

INDONESIA MATTERS: THE ROLE AND AMBITIONS OF A RISING POWER



Summer 2013

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Asia Programme

Bibliothèque Solvay, Parc Léopold
Rue Belliard 137, 1040 Brussels, Belgium
4, Rue de la Science, 1000 Brussels, Belgium
Tel.: +32 (0)2 893 98 21 – Fax: +32 (0)2 893 98 29
info@friendsofeurope.org

www.friendsofeurope.org

friendsofeurope.foe

@FriendsofEurope

friendsofeurope

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INDONESIA MATTERS: THE ROLE AND AMBITIONS OF A RISING POWER

Report of the high-level European Policy Summit

co-organised by *Friends of Europe* and The Mission of Indonesia to the EU

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Rapporteur: Phil Davis

Publisher: Geert Cami

Project Director: Nathalie Furrer

Project Manager: Patricia Diaz

Project Assistant: Daniele Brunetto

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EXECUTIVE SUMMARY

Indonesia's success in consolidating democracy and achieving rapid economic growth has propelled the country into a position of regional and global power. Indonesia has undergone immense political change in the last few years, moving from authoritarian rule to a robust and vibrant democracy and building a dynamic economy after being crippled by the 1997-98 Asian financial crisis. Indonesia's "soft power" as a moderate Muslim majority nation is also growing, both in the neighbourhood and beyond.

"Our experience has taught us that sustainable economic development is only possible if there is political development too," said Hassan Wirajuda, Indonesian Minister of Foreign Affairs (2001-2004 and 2004-2009) who is now Member of the Council of Presidential Advisers of Indonesia. Indonesia has long been the driving force behind the Association of Southeast Asian Nations (ASEAN) and is active in helping to settle regional disputes, such as in the South China Sea. As a G20 member, Indonesia is also looking beyond Asia and is an important player for Europe and the United States (US) in terms of maritime security. Daniel Novotny, Director of Global Europe, said: "It is telling that Indonesia managed to push Australia, New Zealand, India, Russia and the US to come to the East Asia Summit."

Indonesia's reformasi after the Asian crisis of 1997-98 transformed the country. The strategic reforms undertaken unpicked 33 years of authoritarian rule and embedded democracy into the nation's fabric. The measures unleashed a dynamic economy and GDP has accelerated. With 70% of GDP based on domestic consumption, growth appears sustainable and Indonesia's credit rating has been restored to investment grade. According to McKinsey, Indonesia is poised to become the 7th largest economy by 2030, ahead of UK and Germany. As Arif Havas Oegroseno, Ambassador of Indonesia to the EU, said: "We defy the belief that democracy is not compatible with growth or with Islam. We are the country of Mission Impossible."

The Indonesian economy must overcome a number of challenges to sustain its growth rate. Theo Thomas, Senior Public Sector Specialist at the World Bank Office in Jakarta, said: "The economy is benefiting from a democracy dividend. But while 6 per cent growth sounds good, we think it could do better. It could be

7%-9%.” The lack of infrastructure is holding back growth. This includes physical infrastructure, available land, and a lack of skilled workers for building projects.

The country also needs to avoid the middle income trap, with 50m citizens already classified as middle class.

The rapid pace of change has thrown up social and governance issues that the country must confront. Despite both central and regional governments devoting at least 20% of their budgetary spending to education, there have not necessarily been commensurate improvements in outcomes. Mark Crossey, Director Programmes at British Council Indonesia, said: “The breakneck speed of legislative challenges means teachers and schools are catching up with demands.” Qualified teachers are in high demand and there are shortfalls in school inspectors. Poverty is still an issue, with an estimated 94m Indonesian citizens close to the poverty line. In addition, the devolution of politics to local government has created frictions and fiefdoms.

The EU has been slow to recognise Indonesia’s multi-faceted rise. The Partnership and Co-operation Agreement (PCA) signed in 2009 has yet to be ratified. Ana Gomes MEP, Rapporteur for the EU-Indonesia PCA, said: “In Europe we are still failing to appreciate that Indonesia matters. It is not just about size and wealth, but about a success story of democratic transformation.” There are many shared values between Indonesia and the EU that can be built upon: diverse cultures and languages; a belief in democracy and peace, and a desire for regional and global co-operation. “We are in real danger of missing an opportunity with our Indonesian partners,” said Pierre Vimont, Executive Secretary General of the European External Action Service (EEAS). Opening the conference, Shada Islam, Head of Policy at *Friends of Europe* said it was important that the EU and Indonesia: recognised each other as strategic partners; organised regular summits to ensure engagement at the highest level; and started negotiations on a Comprehensive Economic Partnership Agreement (CEPA).

A so-called “scoping exercise” on a free trade and investment agreement is under way, but there are still obstacles to overcome. Mauro Petriccione, Director for Relations with South-East Asia at the Directorate General for Trade of the European Commission, said: “Current policy is cumbersome for business, protectionist and not always open. Moving up the value chain is good, but trade restrictions are not.”

THE RECASTING OF A NATION

Indonesia's reformasi which transformed the country was far more than a response to the Asian financial crisis of 1997-98. Yes, the country was crippled economically by the crisis, but the reforms were also designed to unwind 33 years of authoritarian rule and embed democracy into the nation's fabric. The visible results of the measures were the unleashing of a dynamic economy and a dramatic rise in GDP. Behind the figures and data is the story of deep reform of all facets of Indonesian society.

"Reformasi was a multi-dimensional response to a multi-dimensional crisis," said [Hassan Wirajuda](#), Indonesian Minister of Foreign Affairs (2001-2004 and 2004-2009) who is now Member of the Council of Presidential Advisers of Indonesia. "It was a strategic decision to correct past mistakes. Indonesia was on the brink of collapse. Economic collapse, but political, social and security collapse too."



The initial steps to stabilise the tottering economy have since been built upon. “We have learned the lesson that public and private sectors should not be overburdened by debt,” said Wirajuda. “We have a very prudent fiscal and monetary policy. Our debt was 90% of GDP in 1999 - it is now 22%. It will be 20% at the end of the current cabinet.”

“Europe must widen its horizons. Until recently, all the EU talked about was China and India. Indonesia deserves to be on the EU map of Asia.”

Hassan Wirajuda, Indonesian Minister of Foreign Affairs (2001-2004 and 2004-2009) and Member of the Council of Presidential Advisers of Indonesia



As well as the economy, Wirajuda pointed to substantial progress in issues including corruption, human rights and giving autonomy to local governments. “Europe must widen its horizons. Until recently, all the EU talked about was China and India. Indonesia deserves to be on the EU map of Asia,” he said.

The reforms, as the World Bank acknowledges, have been comprehensive. Theo Thomas, Senior Public Sector Specialist at the World Bank Office in Jakarta, said: “Indonesia is now a rapidly growing economy, a full G20 country, and has presided over a massive reduction in debt that European countries can only envy.” Its credit rating has been restored to investment grade and it can boast the amazing achievement of a decline in its poverty rate to under 12% last year.

“We defy the belief that democracy is not compatible with growth or with Islam. We are the country of *Mission Impossible*.”

Arif Havas Oegroseno, Ambassador of Indonesia to the EU



Perhaps the most prized change is the entrenchment of democracy. As [Daniel Novotny](#), Director of Global Europe, said: “During the Suharto era, people were really scared to talk about politics and issues like corruption. But when I went there in 2003-2004 for fieldwork, everyone was eager to talk and discuss tricky issues.”

There are now 171m registered voters in Indonesia, with 600,000 separate polling stations during general elections. “I’m proud to say that our elections are free and peaceful,” said Wirajuda. Decentralisation is moving ahead rapidly, devolving power to the regions. “This year we are speeding up local elections and every month there will be two or three elections of governors. The World Bank calls us the ‘capital of elections’.”

Indonesia's transformation is changing attitudes not just about Asia, but about Islam and its place in the world. As Arif Havas Oegroseno, Ambassador of Indonesia to the EU underlined: "We defy the belief that democracy is not compatible with growth or with Islam. We are the country of *Mission Impossible*."



“Yesterday Indonesia was on its knees. Today it wields soft power across the region and beyond and is a natural leader of ASEAN.”

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

“It is a demonstration that Islam and democracy are fully compatible. Seen from Europe, this is a very important development,” said Ana Gomes, MEP and Rapporteur for the EU-Indonesia PCA. The current economic success story could never have taken place without democracy first being established, she noted. “I pay tribute to the Indonesian government for its wisdom in opening up Indonesia to co-operation with the rest of the world. It was not their tradition. The vibrancy of its media and academic world give me confidence that the democratic process is here to stay.” Hugely improved relations with Aceh and East Timor are examples that attitudes have changed, she added.

Shada Islam, Head of Policy at *Friends of Europe*, summed up Indonesia's achievements. “In our complex, fast-paced globalised world, we forget how far Indonesia has come in such a short time. Today it is a robust and vibrant democracy. It holds presidential elections next year and you only have to listen to the debate and read the newspapers to see how animated and sincere the discussion is.

“Yesterday Indonesia was on its knees. Today it wields soft power across the region and beyond and is a natural leader of ASEAN.”

RAPID EMERGENCE OF A NEW WORLD POWER

Indonesia's success in consolidating democracy and its rapid economic growth has substantially raised its political profile. Its "soft power" as a moderate Muslim majority nation is growing, both in the neighbourhood and beyond.

Indonesia believes it will continue to prosper if it is politically engaged, both regionally and on the world stage. "Our experience has taught us that sustainable economic development is only possible if there is political development too," said Wirajuda. Indonesia has long been the driving force behind Association of Southeast Asian Nations (ASEAN) and is active in helping to settle regional disputes, such as in the South China Sea.

"It's definitely in the interest of the EU that there is regional stability and maritime security."



Edy Prasetyono, Vice Dean of the Faculty of Social and Political Sciences at the University of Indonesia

It was a major contributor to calming relations in north-east Asian dispute, said Pierre Vimont, Executive Secretary General of the European External Action Service (EEAS). "It scored a diplomatic success for its role in the border problems between Cambodia and Thailand," he noted.

Ambassador Oegroseno said Indonesia was continually expanding its international reach. "We have been a regular contributor to peacekeeping

operations and have helped settled disputes over 15 maritime boundaries with our neighbours,” he said. “Our aim is to enhance trust and strengthen regional norms. These are big picture considerations.”

“Indonesia’s foreign policy has been described as confidence diplomacy. Its soft power is about economics to some extent, but more about its values and achievements.”



Daniel Novotny, Director of Global Europe

As a G20 member, Indonesia is also looking beyond Asia and is an important player for Europe and the US in terms of maritime security. Novotny said: “It is telling that Indonesia managed to push Australia, New Zealand, India, Russia and the US to come to the East Asia Summit.”

The world has woken up to the importance of south-east Asian waters and is keen to engage Indonesia in protecting strategic and economic interests. “More than \$400bn of trade annually passes through our waters,” said [Edy Prasetyono](#), Vice Dean of the Faculty of Social and Political Sciences at the University of Indonesia. “So it’s definitely in the interest of the EU that there is regional stability and maritime security.”

The country is looking to alliances to extend its reach, said Wirajuda. “ASEAN is our focus but we are championing more balance through strategic partnerships

with China, Japan, Australia, Russia, South Africa and Brazil,” he said. “We are not just looking for traditional economic relationships, but the expansion and deepening of our relationships.”

With economic growth and a rising political profile, Indonesia is increasingly able to exercise soft power. Novotny said: “Indonesia’s foreign policy has been described as confidence diplomacy. Its soft power is about economics to some extent, but more about its values and achievements.”

The country’s ability to wield soft power is even acknowledged by the World Bank. “Formal governance relationships in the World Bank have not changed quickly, but Indonesia operates with soft power and that shapes the relationship we have with it,” said Thomas.

Indonesia’s achievements mean it is held up as an example by countries around the globe that are in transition from authoritarian to democratic regimes. It has established a forum to formalise its relationships with groups within these countries. Wirajuda said: “In 2008, we established the Bali Democracy Forum (BDF), not only for countries with democracy, but those which aspire to it too. It is now the premier global forum for democracy.”



This event was live streamed , allowing people to watch the debate from anywhere in the world.



Welcome to Bank Indonesia

"Bank Indonesia has one single overarching objective: to establish and maintain rupiah stability. This objective incorporates two key aspects: the first is a stable rupiah for goods and services, reflected by the inflation rate. The second is exchange rate stability against other foreign currencies, which is reflected by rupiah performance against other foreign currencies. In terms of Bank Indonesia's roles and functions, accountability and transparency principles are applied through the regular and open publication of information to the public via the mass media, at the beginning of each year, regarding the evaluation of monetary policy implementation in the previous year, as well as monetary policy planning and the setting of monetary targets for the year ahead. Such information is also delivered in writing to the President and House of Representatives." [Detail](#)

What's New [Press Release](#) [Agenda](#)

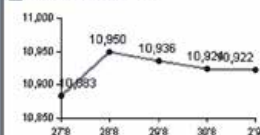
29-08-2013 | [Result of First Bank Indonesia Deposit Certificate...](#)

28-08-2013 | [Bank Indonesia Published the implementation of Pro...](#)

27-08-2013 | [Additional Monthly RDC Meeting called for 29th Aug...](#)



Mid Rate USD - IDR



BI Rate 29-08-13 7,00 %
Reserve Assets 31-07-13 \$ 92,671.00 BI
CPI Inflation (yoy) Aug 2013 8.79 %
Inflation Target 2013 4.5% (±1%)
[Auction of SBI and SBIS](#)

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ON TRACK TO BECOME 7TH LARGEST ECONOMY?

Indonesia's GDP growth is expected to be 6.3% this year and higher still next year. This compares favourably not only with developed countries, but with most emerging markets too. With 70% of GDP based on domestic consumption, this growth appears sustainable. As a result, Indonesia's credit rating has been restored to investment grade. According to McKinsey, Indonesia is poised to become the 7th largest economy by 2030, ahead of UK and Germany.

“Indonesia has definitely succeeded in its mission impossible. The change is remarkable and testimony to hard work and vision.”

Simon Worthington, Senior Advisor of European Government Affairs at British Petroleum (BP)



The economic transformation has astounded the business community, even those who know the country well. **Simon Worthington**, Senior Advisor of European Government Affairs at British Petroleum (BP), said: “Indonesia has definitely succeeded in its mission impossible. Every time I go to Jakarta I remember what it was like as a young boy. The change is remarkable and testimony to hard work and vision.”

While instilling democracy may have been the key underlying achievement, the tangible achievement in the eyes of the most of the world is its economic development. **Mauro Petriccione**, Director for Relations with South-East Asia at the Directorate General for Trade of the European Commission, said: “Why does Indonesia matter? It's the economy stupid! It is the fastest-growing economy in the G20 after China. Half of the population is under 29, so no wonder it is predicted to be larger than Germany or the UK by 2030.”

The middle classes have mushroomed from about 2m in 2004, to 50m in 2009 and an anticipated 120m by 2020. This is the fastest rate of middle class growth globally after China and India.

The question now is how this growth rate can be sustained and what the ingredients for growth are. [Aida Budiman](#), Director of the International Affairs Department of Bank Indonesia, is clear about the way forward. “To stay ahead of the game at all levels – bilateral, regional and global – Indonesia must improve its competitiveness”. Playing an active role in regional and multilateral fora, such as ASEAN or the G-20, is not easy. “It is one coin with two sides. On one side, it is about how we can contribute to the outside world, but we also need to think about the national interest,” she said. At the regional level, Indonesia has been very active in supporting the realisation of the ASEAN Community. “ASEAN will offer a huge market but also capacity building,” Budiman said. “One of the key aims is to share benefits to all members”.

“Why does Indonesia matter? It’s the economy stupid! It is the fastest-growing economy in the G20 after China.”



[Mauro Petriccione](#), Director for Relations with South-East Asia at the Directorate General for Trade of the European Commission

The Asian Bond Market Initiative, which was endorsed by ASEAN in 2003, has succeeded in keeping bond markets in Asia liquid and its expansion could lead to a single market, she said. “We are heading for integration in banking markets, in capital markets. ASEAN will be Indonesia and vice versa. We see full economic integration in 10 years.”

THE CHALLENGE TO FUTURE GROWTH

The Indonesian economy faces a number of challenges to sustain its phenomenal growth rate. **Theo Thomas** said: “The economy is benefiting from a democracy dividend. But while 6% growth sounds good, we think it could do better. It could be 7%-9%.”

Without more progress on some policy reforms, opportunities could be missed to boost growth, he said. For instance Indonesia’s tax revenues are one of lowest in the G20. “Increasing this could be done quite quickly and boost spending,” said Thomas.

“To stay ahead of the game at all levels – bilateral, regional and global – Indonesia must improve its competitiveness.”

Aida Budiman, Director of the International Affairs Department of Bank Indonesia



He signalled other potential areas for improvement, including: governance and accountability; bureaucratic reforms; improving the delivery of public services; changing the administration from one that focuses on control and compliance to one that focuses on performance; instituting health and labour insurance and state pensions; improving infrastructure.

“Infrastructure development is critical to delivering sustainable economic growth in Indonesia.”



Wahyu Utomo, Deputy for Public-Private Partnerships at the Coordinating Ministry of Economic Affairs of Indonesia

The undeveloped infrastructure is a major issue, and this includes physical infrastructure, available land, and a lack of skilled workers for building projects. Wahyu Utomo, Deputy for Public-Private Partnerships at the Coordinating Ministry of Economic Affairs of Indonesia, said “infrastructure development is critical to delivering sustainable economic growth in Indonesia”. An estimated \$230bn of infrastructure spending is planned up to 2017, under the Masterplan for Acceleration and Expansion of Indonesia’s Economic Development (MP3EI). But sheer expenditure does not solve the problem of lack of skilled workers and land for projects. “We need 130m skilled workers to support the economy but at the moment we have just 55m,” said Utomo. “If we want to develop infrastructure, we also need land. We are trying to solve the problems of land acquisition with new legislation but it is not yet tested.”

Thomas stressed the need for more private involvement in the infrastructure roll-out. “Infrastructure is expanding rapidly but an awful lot more is needed,” he said. “We need a good regulatory framework for public-private partnerships so private companies can invest in ports, mass rapid transport and so on. There should be more focus on longer-term and more sustainable growth.”

The country is also in danger of falling into the middle income trap, whereby income levels rise and local manufacturers find themselves unable to compete in export markets with lower-cost countries. The problem is compounded by not being able to compete with advanced economies in higher-value products and services. With 50m citizens already classified as middle class, the middle income trap is a real concern for Indonesia.

“To avoid the middle income trap, Indonesia has to make sure that the bottom 40% of society shares in prosperity.”



Theo Thomas, Senior Public Sector Specialist at the World Bank Office in Jakarta

Thomas said: “To avoid the middle income trap, Indonesia has to make sure that the bottom 40% of society shares in prosperity. At the same time, it needs a more dynamic economy, an improved skills base and a more equitable society overall.”







JICA's Initiatives

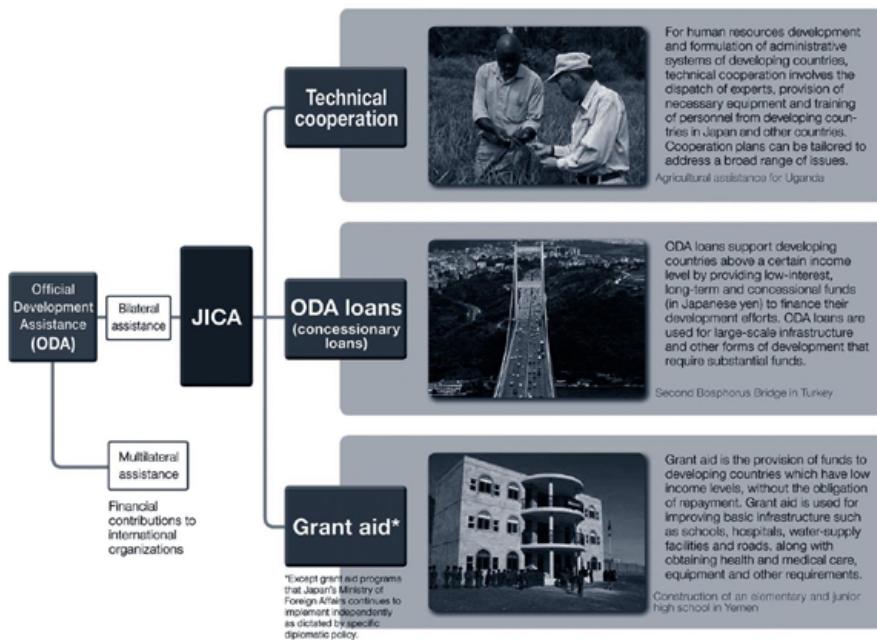
A Bridge Linking Japan with Developing Countries

JICA assists and supports developing countries as the executing agency of Japanese ODA. In accordance with its vision of "Inclusive and Dynamic Development," JICA supports the resolution of issues of developing countries by using the most suitable tools of various assistance methods and a combined regional-, country- and issue-oriented approach.

ODA and JICA

Since joining the Colombo Plan in 1954, Japan has been providing financial and technical assistance to developing countries through ODA, aiming to contribute to the peace and development of the international community and thereby help ensure Japan's own security and prosperity.

JICA is in charge of administering all ODA such as technical cooperation, ODA loans and grant aid in an integrated manner, except contributions to international organizations. JICA, the world's largest bilateral aid agency, works in over 150 countries and regions and has some 100 overseas offices.



Japan International Cooperation Agency

Nibancho Center Building, 5-25, Niban-cho, Chiyoda-ku, Tokyo 102-8012, Japan

Tel: +81-3-5226-6660 <http://www.jica.go.jp/english/>

SOCIAL STRUCTURES STRUGGLE TO KEEP UP WITH PACE OF CHANGE

The rapid pace of change does not just present challenges at an economic level, but at social and governance levels too.

Muhadi Sugiono, European Studies Co-ordinator at the Universitas Gadjah Mada (UGM) Indonesia, hopes that the 2014 general elections will address important societal issues. “The three important things that need to be addressed prior to the elections are corruption, poverty reduction and law enforcement,” Sugiono said. “Corruption is still a major problem. Politicians are still involved in it, so I worry that it will add to demise in the democracy process.”

Education to take the skills base to the next level is another concern. While the Indonesia’s Constitution requires both central and regional governments to allocate at least 20% of their budgetary spending to education, there have not necessarily been commensurate improvements in outcomes. **Mark Crossey**, Director Programmes at British Council Indonesia, said: “The breakneck speed of legislative challenges means teachers and schools are catching up with demands.”

“The three important things that need to be addressed prior to the elections are corruption, poverty reduction and law enforcement.”

Muhadi Sugiono, European Studies Co-ordinator at the Universitas Gadjah Mada (UGM) Indonesia



The education system is already complex with 3,700 universities and a governance structure managed by both government and religious entities. “It is a complex picture but is also vibrant and exciting,” added Crossey.

There is a growing access to and energy for learning opportunity – and above all a comparative openness to the outside world – which is very promising, underlined Crossey. Much will depend on policy and investment moves over the coming years and, of course, how things progress after next year's elections.

The role of the creative industries in Indonesia is pivotal. “The government is showing more signs of supporting and developing an educational structure to optimise the country's creative potential, but at present this is mostly at the higher education level,” Crossey said.

The big challenge is to make the decentralised education system work. “The decentralised process has gone quite well so far, and legislation is advanced by global standards,” said Crossey. “Student-centred learning is at the heart of curriculum so there are many plusses.”



“The government is showing more signs of supporting and developing an educational structure to optimise the country's creative potential, but at present this is mostly at the higher education level.”

**Mark Crossey, Director Programmes at
British Council Indonesia**

But the scale and detail of the changes in education are proving difficult to manage. “In very small schools in places like West Papua, they have to develop their own curriculum for the student-centred model,” Crossey said. “They also have to develop as teachers. If you have taught for 20 years using role-learning then a shift to a student-focused methodology is not easy. As a consequence, there are very mixed results given the 20% budget.”

To make sure the budget is well spent, improved co-ordination between the Ministry of Education and religious organisations will be necessary, he added.

Additional problems included a dearth of qualified teachers, shortfalls in school inspectors and absenteeism among pupils and teachers alike.

In terms of politics, the devolution of power to local government and the creation of more than 500 local government structures have created a raft of potential frictions. While the move deepens democracy, it also has the potential to raise tensions. Prasetyono said: “There are a lot of problems with relationships between central and local governments. It may be a beauty story, but there a lot of problems. It has created little kings at regional levels and this means a longer track to an integrated political system. What happens if local parties have different policies from the president? Will the system be sustainable in that case?”

Energy for Europe

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EU SLOW TO GRASP INDONESIAN OPPORTUNITY

The EU has been slow to recognise Indonesia's multi-faceted rise. The Partnership and Co-operation Agreement (PCA) signed in 2009 has yet to be ratified. [Ana Gomes MEP](#), Rapporteur for the EU-Indonesia PCA, said: "In Europe we are still failing to appreciate that Indonesia matters. It is not just about size and wealth, but about a success story of democratic transformation."

"We are in real danger of missing an opportunity with our Indonesian partners," said Pierre Vimont. "We don't have a strategic partnership with Indonesia or comprehensive partnership agreements."

"In Europe we are still failing to appreciate that Indonesia matters. It is not just about size and wealth, but about a success story of democratic transformation."



[Ana Gomes MEP](#), Rapporteur for the EU-Indonesia The Partnership and Co-operation Agreement (PCA)

"It's as if the EU is not aware of the speed of events in Indonesia, which have almost been a revolution since 1998. Everyone talks about political Islam but not often enough do we talk about the extraordinary success of Indonesia. We need more structured dialogue, more political and regulatory meetings."

The delay in moving closer together is perplexing given the many shared values between Indonesia and the EU that can be built upon. These include: diverse

cultures and languages; a belief in democracy and peace, and a desire for regional and global co-operation.

“Since our independence we have been engaging with the international community,” said the Indonesian Ambassador. “We are diverse as Europe with as many cultures, languages and religions. We have similar demographics as the EU and the same values in believing in credible, peaceful and prosperous regional organisations.”

“We are in real danger of missing an opportunity with our Indonesian partners. We need more structured dialogue, more political and regulatory meetings.”

Pierre Vimont, Executive Secretary General of the European External Action Service (EEAS)



The two regions also face the same challenges in terms of the radicalisation of their citizens in the face of political Islam, he said. “We have great experience of this that we can share,” he said. “We have counter-acted radicalisation with theology. Fighting radicalisation with theology has been an important way to maintain plurality.”

There is palpable frustration in Indonesia at the slow pace of EU engagement. The similarities between the strategic aims are being missed by some within the EU, said Sugiono. “It is important that the EU looks at Indonesia as an equal partner,” he said. “Both are promoting normative power within their regions so we need more consistency in foreign policy from the EU.”

Shada Islam, at *Friends of Europe*, outlined a future policy framework for relations between Indonesia and the EU. This included: recognising each other as strategic partners; organising regular summits to ensure engagement at the highest level; and starting negotiations on a Comprehensive Economic Partnership Agreement. “We need to spend more time and energy on this,” said Islam. “There should be a focus on encouraging people-to-people contact.”

THE PROCESS OF REFORM MUST GO ON

The EU appears to be waiting for positive changes in Indonesia's business and social environment before engaging further. It believes European businesses, for instance, are forced to navigate corruption and protectionism when entering the Indonesian market or sourcing products from Indonesia. Mauro Petriccione said: "Current policy is cumbersome for business, protectionist and not always open. Moving up the value chain is good, but trade restrictions are not."

"If we want to stay ahead as a big economy we need to become inclusive, and that means including young people and women not just as participants but as beneficiaries and equal partners."



Disty Winata, Google Zeitgeist Young Mind and 2012 G(irls)20 Summit Delegate from Indonesia

While foreign direct investment (FDI) flows are currently strong, this may not remain so, he warned. "Indonesia's own finance minister attributes the FDI flows to Indonesia being the least unattractive country to invest in. Global FDI is very competitive - investors are not looking to make a fast buck, they want stability and good future prospects."

There are two scenarios for business relationships between the EU and Indonesia, he said. The first, business as usual, is unsustainable. "We have been patient, we have managed the situation with Indonesia to handle it amicably, but it can't last forever," said Petriccione.

The second scenario, a Comprehensive Economic Partnership Agreement (CEPA), is the only way forward. “In our view it is not possible to negotiate an agreement if it doesn’t find its roots in a domestic reform process,” said Petriccione. “If we open up our market, we demand positive reform in Indonesia.”

The EU sees issues around law enforcement, religious tolerance and women’s rights too. [Disty Winata](#), Google Zeitgeist Young Mind and 2012 G(irls)20 Summit Delegate from Indonesia, said it is not easy to make headway on women’s rights. “Women are half Indonesia’s total population but they are not utilised in the country to their fullest,” she said. “Women are consumers, innovators, producers and community champions. We are a very dynamic force. But on the national stage in Indonesia there is very little opportunity for us to work with the authorities and institutions that have political power.

“If we want to stay ahead as a big economy we need to become inclusive, and that means including young people and women not just as participants but as beneficiaries and equal partners.”

While Europe is looking for changes in Indonesia society, it should also accept it can learn from Indonesia in terms of best practices. “Europe can adapt too,” said Simon Worthington. “More can be done in terms of mutual understanding and listening from the EU,” he said, adding: “The EU should be in listening mode rather than forcing Indonesia to do things that may not be in their interests. There should be more pragmatism and realism.”

Worthington suggested the EU’s learning process could be formalised. “This is a Muslim society that has succeeded. We need a think-tank or a foundation to see where this success has come from and how it can be replicated.”

ANNEX I – Programme

09.00 – 09.30	Welcome coffee and registration of participants
09.30 – 09.40	Welcome remarks by: Arif Havas Oegroseno , Ambassador of Indonesia to the EU
09.40 – 11.30	SESSION I Staying ahead of the game

Indonesia's rise is backed up by impressive figures. The country has the biggest economy — at US\$850 billion — in Southeast Asia and growth rates of above 6 per cent in recent years have lifted per capita income to more than US\$3,500. The future is bright: the OECD predicts that Indonesia's economic growth will expand by an average 6.4 per cent from 2013 to 2017, putting the nation among the fastest growing Asian countries. Significantly, investment and domestic consumption remain the main drivers for Indonesia's growth, helping to shield the country from the worst aspects of global economic turmoil. However, the government needs to make faster progress in addressing issues like corruption, extremism and the education and skills gap. To continue growing and avoid the "middle income trap", Indonesia must act urgently to improve infrastructure, investment regulations, government procurement rules and property rights. What progress is being made in implementing the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) launched in 2011? Is the government doing enough to boost infrastructure spending? Can Indonesia generate more power to meet the rising demands of a growing economy? Is the Indonesian economy too dependent on the export of commodities? What is being done to ensure the development of capital-intensive industries such as chemical, metal and automotive to meet strong domestic demand? Can Indonesia avoid the middle income trap? In an increasingly competitive regional and global environment, how do foreign investors view Indonesia as an investment destination?

Keynote address by **Hassan Wirajuda**, Indonesian Minister of Foreign Affairs (2001-2004 and 2004-2009) and Member of the Council of Presidential Advisers of Indonesia

Mark Crossey	Director Programmes at British Council Indonesia
Ana Gomes MEP	Member of the European Parliament Committee on Foreign Affairs
Muhadi Sugiono	Head of Political Science Post-Graduate Studies at the University of Gadjah Mada, Indonesia
Theo Thomas	Senior Public Sector Specialist at the World Bank Office in Jakarta, Indonesia
Wahyu Utomo	Deputy for Public-Private Partnership at the Coordinating Ministry of Economic Affairs, Indonesia

Co-moderated by **Giles Merritt**, Secretary General of *Friends of Europe* and **Shada Islam**, Head of Policy at *Friends of Europe*

11.30 – 12.00	Coffee break
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12.00 – 13.30 **SESSION II**
 Indonesia's regional and global outreach

Indonesia is making its mark on the regional and global stage. A robust and dynamic democracy, Indonesia is a member of the G-20, an acknowledged leader of the Association of Southeast Asian Nations (ASEAN) and, as the world's most populous Muslim nation (albeit with a secular constitution), a moderating force within the Organisation of the Islamic Conference (OIC). The conclusion of an EU–Indonesian Partnership and Cooperation Agreement in 2009 is a step in the right direction, as are plans to sign a Comprehensive Economic Partnership Agreement. However, the relationship needs to become stronger and more strategic, reflecting the changing nature of both Indonesia and the EU. What are Indonesia's key priorities within the G20? Could Indonesia break away from ASEAN and chart an independent course which would include new emphasis on human rights, democracy and the rule of law? How is Indonesia reacting to the growing economic, political and military assertiveness of China? What are the lessons to be learned from the Indonesian experience with democratic transition for Arab nations? How can the EU–Indonesian relationship be given more substance? What are the rewards of a qualitative leap forward in EU–Indonesian relations? What would be the benefits of an EU–Indonesia strategic partnership? How are negotiations progressing on a Comprehensive Economic Cooperation Agreement which would link the EU and Indonesia?

Keynote address by **Pierre Vimont**, Secretary General of the European External Action Service (EEAS)

Aida Budiman	Director of the International Affairs Department of Bank Indonesia
Daniel Novotny	Director of Global Europe
Mauro Petriccione	Director for Asia and Latin America at the European Commission Directorate General for Trade
Edy Prasetyono	Vice Dean of the Faculty of Social and Political Sciences at the University of Indonesia
Disty Winata	Google Zeitgeist Young Mind and the 2012 G(iris)20 Summit delegate from Indonesia
Simon Worthington	Senior Advisor of European Government Affairs at BP

Co-moderated by **Giles Merritt**, Secretary General of *Friends of Europe* and **Shada Islam**, Head of Policy at *Friends of Europe*

13.30 – 14.30 End of conference and Indonesian networking lunch



ANNEX II – List of Participants

John Admiral, Head of Section for Administration and Development Skill Analysis of Diplomatic Officer, Ministry of Foreign Affairs, Indonesia

Patrick America, President, KCV & Partners

Ron Andries, Security Liaison Officer, European Parliament

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

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

Mara Arutyunyan, Third Secretary, Mission of the Russian Federation to the EU

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

Joanna Azzi, Secrétaire d'Ambassade, Mission of Lebanon to EU

Egle Bajoriniene, Policy Officer, Economic and Financial Desk Officer for International Economic Issues, European Commission: Directorate General for Economic and Financial Affairs

Steven Barraclough, Political Counsellor, Mission of Australia to the EU

Roberto Bendini, Principal Administrator, European Parliament

Lorraine Benson, Counsellor, Foreign Trade Policy, Permanent Representation of Ireland to the EU

Petr Blizkovsky, Director, Economic and Regional Affairs, Council of the European Union: Directorate General for Economic and Social Affairs

Antoon Blokland, Coordinator Indonesia Network, BBO

Marc Bogaerts, Director General, Belgian Foreign Trade Board

Niels Böhm, Assistant to Vice President Government Affairs, Siemens AG

Christian Wouter Bossaerts, Honorary Consul General, Honorary Consulate General of the Republic of Indonesia

Stanislava Bouman, Programme Coordinator "Learn Serbian", Serbian Institute for Public Diplomacy

Ulla Brandt, Chief Political Adviser, Danish Chamber of Commerce

Johanna Brismar Skoog, Minister & Head of Chancery, Administration, Permanent Representation of Sweden to the EU

Vicky Brunati, Advisor, European Government Affairs, BP Europe

Daniele Brunetto, Project Assistant, *Friends of Europe Les Amis de l'Europe*

Aida Budiman, Director of the International Affairs Department, Bank Indonesia

Michel Butaye, Attaché, Wallonia Foreign Trade and Investment Agency (AWEX)

Fraser Cameron, Director, EU-Asia Centre

Geert Cami, Co-Founder & Director, *Friends of Europe Les Amis de l'Europe*

Robert Campbell, Manager, International Relations, Prudential

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

Arno Cnudde, Policy Officer, Bilateral Affairs, Flemish Department of Foreign Affairs

Susanne Connolly, Media Relations and Outreach Officer, Mission of Canada to the EU

Julian Conthe, Administrator, European Parliament

Pierre-Valentin Costa, Liaison Officer, EU Correspondent, Inter Euro Media

Miguel Cotton, Appointed lecturer, Université Libre de Bruxelles (ULB)

Mark Crossey, Director Programmes, British Council Indonesia

Vincent De Cuyper, Member of the Executive Committee, Solvay

Philippe Dechamps, Assistant General Counsel Delhaize Group, Senior Vice President Legal and Government Affairs, Delhaize Group

Damien Degeorges, Founder, Arctic Policy and Economic Forum

Olaf Deussen, Staff in Office of the Secretary General, European External Action Service (EEAS)

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

Hermanus Dimara, Diplomat, Ministry of Foreign Affairs, Indonesia

Stanislav Drapal, Head of Unit, Internal Audit, European Commission: Joint Research Centre

Anne Dufermont, Director, Corporate Public Affairs, L'Oréal European Office

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

Theresa Fallon, Senior Associate, European Institute for Asian Studies (EIAS)

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

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

Carlos Gaston, Head of Institutional Relations, Asia, Banco Bilbao Vizcaya Argentaria (BBVA)

Anneliese Gattringer, Pharmaceutical Affairs Officer, European Association of Pharmaceutical Full-Line Wholesalers (GIRP)

Berry Gelder, President, Interpartners Communications

Tania Genel, Staff Development Cooperation, International Relations, Vrije Universiteit Brussel (VUB)

Giulio Gentile, Programme Officer, European Commission: Directorate General for Development and Cooperation - EuropeAid (DEVCO)

Lin Goethals, Programme Director, European Institute for Asian Studies (EIAS)

Ana Gomes, Member, European Parliament: Committee on Foreign Affairs

Lukasz Graban, Desk Officer, Indonesia, Ministry of Foreign Affairs, Poland

Claire Grosbois, Economic Affairs Officer, European Starch Industry Association (AAF)

Renaud Guttinger, General Manager, Ahlers Indonesia

Pekka Hakala, Policy Analyst, European Parliament

Jenny Hallen-Hedberg, Head of International Relations, University of Luxembourg

Moumen Hamdouch, Policy Coordinator EU Trade relations with Indonesia, Brunei, Australia and New Zealand, European Commission: Directorate General for Trade

Patrick S Hasjim, First Secretary, Embassy of Indonesia to France

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

R. Rahmadi Hidayat, Head of Multilateral-Non UN Sub Division, Ministry of Foreign Affairs, Indonesia

Jakub Hladík, Foreign Affairs Manager, PPF Group

Cherise Howell, Group Finance Accountant, Prudential

Ellen Huijgh, Senior Researcher, Netherlands Institute of International Relations (Clingendael)

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

Arnaud Jacquet, Government & Public Affairs Manager Asia Pacific, Solvay

Weronika Jakubczak, Advisor, Security and Defence Policy and Foreign Affairs, European Parliament

Piotr Junik, Chief Specialist, Office of the Prime Minister, Poland

Stase Juodyte, External Trade Assistant, Permanent Representation of Lithuania to the EU

Louise Kallora-Stimpson, EU Affairs Manager, British Council

Mate Kander, Trade Advisor, European Automobile Manufacturers Association (ACEA)

Patrik Karlsson, Head of EU Public Affairs, Funds Group Public Affairs & Policy, Prudential

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

Gauri Khandekar, Researcher, Head of Asia Programme, Fundacion para las Relaciones Internacionales y el Dialogo Exterior (FRIDE) Brussels Office

Maen Khreasat, Counsellor & Deputy Head of Mission, Mission of Jordan to the EU

Koen Kinsbergen, Director Water Asset Management Solutions, Pure technologies

Petr Kolár, Head of Foreign Affairs, PPF Group

Jonathan Kramer, Permanent Representation of Germany to the EU

Natthira Krasaesarn, First Secretary, Mission of Thailand to the EU

Egle Kropaite, Policy Adviser, European Parliament

Marek Kuberski, Minister Counsellor, Embassy of Poland to Belgium

Achmad Kurniadi, Deputy for Investment Cooperation, Indonesia Investment Coordinating Board (BKPM)

Gosia Lachut, International Relations Officer, Asia-Pacific department, European External Action Service (EEAS)

Luca Laloli, Stagiaire, Mission of Switzerland to the EU

Manuel Ledesma Sanchez, COASI Delegate, Permanent Representation of Spain to the EU

Ivica Lekic, Research Analyst, STATT

Duncan Lewis, Ambassador, Mission of Australia to the EU

Marie-Paule Loontjens, Desk Officer for Singapore, Indonesia and Timor, Ministry of Foreign Affairs, Belgium

Charles Manche, Advisor European Government Affairs, BP Europe

Anne Mardiste, Counsellor, Permanent Representation of Estonia to the EU

Anne Marinussen, Training and Research Fellow, Netherlands Institute of International Relations (Clingendael)

Jacopo Martino, First Secretary, Permanent Representation of Italy to the EU

David Masri, Head of Asia, Pacific and Africa Sub Division, Ministry of Foreign Affairs, Indonesia

Tim Masselink, Training and Research Fellow, Netherlands Institute of International Relations (Clingendael)

Morgan McSwiney, International Relations Officer South East Asia, European External Action Service (EEAS) Crisis Management and Planning Directorate (CMPD)

Saeed Meraj, Third Secretary, Embassy of Bahrain to Belgium

Giles Merritt, Secretary General, *Friends of Europe Les Amis de l'Europe*

Stewart Mills, G20 Coordinator, European Commission: Directorate General for Development and Cooperation - EuropeAid (DEVCO)

Jozsef Molnar, Head of Unit, General and External Relations Division, European External Action Service (EEAS)

Katrina Murray, Research Officer, Embassy of Australia to Belgium

Alessandra Musso, Junior Officer, Unioncamere del Veneto

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

George Vlad Niculescu, Director of Programmes, Centre for East European and Asian Studies Brussels Office

Oluf Nielsen, International Relations Officer, European Commission: Directorate General for Communications Networks, Content and Technology

Johanna Niemistö, Advisor, International Affairs, Association of European Chambers of Commerce & Industry (EUROCHAMBRES)

Andre Norman Akbar, Head of Section for Personnel & Administration, Ministry of Foreign Affairs, Indonesia

Predrag Novikov, Director, European Affairs Fund of Autonomous Province of Vojvodina European Office

Daniel Novotný, Director, Global Europe

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

Filip Oosterlynck, Staff Officer Bilateral Relations, Belgian Defence and Security Group (BDIG)

Torang Pakpahan, Head of Sub Division for Human Rights and Humanity, Ministry of Foreign Affairs, Indonesia

Christian Pangaribuan, Head of Section for Politics and Security Affairs I, Ministry of Foreign Affairs, Indonesia

Wolfgang Pape, Research Fellow, Centre for European Policy Studies (CEPS)

Trisari Paramita, First Secretary for Economic Affairs, Embassy of Indonesia to Belgium

Nereo Peñalver García, Adviser to the Director General for External Policies, European Parliament

Dhanny Perkasa Arslan, Head of Section for Political and Security Affairs, Directorate for South and Central Asian Affairs, Ministry of Foreign Affairs, Indonesia

David Peterson, Senior Fellow, Brigham Young University (BYU)

Hubert Petre, Public Affairs Manager, Henkel AG & Co. International Governmental Relations & Public Affairs

Mauro Raffaele Petriccione, Director, Asia and Latin America, European Commission: Directorate General for Trade

Annejet Pette, Senior Consultant, Schuttelaar and Partners

António Pinho, Counsellor for Forest and Fisheries, Permanent Representation of Portugal to the EU

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

Edy Prasetyono, Vice Dean of the Faculty of Social and Political Sciences, University of Indonesia Department of International Relations

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

Vladimir Rakhmanin, Deputy Secretary General, Energy Charter Secretariat

- Anna Reece**, Director, Kreab Gavin Anderson
- Rol Reiland**, Legation Attaché, Head Office, Ministry of Foreign Affairs Luxembourg
- Nurhayati Ririn Tri**, Lecturer, Universitas Gadjah Mada International Relations Department
- Jehanne Roccas**, Director Asia and Oceania, Ministry of Foreign Affairs, Belgium
- Marcel Roijen**, Malaysia Delegation, European External Action Service (EEAS)
- Amanda Rowlands**, First Secretary, Embassy of Australia to Belgium
- Roxanne Rua**, Desk Officer G20 Countries, European Commission: Directorate General for Economic and Financial Affairs
- Alain Ruche**, Strategy Planning Division, European External Action Service (EEAS)
- David Sadeli**, MA Student, Maastricht University
- Siti Saffawani Suhaili**, Third Secretary, Mission of Brunei Darussalam to the EU
- Ana Sanchez Cambon**, Business Development, Indra
- Mulyanto Sastrowiranu**, Third Secretary, Public Diplomacy, Mission of Indonesia to the EU
- Peter D. Schellinck**, Secretary General, European Organisation for Technical Approvals (EOTA)
- Manuel Schmitz**, Senior Researcher, University of Trier
- Sumalee Seetalanook-Snoy**, Member, Women's International Club (WIC)
- Agus Harya Setyaki**, Head of Division for Environmental Agreements Evaluation, Ministry of Environment, Indonesia
- Kojiro Shiojiri**, Ambassador, Mission of Japan to the EU
- J.S. Meyer Siburian**, Director, Indonesia Investment Promotion Centre, Indonesia Investment Coordinating Board (BKPM)
- Christine Sidenius**, Policy Advisor, Group of the European Greens-European Free Alliance (Greens-EFA)
- Asa Silalahi**, Minister Counsellor, Political Section, Mission of Indonesia to the EU
- Ernesto Simanungkalit**, Third Secretary, Economic Affairs, Embassy of Indonesia to Belgium
- Tina Simbolon**, Operational Director, Indo-Ned Consultancy
- Olof Skoog**, Chairman of the Political and Security Committee (PSC), European External Action Service (EEAS)
- Pierre Snoy**, European Representative, Global Business Forum
- Demos Spatharis**, Head of Unit, Investigations II. Anti-circumventions, European Commission: Directorate General for Trade
- Annisa Srikandini**, PhD Student, Wageningen University
- Mark Stadler**, Student, University of Leiden
- Curt Staël von Holstein**, South East Asia Analyst, European External Action Service (EEAS)
- Muhadi Sugiono**, Head of Political Science Post-Graduate Studies, University of Gadjah Mada International Relations
- Catur Sugiyanto**, Agriculture Attaché, Mission of Indonesia to the EU
- Sulaiman Syarif**, Counsellor for Economic Affairs, Mission of Indonesia to the EU
- Tadeusz Szumowski**, Deputy Director of the Asia Pacific Department, Ministry of Foreign Affairs, Poland
- Nagayo Taniguchi**, Journalist, SEKAI
- Szabolcs Tapasztó**, Policy Specialist, European Parliament
- Daniel Taras**, Head of Section, Global Partnerships and Emerging Economies Department, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- Marie-Eve Tesch**, Assistant to the General Manager, Europalia International
- Theo Thomas**, Senior Public Sector Specialist, The World Bank
- Martine Trigalez**, BNP Paribas Fortis Agence Statuaires
- Andrey Tsyvov**, Second Secretary, Mission of the Russian Federation to the EU
- Sara Ulfskiöld**, Manager EU Affairs, Public Affairs, NATO, Saab
- Wahyu Utomo**, Deputy for Public-Private Partnership, Coordinating Ministry of Economic Affairs, Indonesia
- Isabelle van de Gejuchte**, Senior Programme Manager External Relations and European Affairs, British Council
- Dave van den Nieuwenhof**, Deputy Head of South Asia Division, Asia Department, Ministry of Foreign Affairs, The Netherlands
- Jennifer Van Driessche**, Communication officer, World Solidarity (WSM)
- Bieke Van Rooy**, Area Manager Asia & South East Pacific, Kela Laboratoria

Céline Vandermeersch, Economic Missions Coordinator, Belgian Foreign Trade Board

Karolien Verbeiren, Business Development Manager for Belgium & Luxemburg, Control Risks Group

Isabella Vermaes, Secretary, Indo-Ned Consultancy

Kim Vermeir, Senior Vice President, Export Finance Benelux, BNP Paribas Fortis

Pierre Vimont, Executive Secretary General, European External Action Service (EEAS)

Vangelis Vitalis, Ambassador, Mission of New Zealand to the EU

Made Wardana, Staff, Mission of Indonesia to the EU

Nathascha Waschewsky, Senior Project Manager, Eurideas Linguistic Services

Sakti Arif Wicaksono, Manager, Bank Indonesia

Dyas Alifiadisty Winata, Google Zeitgeist Young Mind and 2012 G(irls) Summit delegate from Indonesia

Hassan Wirajuda, Advisor to the President, Office of the President, Indonesia

Meike Wolf, Policy Officer, European Commission: Directorate General for Enterprise and Industry

Simon Worthington, Senior Adviser, Government Affairs, BP Europe

Jimmy Wu, Director, Parliamentary Liaison Division, Taipei Representative Office to the EU & Belgium

Suci Lestari Yuana, Research Assistant, University of Gadjah Mada International Relations

Remko Zuidema, Chairman, Briqs Foundation

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Bibliothèque Solvay, Parc Léopold
Rue Belliard 137, 1040 Brussels, Belgium
4, Rue de la Science, 1000 Brussels, Belgium
Tel.: +32 (0)2 893 98 21 – Fax: +32 (0)2 893 98 29
info@friendsofeurope.org

www.friendsofeurope.org

friendsofeurope.foe

@FriendsofEurope

friendsofeurope

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