

Indonesia: Development Scenarios 2020–2030

Klas Marklund

Contributions by
Alec Forss
Martina Klimesova
Andreas Mälarstedt

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The Central Asia-Caucasus Institute
Paul H. Nitze School of Advanced International Studies
1619 Massachusetts Ave. NW, Washington, D.C. 20036
Tel. +1-202-663-7723; Fax. +1-202-663-7785
E-mail: caci2@jhuadig.admin.jhu.edu

Editorial correspondence should be addressed to Dr. Bert Edström at: bedstrom@isdpeu

This report is designed to give a greater understanding of the future and offers an overview of developments in Indonesia. It has taken a longer-term focus than most other studies, with projections ranging up to the year 2030. This of course impacts the degree to which anything can be said with certainty, and consequently some leaps of faith are inevitable. In thus doing, the book creates scenarios of development outcomes in key issues that range from the probable to the possible. Any conclusions drawn from this study are therefore tentative and are aimed at facilitating long-term thinking rather than providing cast-iron forecasts.

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Summary

The outlook for Indonesia would seem relatively bright. While the republic still struggles with newly emerged difficulties as well as legacies from the Suharto period, since 1998, and even more apparent after 2004, Indonesia has experienced a successful political transition and has adopted reforms in order to diminish military influence over the civilian government and administration. A peace process has been undertaken in Aceh and the Yudhoyono administration has made greater strives to accommodate insurgent groups, even though separatism is not likely to disappear and inter-community violence is a worrying trend. In other domains, the security situation has improved with more effective measures to combat terrorism and piracy. However, Indonesia is facing a raft of environmental issues, including natural disasters, climate change, deforestation, land degradation, and overfishing. Further, corruption and undeveloped economic institutions and legal frameworks continue to serve as impediments to fully realizing economic progress in the country.

Accordingly, Indonesia faces manifold internal and external challenges which will determine its future trajectory. And while nothing can be stated for certain, at the present time of writing it would seem that Indonesia will not likely be plunged headlong into another crisis phase, such as the turbulence that gripped the country in the end of the 1990s, but will rather move towards that of increasing consolidation in a number of domains.

Of paramount strategic importance, the Indonesian archipelago contains some of the most important straits and sea-lanes in the world. Notable are the Malaccan Straits, the Lombok Strait, and the Sund Strait. Any serious blockage in the Malaccan Straits would be serious and cause enormous harm to China's as well other Asian economies and immediately render higher freight rates worldwide, disrupting a significant proportion of world trade. This pertains particularly to the flow of oil and LNG, as well as the shipping of goods between East and West Asia. Hence, along with a growing strategic importance of straits, choke-points, and ports due to the ex-

panding maritime transport sector, their vulnerability to asymmetric threats may also increase.

Both China and the U.S. have an interest in pursuing good military relations with Indonesia since it forms a “barrier” or, indeed, “passage” to the South China Sea. Therefore, the importance of Indonesia for the purpose of monitoring naval movement between the South China Sea and the Indian Ocean should not be overlooked. India, Japan, and Australia are other actors with an interest in Indonesia for both strategic and economic purposes. Furthermore, the cooperation with its neighbors in ASEAN has proven significant, and enhancing of economic as well as traditional and non-traditional security cooperation will be imperative to the further development of the association.

Of particular interest for the EU, furthermore, is that the bulk of European trade with Northeast Asia has to pass through Indonesian waters. Should this passage be impeded, it would be harmful to Europe’s trade and economy. In addition, increasingly radicalization and further development of a militant jihadist network in the region centered on Indonesia would pose a grave danger to European interests both regionally and globally.

1. Introduction

Indonesia is an archipelago consisting of over 17,000 islands, which dominates maritime Southeast Asia both in terms of area and population with 237 million inhabitants. The country is rich in natural resources and possesses large biodiversity. Furthermore, sea-lanes accounting for large quantities of the world's net oil and gas trade traverse the waters of Indonesia.¹

The hazards in Indonesia such as de-forestation, maritime piracy, ethnic and religious violence mirror the wealth in natural resources. Indonesia is, furthermore, the largest Muslim country in the world and reasons for concern have been the escalation and development of religious based conflicts and the threat of terrorist acts, like the Bali nightclub bombing in 2002. Although political developments have pointed towards stability during the period of transition since 1998, the future of civilian rule can by no means be taken for granted.

This report provides a background and analysis of trends of some of the most pressing issues facing Indonesia and outlines scenarios for 2020–2030. In thus doing, the report's focus is thematically oriented.

This report argues that the current and potential dangers in Indonesia are weak economic development, environmental issues, ethnic and religious conflicts as well as the potentially looming threat of social unrest. Furthermore, factors of a regional character will also play an important part in the development of Indonesia in a long term perspective.

¹ See sections on Energy Security and SLOCs.

Indonesia since Independence in 1945: Historical Drivers and Dynamics²

Following Japanese occupation of Indonesia, independence and the establishing of the Republic of Indonesia was proclaimed by a group led by Sukarno – who later came to be the first president of the republic – on August 17, 1945. The Dutch, who in the beginning of 17th century, had colonized and gained power over the archipelago, attempted to regain control but met with resistance and failed after four years of hostilities. The war of independence against Dutch rule gave the Indonesian military, *Tentara Nasional Indonesia* (TNI), a strong position in the new republic, and – along with the Indonesian Communist Party (PKI) – became the most influential group in Indonesian politics after independence. Even though Islam was preferred by Muslim groups as the foundation for the new republic, Sukarno created a secular state based on the state ideology *Pancasila*, encompassing five principles of state philosophy – monotheism, humanitarianism, national unity, representative democracy by consensus, and social justice.

Internal struggle and insurgencies in different parts of the Indonesian archipelago along with insufficient political developments weakened the parliamentary system and its capacity to govern. As a result, in 1959 President Sukarno imposed “guided democracy,” an authoritarian form of rule, and consolidated his own position. During the same period, Indonesia moved in the direction of non-alignment in its foreign policy, distancing itself from the West. In domestic affairs, Sukarno drew support from mass organizations outside of military control such as the PKI to counterweight the political ambitions of the military.

Since the independence struggle the military had perceived itself as the caretaker of the nation, and mistrusted the civilian governing of Indonesia. And after successfully suppressing rebellions in the mid 1950s the military’s influence was augmented. Moreover, during 1957–58 TNI’s territorial

² Marcus Mietzner, *Military Politics, Islam and the State in Indonesia - From Turbulent Transition to Democratic Consolidation* (Singapore: ISEAS, 2009) pp. 37-63; Colin Brown, *A Short History of Indonesia: The Unlikely Nation?* (Australia: Allen & Unwin, 2003).

command structure consolidated along with its economic support system, which came to characterize the military organization and economy in Indonesia during the latter half of the 20th century. The military leaders argued that Indonesia would not be able to defend itself with a conventional centralized army. Due to financial, geographical, and other factors, a network system with small military units entrenched in the population and the local context was favored. Consequently, the military created a parallel system to the civil administration which increased its political influence. Furthermore, through involvement in business and taxation it became self-financing – constituting a crucial part of the military's total budget. This not only served to give the military a large degree of autonomy from civilian control, but also gave the military an important influence in the Indonesian economy.

In 1965 an attempted coup was launched in which several high ranking TNI officers were killed. The commander of the tactical reserve, General Suharto, avoided the same fate and was able to repel the coup. The military accused the PKI of involvement in the coup and moved to eliminate the communists in Indonesia, in the process of which an estimated half a million people lost their lives. From here on the military more or less installed a praetorian regime under the leadership of Suharto while Sukarno was gradually removed from power. The military then came to increasingly possess civilian offices and dominated political, economic, and socio-culture life in Indonesia until the economic crisis in the late 1990s.

During this period the military developed the policy of *dwifungsi* (dual function) to outline the role of the military in society. The main idea behind the dual function was that the military not only was a custodian of Indonesia, but also a force for good in society. Moreover, Suharto proclaimed a new set of principles for the governing of Indonesia called the New Order, which also included a shift in foreign policy and an opening to the West. The New Order with its alterations in economic and foreign policy stabilized and improved the weak Indonesian economy. Through economic aid, privatization of state controlled natural resources – in order to encourage foreign investments – and creating favorable conditions for companies and investors, Indonesia's export driven economy and economic power ex-

panded during the 1970s and 1980s. Besides the doctrine of dual function, which levitated the military's role in society, the improved relationship with the Western powers further its advanced military capacity and power. Moreover, due to the nationalistic agenda of the regime, Indonesian identity was promoted, over that of regional or ethnic identities.

During Suharto's rule, most political parties were banned and the military influenced all parts of society. Notwithstanding the economic progress, his rule also witnessed the specter of ethnic conflicts in East Timor, Aceh, and Irian Jaya (Papua). Furthermore, Suharto's repressive regime was often accused of human rights violations. Suharto's authoritarian rule came to an end in 1998, precipitated by the social unrest created by the financial crisis that shook a large part of Asia. This ushered in a brave new era for Indonesia marked by instability and disarray but also one of great hopes.

2. Domestic Developments and Trends

Domestic Politics and Governance

The task of governing Indonesia, let alone effectively, is an inherently difficult undertaking in what is a populous, archipelagic nation riven by destabilizing fault-lines, both of a geological and human nature. While the latter constitute the “operational environment” in which Indonesian politics plays out, analysis of contemporary political trends takes its departure from one of the key turning-points in Indonesia’s modern history: the departure of President Suharto in 1998.³ On the one hand, hopes were burnished that Indonesia would undergo a rapid transition to a fully-functioning democracy. On the other, there were fears that dismantling thirty years of Suharto’s highly centralized and authoritarian rule, known as the New Order regime, would pose the danger of instability and even collapse. Ten years on, it is apparent that a more nuanced scenario of domestic political developments was – and will for the future be – needed.

The past decade has witnessed not only a flux and fluidity associated with institutional disarray and the turnover of four presidents in quick succession, but also that of a fledgling democracy finally taken flight. On the upside, in the post-Suharto era landmark reforms were implemented such as the reversal of the centralization of politics concentrated on Jakarta. In 2001 a law took effect that served to devolve powers to some 440 local government districts with responsibility for local affairs and issues.⁴ In 2004 – for the first time in Indonesia’s history – the incumbent president, Susilo Bambang Yudhoyono, was directly elected in what were largely free and

³ For a comprehensive overview of these times and the challenges Indonesia faced, see Adam Schwarz, *A Nation in Waiting, Indonesia’s Search for Stability* (Australia: Allen & Unwin, 1999).

⁴ M.C. Ricklefs, *A History of Modern Indonesia since c. 1200* (New York: Palgrave Macmillan, 2008), pp. 382-89.

fair elections.⁵ Mass voter turn-out to elect the president, vice-president, and over 550 parliamentarians is further set to continue in the national elections in 2009. Meanwhile, the House of Representatives (DPR) – comprising Indonesia’s legislative branch, together with the People’s Representative Council (DPD) consisting of regional representatives from Indonesia’s thirty-plus provinces – has transcended its former image of being merely a rubber-stamp assembly. Further, the military no longer plays a *direct* role in Indonesian politics as of 2004. While adjudged only “partly free” through much of the early to mid-2000s, American-based Freedom House through 2006–08 accorded Indonesia the status of “free” – the only country in Southeast Asia awarded such – in the light of tangible improvements recorded in political rights and civil liberties.⁶ The snapshot of progress achieved above would therefore indicate reasonably solid albeit slow progress towards greater democratic development amidst a current climate of relative political stability.

This notwithstanding, at least three main challenges can be identified which may serve to derail and/or redirect future political development in Indonesia. The first is a military take-over to restore law and order. Although the army has steadily withdrawn from political life, it still wields large influence and as the military coup in Thailand in 2006 demonstrated, a similar scenario in the future cannot be ruled out in Indonesia either. Second, as is discussed elsewhere in this report in more detail, Indonesia’s political system has to deal with severe challenges emanating from its religious and ethnic make-up. On the one hand, acts such as the terrorist bombings on Bali in 2002 have served to dampen public support for Islamic extremism. Moreover, the government’s accommodation of more moderate Islamic groups rather than employing suppressive means has proven opportune. It also augurs well that the priority issues among the majority of voters revolve around stability and economic prosperity. Indeed, Indonesia’s main political parties are secular with the exception of the mildly Is-

⁵ Ibid., pp. 401-3

⁶ See Freedom House surveys of Indonesia, 2001–2008. Available at: www.freedomhouse.org

lamist Prosperous Justice Party. Electoral reforms have seen candidates appealing on more nation-wide and pluralistic platforms rather than on strong religious or ethnic sentiments.⁷ In spite of this, the threshold of 2.5 percent of the national vote to gain parliamentary representation – with the intention of streamlining parties for greater coherence – excludes many political parties and groupings, Islamic and otherwise, some of whom might conceivably in the future seek to fulfil their political objectives in more narrow and violent ways if not able to participate in the political process.⁸ This also in a situation where the process of decentralization, underway since 2001, may in the long term serve to undermine national cohesion, and where greater local autonomy may further fan localized religious and ethnic intolerance. Third, the inability of the government to provide for its citizens could undermine its political legitimacy provoking social unrest. Poverty, unemployment, corruption, and wealth gaps remain chronic problems and central challenges to the government, which are further exacerbated by economic crises/shocks and natural disasters. Moreover, in spite of anti-corruption drives such as in 2006 which saw over 1000 suspects from local legislative bodies under investigation, improvements have been modest at best.⁹ All this has served to hamper effective governance and increase popular frustration. Indeed, the failure of government to deliver economically may serve to empower other actors, including ethnic/religious-based groups and the military.

At the helm, President Yudhoyono is widely perceived as weak and ineffective, espousing moderation but failing to resolutely pursue key decisions. A further factor undermining coordination is the complicated task of forming a ruling coalition where the opposition Indonesian Democratic

⁷ Peter Collins, "Indonesia sets an example," *The Economist*, *The World in 2009*, p. 81.

⁸ Polling data by the Indonesian Survey Institute indicate that only 9 out of 44 parties will participate in the next parliamentary period 2009-14. Indonesian Election Watch, Issue 1, 27 March 2009, available at: http://www.rsis.edu.sg/Indonesia_Prog/pdf/IndonesiaElectionWATCH_2009_ISSUE01A.pdf

⁹ Combating Corruption in a Decentralized Indonesia, http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/corruption_exec_sum_en.pdf

Party-Struggle may take over from the Golkar as the largest party in the April 2009 parliamentary elections. Fragmentation and altering of coalitions is debilitating to the political system. And although the strongest contender to win the presidential elections, Yudhoyono's term still is constitutionally limited to 2014, which may then herald a more forceful – and perhaps at the same time polarizing and self-serving – leader in power.¹⁰

In sum, Indonesia has come a long way from the turbulence and uncertainties of 1998–99 at the time of which it was undergoing a deep crisis where the economy had shrunk by more than 13 percent with some 113 million Indonesians below the poverty line, where large-scale demonstrations and violence were commonplace, and where the integrity of the nation was threatened.¹¹ In ten to twenty years hence the political challenges facing Indonesia will be of a familiar nature given the “headache” that governing Indonesia represents, but the government should be better prepared to meet such challenges through the maturation and further consolidation of its reforms of the 2000s that have seen competitive elections (with a high public commitment to democracy as evidenced by large voter turn-outs), decentralization, and greater political liberties – and with national politics of moderation and democracy a key leitmotif. Therefore, while ineffective governance, continued corruption, and the perennial challenges of national cohesion will likely continue to pose as obstacles on the path ahead, on the basis of current trends Indonesia is not likely to be plunged into any existential political crisis of the type prematurely predicted by more pessimistic observers toward the end of the last century; but rather it will likely move beyond a post-crisis phase to one of relative normalization.

¹⁰ Marcus Mietzner, “Indonesia in 2008, Yudhoyono’s Struggle for Reelection,” *Asian Survey*: 146-150; Peter M. Lewis, *Growing Apart, Oil, Politics, and Economic Change in Indonesia and Nigeria* (Michigan: University of Michigan Press, 2007) pp. 232-35.

¹¹ Ricklefs, *A History of Modern Indonesia since c. 1200*, pp. 382-89.

Economic and Demographic Development

Indonesia has managed in the past decade a slow but steady recovery from the devastating 1997-98 Asian financial crisis with per capita income and other indicators gradually attaining or nearing pre-crisis levels. Yudhoyono's tenure since 2004, moreover, has heralded better macroeconomic management and the emergence of a stronger financial sector. In addition, Foreign Direct Investment buoyed by greater stability has steadily risen over the past decade, and most recently jumped in 2008 to a value of over US\$ 14 billion.¹² With the current international financial crisis impacting key exports and manufacturing, however, economic growth and development will most likely be pegged back in the short to middle-term future, although Indonesia has thus far seemingly weathered the crisis better than others. In the next five or more years Indonesia is unlikely to attain the sustained growth levels of above 7 percent recorded between 1989 to 1997,¹³ and therefore the sizeable gulf in living standards with more prosperous OECD states will likely remain well into the future. Indeed, a key fact is that throughout the post-Suharto years, Indonesia has failed to record (although having reached a high of around 6 percent in 2008) the same levels of growth, generally being about one-third less.

The global economic climate and economic shocks aside, a key impediment to economic development has been the slow reform of economic institutions and infrastructure needed to propel and sustain growth. Such reform is a long-term project and one that Indonesia has not undertaken with the same degree of urgency and zeal as political reform. Highways, railways, and power infrastructure all require modernization. And while efforts have been taken to ensure stronger property rights, bureaucratic inflexibilities to business when it comes to the time spent setting up businesses, registering property, dealing with licenses etc., as calculated by the

¹² Carunia Mulya Firdausy, "Foreign direct investment can help RI through crisis," *Jakarta Post*, 29 May 2009.

¹³ President Yudhoyono ambitiously outlined in May 2009 his vision that Indonesia would achieve 7 percent annual economic growth by 2014. John Aglionby, "Indonesia's Yudhoyono eyes 7% growth by 2014," *Financial Times*, 20 May 2009, <http://www.ft.com/cms/s/0/f4233f28-454c-11de-b6c8-00144feabdc0.html>

World Bank, show Indonesia to rank near the bottom or two-thirds down among over 150 countries surveyed.¹⁴ And while powerful vested interests, in large part remnants from the Suharto era, have served to hamper reform, reforms such as decentralization have also had an impact with businesses having to deal with new local bureaucracies.

Economic Indicators ¹⁵

	Pre-crisis 1993–96	Crisis	2001–06	2006	2009–13
GDP growth rate	7.7 %	-13.1 %	4.8 %	5.5 %	3.9 %
Inflation	8.7 %	58.5 %	9.6 %	6.6 %	4.7 %
Poverty rate	17.6 %	23.4 %	17.2 %	17.8 %	14-15 %*

¹⁴ Roy Duncan and Ross H. McLeod, "The State and the Market in Democratic Indonesia," pp. 73-92, in *Indonesia, Democracy and the Promise of Good Governance*, eds., Ross H. McLeod and Andrew MacIntyre (Singapore: ISEAS, 2007); OECD Economic Assessment of Indonesia 2008, available at: http://www.oecd.org/document/57/0,3343,en_2649_33733_41014713_1_1_1_1,00.html

¹⁵ The table is adapted from the following sources: Indonesia economic data, <http://www.economist.com/countries/Indonesia/profile.cfm?folder=Profile-Economic%20Data>; Indonesia – country brief, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/INDONESIAEXTN/0,,menuPK:287081~pagePK:141132~piPK:141107~theSitePK:226309,00.html>; and Indonesia Development Outlook 2009, <http://www.adb.org/Documents/Books/ADO/2009/INO.pdf>. It should be borne in mind that indicators vary according to source, and the above should be treated more as a general trend. The figure indicated with an asterisk is the author's own projection based on current trends.

Corruption will remain a huge problem as it remains a defining feature of business and political life. Indeed, decentralization has arguably made it worse than in the Suharto era as it has increased the number of players demanding bribes amidst new local regulations. Pursuing prosecutions instead of institutional reform means that economic efficiency is and will in the long term be hampered.¹⁶ It is for instance estimated that along with insufficient infrastructure and contract enforcement, costs related to corruption and crime amount to up to 20 percent of a company's sales.¹⁷ According to Transparency International's Corruption Perception Index of 2008 (10 meaning the least corrupt; 1 the most corrupt) Indonesia's score of 2.6 represents only a 0.7 improvement from 2001, and places it unfavorably in the same league as countries such as Pakistan and Vietnam.¹⁸

Public expenditure is also central to long-term development and in this there are encouraging signs. It was calculated by the World Bank that in 2006 the government had an extra US\$ 15 billion to spend after cuts on subsidies and lowered debt. This could all go into improving healthcare, education, and critical infrastructure – all vital to growth and development. Indeed, this has been bolstered by the fact that by 2006, regions accounted for 37 percent of all government expenditure – so helping to develop Indonesia's far-flung regions – and that spending on education had risen in terms of GDP from 2.4 percent in 2001 to 3.8 percent in 2006, although spending on public infrastructure and health continue to remain low.¹⁹ It is also a positive sign that investments have increasingly flowed into non-oil segments of a progressively more diversified Indonesian economy, therefore obviat-

¹⁶ Ari Concoro, "Corruption Inc," *Inside Indonesia* 92: April-June 2008, <http://www.insideindonesia.org/content/view/1082/47/>

¹⁷ Indonesia Country Profile, Business Anti-Corruption Portal, <http://www.business-anti-corruption.com/country-profiles/east-asia-the-pacific/indonesia/?pageid=226>

¹⁸ See Transparency International Corruption Perception Indexes 2001 and 2008, available at: www.transparency.org

¹⁹ Spending for Development, Making the most of Indonesia's New Opportunities, *Indonesia Public Expenditure Review 2007*, available at: <http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/280016-1168483675167/PERReport.pdf>.

ing overdependence on natural resources which could cause a potential resource curse. In fact, growth of the telecommunications sector is a large contributor to current economic growth.²⁰

In spite of the above, the state of the economy constitutes the main source of dissatisfaction with high disapproval rates of Yudhoyono's economic policies. Food and fuel price hikes have served to increase the cost of living while there is a perception that the macroeconomic indicators, though displaying improvement, are serving to benefit Jakarta and a small elite. It is calculated for instance that the poorest 40 percent of the population account for 20 percent of consumption expenditure and that the wealthiest 20 percent account for over 40 percent.²¹ Furthermore, the level of poverty remains stubbornly high. Indeed, some 60 percent of the population does not have access to safe, piped water and a further 30 percent have no access to electricity.²² This does not constitute a sound basis for a competitive economy. Another central challenge will revolve around job creation. The level of unemployment has remained high, fluctuating either side of the 10 percent level throughout the current decade. Indonesia is the world's fourth most populous country, and its population is predicted to rise from a level of 231.6 million in 2007 to 272.2 million in 2025.²³ And while in terms of percentage increase this is lower than some other countries in the region, Indonesia will face problems in providing sufficient employment. The demographic trend already shows a declining fertility rate from 5.6 in 1971 to 2.3 in 2008, which means that the number of young people will be reduced. While this together with declining mortality rates will likely increase the elderly population in the next twenty years, it also means that the dependency ratio will decline from 54 to 100 in 2000 to 44 per 100 in 2020-30.

²⁰ Peter M. Lewis, *Growing Apart, Oil, Politics, and Economic Change in Indonesia and Nigeria*, p. 270, 288.

²¹ Marcus Mietzner, *Indonesia in 2008*: 150-52; Sarwar O. H. Hobohm, "Economy," in *Indonesia* section of *Europa Regional Surveys of the World* (Routledge, 2008).

²² Greg Barton, "Indonesia's Year of Living Normally: Taking the Long View on Indonesia's Progress," *Southeast Asian Affairs Volume 2008* (Singapore: ISEAS), p. 128.

²³ See Population Reference Bureau 2008, Indonesia database.

While also a demographic bonus as it may help to reduce poverty, it also produces challenges in that there are more productive people who need work.²⁴ Liberalizing the business climate and getting rid of red tape will be central to boosting the economy in the coming ten years and to play a stronger role in job creation.

Indonesia risks threat of social unrest in years to come if the government fails to deliver economically as it cannot afford to “muddle through,” especially among an increasingly politically conscious electorate. Social unrest would also unleash a negative spiral in which would serve to drive investors away. The country is also vulnerable to natural disaster and the impact of environmental challenges in the longer term especially with climate change – which could have severe economic consequences.

At the 1997 annual meeting of the World Economic Forum it was contended by an Indonesian Minister that by 2020 Indonesia would have the fifth-largest economy in the world.²⁵ This failed to account for the subsequent lost decade after the Asian financial crisis and the current crisis which is further serving to cap growth after the economic recovery. And while there has been an increase in FDI, Indonesia faces a competitive region in which investment is increasingly being drawn to China, India, and Southeast Asian competitors such as Vietnam.²⁶ At present Indonesia struggles to make it onto the list of the world’s largest twenty economies and is unlikely to have made significant upwards progress – commensurate with its status as the world’s fourth-largest country in terms of population – by 2020; but nor is it likely to be a disaster story as it bears out the current crisis with its fiscal stimulus package and the economy undergoes much-needed labor, tax, investment reforms over the next decade, with the im-

²⁴ Key Demographic Trends, available at: http://kalbar.bkkbn.go.id/article_detail.php?aid=84; see also Indonesia Demographics Profile 2008 at: http://www.indexmundi.com/Indonesia/demographics_profile.html

²⁵ Indonesia in 2020, Presentation at World Economic Forum, 31 January 1997, available at: http://www.mission-indonesia.org/modules/article.php?article_id=194&lang=id

²⁶ Barton, “Indonesia’s Year of Living Normally,” p. 128.

pact of increased public expenditure laying the groundwork for higher, sustained economic growth by 2020.

Ethnic and Religious Relations

By Martina Klimesova

Indonesia is a large multiethnic country where ethnic tensions, fueled by grievances arising from the different status of some ethnic groups, have resulted in violent escalation in a number of cases. However, it is important to underscore that it is not ethnic, religious, or linguistic diversity that creates a conflict-laden environment per se. Rather it is the exclusion of the minority groups from decision-making processes on a communal level, the lack of self-administration mechanisms, and the unequal distribution of revenues from natural resources between the center (Jakarta) and provinces inhabited by ethnic/religious minorities. And while every ethnic or religious conflict in Indonesia displays its own unique characteristics, the aforementioned indicators are general for all. After the end of General Suharto's Orde Baru (New Order) regime in 1998,²⁷ the following administrations had to face the lack of established relations between the central government and groups leading separatist movements. Territorial integrity remains the utmost priority for any post-Suharto government and it is improbable that any of the provinces striving for independence will secede from Indonesia, with the government, notwithstanding decentralization, highly unlikely to change its stance on the issue in the upcoming two decades.²⁸ As shown in the Aceh case, for instance, independence has been firmly refused by the Yudhoyono government.

Nevertheless, it remains to be seen how successful future governments will be in dealing with ethnic and religious issues (namely in Papua with the Muslim-Christian tensions; and Aceh regarding the still ongoing peace consolidation) and especially with rising violence on a communal level in provinces with a significant influx of migrants (predominantly Muslim), which are quickly outnumbering indigenous populations. This applies, to a different extent, to the conflicts out-

²⁷ In 1998 General Suharto resigned as the head of state which also marked the end of the New Order administration.

²⁸ In May 2002, East Timor gained independence from Indonesia, following a peace agreement and referendum in 1999. This case, however, cannot be seen as a precedent for other separatist movements in Indonesia, as it underwent a different historical development and received significant international support from Portugal and the UN.

lined in the section below.²⁹ President Yudhoyono's administration has shown a strong commitment in reaching out to the insurgent groups (as evidenced by the peace process in Aceh in 2005). However, unsettled local grievances, unresolved tensions stemming from TNI acts and presence in the minority provinces, and the rising political influence of conservative Muslim groups indicate that interethnic and interreligious tensions will continue and possibly be on the rise in the foreseeable future.

*Ethnic Relations*³⁰

The ethnic conflicts are complex, aside from the independence struggles driven by quests for self-government and resentment against power domination from Jakarta; the tensions are further exacerbated by social and economic grievances. Moreover, in all provinces afflicted by ethnic/separatist related violence, the behavior of the Indonesian military is another important source of tensions. The TNI is financed only partly from the government's budget and is left to seek remaining resources by supplementary activities which open opportunities for corruption and other means of fundraising.³¹ Furthermore, the army takes on law enforcement functions in the provinces where it is stationed, which in most cases further aggravates the

²⁹ Sidney Jones, "Economic Crunch Ups Security Risks," *Jakarta Post*, 22 December 2008; Sidney Jones, "Indonesia: Communal Tension a Prime Security Threat," *Jakarta Post*, 3 January 2008.

³⁰ The ethnic composition of Indonesia consists of: Javanese 40.6%, Sundanese 15%, Madurese 3.3%, Minangkabau 2.7%, Betawi 2.4%, Bugis 2.4%, Banten 2%, Banjar 1.7%, other or unspecified 29.9% (based on 2000 census, Source: CIA, *The World Factbook*). An interesting caveat is that Indonesia also has ethnic Chinese Indonesians; they were discriminated during the Suharto regime and are still mostly excluded from political participation. During the economic crisis in 1997–98, they were targeted with ethnic Chinese businesses looted.

³¹ This system has been heavily criticized as it leads to bribery and corruption, and the TNI is allegedly involved in illegal logging activities in Papua and its previous activities (extortion, illegal logging) in Aceh served as impediments to the peace process. John B. Haseman, "Indonesian Military Reform: More Than a Human Rights Issue" in eds., Daljit Dingh and Lorraine C. Salazar, *Southeast Asian Affairs 2006* (Singapore: ISEAS, 2006).

strained relations. When analyzing future developments, the role of the army in internal affairs must be assessed.

Aceh³² – In August 2005, the Government of Indonesia and the Aceh Free Movement (GAM) signed a peace agreement in Helsinki, under the auspices of the former Finnish President, Martti Ahtisaari.³³ Although it was clearly demonstrated throughout the process that both parties are committed to finding a political solution to the conflict, some issues (acts of the TNI, establishment of local political parties, mechanisms for self-governance) have posed challenges to conflict resolution efforts and all have not yet been fully resolved. Nevertheless, despite sporadic low level violence resulting from prevailing distrust between the GAM and TNI, inner rifts in the GAM, and lagging reintegration processes of former GAM combatants, the conflict is not likely to re-escalate. A high level of distrust between the former adversaries, especially between the former GAM combatants and the TNI, remains to pose strains on further political developments in Aceh. Monitoring thus remains one of the key issues. To expedite the process of reconciliation, furthermore, the police need to gain the confidence of the public, law enforcement forces must be strengthened and receive training, and the Indonesian army should refrain from any law enforcing activities. Future developments in Aceh will depend on how successful these latter efforts are.

In December 2006, GAM won the governor's elections and in April 2009 Partai Aceh (GAM party) won the legislative elections which demonstrates the continuing popularity of the movement. The GAM shares the fate of other insurgent and dissent groups and suffers from fragmentation, which nevertheless is sometimes interpreted as a sign of the movement's democra-

³² Violent conflict in Aceh escalated in 1970s, when the Free Aceh Movement (GAM) was leading an independence driven insurgency against the government. Aceh was badly hit by the Boxing Day tsunami in 2004, which brought the attention of international donors to the area and enhanced ripeness for finding a political solution to the conflict.

³³ The Crisis Management Initiative, a Finnish NGO led by Martti Ahtisaari, facilitated the peace talks; the EU and five ASEAN countries subsequently undertook monitoring (AMM, Aceh Monitoring Mission).

tization. It should also be noted that some commitments from the peace agreement still remain to be implemented (establishment of a truth commission). Other unsettled issues that need to be monitored as potential sources for exacerbating violent tensions are the re-integration of GAM ex-combatants and the high level of unemployment among them.³⁴

Papua – (Irian Jaya)³⁵ Indonesia's largest province is witness to a low intensity separatist struggle with the sporadic emergence of violence.³⁶ The Free Papua Movement (OPM) is the main organization articulating the grievances of the local population. The influx of Muslim workers orchestrated by the government is the key element, which is resented by the native population and triggers separatist sentiments and anti-migrant tensions on the communal level. The indigenous groups argue that the government development projects exploit the natural resources and trigger mass migration to the province.³⁷ Indeed, the intensifying of natural resource exploitation increases the need for import of new labor and also provides reason for continuous military presence in the province. Moreover, the local population still has little influence over how the government funds are invested in the province.³⁸ These issues sustain tensions between the communities with Muslim migrants opposing greater autonomy of the

³⁴ International Crisis Group, "Aceh: Post-conflict Complications," *Asia Report* No. 139, 4 October 2007.

³⁵ Papua became a part of Indonesia in 1963; Irian Jaya is the government's name for the province.

³⁶ Drawing lessons from the case of Aceh, independence is out of the question as the government has firmly declared that maintaining territorial integrity is its priority and is not negotiable. This is not likely to change in the future.

³⁷ Papua is very rich in natural resources like copper, gold, oil, and gas. In addition, it has great agricultural potential and booming forestry and oil palm production – which however also creates environmental risks. See The National Portal, Republic of Indonesia, www.indonesia.go.id, for more on resources. In past negotiations, the government committed to law according to which Papua receives 70% of oil and gas revenues and 80% of revenue from natural resources such as forestry, fisheries, and mining. "Right to participate in cultural life and to protect intellectual property rights," viewed on 18 May 2009, BBC News.

³⁸ Rodd McGibbon, "Plural Society in Peril: Migration, Economic Change, and the Papua Conflict," *Policy Studies* No. 13, (Washington D.C.: East-West Center, 2004).

Papua province whilst the Christian indigenous groups seek further devolution of central power.³⁹ And while pro-independence demonstrations are likely to continue, the growing communal violence is believed to pose more serious problems in the province and deeper tensions can for the future be expected.⁴⁰ The Muslim migrants to Papua benefit more from the economic development of the region than the local population, as they are better equipped for market needs due to their previous training and schooling and thus tend to be economically more successful than the locals. While this expedites their integration in the province, on the one hand, it also intensifies separatist sentiments on the part of the indigenous population.

Kalimantan – in West and Central Kalimantan tensions between indigenous Dayaks and Madurese and Malay migrants have resulted in a number of violent outbreaks in the past (mid 1990s, 2001). Similar to the case of Papua, the Dayak community opposes extensive logging and mining activities in the province. Sporadic tensions have further occurred since 2001. In 2008 a Dayak, Cornelis M. H., was elected governor (running with a Chinese deputy), which was not welcomed by the other ethnic groups living in the province.⁴¹ Nevertheless, any major outbreaks of violence can be most likely ruled out.

Religious Relations

There are a number of religious cleavages in Indonesia,⁴² with the most strained relations currently being between Muslims and Christians in Central Sulawesi, Maluku, and Papua. It is important to stress that in most cases, the religious differences are not the primary sources of tensions as such. As in ethnic conflicts, the roots of the conflicts between different religious

³⁹ "International Crisis Group, Indonesia: Communal Tensions in Papua," *Asia Report* No. 154, 16 June 2008.

⁴⁰ Sidney Jones "Economic Crunch Ups Security Risks," *Jakarta Post*, 22 December 2008.

⁴¹ Abdul Khalik, "Ethnic-based conflict continues to haunt West Kalimantan," *Jakarta Post*, 28 February 2008.

⁴² Muslims account for 86.1% of the population, Protestants 5.7%, Roman Catholics 3%, Hindus 1.8%, and others or unspecified 3.4% (based on 2000 census, Source: CIA, The World Factbook).

groups can be located in land ownership disputes as well as in competition for resources and political power.

Indonesia is the world's largest Muslim country and potential signs of rising Islamic fundamentalism, radicalization, and possible connections of radical groups to Al-Qaeda terrorist networks need to be monitored. There are some signs of strengthening fundamentalism and also of the growing influence of Muslim political parties. In 2006 the Islamic Defenders' Front (FPI) and other Muslim groups, fighting against Western values penetrating Indonesia, pushed for the adoption of an "anti-pornography law."⁴³ A further example was in 2008, when the government outlawed the Ahmadiyah sect (a controversial Muslim movement founded in the end of the 19th century) after religious conservatives put pressure on the government, an act which was welcomed by Muslim conservatives but criticized by some human rights groups.⁴⁴

There are other indicators of further radicalization of some civil society Islamic groups who fear increasing Christianization of Indonesia and feel an amplified need for defending Muslim identity. One of the main concerns of the international community and the Indonesian government is the potential linkage of such groups to international terrorist networks. However, in the aftermath of the Bali (2002) incident there are indications that radical groups gain their local support base for their struggle in defending communal values rather than for a more generally declared war against the West.

⁴³ Sometimes also referred to as the "Decency law" it outlaws pornographic acts and dissemination of sexual images under heavy punishment (12 years sentence), objections have been raised that the law victimizes women who dress in a "Western" style and many other groups. On the other hand it was argued that the law protects the youth and is raising moral standards in Indonesia. The law was passed in October 2008. Nancy-Amelia Collins, "Indonesia Approves Controversial Anti-Pornography Law," *Voice of America*, 30 October 2008.

⁴⁴ The Ahmandiyah sect believes that Mohammed was not the last Muslim prophet, and therefore some Muslim groups consider them as heretics. The decision to issue the ban was criticized by human rights groups (Human Rights Watch) for restricting religious freedom. Sporadic violent clashes occurred in Indonesia between the Ahmandiyah supporters and radical Islamist groups.

Nevertheless, un-accommodated grievances create a favorable recruitment environment for external radical groups (i.e., the Al-Qaeda network) who will continue to seize the opportunity and establish/deepen connections with leaders in the radical Islamic groups in Indonesia.⁴⁵

Regions suffering most from religious clashes and sectarian violence are South Sumatra Palembang, Central Sulawesi (Poso district), and Maluku. **Central Sulawesi**, especially Poso district, remains an unstable region, with clashes between local Christian groups and Muslims and also Hindu settlers occurring despite peace agreements from 2001 and 2005. Violence has re-appeared since new attacks in 2007; however it is not likely that the clashes would spill-over to areas where Muslim-Christian tensions do not exist. The root of the conflict stems from the unsettled issue of land rights and competition for resources. **Maluku** experienced violent outbreaks between Christian and Muslim groups in 1999-2003; Laskar Jihad, a Jihadist movement was outlawed in North Maluku in 2002. Meanwhile in **South Sumatra**, there exist tensions between the local communities opposed to land confiscation and environmental damage caused by heavy industry. In addition, troublesome relations exist between the indigenous Christian communities and migrant Muslim population.

In conclusion, ethnic and religious tensions do not stem solely from ethnic and religious differences, but socio-economic factors and the level of inclusion of minorities are important indicators of the future development in conflict-ridden provinces. Another important indicator of future developments in Indonesia is whether any of the radical Islamic groups will gain wider public support. It remains to be seen whether the government will succeed in establishing functioning dialogue mechanisms, both at grassroots levels and between the central government and the representatives of minorities.

⁴⁵ International Crisis Group, "Indonesia: Radicalization of the 'Palembang Group,'" *Asia Briefing* No. 92, 20 May 2009.

3. Rise of Non-Traditional Security Issues

Terrorism

The most prominent terrorist organization in Indonesia is Jemaah Islamiyah (JI), responsible for the devastating 2002 Bali bombing and several more attacks since, including the August 2003 and the July 2009 bombings of the Marriott Hotel in Jakarta, the bombing outside the Australian embassy in Jakarta in September 2004, and another bombing in Bali in October 2005. A main feature of JI is its ability to spread its activities over several countries in the region, making it difficult for any single country to effectively combat the network. After the 2002 Bali bombing, Indonesian authorities aggressively stepped up efforts⁴⁶ and have since successfully arrested over 400 suspected terrorists,⁴⁷ and in doing so, drew on support from the U.S., Australia, and Japan.⁴⁸ Furthermore, a number of high ranking members have been arrested and the lack of any major attack since 2005 would seem to indicate that the Indonesian counterterrorism efforts have been quite successful.⁴⁹ However, according to a 2007 report there is a possibility that JI has been in a phase of building and consolidating, which, for some time, would have dampened their willingness to engage in large and expensive attacks.⁵⁰ Still, in the light of the July 2009 bombing of the Marriott Hotel, the JI remains a security threat to Indonesia and Southeast Asia. The

⁴⁶ Council on Foreign Relations, "Jemaah Islamiyah Backgrounder," <http://www.cfr.org/publication/8948>; Bruce Vaughn, *Indonesia: Domestic Politics, Strategic Dynamics, and American Interests*, CSR Report for Congress, 2007.

⁴⁷ "436 terror arrests in Indonesia since 2002," *The Australian*, 3 March 2009, <http://www.theaustralian.news.com.au/story/0,25197,25133160-5018491,00.html>

⁴⁸ U.S. Department of State, *Country Reports on Terrorism 2008, 2009*; Australian Department of Foreign Affairs and Trade, *Transnational Terrorism: The Threat to Australia*, 2004; ESC/APEC Working Group Coordination Meeting "Japan's Counter-Terrorism Assistance," Santiago, Chile, 29 February - 1 March 2004.

⁴⁹ U.S. Department of State, *Country Reports on Terrorism 2008, 2009*.

⁵⁰ International Crisis Group, "Indonesia: Jemaah Islamiyah's Current Status," *Asia Briefing* No. 63, 2007.

strength of JI is currently unknown, with estimates ranging from a couple of hundred to one thousand persons.⁵¹ Reports indicate that the organization is divided due to different views and opinions regarding the operational focus. There appears therefore to be a conflict of interest within JI on whether to focus on Western targets or to concentrate on the creation of an Islamic Caliphate in Southeast Asia.⁵² Even though Indonesia has the world's largest Muslim population with more than 14,000 *pesantrens* (religious schools), only a small number among those were allegedly related to JI.⁵³ The organization has received financial, ideological, and logistical help from abroad but appears also to be fully capable of its own fundraising.⁵⁴

Piracy

The threat of piracy has been present in Southeast Asian waters throughout history and for a long period – until the escalation of pirate activities on the coast of Somalia in 2008 – Southeast Asia was considered to harbor the world's most notorious pirate infested waters. In 2003 Indonesia as a whole experienced 121 actual or attempted pirate attacks while the Malaccan Straits had 28 actual or attempted attacks. However, the improved cooperation and capacity of littoral states has reduced the number of attacks in the waters around the Malaccan Straits, and in 2008 the number of attacks was only two. While for the whole of Indonesia the number was 28 actual or attempted attacks.⁵⁵ Nevertheless, though reports of attacks show a decrease – particularly in the Malaccan Straits – over the last few years, the Indonesian archipelago is still one of the most pirate-ridden regions in the world.⁵⁶ However, the attacks in the straits follow a pattern where it is obvious that

⁵¹ U.S. Department of State, *Country Reports on Terrorism 2008, 2009*.

⁵² Bruce Vaughn, *Indonesia: Domestic Politics, Strategic Dynamics, and American Interests*.

⁵³ Sharif Shuja "Gauging Jemaah Islamiyah's Threat in Southeast Asia," *Terrorism Monitor*, Volume 3, Issue 8, 5 May 2005.

⁵⁴ U.S. Department of State, *Country Reports on Terrorism 2008, 2009*.

⁵⁵ ICC International Maritime Bureau Piracy and Armed Robbery Against Ships Report – Annual Report 2008, p . 5.

⁵⁶ Martin N. Murphy "Contemporary Piracy and Maritime Terrorism- The threat to international security," *Adelphi Paper* 338, IISS, UK 2007, p. 43.

larger ships such as oil tankers due to size and speed are not the prime target for pirates. Accordingly, the most vulnerable vessels are smaller and which ply closer to the coast. Also, anchored ships are more exposed to attacks.⁵⁷

The fall in the number of attacks over the last couple of years would seem to stem from increased security cooperation among actors in the region. The success in combating piracy should not only be attributed to the littoral states, but also other actors, such as the U.S. and Japan, which have invested efforts into increasing the littoral states' maritime security capacity.⁵⁸ Although Thailand has joined the patrolling of the Straits, the littoral states, due to issues of sovereignty, still display limits in security cooperation and are reluctant to host the naval operations of other actors in the straits.

Furthermore, the high number of attacks points toward piracy as an auxiliary source of income and as a "semi-profession" for parts of the population in coastal areas, besides being an occupation of professional criminals. Therefore, pirate activities should be viewed as a regional problem with a maritime dimension, and not exclusively as a maritime problem. There are also suggestions that piracy could be adopted by terrorists in order to secure revenues or gain control over vessels with the purpose of using them as "weapons"⁵⁹. However, a trend for the future and a lesson to be learned from Somalia is the increase in piracy among "semi-professionals," as a supplementary income, due to the diminishing of their primary income.⁶⁰

⁵⁷ Sam Bateman, Joshua Ho, Mathew Mathai, "Shipping patterns in the Malacca and Singapore Straits: an assessment of the risks to different types of vessel," *Contemporary Southeast Asia*, 1 August 2007.

⁵⁸ ESC/APEC Working Group Coordination Meeting, "Japan's Counter-Terrorism Assistance," Santiago, Chile, 29 February - 1 March, 2004; Ian Storey, "What's behind dramatic drop in S-E Asian piracy," *Straits Times*, 19 January 2009.

⁵⁹ Rommel C. Banlaoi "Maritime terrorism in Southeast Asia: the Abu Sayyaf threat" *Naval War College Review*, autumn 2005.

⁶⁰ Arthur Brice, "Somali piracy threatens trade, boosts terrorists, analysts say," *CNN.com*, 1 October 2008, <http://edition.cnn.com/2008/WORLD/africa/10/01/piracy.terror/index.html>

The possibility of attacks on the narrow straits by politically or religiously motivated terrorists has become a regional concern. In case of an attack, using suicide tactics with smaller vessels against larger ships would have a high probability due to earlier experience and simplicity. Additional modus are the use of larger ships as weapons to create devastation on the maritime infrastructure,⁶¹ or the deployment of Weapons of Mass Destruction (WMD) or dirty bombs in order to shut down transport in the narrow straits.

The possibility of successful and sensational attacks as well as securing revenue advances the incentive for terrorist groups to indulge in maritime operations and piracy. Among the consequences of the merging of terrorism and organized crime is enhanced self-sustainability of terrorist groups as well as the terrorists groups developing characteristics of criminal organizations and even altered priorities, due to overlapping interests.⁶² Moreover, in addition to profiting from piracy or carrying out politically motivated attacks, the capture from maritime operations could also provide terrorists with vessels and harmful material, such as nuclear waste material, to be used in future attacks.⁶³

Climate Change

Global climate change will affect Indonesia in a number of ways. The rainy season is expected to be shorter but with more intense rainfalls, carrying with it a significantly increased risk of flooding. Food security is perhaps one of the graver threats as changes in precipitation, evaporation, run-off, water and soil moisture will affect agriculture, a sector that employs about 42 percent of the working force and accounts for 13.5 percent of GDP. If negatively impacted, this could potentially lead to widespread social unrest. In addition, important non-food cash crops such as coffee, cocoa, and rub-

⁶¹ Ibid, pp. 57-58.

⁶² Tamara Makarenko, "Terrorism and Transnational Organized Crime: Tracing the Crime-Terror Nexus in Southeast Asia," in ed., Paul Smith, *Terrorism and Violence in Southeast Asia: Transnational Challenges to States and Regional Stability* (New York: M.E. Sharpe, 2004).

⁶³ Bjørn Møller, "Piracy, Maritime Terrorism and Naval strategy," *DIIS Report* 2009: 02, pp. 23-27.

ber will also be affected. Rising sea levels are likely to result in the inundation of coastal zones, impacting upon both agriculture and infrastructure, potentially reducing the average income.⁶⁴ According to the Indonesian Minister of Environment Rachmat Witoelar, Indonesia could possibly stand to lose 2,000 small islands by 2030.⁶⁵ Additionally, climate change is affecting both water temperatures as well as ocean acidity, both of which are major causes of coral bleaching.⁶⁶ Coral reefs are not only important for fishery but also serve to protect coastlines from storm damage, erosion, and flooding.⁶⁷ According to a recent report by the World Wildlife Fund, in a worst-case scenario, the feeding capacity of the coastal environment in the South Asian coral triangle could decline by as much as 80 percent by 2100, representing a loss of possible livelihood for about 100 million people.⁶⁸

Unsustainable Development

Many of the environmental issues in Indonesia are caused by growing populations and the expansion of the agriculture areal and settlements. Since the mid-1990s, deforestation in Indonesia has accelerated to about 2 million hectares per year, mainly because of extensive logging, legal and illegal, and the use of slash and burn practices in order to clear land. As deforested areas are much more prone to fire than natural forests, the ongoing

⁶⁴ The World Bank & Department for International Development, *Indonesia and climate Change: Current Status and Policies*, 2009; CIA World Fact Book (data cited for 2005).

⁶⁵ Forbes, "Indonesia threatened by global warming, rising sea levels," <http://www.forbes.com/feeds/afx/2007/06/04/afx3783709.html>

⁶⁶ "Global Warming Has Devastating Effect on Coral Reefs, Study Shows," *National Geographic*, 16 May 2006, <http://news.nationalgeographic.com/news/2006/05/warming-coral.html>; The ARC Centre of Excellence for Coral Reef Studies, "Reef 'At Risk In Climate Change,'" 10 April 2007, http://www.coralcoe.org.au/news_stories/climate_change.html

⁶⁷ Ove Hoegh-Guldberg, *Climate Change, Coral Bleaching and the Future of the World's Coral Reefs*, 1 June 1999, available at: <http://www.greenpeace.org/australia/resources/reports/climate-change/climate-change-coral-bleachin>

⁶⁸ World Wildlife Fund, *The Coral Triangle and Climate Change: Ecosystems, People And Societies At Risk*, 2009, <http://www.worldwildlife.org/what/wherewework/coraltriangle/WWFBinaryitem12250.pdf>

forest mismanagement has led to an increase in both the frequency and the intensity of forest and land fires.⁶⁹ It is not only deforestation itself that has a serious impact on fragile ecosystems. Much of the clearing of natural forests has given way to large-scale palm oil plantations that further reduces biodiversity. It is also a cause of soil erosion and desertification.⁷⁰ This trend is likely to continue as oil prices rise and biofuels gain momentum.⁷¹ In fact, Indonesia aims to more than double palm oil production to 40 million tons by 2020.⁷² Largely because of deforestation and land conversion, Indonesia is currently among the top three largest emitters of greenhouse gases in the world, with about 75 percent of its total carbon dioxide emissions originating from these practices.⁷³

The haze problem isn't limited to Indonesia but has large-scale regional consequences as well, affecting Malaysia and Singapore. In 2002 all ASEAN members signed the ASEAN Agreement on Transboundary Haze Pollution, but Indonesia has yet to ratify the agreement.⁷⁴ Furthermore, as the haze-problem persists, related health issues among the population are likely to increase.⁷⁵

⁶⁹ World Resources Institute, *The State of the Forest: Indonesia*, 2002, available at: <http://www.wri.org/publication/state-forest-indonesia>

⁷⁰ UNESCAP, *State of the Environment in Asia and the Pacific 2005 -Economic Growth and Sustainability*, United Nations publication, 2006, pp. 289-292, http://www.unescap.org/esd/environment/soe/2005/mainpub/documents/Part4_10.pdf

⁷¹ Patrick Barter, Jane Spencer, "Alternative-energy boom roils Asian environments," *Post-gazette.com*, 5 December 2006.

⁷² "Indonesia to double palm oil production by 2020," *Khaleej Times Online*, 27 May 2009, http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/commodities/2009/May/commodities_May47.xml§ion=commodities

⁷³ The World Bank & Department for International Development, *Indonesia and Climate Change: Current Status and Policies*, pp. 1-3, http://siteresources.worldbank.org/INTINDONESIA/Resources/Environment/ClimateChange_Full_EN.pdf

⁷⁴ Gerald Giam, "Haze problem: Bilateral pressure on Indonesia works best," *Singapore Angle*, 13 October 2006, <http://www.singaporeangle.com/2006/10/haze-problem-bilateral-pressure-on.html>

⁷⁵ Rhett A. Butler, "Haze in Malaysia worsens, may last until October," *Mongabay.com*, 11 August 2005, <http://news.mongabay.com/2005/0811-haze.html> ; Singapore Ministry of Health, "Health Effects Of Haze," September 24, 1997, <http://www.moh.gov.sg/mohcorp/pressreleases.aspx?id=662>

Another major environmental issue concerns marine resources and unsustainable fishery, including overfishing and the use of harmful practices such as poison and blast fishing. Growing populations and exports of fish products have increased the intensity of fishing resulting in decimated fish stocks. According to a report from UNESCAP, some parts of Southeast Asia have experienced a decline in fish stocks of 40 percent in five years. To compensate for declining catches and to meet a higher global demand for fish, aquaculture in Indonesia has accelerated over the past decade. This development carries with it negative effects as well, however, such as soil erosion and salt water intrusion. In conjunction with negative effects due to climate change, unsustainable fishery threatens both the food security and possible livelihoods for the Indonesian population.⁷⁶ Most of the marine produce is consumed domestically and constitutes an important source of animal protein, especially for the poor as it is relatively inexpensive.⁷⁷ Part of the problem is the extensive and widespread illegal, unreported, and unregulated fishing which is undermining efforts to develop a more sustainable fishing industry. Currently, the Indonesian government has committed neither enough personnel nor resources to combat the problem.⁷⁸ A further concern for the maritime environment is the intensified traffic in Indonesian waters. As these transports are projected to increase, so does the risk of environmental disasters such as oil spills.

Natural Disasters

Indonesia has throughout history continuously been exposed to natural disasters caused by seismic activities in the region. However, the devastating tsunami 2004, which claimed more than 130,000 lives in Indonesia and

⁷⁶ UNESCAP, *State of the Environment in Asia and the Pacific 2005*.

⁷⁷ Food and Agriculture Organization of the United Nations, see “Fishery and Aquaculture Country Profiles: Indonesia,” http://www.fao.org/fishery/countrysector/FI-CP_ID/en

⁷⁸ “How to eliminate illegal fishing in Indonesia,” *Jakarta Post*, 22 May 2009, <http://www.thejakartapost.com/news/2009/05/22/how-eliminate-illegal-fishing-indonesia.html>

left half a million without a home,⁷⁹ brought a new focus to *preventive* measures instead of responsive disaster management. In the long term implementation of technology and increased coordination will improve reaction capacity.⁸⁰

⁷⁹ "At-a-glance: Countries hit," *BBC News*, 22 December 2005, <http://news.bbc.co.uk/2/hi/asia-pacific/4126019.stm> (accessed May 27, 2009); United Nations Development Programme (UNDP), *National Action Plan for Disaster Reduction 2006 - 2009*, http://www.preventionweb.net/files/2557_NAPDR_Ren.pdf; "Summary of situation in tsunami-hit region one year on," *ReliefWeb*, 24 December 2005, <http://www.reliefweb.int/rw/rwb.nsf/db900sid/JFUA-6KFBCJ?OpenDocument&RSS20&RSS20=FS>

⁸⁰ USAID, *Review of Policies and Institutional Capacity for Early Warning and Disaster Management in Indonesia*, 2007.

4. National Security: Trends and Prospects

Energy Security and Sea Lanes of Communication (SLOCS)

Indonesia has proven oil reserves of 4.4 billion barrels. Yet the country with the largest proven oil reserves in Southeast Asia has, since 2004, been a net importer of oil. Furthermore, in 2008 Indonesia left OPEC as it was unable to meet the organization's production quota. There are several reasons for the absence of an oil-boom according to analysts. The oil industry has suffered from corruption, smuggling, unclear regulations, and unfavorable revenue-sharing with the state. Furthermore, the majority of the Indonesian oil production comes from declining oil-fields, which in combination with a lack of new larger findings points toward a bleak future for oil production in Indonesia. However, the country will still be a significant energy producer – not only to the region – as it possesses large natural-gas reserves as well as being the world's prime exporter of coal.⁸¹

Population growth and economic development should be viewed as precipitating increased energy demand in Indonesia as well as for its neighbors with the growing economies and growing populations of China, India, and Vietnam. However, present or future demand for oil cannot be met by the proven reserves in Southeast Asia. The shortage of oil in Southeast Asia and China is predicted to be covered by producers in the Middle East.⁸² Furthermore, according to the IEA, the increased demand for Middle East oil in Southeast and East Asia will primarily be met by the use of oil tankers.⁸³ In a long-term perspective of twenty years the importance of the sea-lanes controlled by Indonesia and its closest neighbors will increase since the main quantity of oil and LNG (Liquefied Natural Gas) for the East Asian economies for the period to 2030 is expected to be transported by sea.

⁸¹ Simon Montlake, "Indonesia struggles to capitalize on its oil," *The Christian Science Monitor*, 16 July 2008, <http://www.csmonitor.com/2008/0716/p07s01-woap.html>

⁸² BP Statistical Review of World Energy 2008, pp. 6-12.

⁸³ IEA World Energy Outlook 2004, p. 72.

In addition, the increase in regional trade will also add to the importance of sea transports.⁸⁴

The Indonesian archipelago with its narrow straits divides the Pacific Ocean and the Indian Ocean, and represents one of the world's most significant regions concerning maritime security. The resources carried through the Malaccan Straits, alone, amount to a total of US\$ 390 billion annually.

The high traffic in the Malacca Straits makes it constitute the second largest chokepoint regarding oil-transports; only the Strait of Hormuz is bigger. Estimations put forward by the IEA point toward an increase in the oil-flow from 16mb/d in 2006 to approximately 15-20mb/d in 2030⁸⁵ and almost a doubling of LNG (Liquefied Natural Gas) carried through the Malaccan Straits during the same period, from 40 bcm to 94 bcm in 2030.⁸⁶

There are also additional passages used by oil transports linking the Indian Ocean and the Pacific Ocean such as the Lombok Strait, between the islands of Bali and Lombok, and the Sunda Strait between Java and Sumatra, which is unsuitable for the majority of large ships due to its shallowness, narrowness, and difficult navigability. Both are located in Indonesian territorial waters, thereby under Indonesian control. Lombok Strait has a width of 18km at its narrowest point; however, with a depth of 250m it is deeper than the Malaccan Straits and suitable for ships in need of deeper waters. The use of Lombok Strait provides an alternative route for passing ships; but since it is narrower than the Malaccan Straits it would not be able to pose as a suitable alternative in case the Malaccan Straits were blocked.

However, the expected rise in maritime oil transport to Northeast Asia over the next 20 years will increase traffic through the Lombok Strait for larger oil tankers. Hence, energy transports to Northeast Asia would increasingly be under Indonesian control, a possible cause of friction if Indonesian control over energy transports was viewed as a potential threat to the region's energy security.

⁸⁴ Sam Bateman, Joshua Ho & Mathew Mathai, "Shipping patterns in the Malacca and Singapore Straits: an assessment of the risks to different types of vessel."

⁸⁵ IEA World Energy Outlook 2008, pp. 169-170.

⁸⁶ IEA World Energy Outlook 2004, p. 117.

The economic development and growing populations of Asia raise concerns over disruptions in the energy supply, particularly the flow of oil and LNG, as well as the east-west movement of goods between the Indian Ocean and the South China Sea. Since 50,000 vessels per year are estimated to pass through the Malaccan Straits and the narrowest point, at Phillips Channel in the Singapore Strait, is only 2.5 km wide, the Malaccan Straits are considered to be a highly vulnerable key chokepoint.⁸⁷ The consequences of a scenario in which the strait was blocked would immediately raise freight rates worldwide, disrupt trade, and be harmful to economic development in the region. With the predicted rise in traffic on sea-lanes in the region the strategic importance of the Southeast Asian straits will increase during the period until 2030.⁸⁸

Moreover, due to the strategic location of the straits controlled or partly controlled by Indonesia they are interesting not only for the littoral states and Thailand but also for China, Japan, the U.S., and India. Besides the economic dimension, the Indonesian waterways also have a military value as they are the fastest way to deploy navy units from the Indian Ocean and Arabic Sea to the Pacific Ocean and vice versa.

Military and Transformation

Structure: Military in Society

The role of the military in the struggle for independence from Dutch rule assisted in the development of the armed forces into a leading institution in domestic policy making. The duality of the armed forces role, as the protector of the nation and socio-political force in society, was stated through the policy of *dwifungsi* (dual function).

⁸⁷ Jonathan Howland, "Recent Attacks Prompt International Pressure to Secure Malacca Straits," JINSA, July 15, 2005.

⁸⁸ IEA World Energy Outlook 2004, p. 118.

Ground Strategy of TNI

Since 1957-58, the Indonesian armed forces have been structured according to a territorial command, which has served a number of purposes. The strategy in the event of an attempted invasion was to adopt guerilla warfare, whereby the strong local ties and knowledge of the conditions and terrain are of the essence. This would give advantage in intelligence collection, territorial knowledge, as well as increased possibility to mobilize the population. Geographic, financial, and demographic conditions of Indonesia were the motives for employing the territorial command structure. Further reasons for the organizational orientation of the TNI have been ideologically propelled by its self-proclaimed core role in the nation building project. The importance of being present in the day to day life has been a logical conclusion from the perspective of *dwifungsi*.⁸⁹ Nevertheless, the groundwork of the military ideology based on a territorial based structure of the armed forces points towards a threat assessment in which the internal stability and preservation of the nation have had priority over external threats.⁹⁰

Developments and Reformation

Extra-budgetary sources for the military serve to limit the possibility for the civil administration to have oversight of the armed forces, both in the aspect of transparency and actual control of the military. Furthermore, the military's involvement in legal and illegal businesses caused corruption and the enrichment of senior officers as well as influenced the agenda and priorities of the armed forces.⁹¹ The costs attached to involvement in domes-

⁸⁹ Marcus Mietzner, "Military Politics, Islam and the State in Indonesia - From Turbulent Transition to Democratic Consolidation," (Singapore: ISEAS, 2009), pp. 46-48.

⁹⁰ Karabekir Akkoyunlu, "Military Reform and Democratisation - Turkish and Indonesian Experiences at the Turn of the Millennium," IISS, *Adelphi Paper* 392 (New York: Routledge, 2007), p. 60.

⁹¹ "Indonesia's army Going out of business - And, with luck, retreating from politics," *The Economist*, 2 October 2008, http://www.economist.com/world/asia/display_story.cfm?story_id=12341681

tic conflicts as well as to its organizational form and political ambitions were motivators behind the extensive military involvement in the business sector. The economic wealth to consolidate the political influence of the military was the product of a dynamic relationship where political power created the opportunity to develop the military business, thus forming the Indonesian political economy.

The reformation of the armed forces and their role in society started on a small scale in the first year after Suharto's fall in 1998. However, with the election of reform-friendly President Yudhoyono in 2004, the process seems to be on a steady course. Through placing the armed forces' economic business under the control of a state agency the reformation has heralded a landmark change in civil-military relations. Moreover, reform has also addressed the presence of military personnel in the civil administration and government.⁹² However, despite the financial and political reforms during the post-Suharto period, the armed forces of Indonesia seem to be able to prevail without losing too much of their structural backbone and influence. Even though the formal political power in parliament and civilian offices is gone, the ground structure of the armed forces has prevailed, leaving the organization with a large amount of informal political power.⁹³ Moreover, the military withdrawal from the official political arena has improved its public image, while the reputation of the police has worsened due to the latter's display of conduct previously linked to the military.⁹⁴

Regarding the reformation and transformation of the TNI, it is not only a matter of rolling back military influence in the political and economic sphere, but also to develop it into a modern security force able to answer to the future needs of Indonesia. Hence, the outdated territorial command structure with an undersized and inadequately equipped navy appears ill-

⁹² John B. Haseman, "Indonesian Military Reform: More Than a Human Rights Issue," Daljit Dingh and Lorraine C. Salazar (Eds.) *"Southeast Asian Affairs 2006"* (2006) ISAS Publication, Singapore, pp. 111-118.

⁹³ Bruce Vaughn, "Indonesia: Domestic Politics, Strategic Dynamics, and American Interests," CRS report for Congress, 20 June 2007, pp. 8-9.

⁹⁴ "Indonesia's army Going out of business - And, with luck, retreating from politics," *The Economist*.

sued for the unique geographic features of Indonesia and its security challenges. With regard to both traditional and non-traditional security threats in the region, and with an archipelago containing over 17,000 islands and for the sake of efficiency in defense spending, developing the Navy would be the most strategic choice for the future.⁹⁵ However, Indonesia's insufficient defense budget, (US\$ 3.12 billion,⁹⁶ active military personnel of 302,000) – to be compared with Australia (US\$ 15.7 billion, active military personnel of 54,747) and Singapore (US\$ 7.34 billion, active military personnel of 72,500)⁹⁷ – is one of several obstacles to the modernization and reformation of the TNI. Additionally, elements within the armed forces have opposed reforming the territorial command structure, as it is viewed as a guarantee for maintaining the country's unity. It is also recognized that terminating the territorial command structure would be imperative to complete the abandonment of *dwifungsi*.⁹⁸

In recent years, Indonesia has purchased military equipment from a number of countries. The lesson from the U.S. embargo could perhaps be a reason to explain Indonesia's reluctance to rely too much on one supplier of material. The plan to purchase two Kilo-636 submarines from Russia could be seen as a way to address the capacity of the Indonesian navy,⁹⁹ or at least as an answer to China developing its naval capacity in the region.¹⁰⁰ Indonesia's purchase plans, even though two Kilo class submarines do not con-

⁹⁵ Dwi Atmantam, "Modernization of Indonesia's military in question," *Jakarta Post*, 1 March 2008, <http://www.thejakartapost.com/news/2008/02/29/modernization-indonesia039s-military-question.html>

⁹⁶ Budget number are for 2008 and do not include extra-budgetary funding. *The Military Balance 2009*, IISS, p. 369.

⁹⁷ *The Military Balance 2009*, IISS, pp. 377, 388, 407.

⁹⁸ Karabekir Akkoyunlu, "Military Reform and Democratisation - Turkish and Indonesian Experiences at the Turn of the Millennium," p. 60.

⁹⁹ *The Military Balance 2009*, IISS, p. 369.

¹⁰⁰ Ishaan Tharoor, "China's Navy Grows, and the World Watches Warily," *Time*, 13 May 2009, <http://www.time.com/time/world/article/0,8599,1897871,00.html>

stitute a threat to stronger actors, i.e., Australia¹⁰¹ and China could be an indicator of Indonesia's aspirations to increase its influence in the region.

¹⁰¹ "Nothing to fear from Russia-Indonesia arms deal: Downer," *ABC News*, 7 September 2007, <http://www.abc.net.au/news/stories/2007/09/07/2027243.htm>

5. The Changing Geopolitics of Indonesia's Foreign Policy – In Perspective

Southeast Asia

Indonesia has a central position in greater Asia and particularly in Southeast Asia on account of its geographic location and size as well as its large population. It shares territory on islands with Malaysia, New Guinea, and East Timor. The main interstate organization in the region is ASEAN comprising of the ten Southeast Asian states, of which Indonesia was one of the founders.

ASEAN since its establishment has strictly honored its policy of non-interference in its member states domestic affairs with reference to the principle of sovereignty. Nevertheless, during the latter half of the 2000s, a change has been perceived due to the need for addressing regional issues more forcefully. By the year 2020 ASEAN has set out to create an ASEAN Community – outlined in the ASEAN Vision 2020 – which was further accelerated by the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015, which was presented in 2007.¹⁰² It has been established that the ASEAN Community should rest on (1) a Security Community (ASC) meaning political and security cooperation; (2) an ASEAN Economic Community (AEC) which intends to advance economic development and build up the competitiveness of the region through harmonizing the markets and standardization. However, this task is problematic as the markets in the region depend on imports from external actors and will continue to do so for some time; and (3) an ASEAN Socio-Cultural Community (ASCC) to enhance socio-cultural cooperation.¹⁰³

¹⁰² ASEAN, Cebu Declaration on the Acceleration of the Establishment of an ASEAN

Community by 2015, <http://www.aseansec.org/19260.htm>

¹⁰³ Niklas Swanström, *Regional Cooperation and Conflict Management: Lessons from the Pacific Rim*, (Uppsala: Uppsala University, 2001).

Earlier mentioned transnational issues such as piracy and terrorism as well as environmental problems are all present in Indonesia. Indonesia has thus been involved in, or in some cases been the center of, developments that have fostered a new approach for the Southeast Asian countries involved in the ASC, although Singapore, Thailand, and the Philippines have been the main drivers behind such developments. The littoral states have addressed piracy in the Malaccan Straits in a joint effort to increase maritime security – this in spite of the principle of non-interference and the focus on sovereignty which has earlier complicated security cooperation. Moreover, the development of the ASC and improvement in cooperation regarding policing the Straits of Malacca point towards a motivation amongst some members to increasingly address the non-traditional security threats within the ASEAN context.

Terrorism, for example, has been recognized as a transnational problem according to the same criteria as piracy, in other words, a problem in need of a transnational or regional solution. For instance, the Abu Sayyaf Group operates in both the Philippines and Indonesia and has been behind numerous bomb plots uncovered in the region. Furthermore, forest fires in Indonesia have created transboundary haze pollution, which has severely affected neighboring states. All these issues to a large extent revolve around Indonesia as well as showcase the need for improved regional cooperation and measures to address transnational threats.

China

The two countries have a long history whereby the Chinese immigration to and trade with the Indonesian archipelago since the 16th century has created economic and social ties. However, in 1967 the relationship deteriorated due to the political situation in Indonesia and China's support to communist groups in Southeast Asia. The relations have since normalized with China and Indonesia reconciling in 1990 due to both economic and political reasons in the region. The emerging Chinese economy created pressure on the Indonesian government to reevaluate their position towards China. Not surprisingly, China's importance as a trade partner to Indonesia has been growing and in 2007 China was the third largest trade

partner to Indonesia; only Singapore and Japan were bigger. The trade volume between the both countries has grown by an average of 23 percent through 2004-2008 albeit the Chinese investments in Indonesia have not increased at the same pace. An explanation for the immature level of Chinese investments in Indonesia is China's primary demand for materials. The Chinese trade with Indonesia has focused on the importing of raw materials and exporting manufactured products. Needless to say, the Indonesian government has tried to change this pattern and to attract foreign investments for increasing the manufacturing of half-made products. In the case of China's import of manufactured goods from Indonesia, this strategy has, to some extent, been fruitful and 20 percent of exports to China consist of machinery.¹⁰⁴

The main part of Chinese investments in Indonesia is in the oil and gas business, and Indonesia is of crucial strategic importance for China since the country controls important choke-points for energy transports at sea. Hence, China's dependence on oil from the Middle East and Africa also puts the country in a so called "Malaccan dilemma"¹⁰⁵ Furthermore, in China's attempt to diversify its energy imports, Indonesia's oil and gas findings – such as the Tangguh gas project in Papua, planned to start exporting LNG to China beginning in the summer of 2009 – are strategic resources, as they increase China's energy security by virtue of their relative proximity.¹⁰⁶

Even if the economic perks of good relations to China played a significant role, the foreign policy of Indonesia has also forced Sino-Indonesian

¹⁰⁴ "Indonesia, China relations almost in honeymoon state: Sudrajat," *Jakarta Post*, 14 April 2008, <http://www.thejakartapost.com/news/2008/04/14/indonesia-china-relations-almost-honeymoon-state-sudrajat.html>

¹⁰⁵ The Malaccan Dilemma refers to the vulnerability to energy supply disruption due to the strategic significance of the straits. Ian Storey, "China's, 'Malacca Dilemma,'" *China Brief*, Volume 6, Issue 8, The Jamestown Foundation, 12 April 2006,

http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=31575&tx_ttnews%5BbackPid%5D=196&no_cache=1

¹⁰⁶ Alfian Idrisahmad, "Indonesia to begin exporting Tangguh LNG to China in June," *Jakarta Post*, 14 May 2009, <http://www.thejakartapost.com/news/2009/05/14/indonesia-begin-exporting-tangguh-lng-china-june.html>

relations to normalize. The main issues revolved around the need for Indonesia to have good relations with China in order to play a leading role in protecting the economic and strategic interests of the ASEAN region. Moreover, Indonesia's aspirations to play a part in the territorial disputes in the South China Sea would be impossible to realize without good relations with China.¹⁰⁷

Since 2005, when China and Indonesia became strategic partners, significant mutual engagements in a number of fields have developed, according to Indonesian sources. The partnership includes cooperation in the fields of politics and economics,¹⁰⁸ and particularly plans of closer cooperation in security issues.¹⁰⁹ Further, both countries have agreed to cooperate in military production. Since Indonesia has aging military equipment and budget restrictions on military expenditure, a deal where Indonesian companies would produce parts of the new military material in cooperation with China could lower the costs for the modernization of the TNI.¹¹⁰

Despite the statement from officials in Indonesia, some observers point to the failure to follow through with the security aspects of the partnership. There are questions of the scale of the partnership and in which capacity the partners are contributing. The critics regard the slow and inactive cooperation so far as a sign of declining interest from both countries. It is possible that the U.S. arms embargo, competition from other arms producers, and lingering mistrust of the PLA among the TNI as well as possible future con-

¹⁰⁷ William H. Frederick & Robert L. Worden, eds., "Indonesia: A Country Study," (Washington: GPO for the Library of Congress, 1993), <http://countrystudies.us/indonesia/104.htm>

¹⁰⁸ China and ASEAN have signed a Free Trade Agreement due to be completed in 2010, and which will serve to boost Indonesian exports to China.

¹⁰⁹ National Portal Republic of Indonesia, "Indonesia-China ties in various fields growing continuously," 21 July 2008, http://www.indonesia.go.id/en/index.php?option=com_content&task=view&id=7656&Itemid=701

¹¹⁰ Abdul Khalik, "China, Indonesia start joint military productions," *Jakarta Post*, 13 February 2008, http://www.indonesia.go.id/en/index.php?option=com_content&task=view&id=7521&Itemid=701

flict-scenarios in the South China Sea are reasons which could explain the hitherto only incremental steps in the strategic partnership.¹¹¹

USA

During the Cold War, Indonesia was an important partner to the U.S. in Southeast Asia. However, human rights violations and the conflict in East Timor have in more recent times served to strain U.S.-Indonesian relations. It was argued that the behavior of Indonesia in some issues became a political burden to the U.S. and since the end of the Cold War the strategic importance of Indonesia to the U.S. has lessened. During the 1990s the U.S. started to impose a ban on military-to-military ties culminating in 1999 with the Clinton administration severing all military ties. The reason behind the decision was to put pressure on Indonesia to admit UN troops and deescalate violence in East Timor following a UN organized independence referendum.^{112 113}

Although the relations during the 1990s and beginning of the 2000s were problematic, Indonesia became after 9/11 an important partner to the U.S. regarding maritime security and counter-terrorism due to the reported cooperation between Islamic radical groups in Southeast Asia and Al-Qaeda.¹¹⁴

Thus, in 2005, the U.S. launched its International Military and Education and Training (IMET), Foreign Military Financing (FMF), and Foreign Military Sales (FMS) programs for Indonesia. After the policy shift, the U.S. started to train Indonesian security forces as well as funded a US\$ 47.1 million maritime surveillance system on the Indonesian side of the Malaccan Straits. In addition to the coastal radars for control of several straits in In-

¹¹¹ Ian Storey, "China and Indonesia: Military-security Ties Fail to Gain Momentum," *China Brief*, Volume 9, Issue 4, 20 February 2009.

¹¹² William H. Frederick & Robert L. Worden, "Indonesia: A Country Study," Chapter on United States.

¹¹³ Stephen Sackur, "US military cuts Indonesian ties," *BBC News*, 9 September 1999, <http://news.bbc.co.uk/2/hi/americas/443347.stm>

¹¹⁴ U.S. Department of the Treasury, "Treasury Designates Three Key Terrorist Financiers," 10 October 2007, <http://www.ustreas.gov/press/releases/hp598.htm>

donesian waters, the U.S. has also provided Indonesia with equipment to increase its maritime security and counter-terrorist capability.¹¹⁵

The U.S. has during the last five years changed its policy towards Indonesia due to an increased appreciation of the importance of the country in several aspects. The main rationales for changing policy towards are Indonesia's increasing value as a partner in the war against militant Islamist and terrorists as well as Indonesia's leading role in regional organizations, and, arguably, most crucially, because of its geopolitical position located astride the Pacific and Indian Oceans with its implications for maritime security, military movement, economy, as well as energy. Also, the country's democratic development since 1998, along with the election of the reform-oriented President Yudhoyono in 2004, has convinced the U.S. to increase its engagement in Indonesia. Moreover, the development towards peace and stability in Aceh and the tsunami in 2004 have also been argued as motives for the normalization of relations.¹¹⁶

Even though the U.S. engagement in and relation to Indonesia has improved over the last few years, there are still concerns. Popular resentment against the U.S. presence in the Middle East or involvement in conflicts in other predominantly Muslim regions could, in the long run, serve to create tensions in U.S.-Indonesian relations.¹¹⁷ This notwithstanding, it is interesting to note that Indonesia was U.S. Secretary of State Hillary Clinton's first official visit to a Muslim country, and her second stop in Asia after Japan.

Japan, India, Australia & Russia

After the occupation in the Second World War and atrocities committed by the Japanese military in the Indonesian archipelago, relations between the

¹¹⁵ Ian Storey, "What's behind dramatic drop in S-E Asian piracy," *Straits Times*, 19 January 2009.

¹¹⁶ Bruce Vaughn, "Indonesia: Domestic Politics, Strategic Dynamics, and American Interests," CRS report for Congress, 20 June 2007, p. 3, <http://www.fas.org/sgp/crs/row/RL32394.pdf>

¹¹⁷ Protest against U.S. foreign policy with direct relation to Islam has occurred during the 2000s. See: <http://www.msnbc.msn.com/id/10362963/>; <http://news.bbc.co.uk/2/hi/asia-pacific/1588205.stm>

countries were subdued until 1958. However, during the Suharto-era **Japan** and Indonesia fostered good relations. Japan and Indonesia have historically had a strong gas trade – Japan is the world’s largest importer of LNG – which continues to the present day with further LNG projects projected to come online by 2015 with Japan heavily investing in Indonesia’s resource sector.¹¹⁸ Indeed, Japan is Indonesia’s largest trading partner as well as its biggest investor.¹¹⁹ In 2007 they agreed on a free trade pact, and import tariffs were eliminated on more than 90 percent of goods traded between Japan and Indonesia.¹²⁰ Nevertheless, due to its location, Japan, just like China, is caught in the “Malaccan dilemma.” The vast majority of crude oil consumed in East Asia is transported through the Malaccan straits from the Middle East, and 60 percent of Japan’s energy supplies are transported through the region.¹²¹ Accordingly, Japan has been involved in improving maritime security in the straits as well as supporting Indonesia in the “War on Terror.” Namely, it has focused assistance on capacity building for combating terrorism in areas such as aviation security, customs cooperation, export control law-enforcement and cooperation in anti-terrorist financing.¹²²

Over the years, **India** and Indonesia have moved closer to each other on a range of issues, including trade and security. Indonesia is India’s second largest trade partner among the ASEAN countries¹²³ whereas India is an

¹¹⁸ David A. Stott, “China, Japan and Indonesia’s LNG Ploys,” *The Asia-Pacific Journal*, Vol. 5-2-09, 28 January 2009.

¹¹⁹ Indonesia Minister of The State Secretary, “Indonesia, Japan kick off new relations,” 22 January 2008, http://www.indonesia.go.id/en/index.php?option=com_content&task=view&id=7387&Itemid=701

¹²⁰ “A free-trade pact between Indonesia and Japan,” *The Economist*, 23 August 2007, http://www.economist.com/displayStory.cfm?Story_ID=E1_JGRSVVR

¹²¹ “Japan invites Indonesia for security talks,” *Jakarta Post*, 9 February 2009, <http://www.thejakartapost.com/news/2009/02/09/japan-invites-indonesia-security-talks.html>

¹²² ESC/APEC Working Group Coordination Meeting, “Japan’s Counter-Terrorism Assistance.”

¹²³ Federation of Indian Chambers of Commerce and Industry (FICCI), “India - Indonesia Economic and Commercial Relations,” <http://www.ficci.com/international/countries/indonesia/Indonesiacommercialrelation.htm>

important market for Indonesian palm oil.¹²⁴ Both countries are intent on moving towards a free trade agreement and are taking steps to further bilateral trade.¹²⁵ Relations have also benefited from India's desire to improve its standing with ASEAN. Indonesian–Indian relations have been further strengthened by the common desire to balance against China and build up regional peace and security. India has been supplying Indonesia with defense equipment as well providing training to Indonesian military officers. Bilateral security cooperation has also addressed more non-traditional issues such as combating maritime terrorism and piracy in and around the Malaccan Straits.¹²⁶

Since the tensions between **Australia** and Indonesia due to the East Timor issue in 1999, bilateral relations have been steadily improving, although being quite volatile at times. After hitting another low in 2006,¹²⁷ relations have since recovered to unprecedented levels.¹²⁸ Indonesia and Australia have initiated cooperation on a number of issues of shared interest such as climate change, illegal fishing, and trafficking. In 2006 the Lombok treaty was signed, establishing a framework for security cooperation, including law enforcement, maritime and aviation security, counterterrorism, and emergency management and response.¹²⁹ In February 2009, a free trade agreement was signed between ASEAN, Australia, and New Zealand, effectively opening up trade between Indonesia and Australia.¹³⁰ Bilateral trade between the two countries has increased substantially in the past

¹²⁴ Shekhar, Vibhanshy, "India–Indonesia Relations: An Overview," *IPCS Special Report* No. 38, Institute of Peace and Conflict Studies, March 2007.

¹²⁵ Federation of Indian Chambers of Commerce and Industry (FICCI), "India - Indonesia Economic and Commercial Relations."

¹²⁶ Shekhar, Vibhanshy, "India–Indonesia Relations: An Overview."

¹²⁷ "A new low for Indonesia, Australia ties," *Jakarta Post*, 18 April 2006, <http://www.thejakartapost.com/news/2006/04/18/new-low-indonesia-australia-ties.html>

¹²⁸ "Australian-Indonesian relationship at 'historic high' in 2008," *Jakarta Post*, 30 December 2008, <http://www.thejakartapost.com/news/2008/12/30/Australianindonesian-relationship-039historic-high039-2008.html>

¹²⁹ Department of Foreign Affairs and Trade, *Indonesia Country Brief*, 2008, http://www.dfat.gov.au/geo/indonesia/indonesia_brief.html

¹³⁰ ASEAN Website, "Joint Media Statement," <http://www.aseansec.org/22255.htm>

years, growing by 65 percent from 2003 to 2008.¹³¹ Indonesia is currently also the largest recipient of Australian foreign aid, receiving a projected AU\$ 452.5 million in 2009–10.¹³²

Russia has become a main supplier of military equipment to Indonesia in the first decade of the 21st century. Besides energy and natural resources, Russia also has an interest in the strategic importance of Indonesia and is trying through military, economic, and diplomatic means to increase its influence in the region.¹³³ In the attempt to modernize the armed forces of Indonesia, the country has turned to Russia both to decrease its reliance on the U.S. as a military supplier, and because the Russian produced armaments are less expensive than American ones. Furthermore, Russia's assurance of a non-interference policy also is significant to Indonesia after the EU and U.S. arms embargo in the 1990s and beginning of the 2000s.¹³⁴ In the agreement between Russia and Indonesia are included helicopters, amphibious tanks, and submarines as well as a loan for further purchases.¹³⁵ It has been argued that with new and improved relations to Indonesia, Russia attempts to compete with China and the U.S. for regional influence in South-east Asia.¹³⁶

¹³¹ "Australian-Indonesian relationship at 'historic high' in 2008," *Jakarta Post*.

¹³² "About AusAID in Indonesia," see <http://www.indo.ausaid.gov.au/aboutausaid.html>

¹³³ Peter Finn, "Russia, Indonesia Set \$1 Billion Arms Deal - Moscow Seen Trying to Boost Clout in Asia," *Washington Post*, 7 September 2007, p. A14.

¹³⁴ Alexey Muraviev & Colin Brown "Strategic Realignment or Déjà vu? - Russia-Indonesia Defence Cooperation in the Twenty-First Century," SDSC, The Australian National University, Canberra, December 2008.

¹³⁵ *The Military Balance 2009*, IISS, p. 369.

¹³⁶ Bill Guerin, "Indonesia-Russia: Arms, atoms and oil," *Asia Times Online*, 12 December 2006, http://www.atimes.com/atimes/Southeast_Asia/HL12Ae02.html

Three Scenarios: 2020–2030

Probable:

Domestic Developments and Trends: The government increasingly focuses on economic reform picking up the pace of important legislation and the results of increased investments in critical infrastructure and education start to be more widely felt. The business sector will also be more vibrant buoying growth and fuelling job creation, and GDP growth will have finally neared if not surpassed pre-crisis levels. In addition, regional disparities in economic development remain, but increased resource allocation to the periphery will help more people to be lifted out of poverty. Drives against corruption aimed at individuals will continue and Indonesia will make modest improvements in this respect, but without an overhaul of the system with institutional reform, corruption will remain an everyday reality of life and economic efficiency will continue to be hampered.

The staging of large-scale, free and fair national elections has become the norm with the main political parties having developed greater national bases of support. While this marks an era of democratic consolidation, the governance challenges of cohesively managing center-periphery relations, forming ruling coalitions, and impediments to taking effective steps towards further reform ensure that political developments remain far from smooth. Furthermore, parties (and by extension the electorate) excluded from parliamentary representation due to the electoral threshold will debate their tactics and in some cases fan social unrest, especially among groups where the government fails to deliver economic prosperity.

None of the separatist movements will have achieved their goals of independence, with the territorial integrity of Indonesia remaining intact. The situation in Aceh will have consolidated; but Partai Aceh remains a strong local party with a solid local support base. Former GAM combatants have been slowly reintegrated into society, nevertheless a low level of trust will remain between them and the TNI, the latter maintaining its limited presence in the province. Economic downturn and the ongoing global quest for

resources has increased the number of large-scale development projects in resource rich provinces (namely Papua) further intensifying the influx of Muslim migrants into the area, outnumbering the local population. Radical Islamic political groups will have only a limited impact on the government.

Non-traditional Security Issues: Natural disasters will continue to test the capacity of the Indonesian government. Environmental and disaster management will be slightly improved with better practices and technologies, and as the impact of unsustainable development and climate change becomes clearer. Economic priorities will still take precedence, however, and enforcement of measures will thus remain weak. Deforestation is likely to continue unabated, leading to tensions with political ramifications as it reaches critical levels. Unsustainable fishery will become more acute with a continuing decline in fish stocks, affecting the coastal population and their livelihood. The effects of climate change will be more noticeable leading to increased divisions between those able to adapt and those predominantly rural, indigenous, and poor sectors of society most vulnerable to environmental degradation.

The Straits of Malacca and other important waterways will be largely free from piracy. The maritime security situation in these parts will be considerably enhanced by substantial cooperation between Southeast Asian states and the support from external actors.

Increased capability to coordinate anti-terrorism policies among Southeast Asian countries, furthermore, will lead to the successful suppression of groups such as JI. Further support from Japan, USA, and Australia will enhance the counterterrorism capabilities of Indonesia. However, smaller groups with similar agendas to JI will still remain at large and constitute a security threat.

National Security: The strategic importance of Indonesia and its waterways increases further with growing traffic and threats of disruptions of considerable importance to China and Japan – both in terms of energy transit and production. Indonesia will increasingly support security cooperation and the joint policing of the Malaccan Straits as well other possible shared “hot-spots” as a means to enhance maritime security. However, it is unlikely that foreign patrols will be allowed in straits controlled by Indone-

sia, since sovereignty will remain a sensitive issue. Rising energy demand in the region as well as in Northeast Asia will stimulate the development of gas and coal production in Indonesia. However, Indonesia's oil production will display weak development.

Indonesia will continue its reformation and disband its territorial command structure in favor of a smaller but more mobile army with enhanced rapid response capacity. The military will still have a large informal influence on the political development in the country. The development of the navy will accelerate in order to both enhance maritime security and to uphold Indonesia's interests. The Indonesian air force will, due to the costs involved, continue to lag behind the army and navy. Moreover, Indonesia will probably continue to modernize through arms deals and strategic cooperation with different actors in order to avoid dependence on a single supplier. However, Indonesia will probably strengthen its military ties with the U.S. and Japan in particular to counter the increased influence of China in the region.

Geopolitical Developments: Indonesia and its neighbors increase their cooperation in order to better enhance political and economic strength as well as to promote stability, security, and to more efficiently address transnational issues. Nevertheless, economic cooperation will develop more successfully than security cooperation due to the policy of non-interference in the domestic affairs of ASEAN member states.

With a large population, possessing rich natural resources, and occupying a vital strategic location, Indonesia will continue to have a significant role regarding region's security and economy. However, the Northeast Asian economies will still be the most important economic partners to Indonesia, considering the economic weight of China, Japan, and South Korea. Nonetheless, Indonesia through its role in ASEAN and its strategic location will still be considered as vitally important among the various external actors. The U.S. will continue to remain the de facto strongest external partner regarding security. Japan will still retain its importance to Indonesia for investments, trade, and also in security assistance. China will increase its economic influence, and Indonesia will develop a number of multilateral security cooperation arrangements to balance external actors.

Plausible:

Domestic Developments and Trends: Indonesia enjoys a largely unimpeded period of democratic consolidation, and institutional reform serves to enhance governance and ease decision-making. Military interference in political affairs – let alone a coup – becomes largely unthinkable. Economically, Indonesia returns to the high levels of growth before 1997, exceeding and sustaining 7 percent GDP growth annually. Substantial improvements in business regulations and prioritizing institutional reform to combat corruption take gradual effect, and Indonesia fulfills its promise as one of the world's fastest developing economies.

Tensions on a communal level in ethnically and religiously diverse provinces have been largely resolved by government minority policies with the implementation of necessary laws to protect local minorities, granting indigenous groups rights to participate in decision-making processes, and effectively redistributing a significant portion of natural resource revenues back to the provinces. Functioning dialogue between the migrant populations and native groups prevents intensification of major violent outbreaks. In Aceh, peace has been consolidated and the reintegration of former GAM combatants has been nearly completed. On the national level, the government effectively contains the radicalization of Islamic political groups.

Non-traditional Security Issues: There will be increased international pressure to cut down emissions of greenhouse gases which in turn will slow down deforestation somewhat. In order to combat regional problems such as haze, transboundary environmental issues will increasingly appear on the agenda of regional bodies like ASEAN, representing not only an increased willingness but also capacity to deal with these issues. Given its importance for the economy and food security, unsustainable fishery is halted through regulation, improved supervision, and better resource allocation.

Stronger naval capacity together with socio-economic improvement will diminish piracy in Indonesian waters. Political and economical developments as well as developments of educational and judicial institutions reduce support for jihadists and manage to quell a large part of the network of militants.

National Security: Development of Indonesia's naval forces and a closer cooperation with Singapore, Thailand, and Malaysia will discourage extensive cooperation with external actors, such as China, USA, India, and Japan, regarding maritime security. Internal instability, immature infrastructure for investment, along with weak legislation contributes to undeveloped energy production in Indonesia.

Geo-Political Development: Indonesia and its neighbors in ASEAN develop the ASEAN Community with strong and regional integrated economy and security cooperation. Furthermore, neighboring countries will develop a greater "East Asian economic region" (involving ASEAN, North-east Asia, India, Australia, and the U.S.) However, in security cooperation, there exist regional rivalries which limit its effectiveness.

Possible:

Domestic Developments and Trends: In the light of increasing social unrest and large-scale demonstrations amidst worsening economic conditions and/or the perceived risk of decentralization threatening national unity, the military stages a coup to regain control of the country, thus reversing the country's democratic development and plunging it into political uncertainty.

Corruption worsens affecting the government's ability to carry out reforms and the rule of law is increasingly weakened. The inability to reform and develop the political system as well as the economy; increases the domestic tension and foster resentment on the ground, proving fertile ground for extreme religious groups to gain momentum.

Moreover, the impact of the current financial crisis is more pernicious than thought causing the reversal of economic growth and cause large-scale job losses. Corruption and local bureaucratic regulations remain burdensome, and together with social unrest amidst the government's inability to provide tangible socio-economic benefits and full employment for many of its citizens, serves to drive investors away to Indonesia's competitors – which also have the advantage of being less geologically volatile. Indonesia weathers the crisis but faces the consequences of yet another lost decade of growth.

Violent tensions on a communal level in provinces with a high number of migrant Muslim workers remain unchecked and further induce hostilities between the migrant and indigenous groups. In light of that, Papua's independence aspirations have intensified, with occasional violent escalations also emerging in Maluku. Further, radical Islamic groups have gained greater influence pushing for further Islamicization of the country and a tougher stance vis-à-vis non-Muslim groups.

Non-traditional Security Issues: The effects of climate change will be considerable; rising sea levels will force relocation, cause food insecurity, and possible social unrest. Over-fishing and destruction of conditions for livelihood in coastal areas increase the crime rate and provide incentives for piracy. This will have ramifications for security and stability in the region.

National Security: There will be increased tensions in maritime Southeast Asia regarding economic, political, and military interests, destabilizing the region with increased conflicts, piracy, and terrorism as a result. Freight costs and security expenditures will considerably increase. The raised tension due to regional rivalries makes security cooperation and joint operations more difficult. Sovereignty of the countries and national security take priority over transnational issues. Due to the energy prices, social unrests break out as well as hamper economic growth. Indonesia experiences increased domestic terrorism focusing on energy transport and production attacks both for political and economic reasons.

There is a halt and reversal in the reformation of the armed forces due to the military's reluctance to dismantle the territorial command. Also there is slow modernization of the armed forces due to insufficient funding. The military increases its influence over politics due to a weak civilian administration. The main focus of the military will be to reestablish domestic control and prevent internal unrest.

Geo-political Development: China as a rising power challenges the U.S. in Asia. The other external actors seek to contain China's influence; the region will increasingly have to choose sides diminishing the political power of ASEAN. Indonesia will increasingly turn to India in order to balance the influence of China in the region. It also increasingly leans towards Russia

regarding supply of arms and military equipment to distance itself from the U.S. and EU.