

## INDONESIA



**Indonesia** Indonesia is successfully demonstrating how to be a thriving democracy. In a relatively short period of time, it has gone through two dramatic transitions: first, from autocracy to democracy, and second, from highly centralized government to decentralization. These dual transitions have produced a variety of benefits for Indonesians, but they also continue to present major challenges for the functioning of the Indonesian nationstate. Democracy and sustained economic growth, for example, have not brought prosperity for all: almost half of the population lives on less than \$2 per day, as income inequality increases and growth, though positive, falls short of required levels. The current global economic crisis will push more families into poverty. The comprehensive partnership between the United States and Indonesia, proposed by President Yudhoyono in November 2008, creates a framework for the U.S. assistance program. In order to meet Indonesia's development challenges, the program will focus on the following areas: higher quality basic education; universities that resolve tough development problems; sustainable management of forests, marine fisheries and energy; enhanced regional security and stability; effective government that delivers services; effective health and family planning services; and increased employment.

### **FOREIGN RELATIONS**

Since independence in 1945, Indonesia has espoused a "free and active" foreign policy, seeking to play a role in regional affairs commensurate with its size and location but avoiding involvement in conflicts among major powers. Indonesian foreign policy under the "New Order" government of President Suharto moved away from the stridently anti-Western, anti-American posturing that characterized the latter part of the Soekarno era. Following Suharto's ouster in 1998, Indonesia's Presidents have preserved the broad outlines of Suharto's independent, moderate foreign policy. The traumatic separation of East Timor from Indonesia after an August 1999 East Timor referendum, and subsequent events in East and West Timor, strained Indonesia's relations with the international community.

A cornerstone of Indonesia's contemporary foreign policy is its participation in the Association of Southeast Asian Nations (ASEAN), of which it was a founding member in 1967 with Thailand, Malaysia, Singapore, and the Philippines. Since then, Brunei, Vietnam, Laos, Burma, and Cambodia also have joined ASEAN. While organized to promote common economic, social, and cultural goals, ASEAN acquired a security dimension after Vietnam's invasion of Cambodia in 1979. The security policy aspect of ASEAN expanded with the establishment of the ASEAN Regional Forum in 1994, in which 22 countries participate, including the United States. At ASEAN's Singapore Summit in November 2007, the organization's members signed a new charter, a small step toward the agreed goal of creating an ASEAN Community to propel greater integration in the areas of political and security affairs, economics, and socio-cultural affairs. Indonesia was a strong proponent of further integration. Indonesia also was one of the founders of the Non-Aligned Movement (NAM) and has taken moderate positions in its councils. As NAM Chairman in 1992-95, Indonesia led NAM positions away from the rhetoric of North-South confrontation, advocating instead the broadening of North-South cooperation in the area of development. Indonesia continues to be a prominent leader of the Non-Aligned Movement.

Indonesia often supports NAM and Group of 77 (G-77) foreign policy views, taking positions regarding human rights contrary to the United States. In May 2005, the Yudhoyono administration, in a major effort to reinvigorate its leadership of the NAM and reset the movement's future course, hosted an Asia-Africa Summit to commemorate the founding of the NAM in Bandung, Indonesia in 1955.

A secular state, Indonesia has the world's largest Muslim population and is a member of the Organization of the Islamic Conference (OIC). It carefully considers the interests of Islamic solidarity in its foreign policy decisions while providing a moderating influence in the OIC. President Wahid, for example, pursued better relations with Israel; Foreign Minister Wirajuda participated in the November 2007 Middle East peace conference in Annapolis.

After 1966, Indonesia welcomed and maintained close relations with the donor community, particularly the United States, Western Europe, Australia, and Japan, through the Intergovernmental Group on Indonesia (IGGI) and its successor, the Consultative Group on Indonesia (CGI), which have provided substantial foreign economic assistance. Donors in recent years have expanded assistance to Indonesia, due to its rapid democratic consolidation.

Indonesia has been a strong supporter of the Asia-Pacific Economic Cooperation (APEC) forum. Largely through the efforts of President Suharto at the 1994 meeting in Bogor, Indonesia, APEC members agreed to implement free trade in the region by 2010 for industrialized economies and 2020 for developing economies.

In 2008, Indonesia finalized its Economic Partnership Agreement (EPA) with Japan, a significant trade partner and Indonesia's biggest foreign investor. The agreement is Indonesia's first bilateral free trade deal and exempts Indonesia from 90% of Japanese import duties.

President Yudhoyono has sought a higher international profile for Indonesia. In March 2006, Yudhoyono traveled to Burma to discuss democratic reform and visited several Middle Eastern countries in April and May 2006. Yudhoyono delivered a major speech in Saudi Arabia, encouraging the Muslim world to embrace globalization and technology for greater social and economic progress. In November 2006, Indonesia sent about 1,000 peacekeeping troops to southern Lebanon to be part of the UN Interim Force in Lebanon (UNIFIL) and replaced those troops with a second contingent a year later. In 2007 and 2008, Indonesia held a non-permanent seat on the UN Security Council. President Yudhoyono has also developed strategic partnerships with several countries, including the Netherlands. In November 2008, President Yudhoyono suggested the U.S. and Indonesia work together to build a more strategic partnership.

## **U.S.-INDONESIAN RELATIONS**

The United States has important economic, commercial, and security interests in Indonesia. It remains a linchpin of regional security due to its strategic location astride a number of key international maritime straits, particularly the Malacca Strait. Relations between Indonesia and the U.S. are positive and have advanced since the election of President Yudhoyono in October 2004. The U.S. played a role in Indonesian independence in the late 1940s and appreciated Indonesia's role as an anti-communist bulwark during the Cold War. Cooperative relations are maintained today, although no formal security treaties bind the two countries. The United States and Indonesia share the common goal of maintaining peace, security, and stability in the region and engaging in a dialogue on threats to regional security. Cooperation between the U.S. and Indonesia on counter-terrorism has increased steadily since 2002, as terrorist attacks in Bali (October 2002 and October 2005), Jakarta (August 2003 and September 2004), and other regional locations demonstrated the presence of terrorist organizations, principally Jemaah Islamiyah, in Indonesia. The United States has welcomed Indonesia's contributions to regional security, especially its leading role in helping restore democracy in Cambodia and in mediating territorial disputes in the South China Sea. During Secretary's Clinton's visit to Indonesia in early 2009, she and Foreign Minister Wirajuda announced that the U.S. and Indonesia would begin discussions on developing a comprehensive partnership between the two countries.

The U.S. is committed to consolidating Indonesia's democratic transition and supports the territorial integrity of the country. Nonetheless, there are friction points in the bilateral political relationship. These conflicts have centered primarily on human rights, as well as on differences in foreign policy. The U.S. Congress cut off grant military training assistance through International Military Education and Training (IMET) to Indonesia in 1992 in response to a November 12, 1991, incident in East Timor when Indonesian security forces shot and killed East Timorese demonstrators. This restriction was partially lifted in 1995. Military assistance programs were again suspended, however, in the aftermath of the violence and destruction in East Timor following the August 30, 1999, referendum favoring independence.

Separately, the U.S. had urged the Indonesian Government to identify and bring to justice the perpetrators of the August 2002 ambush murders of two U.S. teachers near Timika in Papua province. In 2005, the Secretary of State certified that Indonesian cooperation in the murder investigation had met the conditions set by Congress, enabling the resumption of full IMET. Eight suspects were arrested in January 2006, and in November 2006 seven were convicted.

In November 2005, the Under Secretary of State for Political Affairs, under authority delegated by the Secretary of State, exercised a National Security Waiver provision provided in the FY 2006 Foreign Operations Appropriations Act (FOAA) to remove congressional restrictions on Foreign Military Financing (FMF) and lethal defense articles. These actions represented a reestablishment of normalized military relations, allowing the U.S. to provide greater support for Indonesian efforts to reform the military, increase its ability to respond to disasters and participate in global peacekeeping operations, and promote regional stability.

Under the terms of the FY 2008 FOAA, signed into law in December 2007, Congress did not reimpose restrictions. However, it prevented a portion of U.S. security assistance from being released before the Secretary of State reported on the status of certain measures of military reform, of accountability for past human rights abuses, of public access to Papua, and of the investigation into the 2004 murder of a prominent human rights activist.

Regarding worker rights, Indonesia was the target of several petitions filed under the Generalized System of Preferences (GSP) legislation arguing that Indonesia did not meet internationally recognized labor standards. A formal GSP review was suspended in February 1994 without terminating GSP benefits for Indonesia. Since 1998, Indonesia has ratified all eight International Labor Organization core conventions on protecting internationally recognized worker rights and allowed trade unions to organize. However, enforcement of labor laws and protection of workers' rights remain inconsistent and weak in some areas. Indonesia's slow economic recovery has pushed more workers into the informal sector, which reduces legal protection and could create conditions for increases in child labor.

**Peace and Security:** Building on Indonesia's notable success in combating terrorism while establishing a democratic society, U.S. assistance program investments will strengthen Indonesia's leading role in regional peace and security. Indonesia has gone almost four years without a major terrorist incident, and Government of Indonesia (GOI) counterterrorism efforts remain strong, without sacrificing human rights. The maritime police and Navy are successfully combating piracy in the Strait of Malacca, through which one-third of global trade transits. U.S. assistance under this objective will support Indonesia's emerging role as a leader in regional security issues, including more emphasis on transnational crime such as narcotics smuggling, trafficking in persons, money laundering, and illegal logging, as well as on disaster relief. The United States will also develop the skills of prosecutors, judges, and civil society organizations to combat transnational crime. U.S. assistance will support the GOI's efforts to further reform its security forces, improve its air mobility and maritime security capacities, develop the Indonesian National Army's professional skills, and upgrade military management capabilities. Technical support to Indonesian civil

society organizations will help them increase public awareness of transnational issues such as human trafficking and conflict prevention. Training and equipment for the Indonesian National Police will modernize enforcement technologies and procedures. Technical assistance and training for export and border control agencies will help Indonesia combat weapons of mass destruction and meet international standards. The long term goal is a more professional Indonesian military and police, operating within the rule of law at home and contributing to regional security and peacekeeping operations.

**Governing Justly and Democratically:** Over the last 10 years, Indonesians have successfully institutionalized democratic politics, made multiple improvements to their constitution, reduced the political role of the military, and initiated sweeping decentralization. The U.S. Agency for International Development's (USAID) 2008 Democracy and Governance Assessment for Indonesia concluded that the institutional structure of democracy in Indonesia is now largely in place, but there are still significant impediments to the consolidation of democracy in Indonesia. Justice remains elusive, corruption is widespread, and the delivery of basic government services still falls short of most people's needs. The GOI

has taken concrete steps to address a number of these problems, including tackling high-level corruption. Reform of the justice system is key, and the Department of State's program will focus on sustaining and deepening institutional reforms in both the judiciary and the Attorney General's Office (AGO). Under this program, Department of Justice advisors will assist the AGO in combating terrorism, corruption, money laundering, and trafficking in persons. USAID will support justice sector institutions and strengthen legal education. Assistance also will support non-governmental organizations, think tanks, and professional groups that assist and push for judicial reform and bolster the capacity of state and non-state entities to prevent, expose, and punish corruption and other abuses of power.

**Investing in People:** Indonesia is an emerging middle income country, but still retains a high burden of disease. With lagging performance on many health indicators, Indonesia is unlikely to achieve Millennium Development Health Goals by 2015. A generation of dramatic reductions in child mortality stalled in the aftermath of the Asian economic crisis of the late 1990s and amidst the challenges facing a decentralizing new democracy. USAID will work to improve the health of Indonesians by strengthening the capacity of the health system to deliver quality services and facilitating civil society engagement to better understand, value, and promote good health practices. USAID will also promote policy reform to strengthen health systems. Family planning services for young adults will respond to substantial increases in unplanned pregnancies. Investments made will contribute to reducing child and maternal mortality rates in at-risk populations and reducing the risks of priority infectious diseases. Linkages with the President's Emergency Plan for AIDS Relief (PEPFAR): Indonesia will receive significant support to build partnerships to provide integrated prevention, care and treatment programs throughout the country, and support orphans and vulnerable children. In the area of education, many Indonesian children do not enroll in school or drop out during basic education for poverty-related economic reasons. However, education and poverty eradication are inextricably linked. Basic education is the level of schooling where poor children can acquire the skills to break the cycle of poverty. USAID assistance will help Indonesian children and youth become more successful pupils and complete primary and secondary schools, and enable more effective decentralized management and governance of schools. Complementing a province-based approach, USAID will also focus on institutions for pre- and in-service teacher training. To compete globally and provide improved standards of living, Indonesia must change its economy from one relying predominantly on unskilled labor and commodities to one using the skills of graduates from basic and higher education. The Ministry of National Education has identified higher education priorities, which include improving the quality and competitiveness of academic programs and equity of access and opportunity for high school graduates wishing to continue their education. An additional focus area for the Ministry is the privatization of public universities. USAID will help improve the capacity of Indonesian higher education institutions in key sectors in order to improve Indonesia's competitiveness. Assistance will also support English language learning through capacity building in universities and

secondary schools, particularly through teacher training and curriculum development. USAID requests funds to support strategic partnerships among U.S. and Indonesian-based universities, businesses, foundations, and practitioner associations in order to improve the practical relevance of college and university education in Indonesia. This approach will also increase contact with American educators and students. Assistance will strengthen the ability of universities to carry out research and produce original knowledge, improve international profile and standing, enhance curriculum quality based on the needs of practitioners; broaden and diversify faculty and student knowledge about the United States, and promote curriculum development and innovation.

**Focus on Performance:** Additional funding in FY 2010 will increase assistance to military-to-military and law enforcement units to build on Indonesian reforms within the security forces, establish a professional development capability for law enforcement and maintain maritime domain awareness that is vital to countering transnational threats. These funds are supporting Indonesia's efforts to establish a professional non-commissioned officer corps consistent with a modern, professional military in a democratic society. U.S. assistance will continue to increase the capacity of the Indonesian National Police (INP). Programs include support for national training and management system reforms; and the capacity expansion for the Marine Police Special Boat Unit, expansion of the Forensic Program to regional INP Labs, and port and border security initiatives in northern and eastern Indonesia. One example of the types of training supported by the U.S. is its effort to train law enforcement officers. This focus represents just one faction of overall U.S. efforts, but as FY 2008 results imply, the result that was more than double the expected target. Note that out-year targets for this specific indicator represent a more conservative trend because resources will be directed toward a diverse number of activities and not focus solely on law enforcement officers, the measure of this target. The United States has a significant interest in strengthening democracy and governance in Indonesia. While Indonesia's transition to democratic politics has been very successful, several problems remain that are significant impediments to the consolidation of democracy in Indonesia. An increased demand for training from all levels in the justice sector resulted in the target being exceeded in FY 2009. The additional funding in FY 2010 will be used to strengthen court efficiencies through technical support to improve case management and administration and through the training of justice sector personnel. The Supreme Court and the Attorney General's Office will continue to receive support and assistance may also be provided to other special courts. The U.S. will also bolster the capacity of state and non-state promoters of government accountability to prevent, expose, and punish corruption and other abuses of power. Assistance may be provided to key state accountability bodies including the Corruption Eradication Committee, auditing bodies such as the Supreme Audit Board and Regional Supervision Agency, the Judicial Commission, the legislatures, which exercise oversight of the executive branch, and Inspectors General offices at key institutions. Lagging performance on many health indicators means that Indonesia is unlikely to achieve Millennium Development (MD) Health Goals by 2015. Infant mortality decreased only slightly, from 44 to 39 per 1000, significantly above the MD Goal: 23 by 2015. Likewise, neonatal mortality reduced from 23 to 19. Maternal mortality rates declined 5 percent from 307 to 228, in the past five years; however, these statistics mask wide regional disparities. The additional FY 2010 funding for USAID will provide greater support to the Indonesian government to work effectively to improve the health of Indonesians by relying on evidence-based interventions wherever possible to prevent or treat illness. It will also strengthen the capacity of the health system to deliver quality services, and facilitate civil society engagement to better understand, value, and promote good health practices. In partnership with other donors, the GOI, civil society, and institutions of excellence, USAID will also promote policy reform to strengthen health systems. Over the past five years, Indonesia has experienced average annual growth of 5.5 percent achieving 6.3 percent in 2007, a 10-year high. However, export growth is slowing; foreign direct investment is declining, and layoffs are on the rise. Employment and poverty reduction are a central concern. Economic growth that benefits the poor will be the main route to poverty reduction; many of the poor include producers, entrepreneurs and workers who must find ways to increase productivity and to increase sales. USAID will focus on improving the productivity of selected high-value crops with export

potential to generate employment and incomes and strengthen non-bank finance for investments in infrastructure. Additional funding will allow USAID to work on reducing barriers to market access by increasing the capacity of farmer associations and agribusinesses to advocate for less restrictive regulations. There will also be an emphasis on increasing access to long-term finance for municipal infrastructure, such as roads and ports necessary for trade. Finally, the provision of long-duration, safe, and secure instruments for the savings needs of Indonesia's private pension funds and life insurance companies will also be a key program component. Impact of FY 2010 funding will be seen mostly in FY 2011, which is why current targets are somewhat conservative. This is a new program under USAID's current strategy. The program start-up is expected in late FY 2009 to early 2010. In FY 2009 the baseline is zero, however data obtained from the National Electricity Agency indicates that approximately \$25 million in investments have already been proposed by private investors. With additional funding in FY 2010, USAID will support local institutions engaging in public information campaigns and analysis for electricity tariff reforms to reduce the heavy claim on the national budget (25 percent in 2008). USAID will work with small-scale independent power producers to harness renewable, efficient energy. USAID will also seek alternate energy solutions, such as household biogas systems, that can help improve sanitation, reduce deforestation, reduce carbon emissions, and improve indoor air quality USAID's long history of support for the Indonesian energy sector, coupled with the flexibility to support a variety of stakeholders and utilize the expertise of the U.S. private sector, provide a comparative advantage relative to other donors currently engaged in the clean energy development.

**Economic Growth:** Over the past five years, Indonesia experienced average annual GDP growth of 5.5 percent, but the emerging global financial crisis threatens future economic prospects. Economic growth is expected to decrease to as low as 1.9 percent in 2009. Export growth is slowing drastically, foreign direct investment inflows are declining and layoffs are on the rise. While the GOI is taking the right macroeconomic steps to weather the storm, it still needs microeconomic and policy frameworks to promote equitable growth, a sound investment climate, and a more diversified economy. The rural areas, which account for 60 percent of those below the poverty line, will be hardest hit by the ongoing global financial crisis. Economic growth that benefits the poor, particularly in rural areas, will be the main route to poverty reduction. USAID will help increase employment and income through improving the competitiveness of key agricultural and industrial sub-sectors, increasing access to long-term financing for economic infrastructure, expanding the social safety net, and strengthening economic policy to help generate growth and mitigate the impact of the ongoing financial crisis. In this ecologically interdependent world, strengthening a partnership between the United States and Indonesia focused on natural resource depletion and global climate change is essential. Sustainable use of natural resources is a central component of the GOI's five-year National Development Plan and is buttressed by the National Climate Change Action Plan. Over the next five years, the USAID program will help Indonesia achieve its national objectives in sustainably managing declining natural resources and addressing climate change. In a country containing the world's third largest forest stocks, assistance will enable Indonesians to effectively manage their forest ecosystems. To support the sustainability of the world's greatest marine biodiversity, USAID activities will target policy and management of marine resources. With more than 100 million people still lacking access to improved drinking water and sanitation, assistance will allow Indonesians to measurably reduce that number. USAID will also help Indonesia increase access to clean energy technologies. Assistance programs will promote market-based approaches and help implement national GOI initiatives. All of the USAID activities in this area will also strengthen the ability of Indonesia to respond to climate change by avoiding emissions from deforestation, especially the burning of forests and peat soils; protecting the marine resources and assisting adaptation in coastal communities that are most at risk from climate change; and promoting energy efficiency and alternative energy sources to slow the growth of carbon emissions

#### **Linkages with the Millennium Challenge Corporation**

In 2006, the MCC Board approved a two-year, \$55 million Millennium Challenge Corporation Threshold

program for Indonesia focused on the Control of Corruption (\$35 million) and Immunization Coverage (\$20 million) indicators. The Threshold Program ends in May 2009. The MCC Board concluded in December 2008 that Indonesia was eligible to apply for an MCC Compact.