lack of bandwidth in Washington for sustained diplomacy.

"Containing Chinese global influence, if that is the Trump objective, will require more than threats, tariffs and sanctions," said Isabel Hilton,

the British columnist and author, in an exchange on the Asia Society's China File.

"It will require the U.S. to regain its power of attraction both for citizens of hostile states and those of its traditional allies."

Worried about a U.S. retreat, its allies in the region have stepped up. China's most consistent competitor in Asia in recent years has been Japan, and, in the Pacific, Australia.

Unsurprisingly, Chinese officials and scholars increasingly take the view that the Trump era symbolizes an America that is in secular decline.

In the words of Wu Xinbo of Fudan University, one of China's leading public intellectuals, U.S. global leadership is "shrinking" and ceding

ground to other nations. "The U.S. is exhausted, and unable to carry the world," he wrote in 2019.

A second term for Trump would almost certainly offer more of the same: constant political infighting at home and inconsistent, capricious diplomacy abroad.

Aside from the occasional piece of effective statecraft, Trump 2.0 will continue to drain America's soft power reserves, and doubtless embolden Beijing around the world.

In the event of a Joe Biden victory, there is no magic bullet to reset America's standing in Asia. For starters, like Barack Obama in 2009, Biden would be inheriting an economic crisis. His first year in office would inevitably focus on that.

More importantly, few in the U.S. seem to be looking for an off-ramp in the contest with China. Rather, the prevailing sentiment is that the U.S. is late to the game of strategic competition with Beijing, and is playing catch-up.

The U.S.'s allies in the region will also be looking with anxiety toward any appointments to senior diplomatic positions in any Biden administration.

Their concerns include Biden himself. Despite years as a senator on the Foreign Relations Committee, Biden's positions can be quixotic, unpredictable and highly personalized. Robert Gates, Pentagon chief under both George W. Bush and Obama, famously said in his memoirs that Biden had "been wrong on nearly every major foreign policy and national security issue over the past four decades."

During the Obama administration, Tokyo, at different times, was highly critical of both Biden and Susan Rice, the former national security adviser, who is in line for a senior job

**\$558 billion**

Trade in goods between the U.S. and China in 2019, a sharp drop from

**\$660 billion in 2018**

Source: U.S. Department of Commerce

**Economic capability**

China leads in four of the Lowy Institute's eight measures of power, including economic strength. But the U.S.'s score performance is more rounded.

(Submeasures: economic size, international leverage, technology and connectivity)

Rank, country	2020 index score	From 2019 score
1 China	92.5	↓
2 U.S.	87.7	↓
3 Japan	32.1	↓
4 India	25.3	↑
5 South Korea	19.1	→

**Diplomatic influence**

China now wields a larger diplomatic network than any other country. But its lead for diplomatic influence has narrowed in the wake of the pandemic, and it is increasingly at risk of being overtaken by Japan.

(Submeasures: diplomatic network, multilateral power and foreign policy)

Rank, country	2020 index score	From 2019 score
1 China	91.1	↓
2 Japan	88.8	↓
3 U.S.	74.9	↓
4 India	65.9	↓
5 South Korea	65.7	↓

**Military capability**

Beijing has invested in weaponry that could threaten U.S. and allied bases in the Indo-Pacific. But China's many boundary disputes or legacies of interstate conflict undermine Beijing's potential to replace Washington as security guarantor in the region.

(Submeasures: defense spending, armed forces, weapons and platforms, signature capabilities and Asian military posture)

Rank, country	2020 index score	From 2019 score
1 U.S.	93.5	↓
2 China	66.8	↑
3 Russia	52.4	↓
4 India	44.3	→
5 South Korea	31.7	↓

Source: Lowy Institute Asia Power Index ranks relative power of states in Asia, covering 26 countries and territories including Russia and U.S.; index consists of eight measures of power, 30 thematic submeasures and 128 indicators



Courtesy of Inpex

BUSINESS SPOTLIGHT

# AS THE WELLS GO DRY

Indonesia's dwindling oil reserves have companies leaving, and the government scrambling

ERWIDA MAULIA *Nikkei staff writer*

**JAKARTA** When Chevron and the Indonesian government signed an agreement in September to speed up investment in one of the country's biggest oil blocks, it was good news -- but also a reminder that an uncertain new era for Indonesian energy is at hand.

The deal to restart drilling in the Rokan block will unlock a final round of investment by Chevron before it hands over the field -- where it has operated since 1971 -- to national energy company Pertamina next August. And with that a significant chapter will close in the U.S. oil company's 90 years in Indonesia's oil industry.

Chevron is not just leaving Rokan, where its contract was not renewed after Pertamina vastly outbid it in 2018. It has also decided to sell out of

another flagship project, the Indonesia Deepwater Development, after years of frustrations in trying to develop the gas field. It is expected to try to sell its 62% stake to junior partner Eni of Italy. Production in the IDD project went on stream in 2016, with a \$6.98 billion phase two development originally targeted for completion in 2025.

Another big oil major, Royal Dutch Shell, is also throwing in the towel in Indonesia. It is seeking to sell its 35% participating interest in the estimated \$19.8 billion Masela gas block project in the eastern part of Indonesia -- with Japan's Inpex holding the remaining 65%. Production was initially targeted to commence in 2027, but delays seem inevitable unless Indonesia quickly finds a new partner for Inpex.



Courtesy of Chevron

◀ A lack of investment is threatening Indonesia's once-promising oil and gas sector.

▶ The Indonesian government has tried to convince Shell and Chevron not to abandon the country's oil and gas sector.

"Shell has reported to us a list of potential buyers. They will be invited to access the opened data [on Masela]. Shell will do the tender process," Indonesian upstream regulator SKK Migas head Dwi Soetjipto told a hearing with lawmakers on Aug. 24. "Hopefully as Shell said, the divestment process will take only around 18 months."

The uncertainty caused by the withdrawals of two of the biggest names in global energy is unwelcome for the Southeast Asian nation as it struggles to replenish its dwindling oil reserves while pumping enough to keep the economy on the rails.

To some analysts, they show that Indonesia's push for "resource nationalism" -- trying to concentrate oil fields and mining concessions in local hands -- may backfire, with Pertamina struggling to maintain output levels and the coronavirus pandemic casting a shadow over investment. Pertamina also took over the giant Mahakam gas block from France's Total in 2018.

"This was already a phenomenon we're seeing in the last three years [of] companies de-emphasizing their efforts in Indonesia," said Andrew Harwood, Asia-Pacific upstream research director at global energy consultancy Wood Mackenzie. "I think the current [pandemic] situation almost exacerbates

or accelerates the situation in Indonesia."

Harwood said oil majors are reassessing their portfolios and facing "strategic challenges," with revenues hit by lower oil prices and a need to make a long-term transition toward renewables, downstream business and petrochemicals.

"One of the problems that investors find with Indonesia is the time it takes to move a ... project from discovery to actual first production. Some of the big fields [have been] in the works for 10, 15 -- 20 years in some cases -- and they're still a number of years away from first production," he said. "From a standpoint of the oil and gas investment situation, it does look very difficult going forward [for Indonesia]."

In a reversal of the stance of a few years ago, the government has been appealing to Shell and Chevron to stay. "We have sent two to three letters to Shell, stating that the government is disappointed with the move taken by Shell," Soetjipto said. "So we ask them, if they indeed [want to leave] ... to expedite the process so it won't hinder the project."

The trend in Indonesia's oil and gas production has been ominous for some years. Crude production, which reached 950,000 barrels per day in 2009, fell last year to 745,000 bpd and up to August this year had averaged just 717,000 bpd.

At the same time oil consumption

rose from 1.3 million bpd in 2009 to 1.7 million bpd last year, according to the BP Statistical Review of World Energy.

Natural gas production, while able to meet domestic needs, has also been on the decline -- to 67.5 billion cu. meters last year from 78 billion cu. meters in 2009. Indonesia dropped from being the world's leading exporter of liquefied natural gas in 2005 to ninth last year.

The declines are being felt in Indonesia's finances. Oil and gas contributed only about 7.4% of state revenue in 2018, compared with 14% in

2014 and around 20% in the 2000s, PwC wrote in a report last year.

In the short term, the onus is on Pertamina to try to stop output from sliding. When the Rokan block transfer from Chevron is completed, it will control 60% of the national crude production, up from 36% in 2018.

Pertamina has already been struggling with production in Mahakam, which dropped to around 600 million standard cubic feet of gas per day last year from 1,351 million standard cubic feet a day in 2017 following the takeover from Total.

Both Mahakam and Rokan are mature blocks, so their production has been naturally depleting. But ill-prepared transfers could accelerate those declines.

In early 2018, Rokan produced 210,000 barrels of crude oil per day, nearly 30% of Indonesia's total crude production. This year, prior to the pandemic, the production target was set at just 161,000 per day. Pertamina this year complained about not being able to enter Rokan during the transfer process ahead of Chevron's exit -- which led to the September deal between Chevron and SKK Migas under which the U.S. company will be reimbursed for restarting previously abandoned drilling activities.

Lawmakers had earlier questioned whether the national oil company will be able to maintain Rokan production levels, especially after Pertamina posted a \$767.9 million net loss in the first six months of this year -- its first half-year loss in more than 15 years.

Longer term, Indonesia needs to reverse declining investment, which SKK Migas says fell from \$20.4 billion in 2014 to \$12.2 billion last year -- only 1% of which went to exploration activities.

The consequence of less investment has been fewer discoveries and rapid depletion of oil reserves.

The BP data shows Indonesia's total proved oil reserves fell to 2.5 billion barrels last year, from 5.2 billion barrels in 1999. Proved natural gas reserves fell to 1.4 trillion cu. meters from 2.7 trillion cu. meters during the same period.

Joe Lai, energy and resources assurance leader and disruptive events advisory leader at the Jakarta office of Deloitte, said if the production rate is kept at last year's level, Indonesia's proved oil reserves will have fewer than nine years of life.

"This is in contrast to the average of such reserves-to-production (R/P) ratio in Asia-Pacific of 16.4 years and the entire world of 50 years," Lai said. "It will take multiple years of exploration activities before sanctioning an oil and gas project. In the meantime, a combination

of continuous producing, natural decline of the reserves and prolonged low prices due to COVID-19 could mean that the R/P ratio could deteriorate even faster."

Indonesia is badly positioned to compete for shrinking global oil investment. Wood Mackenzie's latest Upstream Competitive Index, published in September, ranks Indonesia 125th out of 145 regimes for fiscal attractiveness. That is a slight improvement from 134th before July, when Indonesia reintroduced a "cost recovery" scheme for production-sharing contracts for oil and gas.

While the pandemic has brought lower prices that make imports relatively economic for now, Indonesia cannot afford to import more oil over the long term. Increasing oil imports have been a main contributor to Indonesia's persistent current-account deficit, causing the emerging market to be among the first to be abandoned by investors when external shocks happen -- such as during the height of the U.S.-China trade war and early in the pandemic.

To reduce reliance on imports, the government is targeting 1 million barrels of crude production per day by 2030, and commissioning Pertamina for five mega refinery projects that will double its refining capacity to 2 million bpd. Pertamina also has been asked to expand the country's biodiesel program, partly to increase domestic consumption of palm oil at a time when Indonesia's top export commodity faces a backlash in Europe.

However Pertamina has been stretched by plummeting oil prices and sales during the pandemic. Apart from its loss in the January-June period, Pertamina has cut its operating expenses and capital expenditure plans by 30% and 23% for this year, respectively, amounting to a combined \$4.7 billion.

The cuts, as well as restrictions hampering field activities, are expected to cause further delays in Pertamina's upstream and downstream projects. Pertamina had already been struggling to secure investment commitments



Courtesy of Impex

Indonesia's national oil projects and production blocks



National oil projects				
	Major contractor	Investment*	Peak production*	On stream*
1 Abadi (Masela Block)	Impex (Minority partner: Royal Dutch Shell)	\$19.8 billion	LNG: 9.5 million tons per year; Gas: 150 million standard cubic feet per day (mmscfpd)	Q2 2027
2 Indonesia Deepwater Development II	Chevron (Minority partners include Eni)	\$6.98 billion	Gas: 844 mmscfpd; Oil: 27,000 barrels of oil per day (bpd)	Q4 2025
3 Tangguh Train-3	BP	\$8.9 billion	Gas: 700 mmscfpd; Oil: 3,000 bpd	Q3 2021
4 Jambaran Tiung Biru	Pertamina	\$1.53 billion	Gas: 190 mmscfpd	Q2 2021

  

Transferred oil and gas production blocks				
	Major contractor	New operator	Transfer completion	Last known production output
5 Rokan Block	Chevron (Since 1971, outgoing)	Pertamina	Aug. 1, 2021	Oil: 185,000 bpd in January
6 Mahakam Block	Total (Since 1966, previous)	Pertamina	Jan. 1, 2018	Gas: Around 600 mmscfpd in 2019

\*2019 estimates

Source: SKK Migas, companies

from potential partners for the five refinery projects. In May the company confirmed that Saudi Aramco pulled out from one.

Pertamina and PetroChina are expected to make the largest capex cuts in 2020 among Asia's 15 largest oil and companies, Fitch Solutions said in a June note.

One hope now is that the government responds further to the challenges facing the industry following the deal in September with Chevron, which was described "a win-win agreement" by Soetjipto at SKK Migas. "It is our way to ensure the level of production will be maintained during the transition and beyond. ... This is a concrete step to keep oil and gas production in 2021 from decreasing."

A so-called omnibus law on job creation, passed by Indonesia's parliament on Oct. 5, includes a section on oil and gas. It gives the central government more clout over issuance of business permits, a move aimed at reducing local governments' involvement that contributed to lengthy bureaucratic delays for projects.

There is also a proposed revision to the 2001 law on oil and gas. Lawmakers have again urged the government to speed up the long-delayed deliberations on the proposal, highlighting the need to replace SKK Migas -- currently an ad hoc body -- with a more permanent upstream regulator, as well as provide more legal

“One of the problems that investors find with Indonesia is the time it takes to move a ... project from discovery to actual first production”

Andrew Harwood  
Asia-Pacific upstream research director at Wood Mackenzie

and fiscal certainties in production sharing contracts and exploration activities, among other crucial issues. But there has been no response from the government so far.

Meanwhile Wood Mackenzie's Harwood remains skeptical over positive impacts the government expects from the new omnibus law.

"I think investors, they like certainty. You're making a major investment over 10 to 15 years, there's no payback until 10 to 15 years later," he said. "There's no clear timeline over when the omnibus law will be introduced. At the moment ... it is adding another layer of uncertainty to the oil and gas sector." N