



Asia Pacific Bulletin

Number 42 | August 17, 2009

The United States-Indonesia Comprehensive Partnership and the New Yudhoyono Administration BY THOMAS B. PEPINSKY

Thomas B. Pepinsky, assistant professor of government at Cornell University, explains that “All signs indicate that Susilo Bambang Yudhoyono’s platforms for pursuing economic development, reform, and security at home are just right for forging Indonesia’s new partnership with the United States.”

Indonesia’s July 2009 presidential election confirmed that Indonesia has joined the ranks of the world’s consolidated democracies. Indonesia’s popular incumbent president, Susilo Bambang Yudhoyono (known locally as SBY), appears to have easily won a second term in office. As SBY prepares for his second term, the United States and Indonesia are planning a new “comprehensive partnership” to strengthen bilateral relations. At the same time, Indonesia faces a number of challenges—among them, the acute challenge of a global economic crisis, the chronic challenges of administering a large and diverse developing country, and the renewed threat of terrorism—that will test SBY’s administration. SBY’s responses to these challenges will shape the course of future U.S.-Indonesian bilateral relations. All signs indicate that SBY’s platforms for pursuing economic development, reform, and security at home are just right for forging Indonesia’s new partnership with the United States.

The global economic crisis has mostly spared Indonesia, due in no small part to Indonesia’s large internal markets and its relative insulation from toxic loans. Yet its economy still faces significant economic hurdles. Indonesia’s central bank, Bank Indonesia, estimates that first quarter 2009 exports plummeted 30% from first quarter 2008, and that investment will grow only marginally in 2009 after several years of double-digit growth. Facing these hurdles, some Indonesian politicians have come to view international markets with greater skepticism, and advocate that Indonesia retreat from its deep integration with the world economy. The campaign saw all three presidential candidates burnishing their populist credentials by disassociating themselves from the term “neoliberal,” which in Indonesia can imply a lack of concern for popular welfare.

SBY and his team will nevertheless likely remain committed to economic openness. The most telling evidence is SBY’s choice as vice president, the respected technocrat and former Bank Indonesia governor Boediono, who has a Ph.D. from the Wharton School and a solid managerial reputation. Likewise, the economic ministries in SBY’s new cabinet will probably be staffed by officials such as Mari Elke Pangestu (currently the Minister of Trade) and Sri Mulyani Indrawati (currently the Minister of Finance). Like Boediono, they are more pragmatic than they are ideological, but each retains a fundamental belief in markets as engines of development, and favors government policies that strengthen markets rather than replacing them. Market-focused and outward-oriented policies will be a central plank in Indonesia’s economic relations with the United States.

Even absent the difficulties that accompany a worldwide economic crisis, managing Indonesia is a daunting task. The United States currently supports administrative and



“July 17’s sobering reminder of terrorists’ reach in Indonesia means that SBY will continue to place a high priority on order and security in his second term. This should help foster greater U.S.-Indonesia security cooperation, as both countries fear the destabilizing consequences of violence and terrorism.”

The East-West Center is an internationally recognized education and research organization established by the United States Congress in 1960 to strengthen understanding and relations between the U.S. and countries of the Asia Pacific region.

The Asia Pacific Bulletin is produced by the East-West Center in Washington. The views expressed in this publication are those of the authors and do not necessarily reflect the policy or position of the East-West Center.

EastWestCenter.org/apb

legal reforms in Indonesia, but Indonesia remains one of the world’s most corrupt countries, with a cumbersome bureaucracy and a confusing legal system. SBY has pledged to combat corruption and inefficiency, and has made some progress against corrupt businessmen and bureaucrats, but there is no doubt that Indonesia still has far to go. While SBY will continue his reform agenda, there is little hope that even the most committed reformer could affect dramatic institutional transformation over the short term. Attuned to these concerns, the United States will likely continue its support for governance reforms while remaining quietly critical of the many weaknesses.

Security concerns also shape U.S.-Indonesian relations. In the early 2000s, observers worried that sectarian and ethnic tensions would erupt into violence that could destabilize the entire country, and Jemaah Islamiyah conducted several high-profile terrorist attacks. Under SBY’s first administration, communal violence subsided and Indonesian security forces limited Jemaah Islamiyah’s ability to operate. Indonesia suffered a serious setback, though, in the July 17, 2009 bombings in Jakarta’s Marriott and Ritz-Carlton hotels, widely believed to have been the work of Islamic terrorists. SBY initially suggested that the attacks may have been linked to the election, a charge which earned him domestic criticism, but foreign investors and governments alike remain confident in Indonesia’s ability to weather the attacks. Nonetheless, July 17’s sobering reminder of terrorists’ reach in Indonesia means that SBY will continue to place a high priority on order and security in his second term. This should help foster greater U.S.-Indonesia security cooperation, as both countries fear the destabilizing consequences of violence and terrorism.

In sum, policies in SBY’s second term will change little from those of his first term. Indonesia will still pursue an outward-oriented development model—adjusted to meet Indonesia’s unique circumstances—and SBY’s administration will continue to prioritize domestic stability and security while pursuing some important governance reforms. These are priorities which the Obama administration shares for Indonesia. However, it is not just policy convergence that matters for maintaining strong bilateral U.S.-Indonesia relations; the leaders in both countries also matter. Obama’s personal connections to Indonesia are well-known, but SBY himself is a better partner for the Obama administration than were the other two presidential candidates, current vice president Jusuf Kalla and former president Megawati Sukarnoputri. Both challengers would probably have been seen by Americans as less credibly committed to openness and the rule of law than is SBY. Likewise, their vice presidential candidates (the retired generals Wiranto and Prabowo Subianto) each have problematic human rights records that would have complicated U.S.-Indonesian relations in ways that Boediono’s technocratic reputation will not. For these reasons, the Obama administration should view SBY’s second term as the best electoral outcome upon which to build America’s partnership with Indonesia.

Of course, the U.S.-Indonesia comprehensive partnership will face several problems that would be challenging for any Indonesian president, not just SBY. Obama’s goal for a global response to climate change is unlikely to find much more than token cooperation from Indonesia, whose economy thrives on dirty fossil fuels and where deforestation is a major problem. American firms, particularly those in the energy and mining sectors, will face close scrutiny by Indonesian politicians and civil society groups alike. Further, American plans to ban clove-flavored cigarettes have upset Indonesia’s large clove cigarette industry. Indonesia’s endemic corruption, unclear regulations, and bureaucratic red tape will remain barriers to sustained bilateral economic cooperation. These concerns notwithstanding, SBY and his new team are the ideal partners for the Obama administration’s new comprehensive partnership with Indonesia.