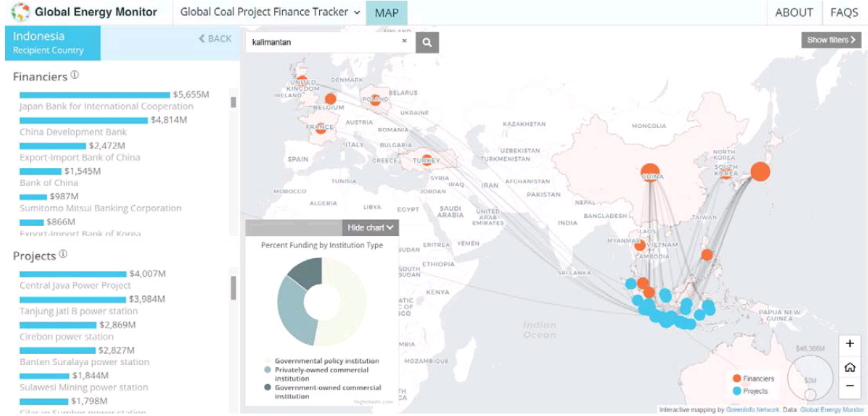
Shaping of Nusantara by foreign capital



THE relocation of Indonesia's capital will bring unprecedented changes to Borneo, with huge risks and opportunities coexisting.

As discussed in previous articles, the population explosion caused by the relocation of the capital will bring various environmental challenges to the world's third-largest island. Among them, managing and meeting the new energy demand will likely be a key issue. With Nusantara sitting right in the heart of coal, the enticement of cheap coal power has pushed Indonesia to the same crossroads again – to keep its climate commitments or to (re-)embrace the dirty energy.

Throughout the 2010s, the world had been moving steadily towards cleaner energy, climate change mitigation, and sustainable development. However, events such as the Covid pandemic, the US-China showdown, and the Russian-Ukrainian war have put the world in a pessimistic mood, with many countries showing a tendency to adopt protectionism.

Indonesia is no exception. Even though Indonesia has earlier demonstrated to the world its determination to overcome environmental and climate problems, its current development strategy has demonstrated otherwise. Since his re-election, President Joko Widodo has formulated many inexplicable and contradictory policies, reflecting the country's constant adjustment of its development pathways. While the President has repeatedly emphasised Indonesia's determination to reduce emissions in his speeches, the construction of domestic coal power plants is still in full swing.

This contradiction may be further exposed in the construction of the new capital. Nusantara's ambition to be a green city will face some structural constraints. In addition to the relatively high cost of renewable energy, the most fundamental issue is the coal oligarchs' deep-rooted, continued political influence. It is worth noting that among the various interest groups behind many prominent politicians, the coal mining industry occupies an important position.

The role of foreign capital

In this context, foreign capital may play a key role in determining the development trajectory of Nusantara. The cost of constructing the new capital is estimated to be as high as USD35 billion. Indonesia cannot afford this on its own. Furthermore, the country will also require extensive technical support to materialise this grand plan. Foreign capital and technology will be the key.

In addition to Indonesia's long-time trading and investment partners such as Singapore, Japan, the EU, and Malaysia, the Chinese have gradually emerged as one of the most prominent investors over the past decade. Also, South Korean investment in Indonesia has soared in the past two years, with a tendency to surpass Japan and the EU.

Particularly, funds from China, Japan, and South Korea greatly influence the energy options of Indonesia's new capital. In the 2010s, the public funds of the three countries contributed to 95 per cent of the global public investment in overseas coal power projects. Although these projects have effectively addressed the energy poverty in many developing countries, the three countries were also accused of driving climate change. In Indonesia, financiers from Japan and China remain the biggest foreign investors in coal (see picture taken from GEM).

As the trend of abandoning coal intensifies, China, Japan, and South Korea have successively announced that they will gradually terminate public investment in overseas coal power from 2021. China also stated at the 76th UN General Assembly that its investment would focus on supporting developing countries to deploy sustainable renewable energy.

Indonesia's rapid growth in the post-Suharto era is a result of massive foreign investment. Undeniably, these foreign capitals have been casting their eyes on Indonesia's abundant resources and cheap labour. However, in the face of increasingly obvious climate change in recent years, as well as various labour and human rights issues and enormous pressure from the scientists, civil societies, and general public, integrating climate commitments and sustainable development in investment strategies has become the mainstream.

In terms of global governance, governments have begun to closely monitor and steer the flow of funds, forcing companies to disclose the greenhouse gas emissions, environmental impacts, and social implications linked to their investment. Malaysia is trying to catch up as well. In the past few years, 'Environmental, Social and Governance' (ESG) has become a buzzword, frequently appearing on various business and investment platforms.

Rating systems such as various green indices have emerged to assess ESG-related risks. For companies, in addition to facing the transition risks such as policy changes and changing operating models brought by societal and economic shifts, they also need to consider the physical risks brought about by failures in adhering to sustainability, such as flood events exacerbated by climate change and social unrest triggered by environmental destruction and pollution. For investors, mitigating these risks by strategically investing in sustainable development projects has become a major consideration.

The Chinese overseas investment

For major powers, there is still a layer of geopolitical considerations. Probably, the flows of Chinese investment attract the most attention. Chinese companies are often seen as closely linked to or controlled by the Chinese government. The flows of Chinese money and the impacts, for better or worse, are inevitably linked to China's national policies.

Chinese investment does play a role in the construction of Nusantara. One example is the cement plant with an annual capacity of 10 million tonnes located near the new capital. The total investment of USD1 billion came from China's Zhejiang Hongshi Cement Group. Conveniently, the cement plant can cater to the building materials needed by the new capital.

There will also be accompanied by various Chinese-backed infrastructure projects, such as freight terminals and roads. In addition to funding, the Chinese side also participates as contractor and provides technology and workers.

One must note that cement production is one of the biggest greenhouse gas emitters, contributing to 7-8 per cent of global anthropogenic emissions in recent years. Cement plants consume enormous energy, and the main source of energy in the cement industry is coal. This coal dependency neatly explains why the large-scale cement plant is located in the coal hinterland of Indonesia.

Careful planning is needed

Given the risk of further coal lock-in, the country may have to be more careful in executing its plan of relocating the capital. First, at the local political level, the leaders may have to be more cautious in dealing with influences from the coal lobbyists. Meanwhile, the country will have to bolster foreign investors' confidence in clean energy by making appropriate energy policies with strong enforcement and transparency. Alternatives combining renewable energy and local development needs, such as biomass co-firing, may be prioritised to tap on resources from local agriculture and forestry sectors.

The challenge of building a new capital is a microcosm of Jokowi's second term as President. How to balance the country's climate commitments, economic development, and political stability will continue to test not only the wisdom of those in power but also the will to reject unsustainable energy and the underlying political interests.

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