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Aspects of Indonesia's Foreign, Defence and Trade Policies: Current Developments and Future Expectations

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Key Points

- Indonesia's developing economy presents unique opportunities, but if Indonesia is to become one of the world's ten largest economies by 2025, it will need to further expand its economic reach.
- Under President Susilo Bambang Yudhoyono, Indonesia has engaged more closely with regional powers.
- Indonesia will need to act delicately as it navigates emerging geostrategic rivalries in the Indo-Pacific. As such, India, China and the United States occupy important positions in Indonesian foreign policy.
- A meeting between then Prime Minister Julia Gillard and President Yudhoyono on 4 July 2012 was a significant milestone in the Australia-Indonesia relationship, which highlighted issues ranging from asylum seekers to defence and trade. This has been followed up since by a meeting between Prime Minister Kevin Rudd and President Yudhoyono on 5 July 2013.

Summary

Since 2005, Jakarta has significantly deepened its engagement with the international community. Following sanctions against it by Western countries after the 1999 East Timorese independence referendum, Indonesia has subsequently experienced strong economic growth and a broader foreign policy. The objectives of that foreign policy are

centred on three principles: economic growth, the development of military capabilities and positioning Indonesia as a significant regional actor.

Analysis

To understand how Indonesia's foreign policy operates, one must look at the basic foundation of its foreign policy: the "independent and active" principle, which originated from the dynamics that emerged at the domestic and international levels in the 1940s. The Cold War brought bipolarity to the international system with the United States and the Soviet Union at its axis and, as a newly established state, Indonesia opted to stay independent from either bloc. Indonesia's colonial history led it to empathise with other colonised states and, thus, Jakarta pledged to "independently" and "actively" pursue the settlement of international issues, rather than being passive or reactive.

Jakarta's Foreign Policy Strategy

Presently, President Yudhoyono projects Indonesia's foreign policy strategy with the catchy tagline of: "A million friends, zero enemies." This strategy is the embodiment of multi-directive diplomacy, where Jakarta seeks to play a bigger role regionally while actively strengthening co-operative relations with countries from around the world.

The manifestation of this multi-directive strategy revolves around the so-called "Natalegawa Doctrine", which takes its name from Indonesia's current Foreign Minister, Marty Natalegawa. The doctrine is an optimistic perspective that places Indonesia in a position of "dynamic equilibrium" within world politics. It perceives the current international political situation as being conducive to the emergence of new powers in international politics, with developing states becoming less dependent on the dominant powers. The doctrine sees the rise of new powers, such as India and China, as non-threatening. Within the Indian Ocean Region countries, President Yudhoyono has pointed to the necessity of formulating long-term co-operation based on common interests. This signifies the importance of avoiding the possibility of the region becoming an area of strategic rivalry.

As Indonesia's economy grows, Jakarta will endeavour to co-operate closely with other major regional actors, in particular India, China, the US and Australia. Given Indonesia's unique, and perhaps enviable geographic position, it will have to balance its relations to achieve its foreign policy objectives.

Indonesia-US Relations

From independence in 1949 until 1968, relations with the US were often cool, and sometimes even quite hostile. The Soeharto Government overturned that policy and aligned with the West. Washington welcomed Soeharto's initiative, as it benefited both countries economically and geopolitically. In 1991, Indonesia-US relations deteriorated following the Santa Cruz massacre in the East Timorese capital, Dili, with Washington cancelling agreements for joint military training. In 1999, President Clinton banned all military sales and contacts after the violence that accompanied that year's East Timorese independence referendum.

Relations have subsequently improved, especially following the 11 September 2001 terrorist attacks and Indonesia's support for the "Global War on Terror". Then-President Megawati Soekarnoputri and US President George W. Bush agreed to collaborate in promoting democracy, countering terrorism and developing a reciprocal partnership based on security interests. Relations, particularly military relations, improved further after the 2004 Aceh earthquake and tsunami, as the humanitarian crisis that followed triggered US extensive assistance and the lifting of the military arms embargo.

Cultural exports became an important part of US foreign policy (the development of soft power), deeply affecting Indonesia. In early 2011, the US launched its first Public Diplomacy Outreach Centre, located at the embassy in Jakarta. The centre aims to facilitate dialogue between the Indonesian public and the US, with a particular focus on youth audiences. Indonesia was chosen to launch the new initiative because of its large number of active social media users, and for the on the government that its educated youth have historically had.

Indonesia's importance was again highlighted by the United States-Indonesia Comprehensive Partnership which elevates bilateral relations and upgrades strategic consultations. The partnership was launched in November 2011 and was reaffirmed by the US-Indonesia Parliamentary Caucus. The caucus talks focussed on the trade and investment, security, defence, regional stability and cultural exchanges.

With increased US interest in the region, following the much-hyped "pivot", Indonesia can benefit economically and militarily. First, many US companies are looking towards Asian economies to sell their products and services. The growing consumer base and rising income levels signal the health of the Indonesian market, providing a definite incentive for US investors to invest in Indonesia.

Second, US military exports have suffered a decline over the last 20 years. The percentage of all military goods exported globally has dropped from 60 per cent in 1991 to 30 per cent in 2011. Rising regional tensions may offer the US increased opportunities for defence exports, especially to Indonesia, as its military spending has substantially increased since 2005.

The US made several major arms deals with Indonesia in 2012. The largest was a contract worth \$25 million to acquire US missiles to complement the 24 F-16 jets previously acquired from the US and worth over US\$350 million, but negotiations for the procurement of eight *Apache* helicopters, estimated to be worth US\$1.4 billion, have been slow. Should the negotiations fall through, the Commander of the TNI, Admiral Agus Suhartono, announced that Indonesia would instead acquire the Sikorsky UH-60 *Black Hawk* utility helicopter.

Indonesia-China Relations

President Soeharto resumed relations with China, which had been suspended in 1967, but Jakarta's distrust of China meant that relations were not productive until the fall of Soeharto in 1998. The Indonesian view of the relationship with China has perhaps best been described

as one of persistent ambivalence.¹ Jakarta has subsequently begun to change its attitude towards Beijing and to be more welcoming of China's presence in South-East Asia.

China's engagement in ASEAN and the ASEAN Regional Forum has opened up an opportunity for the establishment of indirect political relations with Indonesia. Although Indonesia initially refused to have direct political relations with China, it welcomed the development of trade and economic relations. The result was a very close economic partnership that led to the official declaration by Indonesia in 2005 of a strategic partnership with China. Indonesia has welcomed China's involvement in ASEAN+1, ASEAN+3 and the East Asia Summit. As the two countries strengthen their co-operation in defence technology, trade, investment and education, political trust grows with it.

On 22 March 2011, China and Indonesia signed a major Memorandum of Understanding on defence, which encouraged greater military co-operation, technology transfer, equipment upgrades and defence training. Since then, there have been reciprocal visits of both countries officials. On his visit to Indonesia in March 2012, Chinese President Hu Jintao explained that the two countries will further deepen their defence co-operation by expanding their defence and security collaboration, staging joint drills, increasing visits, combating terrorism and cross-border crimes and actively safeguarding the security of their own countries and the region.

In June 2012, the two countries announced the joint production of missiles for the Indonesian Navy. Defence engagement with China is part of Indonesia's defence policy, known as "Minimum Essential Force". In addition, the arms embargo placed against it in the past has taught Jakarta to seek armaments from multiple countries, rather than to rely on one main defence supplier. To a large degree, China's defence involvement with in Indonesia is based on geography. For Beijing, having an ally that partially controls the Malacca Strait helps to provide a safeguard for its energy imports and trade flows through the strategic waterway. Chinese arms exports can be expected to continue in line with the perceived acute vulnerability of its energy imports.

Indonesia-India Relations

Indonesia and India enjoy longstanding ties. President Soekarno was a guest of honour at India's independency ceremony on 26 January 1950. Both countries experienced colonialism and both Soekarno and Indian Prime Minister Jawaharlal Nehru were founding fathers of the Non-Alignment Movement. The relationship with India was suspended during the 1968-98 New Order period because Indonesia's foreign policy was aligned with the US and the West. During that time, Indonesia received substantial aid from Western countries (particularly the US), to support infrastructure development while in contrast, India's political and economic systems were heading more towards socialism. Relations were restored in 1998 as post-Soeharto Indonesia saw the potential of India as an economic partner.

Economic relations between Indonesia and India have matured, with both countries experiencing significant growth over the past seven years. They are both now labelled as

¹ Laksmana, E. A., 'Variations on a Theme: Dimensions of Ambivalence in Indonesia-China Relations', *Harvard Asia Quarterly*, Vol. 13, No 1, Spring 2011, pp. 24-31.

emerging market economies and both are members of the G20. The two countries also have similar domestic issues, such as corruption, inefficient bureaucracies, poverty, unemployment and terrorism.

President Yudhoyono has heavily promoted Indian-Indonesian trade, having initiated in 2005 a Strategic Partnership with India. The growth in bilateral trade has been substantial, growing from US\$6.2 billion in 2006 to US\$16.2 billion in 2011. Both countries have set a target of US\$45 billion in bilateral trade by 2015.

Indian-Indonesian reciprocity also extends to the military sphere. The Indian and Indonesian Navies enjoy high levels of co-operation and understanding fostered through regular co-ordinated patrols and exercises such as the multinational MILAN naval exercise. Recognising the strategic importance of the Malacca Strait, the waterway has been the focus of co-ordinated patrols operated by both navies. From February to March 2012, components of the Indian and Indonesian armies engaged in Exercise *Garuda-Shakti*, hosted by the Indian Counter-Insurgency Jungle Warfare School. The exercise was designed to simulate perceived non-conventional threats faced by both countries.

The rationale for the Indonesian-Indian relationship is based on future challenges expected in South-East Asia. As China and India now seem increasingly to be competing on a geostrategic level, Indonesia is geographically positioned – or even caught – between the two. Indonesia's position as a guardian of the Malacca Strait means that both India and, especially, China have a strategic interest in Indonesia's continuing growth and stability.

Indonesia-Australia Relations and Prospects

Three major recent events continue to have symbolic importance in Australia-Indonesia relations: the 1999 East Timor intervention and the Bali bombings of 2002 and 2005. Since then, both countries have made great efforts to improve bilateral relations. Leaders of both countries have met each other at least 15 times in various fora; their foreign ministers have met for more than 60 different occasions since 2000. The regularity of these visits has culminated in significant boosts to the relationship, with the 2006 Lombok Agreement being a highlight. Regular bilateral dialogue mechanisms are held, including the Annual Leaders' Meeting, the 2+2 Ministerial Meeting of the Foreign and Defence Ministers and the Indonesia-Australia Dialogue. The Indonesia-Australia Dialogue inaugurated on 4 October 2011 is an industry platform to facilitate discussion between Indonesia and Australia on issues relating to the bilateral relationship. The dialogue, though mostly industry-centred, received strong support from the Department of Foreign Affairs and Trade and the Indonesian Ministry of Foreign Affairs.

The 4 July 2012 meeting between Prime Minister Gillard and President Yudhoyono in Darwin took on an increased significance following the Australian invitation to Washington to rotate US Marines through Darwin. The topics discussed were heavily influenced by that initiative. President Yudhoyono called for a joint military exercise between the US, China, Australia and Indonesia, with a focus on humanitarian relief operations.

Another area of interest in the bilateral relationship is illegal immigration. At the Darwin summit, Prime Minister Gillard pressured the Yudhoyono Government to do more to break the people-smuggling networks. President Yudhoyono agreed, but also requested that Australia release 54 Indonesians imprisoned in Australia on people-smuggling charges.

A fortnight after the Darwin meeting, Foreign Ministers Bob Carr and Marty Natalegawa met in Jakarta to explore further co-operation in combating illegal immigration. Mr Natalegawa highlighted the importance of the Bali Process agreement as the basis for co-operation with scope for increased collaboration. Both countries saw the need for an agreement involving *Basarnas*, the Indonesian national search and rescue agency, and Australian agencies. The agreement was to authorise the entry of Australian naval vessels into Indonesian territorial waters for search and rescue purposes and was effectively launched following the September 2012 visit to Indonesia by Defence Minister Stephen Smith and Home Affairs Minister Jason Clare.

The agreement aroused concern over sovereignty fears, with the *Jakarta Post* reporting that, 'T.B. Hasanuddin, who chairs the House of Representatives' Commission overseeing defence and foreign affairs, said the agreement must not allow Australia to impinge on Indonesian sovereignty.'² In response, the Commander of the Indonesian National Armed Forces (*Tentara Nasional Indonesia*, or TNI), Admiral Agus Suhartono, confirmed that Indonesia's sovereignty will remain intact because access would only be given for humanitarian assistance, with only specific zones approved by the TNI to be accessed by Australian vessels. This was subsequently followed up by a meeting by Prime Minister Kevin Rudd and President Yudhoyono on 5 July 2013. Both leaders supported the need for a region-wide approach to the issue, rather than a bilateral focus between a transit state and the destination state.

The prospects for enhanced Australian trade with Indonesia appear promising. Estimates based on the rapid growth of the Indonesian economy suggest that it could surpass Australia as early as 2017.³ To achieve that will require significant foreign investment and a robust trading system. In such areas, Australia has much to offer. Australian investment in Indonesia amounted to \$6.74 billion in 2012; in the other direction, Indonesian investment in Australia stood at \$595 million. The Department of Foreign Affairs and Trade recognises that the economies of both Indonesia and Australia are remarkably complimentary, in many areas such as defence industry, infrastructure, and foodstuffs. The synergy between the Australian and Indonesian economies is likely to increase as Jakarta and Canberra sign off on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). The first, two-stage, round of IA-CEPA negotiations finished on 26-27 March 2013 but, given the scope of the undertaking, it will be some time before a final product is produced.

² Saragih, B.B.T., 'Australia Will Get Access to Indonesian Seas', *Jakarta Post*, 2 August 2012. <<http://www.thejakartapost.com/news/2012/08/02/australia-will-get-access-indonesian-seas.html>>.

³ Conley, T., 'Punching above Our Weight: Sizing up Australia's Economy', *The Conversation*, 18 October 2012. <<http://theconversation.edu.au/punching-above-our-weight-sizing-up-australias-economy-10153>>.

Austrade has listed four key areas in which Australian companies can increase their investments in Indonesia:

- Services: focussing on science and technology, finance and health services.
- Infrastructure: focussing on “green” building design and health infrastructure.
- Environmental: renewable energies and water management.
- Food security.

Two-way merchandise trade between Australia and Indonesia currently stands at \$11.2 billion and is expected to increase to \$15 billion by 2015. Even so, Australia is not fully capitalising on Indonesia’s remarkable growth and there is certainly room to grow much further. Indonesia is experiencing an economic boom, has large amounts of natural resources, is geographically close and has a large youthful workforce and a growing middle class. As such, if Australia wants to engage further with South-East Asia, ramping up its trade with the region’s emerging powerhouse will be of great importance. While Australia and Indonesia share strong ties in many areas, trade continues to lag.

The importance of trade to Indonesia cannot be understated. Indonesia’s former trade minister Mari Pangestu was a key contender for the role of Director-General of the World Trade Organisation. Had her candidacy progressed and she secured the top job, it would have further lifted Indonesia’s trade credentials and been confirmation of Indonesia’s emerging global profile.

Conclusion

Indonesia’s foreign policy, trade and defence involvement with key states active in the Indo-Pacific region is complex, with Jakarta balancing its interests among many players. Indonesia’s history of non-alignment is now serving it well, enabling it to strengthen ties with all the key actors in the region. In fact, as Indonesia rises in prominence, its value to India, China, the United States and Australia will increase.

For India, Indonesia has economic, military and cultural significance. For China, Indonesia’s location on the Malacca Strait is an important consideration in ensuring the free flow of traffic through the waterway. The US sees Indonesia in the geopolitical perspective of having an ally that could, through its leading role in the ASEAN regional architecture, help to peacefully channel China’s aspirations in the region. For Australia, Indonesia’s growth has reciprocal economic and security benefits. Barring unforeseen events, Indonesia’s economic success, its emerging middle class and growing presence as force for regional stability, represent a highly beneficial dynamic that will enhance not only the bilateral relationship, but also the wider region.

Any opinions or views expressed in this paper are those of the individual authors, unless stated to be those of Future Directions International.

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