Enhancing the U.S.-Indonesia Strategic Partnership

By Brian Harding and Andreyka Natalegawa

On May 3, 2018, the CSIS Southeast Asia Program convened a track 1.5 strategic dialogue on United States-Indonesia relations. Participants included current and former senior U.S. and Indonesian officials and other relevant experts on U.S.-Indonesia bilateral economic, political, and security affairs.

The strategic dialogue informed the findings and recommendations in this report, although all opinions are those of the authors and do not necessarily reflect those of the dialogue participants.

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THE ISSUE

- **U.S.-Indonesia relations are not meeting their potential.** Bilateral economic interaction is limited compared to the size of our economies, and official interaction is often bureaucratic and rarely strategic. The Jokowi administration’s relative disinterest in playing a leading role in the Association of Southeast Asian Nations (ASEAN) and the broader Indo-Pacific region coupled with the Trump administration’s general approach to the region have dampened enthusiasm for investing in the relationship.

- **The United States and Indonesia have the opportunity to deepen security ties through collaborating on multilateral common security efforts in Southeast Asia.** Recent regional cooperation efforts are seen as a positive development in enhancing practical cooperation among Southeast Asian countries, and can provide leverage for the United States to build deeper security ties with Indonesia.

- **Efforts to deepen cooperation between the U.S. and Indonesian economies** will need to account for domestic opposition toward liberalization, and must strive to make a compelling case for the mutual benefits of free trade.

- **Safeguarding the fairness, freedom, and transparency of democracy and the electoral process in Indonesia** should be of paramount interest to the United States, particularly in light of upcoming Indonesian presidential elections in April 2019.
he United States and Indonesia are natural partners. Despite our geographic distance, we have striking similarities. We are large, diverse, and democratic societies. We both seek an international order in the Indo-Pacific region based on rules that enable all countries to have a voice. Our shores each span two oceans, imbuing our countries with a deep maritime heritage and culture that shapes how we approach the world. When each plays its natural role as a leader in regional affairs, both parties benefit.

In recognition of the great mutual benefit that a close U.S.-Indonesia partnership could bring, Presidents Barack Obama and Susilo Bambang Yudhoyono launched a comprehensive partnership in 2010 to build closer government-government, economic, and people-people ties between our two countries. Critically, the agreement created a framework for collaboration across a multitude of government departments and ministries under a joint commission co-chaired by the U.S. secretary of state and the Indonesian minister of foreign affairs. In 2016, under President Joko Widodo (Jokowi), the comprehensive partnership was elevated into a strategic partnership, further signaling the relationship’s importance to both countries.

Yet despite having many common interests and recent high-level efforts to push the relationship forward, U.S.-Indonesia relations are not meeting their potential. Bilateral economic interaction is limited compared to the size of our economies. Official interaction is often bureaucratic and rarely strategic. And people-people relations, including of education exchanges, are miniscule considering that Indonesia and the United States are the third- and fourth-most-populated countries in the world.

President Donald Trump’s political ascent has also created additional headwinds for U.S.-Indonesia relations. Candidate-Trump’s statements regarding the Muslim world caused unease in Indonesia and his policies as president toward Israel and Palestine have damaged Indonesian views of the United States. In Asia, the Trump administration’s framing of great-power competition with China and the administration’s nontraditional economic statecraft have created uncertainty in Jakarta. From Washington’s perspective, the Jokowi administration’s relative disinterest in playing a leading role in the Association of Southeast Asian Nations (ASEAN) and in the broader Indo-Pacific region has dampened enthusiasm in some quarters for investing in the relationship.

Recognizing the importance of both the U.S.-Indonesia relationship and its continued underperformance, on May 3, 2018, the CSIS Southeast Asia Program convened a first annual bilateral, track 1.5 strategic dialogue in Washington, D.C., to inject new momentum into the relationship and to begin building deeper connectivity between policy experts in the two countries. This report outlines conclusions and recommendations that surfaced during the dialogue. However, the report reflects the opinions of the authors, and does not necessarily reflect those of the dialogue participants.

**REGIONAL DYNAMICS AND TRENDS**

A broadly common view of regional dynamics and trends in the Indo-Pacific region is an important starting point for deepening bilateral ties. The Obama administration’s focus on Southeast Asia and ASEAN centrality within its pivot to Asia provided a strong foundation for working with the Yudhoyono administration on regional affairs. Likewise, President Jokowi’s vision for establishing Indonesia as a Global Maritime Fulcrum dovetailed with Obama’s priorities in the region.

Indonesian participants in our dialogue questioned whether strategic convergence remains under the Trump administration. In particular, the Trump administration’s articulation of great-power competition with China in the 2017 United States National Security Strategy and the rollout of its Free and Open Indo-Pacific Strategy have produced anxiety and uncertainty in Indonesia regarding the role it might be expected to play in the Trump administration’s approach to the region.

Specifically, Indonesian dialogue participants highlighted that the 2017 United States National Security Strategy outlined a new era of competition with “revisionist powers” like China and asserted a strong line against the risks the so-called “China model” poses to countries in the Indo-Pacific region. Participants suggested that this competitive framing has been coolly received in Southeast Asia, where countries are reluctant to view regional dynamics in a binary manner, and tend to actively hedge when they feel they are forced to take a side. Most Indonesian participants suggested that the United States adopt a more cooperative, rather than competitive, attitude toward its relationships in Asia, including with China.

Indonesia’s efforts to avoid being caught between the United States and China can in part be ascribed to concerns about the United States’ long-term commitment to the region and to upholding the international rules-based order. During the dialogue, an Indonesian participant stated that the United States appeared to be pulling back from its traditional leadership role on the world stage, citing recent decisions to withdraw from the Paris Climate Agreement, the Trans-Pacific Partnership, and UNESCO as signs of waning U.S. leadership. The participant further questioned President Trump’s so-called “America First” doctrine, stating that this approach contradicts the United States’ role as a global leader. This perceived lack of
U.S. commitment to global leadership has made it increasingly difficult for Indonesia to be sympathetic to Washington’s warnings on China, and could prove a wedge in enhancing ties. Moreover, Indonesian participants in the dialogue argued that the easy access to funding provided by China’s Belt and Road Initiative (BRI) is difficult for Southeast Asia to ignore; countries in the region are eager to have a “piece of the pie,” as one dialogue participant put it. The willingness of countries in Southeast Asia to partake in China-funded infrastructure projects despite the risks involved illustrates the degree to which they often remain content to view their relationships with China largely on economic terms.

These differences aside, participants on both sides noted that areas of convergence on regional affairs are still significant. An American participant added that Indonesia is core to the success of the Indo-Pacific strategy, citing early visits by Vice President Mike Pence and Secretary of Defense James Mattis as displays of confidence in the region and the potential for further cooperation.

However, despite the positive momentum outlined during Secretary Mattis’s visit in particular, an American participant noted that a slowdown in the staffing of key policymaking positions has impacted the depth of cooperation and engagement between both governments. Specifically, at the time of this dialogue, the Department of State still lacked a confirmed assistant secretary of state for East Asian and Pacific affairs, an ambassador to Singapore, as well as an ambassador to ASEAN. Indonesian participants observed that these vacancies create uncertainty about whether Southeast Asia is a high priority for the Trump administration.

**RECOMMENDATIONS**

- **Build on the momentum produced by successful bilateral visits by Vice President Pence and Secretary Mattis**, which included a focus on religious tolerance, the importance of democracy, and ASEAN, as well as prioritize further leader- and cabinet-level visits. In particular, President Jokowi should make a visit to Washington, D.C., in 2018 to build a personal rapport with President Trump.
- **Fill key vacancies in the Department of State.** A lack of key personnel in the Department of State and other agencies has diminished U.S. capacity to build ties with partners in the Indo-Pacific region, including with Indonesia and ASEAN. Prolonged vacancies will continue to cause Indonesia and other key partners to question U.S. commitment to the region.

- **Reaffirm the United States’ enduring interests in the region by rolling out a comprehensive economic strategy.** To Indonesia and ASEAN countries, economic strategy is paramount to regional stability and security. The United States should explore avenues for economic cooperation with Southeast Asia and provide viable alternatives to financing made available by China through the BRI.
- **Indonesia should reassert its traditional leadership role in ASEAN** and the United States should do what it can to support these efforts. A strong ASEAN that drives Indo-Pacific regionalism benefits the United States and a deeply engaged Indonesia is essential for ASEAN’s success. The United States should signal the importance of ASEAN by nominating and confirming a U.S. ambassador to ASEAN.
- **The United States and Indonesia should institutionalize and promote efforts to assess Chinese influence and interference activities in Southeast Asia.** The risks posed by an increasingly aggressive Chinese foreign policy that seeks to meddle in democratic systems overseas are not well-understood in Southeast Asia. U.S. and Indonesian intelligence services should work together to better understand this dynamic and bring transparency to the issue.
- **Intensify collaboration across third-country initiatives on human rights and democracy.** Despite a deprioritization of democracy promotion in Indonesian foreign policy under President Jokowi, Indonesia remains deeply committed to human rights engagement in countries such as Myanmar. The United States should encourage these outreach efforts and explore more areas of cooperation.

**DEFENSE AND SECURITY COOPERATION**

U.S.-Indonesia defense relations were in a deep freeze from 1991 to 2005 as a result of U.S. sanctions following human rights abuses by the Indonesian armed forces. Yet today, security and defense ties between the two countries are a highlight of the overall U.S.-Indonesia relationship. Starting with almost no interaction in 2005, today over 170 bilateral military-military engagements are held each year between the United States and Indonesia, including the Garuda Shield annual bilateral exercise. Meanwhile, defense sales have become an important component of the defense relationship, symbolized by Indonesia’s purchase of Apache helicopters and the refurbishing of retired U.S. F-16
fighter aircraft by Indonesia. Likewise, U.S. military assistance, which was cut off while sanctions were in place, is consistent and substantial, facilitating considerable interaction between U.S. and Indonesian forces, with a focus on education and technical training.

Additionally, law enforcement cooperation is also robust. The U.S. Department of Justice’s International Criminal Investigative Training Assistance Program (ICITAP) provides Indonesian national police with organizational development, system and policy enhancement in combating transnational crime, natural resource protection, and maritime and border security. Other programs such as the U.S. Department of Justice’s Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) provide rule-of-law assistance such as special prosecutor training, court security programs, and anti-money laundering and illicit finance legislation advising.\(^2\)

Security has continued to be a highlight of the overall relationship during the Trump administration, with Secretary of Defense James Mattis and Indonesian Minister of Defense Ryamizard Ryacudu meeting four times to date. During his January 2018 visit to Jakarta, Secretary Mattis voiced his intention to continue strengthening defense ties with Indonesia, including with Indonesia’s Army Special Forces (Kopassus). This pledge was significant because restrictions on engagement with Kopassus are the one lasting limitation on bilateral defense cooperation stemming from the 1990s sanctions, and remain in place due to congressional concerns and U.S. legal restrictions as a result of Kopassus’s human rights record.

After years of limited engagement, dialogue participants suggested that enhanced military-military interaction through exercises and training have contributed to a warming of relations at an interpersonal level. These people-to-people contacts among military officials has contributed to both the overcoming of suspicion and the deepening of an understanding of mutual interests.

Growth in the security relationship can in part be ascribed to the large number of areas of shared interests between the two countries. As an American participant highlighted, cooperation ranges from combating nontraditional threats, counterterrorism, humanitarian assistance and disaster relief, illegal, unreported, and unregulated (IUU) fishing, and piracy. Participants also highlighted that a future key area of U.S.-Indonesia collaboration could be found in addressing the rising threat of religious radicalization and the return of foreign fighters from the Middle East.

However, lack of a common picture of regional security dynamics hinders strategic cooperation. Indonesian dialogue participants argued that recent overt emphasis on structures like the Quadrilateral Security Dialogue (Quad), consisting of the United States, India, Japan, and Australia, have alienated Southeast Asian partners, adding that the
Quad structure does not adequately incorporate ASEAN centrality. This uncertainty serves to the detriment of U.S. interests in the region, especially given that many countries excluded from the Quad structure would otherwise be key partners in the administration’s Indo-Pacific strategy. Dialogue participants highlighted the opportunity to deepen security ties through collaborating on minilateral common security efforts in Southeast Asia. An Indonesian participant cited trilateral cooperation between Malaysia, Indonesia, and the Philippines in the Sulu Sea as a positive development in enhancing practical cooperation among Southeast Asian countries that the United States can leverage to build deeper ties with Indonesia.

**RECOMMENDATIONS**

- **Work toward normalization of engagement with Kopassus.** Military leaders in both countries should engage members of U.S. Congress as part of the process to ease restrictions on U.S. engagement with Kopassus.
- **Decouple the Indo-Pacific strategy from the Quad, and actively engage Indonesia on how to work together toward a free and open Indo-Pacific.** Indonesia is an ideal partner as a maritime democracy at the center of the Indo-Pacific region.
- **Indonesia should articulate its own Indo-Pacific vision, and clearly identify areas where partners like the United States can support the realization of that vision.** The establishment of a robust and comprehensive Indonesian vision for the Indo-Pacific complementary to those of its partners will result in a greater sense of ownership and engagement in regional cooperation.
- **Enhance U.S. maritime engagement in the region with a focus on building Southeast Asian capacity to patrol local waters.** Subregional cooperation mechanisms such as Indonesia-Philippines-Malaysia patrols in the Sulu Sea offer platforms for the United States to engage more deeply. In tandem with existing U.S.-led freedom of navigation operations (FONOPs) and regular ship visits in the region, U.S. engagement with local multilateral patrols could build capacity and create greater maritime domain awareness.
- **The United States and Indonesia should boost cooperation in counterterrorism efforts and address the challenges posed by the return of foreign fighters.** The United States should leverage its experience and understanding of best practices in fighting terrorism by providing guidance and assistance to “Our Eyes” initiative, a nascent intelligence sharing platform among Brunei, Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

**ECONOMICS AND TRADE**

In 2017, Indonesia was the United States’ 25th-largest trading partner, with a total of approximately $27 billion in trade in goods. Indonesian imports to the United States in 2017 were worth $20 billion, while exports to Indonesia were worth $7 billion. Of that total, U.S. exports of services have increased more than 70 percent over the past decade and now total $2.5 billion. Meanwhile, the United States is Indonesia’s fifth-largest source of imports, behind China, Singapore, Japan, and Thailand.

However, as the sum total of trade in goods with Indonesia has increased, so has the U.S. trade deficit with Indonesia,
reaching $13 billion in 2017. This trade deficit is the fourth largest among ASEAN countries and the 16th largest among U.S. trading partners. While the economic implications of this deficit are debatable, this dynamic has created a liability for U.S.-Indonesia relationship due to the Trump administration’s focus on bilateral trade deficits.²

At a time of rising economic protectionism in both Washington and Jakarta, dialogue participants thought it prudent to emphasize the transformative power of trade in both countries. As one American participant argued, trade, at its core, is a source for mutual benefit and prosperity, and has unparalleled potential to bring inclusive growth, Vietnam being a strong example. Thus, Washington and Jakarta would do well to remember the positive and integral role that trade could play in U.S.-Indonesia relations and for economic growth in both countries.

While economic cooperation between Indonesia and the United States is substantial, dialogue participants argued that the Indonesian economy and U.S.-Indonesia economic relations are underperforming relative to their potential. Although Indonesia has immense market potential due to its expanding middle class, its strong demographics, and an abundance of natural resources, obstacles to greater economic cooperation with the United States are manifold, in part due to Indonesia’s protectionist policies.

One American participant cited legal uncertainty in Indonesia as a barrier to foreign investment, stating that companies are hesitant to engage because Indonesian competitors are perceived to leverage the judiciary system in bad faith as a tool to hinder the competitiveness of U.S. companies. Past cases, including judicial overreach in the oil and gas industry in Indonesia, have deterred further U.S. investments, and have had a chilling effect on U.S. companies considering entering or expanding their business in Indonesia.

Shortcomings in the logistics sector in Indonesia were also cited as a barrier to economic performance and expanded U.S. investment. Logistics costs have long impeded growth in Indonesia; a 2016 World Bank press release announcing a $400 million loan for logistics reform dramatically highlighted the costs: shipping a container of mandarin oranges from Shanghai to Jakarta is cheaper than sending a similar cargo from Jakarta to Padang in West Sumatra, despite the fact that the distance between the two Indonesian cities is one-sixth of the distance between Jakarta and Shanghai.³ In 2016, Indonesia ranked behind Malaysia and Singapore in each of the six indicators included in the World Bank’s logistics performance index.⁴ These indicators include efficiency of the customs process, infrastructure, international shipments, logistics competence, tracing, and timeliness. Indonesia’s logistic costs account for 25 percent of manufacturing sales, compared to 15 percent in Thailand and 13 percent in Malaysia.

One dialogue participant proposed that, in a bid to boost the country’s logistics performance, Indonesia could liberalize regulations on foreign direct investment in the logistics and shipping infrastructure sectors. Liberalizing these sectors, the participant argued, would provide more opportunities for U.S. companies to operate in the country, but would also provide a significant boost to the Indonesian economy by enhancing the country’s own internal shipping capacity. Moreover, the participant argued that such an effort would be in line with President Jokowi’s stated aim of establishing Indonesia as a global maritime fulcrum.

Efforts to reform Indonesia’s trade and investment climate to become more conducive to broader economic cooperation with the United States could face challenges due to local pushback against liberalization policies. One participant noted that Indonesia lacks a domestic constituency for free trade—free trade in Indonesia is often perceived as being harmful for all parties involved, resulting in a lose-lose situation. Such sentiments have manifested themselves in a number of cases in recent years, for instance when President Jokowi announced in October 2015 that Indonesia was interested in joining the Trans-Pacific Partnership. Efforts to deepen cooperation between the United States and Indonesian economies will thus need to account for domestic opposition toward liberalization, and must strive to make a compelling case for the mutual benefits of free trade.

**RECOMMENDATIONS**

- **Spearhead public outreach initiatives centered on building public support in Indonesia for reducing barriers for inbound grounds, services, and investments.** Efforts should be made to demonstrate that foreign domestic investment brings benefits for both parties.

- **Cooperate to help diversify Indonesia’s economy.** Indonesia remains highly dependent on raw commodity export products, and thus relies on often-volatile commodity prices. While Indonesia has made progress in enhancing its manufacturing capacities and slowly diversifying its clothing and electronics industries, more work should be done to promote the diversification of its economy, including by creating fiscal incentives for investment in its high-technology industry, including for foreign investors.
Encourage Indonesian companies to expand business in operations in the United States. Indonesian companies are beginning to look abroad to expand their business. Investment in the United States would provide an important opportunity to demonstrate that economic ties are mutually beneficial and can build people-people ties in powerful ways.

Indonesia should explore opportunities to ease restrictions on foreign direct investment inflows to improve the investment climate. The logistics sector is a particularly important area that could bring mutual benefits for Indonesia and foreign investors.

**POLITICAL ENGAGEMENT**

In the near future, bilateral relationship managers will need to take into account that Indonesia’s upcoming presidential elections, scheduled for April 2019, will impact how Indonesia will approach its relations with the United States. Although favored by most polling and analysts to be reelected, President Jokowi will not face an easy road to reelection, partly due to dynamics that could constrain his ability to pursue warmer relations with the United States.

President Jokowi is expected to face a rematch with Prabowo Subianto, who will likely run a staunchly nationalistic campaign colored by anti-foreign sentiment. These dynamics may force President Jokowi to either adopt a similar anti-foreign stance himself, or bring aboard a nationalist candidate as his partner on the ballot for vice president. In any case, it is unlikely that President Jokowi will have much freedom to embark on an internationalist agenda in the near term.

Additionally, the political implications of rising religious conservatism in Indonesia poses a risk for the bilateral relationship, particularly in advance of the 2019 election. For instance, domestic political pressures forcing President Jokowi to prove his Islamic credentials, combined with President Trump’s decision to recognize Jerusalem as the capital of Israel and the consequent relocation of the U.S. embassy from Tel Aviv to Jerusalem, make it difficult to make the case in Indonesia for closer relations with the United States.

An Indonesian dialogue participant remarked that the protests following the relocation of the U.S. embassy represented a very rare case in which domestic grassroots movements were able to mobilize action based on matters of foreign policy. Stakeholders in Washington and Jakarta should be mindful of this tension, and should expect that domestic political pressures could prevent President Jokowi from making any overt efforts in engaging closely with a leader who is widely perceived to be unsympathetic to the interests of the Muslim world.

In any case, safeguarding the fairness, freedom, and transparency of democracy and the electoral process in Indonesia should be of paramount interest to the United States. Growing anxieties in Indonesia regarding the rise of online disinformation campaigns have led to concerns that upcoming regional and presidential elections in late 2018 and early 2019 could see a renewed rash of politically motivated hoaxes aimed at destabilizing social order.\(^11\)

**RECOMMENDATIONS**

- The United States should work with Indonesia to enhance Indonesia’s capacity to address election-related online disinformation campaigns. Knowledge-sharing on best practices to safeguard freedom of the press while ensuring the veracity of online content could be an important area for cooperation. U.S. experience in combating election-based disinformation campaigns provides an opportunity for leaders in Washington and Jakarta to collaborate on best practices in safeguarding the democratic process.

- Congress should fully fund Department of State efforts on public diplomacy and people-people ties between Indonesia and the United States. Furthermore, the United States should leverage its role as a global leader in education and encourage exchanges and educational programs aimed at promoting normative principles such as respect for the rule of law and democracy among next-generation Indonesian leaders and key influencers.

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APPENDIX: CSIS-BNI STRATEGIC DIALOGUE ON U.S.-INDONESIA RELATIONS PARTICIPANTS LIST

This report is a summary of the roundtable discussion. It does not necessarily reflect the views of the participants. Their involvement should not be interpreted as endorsing this summary of the discussion, in either their personal or their organizational capacity.

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2. Ibid.
6. Ibid.