

# Engaging Indonesia

by David Camroux

The presence of Indonesian President Susilo Bambang Yudhoyono at the G20 Summit in St Petersburg in early September went virtually unnoticed by the European media. That his attendance was overlooked can be explained by immediate factors, namely the overriding importance of the Syrian conflict in the discussions among leaders, and the fact that SBY (as President Yudhoyono is commonly known) is a lame-duck president with less than a year to go before the end of his two-term limit. Lacking BRIC status (for now at least), Indonesia – unlike China, India or even Brazil – barely registers on the radar screen of public awareness in Europe. Symptomatic of this neglect is the fact that, almost four years after its signing in November 2009, two EU member state parliaments (and the European Parliament itself) have yet to ratify the EU-Indonesia Partnership and Cooperation Agreement.

To some extent, Indonesia has been a victim of the emphasis placed on the *interregional* relations between the EU and the Association of Southeast Asian Nations (ASEAN), of which Indonesia is both a founder (1967) and the largest member. Interacting with Indonesia within the ASEAN context has been both convenient – by limiting summit fatigue in *bilateral* relations – and comforting, in so far as believers in the European project have seen how the EU model acts as a reference point for ASEAN's integration aspirations.

While it is essential that the EU should continue to engage with Indonesia within the ASEAN context, preferably by acknowledging more overtly its influence and unique relationship with the Association, economic, political, and geo-political imperatives mean that stronger bilateral political relations with Jakarta need to be developed. This should complement the increased engagement by the larger EU member states over the last decades, in particular Germany but also the United Kingdom and, more recently, France.

## The millennium reset

Can the EU really afford, as a whole, to engage only sporadically with the world's largest Muslim country and third-largest democracy? Following the end of the 'New Order' (the Suharto regime, from 1966 to 1998), there were clear efforts to participate in the country's twin processes of democratisation and decentralisation. This was particularly the case after East Timor's independence in 1999 and the removal of the Indonesian occupation as a stumbling block in EU-Indonesian relations. European ambitions were then clearly expressed in the February 2000 Communication by the European Commission, 'Developing Closer Relations between Indonesia and the European Union'. Three years later, the Commission issued its first ever EU-Indonesia Country Strategy Paper, and the following year

it sent observers to Indonesian national elections. However, it was only after the tsunami on 24 December 2004 (which devastated the Indonesian province of Aceh) that the EU as such began to have an impact. The EU supplied €203 million for post-tsunami reconstruction, and EU member states provided more than half of the monitors (130 out of 226) sent to Aceh to observe the disbanding of rebel militias and the withdrawal of Indonesian security forces. Furthermore, the EU's contribution to the peaceful resolution of the decades-old secessionist conflict in the northern province of Sumatra is one of the largely unheralded success stories of Europeans acting collectively in Asia. It should also be noted that between 2007 and 2013, over half a billion euro in development assistance was provided to Indonesia by the Union.

Yet, despite the high levels of competence and best efforts of the (understaffed) EU Delegation and member state embassies in Jakarta, there had long been signs that a new type of relationship was required. In June 2005, Indonesia 'graduated' from the EU's Generalised Scheme of Preferences (GSP) for developing countries, and after 2014 – as it is now considered a lower-middle-income developing country – it will no longer receive development aid from Brussels under the well-intentioned policy of directing the EU's development assistance to the world's poorest countries. The challenge today is transforming what was, at least in part, a donor-recipient relationship into a more equitable partnership, as proposed in the joint EU-Indonesia Vision Group report published in May 2011. The first flowerings of this new type of relationship were the Voluntary Partnership Agreement on sustainable timber exports (worth €1 billion annually) and the Aviation Agreement, signed in May and June 2011 respectively.

The potential for stronger bilateral ties, however, has not been fully realised. While the financial difficulties in the eurozone, an understandable concern with instability in the immediate neighbourhood and a preoccupation with tensions in EU-China trade relations have no doubt impaired progress, they may also be seen, now, as additional reasons for generating new momentum.

## The economic case

Europe's full recovery from the recent crisis will require a renewed emphasis on exports and investments in global markets. After the success of the EU-Korea Free Trade Agreement (FTA), the negotiation of other FTAs with India, Japan and several other Asian countries demonstrates that the crisis has had the positive consequence of greater EU engagement across the world. For the EU, as for the US, global engagement requires multiple 'pivoting', across the Atlantic as well as towards Asia. Within Asia itself, this requires both the development of new relations as well as certain reorientations, especially as China moves from a largely export-based growth model to one in which domestic consumption is becoming increasingly important. In addition, the Philippines seem at last to have joined the virtuous circle at the heart of the Asian developmental state model, while Burma/Myanmar is undergoing rapid transition. These dynamic markets constitute promising new frontiers for the EU.

While Indonesia represents 40% of ASEAN's GDP and population, it ranks only fourth as an EU trading partner in the region (and 29th overall), with €23.5 billion of merchandise trade in total in 2011 and a further €3.7 billion in services. Thus there is, theoretically at least, room for

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improvement. While Indonesia is suffering at present from the shift of investment in the last few months back to the developed world (with the IMF lowering the country's growth forecast for 2013 from 6.3% to 5.25%), it previously remained largely impervious to the effects of the global financial

crisis which began in 2008. This, by and large, can be explained by the size and importance of the domestic market. According to the World Bank, with a figure of 43.1%, Indonesia had the lowest level of merchandise trade as a percentage of GDP of any of the ASEAN countries between 2008 and 2012. By comparison, the figures for Thailand, Malaysia and Cambodia are 130.5%, 139.7% and 136.5% respectively. Among ASEAN members, only the Philippines (with 46.9%) had a similar level. In fact, Indonesia's share is similar to that of the new Asian economic giants, China (47%) and India (42.5%). By virtue of population size and as a result of political choices (or

lack thereof) over the last few decades, Indonesia – unlike Thailand or Vietnam – did not follow the export-oriented industrialisation trajectory, but rather a more domestically-driven growth model.

The implications of this for European business have been clear, with EU investment in Indonesia geared towards producing mainly, if not exclusively, for the domestic market rather than exporting European products, except those of a very high value (such as aircraft), to the Indonesian market. Only in the area of services (insurance, banking, tourism etc.) would there appear to be greater export opportunities. There is an area, however, in which European companies can play to their strengths, namely in improving Indonesia's poor infrastructure (roads, railways, airports, water treatment). Although businesspeople in Britain, France, Germany and the Netherlands have not been slow in recognising these opportunities, greater political support at an EU level would increase the leverage that they receive from member state governments. Indeed, Indonesia could become a test case for Europe's cooperative/competitive *modus operandi* between member states to be applied to the economic domain and in a new geopolitical context.

## The domestic political case

2014 may prove to be a watershed year in Indonesia's political and economic development. With a lame-duck president in office – whose second term has proved a disappointment notably for the failure to carry out his electoral promise to eradicate corruption – there is concern about his successor following the presidential elections due in July. There are serious questions surrounding the integrity and competence of the two main declared candidates: Aburizal Bakrie, a former Suharto crony, businessman, and chairman of the Golkar party (as well as its principal funder), and Prabowo Subianto, head of a party he created (Gerindra) and a former son-in-law of Suharto (as an ex-special forces commander, he has also been accused of human rights abuses). Furthermore, there are indications that SBY is manoeuvring for the former head of the army (and his brother-in-law), Pramono Edhie Wibowo, to be nominated as the Democrat Party candidate, thus reassuring the military, still a force to be reckoned with in Indonesian politics. As for those not (or not yet) declared, Joko Widodo – the highly popular governor of Jakarta since 2012, usually known by his

nickname Jokowi – has refused to be a candidate for the ruling Democrat Party and has not yet announced whether he would run for his own party, the Indonesian Party of Struggle (PDI), led by Megawati Sukarnoputri (the daughter of the country's first president and herself president from 2001 to 2004). Under Indonesia's post-'New Order' constitution, designed to ensure a degree of political unity in the archipelago, candidates must be drawn from parties with wide territorial representation in parliament.

From an EU perspective, normal diplomatic practice entails a downgrading of engagement during election campaigns, if only because there is decision-making paralysis at executive level. However, it is precisely because of the fluidity of the situation, particularly in the Indonesian parliament, that a commitment to dialogue now might pay dividends later. It is prior to achieving high office that politicians are receptive to efforts to ensure that the EU enters into the equation regarding their appreciation of global players. Above all, there is also a need to demonstrate that European commitment to support Indonesia in consolidating its democratic system will not falter. Even during the 'New Order' period, when official bilateral relations were rather cold, European NGOs, starting with the German Stiftungen, cultivated a dialogue that bore fruit in Indonesia's ongoing quest for a model of governance appropriate for such a diverse and dispersed population. Centre-periphery relations will continue to be of salience in the years to come, and sharing experience with Europeans on comparable challenges in the EU would demonstrate the distinctiveness and added value of political dialogue with the EU as a whole.

## The regional case

In the late 1990s, Indonesia was described in the Washington think tank community as a 'pivotal' state for US foreign relations, i.e. one that is strategically important and a hub in its own region. While such states may face uncertain futures, they can play a key role in global negotiations. More recently, in late 2012, the German Marshall Fund designated Indonesia – along with Brazil, India and Turkey – as a 'global swing state', i.e. a nation that possesses a large and growing economy, occupies a central position in a region, and has a democratic system of government. Within the EU only Germany has made engagement with middle powers worldwide a major element of its (primarily trade-oriented) foreign relations, including a similarly

sophisticated conceptualisation of their role on the international stage as *Gestaltungsmächte* – roughly translatable as ‘shaping powers’. While embracing many of the elements in the American definitions mentioned above, such a concept is intellectually richer than the ‘pivotal’ or ‘swing’ state terminology used in Washington, for it gives weight to the importance of ideas and norms.

Indonesia’s political leaders since independence can be described as ‘norm entrepreneurs’. The creation of the non-aligned movement in the Javanese city of Bandung in 1955 marked Indonesia’s dramatic entry onto the international scene. The *modus operandi* of ASEAN, based on the concepts of *gotong royong* (mutual assistance) and *musyawarah* (consensus), has its roots in Indonesia’s first president Sukarno’s vision of an ‘Asian’ form of democracy. Under SBY, Indonesia has been at the forefront of promoting universal norms on human rights within ASEAN itself and facilitating the transition in Burma/Myanmar, despite opposition from some of the more authoritarian members of the Association.

In the area of geopolitics, in 1948 Indonesia’s first Vice-President, Mohammad Hatta, enunciated the principle of *mendajung antara du karang* (‘rowing between two coral reefs’) to describe Indonesia’s strategy during the Cold War. Marty Natalegawa, Indonesian foreign minister since 2010, has updated this approach for a post-Cold War context with the concept of a ‘dynamic equilibrium’ between China and the United States and the need for a ‘balancing of interests’. Echoes of what is essentially a soft hedging strategy are widespread in other Asia-Pacific capitals from Wellington to Seoul. And it is not by accident that the Indonesian island of Bali will play host to the forthcoming APEC summit in October.

Indonesia may lead from behind in traditional power terms, but it does lead in cultural terms regionally, thus representing an ideal partner and interlocutor for the EU.

## A smart EU pivot

However, Indonesia has not been a terribly receptive partner for the EU in the last few years, as demonstrated by the fact that the Indonesian parliament took till 24 February to ratify the Partnership and Cooperation Agreement. Why so? Internally, the archipelagic nation has been busy with its own democratic consolidation accompanied by a far-reaching decentralisation process, as well as confronting very serious

development challenges. Externally, there is continuity in Indonesian foreign relations, shaped by a mandalic conception of the world as a series of concentric circles, with priority accorded to the immediate ASEAN neighbourhood and with Europe lying at the periphery.

Another factor that comes into play is the educational background of the vast majority of the Indonesian political and economic elite, who have been trained in either the US or Australia. The former German-trained aeronautical engineer President B.J. Habibie was an exception: his time as Vice-President and then as successor to Suharto was marked by a unique period of close relations with Germany and set the stage for the post-‘New Order’ warming in bilateral relations.

It is to be expected that, as its political system consolidates and its economy grows, Indonesia will become a more vocal player in bodies such as the G20, where it is the only member from Southeast Asia. That probability in itself justifies greater engagement from the EU.

However, strengthening EU-Indonesia relations is a long-term endeavour, requiring an investment in the emerging generations through education, training, cultural exchange and other vectors of European ‘soft’ power. More high-level visits by EU leaders and policymakers and fuller use of existing instruments to invest in projects that explain what the EU is and does (possibly including the opening of an EU centre in Jakarta) would constitute savvy and cost-effective initiatives that could already be considered. ‘Unity in diversity’ may be the official motto of Indonesia, but it is also the *leitmotiv* of the European integration project. For both Indonesia and the EU, it remains a dream to be realised: a true partnership in making it happen makes more sense than ever.

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