

CHAPTER I

INTRODUCTION

A. The Reason of Title Selection

Indonesia, the emerald of the equator has emerged as an important regional player of the economy in Asia. The term of equatorial emerald is referred to the beautiful country Indonesia, a country located right on the equator line, flanked by two big oceans (Hindi and Pacific), and two continents (Asia and Australia). Today, Indonesia has transformed to be one of the countries in Asia who has a great economic record on the last decade, with 5,5% of growth or estimation of GDP more than \$3500,9 in 2004. Moreover, along with the positive growth of economy, another sector such as political and socio-cultural are getting more stable as the effect of progressive of economy that has been achieved by Indonesia.¹

Indonesia's profile is still continuing to grow through international platform such as ASEAN, G-20, and also APEC (Asia-Pacific Economic Cooperation). Thus, it makes the United States of America welcomes and encourages Indonesia to keep its leadership and development as the new emerging regional power. As the U.S has pushed the role of Indonesia in international platform, the U.S then committs to enhance its partnership with Indonesia through comprehensive partnership with Indonesia in order to achieve mutual benefit not only politic-security aspect, but also in economy, and socio-cultural as well. Through

¹ Chairil Abdini/Adyawardman."ANALISIS KEBIJAKAN KETAHANAN EKONOMI INDONESIA". Sekretariat Negara. Retrieved from <http://www.setneg.go.id/images/stories/image-news/kontributor/dujak/analisis.pdf>. Accessed on (October 10, 2015)

comprehensive partnership also, the U.S and Indonesia are expected to actively involve in global platform and together hand in hand to tackle down the problem.²

As the United States of America committed to enhance its partnership with Indonesia, the U.S government works regularly to expand its cooperation with Indonesia through various agendas which include many sectors such as education, art performance, trade and investment, and many more. Thus, it is clear that the intention of the U.S is no longer on political and security aspect only, but it has broadened into various strategic issues which is also important for a state to conduct bilateral relations on 21st century.³

However, the relations between the U.S and Indonesia today has slightly different from they used to be. Back to the three decades ago, the U.S seemed neglecting the role of Indonesia and also the role of ASEAN. The focus of the U.S at that moment was only the east part of Asia: Japan, China, and Korea as the stalwart of the U.S. On the early year of 2000s as George W. Bush was in his office, the bilateral relations between the U.S and Indonesia were mostly focused on political-security of which combating terrorist was the main means to strengthen bilateral relations.

The attention of the U.S towards Indonesia has shifted right after Barack Obama became the President of the United States of America on 2009. As he ruled the government, the Washington step by step reformed their policy towards

² White House, "Fact Sheet: The Fiscal Year 2014 Federal Budget and The Asia Pacific, April 12th, 2013. Retrieved from http://www.whitehouse.gov/sites/default/files/docs/asia_pacific_rebalance_factsheet_20130412.pdf. Accessed on (October 10, 2015)

³ Office of the Spokesperson Washington, DC, "United States-Indonesia Comprehensive Partnership". October 8, 2013. Retrieved from <http://www.state.gov/r/pa/prs/ps/2013/10/215196.htm>. Accessed on (October 10, 2015)

Jakarta. Washington today has clearly considered Jakarta as an important player, and it has encouraged the U.S to build new era of bilateral relations into a comprehensive partnership. It happened during President Barack Obama visit to Indonesia on 2010.

As comprehensive partnership has proposed, there are three main points of the comprehensive partnership that are political-security, economy, and also socio-cultural cooperation. Now, both countries have realized that they are now facing the new era of bilateral relationship, where political-security is not the main motor of diplomacy. The new era of bilateral relations is not only determined by one aspect, but involving another aspect.⁴ In line with the realization of the comprehensive partnership, there is an interesting side of what the actual reason of the U.S is under Barack Obama administration to conduct comprehensive partnership with Indonesia.

As he spent his childhood in Indonesia, some argues that there was a personal experience of Indonesia which contributes on the implementation of comprehensive partnership between the U.S and Indonesia. Regarding to that fact, Barack Obama has been giving a contribution to the smoothness of comprehensive partnership between the U.S and Indonesia through his channels based on his personal experience. Furthermore, as a leader of the United States of America, President Barack Obama has quite succeeded in delivering a perception to the U.S⁵ citizen on how actually Indonesia looks like. As a developing country

⁴ “A U.S. –Indonesia Partnership for 2020; Recommendations for Forging a 21st Century Relationship” (Murray, Ted, Gregory, 2013, p.IX).

⁵“Barack Obama” Retrieved from <http://2012.presidential-candidates.org/Obama/Childhood.php> (Accessed June 12, 2015).

and the biggest muslim population country as well, it is not that easy to have such a comprehensive partnership with a powerful country like the U.S.

It is somehow easier for the U.S citizen to understand and to open up their mind towards Indonesia through Barack Obama as their President, because comprehensive partnership is a new level of cooperation between the U.S and Indonesia where all actors including citizen from both countries are involved. So, it is important to have such a good understanding either from the U.S or Indonesia towards each of them.

Thus, it is interesting to explore and discuss the case of comprehensive partnership which contains three major aspects of cooperation such as political-security, economy, and also socio-cultural. Along with the positive trend of Indonesia's economic development so far, therefore, the title of this undergraduate thesis is Comprehensive Partnership of the United States of America and Indonesia: Trade and Investment as a Way to Strengthen Bilateral Relations with Indonesia under Obama Administration.

B. Background of the Problem

Comprehensive partnership is a cooperation that runs beyond the ordinary lane of cooperation which is more comprehensive or intensive by involving many elements in order to achieve mutual goals.⁶ Comprehensive partnership also means an action that is conducted by one of two entities which involve in

⁶ Hafsah, M. J. (1999). "Kemitraan Usaha: Konsepsi dan Strategi." Pustaka Sinar Harapan. Jakarta, Indonesia.

comprehensive partnership in order to achieve common goals by using trust and understanding as a motor of its cooperation.⁷

Another notion of comprehensive partnership is an attempt involving all the elements and same vision from both parties in order to receive mutual benefit. In its practice, both parties should have empathy and respect so then the cooperation would lead to common goals.⁸ Regarding with comprehensive partnership, the U.S has been conducting cooperation with Indonesia under a bilateral relationship long before there is a comprehensive partnership between them. The relationship between the U.S and Indonesia is like “*hate-love relationship*” which means that there were several uphill battles occurred, but the U.S and Indonesia successfully find a way to reconcile.

Bilateral relations between Washington and Jakarta has received quite strong boost from the reigning President Barack Obama. The attention of the U.S towards Indonesia under Obama is different from his predecessor George W. Bush. When George W. Bush was in his office, the attention of the U.S was mostly focused on political and security issue. ASEAN, especially Indonesia, was not such a “belle” for the U.S to have cooperation on other sectors such as trade and investment. Moreover, the focus of the U.S at that time was on Middle East and Northeast Asia.

During George W. Bush administration, the U.S foreign policy towards Indonesia was mostly ran on high politics path, in which politics and security became the motor to conducting bilateral relations with Indonesia instead of

⁷ Sulistiyani, A. T. (2004). *Kemitraan dan model-model pemberdayaan*. Gava Media.

⁸ Notoatmodjo, S. (1997). *Ilmu kesehatan masyarakat: Prinsip-prinsip dasar*. Rineka Cipta.

choosing a low risk but worth it and long lasting way such as trade and investment cooperation. This somehow produced such a perception that Indonesia was not in the main list for the U.S to make Indonesia a partner to conduct bilateral relations on a comprehensive one, which focused on trade and investment for instance. The only issue that could attract the attention of the U.S at that time was the issue of security within ASEAN and Indonesia specifically as the pivotal area to succeed the political maneuver of George W. Bush of war on terrorism.⁹

Under George W. Bush administration, the attention that the U.S gave towards Indonesia was actually greater than the era of cold war. As the largest majority muslim country on earth, Indonesia had become the crucial actor to the U.S in order to succeed his maneuver in war on terrorism. War on terrorism was the political maneuver of George W. Bush which was focused on combating the terrorist in the world, and the targets were mostly on the Islamic countries. This political agenda somehow provoked Indonesian grassroots to assume that the war on terrorism was a mean of the U.S to extent the U.S interest on Islamic countries, especially in Middle-East.

Right after the 9/11 attacks, war on terrorism was announced, then the U.S decided to send troops to Afghanistan and Iraq to find the terrorist under war on terrorism policy. The decision of the U.S which delivered military action to Afghanistan and Iraq became the global issue, and the U.S at that time was calling upon all the countries in the world to support and also to join in military action to combat the terrorist. Regarding with the policy of war on terrorism, Indonesia was

⁹ Jürgen Haackee(2010).Playing Catch-Up:”The United States and Southeast Asia”. Retrieved from <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR003/haacke.pdf>. Accessed on (October 10, 2015)

not taking part to support the military action of the U.S and its allies because at that time Indonesia was still struggling with the unstable of domestic security issues.

Another critical moment between the U.S and Indonesia happened on July 23rd, 2003. At that time, there were five U.S. F-18 Hornets flew too far over Indonesia's airspace territory without any permission from Indonesia. It ignited many perceptions towards the aim of the U.S below the level of government structural, and it became a critical moment for bilateral relations between the U.S and Indonesia at that time.¹⁰ Many Indonesians were unhappy with the U.S policy regarding war on terrorism and also the action of the U.S' F-18 Hornets which flown over Indonesia's airspace without compunction.

Many Indonesians saw a contradiction between the U.S action with its traditional value as they sent troops to Afghanistan and Iraq and the action of the U.S' jet which flown over without permission over Indonesia's airspace. The traditional value of the U.S. is liberty and democracy which uphold the idea of human rights. Aside from that issue, the bilateral relations between the U.S and Indonesia was indeed dominated by the high tension sequence, the bilateral relations between the U.S and Indonesia have run under distrustful of the U.S foreign policy among general public in Indonesia.

The only substantive cooperation between the U.S and Indonesia was on security issue which was the branch of war on terrorism policy that focused on combating terrorist. The high politics method had become a mean for George W.

¹⁰ Anthony L. Smith.(2003). "A Glass Half Full: Indonesia-U.S. Relations in the Age of Terror."vol 25, Institute of Southeast Asian Studies (ISEAS).

Bush to conduct bilateral relations between the U.S and Indonesia. In fact, the subsequent bombing in Jakarta and Bali had forced Indonesia to welcome its policy, for example the meeting in Bali on 2003 attended by two leaders from both parties (the U.S and Indonesia) clearly showed that the security and political aspect was the only mean to bind the rope between the U.S and Indonesia.¹¹

Aside from the ups and downs of bilateral relations between the U.S and Indonesia, both countries have realized that they need one and another. The meeting in Bali regarding the case of security and also the announcement of assistance program of post tsunami Aceh on 2004 were two of the most widely praised elements which marked the rehabilitation of the U.S and Indonesia. When George W. Bush and Megawati came to the end of their presidency, both parties (the U.S and Indonesia) realized that they need to come into one collaboration to tackle the common problem not only in politics-security but also beyond politics-security issue.

As their presidency being replaced by their successor, both President Barack Obama and also former President Soesilo Bambang Yudhoyono recognized that they need to go beyond politics-security cooperation. Therefore, both parties (the U.S and Indonesia) vowed to open new era of bilateral cooperation which was based on shared democratic values and common interest in order to achieve regional stability and prosperity.¹² Under the era of Soesilo

¹¹ Awani. I, Luhulima, Riza. S, Indriana K., Rosita D.(2005). "Hubungan Indonesia-Amerika Serikat Dalam Menghadapi Masalah Terorisme Pasca 9/11; Politik BBM."P 87-88. Pusat Penelitian Politik LIPI. Jakarta, Indonesia

¹² Walter Lohman(2010)."US-Indonesia Relations:Build for Endurance, Not Speed." Retrieved from <http://www.heritage.org/research/reports/2010/03/us-indonesia-relations-build-for-endurance-not-speed>. Accessed on (October 10, 2015)

Bambang Yudhoyono and Barack Obama, the path changed slowly. Although on the early presidency of Barack Obama Indonesia was not included on the list of Obama's visit as the U.S president, it did not give any significant effect toward the U.S and Indonesia relationship although some said that it was such a wrong step of Obama to have a good relation with Indonesia.

The relationship between the U.S and Indonesia still grow harmonically and it might and should expand far beyond in many years to come. On the previous administration, the bilateral relations between the U.S and Indonesia have run on right path. There were so many critical interests around which the two countries have done so far and it would possibly grow stronger under the new administration of Indonesia.

Both countries have recognized that they could go far beyond by bringing the common interest together and make it as a mean to strengthen their bilateral relations. Political and security issues have traditionally been a glue that bind the bilateral relations between the U.S and Indonesia. Unlike politics-security issue, economic relations have been becoming the thorniest aspect that is not highly considered as the key to strengthen the bilateral relations between the U.S and Indonesia. The Asian crisis that struck in 1997-1998 had made so many changes to Indonesia's economy and it contributes to the global perception of economic slowdown of Indonesia. Thus, it was really reasonable that Indonesia did not

really consider the important partner for trade and investment for the U.S in the era of 90s until 2000s.¹³

In its development, Indonesia starts to find its confidences regarding the progress of economy within a decade right after the crisis. A common perception toward Indonesia's sphere from the casual observer today is that the impression on the economic growth that Indonesia has achieved so far. Indonesia is truly rising and becomes one of the important players in Asia today. Although on the last 3 months of 2014 until the beginning of 2015, Indonesia's economy growth shows a decline, it's economy is considered stable with 5,5% growth.¹⁴

Together with Singapore, Hong Kong, Japan, China, and followed by India, South Korea, and also Malaysia, Indonesia is on the ten financial center in Asia.¹⁵ Indonesia now, has definitely become such a "belle" for other countries to have an economic cooperation. In addition, Indonesia has become a dark horse and been lifted up to be the key actor in ASEAN regional. As Indonesia has been improving significantly, the U.S sees that there is a huge possibility to broaden the path of bilateral relations with Indonesia by adding economical aspect as one of the way to strengthen bilateral relations among them.

Both countries have seen the advantage of solid bilateral relations and by choosing the new era of bilateral relations where politics-security is no longer the

¹³ arze del Granado FJ, W Fengler, a Ragatz and E Yavuz (2007), 'Investing in Indonesia's Education: Allocation, Equity, and Efficiency of Public Expenditures', World Bank Policy Research Working Paper No 4329.

¹⁴ World Trade Organization."Trade Profiles:Indonesia". April 2013. Retrieved from <http://stat.wto.org/CountryProfile/WSDBCountryPFViw.aspx?Language=E&Country=ID>. Accessed on (October 10, 2015)

¹⁵ Loh, J & Indrakesuma, T.(2010)."ASEAN TRENDS MONITORING BULLETIN: FINANCIAL INCLUSION FOR ASIA'S POOR." (21st Ed). Singapore, Singapore: Lee Kuan Yew School of Public School.

only way, the U.S and Indonesia believe that they could bring the relationship to deeper level. During a visit to Indonesia in 2010, President Barack Obama and former President Soesilo Bambang Yudhoyono sought to institutionalize a new era in the U.S and Indonesia cooperation with the announcement of bilateral comprehensive partnership. The U.S realized that there was such a necessity for the U.S to engage with Indonesia in a deeper level. Since the comprehensive partnership had been signed, Washington had made it clear that Jakarta was a central to the U.S rebalance, formerly called Indonesia as the pivot toward the Asia Pacific.¹⁶ As a natural leader in the Association of Southeast Asian Nations (ASEAN), Indonesia was welcome to the intention of the U.S to have such strong partnership. Enhancing economic relations between the U.S and Indonesia is really crucial on today's era.

Both have realized and believed that by having such a comprehensive partnership, it would enhance the stability and development in the U.S and Indonesia as well. With the estimation of economic growth around 6.5% or about \$825 billion,¹⁷ it has made the United States believes that Indonesia is the true partner in achieving mutual interest among them. Moreover, since both countries have committed to strengthen their bilateral relations in the sake of state interest between the U.S and Indonesia to develop each country, the U.S and Indonesia are

¹⁶ White House."Fact Sheet: The Fiscal Year 2014 Federal Budget and The Asia-Pacific." April,2013. Retrieved from http://www.whitehouse.gov/sites/default/files/docs/asia_pacific_rebalance_factsheet_20130412.pdf. Accessed on (October 10, 2015)

¹⁷ Derek Scissors, Ph.D."Strengthening U.S.-Indonesia Economic Relations" March 7, 2012. Retrieved from <http://www.heritage.org/research/repot/2012/03/strengthening-us-indonesia-trade-and-economic-relations>. Accessed on (October10, 2015)

realized that through trade and investment, both countries are able to achieve their development and interest as well.

Although the U.S and Indonesia are in different stage level of economy, the future is still bright for its bilateral relations, since trade and investment is the crucial key to have such a healthy partnership in the 21st century. Furthermore, both the U.S and Indonesia have realized that to engage with one and another, they could not rely on one way of traditional partnership like they used to be, but also by combining all aspects which are also more important in the 21st century bilateral relations. By having comprehensive partnership also, both the U.S and Indonesia believes that they could create the new era of state-to-state relations.

C. Research Question

Based on the illustrated background above, the question which serves as the key analysis is:

How is the implementation of trade and investment of comprehensive partnership as the way to strengthen bilateral relations of the U.S and Indonesia?

D. Theoretical Framework

The problem above could be explained by using several concepts and several theories. Concept is an abstraction that represents as object, character of an object, or a certain phenomenon.¹⁸ One of its function is to organize ideas, perception, and symbols in the form of classification and generalization.¹⁹

In order to answer the proposed research question, one concept and two theories will be applied. As an addition, the concept and theories that would be

¹⁸ Mochtar Mas'ood. Hubungan Internasional: Disiplin dan Metodologi. Jakarta: LP3ES, 1990.p.93-94.

¹⁹ Ibid, p.95.

applied later have any relation or connection with economy and political units. These are the theories that are going to be used on this undergraduate thesis;

1. Concept of National Interest

Regarding with the case of trade and investment of comprehensive partnership which become such a way to strengthen bilateral relations between the U.S and Indonesia, there is a firm relation towards the concept of national interest. It is interconnected through the trade and investment as an extension to gain national interest. As both countries, the U.S and Indonesia, are engaged with the democratic values, the definition of national interest by Martin Griffiths and Terry O'Callaghan might be able to explain on how the U.S and Indonesia see the trade and investment of comprehensive partnership as the way to extent their national interest.

According to Martin Griffiths and Terry O'Callaghan, public interest or Public good is the national interest defined through the democratic process. The process involves an open and on ongoing debate as well as the reality of the various perceptions related to the collective interest. The decision of the consensus formed by a majority of which is channeled through its representatives, and along with it, the rights and interests of minorities are protected.²⁰

Therefore, the outcome of majority decision would later be seen as a national interest. Moreover, the concept of national interest in the case of trade and investment of comprehensive partnership as a way to strengthen bilateral relations between the U.S and Indonesia would be implemented in general or

²⁰ Coulumbis, Theodore A & Wolfe, James H.(1999).”Pengantar Hubungan International: Keadilan dan Power.”p.109-penerbit: Putra A. Bardin, Bandung, Indonesia.

common interest among them. General or common interest according to Thomas Robin is the interest of a general nature that can be applied to many countries and to large geographic area or for some specialize fields, such as in the fields of trade, investment, and many more.²¹ Thus, the concept of national interest becomes a base of thinking to see and analyze the intention of both parties either for the U.S or Indonesia.

2. Theory of Redistributive Combines

In the case of trade and investment, there is a tight relation regarding trade flow and market. Therefore, the case of trade and investment of comprehensive partnership between the U.S and Indonesia has connection between economic and political units. Moreover, in order to analyze the case more specifically, the writer tends to use the branch of International Political Economy (IPE) theory to explain the relation among those units of analysis. Then, the theory of redistributive combined by Hendry Fawcett (1883) is chosen to assist the explanation towards the issue.

Theory of redistributive combine simply assumes that the agent of economy is an extension of government agent which also contains interest of the state. So, corporation becomes an agent to conduct the interest of the government in a host country.²² Here, the economic agent is called as redistributive combine or redistributive group. This group is not limited only on economical units, but also political such as political agenda, political party, mass media, or informal

²¹ Dr. Sutejo Amawasito(2001) "Diktat Kuliah: Teori Hubungan Internasional." Universitas Jendral Ahmad Yani, Bandung, Indonesia.

²² Yustika, Ahmad Erani.(2009). "Ekonomi-politik: Kajian Teroretis dan Analisis Empiris". P.66. Yogyakarta:Pustaka Pelajar, Indonesia.

organization but also it extends to companies and corporation and even to families.²³

The case of production structure on capitalist system may have sufficient character to represent this preposition; that the structure of capital ownership inherent on the inside is more powerful rather than the other structure. On the other word, the interest group (economy) which has big capital can give more pressure to buy the government policy rather than the other group with small capital. So this theory would help the writer to explain why trade and investment becomes an important key to strengthen bilaterla relation between the U.S and Indonesia.

3. Theory of Interdependence

Another theory applied on this thesis is the theory of interdependence. This theory helps the writer to explain the relation between the U.S and Indonesia in the context of how the trade and investment of comprehensive partnership could be such a way to strengthen bilateral relations. Theory of interdependence is the branch of neoliberalism idea. This theory assumes that although world runs in anarchy system, the cooperation is a possible thing to be happen. Consequently, the cooperation would lead to the interdependence path as the countries would need each other. Moreover, theory of interdependence argues that the way to minimize the conflict is by trading. So, this theory would explain the case of

²³ Ibid p.65.

bilateral relations between the U.S and Indonesia by analyzing trade and investment as way to strengthen it.²⁴

This theory would explain the relation between all the elements which are involved in economic activities between the U.S and Indonesia. Theory of interdependence would explain the casual phenomenon that world economics today is actually run based on the idea of efficiency, in which most of the actor who involve in economic activity would focus on their specialty. Thus, this theory would help the writer to explain about the case of trade and investment as a way to strengthen bilateral relations between the U.S and Indonesia under Obama administration.

E. Hypothesis

Through trade and investment, both the U.S and Indonesia surely could strengthen its bilateral relations and achieving both interests. Economical aspect is safer for the U.S to strengthen bilateral relations with Indonesia. Thus, by implementing bilateral dialogues, promoting advantages of foreign trade and investment, and exploring more opportunities especially in capacity-building would be the most considerable ways for the U.S to strengthen bilateral relations with Indonesia through trade and investment of comprehensive partnership.

F. Methodology of Research

1. Purpose of Research

This research aims to achieve some purposes as followed:

²⁴ Emiel Awad.(2013).”Economic Interdependence, Trade, and War: A Theoretical and Empirical.” Erasmus University Rotterdam, Rotterdam, The Netherland.

1. To analyze the policies of the U.S and Indonesia towards the economic cooperation between them.
2. To know about the significances of the U.S as partner of economic cooperation of Indonesia.
3. To apply theories and concepts in international relations and international political economy studies into the real case.

2. Data Collection Method

Library research is the main method to write this undergraduate thesis. The sources of information will be by collecting references in forms of books, encyclopedia, magazines, newspapers, and journals. Internet sources will also be used since some updated information and data related to the topic are only available through internet.

G. System of Writing

The outline of this thesis is as described as followed:

Chapter I discusses about the problem background, research question, theoretical framework, hypothesis, methodology of research, scope of research, data collecting method and system of writing.

Chapter II discusses about the birth of bilateral relations between the U.S and Indonesia. This chapter is also discusses about the dynamics of the bilateral relations between Indonesia and the U.S by explaining each regime..

Chapter III discusses about Obama's consideration on choosing Indonesia as a partner in comprehensive partnership by explaining why the U.S choose Indonesia, and also explaining the U.S and Indonesia trade relations and issues.

Chapter IV discusses about the implementation of the trade and investment sectors as part of comprehensive partnership by analysing the opportunities from both side, and how trade and investment could strengthen the bilateral relations.

Chapter V is the closing part of this undergraduate thesis that contains conclusion.