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EU-INDONESIA 21ST CENTURY PARTNERS

Report of the Policy & Practice Roundtable and policy insight

co-organised by *Friends of Europe*

and the Mission of Indonesia to the EU

with the support of BP

and Bank Indonesia (BI)

with media partner *Europe's World*

Spring 2014
Brussels

This report reflects the rapporteur's understanding of the views expressed by participants. Moreover, these views are not necessarily those of the organisations that participants represent, nor of *Friends of Europe*, its Board of Trustees, members or partners.

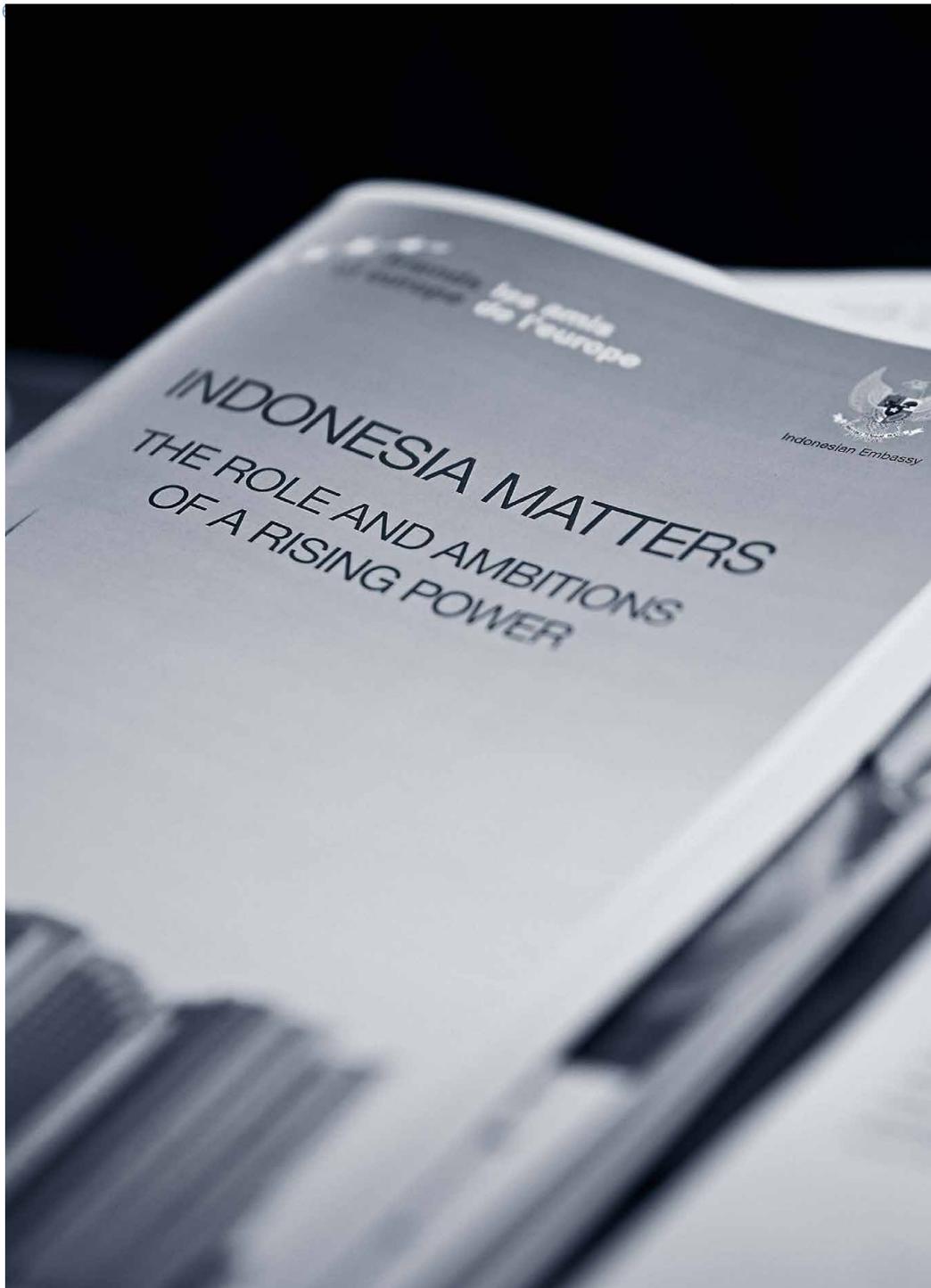
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Rapporteur: George Ellis
Publisher: Geert Cami
Director: Nathalie Furrer
Programme Manager: Patricia Diaz
Photographer: Philippe Molitor
Design & Layout: Cristina Frauca

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EXECUTIVE SUMMARY

Indonesia is changing fast. Once a struggling developing nation, the country is now a confident and dynamic middle-income power and a vibrant democracy with enormous regional and global clout. Not surprisingly, leading world powers are scrambling to forge closer ties with Jakarta. Following the entry into force of a ground-breaking Partnership and Cooperation Agreement (PCA) between Indonesia and the European Union (EU) aimed at forging a stronger relationship, many issues need to be tackled to further upgrade relations between the EU and Asia's most populous Muslim majority democracy. Indonesia's Ambassador to Belgium, Luxembourg and the EU, [Arif Havas Oegroseno](#), said there was much to pull the EU and Indonesia closer together, especially "in terms of our shared values, strategic and economic cooperation, and people-centred activities", alluding to the numerous academic and civil society exchanges in force.

A first-ever Policy and Practice Roundtable on EU-Indonesia ties, held in Brussels and co-organised by *Friends of Europe* and the Embassy of the Republic of Indonesia with the support of BP and Bank Indonesia, brought together representatives from academia, civil society, the EU institutions, diplomacy and business to consider how the EU and Indonesia could develop a strategic partnership attuned to regional and global needs in the 21st century. The Policy and Practice Roundtable, with two closed-door sessions which focused on various aspects of the EU-Indonesian relationship, was followed by an open public debate which looked at the upcoming Indonesian presidential elections, with senior Indonesian academics and economists underlining that the key issues in the polls were bread and butter ones, not foreign policy. Poverty alleviation, corruption and law-enforcement were top of the candidates' agenda.

Discussions at the Policy and Practice Roundtable, held under the Chatham House Rule, looked at Indonesia's economic and political outlook and how Indonesia and the EU could forge closer ties.

Specific issues raised included:

- Foreign policy, which was unlikely to change from the current ‘zero enemies and a million friends’;
- Indonesia relationship with the US, China, and within ASEAN, also likely to continue as before, with Indonesia continuing to take a de facto leadership position within the region. Indonesia is also very wary of getting itself trapped in some sort of rivalry between the superpowers;
- The notion of Indonesia as an “Islamic democracy” – a term which some discussants rejected: “Democracy is democracy, there is no pretension to make democracy Islamic” said one;
- Indonesia as a global player – given its rise in the region, membership of the G20, and willingness to reach out (Myanmar, Cambodia). Overall, Indonesia is seen as a “good global citizen”;
- The upcoming elections, which will boast participation rates of 70%, are in contrast to those for the European Parliament, with one European discussant wondering: “Maybe Indonesians have something to teach us about civic participation”;
- The role of the military – which due to Indonesia’s past, remains a delicate and complex subject, although the military is now professional and consigned to its barracks;
- Indonesia’s rise as a “middle power” – and the fact that it is a rising power, not due to its military, but because of its recognition by others as an important regional and international actor. The US for one is looking to Indonesia to help mediate the territorial disputes between China and some ASEAN members in the South China Sea;
- Indonesia’s position as a “moderate” Muslim majority country committed to democratic values also gives it a powerful status on the global stage;
- The new challenges faced by investors trading with Indonesia – and some of the new investment rules which the EU objects to;
- The macro-economic situation in Indonesia, which overall is seen in a positive light (Indonesia enjoys the 2nd highest growth rates in the world). Nevertheless, its dependence on China (a 1% decrease in Chinese GDP means a drop of 0.6% for Indonesia) does cause some concern that Indonesia is over-reliant on commodities;

- Palm oil, Indonesia’s greatest export, remains nevertheless a somewhat contentious one: on the one side, the EU believes that Indonesia has too much of the EU market with 50% of imports. Additionally, some non-governmental organisations express concern on health grounds, which Indonesia disputes;
- In the area of regional security, the EU will never become as important a player as the US or China, but still wishes to collaborate with Indonesia on issues such as counterterrorism and maritime security;
- Some 4,000 Indonesians travel to the EU each year on scholarship, a figure that should increase as university and student exchanges become more significant.

The Policy Insight public debate invited seven panellists to discuss the prospects and pitfalls of the upcoming presidential elections. Overall, there was wide admiration for Indonesia’s commitment to pluralism and free and fair elections, despite some challenges. “Indonesia is the world’s capital of elections,” according to the Indonesian Ambassador [Arif Havas Oegroseno](#). “Foreign policy has always been the domain of the elites. There will most likely be continuity in Indonesia in this regard”, said one panelist. There was also talk about an over-focus on the executive and not enough on the legislative branch of government. The representative from the European Union noted that “irrespective of the election cycle, Indonesia and the EU are bound to work together”. Also notable is the role of civil society in Indonesia’s political landscape. “Muslims do not have a problem in backing non-Islamic parties”, said one panelist.



POLICY & PRACTICE ROUNDTABLE

Given Indonesia's growing importance, it is time for a stronger and more strategic EU-Indonesia relationship, according to Indonesian and European academics, think tank representatives and business leaders who attended the Policy and Practice Roundtable. The EU-Indonesia Partnership and Cooperation Agreement (PCA), which entered into force on May 1, paves the way for closer co-operation in a wide range of fields. But deepening the relationship will require increased long-term commitment from both sides to upgrade ties at all levels.

Ahead of leadership changes on both sides, participants examined Indonesia's political and economic outlook and had a frank and open discussion on the different aspects of the EU-Indonesia relationship. Discussions were held under the Chatham House Rule, allowing for a real flow of knowledge, expertise and information between the academic world and the policy and practical worlds of officials and business.

The roundtable took the conversation started at the high-level conference "Indonesia matters", organised by *Friends of Europe* and the Embassy of Indonesia in June 2013, forward into more practical and concrete areas. It put forward specific recommendations for future action and set an agenda for the future.

1. Indonesia: Today and tomorrow

Indonesia is certainly one of Asia's most exciting success stories but infrastructure bottlenecks, regulatory hurdles and allegations of corruption are challenging the country's growth. With the world's third-biggest democracy heading to the polls in July to elect its next president for the fourth time since the fall of Suharto, the new leaders will face an array of challenges in unleashing the country's potential.

Macro-economic situation in Indonesia

The Indonesian domestic economy is expected to stabilise this year. Growth is estimated at 5.7% to 5.8%, which is slightly lower than in previous years, but still robust, given the global economic slowdown. Indonesia also enjoys a healthy current account deficit. The main objective of the Indonesian Central Bank is to keep the inflation rate in check. Foreign reserves are above US\$100 billion.

Still, Indonesia faces some uncertainties. Credit growth is slightly down. Also, Indonesia's economy is especially sensitive to China's, so any 1% decline in Chinese growth rates will trigger a drop of 0.6% in Indonesia's GDP prospects. There is also the question of Indonesia's over-reliance on global commodity prices given the importance of raw material exports in its trade. Other areas which were highlighted included the need to improve industrial capacity, reduce the fuel subsidy, and improve infrastructure investment.

Nevertheless, the independent Central Bank remains committed to safeguarding monetary policy, and promoting sustainable growth which is conducive to an investment environment.



Vibrant civil society & press

Civil society plays a significant role in Indonesia, especially in the transition to democracy. Indonesia was praised repeatedly, and with a degree of admiration, for its commitment to pluralism and free and fair elections. Indeed, participation rates in Indonesian elections approach 70%, which contrast with those for the European Parliament which hover around 40%. "Maybe Indonesians have something to teach us about civic participation", said one European discussant. India, which boasts the world's largest democracy (with four times the number of voters as Indonesia), holds elections over a five to six week period. Indonesia, with 190 million voters, does so in one day, at a cost of about €1.5 billion. The scale of the undertaking is quite staggering (19,000 local elections, 6,000 candidates from 12 parties, 4.5 million poll watchers, and 250,000 police to maintain order).

There are challenges of course. As one Indonesian academic said, "We are our own biggest critics". Indonesian civil society highlights areas of corruption as well as vote-buying and vote-swapping, which give rise for concern. However, civil society and the media are one of the freest in Asia, and therefore quick to point out deficiencies in the electoral process.

Role of the military

The role of the military was discussed in view of Indonesia's past. The Indonesian military is back in the barracks and has become increasingly professional. Myanmar, which is also transitioning from military rule to civilian leadership, consulted with Indonesia and specifically looked at the country's constitution as it sought to redraft its own constitutional blueprint.

Less than 1% of GDP is spent on the military, a very low figure compared to other Asian countries. Although there has been a recent increase in military expenditure, in general, politically it is difficult to cut domestic priorities (education, food, fuel) in favour of defence spending. Past experience also makes Indonesians wary of increasing defence spending. Some civil society groups, however, argue that the military budget should be increased as a way to reduce the military's recourse to illicit sources of income and corruption.

2. Indonesia's foreign policy

The country's geostrategic location, historical background, population size and economic potential, give Indonesia an inevitable significance in regional and global affairs. Indonesia has become more outward-looking over the years and its confidence has risen, noted European academics. The country has played a leading role in ASEAN and helped open up the organisation to the outside world. Yet, European academics said Indonesia has not been as active in international affairs as it should have.

Indonesia has a historical preference for neutrality and non-interference. A European academic noted that during the Sukarno era, Indonesia pursued a "free and active" foreign policy strategy, marked by not taking sides with major powers but actively forging strong ties with other non-aligned countries. During the Suharto period, Indonesia's foreign policy was less often in the headlines while today Jakarta's focus is on developing a network of "a million friends and zero enemies". But Indonesian academics were quick to point out there are differences in the "degree" of friendship.

Foreign policy often does not figure in election campaign speeches, which tend to focus on domestic issues instead, making it difficult to envisage what impact the elections may have on Indonesia's foreign policy priorities. An Indonesian academic said Indonesian foreign policy was unlikely to change following the change in leadership later this year. Indonesia's global role will depend on its ability to maintain high growth and manage tensions in the region.

A rising middle power

Indonesia is often described as a "middle power" which plays a pivotal role in Asia. Its influence in international affairs is growing, even though experts at the roundtable agreed that, in relative terms, Indonesia is not yet a major economic or military power. Its increasing importance derives therefore, not just from the country's capabilities, but more importantly from its increasing "recognition" as a key global player, said an Indonesian academic.

With the multiple territorial disputes in the South China Sea, the US for example has called on Indonesia to play a more important role. Already in 2010, EU High Representative Catherine Ashton indicated that Indonesia could join the list of privileged or strategic partners of the EU. Also, the fact that Indonesia is a "moderate" Muslim majority country committed to democratic values gives it a powerful status on the global stage.

Soft power

Indonesia is often held up as a best practice example of an "Islamic democracy", with its religious pluralism, lack of Islamist extremists as a major political force, and its commitment to free and fair elections. Although the challenges Indonesia faces today cannot be downplayed, the country can stand as a model and an inspiration for other countries dealing transition from authoritarian government to democracy, with ethnic or religious conflicts, separatist movements (Aceh) or the loss of territory (East Timor). It can be said that Indonesia's democratisation process has been successful thanks to the concerted efforts of leading players within government, civil society, the military and the Islamic community of scholars. The Bali Democracy Forum, held every year in December, is one avenue used by Indonesia to promote democracy on the global stage.

Although 80% of Indonesia's 240 million inhabitants are Muslim, participants said it was inappropriate to describe it as an "Islamic democracy". "Democracy is democracy, there is no pretension to make democracy Islamic", said one scholar.

Indonesia as a regional power

Indonesia has pursued an ASEAN-centred diplomacy, playing a de-facto leading role within the regional organisation. Indonesia has continued to press for further integration and stronger solidarity within ASEAN member countries. With regards to the on-going territorial disputes in the South China Sea pitting China against Vietnam and the Philippines, Indonesia seeks an institutionalised resolution to the conflicts and has offered to be a mediator. Participants agreed that Indonesia has played quite a positive role as a mediator and bridge builder in the region.

ASEAN offers Indonesia a key platform to meet its regional aspirations but many several scholars pointed out that Indonesia may be outgrowing ASEAN and would no longer be “faithful” to the organisation. The EU wants Indonesia to remain fully engaged within ASEAN, seeing it as a force for good – a large country committed to democratic values within a club of countries some of which are still run by autocrats. On the issue of human rights, although ASEAN may never see a human rights court, Indonesia is seeking to promote human rights, by example and persuasion. What is needed is an institutionalisation of the learning process or there is a risk that the lessons learnt will be lost.

Current tensions in Asia make it even more important that Indonesia plays a moderating role in the region. ASEAN must also work harder to maintain its peace-keeping role. “Presence matters” said an Indonesian discussant.

Indonesia as a global player

Indonesia’s ambitions are increasingly global. It is the only member of ASEAN to also be a member of the G20 and acts as a moderating force within the Organisation of the Islamic Conference (OIC). Through its membership of these organisations, Indonesia is extending its influence beyond the immediate neighbourhood. At the same time, the country has entered into comprehensive partnerships with the United States and China as well as other key players such as Japan or Australia.

Indonesia is perceived as being a “good global citizen”, said one discussant. It helped in the resolution of the Cambodia conflict and also played a decisive role in the Uruguay Round of trade negotiations. Indonesia’s efforts to reach out both in Egypt and Palestine were also highlighted.

The country has the soft power and increasingly the connections to influence developments outside its immediate neighbourhood. However, one European discussant pointed out that Indonesia’s global role was “rhetorically interesting” but lacked substance.

3. EU-Indonesia relations

The European Union (EU) and Indonesia have taken significant steps to build a strong partnership, but the relationship needs to become stronger and more strategic. The EU-Indonesia Partnership and Cooperation Agreement (PCA), which entered into force on May 1, is a step in the right direction. It is the first agreement of its kind between the EU and an ASEAN country and is expected to take EU-Indonesia relations into a new phase.

The PCA focuses on four main issues:

1. Shared values: Both the EU and Indonesia comprise diverse societies, manage pluralism and multiculturalism, and believe in tolerance in terms of race, ethnicity and religion. Both believe in ‘unity in diversity’;
2. Strategic cooperation: There has been agreement to start a strategic dialogue on a number of critical issues such as counterterrorism and peacekeeping, amongst others;
3. Economic cooperation: Indonesia and the EU are developing their trade and investment links and are currently exploring the negotiation of a comprehensive economic cooperation agreement;
4. People-centred activities: Encompassing the extensive academic and civil society exchanges currently in action. Concretely, this would include visa facilitations and student exchanges.



Trade relations

Intense contacts have taken place since 2011 to explore the possibility of negotiating a Comprehensive Economic Partnership Agreement (CEPA). Such an agreement would lead to an increase in EU-Indonesia trade and investment flows, but also give a symbolic boost to EU-Indonesia relations. Before negotiations start, however, both sides are engaged in a scoping exercise to ensure that they are on the same page. The discussions are currently on hold in view of the Indonesian elections.

Bilateral trade with Indonesia currently stands at between €25 billion to €30 billion per year. Although China remains the most important market in Asia, “it’s never good to rely on one market”, said one discussant. The EU is a significant investor in Indonesia, behind a few key Asian countries. What do investors look for?

1. Scale – investors want a large market.
2. Predictability – in terms of stable government, rule of law, repatriation of profits, etc.

However, some new rules are being looked at. For example in the retail sector, investors have balked at an Indonesian government provision which requires 80% of goods sold to be sourced locally.

Some issues of economic nationalism were identified as of concern to the EU, including laws to oblige exporters to make specific investments in Indonesia such as building a smelter. The EU also does not believe that an Indonesian ban on the export of minerals is the right way to tackle the development of local industries.

The question was asked if the EU and Indonesia should limit themselves to an investment agreement. But, would this do for the Indonesians what they wanted it to do? Would big, modern investors be satisfied by just an investment agreement? Discussants also noted that information on trade negotiations should be shared with civil society actors to avoid giving the impression that all discussions were being held behind closed doors.

Discussions on Indonesian exports of palm-oil – one of the country’s chief exports – were marked by Indonesian concerns that the product was being stigmatised

as toxic and not in keeping with EU sustainability criteria. Indonesia is currently the largest producer and exporter worldwide. But the product constantly encounters barriers in its bid to gain entry to the EU market, said a participant.

Security partners

The EU plays a minor role in South East Asian security – where clearly the US has place of pre-eminence. In the last few years however, there has been some convergence between Brussels and Jakarta on soft security issues such as counter-terrorism, maritime security and conflict prevention, said a European academic. Maritime security was highlighted as a key area to further cooperation between the EU and Indonesia. In this regards, the EU is regarded as a “neutral” actor. It can share its painfully gained experience in solving practical problems like overfishing or strengthening port security, said a European discussant. While another noted that while the potential is there, expectations should also be realistic.

People to people exchanges

Fostering people to people contacts is a key part of the Partnership and Cooperation Agreement (PCA). Educational exchanges are thriving, with about 4,000 Indonesian students traveling to the EU on scholarships every year. Many opportunities exist for Indonesian students to study in the EU thanks to generous scholarships provided by the Indonesian government. However there are relatively few European students who go to study in Indonesia and very few European universities offer courses in Indonesian affairs.

The EU and Indonesia cooperate on interfaith issues and also hold an annual human rights dialogue. But overall, there is still much untapped potential in this area. The issue of access to Schengen visas remains a sticking point. Ensuring that Indonesian and EU citizens can travel more easily could also help boost tourism between the two sides. Participants called for strengthening people-to-people links, particularly among scholars and researchers.



Steven Everts, European External Action Service and Rahimah Abdulrahim, Habibie Centre

Morgan McSwiney, European External Action Service and Marjut Hannonen, European Commission, Cabinet of EU Commissioner for Trade Karel de Gucht



Helena Konig, European Commission, Daniel Novotny, Global Europe and Stefanie Seeding, Permanent Representation of Germany to the EU

David Camroux, Sciences Po (CERI), Vicky Brunati, BP Europe and Muhadi Sugiono, University Gadjah Mada



Shada Islam, Friends of Europe and Tirta Segara, Bank Indonesia

Felix Hejduk, University of Birmingham and Arif Havas Oegroseno, Indonesia's Ambassador to Belgium



POLICY INSIGHT

INDONESIA GOES TO THE POLLS: PROSPECTS AND PITFALLS

Elections in Indonesia matter. The results of the legislative and presidential elections will determine the future direction of Southeast Asia's most populous nation and dynamic powerhouse. Featuring leading figures from civil society, academia, business, diplomacy from the EU and Indonesia, the public debate shed light on the prospects of the upcoming presidential election in Indonesia and the implications for a closely watching world.

Joko Widodo - also known as Jokowi - of the Indonesian Democratic Party of Struggle (PDI-P) has emerged as the favourite candidate to win the presidential election scheduled for July 9. But it will not be plain-sailing. Golkar - Indonesia's second largest party - has backed the other presidential hopeful former General Prabowo Subianto from the Gerindra Party.

“Indonesia is the world’s capital
of elections.”

Arif Havas Oegroseno, Indonesia’s Ambassador to Belgium



Massive logistical undertaking

Indonesia's Ambassador to Belgium, Luxembourg and the EU, [Arif Havas Oegroseno](#) opened the discussions by providing a detailed background of the complexities of voting in a country with 187 million voters. This is the 11th time since independence that Indonesians go to the polls, but only the 4th time since the 1998 political reforms. Indonesian casted their vote in legislative polls on April 9, one of the world's largest single day elections, with candidates competing for the 560 seats in the national House of Representatives. About 30% of voters were under the age of 29. In the past, the elections were just a ritual but “this time, we have lots of political consultancies involved, involving polling and analysis”, the Ambassador said. Participation is up from 68%-69% five years ago to around an expected 70% this time around. “Indonesia is the world’s capital of elections”, he said, to illustrate the scale of the task at hand.

Rhetoric vs. Issues

Rahimah Abdulrahim, the Executive Director of the Habibie Centre, said: “Indonesians are clamouring for change, much like the 2008 US elections with Obama”. However, very few of the candidates are running their campaign based on programmes – it is about personalities and people. Foreign policy is almost absent from the election narrative.

“Indonesians are clamouring for change, much like the 2008 US elections with Obama.”



Rahimah Abdulrahim, Executive Director of the Habibie Centre

Muhadi Sugiono, Director of the Center for Southeast Asian Social Studies at the University of Gadjah Mada, said: “The elections will be fought over three issues: Corruption, poverty reduction and police/law enforcement. All the presidential candidates are working on these problems”.

“All three of the most popular candidates would like to identify as the candidate with a clean image”. On the issue of poverty reduction, “most of the candidates sell this issue very well” by promoting an image of being close to farmers. Law enforcement is also an election issue, he said, because it was very weak in Indonesia and because the government comes across as indecisive.

Abdulrahim also spoke approvingly of Joko Widodo, the current Governor of Jakarta, who is running for the presidency. He is as a man who “breaks the mould of Indonesian politics”, she said, in that he is very humble, approachable, and has a ‘can-do’ attitude, “someone willing to get his hands dirty” to get the job done.

“The elections will be fought over three issues: Corruption, poverty reduction and police/law enforcement.”

Muhadi Sugiono, Director of the Center for Southeast Asian Social Studies at the University of Gadjah Mada



Presidential system

With regards some of the legacy issues left over from the Suharto era, the panel was asked why some figures tied to the previous regime – even those tainted with human rights abuses – were still involved in politics. Was there a culture of impunity? Abdulrahim said “political amnesia happens a lot in Indonesia”, however noting that the younger generation was somewhat swifter at pointing out human rights abuses from the past. Abdulrahim was also critical at some of the irregularities in Indonesia’s elections, such as vote buying or vote swapping. In addition, she said: “There is an over focus on the executive, the president. Not enough is focused on the legislative body. This is something we need to work on”.

Azyumardi Azra, Director of Post Graduate Studies at Syarif Hidayatullah State University said the Indonesia model of government is clearly a presidential system acknowledging the weaknesses of the legislative branch and said “greater balance” was needed between the executive and legislative branches. He said that since 2009, “central government was becoming weaker because of a greater amount local autonomy”. He added that in the last few years, there was talk about amending the law on local autonomy to create a better balance between central and local government.

Islam and democracy

Azymardi Azra said there were several factors which have contributed to the success of democracy in Indonesia. One is the presence of vibrant civil society organisations in Indonesia, including Nahdlatul Ulama (NU) and Muhammadiyah. “These organisations have helped in strengthening civic society in Indonesia and maintaining of social cohesion, especially in light of the political transition”, he said. Azra also cited the nature of Islam in Indonesia, which tends to be more moderate in tone. “Muslims do not have a problem voting for non-Islamic parties”, he said.



“These organisations have helped in strengthening civic society in Indonesia and maintaining of social cohesion, especially in light of the political transition.”

Azymardi Azra, Director of Post Graduate Studies at Syarif Hidayatullah State University

Economic stability

Oegroseno expressed the advantages his nation had experienced thanks to democracy. Under Suharto’s “guided democracy”, in 1970, GDP was \$90 billion. By 1997, this had climbed to \$200 billion. After the 1998 economic collapse (and the demise of Suharto’s autocratic rule), the economy had collapsed to \$90 billion. But today, thanks to the political reforms, Indonesia’s GDP is at \$1 trillion. “We did this in 15 years”, he said.

Tirta Segara, the Executive Director of the Communication Department at Bank Indonesia, spoke about the current economic stability in Indonesia. He noted the challenge presented by the slowing down of China and the risk this represented to Indonesia (a 1% decline in GDP in China translated into a 0.6% decline for Indonesia). He also noted how the infrastructure in Indonesia needed to be improved. “Our economic capacity is limited”, he said. “If we push too quickly,

we are worried of overheating the economy”. With respect to the upcoming elections, “The Central Bank will ensure that whoever wins the presidency, we will safeguard monetary stability”, he said.

As regards Indonesia’s economic priorities, Tirta said that infrastructure development was clearly top of the list and that Indonesia wished to promote this via the G20, by establishing a working group on infrastructure financing. He noted a reluctance by investors to invest in infrastructure in emerging markets due to concerns about stability. “If we are monitored through the G20, then it could encourage the process”, he said.

“The Central Bank will ensure that whoever wins the presidency, we will safeguard monetary stability.”



Tirta Segara, Executive Director of the Communication Department at Bank Indonesia

Indonesia’s economy is still largely commodity based. The panel was asked about government plans to move towards a more knowledge-based economy. **Ugo Astuto**, Director for South and South-East Asia at the European External Action Service (EEAS) said he could not see a country assuming a leadership position without investing more in innovation, which is something Europe was urging Indonesia to do.

Investing in Indonesia

Luciano da Silva, Chairman and CEO of Altar Group of companies and a long-term investor in the country, said that the perception from the market was very clear and that “regardless of whoever will be the next president and government, investors are very confident”. He spoke about the more than 30 upcoming Initial Public Offerings (IPOs) and the general buoyancy of the market. “The market and investors are very confident. Whoever is there, they will do the right job”, he said.

“The market and investors are very confident. Whoever is there, they will do the right job.”



Luciano da Silva, Chairman and CEO of Altar Group

Da Silva acknowledged that it was an “old story” about keeping the balance between being open and protectionism. He said that from an investment point of view, there are many challenges, but one has to adapt. “From our own experience of being an investor in the region, we are very happy. The country has treated us very well”, he said. He spoke about the crisis in the late 1990s which his organisation treated as an opportunity and that by “taking some positions at the time, we were able to repatriate profits and save substantial jobs in Europe”.

Foreign policy priorities

Shafiah Muhibat, Researcher at the Centre for Strategic and International Studies (CSIS) in Jakarta, concurred that it was too early to talk about changes in foreign policy. The reason it was difficult to answer was because the candidates were not taking foreign policy positions at this time, and also, there was low interest from the public. “Foreign policy has always been the domain of selected elites. There will most likely be continuity in Indonesia in this regard”, she said.

Muhibat added that the first year of any future government would be focused on internal consolidation, domestic issues, and building up the cabinet. However, whoever wins the elections will see four key foreign policy priorities which would need to be addressed, namely South China, ASEAN unity, the geo-political power shift in South East Asia, and preparations for the ASEAN Community in 2015. “None of the candidates have really strong expertise in foreign policy, but that doesn’t mean they can’t learn”, she said. With a good team, that should

“None of the candidates have really strong expertise in foreign policy, but that doesn’t mean they can’t learn.”

Shafiah Muhibat, Researcher at the Centre for Strategic and International Studies (CSIS) in Jakarta



be achievable, but the bad news is that come this autumn, Indonesia will face a series of important meetings (APAC, ASEAN, G20, ASEM) and not much time to prepare for them. Foreign policy, she said, will depend mostly on who the foreign minister is.

With regards the great power rivalry in South East Asia, Muhibat said “Indonesia does not want to be trapped in some sort of rivalry”, between the US and China. “One of the immediate challenges is to keep ASEAN unity”, she said.

The panel highlighted also the role Indonesia can play in assisting other Islamic countries to modernise. Azra said that Islamic organisations in Indonesia are very active in reaching out to civil society organisations in Muslim countries as well as in interfaith dialogue, with Muslims but also with scholars and leaders from other religions. “In many Muslim countries, there is almost no existence of Muslim civil society, only Islamic political parties. There is no middle ground”, he said.



Shada Islam, Director of Policy at *Friends of Europe*

Strengthening EU-Indonesia relations

Indonesia's Ambassador to Belgium said that Indonesia's foreign policy was independent and active. “Hopefully relations with the EU will be even more robust, wider and deeper”, he said.

Ugo Astuto concurred that holding democratic elections in such a populous country was a huge undertaking, praising Indonesia's “democratic values”. He praised its vibrant civil society and the soft power it had the potential to project in the region. “With the values Indonesia and the European Union share, we are natural partners. We need to build on these shared values”, he said. As evidence of the maturity of Indonesia's democracy, Astuto said the EU was assured there would be continuity. “Irrespective of the election cycle, Indonesia and the European Union are bound to work together. I am sure this is a partnership which is going to develop”, he said.

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Ugo Astuto, Director for South and South-East Asia at the European External Action Service (EEAS)



Astuto said this relationship had “graduated to a different level of partnership” thanks to the PCA, which entered into force on the 1st of May. He noted that the dialogue had “dramatically increased” and now covered even “delicate” issues such as human trafficking and security, but also some of global relevance such as sustainability and climate change. Both Indonesia and the EU are believers in multilateralism and the EU greatly appreciates what Indonesia is doing with respect to relations with China as its outreach to Myanmar. Economic issues are also no less relevant, from poverty reduction to protectionism.

Sustainable growth

The panel was asked what the Indonesian government is doing to reach out to socially excluded groups, especially women and youth, given that there were still many people living below the poverty line. What was Indonesian government doing to help them gain access to healthcare, jobs, and other opportunities? Tirta Segara answered that given that there were over 200 million mobile phones for a population of 240 million people, the government was looking at helping such socially excluded groups gain financial inclusion, by facilitating their access to banking via mobile phones. Rahimah Abdulrahim replied that none of the candidates for the presidential elections had really addressed the question of poverty reduction properly.



THE WAY AHEAD

- Given its democratic and economic credentials, Indonesia is no ordinary middle power. As such, it should be ready to play a bigger role as a regional and global actor.
- Having successfully made the transition from authoritarian rule to democracy, Indonesia as a Muslim majority nation can provide strong lessons for other countries in transition, especially in the Middle East and North Africa.
- Indonesia should take a stronger leadership role within ASEAN, especially as regards a peaceful settlement of the rival territorial claims in the South China Sea dispute.
- Indonesia should continue to push for a stronger ASEAN human rights agenda and stay in the lead in seeking to institutionalise human rights within the ASEAN.
- Efforts must be made to temper the nationalist rhetoric and economic policies that are sometimes on display in Indonesia.
- Indonesia is not a military power but has experience in dealing with insurgent and rebel groups which it can share with other countries.
- To further boost relations, the EU must make it easier for Indonesian business leaders, students and artists to obtain Schengen visas.
- European universities should invest in developing Indonesian studies programmes and encourage wider research on Indonesia and funding for teachers, academics and lecturers on the subject.
- Negotiations on an EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA) should resume as soon as possible to give an economic and political boost to the relationship.
- The EU and Indonesia should start looking at forging a strategic partnership which covers discussions on political and security issues as well as trade and investment.



Policy & Practice Roundtable



Policy Insight

ANNEX I – Programme

SESSION I POLICY & PRACTICE ROUNDTABLE Indonesia: Today and tomorrow

Indonesia is changing fast. Once a struggling developing nation, the country is now a confident and dynamic middle-income power and a vibrant democracy with enormous regional and global clout. Not surprisingly, leading world powers are scrambling to forge closer ties with Jakarta. The EU and Indonesia have signed a Partnership and Cooperation Agreement (PCA) aimed at forging a stronger relationship. But more is required to develop deeper and more strategic ties. What are the necessary steps to establish an EU-Indonesia strategic partnership? How will such a partnership impact on EU relations with ASEAN? How can the EU and Indonesia upgrade discussions on global and regional security challenges? What are the possible avenues for intensifying cooperation in ensuring safe and secure international navigation and fighting terrorism? Can the EU and Indonesia foster global interfaith initiatives and dialogue on matters of pluralism and tolerance? What is the potential for further engagement between the two sides in the areas of climate change and energy?

INTRODUCTORY REMARKS BY:

Arif Havas Oegroseno

Ambassador of the Republic of Indonesia to Belgium, Luxembourg and the European Union

SCENE-SETTERS:

Azyumardi Azra

Director of Post Graduate Studies at Syarif Hidayatullah State Islamic University
Associate Professor at Science Po (CERI), France
Chair of International Relations at Göttingen University, Germany

David Camroux
Anja Jetschke

Researcher at the Centre for Strategic and International Studies (CSIS), Jakarta

Daniel Novotný
Jürgen Rüländ

Director at Global Europe, Czech Republic
Professor at the Department of Political Sciences of the University of Freiburg, Germany

Moderated by **Shada Islam**, Director of Policy at *Friends of Europe*

SESSION II **POLICY & PRACTICE ROUNDTABLE**
 Building stronger EU–Indonesia ties

With its rich natural resources, economic and political stability and a booming middle class, Indonesia attracts foreign investors. There are complaints, however, that infrastructure bottlenecks, regulatory hurdles, a skills gap and allegations of corruption are strangling Indonesia's growth. Economic relations between the EU and Indonesia are becoming more dynamic but with bilateral trade in goods valued at 23.5 billion euros, Indonesia ranks only 29th on the list of leading EU trading partners. The recent signature of the Voluntary Partnership Agreement to prevent the trade of illegally logged wood is a step on the right direction. But what are the prospects for a Comprehensive Economic Partnership Agreement (CEPA)? How will it impact on improving market access, capacity building and the facilitation of trade and investment between the two sides? What are the main roadblocks to begin negotiations? How can Indonesia and the EU strengthen cooperation in areas such as science and technology, education, mobility and people to people exchanges to boost growth? What are the opportunities for European businesses? Will visa facilitation for Indonesian nationals help to step up contacts between business leaders, academics and students?

SCENE-SETTERS:

Rahimah Abdulrahim Felix Heiduk	Executive Director at The Habibie Centre, Indonesia Lecturer at the Department of Political Science & International Studies of the University of Birmingham
Helena König	Head of the South and South East Asia Unit at the European Commission Directorate General for Trade
Yahya Muhaimin	Professor at the Faculty of Social and Political Studies at the University Gadjah Mada
Tirta Segara	Executive Director of the Communication Department at Bank Indonesia (BI)
Muhadi Sugiono	Director of the Center for Southeast Asian Social Studies at the University Gadjah Mada

Moderated by **Shada Islam**, Director of Policy at *Friends of Europe*

SESSION III **POLICY INSIGHT**
 Indonesia goes to the polls: Prospects and pitfalls

Indonesia's transformation from an authoritarian state to a robust democracy continues to inspire a watching world. The year ahead will be crucial for Indonesia's political future: legislative polls in April will be followed a few months later by the election of a new president to replace Susilo Bambang Yudhoyono, the military officer turned civilian president who has steered the country over the last ten years. Whoever wins at the ballot box will face an array of challenges in unleashing the country's potential. As the world's third-largest democracy heads to the polls, who are the most exciting candidates, what do they stand for and what are their election prospects? Do religious parties and groups wield political influence in Indonesia? What can the international community and foreign investors expect from the new government? Can the next leadership, in conjunction with private sector, address Indonesia's bottlenecks to foster economic growth? What role is social media playing in the formation of public opinion, particularly as regards young voters? How will the elections impact on Indonesia's foreign policy, including relations with ASEAN? What will be the new government's attitude as regards closer ties with the European Union?

Rahimah Abdulrahim Ugo Astuto	Executive Director at The Habibie Centre, Indonesia Director for South and South-East Asia at the European External Action Service (EEAS)
Azymardi Azra	Director of Post Graduate Studies at Syarif Hidayatullah State Islamic University
Shafiah Muhibat	Researcher at the Centre for Strategic and International Studies (CSIS), Jakarta
Tirta Segara	Executive Director of the Communication Department at Bank Indonesia (BI)
Luciano da Silva Muhadi Sugiono	Chairman and CEO of Altar Group Director of the Center for Southeast Asian Social Studies at the University Gadjah Mada

Moderated by **Shada Islam**, Director of Policy at *Friends of Europe*



Siti Arfah Kamaruzaman, Mission of Malaysia to the EU, Arividy Arimuthu, Mission of Malaysia to the EU



Anja Jetschke, Göttingen University and Walter Kennes, European Commission, Directorate General for Development and Cooperation - EuropeAid (DEVCO)



Bruno Hellendorff Group for Research and Information on Peace (GRIP) and Jürgen Rüländ, University of Freiburg



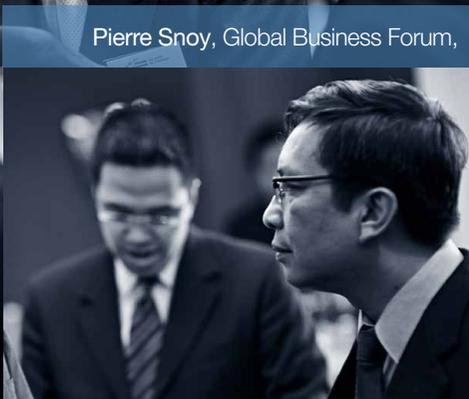
From left to right: Tirta Segara, Bank Indonesia, Stefanie Seeding, Permanent Representation of Germany to the EU, and Muhadi Sugiono, University Gadjah Mada



Vesela Miladinova, The Hague Centre for Strategic Studies



Pierre Snoy, Global Business Forum,



ANNEX I – List of Participants

Rahimah Abdulrahim, Executive Director, The Habibie Centre

Purwanto Aji, Director of Strategic Partnership & Business Development, Thy Engineering

Lisa-Maria Altenberger, Assistant, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Rizal Anwar Djafaara, Executive Director, Central Bank of Indonesia, Representative Office for Europe

Arividy Arimuthu, Minister Counsellor, Economic Affairs, Mission of Malaysia to the EU

Ugo Astuto, Director for South and South East Asia, European External Action Service (EEAS)

Elena Atanassova-Cornelis, Lecturer in East Asian Politics, University of Antwerp

Azyumardi Azra, Director, Syarif Hidayatullah Jakarta

Sara Battaglia, Junior Policy Officer, Unioncamere del Veneto

Simi Bhagwandass, Consultant, North Atlantic Treaty Organization (NATO)

Jan-Willem Blankert, Former Commission Official

Marc Bogaerts, Director General, Belgian Foreign Trade Agency (ACE-ABH)

Victor Braoios, First Secretary, Mission of Brazil to the EU

Louis-Victor Bril, Policy Officer, European Commission, Directorate General for Research and Innovation

Vicky Brunati, Advisor, European Government Affairs, BP Europe

Myriam Buysse, Former Official, European Commission

David Camroux, Senior Researcher and Associate Professor, Institut d'Etudes Politiques de Paris, Sciences Po

Mariella Cantagalli, Policy Officer - Indonesia, European Commission, Directorate General for Trade

Elsya Chani, Deputy Head, Central Bank of Indonesia, Representative Office for Europe

Catherine Clark, Head of International Relations, Prudential

Giovanni Colombo, Consultant, Hill and Knowlton Strategies

Susanne Conrad, Research Associate, Konrad-Adenauer-Stiftung (KAS), European Office

Luciano da Silva, Chairman and CEO of Altar Group

Mohamoud Daar, Representative, Representation of Somaliland to the EU

Risa Devdy, Second Secretary, Mission of Indonesia to the EU

Patricia Diaz, Programme Manager, *Friends of Europe Les Amis de l'Europe*

Claude Dubus, President & Teacher, Centre Jacques Berque

Maria Elena Efthymiou, Administrator, European Parliament, Committee on Security and Defence

Steven Everts, Adviser, EU-ASEAN and ARF, European External Action Service (EEAS), Cabinet of the High Rep for Foreign Affairs and Security Policy Catherine Ashton

David Fouquet, Senior Associate, European Institute for Asian Studies (EIAS)

Nathalie Furrer, Director, *Friends of Europe Les Amis de l'Europe*

Kurt Gaissert, Adviser, Representation of Baden-Württemberg to the EU

Gie Goris, Editor-in-Chief, MO*

Pekka Hakala, Expert on External Policies, European Parliament, Directorate General for External Policies

Marjut Hannonen, Member of Cabinet, European Commission, Cabinet of EU Commissioner for Trade Karel de Gucht

Baktiar Hasan, Statistician, European Organisation for Research and Treatment of Cancer (EORTC)

Felix Heiduk, Lecturer, University of Birmingham, Department of Political Science & International Studies

Robert Heiling, Adviser, Federation of Austrian Industries

Bruno Hellendorff, Research Fellow, Group for Research and Information on Peace (GRIP)

Guus Houttuin, Trade Adviser & Deputy Head of Unit Global Issues and Counter-terrorism, European External Action Service (EEAS)

Jeffrey Houvenaeghel, Policy Analyst, University of Leuven

Ellen Huijgh, Research Fellow, Netherlands Institute of International Relations (Clingendael)

Shada Islam, Director of Policy, *Friends of Europe Les Amis de l'Europe*

Nicola Jenne, Policy Officer, Evonik Industries

Anja Jetschke, Chair of International Relations, Göttingen University, Department for Political Science

Pierre Jirikoff, Senior Adviser, Protocol and International Relations Department, Chamber of Representatives, Belgium

Siti Arfah Kamaruzaman, Counsellor, Economic Affairs, Mission of Malaysia to the EU

Walter Kennes, Principal Administrator, Geographical Coordination, Regional Programmes Asia, European Commission, Directorate General for Development and Cooperation - EuropeAid (DEVCO)

Albert Khaoutiev, Student, Université Libre de Bruxelles (ULB)

Helena König, Head of Unit, South and South East Asia, Australia, European Commission, Directorate General for Trade

Yury Kukhareenko, First Secretary, Mission of the Russian Federation to NATO

Elisa Lironi, Junior Researcher, European Institute for Asian Studies (EIAS)

Marie T. Lubs, Freelance Journalist, EGMONT, Royal Institute for International Relations

Carlos Maes, Teacher, Institut de l'Enfant Jésus

Jacques Malache, Senior Director, International Press Agency

Yuling Mao, Department of Economic Missions, Belgian Foreign Trade Agency (ACE-ABH)

Morgan McSwiney, Political Officer Indonesia, European External Action Service (EEAS)

Vesela Miladinova, Strategic Analyst, The Hague Centre for Strategic Studies

Christian Mirre, Public Affairs Director, Churches for Scientology for Europe

Michal Mlcousek, Managing Director, Time for Words

Yahya Muhaimin, Professor at the Faculty of Social and Political Studies, University of Gadjah Mada, International Relations

Shafiah Muhibat, Researcher, Centre for Strategic and International Studies in Jakarta

Katrina Murray, Director for Membership, Young Professionals in Foreign Policy (YPPF) Brussels

Rosdiana Murtiningsih, Second Secretary, Mission of Indonesia to the EU

Palupi Sukiyantini Mustajab, Minister Counsellor, Head of Political Section, Embassy of Indonesia to Belgium

Daniel Novotný, Director, Global Europe

Xavier Nuttin, Senior Asia Analyst, European Parliament, Directorate General for External Policies

Arif Havas Oegroseno, Ambassador, Mission of Indonesia to the EU

Yan Olmechenko, Minister Counselor, Embassy of Ukraine to Belgium

Saskia Oltrop, Policy Officer, Evonik Industries

Urszula Pallasz, Senior Advisor, Strategic Planning Division, European External Action Service (EEAS)

Trisari Paramita, First Secretary for Economic Affairs, Mission of Indonesia to the EU

Christina Parypa, Researcher, Facultés Universitaires Saint-Louis

Demetrio Peña, Assistant, Paragon Europe

Andrea Perugini, Principal Director for Countries of Asia and Oceania, Ministry of Foreign Affairs, Italy

Jean Plume, Director, Association Belge de Services (ABS)

Elisabeth Pouchous Stolle, Representative, Association Franco Indonésienne Pasar Malam

Jean-Michel Richez, Business Consultant, GDF Suez

Elisabeth Richter, Assistant, Representation of the Region of Lower Saxony to the EU

Charlotte Röper, Assistant, Permanent Representation of Germany to the EU

Laura Rüdüsühli, Legal Assistant, Permanent Representation of Germany to the EU

Jürgen Rüländ, Professor, University of Freiburg, Department of Political Science

Giovanni Salici, Official, European Commission, Directorate General for Interpretation - Conference Organisation

Eric Sayettat, Conseiller économique (relations avec l'Asie et le Pacifique, COASI), Comité de Politique commerciale, Permanent Representation of France to the EU

Rainer Schierhorst, Asia-Pacific Department, EU-Pacific Relations, European External Action Service (EEAS)

Manuel Schmitz, Professor, University of Leuven, Centre for European Studies

Stefanie Seedig, Counsellor, COASI Delegate, Permanent Representation of Germany to the EU

Tirta Segara, Executive Director, Central Bank of Indonesia

Kojiro Shiojiri, Ambassador, Mission of Japan to the EU

A. Symbolon, Consultant, INDO-NED Consultancy

Pierre Snoy, European Representative, Global Business Forum

Elía Sosa, Counsellor, Political Affairs, Mission of Mexico to the EU

Curt Staël von Holstein, South East Asia Analyst, European External Action Service (EEAS)

Sorina Stan, Assistant, European Commission, Directorate General for Justice

René Steiner, Administrator, European Commission, Directorate General Human Resources and Security

Willy Stevens, President, Centre d'études des Relations Internationales et Stratégiques (CERIS)

Yvonne Stinson Ortiz, Minister, Economy, Mission of Mexico to the EU

Amy Studdart, Program Officer, Asia, The German Marshall Fund of the United States

Muhadi Sugiono, Director of the Center for Southeast Asian Social Studies, University of Gadjah Mada, International Relations

Catur Sugiyanto, Agriculture Attaché, Mission of Indonesia to the EU

Sulaiman Syarif, Coordinator for Economic Affairs, Mission of Indonesia to the EU

Santa Imelda Tenyala, Representative, Komodo Dragon Foundation

George Wei Tsai, Vice President, Taiwan Foundation for Democracy

Gabor Torok, Officer, European People's Party (EPP)

Ahmet Ulusoy, Secretary General, UNITEE

Mexind Suko Utomo, Assistant, Permanent Representation of France to the EU

Ulrich van Essen, Head of Unit, Protection of EUSI, Council of the European Union

Caroline Van Leynseele, Administrator, Employers' Group Secretariat, European Economic and Social Committee (EESC)

Céline Vandermeersch, Trade Mission Coordinator, Belgian Foreign Trade Agency (ACE-ABH)

Anne Vermaes, Assistant, INDO-NED Consultancy

Peter Wehrheim, Head of Unit - Climate Finance and Deforestation, European Commission, Directorate General for Climate Action

Friends of Europe – Les Amis de l'Europe
4, Rue de la Science, B-1000 Brussels, Belgium
Tel.: +32 (0) 2 893 98 17 – Fax: +32 2 893 98 29
Email: info@friendsofeurope.org
Website: www.friendsofeurope.org





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