A Journey of Change: Indonesia’s Foreign Policy
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During the last half of the 20th century, Indonesia lurched from the revolutionary nationalism of founding president Sukarno to the authoritarian capitalism of Suharto, which spurred economic growth but caused deep concerns over human rights issues.

With Suharto’s fall in 1998, the country began a difficult transition to a stable democracy with an increasingly open and positive international image. It took the end of the Cold War and democracy for Indonesia to begin to realize more of its potential as a regional and world actor.

CONFLICTING VIEWS concerning primary national objectives and threats to national security led to a radical shift in Indonesian foreign policy after Suharto (1965 to 1998) supplanted Sukarno (1945 to 1965). Although Indonesia has always formally adhered to the country’s constitutionally guided “free and active” foreign policy doctrine, the two men set diametrically opposed agendas.

For the revolutionary Sukarno, Indonesia’s first priority was to complete decolonization by consolidating independence in the face of external threats and liberating West Irian (Papua) from Dutch rule. The main threats came from the presence of colonial and imperialist forces in Indonesia’s immediate neighborhood. Sukarno also had a grandiose ambition to “build the world anew” through alliances with other newly independent post-colonial states and their socialist benefactors. He saw the “New Emerging Forces” as arrayed against the “Old Established Forces” of Western colonial powers. For this reason, Indonesia made common cause with “progressive” states such as the Soviet Union and China.

BLOODY TRANSITION
Sukarno was not too interested in economic development that might dampen his revolutionary fervor. While maintaining relations with the US — partly to induce Washington to put pressure on the Dutch to relinquish West Irian — Jakarta in the late 1950s bought massive quantities of arms from the Soviet Union. The purchases raised fears in the West that Indonesia was moving too close to Moscow and helped push John F. Kennedy’s administration to facilitate a settlement between Indonesia and the Netherlands over Papua.

Later, Indonesia’s confrontation with British-backed Malaysia in 1963-1965 strained the country’s relations with the US and its allies almost to the breaking point. At the same time, Indonesia’s relations with China became extremely close,
helping to fuel the growth of the Indonesian Communist Party (PKI), which for a time was the largest communist party in the world in a non-communist state. Sukarno literally told the US to “go to hell with its aid” and quit the United Nations in 1965 after Malaysia was elected a non-permanent member of the UN Security Council.

The anti-communist Indonesian army, alarmed by the growing influence of China and the PKI, seized the opportunity afforded by the murder of top army generals in what appeared to be an abortive left-wing coup attempt blamed on PKI followers to topple President Sukarno, ban the PKI and kill or imprison tens of thousands of its members in a nationwide blood bath. In the aftermath of the still murky events of 1965, General Suharto stepped into the leadership void and accused Sukarno of violating Indonesia’s “free and active” foreign policy by forging such close ties with Beijing.

The army-dominated New Order regime under Suharto turned the country sharply rightward. It viewed the primary threat to security as communist subversion and internal insurgencies, including from radical Islamic movements. To counter these threats, the top three national priorities became political stability, economic development and social justice. The change in Indonesia’s strategic outlook and domestic priorities led to important shifts in foreign policy. Indonesia froze its diplomatic relations with China and kept other communist countries, including the Soviet Union, at arm’s length. It also needed a peaceful and stable regional environment so that it could focus on internal development. As a result, Indonesia brought to an end its confrontation with Malaysia (including Singapore), and joined five non-communist countries of Southeast Asia (Indonesia, Malaysia, the Philippines, Singapore and Thailand) in establishing the Association of Southeast Asian Nations (ASEAN) in 1967 as a way to promote regional economic cooperation and counter the communist threat in the region.

PUSH FOR DEVELOPMENT
To promote economic development, the Suharto government adopted market-friendly economic policies, opened Indonesia to foreign investment and pursued an export-led growth strategy. During the first 25 years of his rule, Suharto focused Indonesia’s external relations narrowly to serve immediate economic development needs. For political as well as economic reasons, the number of countries that were capable of providing the foreign aid, investment, technical assistance and export markets that Indonesia needed was relatively small: Japan, the US, and Western industrialized countries such as Germany, the Netherlands, France, the UK, Australia and Canada. Later, a number of newly industrialized economies in Asia such as South Korea, Taiwan, Hong Kong, Singapore and Malaysia also became important economic partners.

Indonesia no longer imported arms from Moscow during the Cold War but relied on a few Western suppliers, mainly the US, the UK, Germany and France. It developed close military relations with the US, purchasing fighter aircraft and other key military equipment, as well as sending officers to the US for training. That stopped in 1992 when Washington imposed an arms embargo after Indonesian troops fired on demonstrators in East Timor, which Indonesia had annexed (ultimately with no success) in 1975, largely due to fears that a leftist government would emerge in the tiny former Portuguese colony.

Suharto was not one for displays of Third World solidarity, unlike his fiery predecessor. Beyond a symbolic political commitment, Indonesia did not accord high priority to various groupings of developing nations to which it belonged, such as the Non-Aligned Movement founded in 1961 (an idea first raised by Sukarno during the landmark 1955 Bandung Conference) or the Organization of the Islamic Conference.

CHALLENGE AND TRANSITION
The end of the Cold War brought many new opportunities and challenges. Political concerns that prevented Indonesia from developing close ties with communist countries such as China diminished. The emergence of China as a dynamic economic powerhouse opened the promise of a new large market for Indonesian exports and a source of foreign direct investment (FDI) and imports. At the
same time, China’s comparative success in attracting FDI and penetrating export markets presented a major challenge for Indonesia, while China’s growing military strength and regional ambitions provoked continuing anxiety.

The rise of huge economic blocs, such as the European Union and the North American Free Trade Area, meanwhile, presented serious challenges to Indonesia and its ASEAN partners. The end of the Cold War and the global spread of democracy also put pressure on Indonesia’s military-dominated government. It came under increasing criticism from Western countries, much of it directed against the military. All of this forced Indonesia to adjust its domestic and foreign policies.

The financial crisis of 1997-1998 triggered the collapse of Suharto’s New Order government in May 1998, and ushered in Indonesia’s transition to democracy. In the years immediately after Suharto’s fall, the country faced not only a sharp decline in its economy — leading to a rise in poverty and unemployment — but also serious threats to its political stability, territorial integrity and general security. Indonesia’s regional and international standing reached an all-time low as the country seemed to be coming apart at the seams with the rise of religious and communal strife and the loss of East Timor in 1999.

As a consequence, Indonesia’s foreign policy over the past ten years has had at least four main objectives — assisting economic recovery and development, strengthening territorial integrity and national security, consolidating democracy, and last but not least, enhancing Indonesia’s regional and international standing. A number of countries are important to Indonesia in all four areas, while some are significant in achieving one or two of these objectives.

KEY OBJECTIVES

In the economic field, Indonesia’s diplomatic efforts are directed at achieving three main goals: securing market access for its exports, attracting FDI and finding placement for Indonesian migrant workers, who have become a very important source of remittance revenue. With a huge domestic market, international trade accounts for less than one-third of Indonesian GDP, but it is still important for achieving higher economic growth and creating employment. FDI, in turn, is important for enhancing export capacity. Since the mid-1980s the government has attempted to diversify export markets, but Indonesia’s major economic partners have remained quite constant, although more Asian countries have grown in importance.

Between 1999 and 2007, Japan, the US and Singapore were consistently the top three export partners for Indonesia, absorbing around 40 percent of total exports. China, which until a few years ago had negligible trade relations with Indonesia, was its fourth most important export partner in 2007, followed by South Korea, Malaysia, India, Australia, Thailand and the Netherlands. Ten years ago, India and Thailand did not figure among Indonesia’s top ten export partners, while Hong Kong and Germany did.

Although the establishment of the ASEAN Free Trade Area has led to a slight increase in intra-ASEAN trade, the total amount has so far only reached around 20 percent of total ASEAN trade. Indonesia’s exports to ASEAN increased from 17 percent of total trade in 1999 to 19.5 percent in 2007. Only three ASEAN countries are important export markets for Indonesia — Singapore, Malaysia and Thailand, all of which rank in the top ten. The trade figures for Singapore, however, may not reveal the entire story.
has historically been an important entrepot for Indonesian exports, and the volume of goods passing through it may actually be much larger than official figures show due to the prevalence of smuggling between the two countries. While the G-8 countries have traditionally been the most important export partners for Indonesia, the percentage has shown a persistent decline from 43.7 percent of total trade in 1999 to 36.9 percent in 2007. Conversely, Indonesian exports to countries in ASEAN+3 (China, Japan and South Korea) and the East Asia Summit (ASEAN plus China, Japan, South Korea, India, Australia and New Zealand) have been increasing steadily, reaching 34.7 percent and 42.3 percent in 2007, respectively.

In terms of FDI there have also been changes. The largest source of investment in Indonesia now comes from Asian countries, with the FDI from ASEAN now greater than that from the European Union. The top ten sources of Indonesian FDI in 2008, excluding Mauritius, are: Singapore, Japan, the UK, Malaysia, South Korea, Germany, France, the US, China and Hong Kong SAR. Mauritius accounted for the single largest contribution to Indonesia’s FDI in 2008 — some 43 percent of the total, according to data released by the Investment Coordinating Agency — but it is likely that this investment comes from other unspecified sources. The amount of FDI from Singapore and Japan in 2008 was around 19 percent of Indonesia’s total FDI in that year. It should be noted, however, that statistics on Indonesian FDI issued by the Investment Coordinating Agency exclude investment in the oil and gas, mining, banking, financial and insurance sectors, or investment in contract work. The US has long been the most important investor in many of these capital-intensive sectors, particularly in oil, gas and mining, so that if FDI in these areas were included, the US would likely be Indonesia’s largest source of FDI.

On the issue of migrant labor, sending workers overseas helps to ease unemployment pressure at home and generate remittances. Most migrant workers are unskilled female laborers working in the informal sector such as housemaids. From 1999 to 2006, the number of Indonesian registered workers sent to Asian countries was over 2.7 million, while another 2.1 million went to the Middle East. Most Indonesian migrant workers are employed in Saudi Arabia and Malaysia. The other top destinations are Singapore, Taiwan, Hong Kong, Kuwait, South Korea, Brunei, Jordan and Qatar. Japan is also beginning to accept more migrant workers from Indonesia under the recent Economic Partnership Agreement.

Singapore, Malaysia and South Korea all figure prominently in the three priority areas for Indonesia — as export partners, sources of FDI and hosts for migrant workers. Taiwan is important both as a source of FDI and a location for Indonesian migrant workers, despite the fact that Indonesia does not have formal diplomatic relations with Taipei (due to Indonesia’s one China policy). Indeed, official contacts with Taiwan have become increasingly constrained, as Indonesia’s ties with Beijing grow closer.

The rapid improvement in relations with China is worthy of note. Indonesia normalized diplomatic relations with China only in 1990 at the behest of the Indonesian Chambers of Commerce, which felt Indonesia was losing out on opportunities provided by a rising China. Yet by 2005, Indonesia had already signed a strategic partnership with China, among its first such arrangements. Shortly afterwards, Indonesia also signed strategic partnerships with India, South Korea, Japan and Brazil, and concluded a comprehensive partnership agreement with Australia. Indonesia is currently negotiating a comprehensive partnership with the US.

In the defense and security sectors, Indonesia’s closest ties are with its three nearest neighbors — Australia, Malaysia and Singapore. Indonesia and Australia signed the Lombok Treaty as a framework for security cooperation in November 2006. The two countries had already signed a framework security agreement in 1995, but Indonesia unilaterally abrogated it in 1999 in reaction to Australian military’s role in East Timor in the wake of post-referendum violence there. The Lombok Treaty covers a broad range of security cooperation between the two countries, including combating transnational crimes and counter-terrorism. Both parties also agreed not to support separatist movements in either country, an issue...
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of particular importance to Indonesia which fears support for Papuan separatist movements from elements in Australia. To date, Australia is the only country with which Indonesia has a security agreement, though it is by no means a military alliance, which is not permissible under Indonesia’s “free and active” foreign policy doctrine.

Indonesia also has close bilateral military cooperation with Malaysia and Singapore, particularly in ensuring the security of joint territorial waters. Indonesia, however, does not have a security agreement with either Malaysia or Singapore. A defense cooperation agreement recently signed by the governments of Indonesia and Singapore was not ratified by the Indonesian House of Representatives, which regarded the terms as unfavorable.

Notwithstanding the importance of Malaysia to Indonesian interests, disputes over maritime boundaries as well as frequent spats over the treatment of Indonesian migrant workers in Malaysia and alleged Malaysian “poaching” of Indonesia’s cultural heritage continue to cloud the bilateral relationship, reviving memories of their earlier confrontation.

Indonesia’s “free and active” foreign policy stance has enjoyed a freer rein in the post-Cold War period when it comes to arms procurement. As mentioned earlier, in the late 1950s Indonesia bought large quantities of military technology from the Soviet Union, but when Jakarta’s relations with the communist world cooled during the Suharto period, spare-parts and maintenance became an issue. From the 1970s to the early 1990s, the US became Indonesia’s largest supplier of military hardware, particularly fighter and troop transport aircraft, but various arms embargoes imposed by the US since 1992 (and only recently lifted), have also caused severe operational problems and considerably weakened defense capability. Like the US, other Western countries often attach political conditions to their weapon sales. Therefore, since the mid-1990s, Indonesia has diversified its arms suppliers. The top arms suppliers to Indonesia between 1999 and 2008 were the Netherlands, Russia, South Korea, France, Germany, the US, the UK and China. Indonesia has again turned to Moscow for fighter aircraft, with a plan to build a squadron of Sukhoi fighter planes.

Since its establishment in 1967, ASEAN has been the cornerstone of Indonesian foreign policy. Indonesia is a strong supporter of the vision of an ASEAN Community and has championed the establishment of the ASEAN Political and Security Community, which includes promotion of democracy and human rights.

While supportive of ASEAN+3 and the EAS, Indonesia is less keen on the hasty establishment of a wider regional architecture that could dilute ASEAN’s cohesion. At the same time, with its recent transition to democracy and its sustained economic growth, Indonesia has also begun to seek a higher international profile under President Susilo Bambang Yudhoyono, who has placed a high priority on taking a leadership role on issues like economic security and global warming. Jakarta now places the highest importance on its membership in the newly formed Group of 20 largest economies.