

INDONESIA MATTERS: THE ROLE AND AMBITIONS OF A RISING POWER



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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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Summer 2013

Brussels

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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](#)

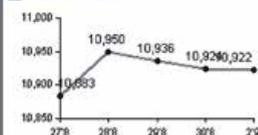
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27-08-2013 | [Additional Monthly RDC Meeting called for 29th Aug...](#)



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

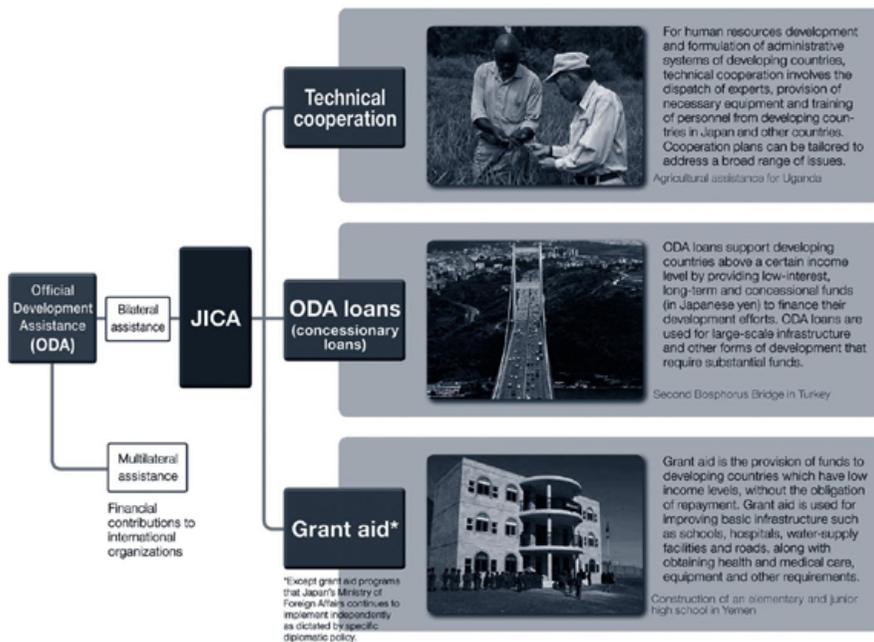
A Bridge Linking Japan with Developing Countries

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.



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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

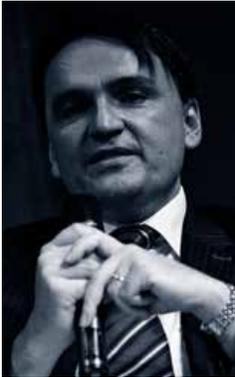


The education system is already complex with 3,700 universities and a governance structure managed by both government and religious entities. “It is a complex picture but is also vibrant and exciting,” added Crossey.

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

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Ron Andries, Security Liaison Officer, European Parliament

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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

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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

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

Julian Conthe, Administrator, European Parliament

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