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# Indonesia: Background and U.S. Relations

## Overview

With a population of 253 million, Indonesia is the largest country in Southeast Asia, the world's most populous Muslim-majority nation, and the world's third largest democracy (after India and the United States). Its size, economic vibrancy, and democratic development have led many observers to consider it an emerging power, whose voice is increasingly influential on many global and regional issues. Indonesia is an active member in regional diplomatic institutions, and the de facto leader of the Association of Southeast Asian Nations (ASEAN). It straddles important sea lanes, bordering the Strait of Malacca, one of the world's busiest trade routes.

The United States maintains close relations with Indonesia, and the bilateral relationship has broadened considerably over the past decade, with closer military and counterterrorism cooperation and a range of new educational, environmental, and energy initiatives. Indonesian trade and economic regulations, however, are a growing U.S. concern, and corruption remains widespread.

## Political Background

Indonesia has undergone a significant transformation since 1998 when a devastating financial crisis and widespread riots led to the downfall of its longtime authoritarian leader, President Suharto. Since then, the country has held three direct presidential elections, each considered largely free and fair. The most recent, in July 2014, installed Joko Widodo as president, marking the first time one directly elected Indonesian president succeeded another.

A former businessman and mayor, Widodo is Indonesia's first president not to have emerged from either the military or an elite business family. He also is the first Indonesian president whose political coalition does not hold a majority in Indonesia's Parliament. Rivalries between parties, and even within Widodo's PDI-P party, may complicate governance in Indonesia over his five-year term.

## U.S. Engagement with Indonesia

Over the past decade, the United States has broadened its ties with Indonesia. The United States encourages Indonesia to combat terrorism and to develop a more liberal trade and investment climate, and it has tried to promote Indonesia's democratic development, religious tolerance, and rule of law. In November 2010, the United States and Indonesia initiated the U.S.-Indonesia Comprehensive Partnership, with bilateral working groups on a range of issues, including democracy and civil society, security, environment and climate, energy, and education.

In 2014, the U.S. provided Indonesia with over \$250 million in assistance, most of it going to health, environmental, and educational initiatives. After the 2004 Indian Ocean tsunami, which devastated parts of Indonesia, USAID spent \$400 million on reconstruction projects in the country, and the United States extended military assistance including 12,600 military personnel to affected areas.



**Source:** Graphic created by CRS. Fact information from CIA World Factbook, 2015 (2014 est. unless indicated otherwise).

## Economic Issues

Indonesia is the world's 10<sup>th</sup> largest economy in terms of purchasing power parity. Its economy regularly posts growth of more than 5%-6% annually, buoyed in part by its favorable demographics, as 66% of its population is of working age. It is the world's leading exporter of palm oil and tin and the second largest rubber exporter. Still, about half of Indonesian households are around the national poverty line of \$24.40 per month.

Indonesia is the 28<sup>th</sup> largest U.S. trading partner. According to some analysts, U.S.-Indonesia economic relations are lagging. Indonesia recently imposed several policies criticized by foreign investors, including new foreign ownership restrictions in the mining and finance sectors and the renegotiation of contracts for some energy and mining projects. At the same time, President Widodo has actively

courted more foreign investment, particularly in the infrastructure sector.

The United States and Indonesia meet regularly under the auspices of a 1996 Trade and Investment Framework Agreement (TIFA), under which the two sides have discussed issues including strengthening Indonesia's intellectual property rights protections and promoting new Indonesian investments in U.S. clean energy technology.

## Security and Counterterrorism

U.S.-Indonesia security cooperation has deepened over the past decade. Each year, the two militaries conduct over 200 joint military engagements. Counterterrorism cooperation is close; the United States and Australia helped to create Indonesia's elite counterterrorism unit, Densus-88, which has weakened militant groups such as Jemaah Islamiyah (JI), an al-Qaeda affiliate. JI was responsible for the Bali bombings in 2002, which killed 202 people including seven Americans. The Islamic State does not have a widespread presence in Indonesia, but up to 200 Indonesians are believed to be currently fighting with the group.

Military sales have grown with Indonesia's efforts to modernize its forces. In 2012, the U.S. provided Foreign Military Financing (FMF) to upgrade aging Indonesian C-130 cargo planes, and sold two dozen refurbished F-16s and eight Apache helicopters to the country. Widodo's government has announced plans to increase military spending to 1.5% of GDP, from levels below 1%, focusing particularly on maritime capabilities.

Indonesia's government has worked to moderate territorial disputes over the South China Sea between China and other Southeast Asian countries. Indonesia does not have formal disputes with Beijing in the heavily contested waters. However, China's maritime claims, as outlined by a vaguely defined nine-dash line covering 90% of the South China Sea, do overlap with Indonesia's Exclusive Economic Zone (EEZ), the coastal area over which a state has the right to regulate economic activity. Indonesian officials regularly voice concerns about maritime behavior that is seen as overly aggressive. They have sought to forge a consistent Southeast Asian stance in discussions with China on a Code of Conduct in the South China Sea.

## Human Rights Issues

Human rights abuses by the military have been a longstanding congressional concern. Following Timor-Leste's vote to pursue independence from Indonesia in 1999, Indonesia's military and its militia proxies killed over 1,000 East Timorese. Congress, in response, suspended all International Military Education and Training (IMET) programs with Indonesia until 2002 when they were restarted on a limited basis. From 2005 to 2010, the United States largely normalized military relations with Indonesia, bringing professionalization and human-rights training to a broad part of the Indonesian military. In 2010, it also resumed limited IMET programs with Indonesia's special-forces unit, Kopassus.

Indonesian human rights protections have generally improved over the past 15 years. However, abuses still occur, particularly in areas with simmering secessionist movements, such as Papua, Aceh, Maluku, and Timor. Tensions also exist between the central government and outlying provinces where some minority groups resent the perceived dominance of the Javanese, the country's largest ethnic group. According to some, religious intolerance is rising in Indonesia. Islamist organizations have harassed and attacked minority religious groups, including Christians and other Islamic sects, such as the Shia and Ahmadiyya. Oftentimes, the government is reluctant to punish the perpetrators. Islamic parties participate in coalition governments, and those parties do not want to risk ostracizing their co-religionists.

Corruption is widespread. Transparency International (TI) ranked Indonesia 107<sup>th</sup> out of 174 nations in its 2014 Corruption Perceptions Index, below other Asian nations such as China and the Philippines. Also, after Suharto fell from power, Indonesia's government became more decentralized. District governments gained more control over their budgets, and corruption and patronage reportedly became more common. Despite these concerns, many observers believe that Indonesia's democratic development and the rapid growth of its civil society have created a more accountable system, in which people have more freedom to choose their leaders and to participate in policymaking through community or non-governmental organizations.

## Environmental Issues

Environmental cooperation is another focus of the bilateral relationship. Indonesia is one of the world's most bio-diverse regions. Yet its record of environmental preservation is constrained by poor rule of law and poor land management. Because of deforestation, Indonesia is a major greenhouse gas emitter, the world's third or fourth largest when emissions from deforestation are taken into account. Despite an MOU signed with the United States in 2006, illegal logging remains rampant, and rainforest cover has steadily declined. In the 1960s, forests covered 82% of the country. Today, they cover only 49%.

Indonesia signed the Reducing Emissions from Deforestation and Forest Degradation (REDD+) Agreement in 2010. It stipulates that, over the course of 7-8 years, Indonesia will reduce greenhouse gas emissions from deforestation. In return, it will receive \$1 billion from Norway. The United States also has devoted considerable resources to environmental and clean energy programs in Indonesia. In 2011, Indonesia signed a \$600 million Millennium Challenge Corporation (MCC) compact. Over half of the MCC-provided funds—about \$332 million—are devoted to a "Green Prosperity" program that will provide technical and financial assistance to renewable energy and land management projects.

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**Ben Dolven**, [bdolven@crs.loc.gov](mailto:bdolven@crs.loc.gov), 7-7626  
**Wil Mackey**, [wmackey@crs.loc.gov](mailto:wmackey@crs.loc.gov), 7-5050