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# A U.S.–Indonesia Partnership for 2020

*Recommendations for Forging a 21st Century Relationship*

**AUTHORS**

Murray Hiebert  
Ted Osius  
Gregory B. Poling

*A Report of the CSIS Sumitro  
Chair for Southeast Asia Studies*

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Center for Strategic & International Studies  
1800 K Street, NW, Washington, DC 20006  
202-887-0200 | [www.csis.org](http://www.csis.org)

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Bambang Harymurti  
Editor-in-Chief  
*Tempo*

Hayono Isman  
Member, Commission I: Defense, Foreign Affairs, and Information  
Indonesian People's Representative Council

Shinta Widjaja Kamdani  
Deputy Chairwoman  
Employers' Association of Indonesia

Patricia M. Loui  
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Export-Import Bank of the United States

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*Straits Times*

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ASEAN Foundation

Linda Widjaja  
CEO  
Asia Pulp and Paper

Gita Wirjawan  
Minister of Trade  
Republic of Indonesia

Joseph Yun  
Former Principal Deputy Assistant Secretary for East Asian and Pacific Affairs  
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# Executive Summary

The U.S.-Indonesia relationship is critical to the national interests of both nations, and will only grow more so in the years to come. The catch words are now well-known. Indonesia is the world's fourth largest country and third largest democracy. It is the largest Muslim-majority nation, one of the most pluralistic societies on the planet. Its political system provides proof that democratic norms and values are not dependent on culture, history, or religion.

President Barack Obama spent part of his childhood in Indonesia and his administration has recognized the nation's importance in the "Asian century." During a visit to Indonesia in 2010, he and President Susilo Bambang Yudhoyono sought to institutionalize a new era in U.S.-Indonesia cooperation with the announcement of a bilateral comprehensive partnership. Since then Washington has made it clear that Jakarta is central to the U.S. rebalance, formerly called the pivot, toward the Asia Pacific,<sup>1</sup> both in its own right and as a leader in the Association of Southeast Asian Nations (ASEAN).

Despite the compelling case for Indonesia-U.S. cooperation, the relationship's strategic importance remains undervalued in Washington, where the Asia Pacific focus is too often focused on Northeast Asia at the expense of the rest of the region. For their part, many policymakers in Jakarta recognize the need for good relations with Washington, but many others continue to view the U.S. relationship with ambivalence.

Recognizing the need to elevate the U.S.-Indonesia relationship to the next level, the CSIS Sumitro Chair for Southeast Asia Studies launched a project to identify ways to boost cooperation both within and beyond the structure of the comprehensive partnership. The result is this report, which was informed by interviews and research in both Indonesia and the United States.

The greatest asset of the U.S.-Indonesia comprehensive partnership is its recognition that a 21st century friendship between nations cannot be based on security or economic cooperation alone. Instead, it must focus on three pillars of the relationship: political and security cooperation, trade and economic relations, and sociocultural and science/technology collaboration. This report seeks to promote ties across the same spectrum.

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1. White House, "Fact Sheet: The Fiscal Year 2014 Federal Budget and the Asia-Pacific," April 12, 2013, [http://www.whitehouse.gov/sites/default/files/docs/asia\\_pacific\\_rebalance\\_factsheet\\_20130412.pdf](http://www.whitehouse.gov/sites/default/files/docs/asia_pacific_rebalance_factsheet_20130412.pdf).

Political and security relations have traditionally been the glue that binds U.S.-Indonesia cooperation. An uneasy security collaboration emerged during the Cold War due to both countries' concerns about communist threats. With the fall of the Soviet Union, ties grew strained during the 1990s, but were reinvigorated in large part through counterterrorism collaboration in the 2000s. Thanks to the efforts of the George W. Bush and the Obama administrations, political and security linkages are stronger than ever. But neither country can afford to stop seeking means of further improvement. Opportunities for greater political and security cooperation abound, including in regional, global, and third-country efforts that remain underutilized.

Economic relations have been the thorniest aspect of the U.S.-Indonesia partnership. Indonesia's colonization by a rapacious corporation, its irregular tradition of nationalization, and the perceived aloofness of Washington during the 1997–1998 economic crisis are just some of the legacies that make close U.S.-Indonesia trade and investment ties difficult. But economic cooperation is key to a closer partnership. Despite the difficulties, the benefits to businesses on both sides of the Pacific make concerted effort necessary for progress worth it. Government initiatives have an indispensable role to play in creating a more supportive environment for closer trade and investment ties. At the end of the day, it is U.S. and Indonesian businesses that need to steer the economic partnership to the next level, aware of but not hamstrung by the difficulties involved.

The third pillar of the bilateral relationship is the most underutilized: the broad category of cultural, people to people, educational, environmental, and scientific/technological collaboration. The idea of making cooperation central to a state-to-state relationship is relatively novel, but its importance cannot be overstated. Security and economic relations are crucial, but it is these other areas of cooperation that provide the glue for a sustained long-term partnership. Efforts such as student exchanges, climate change mitigation, and medical collaboration often offer more value for the cost than any political- or economic-focused aid program. They can build cultural and normative bridges, create cadres of citizens with a lifelong understanding of their international counterparts, and generate invaluable goodwill while improving the quality of human lives.

The aim of this report is not to include every possible suggestion to improve the U.S.-Indonesia partnership. Political and budgetary constraints in both Washington and Jakarta are recognized. Recommendations that are both the most useful and most practicable are offered. Difficulties facing some aspects of the relationship are recognized with improvements or workarounds suggested. If there is one message fundamental to this report, it is that Jakarta and Washington cannot afford to put their relationship on autopilot following the successes of the last few years. If the United States and Indonesia are not seeking to innovate and improve their partnership, then they are letting it stagnate.

The following are key recommendations for each of the three pillars of the relationship. It is far from an exhaustive list. These recommendations and others are expanded upon at the end of each chapter.

# Political and Security Cooperation

- Make leader- and cabinet-level visits beyond regional summits a priority. Visits from the U.S. and Indonesian presidents and their cabinet officials send signals that both countries are committed to sustaining engagement at the highest levels.
- Establish an outside review process of the comprehensive partnership's progress every six months. An institutionalized nongovernmental review mechanism, involving an eminent persons-type group or NGO and private-sector participants, could provide independent assessments of progress in the partnership.
- Institutionalize links between U.S. and Indonesian legislatures. Regular exchange visits, preferably annually, by members and staff of the U.S. Congress and the Indonesian Parliament from across the partisan divide would provide a framework for sustained bilateral engagement outside the executive offices and military complexes in Washington and Jakarta.
- Promote cooperation in third-country initiatives. The United States and Indonesia might cooperate in providing training of the military in Myanmar in such areas as human rights and rules of engagement with civilians. Indonesia's increasing regional leadership in Southeast Asia as well as its prominence among members of the Non-Aligned Movement and the Organization for Islamic Cooperation make it an ideal partner for the United States in countries around the globe.
- Intensify cooperation in strengthening institutions such as the East Asia Summit (EAS), ASEAN Defense Ministers Meeting Plus (ADMM+), and Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). The United States should support Indonesia's increasingly active role in ASEAN, including efforts to boost the funding for and role of the Jakarta-based Secretariat.
- Increase trilateral cooperation within and outside ASEAN. Just as Washington has sought to institutionalize trilateral dialogues with India and Japan, and Australia and Japan, it should do the same with Indonesia.
- Boost Indonesia's role in joint exercises and expand its scope. Including Indonesia as an active participant in U.S.-led multilateral exercises is symbolically indicative of its growing centrality to security in the Asia Pacific. But just as importantly, it gives U.S. and Indonesian forces greater opportunities to build trust and interoperability. The scope and frequency of bilateral exercises should be increased, as their value cannot be overestimated. The focus should not be exclusively limited to U.S.-led efforts.
- Prioritize funding and training for Indonesia's navy and air force. The need to rebalance budgetary, personnel, and procurement priorities is Jakarta's alone, but the United States can make a concerted effort to gear its military aid, training, and joint exercises with Indonesia toward the air and sea.

- Enhance and regularize exchanges for military officers. Every U.S. or Indonesian soldier that spends time on assignment with the other country's forces is an investment in long-term trust and interoperability.

## Economic and Trade Relations

- Strengthen government-to-government dialogues on trade and investment, and include private-sector participants to make these discussions more dynamic. Both Indonesia and the United States should ensure that high-level trade and investment officials participate in the annual review of the comprehensive partnership chaired by the Indonesian foreign minister and the U.S. secretary of state.
- Lead a chief executive officer (CEO)-level business delegation to Indonesia. The U.S. president and senior trade promotion team should lead a CEO-level business delegation to Indonesia when they attend the annual Asia Pacific Economic Cooperation (APEC) forum this October to promote new trade and investment opportunities for U.S. and Indonesian companies.
- Maintain an open trade and investment environment. Indonesia should live up to the letter and spirit of the Group of 20 (G-20) commitments, made in 2010 in Toronto and 2011 in Cannes. Along with other G-20 members, Indonesia committed to avoid protectionism, reinforce the multilateral trading system, and roll back new protectionist measures.
- Ease trade restrictions. The United States ought to set an example by easing its own trade restrictions against products that are important to Indonesia such as palm oil and clove cigarettes, perhaps in exchange for Jakarta lifting certain specific restrictions.
- Leverage the U.S.-ASEAN Expanded Economic Engagement (E3) initiative to build economic capacity in Indonesia and help modernize its regulations, setting the stage for the country's potential participation in the Trans-Pacific Partnership, and other bilateral or multilateral trade agreements in the future.
- Demonstrate a long-term perspective in Indonesia. U.S. companies must take the leap into the Indonesian market, do the foundational work of choosing partners and creating relationships, and be less risk averse in one of Asia's most vibrant economies, albeit one difficult for foreign investors.

## People-to-People Collaboration

- Expand educational cooperation to promote the creation of community colleges, vocational training, and distance learning opportunities. U.S. universities, the private sector, and non-governmental organizations (NGOs) should be encouraged to partner with Indonesian universities in this endeavor.

- Provide financing for loans and scholarships for Indonesians to study in the United States and for Americans to study in Indonesia.
- Pursue health collaboration opportunities in telemedicine, smart infrastructure, and sharing best practices. Telemedicine is especially helpful for rural populations. Smart infrastructure should be planned to put a premium on available medical access. The United States and Indonesia should also share best practices to improve treatment of diseases endemic to Southeast Asia.
- Collaborate on clean water, including storage, distribution, and pipelines to help maximize resource efficiency. Low-cost clean water technologies should be developed.
- Engage in collaborative climate change research involving the U.S. National Oceanic and Atmospheric Administration (NOAA), the U.S. Forest Service, and corresponding Indonesian institutions, especially on mapping and monitoring of carbon-rich peat lands, but also on monsoon monitoring and prediction.
- Establish an Indonesia-U.S. Center for Sustainable Ocean Fisheries, a joint research institute to explore and study waters that house the world's highest ocean biodiversity. Catch certificates should reflect where fish are caught instead of where they are processed.
- Share best practices in urban planning and air and water management for growing cities.
- Partner in the quest to minimize deforestation, and share best practices with other nations in the region.
- Increase the number of private-sector partnerships with the U.S. embassy's @america, a high-tech outreach center, in Jakarta to enhance its capability to reach Indonesian youth and show off the best U.S. technologies.





# Acronyms and Abbreviations

ADMM+	ASEAN Defense Ministers Meeting Plus
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
CEO	chief executive officer
DOD	Department of Defense
E3	Expanded Economic Engagement initiative
EAS	East Asia Summit
ECA	Bureau of Educational and Cultural Affairs
EDA	Excess Defense Articles program
EPA	Environmental Protection Agency
FDA	Food and Drug Administration
FMF	Foreign Military Financing program
FMS	Foreign Military Sales program
G-20	Group of 20
GDP	gross domestic product
GHI	Global Health Initiative
HELM	Higher Education Leadership and Management program
IAS	Indonesia Academy of Science
ICT	information and communications technology
IMET	International Military Education and Training program
IOR-ARC	Indian Ocean Rim Association for Regional Cooperation

MCC	Millennium Challenge Compact
NGO	nongovernmental organization
NOAA	National Oceanic and Atmospheric Administration
OECD	Organization of Economic Cooperation and Development
OEF	Oracle Education Foundation
PEER-Health	Partnerships for Enhanced Engagement in Research for Health
PRESTASI	Program to Extend Scholarships and Training to Achieve Sustainable Impacts
TPP	Trans-Pacific Partnership
USAID	U.S. Agency for International Development
USBI	Universitas Siswa Bangsa Internasional
USINDO	U.S.-Indonesia Society
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization
YES	Youth Exchange and Study program

# 1 | Opportunities in Political and Security Cooperation

Our relations—our two countries’ relations are strong; they’re solid. We enjoy what we call comprehensive partnership; it’s a broad subject matter on which we cooperate, and this truly is in a sense a partnership among friends, mutually beneficial, and of a mutual—a great deal of mutual interest.

—Foreign Minister Marty Natalegawa to  
Secretary of State John Kerry, May 16, 2013

Our defense relationship continues to develop in the context of the comprehensive partnership that we’ve established. This year alone, the United States is conducting more than 150 activities, exchanges and visits with the Indonesian military.

—Defense Secretary Leon Panetta after meeting  
with Indonesian defense minister Purnomo  
Yusgiantoro, October 23, 2011

**T**he United States and Indonesia are building on more than a decade of momentum in developing an increasingly robust relationship, and continue to consolidate stronger political and security ties. Both countries have recognized that their respective national interests are well served by deepening bilateral cooperation and have defined a compelling set of shared concerns that will drive the process of expanding an already important relationship.

In practical terms, the United States and Indonesia share common goals in bilateral as well as regional areas. They have cooperated closely on a wide range of issues, including counterterrorism efforts, humanitarian assistance and disaster relief, maritime security, and supporting Indonesia’s growing role in regional affairs, both independently and through multilateral institutions.

There are still discordant notes in the relationship that pose challenges to the strengthening of the U.S.-Indonesia partnership. Most important among these challenges is what

appears to be a trend of rising economic nationalism in Indonesia, which is addressed in Chapter 2. But secondary, if less threatening, political obstacles remain. Notably, the United States has repeatedly voiced concerns about human rights issues, including an uptick in the persecution of religious minorities by private groups and local authorities in Indonesia, and abuses in restive Papua Province.

Related to human rights concerns is worry in Washington over the outcome of Indonesia's 2014 presidential elections, when two-term president Susilo Bambang Yudhoyono will be replaced, having reached his constitutionally mandated term limit. Political stability in Indonesia has come a long way in the last decade, and the election outcome will not threaten the system itself. Prabowo Subianto, one of the current frontrunners, however, has a past that presents challenges to the U.S.-Indonesia relationship.

These and other issues are hurdles, but they are not insurmountable and, with political will on both sides, will not be allowed to dampen the broader relationship. Regardless of any disagreements, the United States and Indonesia share a compelling set of national interests and values, a commitment to democracy and plurality being the most fundamental, that supports a strong partnership.

President Barack Obama's visit to Indonesia and the signing of a comprehensive partnership agreement with President Yudhoyono in November 2010 set the stage for U.S.-Indonesia bilateral relations to be elevated to a more strategic level. With the groundwork for increased coordination already in place, the goal of taking bilateral relations to the next level now requires commitment and follow-through at the highest levels. What is needed is a sustained signal to both countries' bureaucracies, business, and populaces that Indonesia and the United States have long-standing mutually beneficial ties, share common values and interests, and that the time has come to transform a friendship into a more dynamic and responsive partnership for the long-term.

## Key Recommendations

Indonesia and the United States should:

- Make leader- and cabinet-level visits beyond regional summits a priority. Visits from the U.S. and Indonesian presidents and their cabinet officials send a signal that both countries are committed to sustaining engagement at the highest levels.
- Establish an outside review process of the comprehensive partnership's progress every six months. An institutionalized nongovernmental review mechanism, involving an eminent persons-type group or NGO and private-sector participants, could provide independent assessments of progress in the partnership.
- Institutionalize links between U.S. and Indonesian legislatures. Regular exchange visits, preferably annually, by members and staff of the U.S. Congress and the Indonesian Parliament from across the partisan divide would provide a framework for

sustained bilateral engagement outside the executive offices and military complexes in Washington and Jakarta.

- Promote cooperation in third-country initiatives. The United States and Indonesia might cooperate in providing training of the military in Myanmar in such areas as human rights and rules of engagement with civilians. Indonesia's increasing regional leadership in Southeast Asia as well as its prominence among members of the Non-Aligned Movement and the Organization for Islamic Cooperation make it an ideal partner for the United States in countries around the globe.
- Intensify cooperation in strengthening institutions such as the East Asia Summit (EAS), ASEAN Defense Ministers Meeting Plus (ADMM+), and Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). The United States should support Indonesia's increasingly active role in ASEAN, including efforts to boost the funding for and role of the Jakarta-based Secretariat.
- Increase trilateral collaboration within and outside ASEAN. Just as Washington has sought to institutionalize trilateral dialogues with India and Japan, and Australia and Japan, it should do the same with Indonesia.
- Boost Indonesia's role in joint exercises and expand its scope. Including Indonesia as an active participant in U.S.-led multilateral exercises is symbolically indicative of its growing centrality to security in the Asia Pacific. But just as importantly, it gives U.S. and Indonesian forces greater opportunities to build trust and interoperability. The scope and frequency of bilateral exercises should be increased, as their value cannot be overestimated. The focus should not be exclusively limited to U.S.-led efforts.
- Prioritize funding and training for Indonesia's navy and air force. The need to rebalance budgetary, personnel, and procurement priorities is Jakarta's alone, but the United States can make a concerted effort to gear its military aid, training, and joint exercises with Indonesia toward the air and sea.
- Increase and regularize exchanges for military officers. Every U.S. or Indonesian soldier that spends time on assignment with the other country's forces is an investment in long-term trust and interoperability.

## Background

The United States has abundant strategic interests in Indonesia. Located along the Malacca Straits and between the Indian and Pacific oceans, Indonesia is a key player in an increasingly important region. It is the largest country in Southeast Asia by population, size, and economy. It is also the world's largest Muslim-majority nation and third largest democracy. Indonesia's political system provides compelling proof that pluralism and democratic values transcend historical, geographical, religious, and demographic lines.

Indonesia is a leader and founding member of the Non-Aligned Movement, a group of states committed to neutrality and avoiding major power blocs. The movement was founded in 1961 in response to alliances created during the Cold War. It was largely conceived by five leaders including Indonesia's first president, Sukarno. The coordinating bureau of the Non-Aligned Movement was based in Jakarta. Regardless of political affiliation, Indonesia's elites had an affinity for U.S. partnerships dating back to World War II, and Washington has been providing military assistance to Indonesia since it gained independence in 1949. But bilateral relations were frequently strained during the Cold War, often by the United States' frequent fixation on the threat of communist influences in Indonesia.

The U.S. relationship with Indonesia grew more strained during the 1990s because of human rights abuses by military and security forces, especially in Timor-Leste and during the turmoil that brought down former president Suharto in 1998. But cooperation between the two countries significantly changed after the September 11, 2001, attacks on the United States. The George W. Bush administration made counterterrorism cooperation with Indonesia a priority that, although narrowly focused, helped lead the relationship out of the impasse it had reached at the turn of the century.

The post-September 11, 2001, world forced the United States to reevaluate its strategic interests, especially the need to develop effective counterterror cooperation to combat radical Islamic groups in Southeast Asia, at the same time that the human rights record of the Indonesian armed forces was improving significantly. Policymakers in Washington were also increasingly appreciative of Indonesia's leadership position within Southeast Asia and its role in the larger Asia Pacific.

Military-to-military engagement has been a key test of enhanced bilateral cooperation between Indonesia and the United States. Military ties were normalized in 2005, when the Bush administration moved to remove restrictions on the International Military Education and Training (IMET), Foreign Military Financing (FMF), and Foreign Military Sales (FMS) programs for Indonesia. Prohibitions against any U.S. cooperation with the Kopassus special forces were in place until 2010; restrictions on engagement with them remain in place.

Indonesia and the United States agreed in 2010 to establish a comprehensive partnership which includes political and security cooperation as well as deeper economic and sociocultural relations. Shortly afterward, President Barack Obama, who was raised in Indonesia from age 6 to 10, made the bilateral relationship an integral component of his administration's "rebalancing" to the Asia Pacific.

On the security front, a glance at Indonesia's defense spending in 2012 shows just how far things have come from the years of arms embargoes and strained relations. Among its procurements last year, Jakarta acquired U.S. warplanes, including F-16 fighters, vessels for its navy, and spare parts for its C-130 transport planes.<sup>1</sup>

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1. "Military Spending in South-East Asia: Shopping Spree," *Economist*, March 24, 2012, <http://www.economist.com/node/21551056>.

# Recent History

## THE 1990S

The U.S.-Indonesia security relationship was rocky during the 1990s. The United States played a balancing act between interest in the country's potential economic and political clout on the one hand, and responding to continued human rights abuses on the other. This was at least partly a result of the end of the Cold War. With the end of the threat of global communism, the U.S. strategic calculus shifted. It became less willing to overlook the excesses of the Suharto regime and the Indonesian military. After the 1991 "Dili incident" in which Indonesian security forces killed pro-independence residents of Timor-Leste, the U.S. Congress canceled assistance to Indonesia through the IMET program, which provided training and assistance to the military.<sup>2</sup>

The Indonesian government was able to take advantage of an offshoot of the program, Expanded IMET, in 1993. That program focused on management training for military officers and civilians in the Indonesian defense community, rather than combat training or more traditional military capacity building.<sup>3</sup> Expanded IMET provided, among other things, funding for management and budget courses as well as college tuition. It also taught the troops about the military's role in democratic countries, and in the U.S. context in particular.

In 1994 the U.S. Congress restricted military sales to Indonesia because of continued abuses. Human rights groups at the time decried the Indonesian military as a serial abuser of human rights, especially in Aceh, Papua, and Timor-Leste.<sup>4</sup> Restricted U.S. military contact with Indonesia persisted throughout the 1990s. The 1997 Asian financial crisis led to the fall of Suharto and a leadership transition the following year that paved the way for democracy. But it did not lead to an immediate improvement in relations.

Indonesia's transition to democracy brought new waves of violence that convinced Washington it had made the right choice in restricting military ties. During the riots that brought down Suharto, student activists were kidnapped and tortured by security forces, including the Kopassus special forces unit. At the same time, security forces proved unable or unwilling to prevent widespread violence against ethnic Chinese citizens, who were used as scapegoats for the financial crisis.

In the aftermath of independence, clashes between separatist groups and Indonesian security forces, especially in the provinces of Aceh and Timor-Leste, kept the military in the international spotlight. President B. J. Habibie granted Timor-Leste, which had only been annexed by Indonesia in 1979 after centuries as a Portuguese colony, the right to hold

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2. Abraham M. Denmark, Rizal Sukma, and Christine Parthermore, *Crafting a Strategic Vision: A New Era of U.S.-Indonesia Relations* (Washington, DC: Center for a New American Security, 2010), [http://www.cnas.org/files/documents/publications/CNAS\\_Crafting%20a%20Strategic%20Vision\\_Denmark.pdf](http://www.cnas.org/files/documents/publications/CNAS_Crafting%20a%20Strategic%20Vision_Denmark.pdf).

3. Ibid.

4. Adam O'Brien, "Backgrounder: The U.S.-Indonesian Military Relationship," Council on Foreign Relations, October 3, 2005, <http://www.cfr.org/indonesia/us-indonesian-military-relationship/p8964>.

a referendum on independence in 1999. After the Timorese voted to secede, pro-Indonesian militias flooded the country with the support of the military, leading to widespread killings that ended only with the intervention of Australian-led international forces.

In response to the violence, the U.S. Congress passed the Leahy amendment. It banned military training and weapons transfers to armed forces guilty of human rights violations, including Indonesia's, until significant reforms could be demonstrated.<sup>5</sup> In 2000 the United States began allowing Indonesia to purchase, with proper disclosure, some military spare parts for nonlethal items.

## THE 2000S

Security cooperation between Indonesia and the United States began to significantly change after the 9/11 attacks. Past human rights abuses took a back seat as dismantling al Qaeda-linked terrorist networks in Southeast Asia became a top U.S. priority. This shift in U.S. strategic focus continued throughout the first half of the decade, growing apace with increasing professionalism by the Indonesian military and greater democratization in Jakarta. Human rights abuses, while never completely eradicated, significantly decreased as the military stepped back from a political role in the state and turned increasingly to external defense as separatist threats in Aceh and Timor-Leste, as well as communal violence in the Maluku Islands, abated.

On October 12, 2002, the al Qaeda-linked terrorist organization Jemaah Islamiyah bombed a nightclub on the Indonesian island of Bali, killing 202 people. The majority were foreigners, including seven Americans. It remains the worst terrorist attack in Indonesia's history and marked a turning point in U.S.-Indonesia security relations. The United States did not overnight become comfortable with full engagement with the Indonesian armed forces, but it did come to realize that Jakarta was a genuine partner with shared security interests. The U.S. government gave Indonesia \$23.2 million in general economic assistance between 2001 and 2004, part of which was spent strengthening the country's security forces.<sup>6</sup>

From 2002 the U.S. Department of Defense resumed the IMET program, which provides Indonesia military personnel with training to increase professionalism, strengthen respect for democratic values and human rights, and cement ongoing cooperation with the U.S. military. From 2002 to 2004 the Department of Defense also funded a Counterterrorism Fellowship Program<sup>7</sup> that provided education in counterterrorism practices and strategies for Indonesian military and intelligence officials. A special Indonesian counterterrorism police unit called Special Detachment 88 was launched in 2003 in response to the Bali bombings.

Another turning point in relations came in the wake of the devastating December 2004 tsunami that struck the coast of Aceh and destroyed coastal areas across the region. U.S.

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5. Denmark et al., *Crafting a Strategic Vision*.

6. O'Brien, "Backgrounder."

7. Ibid.



forces assisted with humanitarian assistance and disaster relief operations The United States also sold Indonesia spare parts for Hercules C-130 military transport planes to deliver humanitarian supplies to Aceh.<sup>8</sup>

The United States responded to the aftermath of the 2004 tsunami with Operation Unified Assistance, which aided the Indonesian military with humanitarian assistance and natural disaster relief efforts. In 2005 President Bush lifted the U.S. embargo on military sales to Indonesia. That year Congress approved \$6 million in grants and loans for weapons and other military equipment, and training to the Indonesian navy for maritime security. Amnesty International and other human rights groups opposed this move on the grounds that Indonesia's armed forces had not taken sufficient action to end human rights abuses.<sup>9</sup> Despite such objections, nearly all sanctions against military sales and assistance to Indonesia have been lifted, with targeted restrictions on cooperation with Kopassus being the last significant hurdle.

Due to its role at the forefront of past human rights abuses, from Indonesia's 1965 anti-communist purges to the 1999 bloodshed in Timor-Leste, Kopassus came under special scrutiny as a target for the Leahy amendment. It was specifically excluded from prior steps to normalize military ties because of a perceived lack of reform or accountability for human rights violators. Despite pledges from the executive branch in Jakarta and directives from Parliament, Kopassus has not brought its own to justice.

In July 2010 Defense Secretary Robert Gates announced during a trip to Jakarta that the United States would begin a "gradual, limited program of security cooperation activities"<sup>10</sup> with Kopassus, primarily by lifting a ban on the unit taking part in joint exercises with the United States. The decision remains controversial among civil society groups in both the United States and Indonesia, as well as with some members of the U.S. Congress. But rapprochement with Kopassus also remains incomplete.

Prior to his announcement, Gates gave Indonesian authorities a list of steps that needed to be taken before the United States could fully engage with Kopassus. According to Human Rights Watch, the preconditions were as follows:

that personnel convicted of human rights violations be removed from the special forces; that the military and Kopassus pledge to cooperate with future civilian or military investigations and prosecutions of human rights abuses; that anyone convicted of human rights abuses in the future be prohibited from serving in the military; and that personnel credibly alleged to have committed human rights abuses in the future be suspended pending an investigation.<sup>11</sup>

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8. Ibid.

9. Ibid.

10. Robert Gates, "Statement by Secretary Gates at Presidential Palace in Jakarta, Indonesia," July 22, 2010, <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4662>.

11. Human Rights Watch, "Indonesia: US Resumes Military Assistance to Abusive Force," July 22, 2010, <http://www.hrw.org/news/2010/07/22/indonesia-us-resumes-military-assistance-abusive-force>.

The conditions have not yet been met in full. And until they are, the U.S. Congress will ensure that the administration's ability to fully normalize relations with the Indonesian military will remain constrained.

The transformation of the Indonesian military into a professional, nonpolitical force is still a work in progress, but it has made great strides. The military withdrew from Parliament during the administration of President Megawati Sukarnoputri, just before Yudhoyono became the first Indonesian head of state elected by popular vote in 2004. The result was the first entirely democratic, civilian government in Indonesian history.

The military continues to engage in business enterprises to meet much of its budgetary needs, large parts of which lie outside governmental control. The current military chief Admiral Agus Suhartono has responded to parliamentary demands that the military step back from private business, continue its process of internal reform, and maintain a creed of political neutrality.

## The U.S.-Indonesia Comprehensive Partnership

Following years of warming political and security relations, President Barack Obama took office in 2009 with an explicit desire to take U.S.-Indonesia relations to the next level. Having grown up for several years in the archipelago, he has a real connection to and appreciation for Indonesia's critical role in the Asia Pacific. Therefore, he made a stronger relationship with Indonesia an integral part of boosting U.S. ties to Southeast Asia, itself the centerpiece of the administration's rebalance, formerly called the pivot, toward the wider Asia Pacific.

The result was the U.S.-Indonesia Comprehensive Partnership Agreement signed by presidents Obama and Yudhoyono in 2010. The plan of action details 54 items under the following three categories: political and security cooperation (12 items); economic and development cooperation (27 items); and sociocultural, educational, science and technology, and other cooperation (15 items). The partnership includes high-level dialogues. The inaugural session between Secretary of State Hillary Clinton and Foreign Minister Marty Natalegawa took place in Washington in September 2010.<sup>12</sup> The second session was convened in Bali on July 24, 2011. The third session was held on September 20, 2012, in Washington. Underscoring the new era of relations, the United States in 2010 offered Indonesia 24 F-16 aircraft—an unthinkable prospect just a few years before. Provided via the Excess Defense Articles [EDA] program, Indonesia is paying for the refurbishment.

Under the political and security cooperation pillar of the partnership, the two countries agreed to strengthen bilateral defense and security cooperation by building on the June 2010 Defense Framework Arrangement and boosting cooperation on nontraditional

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12. White House, Office of the Press Secretary, "Fact Sheet: United States-Indonesia Comprehensive Partnership," November 18, 2011, <http://www.whitehouse.gov/the-press-office/2011/11/18/fact-sheet-united-states-indonesia-comprehensive-partnership>.

challenges to regional security.<sup>13</sup> The framework arrangement is intended to integrate existing cooperative activities in the field of defense.<sup>14</sup>

The comprehensive partnership structure includes a joint commission with six working groups to coordinate joint activities and measure progress on the three pillars. These groups cover energy, security, trade and investment, democracy and civil society, education, and climate and environment. Other joint endeavors under the partnership framework, including science and technology, health, and tripartite cooperation mechanisms, occur outside the purview of the working groups. In November 2011 Obama and Yudhoyono reaffirmed their support for the partnership. During the 2012 Indonesia-U.S. Third Joint Commission Meeting, the Security Working Group outlined recent developments in the partnership.

### **THE 2012 INDONESIA-U.S. THIRD JOINT COMMISSION MEETING**

The 2012 commission meeting allowed Clinton, Natalegawa, and other officials to take stock of the comprehensive partnership's progress on a number of efforts, a list of which is available from the U.S. State Department website.<sup>15</sup> Among the major achievements, the United States and Indonesia continued a defense planning dialogue to engage in "information exchanges on the strategic environment, related military tasks and capabilities, and best practices for organizing and managing the Indonesian defense sector."<sup>16</sup> The dialogue allows for continued cooperation on assisting Indonesia's defense modernization efforts to enhance its active role in regional and global security. These efforts included the "transfer of EDA F-16s, the initiation of FMS cases for Maverick missiles, Apache helicopters, and other essential equipment to meet Indonesian defense requirements."<sup>17</sup>

The two countries established an agreement to negotiate a Communications Interoperability and Security Memorandum of Agreement to promote communications interoperability and security between the two armed forces. It also seeks to enhance the modernization and professionalization of the Indonesian armed forces through U.S. security assistance, specifically FMF and IMET.

So far the agreement has led to the "completion of the C-130 Programmed Depot Maintenance, the operationalization of the Integrated Maritime Surveillance System and provision of \$12 million support for upgrades, and continuation of support for Professional Military Education and training." The two countries have also decided to focus future security assistance on building "Indonesian aviation maintenance and sustainment capacity."<sup>18</sup>

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13. U.S. Department of State, "United States-Indonesia Comprehensive Partnership," July 24, 2011, <http://www.state.gov/r/pa/prs/ps/2011/07/169001.htm>.

14. Embassy of the United States in Indonesia, "U.S. and Indonesia Sign Defense Framework," June 10, 2010, [http://jakarta.usembassy.gov/pr\\_06102010\\_2.html](http://jakarta.usembassy.gov/pr_06102010_2.html).

15. U.S. Department of State, "Indonesia-U.S. Third Joint Commission Meeting," September 20, 2012, <http://www.state.gov/r/pa/prs/ps/2012/09/197980.htm>.

16. *Ibid.*

17. *Ibid.*

18. *Ibid.*

The United States and Indonesia also revisited their shared commitment to organizing a humanitarian assistance and disaster relief exercise with regional partners. Though not led by the United States or Indonesia, the inaugural ADMM+ Humanitarian Assistance and Disaster Relief/Military Medicine Exercise on June 16–20, 2013, fits this bill.

There are currently nearly 200 established military-to-military engagements between U.S. and Indonesian armed forces each year. In addition, the United States has supported the development of the Indonesian Peace and Security Center through the U.S. State Department’s Global Peacekeeping Operations Initiative. Around \$8 million has been spent in the “construction of barracks, the provision of heavy construction equipment for training in preparation for UN missions, the expansion of the language training center, and driving simulators and training vehicles.”<sup>19</sup>

The partnership has also promoted maritime security cooperation through exercises and exchanges including Cooperation Afloat and Readiness Training, the first-ever U.S.-Indonesia bilateral submarine exercise, and maritime security workshops and dialogues. The partnership also “initiated discussions on new areas for cooperation, including cyber and space policy, and committed to future exchanges of information and technical cooperation.”<sup>20</sup>

## U.S. Foreign and Military Assistance to Indonesia

On the security front, the rapid expansion of U.S.-Indonesia ties is easily quantifiable by looking at various kinds of foreign and military assistance provided by Washington. After being completely severed, annual FMS agreements with Indonesia rose from about \$14 million in 2006 to nearly \$40 million in 2011. Agreements exploded in 2012, totaling more than \$700 million (see Figure 1.1).

Assistance under the IMET program has seen steadier, if not as impressive (see Figure 1.2). Increasing from \$721,000 in 2005 to almost \$2 million in 2012, this amount is second only to the IMET assistance received by the Philippines in the Asia Pacific.

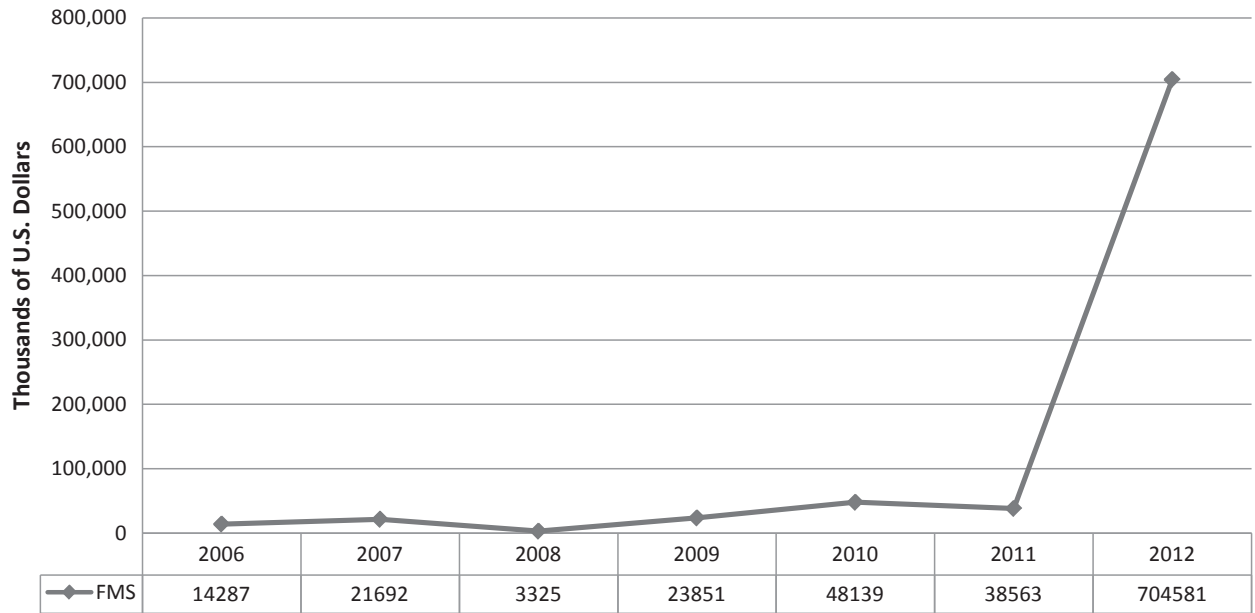
The FMS and IMET programs are often trumpeted as the hallmarks of U.S. security assistance and training, and with good reason. But they are far from the only programs by which the United States assists Indonesia with its security needs. Figure 1.3 shows select nonmilitary aid programs geared toward security and political stability. The largest component of this is the broadly defined Economic Support Fund/Security Support Assistance programs, which topped \$145 million in 2010. Other programs involve assistance for nonproliferation and counterterrorism, counternarcotics efforts, and refugee assistance.

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19. Ibid.

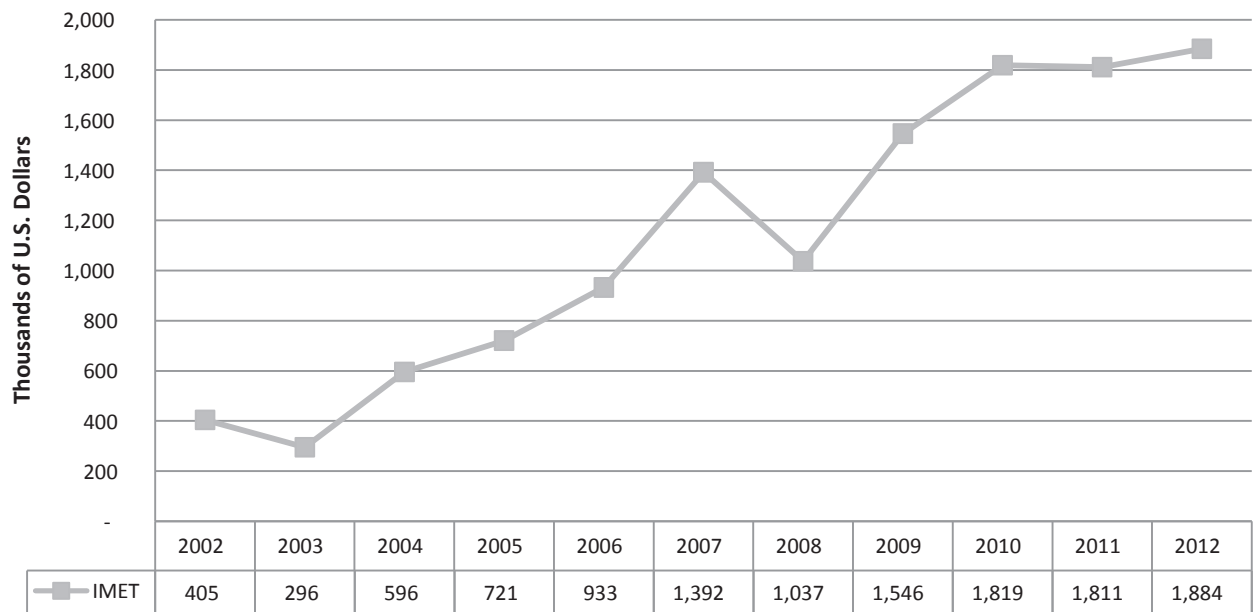
20. Ibid.

**Figure 1.1. U.S. Foreign Military Sales Agreements with Indonesia, 2006–2012**



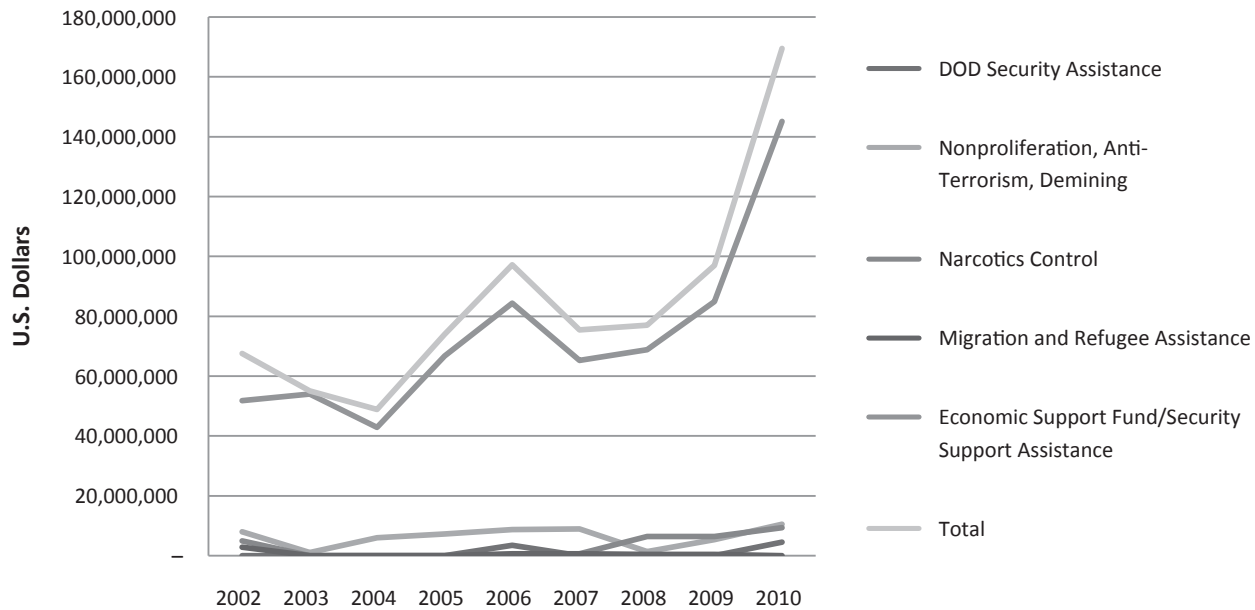
Source: U.S. Department of Defense, Security Cooperation Agency, *Historical Facts Book as of September 2012*, <http://www.dscamilitary.com/programs/biz-ops/factsbook/Historical%20Facts%20Book%20-%2030%20Sep%202012.pdf>.  
 Note: FMS, foreign military sales.

**Figure 1.2. International Military Education and Training Program Assistance to Indonesia, 2002–2012**



Source: U.S. Department of Defense, Security Cooperation Agency, *Historical Facts Book as of September 2012*, <http://www.dscamilitary.com/programs/biz-ops/factsbook/Historical%20Facts%20Book%20-%2030%20Sep%202012.pdf>.  
 Note: IMET, international military education and training.

**Figure 1.3. Additional U.S. Security Assistance to Indonesia, 2002–2010**



Source: U.S. Agency for International Development, “U.S. Overseas Loans and Grants,” <http://gbk.eads.usaidallnet.gov/>.  
Note: DOD, Department of Defense.

## Strengthening Bilateral and Multilateral Political Ties

Political and diplomatic relations are less easily quantifiable than traditional security relations, but just as important. As highlighted above by the breadth of the comprehensive partnership, this aspect of the relationship has boomed alongside the U.S.-Indonesia military-to-military renaissance—and in large part made it possible.

Like security relations, U.S.-Indonesia political cooperation took years to take root and has experienced significant fluctuations. Serendipitously, the Obama administration’s renewed attention on the Asia Pacific region has coincided with the push by the Yudhoyono administration, and Foreign Minister Natalegawa in particular, to strengthen Indonesia’s global role and its relationship with key international partners, including the United States. Washington and Jakarta have built on the renewal of ties that began in the early 2000s, and today’s bilateral relationship is warmer than at any time in history.

While the bilateral ties apparent in the comprehensive partnership are critical, equally important is the multilateral cooperation. The United States’ relationship with Indonesia is no longer just about the archipelago; it is about engagement with a key middle power that will see its regional and global clout continue to rise. For Jakarta, it is about stepping out onto the world stage as an emerging power in its own right, and cooperating with the United States as an equal partner on regional and global issues.

As pluralistic, democratic, and rules-based polities, both Indonesia and the United States are committed to global governance through multilateral institutions. Indonesia, given its increasing global influence, is committed to seeing current institutions expanded and new ones created to better accommodate the changing global power structure of the 21st century. And the United States is increasingly onboard. Indonesia is increasingly taking part in global economic governance, but U.S.-Indonesia cooperation in political and security institution building remains largely regional.

The United States has explicitly made strengthening ASEAN a key component of its rebalancing to the Asia Pacific. Indonesia shares that goal, especially during the tenure of Foreign Minister Natalegawa, who is an unapologetic internationalist. The ASEAN Secretariat is based in Jakarta, and Indonesia has softly but steadily pushed its nine fellow members to support increased funding and a larger role for the institution. Washington has urged the ASEAN member states to pursue this course, and made good on its own commitment to a stronger Secretariat by becoming the first non-ASEAN member to appoint a resident ambassador to the Secretariat: David Carden in 2011.

The United States, as an Asia Pacific nation, has made it clear that it is in the region to stay. It also recognizes that it will no longer dominate the security sphere in the region as it once did. The rise of China is the most obvious, but not the only, reason the Asia Pacific balance of influence is changing. In Washington's view, the best way to manage the changing dynamic is to see a multipolar, rules-based regional order for the 21st century. Such an order must include China and the United States, but also middle powers such as Australia, India, Japan, South Korea, and the nations of ASEAN.

Several issues mar bilateral relations between the United States and Indonesia. One issue that has made its mark has been Indonesia's rising economic nationalism. Due to protectionist policies, Indonesia's trade and investment relationship with the United States has been impacted. Human rights concerns, namely religious intolerance and the mistreatment of West Papuans, are another issue that complicates the bilateral relations. The extent of U.S. assistance for the Indonesian armed forces depends on how the state chooses to address human rights concerns.

## Collaboration on Humanitarian Assistance and Disaster Relief

Sixty percent of the world's hydro-meteorological disasters occur in the Indo-Pacific, making it the most disaster-prone region in the world. More than 200 million people are affected and more than 70,000 people killed by natural disasters in the Indo-Pacific each year.<sup>21</sup>

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21. Rajat Nag, "Asia's Challenges: Beyond the Fast Lane, Ensuring Inclusive and Green Growth" (presentation, CSIS, Washington, DC, March 20, 2012).

Astonishingly, direct physical losses due to disasters are outpacing regional gross domestic product (GDP) growth.<sup>22</sup> And it will get worse: climate change will have major implications for disaster management in Asia. According to a recent report by the risk analysis firm Maplecroft,<sup>23</sup> the following cities, in rank order, face serious climate change-related disaster risk: Dhaka (1), Manila (2), Bangkok (3), Yangon (4), Jakarta (5), Ho Chi Minh City (6), and Kolkata (7). When it comes to natural disasters, Indonesia is ground zero.

The Indonesia-U.S. partnership must therefore place a premium on proactive disaster preparedness. ASEAN has an agreement on disaster management and emergency response. Joint military exercises focus on disaster response, and over the last decade the United States has provided significant disaster response assistance to Indonesia. But there is no regional system in place to identify and mobilize available resources effectively. The lack of a status-of-forces agreement means long delays in bringing in military personnel to assist following a natural disaster.

## Public Opinion of the United States<sup>24</sup>

Indonesian attitudes toward the United States sank precipitously during the Bush administration in large part due to backlash against U.S. policies in the war on terror, especially the invasion of Iraq and perceived heavy handedness in dealing with terrorist threats in Southeast Asia. During the Obama administration, however, perceptions of the United States and its role in the world have rebounded quicker than many expected.

This reversal of opinion has a number of roots, including a personal regard for President Obama and his childhood in Indonesia, a shift in both rhetoric and substance that showed engagement broadening beyond counterterrorism, the end of the war in Iraq and the impending withdrawal of troops from Afghanistan, the greater attention paid to Southeast Asia by both the president and his cabinet as part of the U.S. rebalance, and growing perceptions in Indonesia of a China threat driven by Beijing's aggressively pushing its sovereignty claims in the South China Sea.

The shift in attitudes among Indonesians has helped cement the U.S.-Indonesia comprehensive partnership, and maintaining that affinity will be crucial in pushing the relationship to the next level. The breadth and depth of changing attitudes was best captured by Lowy Institute Indonesia polls conducted in 2006 and 2011.

The United States in 2011 ranked third among nine foreign countries on the level to which Indonesians trust it to act responsibly in the world, with 72 percent saying they trust the United States at least a little, up from just 32 percent in 2006. Furthermore, 28 percent

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22. Asian Development Bank, *Investing in Resilience: Insuring a Disaster-Resistant Future* (Manila: Asian Development Bank, 2013), <http://www.adb.org/sites/default/files/pub/2013/investing-in-resilience.pdf>.

23. "Cities of Dhaka, Manila, Bangkok, Yangon and Jakarta face highest climate change risks," Maplecroft Risk Atlas, November 15, 2012, [http://maplecroft.com/about/news/ccvi\\_2013.html](http://maplecroft.com/about/news/ccvi_2013.html).

24. All figures in this section are from Fergus Hanson. *Lowy Institute Indonesia Poll 2012* (Sydney: Lowy Institute for International Policy, 2010), [http://www.lowyinstitute.org/files/lowy\\_indonesia\\_poll\\_2012.pdf](http://www.lowyinstitute.org/files/lowy_indonesia_poll_2012.pdf).



of Indonesians said they trust the United States a great deal—more than any of the other eight nations. More than half (58 percent) of Indonesians also said that the United States will be the leading military power in Asia in 20 years. Their level of trust suggests that this fact is not seen negatively. By contrast, over half of respondents (56 percent) say that China is somewhat or very likely to become a military threat to Indonesia in the next 20 years.

Indonesian fondness for the United States also appears to extend beyond the strictly diplomatic or military spheres. Asked to rate their general feelings toward 21 countries from 0 to 100, with 0 being completely unfavorable and 100 completely favorable, the United States received an average of 64 in 2011, up from 54 in 2006. That ties with Singapore and places it second only to Japan's 66.

Along with these feelings is the recognition of the United States' economic importance: 43 percent said the U.S. economy is the most important to Indonesia, even though China is actually the archipelago's largest trading partner. Meanwhile, 33 percent said that the United States provides the most aid money to Indonesia, although Australia actually does by a large margin. What these figures reveal seems to be a combination of growing U.S. soft power in Indonesia and an aspirational desire for greater economic engagement with the United States.

## 2014 Presidential Election

The comprehensive partnership between Indonesia and the United States on a diverse range of issues demonstrates the two nations' mutual recognition of the importance of their relationship. While both countries do have policy differences, they have demonstrated that it is in their mutual interests to move beyond them and see the relationship flourish.

This commitment to a stronger partnership will need to be maintained regardless of what happens during Indonesia's upcoming national elections in 2014. Some commentators in the United States have grown increasingly worried by the prospects that Prabowo Subianto, a former Kopassus commander and head of the Army Strategic Reserve Command based in Jakarta during the riots that surrounded the fall of Suharto, will attain the presidency. He has been a frontrunner in opinion polls since announcing his intention to run in November 2011, only recently falling to second place behind the potential candidacy of Jakarta governor Joko Widodo.

Troops under Prabowo's command were accused of kidnapping and torturing anti-Suharto activists in 1998. Prabowo has admitted to ordering nine activists' kidnapping, and a military court in August 1998 found him guilty of exceeding orders for that action. He was also accused of using allies to worsen the riots that accompanied Suharto's ouster. A government fact finding team in October 1998 urged that he be investigated for his role in the riots, for which Prabowo maintains he has no responsibility.<sup>25</sup>

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25. Jose Manuel Tesoro, "The Scapegoat?" *AsiaWeek* 26, no. 8 (March 3, 2000), <http://www.cnn.com/ASIANOW/asiaweek/magazine/2000/0303/cover1.html>.

The problem for Washington is that Prabowo was denied a U.S. visa in 2000 due to his suspected role in kidnapping and torture during the riots. According to a U.S. administration official, he was “the first case of someone denied a visa subsequent to the United States ratifying the Torture Convention.”<sup>26</sup> What is clear, though, is that the United States cannot and will not allow the results of the 2014 elections to derail the larger mission of the U.S.-Indonesia comprehensive partnership. If Prabowo becomes the president of Indonesia, President Obama and his successor will need to engage with him as a fellow head of state. In the absence of any definitive proof that he ordered the human rights violations committed by his troops, he will be granted a U.S. visa if he seeks one. It will not be an easy call, and it certainly will not be without critics, but it will be the right choice.

## Conclusion

There are many ways to broaden and deepen the U.S.-Indonesia partnership by building on existing programs and launching initiatives. Cooperation on political and governance issues, as well as multilateral diplomacy, offer the greatest opportunities for cooperation. Among the areas ripest for greater collaboration are legislative and judicial exchanges, anti-corruption efforts, law enforcement cooperation, and concerted high-level diplomatic focus.

Indonesia’s democracy is stable, but still consolidating. From the mechanics of legislative work to the boosting of judicial independence, the United States has plenty of experience to offer. This cannot, however, be a one-way street. Washington enjoys all the dysfunction and ossification that comes with a centuries-old political system. Collaboration with a vibrant and still developing democracy could offer valuable lessons for U.S. legislators, judges, diplomats, and administrators.

Just as important as bilateral cooperation is the potential for greater U.S.-Indonesia collaboration in multilateral efforts. Indonesia will increasingly play a central role in Asia Pacific regional architecture, and that architecture is central to U.S. regional policy in the 21st century. Outside of ASEAN, Indonesia can play a critical role as a leader among other middle powers, including Australia, India, Japan, and South Korea. All these nations share interests with both Indonesia and the United States, not least of which is creating a multipolar regional system in which both Beijing and Washington help develop and institute, but are also constrained by, international rules and norms. The importance of seeing Indonesia play a leading role in developing that system cannot be overstated.

Military-to-military engagement has been a key pillar of U.S.-Indonesia relations. While funding, especially through IMET, has been growing and should be increased, the real thrust of cooperation should shift to better targeting, rather than just more funding. While it is significant that Indonesia’s military budget has increased over the past five years, the

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26. Susan Sim, “Prabowo Denied US Visa Under Torture Agreement,” *Straits Times* (Singapore), December 31, 2000.

military force needs modernization as it becomes an externally rather than internally focused organization.

The United States is uniquely capable of assisting with capacity building for the Indonesian navy and air force. Cooperative action is needed on nontraditional security threats, especially disaster relief and cybersecurity. As Indonesia increasingly steps out onto the world stage, the United States should seek to partner with it in playing a greater multilateral role, including through joint exercises both within and outside the ASEAN framework.

The United States and Indonesia made substantial progress in the early 21st century on building political and security cooperation based on counterterrorism collaboration. The relationship evolved into something much more dynamic under the second Bush and first Obama administrations. It is imperative that neither country become complacent. The mechanisms of the comprehensive partnership will ensure that relations continue to develop, but that does not mean Washington and Jakarta should not look for ways to achieve further collaboration both within and beyond that framework. The following recommendations do that.

## Recommendations

### GOVERNANCE AND DIPLOMACY

- *Make leader- and cabinet-level visits a priority.* Visits from the U.S. and Indonesian presidents and their cabinet officials send signals that both countries are committed to sustain engagement at the highest levels. For the United States, this was clearly a priority during the first Obama administration, but has not yet been evident during the second. During his July 2013 trip to Brunei for the ASEAN Regional Forum (ARF) and related meetings, Secretary of State John Kerry answered critics of his focus on the Middle East by pointing out that he and President Obama would be in Indonesia for the Asia Pacific Economic Cooperation (APEC) summit in October. But this statement at the ARF, following Kerry's decision to cancel other planned trips to Southeast Asian nations, suggested to many that the administration will only make regional trips a priority because of its role as a hub of Asian multilateral institutions.

The U.S.-Indonesia relationship is important in its own right, not only because of Jakarta's role in ASEAN and other organizations. Washington recognizes this fact, but appearances matter. Making bilateral visits by the secretaries of state, defense, and commerce, as well as the president, will drive this point home. It will also dispel the widely circulated belief that the U.S. rebalance toward Asia Pacific countries has been sidelined by concerns in the Middle East during the second Obama administration.

- *Establish an outside review process of the comprehensive partnership's progress every six months.* The U.S.-Indonesia Comprehensive Partnership's mechanisms currently focus on working groups and a joint ministerial commission that meets once a year,

with subcabinet level reviews every six months. The working groups are key to building collaboration across the spectrum of bilateral interests, and the current review schedule is sufficient from a government perspective. But an institutionalized nongovernmental review mechanism, involving either an eminent persons-type group or NGO and private-sector participants, could provide independent assessments of progress in the partnership.

An independent review mechanism for each working group and another for the joint commission itself would help hold the two governments accountable for demonstrable progress, thereby limiting any tendency to overplay successes or hide shortfalls. It would also get prominent citizens outside the halls of government invested in the success of the partnership, keep the relationship-building agenda in the public eye, and make engagement more strategic.

- *Institutionalize links between U.S. and Indonesian legislatures.* Regular exchange visits, preferably annually, by members and staff of the U.S. Congress and the Indonesian Parliament from across the partisan divide would provide a framework for sustained bilateral engagement outside the executive offices and military complexes in Washington and Jakarta. Indonesia knowledge is sorely needed in the U.S. Congress, especially as the relationship grows more important at the same time that the most well-versed Southeast Asia hands have left the legislature in recent years. As part of this effort, the currently weak Indonesia caucus in the U.S. Congress should be revitalized and the House Democracy Partnership, which has a strong track record in Indonesia, should be strengthened.

Seeing the deal-making across the aisle by Indonesia's young multiparty legislature, and its efforts to consolidate its role in the state, should serve as a healthy reminder to the United States of the importance of effective bipartisan lawmaking. For Indonesia, the importance of the U.S. relationship is well recognized by the president and cabinet, but that message has not spread as widely throughout the legislature. In addition, Indonesia's Parliament could gain significant value from seeing how its U.S. counterpart handles the mechanics of expert staffing, research, committee work, and other intricacies of bureaucracies.

- *Initiate and regularize exchanges for diplomats and policy specialists.* Arrangements should be made for an officer of the Indonesian Ministry of Foreign Affairs to work at the U.S. State Department for a period of six months, in connection with an assignment to the Indonesian embassy in Washington. Similar arrangements should be made for U.S. diplomats in Jakarta. Likewise, reciprocal placements between Indonesian and U.S. think tanks should be encouraged.
- *Strengthen the cadre of Indonesia experts in the United States and U.S. experts in Indonesia, including in the embassies of each nation.* Both countries should ensure that their foreign ministries continue to prioritize the personnel, resources, training, and mandate to sustain active engagement by decisionmakers and opinion shapers involved in these key bilateral relationships. Only the most motivated and highly

trained individuals should be posted to the embassies in Jakarta and Washington. Washington must commit to making the U.S. embassy and ambassador in Jakarta a long-term priority of the same caliber as those in Beijing, Tokyo, or Seoul.

- *Engage in judicial exchanges and information sharing.* A strong, independent judiciary is a cornerstone of a stable and consolidated democracy. Although ingrained in the U.S. psyche, it is still largely aspirational in Indonesia. Indonesia's presidency and Parliament have made great strides in effective governance, but its courts are regularly cited as ineffective and unreliable by the Indonesian populace. This is not the case across the entire judiciary, but the system as a whole is still working to evolve into a role of independence and effectiveness that were impossible during the rule of former president Suharto. Visits by Indonesian judges to the United States and vice versa would be a valuable tool for sharing best practices, as would regular exchanges and workshops for court staff, lawyers, and researchers.
- *Share best practices on governance and anti-corruption.* Indonesia and the United States could share best practices, including the establishment of anti-corruption ombudsmen, officials who would be appointed to investigate individual citizen's complaints against public authorities. In addition, Indonesia and the United States could expand current cooperation under the multilateral Open Government Partnership<sup>27</sup> to include: (1) identification of best practices in open governance; (2) use of prizes and challenges encouraging citizen creativity in developing web-based tools for improved delivery of services for citizens and citizens' empowerment; (3) e-governance initiatives to promote data transparency and citizen engagement; and (4) a joint action plan for future collaboration on projects to enhance government accountability and transparency.
- *Focus law enforcement cooperation where most needed.* The success of U.S.-Indonesian joint training, personnel exchanges, information sharing, and direct collaboration to combat terrorism over the last decade proves the value of greater law enforcement cooperation. Such collaboration has expanded beyond counterterrorism in recent years. It must now be focused in areas where U.S. expertise can have the most effect. The Indonesian police are rated lower than any other institution in popular surveys of corruption, trustworthiness, and effectiveness; these faults, however, are not spread across the entire force. U.S. assistance in everything from professionalization and community outreach to forensic science and intelligence gathering could help Indonesia bring the reputation and efficacy of its general police forces up to the level of its deservedly praised elite units.

## REGIONAL COOPERATION

- *Promote cooperation in third-country initiatives.* Being involved in the development of third countries can bolster the U.S.-Indonesia partnership. The U.S. Agency for

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27. "Indonesia," Open Government Partnership, accessed on August 19, 2013, <http://www.opengovpartnership.org/countries/indonesia>.

International Development (USAID) could partner with Indonesia's development agency to create targeted programs in countries where both have interests. Precedents already exist. The United States and Indonesia have jointly trained officials in Myanmar and southern Thailand. U.S. and Indonesian officials have also partnered to conduct election monitoring in Egypt.

The United States and Indonesia might cooperate in providing training of the military in Myanmar in such areas as human rights and rules of engagement with civilians. The Indonesian military's decision to give up political power and allow the country to move toward a democracy is of strong interest in Myanmar where the government is going through its own democratic reform. Indonesia's increasing regional leadership in Southeast Asia as well as its prominence among members of the Non-Aligned Movement and the Organization for Islamic Cooperation make it an ideal partner for the United States in countries around the globe.

- *Collaborate in strengthening regional frameworks.* The United States and Indonesia should intensify cooperation in strengthening institutions, including the EAS, ADMM+, and IOR-ARC. In particular, both countries should build on the EAS's core functional areas and promote an ambitious agenda to ensure that the annual summit achieves its full strategic potential. The United States should support Indonesia's increasingly active role in ASEAN, including efforts to boost the funding for and role of the Jakarta-based Secretariat. The United States has already demonstrated a commitment to this goal by becoming the first non-ASEAN member to appoint an ambassador to the Secretariat.
- *Institutionalize trilateral cooperation outside ASEAN.* The United States should seek to establish trilateral cooperation between it, Indonesia, and other Asia Pacific middle powers, especially India and Japan. Jakarta is a leader within ASEAN, but also a rising force beyond the organization. Just as Washington has sought to institutionalize trilateral dialogues with India and Japan, and Australia and Japan, it should do the same with Indonesia.

The United States should also encourage Indonesia to institutionalize such dialogues without the United States. Washington need not be present in every discussion among Jakarta's partners in the region, and greater coordination between nations such as Indonesia, Australia, India, Japan, and South Korea, with or without the United States, is in all parties' interests. Given Foreign Minister Natalegawa's stated hope for a "dynamic equilibrium" among Asia Pacific middle powers, this idea should find a receptive audience among sections of the government in Jakarta.

## SECURITY

- *Boost Indonesia's role in and the scope of joint exercises.* Including Indonesia as an active participant in U.S.-led multilateral exercises is symbolically indicative of its growing centrality to security in the Asia Pacific. But just as importantly, it gives U.S. and Indonesian forces greater opportunities to build trust and interoperability,

along with other regional partners with shared interests. Indonesia already participates in the U.S.-led Cobra Gold and Rim of the Pacific multilateral exercises, and the bilateral Cooperation Afloat Readiness and Training. The scope and frequency of bilateral exercises should be increased; their value cannot be overestimated. Recent participation of U.S. and Indonesian forces in the inaugural ADMM+ joint exercise demonstrated cooperation in building region-wide confidence and interoperability. It also proves that focus should not be placed exclusively on U.S.-led efforts.

- *Prioritize funding and training for Indonesia's navy and air force.* Indonesia's current force structure and funding priorities are heavily weighted toward the army, reflecting decades during which internal insurgencies were the greatest threat to the state. That is no longer the case. Jakarta increasingly recognizes that its armed forces must look to external, not internal, defense. But the budget for the navy and air force have not reflected that shift. The need to rebalance budgetary, personnel, and procurement priorities is Jakarta's alone, but the United States can make a concerted effort to gear its military aid, training, and joint exercises with Indonesia toward the air and sea.
- *Expand and regularize exchanges for military officers.* Regular exchanges of military personnel for placement at each other's training facilities, headquarters, and other institutions build rapport between U.S. and Indonesian forces. Every U.S. or Indonesian soldier that spends time on assignment with the other country's forces is an investment in long-term trust and interoperability. Sanctions placed against Indonesia during the 1990s for human rights violations led to a lost generation of officers who lack the personal connections of their predecessors to the United States and vice versa. If the U.S.-Indonesia security relationship is to be enhanced, both sides must play catch up on this front.
- *Commit to accountability for all Indonesian military personnel.* This remains the last great hindrance to full normalization of U.S.-Indonesia military-to-military ties. Jakarta should redouble efforts to ensure that the military, Kopassus in particular, no longer enjoys the impunity of the past. Indonesia's special forces have become more professional, yet reports of continued abuses, especially but by no means exclusively in Papua, are troubling. The U.S. Congress will not support full cooperation with the special forces until abuses cease. Promises to hold past and future human rights abusers to account must be followed through. Far more must be done to ensure that civilian courts are able to try troops that commit abuses against civilians, as the military justice system has so far been unwilling or unable to do so.
- *Expand assistance in the development of defense and security research capabilities.* The U.S. government should assist the Indonesian Ministry of Defense to improve its research capabilities through exchanges of researchers in designated defense- and security-related institutions.
- *Increase joint training and assistance on cybersecurity.* The Indonesian and U.S. governments should work more closely to provide training in combating cyber

threats. Collaboration in this area will have a multiplier effect on the bilateral relationship because it can support not only public sector security, but also private-sector research and corporate security.

- *Make coast guard cooperation a priority.* As the world's largest archipelago, Indonesia faces unique challenges in combating piracy, smuggling, nonproliferation, disaster relief, and other cross-border issues including human trafficking. Yet the Indonesian coast guard has been underfunded for decades and is among the weakest in the Asia Pacific. Greater exchanges, training, and resource sharing by the Indonesian and U.S. Coast Guards offers an area of demonstrable need and can provide a framework for greater collaboration on more sensitive areas of security cooperation.
- *Coordinate response plans before natural disasters occur, thus saving lives by allowing each country to deploy its resources more quickly.* Coordinated response plans developed in advance of natural disasters, such as agreements on emergency flyovers, would allow each country to deploy its resources more quickly and save more lives. Indonesia would benefit from a rehearsed doctrine for minimizing the time factor of response.<sup>28</sup>

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28. Hemant Krishan Singh, "Indo-Pacific Framework for Regional HADR Cooperation," *ICRIER Issue Brief* 2, no. 2 (February 2012): 4, [http://www.icrier.org/icrier\\_wadhvani/Index\\_files/wadhwan\\_issue\\_brife\\_feb12.pdf](http://www.icrier.org/icrier_wadhvani/Index_files/wadhwan_issue_brife_feb12.pdf).



## 2 | Trade and Investment: Strengthening the Weakest Link in U.S.-Indonesia Relations

Indonesia sits in the middle of the world's newest hub of economic growth and lies along waterways that connect the Indian and Pacific oceans, the world's two most commercially vital seas. Indonesia is the world's fourth largest country and home to one of the fastest-growing major economies on the planet. Its gross domestic product has grown between 5 and 6 percent annually for nearly a decade, reaching about \$1 trillion in 2013 despite the economic slowdown in China and Europe. Indonesia's population of 240 million has a growing middle class interested in consuming global products, services, and technology. Half of its population is under the age of 30.

Strengthening trade and investment ties between Indonesia and the United States is crucial to a healthy partnership between the two countries. It would help solidify the U.S. rebalance toward Asia by making economic engagement, rather than political and security engagement, the key driver of American foreign policy in the region. U.S. energy, manufacturing, and service companies operate profitably in Indonesia, providing employment and capacity-building opportunities for Indonesian workers and firms. Despite its size, however, Indonesia ranks only 34th among U.S. trading partners, with two-way trade roughly equal to U.S. trade with much smaller countries such as Panama.

Enhancing economic ties is crucial to raising U.S.-Indonesia relations to the next level. Although Indonesia is not a member of the Trans-Pacific Partnership (TPP) trade negotiations, a potential framework for deeper economic ties exists in the U.S. E3 initiative. The E3 allows countries such as Indonesia to cooperate with the United States to build economic capacity and modernize its regulations, setting the stage for potential participation in the TPP in the future. In addition, it opens the possibility for an ASEAN-U.S. free trade agreement, while attracting additional U.S. investment in new sectors of interest to Indonesia.

It is important to recognize that Indonesia and the United States are at different stages of economic development. The United States must seek to engage Indonesia as a partner in new forms of cooperation that are mutually beneficial. Increased efforts must be made to promote capacity building in Indonesia because it will contribute to its goal of becoming a developed economy.

# Key Recommendations

- Strengthen government-to-government dialogues on trade and investment, and include private-sector participants to make these discussions more dynamic. Both Indonesia and the United States should ensure that high-level trade and investment officials participate in the annual review of the comprehensive partnership chaired by the Indonesian foreign minister and the U.S. secretary of state.
- Lead a CEO-level delegation to Indonesia. The U.S. president and senior trade promotion team should lead a CEO-level business delegation to Indonesia when they attend the annual APEC forum this October to promote new trade and investment opportunities for U.S. and Indonesian companies.
- Maintain an open trade and investment environment. Indonesia should live up to the letter and spirit of the G-20 commitments, made in 2010 in Toronto and 2011 in Cannes. Along with other Group of 20 (G-20) members, Indonesia committed to avoid protectionism, reinforce the multilateral trading system, and roll back new protectionist measures.<sup>1</sup>
- Ease trade restrictions. The United States ought to set an example by easing its own trade restrictions against products that are important to Indonesia such as palm oil and clove cigarettes, perhaps in exchange for Jakarta lifting certain specific restrictions.
- Leverage the U.S. E3 to build economic capacity in Indonesia and help modernize its regulations, setting the stage for the country's potential participation in the TPP, and other bilateral or multilateral trade agreements in the future.
- Demonstrate a long-term perspective in Indonesia. U.S. companies must take the leap into the Indonesian market, do the foundational work of choosing partners and creating relationships, and be less risk averse in one of Asia's most vibrant economies, albeit one difficult for foreign investors.

## Trade

### TRADE IN GOODS

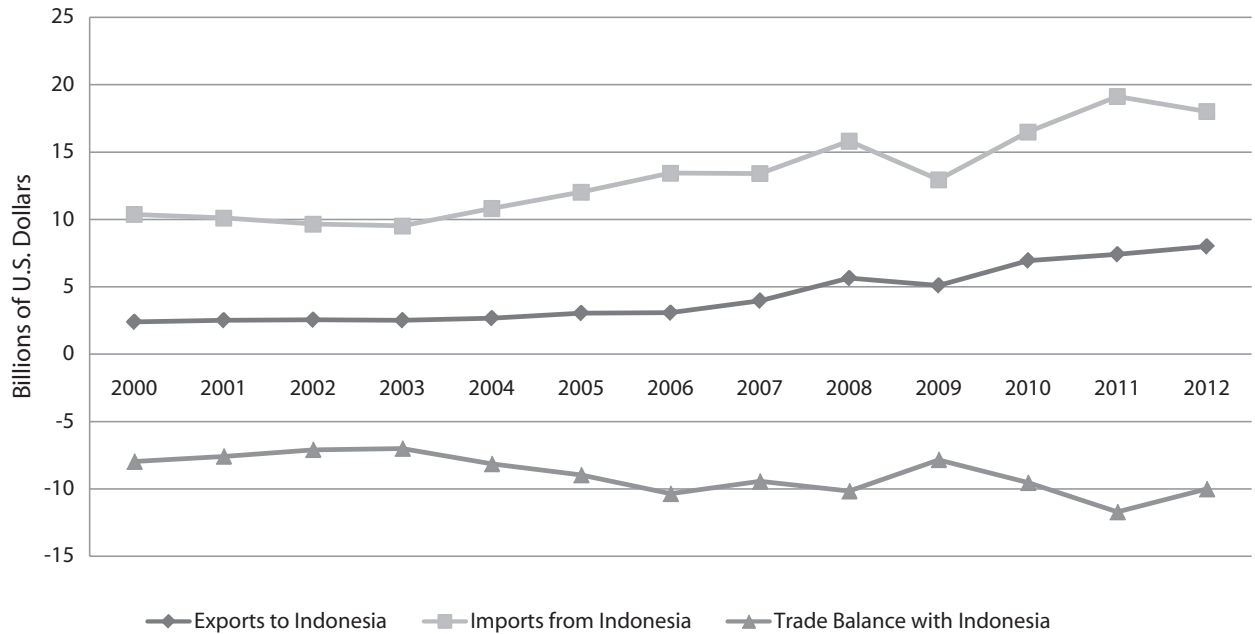
The United States is an important trading partner of Indonesia, but the latter's economic potential as Southeast Asia's largest economy and the world's 26th largest trading economy has not been fully realized.<sup>2</sup> From 2002 to 2012, Indonesia rose from the 40th to the 34th largest export destination for the United States. But during the same period, it fell from the 23rd to the 27th largest source of imports into the United States.

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1. G20 Research Group, "The G20 Cannes Summit Commitments," University of Toronto, last updated on February 4, 2012, <http://www.g20.utoronto.ca/analysis/commitments-11-cannes.html#protectionism2>.

2. World Trade Organization, "Trade Profiles: Indonesia," April 2013, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=ID>.

**Figure 2.1. U.S. Trade with Indonesia, 2000–2012**



Source: U.S. Census Bureau, “Foreign Trade with Indonesia,” <http://www.census.gov/foreign-trade/balance/c5600.html>. Note: Totals have been rounded.

Indonesia’s exports to the United States grew steadily from 2004 to 2008 (see Figure 2.1), declined slightly from 2008 to 2009 due to the global financial crisis, and then grew again until 2011. There was a slight dip in 2012, but Indonesia still maintained a \$10 billion trade surplus with the United States that year—a figure that has held relatively constant since 2006.

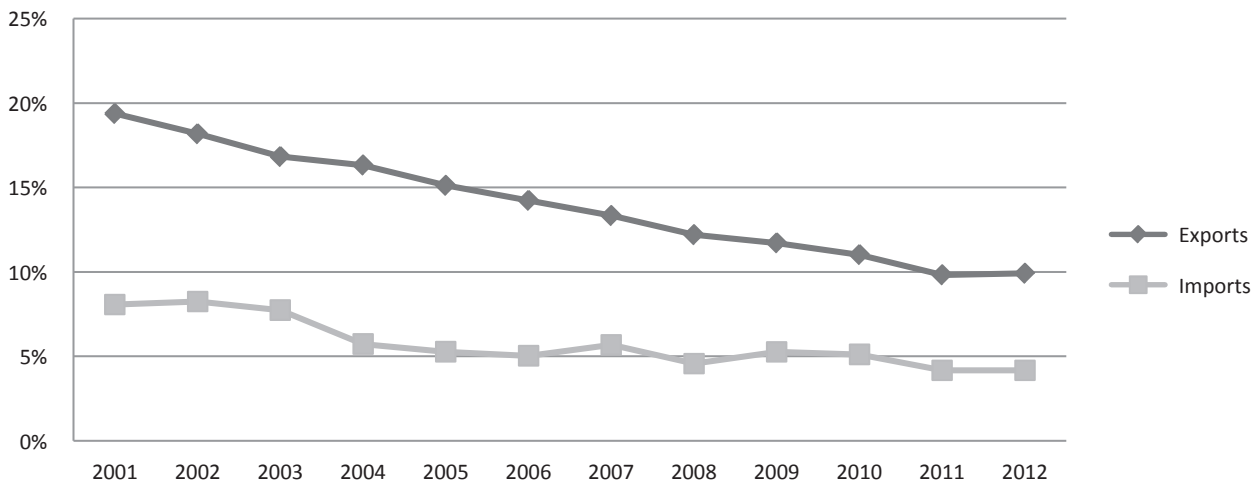
The share of exports to the United States as a percentage of Indonesia’s total exports fell to 10 percent in 2012, down from 19 percent in 2001. Similarly, imports from the United States as a share of Indonesia’s total imports fell to 4 percent in 2012, down, from 8 percent in 2001 (see Figure 2.2).

The top types of commodities exported from Indonesia to the United States remained largely the same between 2006 and 2012, with some exceptions (see Table 2.1). The top five types of Indonesian exports to the United States in 2012 were rubber, knit or crocheted apparel, other apparel, electrical and electronic equipment, and footwear. These five categories accounted for 54 percent all Indonesian goods exported to the United States in 2012.

Notably, the share of exports to the United States claimed by the mineral fuels, oils, and distillation products category declined even though it remains Indonesia’s largest class of exports worldwide. Additionally, rubber grew from 12 percent of total exports to the United States in 2006 to 16 percent in 2012, while apparel fell from 30 percent to 25 percent.<sup>3</sup>

3. International Trade Centre, “Trade Map,” [http://www.trademap.org/tm\\_light/Bilateral\\_TS.aspx](http://www.trademap.org/tm_light/Bilateral_TS.aspx).

**Figure 2.2. Trade with the United States as a Share of Indonesia's Total Trade, 2001–2012**



Source: International Trade Centre, “Trade Map,” [http://www.trademap.org/tm\\_light/Bilateral\\_TS.aspx](http://www.trademap.org/tm_light/Bilateral_TS.aspx).

The top five products imported from the United States to Indonesia changed notably between 2006 and 2012 (see Table 2.2). In 2006 these products included machinery, seeds and fruits, cotton, electrical and electronic equipment, and cereals. In 2012, however, Indonesia’s top imports from the United States were aircraft by a wide margin. Cotton and cereals plunged from 9 percent and 6 percent of total Indonesian imports from the United States to just 2 percent and 3 percent, respectively. Taken together, just three types of commodities accounted for 44 percent of all U.S. exports to Indonesia in 2012—a notable consolidation from 2006, when it took five categories to reach that share.

The changing composition of the top U.S. exports reflects the fact that Indonesia is a relatively well-established intra-industry partner of the United States, similar to Malaysia and Thailand that are integrated into the regional production networks and global supply chains of U.S. multinationals operating in Asia.

Record levels of U.S. merchandise exports to Indonesia were achieved in 2012 under the National Export Initiative, a program launched in 2010 to remove barriers to trade and improve conditions in priority markets for the private and agricultural sectors. Indonesia ranks alongside Brazil, India, Colombia, Saudi Arabia, South Africa, and Vietnam as a priority market.<sup>4</sup>

Nonetheless, trade between Indonesia and the United States lags far behind its potential. In recent years, a wave of protectionist measures has made a complex business environment even trickier to navigate. Economic ties lag far behind political, security, and

4. U.S. Department of Commerce, International Trade Administration, “U.S. Export Fact Sheet: December 2012,” February 2013, <http://www.trade.gov/press/press-releases/2013/export-factsheet-february2013-020813.pdf>.

**Table 2.1. Top Indonesian Exports to the United States**

<i>Rank</i>	<i>2006</i>		<i>2012</i>	
	<i>Product</i>	<i>% of Total Exports</i>	<i>Product</i>	<i>% of Total Exports</i>
1	Articles of apparel, accessories, not knit or crochet	19	Rubber and articles thereof	16
2	Rubber and articles thereof	12	Articles of apparel, accessories, knit or crochet	13
3	Articles of apparel, accessories, knit or crochet	11	Articles of apparel, accessories, not knit or crochet	12
4	Electrical electronic equipment	8	Electrical, electronic equipment	7
5	Mineral fuels, oils, distillation products, etc.	6	Footwear, gaiters and the like, parts thereof	6
6	Furniture, lighting, signs, prefabricated buildings	5	Fish, crustaceans, mollusks, aquatic invertebrates	6
7	Fish, crustaceans, mollusks, aquatic invertebrates	4	Machinery, nuclear reactors, boilers, etc.	5
8	Footwear, gaiters and the like, parts thereof	4	Furniture, lighting, signs, prefabricated buildings	4
9	Wood and articles of wood, wood charcoal	3	Coffee, tea, mate and spices	4
10	Plastics and articles thereof	2	Meat, fish and seafood food preparations	2

Source: International Trade Centre, "Trade Map, [http://www.trademap.org/tm\\_light/Bilateral\\_TS.aspx](http://www.trademap.org/tm_light/Bilateral_TS.aspx)."

people-to-people ties in the U.S.-Indonesia Comprehensive Partnership launched in 2010. A worsening trade and investment relationship stands in sharp contrast to strong bilateral military, diplomatic, counterterrorism, and educational collaboration between the two countries.

The most important constituents for a strong bilateral relationship between these two democracies are those in the private sector. Without the foundation of strong private-sector linkages, it will be difficult to maintain momentum in other areas of the relationship, including deepening security and people-to-people ties. Senior business executives from the two countries need to get to know each other better and work together to boost commercial ties between the largest economy in the world and the largest in Southeast Asia..

## **TRADE IN SERVICES**

Trade in services between Indonesia and the United States is relatively small compared to trade in goods. U.S. exports of services to Indonesia grew to \$1.7 billion in 2011 from \$1.1 billion in 2000. But the growth rate has been mediocre and the total continues to lag behind U.S. services exports to neighboring Malaysia, the Philippines, and Thailand (see Figure 2.3).

**Table 2.2. Top U.S. Exports to Indonesia**

Rank	2006		2012	
	Product	% of Total Exports	Product	% of Total Exports
1	Machinery, nuclear reactors, boilers, etc.	13	Aircraft, spacecraft, and parts thereof	18
2	Oil seed, oleagic fruits, grain, seed, fruit, etc.	10	Oil seed, oleagic fruits, grain, seed, fruit, etc.	13
3	Cotton	9	Machinery, nuclear reactors, boilers, etc.	13
4	Electrical, electronic equipment	6	Residues, wastes of food industry, animal fodder	5
5	Cereals	6	Electrical, electronic equipment	5
6	Plastics and articles thereof	4	Cereals	3
7	Aircraft, spacecraft, and parts thereof	3	Plastics and articles thereof	3
8	Residues, wastes of food industry, animal fodder	3	Iron and steel	3
9	Organic chemicals	3	Cotton	2
10	Soaps, lubricants, waxes, candles, modelling pastes	3	Optical, photo, technical, medical, etc. apparatus	2

Source: International Trade Center, "Trade Map, [http://www.trademap.org/tm\\_light/Bilateral\\_TS.aspx](http://www.trademap.org/tm_light/Bilateral_TS.aspx)."

The story is worse for Indonesian exports of services to the United States, which at just over \$400 million, were no better in 2011 than in 2000 (see Figure 2.4). Among its ASEAN neighbors, meanwhile, the level of services exported to the United States has ballooned—more than tripling for Malaysia and roughly doubling for the Philippines and Thailand.

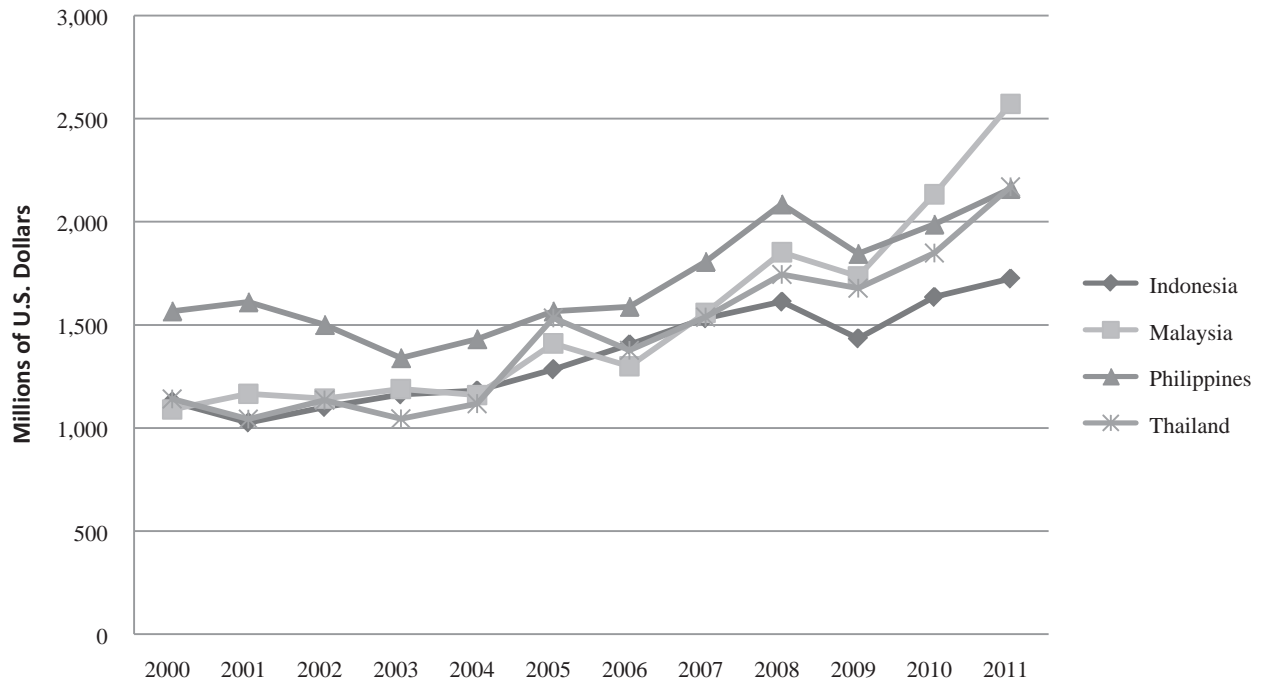
## Investment

Indonesia was the third largest recipient of U.S. investment among ASEAN countries as of 2011, behind Singapore and Malaysia. U.S. direct investment to Indonesia without current-cost adjustment was \$1.4 billion in 2011, the largest inflow since 2007 when it stood at \$2.9 billion (see Table 2.3). In the first half of 2012 the United States became the fourth largest source of investment in Indonesia, pumping \$702.9 million into the country.<sup>5</sup> The total stock of U.S. foreign direct investment in Indonesia reached \$11.6 billion in 2011.<sup>6</sup>

5. Linda Yulisman, "U.S., firms to invest \$5 billion in infrastructure," *Jakarta Post*, August 9, 2012, <http://www.thejakartapost.com/news/2012/08/09/us-firms-invest-5b-infrastructure.html>.

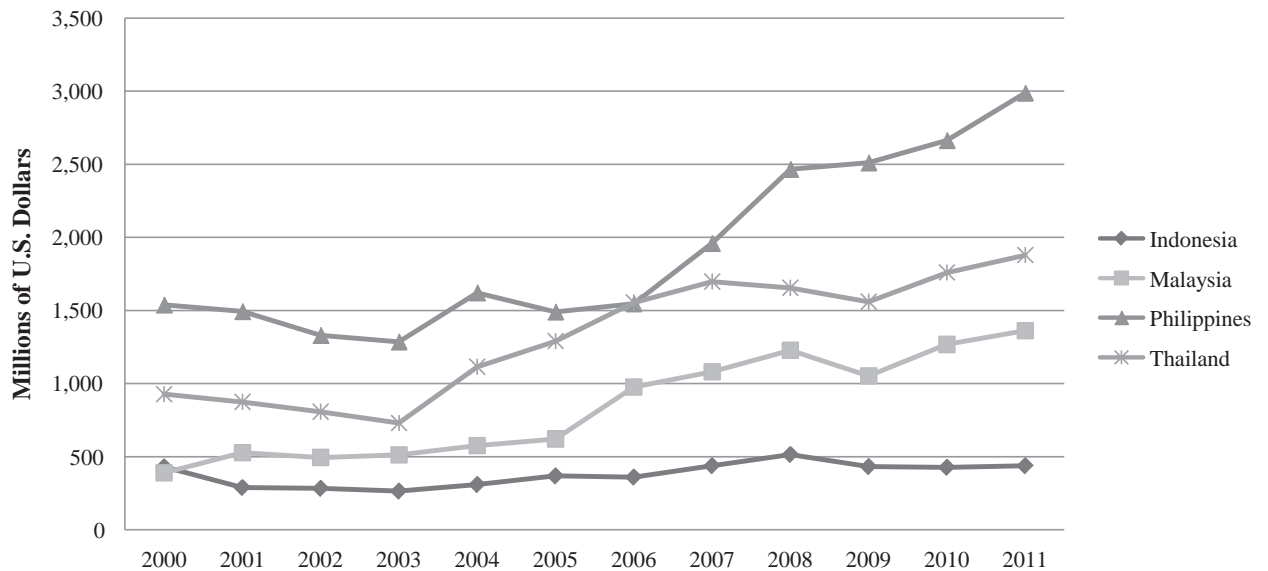
6. Office of the U.S. Trade Representative (USTR), "2013 National Trade Estimate Report on Foreign Trade Barriers: Indonesia," <http://www.ustr.gov/sites/default/files/2013%20NTE%20Indonesia%20Final.pdf>.

**Figure 2.3. U.S. Private-Sector Service Exports to ASEAN, 2000–2011**



Source: U.S. Department of Commerce, Bureau of Economic Analysis, “U.S. International Services,” [http://www.bea.gov/international/international\\_services.htm#detailedstatisticsfor](http://www.bea.gov/international/international_services.htm#detailedstatisticsfor).  
 Note: ASEAN, Association of Southeast Asian Nations.

**Figure 2.4. ASEAN Private-Sector Service Exports to the United States, 2000–2011**



Source: U.S. Department of Commerce, Bureau of Economic Analysis, “U.S. International Services,” [http://www.bea.gov/international/international\\_services.htm#detailedstatisticsfor](http://www.bea.gov/international/international_services.htm#detailedstatisticsfor).  
 Note: ASEAN, Association of Southeast Asian Nations.

**Table 2.3. Net U.S. Direct Investment in ASEAN, 2006–2011 (millions of U.S. dollars)**

Country	2006	2007	2008	2009	2010	2011
Indonesia	771	2,925	1,750	603	879	1,413
Malaysia	866	2,062	819	334	3,221	1,940
Philippines	-165	-2,274	19	56	790	143
Singapore	8,035	14,003	8,572	4,314	1,3091	7,571
Thailand	695	1,198	-97	1,166	1,393	1,075

Source: Organization of Economic Cooperation and Development (OECD), “FDI flows by partner country,” [http://stats.oecd.org/Index.aspx?DatasetCode=FDI\\_FLOW\\_PARTNER#](http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#).

Note: ASEAN, Association of Southeast Asian Nations.

Table 2.4 shows 2011 data for U.S. investment in Indonesia by sector. Analyzing data in Tables 2.3 and 2.4, 93 percent of the U.S. investment is in the mining/ oil and gas sectors. The United States has increased investment in these sectors from \$621 million in 2008 to \$1.3 billion in 2011. The mining and oil and gas sectors in Indonesia have become increasingly unproductive in recent years due to falling commodity prices in the mining sector and the lack of investment in the oil and gas sector.

U.S. investment in manufacturing lags significantly behind resource extraction, totaling only \$143 million in 2011. In manufacturing, U.S. investment in sectors crucial to Indonesia’s long-term economic growth and to economic opportunities for the United States is negligible, especially in key sectors such as machinery, electrical equipment, and scientific services. Similarly, the United States has invested almost nothing in Indonesian infrastructure.

In overall investment in Indonesia, the United States has fallen far behind Japan, which invested \$3.6 billion in Indonesia in 2011 (see Table 2.5). Yet the United States remains competitive with the next largest OECD investor, South Korea, which invested \$1.2 billion.

Indonesia attracted a record amount of foreign investment in the second quarter of 2013, but the growth rate is slowing as falling commodity prices begin to dent the attractiveness of the country’s mining sector. Indonesia’s investment board announced in July that foreign investment reached \$6.5 billion in the April–June period, highlighting that even as the business climate grows more worrying, investors remain interested in the country’s natural resources and its growing middle class of tens of millions of consumers. In keeping with past performance, mining during that period attracted the largest share of foreign investment by sector, and Singapore was the largest source.<sup>7</sup>

Indonesian investment flows into the United States have been unsteady and, though they peaked at \$160 million in 2009 and \$119 million 2011 (see Table 2.6), remain far smaller than those of ASEAN neighbors, particularly Singapore and Malaysia.

7. Andreas Ismar and Linda Silaen, “Indonesia FDI Hits Record, but Growth Pace Slows,” *Wall Street Journal*, July 23, 2013, <http://online.wsj.com/article/SB10001424127887323829104578623543755917964.html?KEYWORDS=US+investment+in+Indonesia+infrastructure>.



**Table 2.4. Net U.S. Investment in Indonesia by Sector, 2011 (millions of U.S. dollars)**

<i>Sector</i>	<i>Investment</i>
Mining (including oil and gas)	1,317
Information	19
Finance and insurance	166
Professional, scientific, and technical services	25
Holding companies (non-bank)	72
Manufacturing	143
Food	19
Chemicals	103
Machinery	-8
Computers and electronic products	2
Transportation equipment	-19
Other	46

Source: U.S. Department of Commerce, Bureau of Economic Analysis, “Interactive Data,” <http://www.bea.gov/iTable>

**Table 2.5. Select OECD Countries’ Net Direct Investment in Indonesia (millions of U.S. dollars)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Japan	474.1	406.4	631.4	308.8	1,218	742.6	1,025	714.8	490.5	466	3,602.1
South Korea	-365	N/A	78.5	56.4	N/A	121.2	227.6	531.1	452.3	912.2	1,225.6
United States	985	N/A	N/A	N/A	N/A	771	2,925	1,750	603	879	1,413

Source: OECD, “FDI flows by partner country,” [http://stats.oecd.org/Index.aspx?DatasetCode=FDI\\_FLOW\\_PARTNER#](http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#).  
Note: N/A, not applicable; OECD, Organization of Economic Cooperation and Development.

**Table 2.6. Indonesian Net Direct Investment in the United States (in millions of U.S. dollars)**

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-6	19	-9	16	N/A	33	-18	160	-133	119

Source: Organization of Economic Cooperation and Development (OECD), “FDI flows by partner country,” [http://stats.oecd.org/Index.aspx?DatasetCode=FDI\\_FLOW\\_PARTNER#](http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#)  
Note: N/A, not applicable.

## Indonesia’s Regulatory and Business Environment

Indonesia has been criticized for its protectionist trade policies, uncertain regulatory environment, and inefficient bureaucracy despite being one of Southeast Asia’s fastest emerging markets and one of Asia’s most politically stable investment destinations. The Global Trade Alert ranks Indonesia alongside such nations as Zimbabwe, Uzbekistan, and

Paraguay in the ease of doing business. Nonetheless, U.S. firms still rank fourth among foreign investors in the country.<sup>8</sup>

Indonesia's raft of protectionist regulations in the past few years has created uncertainty and increased the cost of doing business in the country. In recent years, Indonesia has issued new regulations on investment in banking and mining, food imports, and the oil and gas sectors as foreign companies face calls to renegotiate their production-sharing contracts. This can be attributed in part to the country's size (it makes up almost half the GDP and population of ASEAN), its wealth of natural resources, and its 240-million-person economy. Indonesia benefits from the luxury of considerable self-sufficiency.

Domestic consumption accounts for almost 55 percent of GDP, and international trade is a much smaller driver of growth than in many neighboring countries. These attributes, along with deft macroeconomic management and a thriving democracy, have given Indonesians a healthy dose of self-confidence.

Undoubtedly, Indonesia's recent nationalist policies are shaped at least in part by the upcoming 2014 presidential and legislative elections. Populist policies are a staple in many democratic countries ahead of important elections. Economic growth and political development have empowered Indonesian citizens to increasingly demand higher wages, better education, and more economic opportunities. An increasingly organized nongovernmental and labor movement, for instance, successfully lobbied in 2012 for significant increased wages nationwide, much to the chagrin of many local and foreign businesses.

About 90 percent of U.S. companies' investment stock in the country is in the mining/oil and gas sectors. While these and other companies continue to remain profitable, they are prone to populist government policies that have disrupted production and discouraged investment from additional U.S. companies.

Meanwhile, Indonesia's severely overextended infrastructure continues to hold back foreign investment and overall economic growth. The Indonesian House of Representatives decided on June 18, 2013, to revise politically contentious fuel subsidies. It increased the price of fuel by 44 percent, from 45 cents to 67 cents per liter, to free up roughly \$33 billion a year from the state budget.<sup>9</sup> These funds are intended to help kick start infrastructure projects and other development programs.

Indonesia's regulatory environment, however, remains challenging for foreign investors and domestic companies. The World Bank's *Doing Business Report 2013* found that Indonesia is losing ground to its regional competitors. The country slipped three places to

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8. Global Trade Alert, "Statistics," accessed August 1, 2013, <http://www.globaltradealert.org/site-statistics>.

9. Karishma Vaswani, "Indonesia set to cut fuel subsidy," BBC, June 18 2013, <http://www.bbc.co.uk/news/business-22947410>.

129th out of 183 economies surveyed.<sup>10</sup> According to the report, Indonesia's efforts to improve its business climate were insufficient to match those of neighboring countries such as Thailand and the Philippines. It showed that Indonesia's competitiveness fell in most of the areas of doing business that the annual survey assessed.

U.S. firms from consumer goods suppliers to oil and gas companies to pharmaceutical groups operating in Indonesia face frequently changing regulations. New rules are often introduced without discussions with affected ministries, companies, and other stakeholders. Confusion among corporate officials, shortages, and rising prices result.<sup>11</sup>

Senior Indonesian officials regularly say they want the country to avoid getting caught in the middle-income trap while at the same time reduce poverty. Sometimes the bureaucracy and policymakers use rather blunt tools to achieve these goals through punitive regulations against foreign companies. Investors become frustrated trying to adhere to the rules and gain full access to the Indonesian market.

## **INDONESIA'S MINING/OIL AND GAS SECTORS**

Indonesia's 2009 mining law stipulates that, beginning in 2014, mining firms are required to process ore before exporting it. In 2012, however, the government decided to implement the measure two years early, creating considerable anxiety for mining companies.

Regulation 79, signed in 2010, allows the government to change the terms of existing oil and gas production-sharing contracts, eliminate tax deductions for some expenses, and change the terms and criteria for cost recovery. This creates uncertainty for U.S. energy companies. In combination with a series of nationalist policies that discourage exploration, the country's oil production has dropped by nearly 50 percent over the past 15 years, turning the world's 20th largest oil producer and one time exporter into a net importer of oil products.

In a case that has created anxiety among investors in the energy sector, three environmental managers of Chevron, the U.S. energy company and largest crude oil producer in Indonesia, were sentenced to two years in prison on corruption charges in July 2013. The case has prompted unease among foreign investors about uncertainties in Indonesia's energy sector. The employees were found guilty by a corruption court for failing to obtain the proper permits to remove toxic substances from the soil after drilling by Chevron on the island of Sumatra.

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10. World Bank and International Finance Corporation, *Doing Business Report 2013: Smarter Regulations for Small and Medium Sized Enterprises* (Washington, DC: International Bank for Reconstruction and Development/The World Bank, 2013), <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf>.

11. Murray Hiebert and Douglas Ramage, "Indonesia for Indonesians: Can the United States Relate?" *Southeast Asia from the Corner of 18th & K Streets* (May 30, 2013), <https://csis.org/publication/southeast-asia-corner-18th-k-streets-indonesia-indonesians-can-united-states-relate>.

Prosecutors charged that Chevron employees violated Indonesia's anti-corruption law because some of the expenses of the environmental clean-up project would have been eligible for reimbursement by the government as part of a "cost recovery" scheme to promote exploration for new sources of oil, thus creating losses to state coffers.

In May two Chevron contractors were sentenced to five- and six-year prison terms in the same case. Two other employees are in the midst of separate trials in the same ongoing case.

Senior Indonesian Energy Ministry officials, the country's oil and gas regulator, and the National Human Rights Commission have argued that Chevron did not break any laws. Energy Ministry officials have said that the case will damage Indonesia's attractiveness to investors at a time when its oil production is falling and its energy needs are increasing rapidly.<sup>12</sup>

## **INDONESIA'S FOOD AND AGRICULTURAL SECTOR**

Indonesia has in recent years imposed a large number of regulations on imports that have made it more difficult for U.S. companies to export to the country. These regulations include import-licensing procedures and permit requirements, product labeling regulations, pre-shipment inspection rules, and domestic manufacturing and local content policies. Beginning in 2009 these regulations were imposed on a broad range of products including electronics, household appliances, textiles, footwear, toys, and food and beverage products. Companies often find the process for registering to export to be complex, ill defined, and time consuming.

Similar policies were introduced in September 2012 for agricultural products, apparently in an effort to promote the government's food self-sufficiency goals. Each application by a foreign company is valid for one product, one country of origin, one port of entry, and one supplier. For meat products, for example, an importer first needs to get approval from the Ministry of Agriculture and then from the Ministry of Trade, which makes its decision based on considerations about domestic production and supply.

Some of the import restrictions have created disruption not only for U.S. companies, but also for Indonesian consumers. Moves to stop garlic imports from China by the Ministry of Trade in late 2012 caused prices to increase more than 30 percent within a few months. Trade officials had included garlic in a long list of vegetables and fruit that were restricted from importation despite the fact that the country produced less than 5 percent of the 400,000 tons needed each year.<sup>13</sup> Because of restrictions on beef imports, consumers in Indonesia in the first half of 2013 were paying some of the steepest beef prices in the world.

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12. Ben Bland and Taufan Hidayat, "Chevron employees sentenced in Indonesia corruption case," *Financial Times*, July 18, 2003, <http://www.ft.com/intl/cms/s/0/fc76fe62-ef9d-11e2-a237-00144feabdc0.html#axzz2aKa4Y0Wq>; Joko Hariyanto and I Made Sentana, "Chevron Contractor in Indonesia Is Sentenced to Prison," *Wall Street Journal*, May 8, 2013, <http://online.wsj.com/article/SB10001424127887324059704578470591830746924.html>.

13. Ben Bland, "Indonesia: whiff of incompetence over garlic policy," *Financial Times*, March 14, 2013, <http://blogs.ft.com/beyond-brics/2013/03/14/indonesia-whiff-of-incompetence-over-garlic-policy/>.

The licensing requirements severely limited exports by U.S. and other companies, prompting the U.S. government to repeatedly express concerns to the Indonesian government. When Indonesia failed to address the issues, the United States requested consultation in January 2013 under the World Trade Organization's (WTO) dispute settlement procedures. When those consultations failed, the U.S. government in March 2013 requested a WTO dispute settlement panel.<sup>14</sup> The case put the spotlight on Indonesia's trade policies at a time when it was preparing to host the APEC forum in October 2013 and a WTO conference in December.

About a month after the United States asked for the establishment of a dispute settlement panel, Indonesian pragmatism prevailed. The Trade Ministry announced that it had eased restrictions and simplified procedures on agricultural imports. The new rules regulate the importation of 39 agricultural products, down from 57. The ministry also said that permits for agricultural imports would be completed in two working days.<sup>15</sup>

Despite complaints about protectionism, U.S. companies operating in Indonesia tell the American Chamber of Commerce in Jakarta that they are doing well in the country and intend to increase investments. Many U.S. firms are learning to adjust to the new rules and Indonesia's newly assertive and muscular trade policies. However, the complexity and vagaries of the investment climate prevent many U.S. companies from entering the market and blunt capital expenditure on new investment that established companies are keen to make.<sup>16</sup>

The U.S. complaints about Indonesian nationalism notwithstanding, Indonesia has at least one complaint of its own about U.S. hypocrisy. Jakarta says Washington has failed to respond adequately to a 2012 WTO ruling that the United States violated the trade organization's rules by banning the sale of clove cigarettes (mostly produced in Indonesia) for health reasons while allowing the sale of similarly harmful menthol cigarettes made domestically. Indonesia says the U.S. ban is damaging its tobacco industry, which employs millions of Indonesians from farmers to factory workers. The United States banned clove cigarettes in 2009, claiming they appealed mostly to young smokers. The WTO ruled that clove cigarettes and their menthol counterparts were "like products" and therefore the U.S. ban of the Indonesian product was discriminatory.<sup>17</sup>

## INDONESIA'S HEALTH SECTOR

One area in which U.S. companies would be interested in investing in Indonesia and have a competitive advantage is in health services. From time to time the Indonesian government makes statements about wanting to develop a health care tourism industry that would help

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14. USTR, "2013 National Trade Estimate Report."

15. Andreas Ismar, "Indonesia Eases Horticulture Imports Restrictions After U.S. Steps Up Pressure," *Wall Street Journal*, April 24, 2013, <http://online.wsj.com/article/BT-CO-20130424-711164.html>.

16. Hiebert and Ramage, "Indonesia for Indonesians."

17. Ben Bland, "Indonesia attacks US hypocrisy over clove cigarettes," *Financial Times*, July 26, 2013, <http://blogs.ft.com/beyond-brics/2013/07/26/indonesia-attacks-us-hypocrisy-over-clove-cigarettes/#axzz2aQYGEIur>.

stop foreigners, or least keep wealthy Indonesians, from going to neighboring Singapore for even minor ailments. Lost revenues are estimated to be several billion dollars a year.<sup>18</sup>

However, the Indonesian government's negative investment list has barriers to foreign investors in almost every sector of the health care industry. The list is currently being reviewed by the government, but it is not clear whether this review will involve liberalization of the barriers to investment in the health sector.

Even if the negative list is revised, the success of a foreign-invested hospital would depend on easing informal restrictions against non-Indonesian physicians. The Indonesian Doctor's Association has rules allowing foreign doctors to consult on a short-term basis, but bars them from getting involved in any health procedures directly. As a result, even a world-class hospital would be competing for a limited talent pool among the best doctors graduating from local medical schools or returning from studies abroad. Until informal restrictions against hiring foreign doctors are lifted it is unlikely that a U.S. company would be willing to invest in building hospitals.

## **CORRUPTION**

Since the ouster of President Suharto in 1998, corruption has become decentralized in Indonesia. It is commonplace among businesses, bureaucrats, and regulators. Despite very public, high-level corruption scandals, the vast majority of graft takes place at lower levels and as a matter of course. This introduces inefficiencies into the economy that constrain economic growth and often prevent reform and investment where it is most needed. Many businesses in Indonesia recognize the negative effects of corruption and are committed to clean business practices. These are precisely the type of Indonesian businesses that U.S. investors have worked with most effectively. New entrants to the market can avoid corruption with proper due diligence. It is imperative for foreign investors that hope to maintain long-term profitability.

## **Opportunities for Trade and Investment**

Indonesia has entered what the World Economic Forum's *Global Competitiveness Report* calls the "efficiency driven stage" of development. Indonesia placed 50th in this index in 2013. This means that its competitiveness increasingly depends on addressing more complex elements of its economy. Addressing the many rigidities and inefficiencies of the labor market, where Indonesia places 70th, would smoothen transition of the labor force to more productive sectors of the economy. Boosting technological readiness, where Indonesia places 85th and shows only limited adoption of information and communications technology, could lead to important productivity gains.<sup>19</sup>

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18. Tifa Asrianti, "Rich Indonesians spend big on overseas medical expenses," *Jakarta Post*, May 4, 2009, <http://www.thejakartapost.com/news/2009/05/04/rich-indonesians-spend-big-overseas-medical-expenses.html>

19. Klaus Schwab, ed., *The Global Competitiveness Report 2012–2013: Full Data Edition* (Geneva: World Economic Forum, 2012), [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf).

The United States must seek to inject more dynamism into its business relations with both Indonesian companies and government by promoting the mutual benefits of increased trade. The visibility of Chinese, Japanese, and Korean commercial engagement has overshadowed American trade and investment initiatives.

To find ways to address the barriers to trade and investment, U.S. companies and government officials need to learn to engage with Indonesia as the rising power it is, similar to the way they deal with India, Brazil, and other tough but strategically important markets for U.S. firms. U.S. companies that have operated successfully in Indonesia, including Cargill, Caterpillar, Cisco, Conoco, GE, Goodyear, and Mattel, for example, follow a few basic rules: they are present on the ground, they show respect to their Indonesian partners, they practice due diligence before investing, they develop durable and widespread networks, and they scrupulously follow U.S. anti-corruption laws.

Indonesia is not opposed to U.S. business, but it wants to see more interest from its fourth largest investor in the form of more diverse investments outside of Jakarta. In so doing, trade and investment initiatives can be fast-tracked by interested local governments rather than get bogged down by Indonesia's notorious bureaucracy.

Moreover, diversifying investments away from the increasingly unproductive natural resource sectors would allay fears that U.S. companies are mainly aiming to exploit Indonesia's minerals, oil, and gas. U.S. companies may want to explore opportunities to invest in infrastructure projects, manufacturing, electronics, renewable energy, and information technology to boost the capabilities of the Indonesian economy. Fuel subsidies were reduced in 2013, freeing up the budget for infrastructure improvements that could enhance trade distribution networks and reduce transportation costs.

Indonesia is aiming to improve the prospects for increased investment and job creation by boosting infrastructure and domestic demand through the government's Master Plan for Acceleration and Economic Development. This initiative presents an opportunity to strengthen trade and investment ties while helping Indonesia achieve its own domestic economic goals. The \$1 trillion, 15-year infrastructure development plan includes public-private partnership tenders and will require almost \$700 billion in private financing. Its goal is to link up six economic corridors throughout Indonesia between 2011 and 2025 in tandem with ASEAN efforts to bolster regional infrastructure and connectivity.

In 2012 the U.S. embassy negotiated an agreement with Indonesia's Ministry of Industry for cooperation on infrastructure development for industrial purposes. Soon after, a Texas company, Celanese, and Indonesia's state oil company Pertamina formed a joint venture to build a \$2 billion coal-ethanol plant which will result in \$500 million in U.S. exports. The master plan for infrastructure development includes more than 500 projects throughout the country and recognizes that development is needed off the island of Java. Indonesia has been slow to implement this plan. Project ground-breakings a year after its launch represented just 10 percent of the total plan's projected value. On the other hand,

almost any project that can be seen as boosting the country's infrastructure will find support in the government. The foreign investment community is waiting for implementing regulations following recent passage of a land acquisition bill before it jumps into investment in infrastructure.

Indonesia's macroeconomic fundamentals remain strong, as highlighted by Fitch Ratings' and Moody's Investors Service's decisions to raise the country's sovereign-credit rating to investment grade in late 2011 and early 2012, respectively.<sup>20</sup> The surge in foreign investment indicates that Indonesia is becoming a priority country because of its sustained economic growth and its giant consumer market.

Nonetheless, Standard and Poor's downgraded its outlook for Indonesia's sovereign credit rating in May 2013 from positive to stable, citing concern about stalling momentum on economic reform, keeping the country one notch below investment grade.<sup>21</sup>

## Conclusion

U.S.-Indonesia trade and investment relations have lagged improvements in political and security ties and people-to-people interactions since the launching of the comprehensive partnership in 2010. Indonesia is a central economic and political hub in Southeast Asia and lies at the core of the U.S. rebalance toward Asia. It is an important commercial focal point in the region and has the largest consumer base in Southeast Asia. Its demographics and mineral wealth alone are not enough to ensure continued economic growth. Both U.S. companies and the government have a role in facilitating capacity building and promoting support for commercial ties to make sure that trade and investment relations work for Indonesian and U.S. interests.

Indonesia today is similar to other large vibrant democracies, complete with the risks of populist campaigning in the run up to elections. No Indonesian politician today can run on a platform calling for free trade. Although Indonesia is not the toughest trade relationship for U.S. companies, Americans are not yet familiar with the new Indonesia. U.S. companies and the government will have to find ways to operate successfully in Indonesia's current political and business climate.<sup>22</sup>

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20. Novrida Manurung and Berni Moestafa, "Indonesia Regains Investment Grade at Moody's After 14 Years," Bloomberg, January 19, 2012, <http://www.bloomberg.com/news/2012-01-18/indonesia-sovereign-debt-rating-is-raised-to-investment-grade-by-moody-s.html>.

21. "S&P cuts Indonesia's outlook to stable from positive as reforms stall," *Straits Times* (Singapore), May 2, 2013, <http://www.straitstimes.com/breaking-news/money/story/sp-cuts-indonesia-outlook-stable-positive-reforms-stall-20130502>.

22. Hiebert and Ramage, "Indonesia for Indonesians."



# Recommendations

## BILATERAL DIALOGUES

- *Strengthen government-to-government dialogues on trade and investment, and include private-sector participants to make these discussions more dynamic.* Both Indonesia and the United States should ensure that high-level trade and investment officials participate in the annual review of the comprehensive partnership chaired by the Indonesian foreign minister and the U.S. secretary of state. They should organize a bilateral business-to-business dialogue to correspond with the comprehensive partnership to review the trade and investment relationship between the two countries. They should also have business representatives from both sides report together to senior U.S. and Indonesian officials about any outstanding issues and problems, and make recommendations on how to improve the bilateral atmosphere.
- *Establish an annual high-level business-to-business dialogue between senior Indonesian and U.S. executives.* New networks of business opportunities to promote trade and investment growth between the two countries should be created. The dialogues, perhaps modeled on some of the quite successful private sector–organized dialogues with Chinese business leaders, could be used to encourage more U.S. investment in services in Indonesia in areas such as travel, health, education, and “green” investment. Dialogues could also be used to identify opportunities for Indonesian investment in the United States.

## PROMOTE THE BENEFITS OF FOREIGN TRADE AND INVESTMENT

- *Lead a CEO-level business delegation to Indonesia.* The U.S. president and senior trade promotion team should lead a CEO-level business delegation to Indonesia when they attend the annual APEC forum this October to promote new trade and investment opportunities for U.S. and Indonesian companies.
- *Launch an “America Matters for Indonesia” campaign that highlights jobs created and income generated by U.S. trade and investment.* The American Chamber of Commerce in Indonesia plans to release a study in fall 2013 that will show the long-term economic and social contributions of U.S. investment in Indonesia. That study should reflect the specific benefits of foreign direct investment by the U.S. private sector. U.S. companies and officials should take the report’s findings on a road show, highlighting the benefits of trade and investment for Indonesian officials, business executives, thought leaders, and the media. The United States should push for more business-to-business relations outside of government channels using nongovernmental organizations and the media to broaden support for the business and commercial ties.
- *Consider negotiating a bilateral investment treaty (BIT) between Indonesia and the United States.* To protect investors in each other’s markets and complete an actual chapter in a bilateral free trade agreement, a BIT could help address some of the anxiety about changing rules and regulations in Indonesia for foreign investors.

## TAKE STEPS TO END PROTECTIONISM

- *Maintain an open trade and investment environment.* Indonesia should live up to the letter and spirit of the G-20 commitments, made in 2010 in Toronto and 2011 in Cannes. Along with other G-20 members, Indonesia committed to avoid protectionism, reinforce the multilateral trading system, and roll back new protectionist measures.
- *Ease trade restrictions.* The United States ought to set an example by easing its own trade restrictions against products that are important to Indonesia such as palm oil and clove cigarettes, perhaps in exchange for Jakarta lifting certain specific restrictions. Indonesian trade officials sometimes cite the U.S. barriers to Indonesian exports as justification for their restrictions against American products. Additionally, the United States should offer Indonesia tariff reductions on its textile and garment exports in return for easing some of its trade barriers.

## EXPLORE CAPACITY-BUILDING OPPORTUNITIES

- *Leverage the U.S. E3 initiative to build economic capacity in Indonesia.* The E3 program could, among other things, assist Indonesia to modernize its regulations, thereby setting the stage for the country's potential participation in the TPP as well as other bilateral or multilateral trade agreements in the future.
- *Promote capacity building efforts aimed at small and medium sized Indonesian enterprises.* Helping businesses meet the health, safety, and performance standards of the U.S. market would make it easier for them to export their products. This could be achieved through joint training and research, industrial collaboration, and informational exchanges to further increase trade and investment relations between the two countries.

## PROMOTE TRADE AND INVESTMENT OPPORTUNITIES FOR U.S. COMPANIES

- *Explore ways to increase investment opportunities for U.S. companies in Indonesia's infrastructure.* Successful models include Japan's engagement in the upgrading of Jakarta's infrastructure, where Japan's export agencies coordinate closely with Indonesian companies.
- *Encourage U.S. companies to invest in cities outside of Jakarta.* Working with cooperative local governments looking to foster their cities' growing economic hubs, such as in Surabaya, Bandung, Palembang, and Medan, can offer less expensive high-yield investments.
- *Focus climate change assistance on developing private-sector "green" growth partnerships.* Objectives could include emissions reductions and renewable energy development. With its \$350 million investment in "Green Prosperity," the Millennium Challenge Corporation, in coordination with USAID, has begun to invest in

environmental projects. By using their national, provincial, and local contacts, U.S. aid agencies can facilitate the pursuit of commercial objectives while helping Indonesia achieve its environmental goals.

- *Demonstrate a long-term perspective in Indonesia.* U.S. companies must take the leap into the Indonesian market, do the foundational work of choosing partners and creating relationships, and be less risk averse in one of Asia's most vibrant economies, albeit one difficult for foreign investors.

# 3 | Enhancing People-to-People Collaboration

The private sector, nongovernmental organizations (NGOs), educational institutions, and foundations play a central role in deepening the partnership between the United States and Indonesia, with governments serving as a catalyst. U.S. universities have begun to partner with universities in Indonesia. Foundations in both countries provide scholarships and loans that facilitate educational exchange. Think tanks pave the way for an exchange of ideas. Entrepreneurial networks are beginning to strengthen ties between the two democracies.

Business associations and individual corporations, through investments and corporate social responsibility efforts, provide ballast that steadies the relationship. Where nongovernment partnerships are healthy and active, relations are strongest. On key endeavors—educational exchange, private-sector engagement, health and environmental cooperation—governments do not need to carry the biggest burdens, though they can and should clear a path to success.

Building patterns of cooperation is still relevant as the U.S.-Indonesia partnership deepens. As the two countries enhance engagement on education, health, scientific research, the environment, and climate change, as well as nontraditional threats such as food security and disaster relief, they must look to the private sector and nongovernment partnerships as force multipliers. These tasks are urgent. Already, human and natural systems are dangerously stressed.

Addressing issues of sustainability and human capacity building enhances the ability of our countries to deal with the region's strategic challenges, including poverty. As the Asian Development Bank has shown, the poor suffer the most from environmental degradation, which now threatens both economic growth prospects and Asia's hard-won gains against poverty. Economic growth in the region must include higher productivity growth, more innovation, strategies for coping with rapid urbanization, and greater regional integration.<sup>1</sup>

As Indonesia and the United States, the world's second and third largest democracies, consider what kind of relationship they want to have in 2020, it is important to remain

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1. Rajat Nag, "Asia's Challenges: Beyond the Fast Lane, Ensuring Inclusive and Green Growth" (presentation, CSIS, Washington, DC, March 20, 2012).

ambitious. Bilateral collaboration is the essential foundation for a successful relationship. As the partnership matures, however, collaboration should evolve toward cooperation in third countries so that joint endeavors have greater significance.

For example, after improving bilateral collaboration on health issues, the United States and Indonesia are once again working closely in international forums on avian/pandemic influenza programs and research. On climate change, joint scientific work on the contribution of Indonesia's peat forests to reduce greenhouse gas emissions will demonstrate best practices to other nations where peat forests are prevalent, such as Brazil, Russia, Papua New Guinea, Malaysia, Brunei, and the countries of southern Africa.

## Key Recommendations

Together, Indonesia and the United States should:

- Expand educational cooperation to promote the creation of community colleges, vocational training, and distance learning opportunities. U.S. universities, the private sector, and nongovernmental organizations should be encouraged to partner with Indonesian universities in this endeavor.
- Provide financing for loans and scholarships for Indonesians to study in the United States and for Americans to study in Indonesia.
- Pursue health collaboration opportunities in telemedicine, smart infrastructure, and sharing best practices. Telemedicine is especially helpful for rural populations. Smart infrastructure should be planned to put a premium on available medical access. The United States and Indonesia should also share best practices to improve treatment of diseases endemic to Southeast Asia.
- Collaborate on clean water, including storage, distribution, and pipelines to help maximize resource efficiency. Low-cost clean water technologies should be developed.
- Engage in collaborative climate change research involving the U.S. National Oceanic and Atmospheric Administration (NOAA), the U.S. Forest Service and corresponding Indonesian institutions, especially on mapping and monitoring of carbon-rich peat lands, but also on monsoon monitoring and prediction.
- Establish an Indonesia-U.S. Center for Sustainable Ocean Fisheries, a joint research institute to explore and study waters that house the world's highest ocean biodiversity. Catch certificates should reflect where fish are caught instead of where they are processed.
- Share best practices in urban planning and air and water management for growing cities.

- Partner in the quest to minimize deforestation, and share best practices with other nations in the region.
- Increase the number of private-sector partnerships with @america, the U.S. embassy’s high-tech outreach center, in Jakarta to enhance its capability to reach Indonesian youth and show off the best U.S. technologies.

## Education, Education, Education: Seize Opportunities for Exchange

U.S. educational exchange with Indonesia has underperformed its potential. The number of Indonesian students studying in the United States declined steadily after 1998, hitting a low of less than 7,000 in 2009. From a population of 240 million, this number is too few, especially when compared to the 194,000 Chinese, more than 100,000 Indians, 72,000 Koreans, and 15,000 Vietnamese studying in the United States.<sup>2</sup> After the 1997–1998 Asian financial crisis, a U.S. education seemed too expensive for Indonesians. Following 9/11, it seemed too daunting for Muslim students to obtain a U.S. visa. Australia, Singapore, and the United Kingdom marketed heavily and took up the slack. Indonesian parents were happy to send their children to schools closer to home.

### HIGHER EDUCATION PARTNERSHIP

During his 2010 visit to Indonesia, President Barack Obama said, “We want more Indonesian students in our schools, and more American students to come study in this country, so that we can forge new ties that last well into this young century.”<sup>3</sup> By increasing the number of scholarships, simplifying student visa processes, holding an education summit, and creating dozens of university-to-university partnerships, the two governments—with help from foundations, associations, and universities—have been able to reverse the decline. The number of student exchanges is gradually increasing each year.

The government’s role is to clear a path so that others can successfully pursue educational collaboration. In June 2010 Obama and Indonesia’s president, Susilo Bambang Yudhoyono, announced the Higher Education Partnership to include a U.S. investment of over \$165 million to promote educational cooperation between the United States and Indonesia. The partnership will run until 2014 and includes support for an array of expanded academic exchanges.

These include the Fulbright Indonesia Research, Science, and Technology program for U.S. and Indonesian students and scholars to study, teach, and conduct research in priority science and technology fields; the Community College Initiative for Indonesian students and faculty; and continued support for USAID’s Higher Education Leadership and

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2. Institute of International Education, “Open Doors Data: Fact Sheets by Country, 2012,” <http://www.iie.org/Research-and-Publications/Open-Doors/Data/Fact-Sheets-by-Country/2012>.

3. “Remarks of President Barack Obama—As Prepared for Delivery,” Embassy of the United States, November 10, 2010, [http://kabul.usembassy.gov/president\\_remarks\\_10\\_11\\_10.html](http://kabul.usembassy.gov/president_remarks_10_11_10.html).

**A send-off for Indonesian students participating in the Youth Exchange and Study (YES) program in 2012.**



Photo courtesy of U.S. Embassy Jakarta's Flickr photostream, <http://www.flickr.com/photos/usembassyjakarta/7723537992/>.

Management (HELM) program, which will improve financial management, administration, and leadership at 50 Indonesian partner institutions.

With seed money from USAID, 36 active partnerships have been established between promising Indonesian and U.S. universities. USAID's Program to Extend Scholarships and Training to Achieve Sustainable Impacts (PRESTASI), has provided scholarships for more than 80 Indonesian students to pursue graduate study in the United States and Indonesia since 2008. The Higher Education Partnership provides support for Americans studying the Indonesian language, Bahasa Indonesia, as well as English language programs for Indonesians.

Since its inception in 2004, the Fulbright English Teaching Assistant Program has reached almost 90,000 Indonesian high school students, enabling them and their teachers to improve their use of English in the classroom. The State Department's English Language Fellow Program in Indonesia is the largest in the world. In the 2012–2013 academic year approximately 10,000 Indonesian English teachers received instruction from expert fellows. Also that year, 10 young Indonesian teachers of English assisted in teaching Bahasa Indonesia at U.S. colleges and universities through the Fulbright Foreign Language Teaching Assistant Program. Indonesia has committed to funding 36 Darmasiswa scholarships for Americans to study in Indonesia in 2013.

## COMMUNITY COLLEGES AND WORKFORCE DEVELOPMENT

Community colleges serve the critical function of providing a pathway to a four-year degree and equipping a large youth population with relevant skills in flourishing industries. Such schools will be critical for addressing Indonesia's skilled and technical labor shortage. Community colleges can partner with the private sector to provide workforce development. Highlighting the advantages of workforce development is paramount, and governments will need to facilitate partnerships with the private sector and nongovernmental institutions to produce results.

The State Department's Bureau of Educational and Cultural Affairs (ECA) offers the Community College Administrator Program with Indonesia. This six-week exchange program in the United States is for Indonesian officials with higher education planning responsibilities and administrators from postsecondary vocational and technical institutions. The program consists of a week-long executive dialogue and program overview focusing on approaches of the U.S. community college sector to educational development issues. This is followed by a structured five-week seminar on aspects of U.S. community college administration including governance, finance, student affairs, student services, program assessment, leadership, technology, workforce development, community engagement, private-sector partnerships, and distance learning.

A complementary effort, USAID's HELM program seeks to strengthen the management of higher education institutions in areas such as financial management, quality assurance, and collaboration with external stakeholders.

The ECA Bureau also offers the Community College Initiative Program, which provides participants with opportunities to study at community colleges in the United States to build mutual understanding through a nondegree program of academic, vocational, and cultural studies. The 2014–2015 program will provide academic instruction at community colleges throughout the United States in the fields of agriculture, applied engineering, business management and administration, early childhood education, information technology, media, and tourism and hospitality management.

In a time of tight government budgets, additional energy for expanding higher education ties must come from foundations and the private sector. The Sampoerna Foundation has taken a creative approach to accelerate educational collaboration. Sampoerna University (Universitas Siswa Bangsa Internasional or USBI) has partnered with the Lone Star College System in Texas to offer an American-Indonesian mobility study program that allows freshmen and sophomores from both countries to earn an "All American Associate Degree" after two years at USBI. Students can then transfer their earned credits seamlessly to over 100 U.S. universities.<sup>4</sup>

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4. Putera Sampoerna, "United States International Aid Policy: A Time for 'Meaningful' Action" (paper presented at the CSIS Roundtable Discussion, Washington, DC, April 15, 2013), [http://csis.org/files/attachments/130415\\_PuteraSampoerna\\_WhitePaper.pdf](http://csis.org/files/attachments/130415_PuteraSampoerna_WhitePaper.pdf).



Instead of a “twinning” program, this “one-to-many” program attracts Indonesian students as a relatively inexpensive pathway to international degree opportunities at many universities. One mechanism for scaling up this endeavor is via USAID’s Development Credit Authority, which has already provided a loan guarantee of \$5 million to send students to the United States.

In another example of foundations tackling the challenge, INTI College Indonesia, a partner with Laureate International Universities under the auspices of the Clinton Foundation, is a new pathway university opening in Jakarta in 2013. Students will spend two years in Jakarta; they can transfer their credits to a variety of 154 universities in the United States that have an agreement with the institution. Also, Corbin University and Universitas Pelita Harapan now have a joint education degree program. The entire program is offered in Indonesia, but the universities are expanding programs that will provide collaboration between campuses.

A parallel effort to expand workforce development in Indonesia could also prove fruitful. For example, in response to the devastating tsunami that battered Aceh in 2004, Chevron partnered with local companies and USAID to create a polytechnic institute. Tech companies snap up the institute’s graduates, who continue to succeed in their jobs, as proven by a 90 percent retention rate. Recently, Exxon-Mobil contracted with Sampoerna University and Lone Star to train technicians in an effort that may be expanded to include other companies such as state-owned Pertamina. Mining company Freeport-McMoran partners with USAID to fund scholarships for students obtaining advanced and teaching degrees.

Oracle Education Foundation (OEF) supports students through its ThinkQuest program. In 2009 OEF and Jakarta’s Education Office signed an agreement to roll out OEF’s ThinkQuest platform to government schools across the region. A protected online learning platform, ThinkQuest enables teachers to integrate learning projects into their classroom curriculum and students to develop critical 21st century skills, including creativity, communication, teamwork, and technology skills. ThinkQuest currently supports more than 13,375 students and teachers in 690 schools. Building on this success, OEF will partner with Jakarta’s Education Office to implement ThinkQuest in an additional 500 schools, reaching 50,000 students and teachers over the next two years. Over time, OEF aims to make ThinkQuest available to all 5,000 schools registered with Jakarta’s Education Office.<sup>5</sup>

## **BASIC EDUCATION, STUDENT EXCHANGE, AND INTERFAITH DIALOGUE**

*Jalan Sesama*, an Indonesia-specific version of the New York-based *Sesame Street* children’s television program, received a grant of \$8.5 million from USAID. The program began airing in 2008 and has helped millions of children throughout Indonesia improve their reading, mathematics, and social skills.<sup>6</sup>

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5. Oracle, “Oracle Education Foundation Partners with DKI Jakarta’s Education Office to Help Students Develop 21st Century Skills,” press release, March 31, 2009, <http://www.oracle.com/us/corporate/press/018161>.

6. USAID/Indonesia, “Sesame Street Indonesia,” last updated June 19, 2013, [http://indonesia.usaid.gov/en/USAID/Activity/220/Sesame\\_Street\\_Indonesia](http://indonesia.usaid.gov/en/USAID/Activity/220/Sesame_Street_Indonesia).

**Elmo joins characters from *Jalan Sesama*, the Indonesian version of *Sesame Street*, in 2012.**



Photo courtesy of U.S. Embassy Jakarta's Flickr photostream, <http://www.flickr.com/photos/usembassyjakarta/6753212609/>.

USAID's basic education program also provides \$83 million in funding for teacher training and development of strategies for early grade reading programs. This training introduces teachers to active learning approaches for mathematics and science. The course includes teaching strategies and assessment, engaging information and communications technology (ICT) tools to optimize the learning process, and production and use of low-cost teaching materials.<sup>7</sup>

USAID's distance education program is a primary education program using computer technology to enhance knowledge and skills of the three main "actors" in the distance education system—those who design distance-based courses (designers), those who teach them (instructors), and those who work with teachers to implement these new skills in their classrooms (site-based coaches). The pilot program is expected to provide the government of Indonesia with a sensible path forward as it seeks to maximize access to teacher in-service education opportunities through distance education without sacrificing quality.<sup>8</sup>

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7. USAID/Indonesia, "Science and Technology," last updated June 19, 2013, [http://indonesia.usaid.gov/en/cross\\_cutting/science\\_technology](http://indonesia.usaid.gov/en/cross_cutting/science_technology).

8. Ibid.

The ECA Bureau sponsors the Indonesia-U.S. Youth Leadership Program, a two-way three-week educational and cultural exchange for students and educators. In addition, 85 Indonesian students annually spend a year living with American families, attending high school in the United States, volunteering in U.S. communities, and sharing their culture through the State Department’s Kennedy-Lugar Youth Exchange and Study (YES) program. The State Department also provides full scholarships to U.S. high school students to travel to Indonesia to live with a host family and attend host schools on the YES Abroad program. Eight students will spend the 2013–2014 academic year in Indonesia.

## **NONGOVERNMENTAL ORGANIZATIONS**

NGOs also help strengthen Indonesian-U.S. educational ties. The Indonesian American Education Foundation ([www.aicef.org](http://www.aicef.org)) and the Indonesian International Education Foundation ([www.iief.or.id](http://www.iief.or.id)) offer fellowship support for Indonesians to pursue graduate study in the United States. The latter has 90 years of experience and an extensive educational network. The U.S.-Indonesia Society (USINDO; [www.usindo.org](http://www.usindo.org)) meanwhile works to expand cultural education opportunities in Indonesia to all Americans through its summer program. Founded in 1994, USINDO’s mission is to expand mutual understanding between the two countries.

A hybrid public–private endeavor, the Intel Teach Program’s “Getting Started” course links USAID implementing partners with the Intel Corporation. The training program supports primary and junior high school teachers with little or no previous experience using information technology by providing them a foundation course and introduction to computer hardware, software tools, and student-centered approaches to learning.<sup>9</sup> The Developing Active Learning with ICTs for Teachers program builds on Intel Teach, providing teachers with a more in-depth opportunity to learn about the integration of information and communication technologies into an active learning classroom. It engages teachers in a series of nine training modules in which computers, digital and video cameras, and software applications are embedded into the active learning approach.

## **VISAS, MARKETING, AND OTHER CHALLENGES**

The number of U.S. visas issued to Indonesian students has risen 25 percent since 2010. Both governments are committed to increasing the number of students studying in one another’s country. The U.S. embassy’s student visa program has greatly facilitated the process of applying, so that no student should miss classes as a result of visa processing.

For years Australia, the United Kingdom, and Singapore have aggressively marketed their educational offerings to Indonesians. Since 2010 the U.S. Embassy and the ECA Bureau have sponsored an educational advising program in the embassy’s high-tech outreach center, @america. EducationUSA advisers are on-site in the center, and its iPads and

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9. Ibid.

**U.S. officials meet with Jakarta parents and students in 2011 to discuss studying in the United States.**



Photo courtesy of U.S. Embassy Jakarta's Flickr photostream, <http://www.flickr.com/photos/usembassyjakarta/6327567821/>.

touch-screen computers provide information about studying in the United States. Consular officers routinely give presentations on the student visa process at @america to help potential applicants successfully navigate the visa application process. EducationUSA advisers provide services in Surabaya, Medan, Denpasar, and Malang to target markets outside Jakarta. Alumni are a powerful recruiting tool, and the embassy facilitates alumni–prospective students interactions at the ambassador’s residence and the @america facility.

One key step toward increasing educational exchange would be for Indonesia to lift restrictions on private-sector investment in higher education. While the United States arguably has the world’s best higher education system and thousands of Indonesians benefit from it each year, the costs of a U.S. education are high. It would benefit both countries if U.S. institutions were able to establish branch campuses in Indonesia that could award U.S. degrees. As Indonesia seeks to develop its higher education system, its government might consider ways to change regulations to allow for greater involvement of foreign institutions in this sector.

Another challenge for Indonesia as it seeks to improve and internationalize its higher education system is to crack down on some 6,000 unaccredited or illegal study programs<sup>10</sup> and the estimated 42 percent of undergraduate lecturers who are unqualified. Currently, only 6 to 7 percent of Indonesia's 17,000–18,000 study programs are accredited. In addition, dual management of education by the Ministry of Education and Culture and the Ministry of Religious Affairs imposes a particular burden on Indonesia's education system. To attract more foreign students, the Indonesian government needs to ease some of its visa restrictions. To boost the number of U.S. faculty and students in Indonesia, it could step up efforts to publicize educational opportunities in Indonesian universities.

## **PEACE CORPS**

Nearly 150 Peace Corps volunteers have served in Indonesia since the program was reestablished in 2009. Currently 93 English education volunteers are working in East and West Java as English teachers and teacher trainers. All live with Indonesian host families and are trained and work in the national language. Peace Corps and its government counterparts are pursuing the placement of volunteers in new provinces and in a sector beyond English education.

## **EXPAND INTERFAITH DIALOGUE**

The world's Muslim population is expected to increase by about 35 percent in the next 20 years. More than 60 percent of that population is in Asia, with Indonesia being the world's largest Muslim-majority nation. In 2009 the United States and Indonesia launched an interfaith dialogue that should be expanded. Too few Americans understand the Indonesian practice of Islam.

Muslim mass organizations such as Muhammadiyah and Nahdlatul Ulama, which between them include more than 80 million members, have the expertise to lead such a dialogue. Already, Muhammadiyah provides pre-service training at its universities to Peace Corps volunteers, who then teach at Nahdlatul Ulama madrassas. Muhammadiyah also collaborates with USAID on public health challenges such as avian and swine flu, HIV/AIDS, and family planning.

# **Deepen Engagement on Health**

As pandemic diseases often originate in Southeast Asia and, in an interconnected world, move quickly across borders, it is in the interest of Indonesia and the United States to collaborate in addressing health challenges. Increasingly, that collaboration has regional and global implications.

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10. Haffid Abbas, "Challenges to the internationalization of higher education," *Jakarta Post*, December 31, 2011, <http://www.thejakartapost.com/news/2011/12/31/challenges-internationalization-higher-education.html>.

## **A U.S. Peace Corps volunteer with Indonesian women.**



Photo courtesy of the U.S. Peace Corps.

### **A REPAIRED RELATIONSHIP**

Collaboration on maternal and child health helped rebuild the overall U.S.-Indonesia health relationship after a setback in 2010 when Indonesian nationalist sentiment and misunderstandings on both sides led to the closing of a U.S.-backed biomedical research program in Jakarta. The Obama administration incorporated Indonesia in its Global Health Initiative (GHI) with a strategy that includes joint work on maternal and child health, tuberculosis, neglected tropical diseases, HIV/AIDS, and nutrition. The GHI strategy aligns with Indonesia's key health priorities, including progress toward achievement of its Millennium Development Goals on reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria, and other infectious diseases. Indonesia is also determined to enhance its capacity to conduct health research and apply new technologies, and to provide leadership on regional and global health issues.

Since June 2013 Indonesia's health minister Nafsiah Mboi has chaired the Board of the Global Fund to Fight HIV/AIDS, Malaria, and Tuberculosis. President Yudhoyono

**Lieutenant Stacy Dodt, U.S. Navy, examines an Indonesian child during a 2010 medical civic action program in Ambon.**



Photo courtesy of the U.S. Department of Defense's Flickr photostream, <http://www.flickr.com/photos/39955793@N07/4857261029/>.

co-chairs a high-level, 27-person panel to draft a global development agenda beyond 2015, the target date for the United Nation's Millennium Development Goals. Indonesia's current international health diplomacy activism marks a sharp departure from just a few years ago.<sup>11</sup>

In 2010 a previous health minister shut down the 40-year U.S.-supported Naval Medical Research Unit, which performed biomedical research in Indonesia since 1970 on infectious diseases such as malaria, dengue, and avian influenza. The same year Indonesia prompted international concern when its health minister defied international protocols by refusing to share its bird flu samples, insisting that she wanted guarantees from richer countries and drug manufacturers that developing countries would get access to affordable vaccines derived from their samples.<sup>12</sup>

11. Murray Hiebert, *Indonesia Steps Up Health Diplomacy: Bolsters Role in Addressing International Medical Challenges* (Washington, DC: CSIS, July 2013), <http://csis.org/publication/indonesia-steps-global-health-diplomacy>.

12. "Indonesia Limits Sharing of Bird Flu Samples," Reuters, March 24, 2008, <http://in.reuters.com/article/2008/03/24/idINIndia-32652520080324>.

Hard work and close collaboration enabled health cooperation to get back on track. Since 2009 USAID has devoted \$80–100 million per year to preventing, detecting, and containing pandemics (particularly those originating in animals) that pose a threat to human health, with about 20 percent of those funds going to Indonesia. These investments have already contributed to a reduction in the number of avian flu outbreaks.

## IMPROVEMENTS NEEDED

For its part, Indonesia has acknowledged that its health record needs improvement. Its 2007 figure for maternal mortality—228 per 100,000 births<sup>13</sup>—and 2012 figure for child mortality—40 per 1,000 live births<sup>14</sup>—put Indonesia behind Cambodia and Myanmar, which have per capita GDPs less than a quarter that of Indonesia. Some 36 percent of Indonesia’s children under age five suffer from chronic malnutrition and stunting.

The five-year, \$600 million Millennium Challenge Compact (MCC), a major pillar of U.S.-Indonesia bilateral cooperation, will invest \$131.5 million to reduce and prevent low birth weight, childhood stunting, and malnourishment of children in project areas. The project will target approximately 7,000 villages in provinces where rates of stunting and low birth weight in infants and children up to two years old are higher than national averages.<sup>15</sup>

Over the past decade Indonesia has built thousands of new clinics and trained new doctors and midwives. “Indonesia is proud of its economic achievements, its successes in health,” says an Asian health expert working in Indonesia. “They increased coverage, but it hasn’t resulted in an impact. The coverage is broader, but the quality is still poor.”<sup>16</sup> Government decentralization in the wake of democratization in the late 1990s is one of the causes. The central government has less clout in pressing its priorities in provinces and districts where officials are trying to define their own roles.

Indonesia has received support from the Global Fund to combat the spread of HIV/AIDS in the country. Despite this assistance, the epidemic has gotten worse. The Global Fund recommends that Indonesia focus its funding on high prevalence areas such as Papua Province, where there is a generalized epidemic—more than 2.4 percent of the population in Papua has contracted HIV. In other parts of the archipelago, the highest HIV rates can be found among intravenous drug users. But the highest rate of new infections is due to sexual transmission, which indicates a significant risk to the country as a whole.

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13. Statistics Indonesia and Macro International, *Indonesia Demographic and Health Survey 2007* (Calverton, MD: BPS and Macro International, 2008), 216, [http://www.measuredhs.com/pubs/pdf/FR218/FR218\[27August2010\].pdf](http://www.measuredhs.com/pubs/pdf/FR218/FR218[27August2010].pdf).

14. Statistics Indonesia and Macro International, *Indonesia Demographic and Health Survey 2012: Preliminary Report* (Calverton, MD: BPS and Macro International, 2012), 14, <http://www.measuredhs.com/pubs/pdf/PR25/PR25.pdf>.

15. Millennium Challenge Corporation, “Indonesia Compact,” accessed on July 15, 2013, <http://www.mcc.gov/pages/countries/program/indonesia-compact>.

16. Hiebert, *Indonesia Steps Up Health Diplomacy*.



## FINANCING HEALTH CARE

Indonesia this year is hosting the 21-member APEC forum, which includes the United States, China, Japan, and 18 other countries on both sides of the Pacific Ocean. Indonesia will host the annual Leaders' Summit and CEO Summit in Bali in early October. One of the dozens of meetings Indonesia has agreed to organize throughout the year will include a joint conference of APEC finance and health ministers, a first in APEC's 24-year history, to discuss sustainable and equitable health care financing and how to prioritize health care budgeting. The goal of the meeting will be to develop a set of principles for financing health care in the Asia Pacific.<sup>17</sup>

Financing these programs over the long term and minimizing out-of-pocket costs are primary concerns for many of the Asian countries, particularly those with middle-income economies. Indonesia has pledged to launch universal health care in January 2014, but officials are not sure how to pay for it. The initial plan is expected to cover about 80 million of the country's poor, but the government hopes to cover the entire population by 2019.

At the APEC health financing conference in September, Indonesia's health and finance ministry officials will look to their neighbors for tips on how to finance universal health care. They will solicit lessons from others on determining who should be eligible, how to boost and ensure the quality of care, how to incentivize health providers to work in more remote areas of the archipelago, and the role of private health care coverage. Indonesia plans on going live with its own system in January 2014.

## NEW TECHNOLOGIES

Despite the overall gains in health from globalization, inequities in health care access and quality throughout Indonesia have deepened. Disparities between rich and poor, and urban and rural, have grown. In addressing these challenges, today's technologies, including telemedicine, can prove useful in reaching underserved populations. Telemedicine technologies can be used to improve reporting of infectious disease cases, map outbreaks, deploy health workers more efficiently, raise awareness about HIV and other communicable diseases, and deliver health care diagnoses and treatment advice to frontline health care providers.

Telemedicine can also help address the shortage of doctors in rural areas and bridge infrastructure barriers between patients and doctors. For example, World Health Partners uses remote diagnostic devices to monitor heart rate and blood pressure so doctors can diagnose the illnesses of rural patients from afar. Telemedicine can provide second opinions and peer consultation for rural doctors. It is a low-cost solution for hospitals in Southeast Asia, linking them, for example, to Indian radiologists and diagnosticians in a potentially vast "back office."

Telemedicine can also provide continuing education for medical and paramedical staff via digital medical libraries, e-conferences, and distance learning. A market research firm

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17. Ibid.

projects that the “global telemedicine market will grow at a compound annual growth rate . . . of around 19 percent from 2010 to 2015.”<sup>18</sup> A London-based market intelligence firm said in a 2009 report that Asia is the fastest growing region for the telemedicine market, with India and China leading the growth.<sup>19</sup>

## Strengthen Science and Technology Cooperation

As a result of the 2010 U.S.-Indonesia Science and Technology Cooperation Agreement, the United States and Indonesia launched a high-level dialogue to strengthen joint research and science development initiatives. The two sides agreed in 2012 on a comprehensive work plan that includes collaborative projects in climate, marine research, biodiversity, agriculture, health, and innovation. The United States introduced a \$600,000 capacity-building project to support Indonesian scientists’ ability to obtain competitive research awards, improve the peer review process, and increase professional publication rates. USAID has also begun a program that provides \$1.1 million to support collaborative research efforts between U.S. and Indonesian scientists.

Former U.S. science envoy to Indonesia Bruce Alberts partnered with the Indonesia Academy of Science (IAS) to launch the U.S.-Indonesia Frontiers of Science program in 2011 to foster scientific collaboration between the next generation of Indonesian and U.S. science leaders. Alberts and his IAS counterparts envision 40 U.S. scientists and 40 Indonesian counterparts collaborating throughout their 40-year careers.

Under its U.S.-Indonesia university partnerships program, USAID currently supports exchanges between students, scholars, and institutions in both countries in marine conservation and biotechnology, indigenous plants and food security, public health, and climate change adaptation.

USAID/Indonesia is supporting collaboration in scientific research under a new program called Partnerships for Enhanced Engagement in Research for Health (PEER-Health). PEER-Health is a joint effort between USAID and the U.S. National Institutes of Health. A competitive grants program, PEER-Health is designed to catalyze collaborative research projects that address research-to-practice barriers while building professional capacity to work on health challenges. While this program will fund research opportunities around the world, there is a commitment to fund research partnerships in Indonesia in particular. Additional funding has been added by USAID/Indonesia to support research in priority areas of child health and infectious diseases.<sup>20</sup>

NOAA works actively with Indonesian marine scientists on research and capacity-building efforts, including developing tsunami early detection systems, deploying ocean

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18. RNCOS, “Global Telemedicine Market Analysis,” January 2012, <http://www.rncos.com/Report/IM331.htm>.

19. Infiniti Research Limited, “Global Telemedicine Market 2010–2014,” August 15, 2011, <http://www.marketresearch.com/Infiniti-Research-Limited-v2680/Global-Telemedicine-6487057/>.

20. National Academy of Sciences: Development, Security, and Cooperation, “Focus Area 2: Indonesia,” accessed June 30, 2013, [http://sites.nationalacademies.org/PGA/dsc/peerhealth/PGA\\_080491](http://sites.nationalacademies.org/PGA/dsc/peerhealth/PGA_080491).

**The U.S. Geological Survey's John Pallister (center) and Indonesian Center for Volcanology and Geologic Hazard Mitigation head Surono (left) discuss U.S.-Indonesia cooperation on volcano disaster prevention in 2012.**



Photo courtesy of U.S. Embassy Jakarta's Flickr photostream, <http://www.flickr.com/photos/39809323@N03/7942024334/>.

instruments that allow scientists to predict long-term climate change, exploring uncharted deep water habitats, and anticipating and monitoring outbreaks of harmful toxins affecting food sources.

## Collaborate on the Environment and Climate Change

The United States and Indonesia share an interest in reducing greenhouse gas emissions in the Asia Pacific and in mitigating the effects of climate change. A recent study by the Emerging Markets Forum<sup>21</sup> shows the potential influence of developing nations on climate change. Under a business-as-usual scenario, the average global temperature will rise by 8.8 degrees Fahrenheit by the year 2100. If only the developed countries take action, that figure will drop to 7.9 degrees. If developing countries also take action, the average global

21. Cameron Hepburn and John Ward, *Should Emerging Market Economies Act on Climate Change, or Wait?* (Washington, DC: Emerging Markets Forum, October 2010), [http://www.emergingmarketsforum.org/wp-content/uploads/pdf/2010\\_EMF\\_Global\\_Hepburn\\_Ward\\_Climate\\_Change.pdf](http://www.emergingmarketsforum.org/wp-content/uploads/pdf/2010_EMF_Global_Hepburn_Ward_Climate_Change.pdf).

temperature rise would be limited to 4.9 degrees. A business-as-usual development path will cause sea levels to rise up to 1.6 feet by the end of this century, exposing large coastal cities to major surge-induced floods.

Recognizing this, President Yudhoyono broke with developing country dogma. In 2009 he declared that Indonesia would take responsibility for reducing its greenhouse gas emissions by 26 percent by 2020 and by up to 41 percent with international support. Progress toward achieving these goals has been slow. With Indonesian elections looming in 2014, achievement of ambitious initiatives may prove increasingly difficult. Nevertheless, the United States has invested about \$500 million and Norway has pledged \$1 billion to support efforts to promote low-carbon development and to slow the rate of deforestation in Indonesia.

Most of the U.S. environmental investment in Indonesia is via the MCC. The MCC will contribute to Indonesia's efforts to modernize its public procurement system and spearhead a \$332 million "green prosperity" program. The "green prosperity" component is primarily aimed at expanding access to renewable energy in underserved areas, improving the productivity and land use practices of small holder farmers, enhancing stewardship of forests and other natural resources, and improving the accuracy and transparency of district-level spatial planning.<sup>22</sup>

Indonesian and U.S. officials have together developed a work plan that brings under one umbrella all joint climate and environment-related activities. The work plan for implementing the U.S.-led Enhancing Capacity for Low-Emission Development Strategies program aims to identify and take advantage of public- and private-sector opportunities for pursuing low-emission development strategies.<sup>23</sup>

Joint work on scientific research makes climate cooperation feasible. NOAA works with Indonesia's Ministry of Marine Affairs and Fisheries and its Agency for the Assessment and Application of Technology on ocean-climate observations, analysis, and applications.

The United States is providing \$7 million in support for the new Indonesia Climate Change Center, which focuses in part on mapping and monitoring carbon-rich peat lands and tropical forests with expertise from the U.S. Forest Service.

Greater scientific understanding of carbon baselines and emissions is required, as Indonesia is responsible for approximately 60 percent of global emissions from peat decomposition. The science of tropical peat decomposition is not well known and technologies for rehabilitating degraded peat lands are not well developed.

Other elements of the low-emissions development strategies work plan are described below.

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22. Millennium Challenge Corporation, "Green Prosperity: Reducing Poverty by Supporting Indonesia's Commitment to Low-Carbon Economic Growth," fact sheet, June 12, 2012, <http://www.mcc.gov/documents/press/factsheet-2012002110501-greenprosperity.pdf>.

23. U.S. State Department, "Indonesia-U.S. Third Joint Commission Meeting: Fact Sheet," September 20, 2012, <http://www.state.gov/r/pa/prs/ps/2012/09/197980.htm>.

## DEFORESTATION

Deforestation is the main source of carbon dioxide from Indonesia. Southeast Asia has lost 13 percent of its forest area—roughly the size of Vietnam—over the past 20 years.<sup>24</sup> The United Nations has prioritized lessening deforestation rates in ASEAN, with a stated goal of “zero deforestation” in ASEAN nations by 2020.<sup>25</sup>

In addition to the MCC green prosperity program, USAID is investing about \$40 million in forest conservation programs across eight landscapes with the goals of a 6 million ton reduction in carbon dioxide equivalent emissions in an area of up to 27 million acres; improved management of 7.4 million acres of forest, including 4.2 million acres in priority orangutan habitat; 12 districts with draft spatial plans that incorporate strategic environmental assessment recommendations for forest and peat land conservation to reduce greenhouse gas emissions; and 12,000 beneficiaries receiving economic benefits from low-emission development activities.

With matching funds from the Walton Family Foundation, USAID is also investing \$10 million to establish a new public–private partnership for sustainable landscapes in Sumatra.

The United States and Indonesia are also implementing two forest conservation debt-for-nature swaps, in Sumatra and Kalimantan, valued together at nearly \$60 million. This program, made possible by the Tropical Forest Conservation Act, enables governments to choose to invest in forest protection in lieu of paying off debts to the U.S. Treasury. Some grants from the Sumatra debt-for-nature swap go toward protecting endangered species such as Sumatran tigers and rhinos.

## ENERGY, WATER, AND POLLUTION

Through a \$16 million clean energy development project, USAID is helping Indonesia to expand its domestic energy supply and fulfill its commitment to reduce greenhouse gas emissions in the energy and transportation sectors. The expected results include four million tons of carbon dioxide emissions avoided. The U.S. Environmental Protection Agency (EPA) and Indonesia’s Ministry of Environment signed a memorandum of understanding in June 2011 expanding environmental cooperation and formalizing cooperation on Breathe Easy, Jakarta, a program designed to improve air quality and protect public health in the capital city.

USAID is assisting 40 municipalities expand access to water and sanitation for two million persons with a focus on better serving the urban poor. The program has improved and extended safe water technologies as well as affordable sanitation technologies for urban poor. The continued search for low-cost effective methods of expanding access to these critical water and sanitation services is a focus of new programs begun in 2010.

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24. Nag, “Asia’s Challenges.”

25. “UN Aims Zero Deforestation in ASEAN by 2020,” *Manila Times*, June 21, 2008, <http://www.greendiary.com/un-aims-zero-deforestation-in-asean-by-2020.html>.

The State Department has supported Indonesian NGOs in their work to reduce mercury emissions from domestic industrial sectors. EPA is supporting Indonesia in the reduction of mercury use in artisanal and small-scale gold mining.

## **AN ENVIRONMENTAL SUPERPOWER**

Indonesia is ranked first in terms of marine biodiversity and third for terrestrial biodiversity. Forty percent of Asia's coral reefs have vanished over the past four decades. Indonesia has 16 percent of the world's coral reefs, 91 percent of which face moderate to severe risk of destruction due to human activities. Improving understanding of coral reef ecosystems and how to conserve and manage these for sustaining fisheries productivity is critical for Indonesia's food security.

As part of a six-nation Coral Triangle Initiative encompassing 2.3 million square miles of ocean and coastal waters, USAID and NOAA are helping Indonesia's Ministry of Marine Affairs and Fisheries to strengthen its institutional capacities, improve policies, and implement strong programs for ecosystem-based fisheries management and conservation of critical marine ecosystems. USAID has invested \$6 million to help improve the governance of marine protected areas at national, network, and site levels to boost fisheries and conserve biodiversity. In 2010 NOAA's newest ocean exploration vessel, *Okeanos Explorer*, conducted a deep-sea exploration with Indonesian research vessel *Baruna Jaya IV*. Together they charted the ocean floor and discovered dozens of new species.

Under the Orangutan Conservation Services Program, USAID has been working to conduct science-based studies to determine priority sites and approaches to conserve critical habitats for orangutans. These studies have also discovered two new populations of orangutans, one in Sumatra and one in Kalimantan.

Law enforcement in the forestry and fisheries sectors has been weak and inconsistent. Without reliable investigation and prosecution of environmental crimes and regulatory violations, it will be impossible to protect Indonesia's seas and forests. U.S.-sponsored law enforcement projects have been ongoing for some time. Those projects are being adjusted to better take into account the roles of communities and NGOs.

Wildlife trafficking is increasingly a topic on which the United States engages Indonesia bilaterally and regionally through ASEAN's Wildlife Enforcement Network. The United States and Indonesia were founders of what is now the APEC Experts Group on Illegal Logging and Associated Trade. The United States and Indonesia are also expanding governance programs that promote civil society development and the fight against corruption. Although not specifically environmentally focused, these programs will have a positive impact on the environment.

## FOOD SECURITY AND FISHERIES

Already an area of cooperation between Indonesia and the United States, the challenge of food security provides an opportunity for further partnership. Fisheries accounted for only 5.2 percent of Indonesia's GDP in 2010, yet fish provide approximately 72 percent of animal protein for Indonesia's citizens.<sup>26</sup>

Fisheries are threatened by the destruction of coral and mangrove habitats, corruption that encourages overfishing, rampant illegal fishing that costs Indonesia's economy \$3 billion per year, and unsustainable fishing practices such as using cyanide or explosives to stun or kill reef fish.

The lack of a reliable cold refrigeration chain is an important factor in both the reduction of fishing stocks and a danger to food security in Indonesia. This is particularly problematic close to shore because the poor may not possess high-quality boats, do not have good ways to handle their catch, and thus lose a high percentage before reaching shore. When inefficient overfishing reduces stocks close to shore, fishermen must travel farther, requiring more time away from reliable refrigeration and losing even more of the catch. The lack of a cold chain is also a major problem for larger operations, as many landing areas close to fishing zones have poor infrastructure and unreliable electricity. Existing cold chain equipment is not up-to-date.

National and regional initiatives have not yet addressed these problems. In outlining the advantages of a "blue economy," President Yudhoyono sought to foster sustainable practices. But Indonesia's development strategy still calls for more "industrialization" of fisheries. While this term is not clearly defined, it seems to be interpreted as maximizing the catch without sufficient attention to maximum sustainable yield. Regionally, the effectiveness of organizations such as the Southeast Asian Fisheries Development Center has been hampered by a lack of data.<sup>27</sup> There also is no solid commitment to sustainable fishing.

Aquaculture in Indonesia has not realized the hopes of its champions as a means to avoid depleting wild marine habitats. Environmental degradation, disease, and inefficient practices can often cause more harm than good to wild fisheries. Although the United States has been contributing to the conservation of fishery ecosystems by supporting the Coral Triangle Initiative, its contribution to sustainable fishing practices has been limited.

One notable success is USAID's public-private partnership with Anova Food LLC. Anova has succeeded in ensuring sustainability in its supply chain. Additionally, the World Wildlife Fund has effectively instituted sustainable fishing practices and created sustainable livelihoods for fisherman in small coastal communities.<sup>28</sup> However, as a major market for

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26. Roger S. Pulwarty, "Climate, fisheries and food security," presentation at CSIS, Washington, DC, January 24, 2013, [http://csis.org/files/attachments/130124\\_Climate\\_Fisheries\\_FoodSecurity\\_presentation.pdf](http://csis.org/files/attachments/130124_Climate_Fisheries_FoodSecurity_presentation.pdf).

27. Southeast Asian Fisheries Development Center, "Fishery Statistics," accessed July 3, 2013, <http://fishstat.seafdec.org/>.

28. Fishing & Living, accessed July 3, 2013, <http://fishing-living.org/>.

## Fish in West Java, Indonesia, in 2008.



Photo courtesy of Prayudi Hartono's Flickr photostream, <http://www.flickr.com/photos/30040853@N02/6322022399/>.

Indonesian fish, the United States has unwittingly encouraged overexploitation and illegal fishing in Indonesia's waters because of weak import regulations that do not require a certificate stating where the fish was caught.

Catch certificates that reflect where fish are caught, not processed, and improvements in U.S. Food and Drug Administration (FDA) regulations could improve transparency. One challenge will be to establish an industry-wide certification standard. Indonesia would then face the difficult task of effectively monitoring fisheries rules. Independent monitoring, perhaps with international support, could be helpful.

In addition, scientific advances such as genetic tracing technologies could help. As these technologies become less expensive and more widespread, it is possible to envision inexpensive genetic testing of samples of fish catches to help pinpoint where the fish were caught. A system of verification could lead to legal prosecution of violators. Such techniques are already being considered for combating wildlife trafficking and illegal logging.



# Youth Outreach: Innovation, Music, and Sports Diplomacy

@america, located in the Pacific Place Mall in Jakarta, is an innovative high-tech outreach venue launched in December 2010. The first of its kind in the world, @america has hosted 350,000 visitors since opening. Eight-five percent of visitors are between the ages of 15 and 30. The center routinely hosts discussions that visitors can join for free. In addition to interactive dialogues on various topics—from Islam in America to grunge music—@america frequently organizes workshops and concerts. It assists Indonesian students who want to study in the United States. It has an active digital presence, with over 1.5 million clicks on its live and archived webcast feeds, 57,000 Twitter followers, and 30,000 Facebook subscribers. Indonesia has the world’s largest number of Twitter and third largest number of Facebook users. @america’s growing online outreach has exponentially increased local awareness and participation.<sup>29</sup>

In a time of declining budgets, @america could benefit more than just the bilateral relationship. It could deploy its broadcast capabilities for the entire region. Already @america supports the U.S. Mission to ASEAN. It has the necessary equipment to serve as a broadcast center for all of Southeast Asia for very little additional cost.

Focus groups created to guide @america programming identified young Indonesians’ main interests as education, the environment, entrepreneurship, and U.S. culture, particularly sports.

In partnership with the U.S. embassy in Jakarta, the ECA Bureau sent former National Basketball Association legend Rick Mahorn and Women’s National Basketball Association star Edna Campbell to Indonesia in 2012 to conduct basketball clinics in Yogyakarta, Surakarta, and Jakarta, including a joint clinic with professional basketball teams the Indonesian Warriors and Satria Muda.

The basketball program supported an initiative to counter violent extremist recruitment of at-risk Indonesian youth. In spring 2013, 12 youth basketball players—six boys and six girls—and two coaches from throughout Indonesia engaged with U.S. student athletes by visiting U.S. schools to learn firsthand about the ties between academics and athletics, participating in basketball training sessions, studying conflict resolution, and learning about disability sports.

As part of its partnership with espnW, the ECA Bureau also sponsors a global sports mentoring program. Masany Gultom is currently the chief operating officer for the Developing Basketball Leagues in Indonesia, the “first sports companies in the country.” Although the leagues are successful and Gultom is considered one of the most powerful women in Indonesian sports, she is a self-proclaimed rookie when it comes to the sports industry.

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29. “By the Numbers: @america, a 21st Century Cultural Center,” CogitAsia, May 29, 2013, <http://cogitasia.com/by-the-numbers-america-a-21st-century-cultural-center/>.

**On November 9, 2011, U.S. ambassador Scot Marciel welcomes the 100,000th visitor to the @america high-tech cultural outreach center in Jakarta.**



Photo courtesy of U.S. Embassy Jakarta's Flickr photostream, <http://www.flickr.com/photos/39809323@N03/6330285427/>.

For the ECA Bureau's Center Stage initiative, three performing arts groups from Indonesia—Nan Jombang Dance Company from Padang, and Papermoon Puppet Theatre and Jogja Hip Hop Foundation from Yogyakarta—toured the United States in 2012. Indonesia is also one of 21 countries that participated in the OneBeat music exchange in 2012. Puppeteer and percussionist Sri Joko Raharjo introduced U.S. audiences to the ancient Indonesian art of shadow puppetry.

In addition, the U.S. embassy in Jakarta sponsored several U.S. performers and musicians to visit Indonesia, including Muslim hip hop bands Remarkable Current (2010) and Native Deen (2011 and 2012), Grammy-winner Oran Etkin (2012), New York-based Battery Dance Company (2011), and jazz legend Herbie Hancock (2011), among others. In 2013 @america hosted a talk show and performance for the rock band Creed, and the ECA Bureau sent the hip hop group Audiopharmacy to Indonesia for a tour as part of the American Music Abroad program. All of these initiatives demonstrate a commitment to increasing cultural exchanges and fostering better mutual understanding among the people of Indonesia and the United States.

# Recommendations

## EDUCATION

- *Expand cooperation to promote the creation of community colleges, vocational training, and distance learning opportunities.* U.S. universities, the private sector, and civil society should be encouraged to partner with Indonesian universities. Community colleges serve the critical function of equipping a large youth population with relevant skills in flourishing industries. Companies such as Chevron have already shown how community college partnerships with the private sector can be mutually beneficial. The work of the U.S.-Indonesia Society demonstrates the key role civil society can play in facilitating higher education exchanges. Attracting bright students from Indonesia to study in the United States, and sending U.S. students to study in Indonesia, yields important benefits. Indonesia and the United States could also create meta-universities<sup>30</sup> offering an online curriculum to students engaged in distance learning.
- *Provide financing for loans and scholarships for Indonesians to study in the United States and for Americans to study in Indonesia.* The United States exports more than \$3.3 billion in educational services per year. The Institute of International Education estimates that the benefit to the U.S. economy is up to 40 times the price of a student's first-year tuition. The U.S. Export-Import Bank should therefore treat education like any other export and provide financing for loans and scholarships. Export-Import Bank legal experts have clarified that funding educational exports is consistent with the bank's congressional mandate. The private sector, foundations, and civil society should also collaborate in this endeavor.
- *Boost youth and women exchanges.* Indonesia and the United States should support projects that increase contact between the youth of both countries and programs that empower women as entrepreneurs and leaders. Through the ECA Bureau's multiregional International Visitors Leadership Program, the United States can bring Indonesians and other ASEAN country nationals together to explore critical subject areas. The State Department could tailor programs to key subjects including innovation, urban planning, and economic connectivity.
- *Expand interfaith dialogue between Indonesia, the United States, and regional partners.* This should be done in partnership with Muhammadiyah and Nahdlatul Ulama, the world's largest Muslim social organizations.

## HEALTH, SCIENCE, AND TECHNOLOGY

- *Pursue health collaboration.* Opportunities include (1) expanding telemedicine, especially for rural populations. (2) improving health care access through smart infrastructure planning that puts a premium on available medical access, and

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30. Narayan Lakshman, "Away from the Limelight, a Quiet Cooperation," *Hindu* (New Delhi), June 16, 2012, <http://www.thehindu.com/opinion/op-ed/away-from-the-limelight-a-quiet-cooperation/article3533426.ece>.

(3) sharing best practices to improve health care outcomes in treating diseases endemic to the region. Many diseases originate in Southeast Asia, and it is critical to track disease outbreaks before they become crises or pandemics.<sup>31</sup>

Telemedicine technologies can be used to improve infectious disease reporting, map outbreaks, deploy health workers more efficiently, raise awareness about HIV and other communicable diseases, and deliver health care diagnoses and treatment advice to frontline health care providers. As World Health Partners and other NGOs have shown, telemedicine can also help address the shortage of doctors in rural areas and bridge infrastructure barriers between patients and doctors. Telemedicine can provide second opinions and peer consultation for rural doctors. It can serve as a low-cost solution for hospitals in Southeast Asia, linking them to radiologists and diagnosticians elsewhere.

Improving the quality of care is critical, and this is where collaboration and sharing of best practices has the most value. Greater emphasis should be placed on direct hospital-to-hospital collaboration between U.S. and Indonesian institutions.

- *Strengthen maternal and child health collaboration.* To address maternal and child mortality rates, governments should work through ASEAN regional structures to combine health interventions with non-health programs such as microfinance and conditional cash transfer programs.<sup>32</sup> Southeast Asia countries should create networks similar to the ASEAN Sudden Acute Respiratory Syndrome Containment Information Network—a model for sharing information, best practices, and new research findings—to improve maternal, neonatal, and child health.<sup>33</sup>
- *Empower the ASEAN Economic Community to play a larger role in health.* Indonesia and other ASEAN member states could empower the ASEAN Economic Community, which seeks to enhance economic connectivity between the 10 member states of ASEAN and is due to come into effect in 2015, to encourage more regional cooperation on health. This should include setting standards and encouraging regional health care providers to invest in each other. ASEAN could choose to exempt member states from restrictions on trade in health and medical services. This could include lifting restrictions on foreign direct investment and the entry of foreign health service providers, eliminating the economic needs test, and facilitating health care services trade to create an incentive for increased ASEAN public health cooperation and stepped-up engagement with the U.S. private sector in the field of health care.
- *Streamline the process for obtaining researching permits in Indonesia.* This would help enhance science and technology collaboration between Indonesia and the United States. There are many sensitivities regarding research permits, but simplifying the

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31. Cecilia S. Acuin et al., “Maternal, Neonatal, and Child Health in Southeast Asia: Towards Greater Regional Collaboration,” *Lancet* 377, no. 9764 (January 25, 2011): 524, [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(10\)62049-1/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(10)62049-1/abstract).

32. Recommendation based in part on suggestion of increased government innovation in *ibid.*, 523.

33. *Ibid.*, 524.

process so a researcher does not have to take so much action or wait so long to obtain a permit will facilitate scientific exchange.

## ENVIRONMENT AND CLIMATE CHANGE

- *Supplement dialogue on climate change with collaborative research.* NOAA and relevant Indonesian institutions should collaborate, especially on monsoon and tsunami monitoring and prediction. The United States and Indonesia should establish a program to more accurately predict monsoons and work together in the realm of predicting and sharing information about climate change–related threats.<sup>34</sup>
- *Collaborate on clean water, including storage, distribution, and pipelines.* Collaborative activities should focus on maximizing resource efficiency, preserving clean water, and developing lower-cost clean water technologies. Indonesia and the United States share interests in investing in streamlining existing processes, from innovative programs such as Singapore’s desalinization and NuWater initiatives to jointly developing increased productivity in agriculture techniques.<sup>35</sup>
- *Share best practices in urban planning, and air and water management for growing cities.* The stress on growing urban populations in Indonesia is severe. Access to sewage systems is extremely limited. Any strategy for cooperation on urban planning must make water management a key component. Also, air pollution has a direct effect on human health. Indonesia and the United States can partner to target cities with especially high levels of air pollution and install air pollution monitoring machines that send data to websites in real time.<sup>36</sup> They can also partner to support the adoption and enforcement of tighter vehicle and industrial emission standards.
- *Partner in the quest to minimize deforestation and share best practices with other nations in the region.* Possibilities include better spatial planning and mapping, improved enforcement of forestry laws, collaboration with the private sector to incentivize more sustainable production methods, conducting training in sustainable forest management, and education campaigns on fire safety to reduce the occurrence of forest fires.<sup>37</sup> The MCC’s board of directors can share lessons learned from its experiences with other nations.
- *Jointly establish a Center for Sustainable Ocean Fisheries, a research institute to explore and study waters that house the world’s highest ocean biodiversity.* The resulting science discoveries would provide critical input into Indonesian and regional ocean

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34. White House Office of the Press Secretary, “Fact Sheet: U.S.-India Green Partnership to Address Energy Security, Climate Change, and Food Security,” November 24, 2009, [http://www.whitehouse.gov/sites/default/files/Green\\_Partnership\\_Fact\\_Sheet.pdf](http://www.whitehouse.gov/sites/default/files/Green_Partnership_Fact_Sheet.pdf).

35. *Ibid.*

36. Niharika Mandhana, “‘Untamed Motorization’ Wraps an Indian City in Smog,” *New York Times*, December 26, 2012, [http://www.nytimes.com/2012/12/27/world/asia/indian-city-overwhelmed-by-air-pollution-new-delhi-journal.html?\\_r=4&](http://www.nytimes.com/2012/12/27/world/asia/indian-city-overwhelmed-by-air-pollution-new-delhi-journal.html?_r=4&).

37. UN Food and Agriculture Organization, “Global Forest Resources Assessment,” 2000, <http://www.fao.org/docrep/004/y1997e/y1997e1i.htm>.

fisheries policy development and help the region move onto a sustainable path for ocean food resources and the marine ecosystem. They would provide applied science solutions for commercial ports and local communities in Indonesia through networks of education extension services. These understudied waters are critical not only to the livelihoods of the 120 million people living in the maritime nations of the Coral Triangle, but also for U.S. and global consumers of pelagic fish species. For example, 90 percent of the world's tuna catch originates in this region. This center would address both food security and climate change.

- *Require catch certificates that reflect where fish are caught, rather than where they are processed.* Furthermore, as a major market for fish imported from Indonesia, the United States can discourage illegal and unsustainable practices by changing domestic regulations. Many illegally sourced fish from Indonesian waters are transshipped to other Southeast Asia nations for processing. The source of the fish is then mislabeled when imported to the United States. Catch certifications and improvements in FDA regulations could improve transparency.
- *Collaborate on agriculture and food security.* Indonesia and the United States should step up joint development of increased-productivity agriculture techniques, reducing the amount of water necessary to produce desired grain yields.<sup>38</sup> The private sector in Indonesia increasingly engages in food security programs across South and Southeast Asia; governments should facilitate that collaboration.

Increased information exchanges between Indonesia and the United States on food security could be accomplished through the establishment of joint research and development centers, and cross-border exchanges of nongovernmental organization representatives, students, and academics. Indonesia and the United States can also collaborate on developing integrated land use policies, creating and sharing weather forecasting and risk management tools,<sup>39</sup> sustainable agriculture techniques such as precision irrigation, and innovative technologies such as drought-resistant seeds.

- *Enhance economic incentives for reducing greenhouse gas emissions.* The United Nations' Program on Reducing Emissions from Deforestation and Forest Degradation's credibility has eroded and resistance to the idea by key policymakers has held back even initial steps. However, the importance of market-driven economic incentives to encouraging better environmental behavior remains paramount. This notion is already an important part of the joint Indonesia-U.S. strategy on low emission development. Good economic analysis of the rural economy is needed in threatened areas to understand what possible ecosystem services or other green development options are available to compete with lucrative extractive and agro-forestry industries that are difficult for local authorities and communities to resist.

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38. Ibid.

39. Women Organizing for Change in Agriculture and Natural Resource Management, "Committee on World Food Security Makes Recommendations to Policy Makers on Food Security and Climate Change," October 28, 2012, <http://wocan.org/news/cfs>.

Together, U.S. and Indonesian authorities should engage more directly and systematically with both the international buyers and local producers in the timber, palm oil, fisheries, and mining sectors to devise incentives (including, for example, technical assistance, market access or premium prices, and public recognition) that encourage those who are doing the right thing and pressure those who are not. Banks and banking authorities should be engaged to develop more “green lending” policies. The Indonesian Ministry of Finance should adjust the current fiscal situation that incentivizes local officials to authorize new land use rather than intensification of production on existing plots. Rather than bring large amounts of new money to the table, Ministry of Finance officials should be assisted to better access available Indonesian clean energy and reforestation funds.

- *Involve the private sector in climate and environmental collaboration.* Indonesia is one of the focus countries of White House initiatives such as the National Export Initiative and the U.S.-Asia Pacific Comprehensive Energy Partnership. Environment and climate change collaboration should be keyed as much as possible to these broader private sector–driven foreign policy objectives. U.S. investors are leaders in sustainable fishing and agro-forestry and are strong in some renewable energy segments.

Chevron is the leading producer of geothermal energy in Indonesia, and major U.S. firms are considering investments in solar and wind projects. U.S.-produced power equipment is competitive in areas such as waste-to-energy projects that will reduce emissions, energy efficiency systems that reduce consumption and demand, and systems control equipment and software that can modernize power generation, transmission, and distribution. A clear private-sector role is a missing link in the current low emissions development strategy work plan, although it is something in which the Indonesian government is interested and which countries, for example, Japan, are already filling in the name of emissions reduction. Development work should build on current government-driven models that provide seed money for private investment.

## **REACHING OUT TO YOUNG PEOPLE**

- *Increase the number of private-sector partnerships with @america to enhance its capability to reach Indonesian youth and show off America’s best technologies.* With support from senior U.S. officials, the U.S. embassy in Jakarta should secure programming partnerships. As part of the Global Partnership Initiative, the State Department could provide support for locating and implementing them. Partnerships with corporations—high-tech, energy, transportation, and defense companies in particular—could defray some of @america’s program costs. In Jakarta, this should be a whole-of-mission endeavor led by the ambassador with support from the commercial attaché and others linked to U.S. companies that could benefit from showing off their best technology in an accessible, attractive setting.





## About the Authors

**Murray Hiebert** serves as senior fellow and deputy director of the Sumitro Chair for Southeast Asia Studies at the Center for Strategic and International Studies (CSIS) in Washington, D.C. Prior to joining CSIS, he was senior director for Southeast Asia at the U.S. Chamber of Commerce, where he worked to promote trade and investment opportunities between the United States and Asia. Mr. Hiebert joined the U.S. Chamber in 2006 from the *Wall Street Journal's* China bureau, where he covered trade, intellectual property rights, and China's accession to the World Trade Organization. Prior to his posting to Beijing, he worked for the *Wall Street Journal Asia* and the *Far Eastern Economic Review* in Washington, reporting on U.S.-Asia relations. From 1995 to 1999 he was based in Kuala Lumpur for the *Far Eastern Economic Review*. He covered the Asian financial crisis and also reported on developments in Singapore. In the early 1990s, he was based in Hanoi for the *Review*, reporting on Vietnam's economic reforms. He joined the *Review's* Bangkok bureau in 1986, covering political and economic developments in Vietnam, Cambodia, and Laos. Mr. Hiebert is the author of two books on Vietnam, *Chasing the Tigers* (Kodansha, 1996) and *Vietnam Notebook* (Review Publishing, 1993).

**Ted Osius** is senior visiting State Department fellow at CSIS, where he works with the Sumitro Chair for Southeast Asia Studies and the Wadhvani Chair in U.S.-India Policy Studies. In July 2012 he completed a tour as deputy chief of mission in Jakarta. From 2006 to 2009 he served as political counselor in New Delhi. Earlier tours included Bangkok, Manila, Hanoi, Ho Chi Minh City, the U.S. mission to the United Nations, the Vatican, and the Korea desk at the U.S. State Department in Washington, D.C. From 1998 to 2001 he served as senior adviser for international affairs to Vice President Al Gore, with a portfolio encompassing Asia, international economics, and trade issues. Mr. Osius is the author of *The U.S.-Japan Security Alliance: Why It Matters and How to Strengthen It* (Praeger/CSIS, 2002) and *Enhancing India-ASEAN Connectivity* (CSIS, June 2013).

**Gregory B. Poling** is a research associate with the Sumitro Chair for Southeast Asia Studies and the Pacific Partners Initiative at CSIS, where he manages projects that focus on U.S. foreign policy in the Asia Pacific, with a special focus on the member countries of the Association of Southeast Asian Nations. His current research interests include disputes in the South China Sea, democratization in Southeast Asia, and Asian multilateralism. Mr. Poling is coauthor of *From Strength to Empowerment: The Next Generation of U.S.-Malaysia Relations* (CSIS, May 2012) and *Sustainable Energy Futures in Southeast Asia* (CSIS, December

2012), and author of *The South China Sea in Focus: Clarifying the Limits of Maritime Dispute* (CSIS, July 2013). Before joining CSIS, he lived and worked in China as an English-language teacher. He received an MA in international affairs from American University, a BA in history and philosophy from Saint Mary's College of Maryland, and studied at Fudan University in Shanghai.



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Cover photo: United States President Barack Obama offers a toast during the state dinner hosted by President Susilo Bambang Yudhoyono at the Istana Negara State Palace in Jakarta on 9 November 2010. White House photo by Pete Souza.

