



## Indonesia in India's Look East Policy

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## Executive Summary

India views Indonesia, the largest country in Southeast Asia, as a strategic partner that can play an important role in its Look East Policy. The two are close geographical neighbours who share a maritime boundary and a mutual stake in each other's progress, prosperity, stability and territorial integrity.

With an archipelagic coastline of 54,716 kms, stretching 5271 kms east to west and 2210 kms north to south dominating key international waterways - the Malacca, Sunda, Lombok and Makassar Straits, Indonesia controls all or part of the very major waterway between the Pacific and the Indian Ocean. More than half of all international shipping trade traverses these waterways. Given their locations and capabilities India and Indonesia have a critical role to play as sentinels guarding these vital lifelines in the interest of their own security. As the interests of the two countries converge, they have a stake in shaping the emerging security architecture of Asia so that it is not dominated by any single country. This is even more important at a time when the rise of China and its recent assertiveness in South China Sea through its creeping occupation of territories claimed by some other ASEAN states is creating strategic uncertainty in the region.

As pluralistic democracies and developing societies, we face similar challenges. The key political challenge before both India and Indonesia, though different in specifics, is how to build stable, democratic state structures in the midst of a rising tide of expectations for better life and greater liberty. The success of Indonesia, as a pluralistic and democratic state is essential not only for the peace and prosperity of the Southeast Asian region, but also for the security of India. India can help Indonesia build capacities, through its expertise in the IT sector in its democratic transformation, particularly in respect of promoting grassroots democracy and institutions for mediating centre-province relations. As the country with the largest Muslim population in the world, Indonesia has a key role to play in demonstrating the virtues of tolerance and mutual respect in a diverse, multi-ethnic polity.

Indonesia is not only the most populous country in the region but also has the largest Muslim population in the world. Both India and Indonesia are facing rising threats from Islamic militancy and terrorism arising from the changing nature of Islam. Indonesia has done well in fighting terrorism. Most Indonesians practice a syncretic, moderate form of Islam. Yet a small band of homegrown extremists is waging a bloody jihad. The growing popularity of Islam makes it all the more imperative for India to help Indonesia in its democratisation process, for pluralism and democracy can be major bulwarks against militancy and exclusive Islam. The curbing of terrorism, therefore, has emerged as a basis for cooperation between India and Indonesia.

An area where India can help Indonesia and in which it has a comparative advantage is in the field of higher education and human resources. India should also attract bright and

meritorious Indonesian students by opening the doors of our premier institutions, like the IITs, IIMs, Delhi School of Economics and universities like JNU by reserving a few seats exclusively for them. The dividend from such a policy will be enormous, as the products of these institutions would eventually emerge as critical elites in decision-making in Indonesian government and corporate life, and India will surely strike a familiar chord for them.

Yet another area in which India's soft power can be promoted in Southeast Asia in general and Indonesia in particular, is its culture. Indian culture is an inseparable part of Indonesian customs, and our cultures and values are closely related, given 2000 years of civilisational contacts between the two countries. If carefully pursued, our cultural diplomacy can further cement the bond between the two countries based on our pluralist traditions and our mutual need for preserving 'unity in diversity' - the basic philosophy of our states. Cultural interactions should extend to people-to-people contacts and academic exchanges with collaborative research projects of common interest.

India and Indonesia have economic complementarities with great potential for enhancing cooperation between the two countries. Indonesia is India's second largest export market in ASEAN (after Singapore) and one of its major trading partners in the region. The recovery of the Indonesian economy after the Asian financial crisis coupled with political change gave a fresh impetus to the economic relations. There is a fresh wave of Indian investments in Indonesia as India does not evoke the same anxiety that Chinese investment does. Trade between the two countries has already gone up to \$11.7 billion in 2010

The security cooperation between India and Indonesia could include human resource training, exchange of officers, joint border patrols, counter terrorism and battling sea piracy. The 21st century is inevitably the Asian century and in shaping that century, India, Indonesia and Southeast Asian countries are destined to play a major role to ensure peace, stability and prosperity for the region.

## Introduction

The importance of Indonesia in India's foreign policy and strategic calculations needs to be located within the broader context of India's Look East Policy (LEP), which guides its interactions with Association of Southeast Asian Nations (ASEAN), an organisation viewed by India as the pivot of the emerging economic and security architecture in Asia. Thanks to our LEP, relations with Southeast Asian countries have progressed well, bilaterally and collectively within the framework of our Dialogue Partnership with the ASEAN and our participation in the East Asia Summit (EAS). When the policy was initiated in 1991, it marked a strategic shift in our perspective of this part of the world, and coincided with the beginning of our economic reform process and provided an opportunity for significantly enlarging our economic engagement with South East Asia and for integration with the global economy while helping to build a stable regional political and economic order in Southeast Asia. From a Sectoral Dialogue Partner in 1992, India became a full Dialogue Partner in 1996 and since 2002 India has annual summits with ASEAN. India's engagement with the ASEAN member states is at the heart of our LEP and our relations with Indonesia form an important component of that policy. Undoubtedly, issues that pertain only to bilateral relations between India and Indonesia need to be factored into the building of relations that can endure the test of time, the super structure of the relationship will have to be built on an overarching framework. The end of the Cold War together with globalisation and the information revolution, with their accompanying compression of time and space, are creating conditions which will make it imperative for India and the countries of Southeast Asia to fashion common strategies to cope with the emerging challenges. These include the reform of the United Nations and democratisation of the international economic order, building up of secular, pluralist democracies for the management of multi ethnic, linguistic, cultural and religious societies, mitigation of the effects of climate change and formulation of policies relating to basics such as food sufficiency, population planning, debt management and sustainable development.

In the post-Cold War period, India and the countries of ASEAN are confronted with new security issues, which have also opened up opportunities for co-operation. The end of the Cold War between the two super powers, the United States and the erstwhile Soviet Union, has reduced the chances of any conflict between the major powers, despite recent tensions between the United States and Russia, thereby removing any major uncertainties in the strategic environment of Europe. This has not happened in the case of the Asia-Pacific which is home to some of the largest and key states of the world -Japan, China, India, Indonesia, Korea, Russia and the United States - and where a series of sovereignty disputes and military issues are creating an uncertain and complex security environment. This is further complicated by the rise of China and its sudden assertiveness in defining its 'core interests' particularly in the South China Sea, apart from Taiwan and Tibet and its aggressive pursuit of its interests in South Asia, including asserting its claim on India's Northeastern state of Arunachal Pradesh. Meanwhile, Beijing has also ratcheted up tension

in the disputed Diaoyu (Senkaku in Japanese) Islands in the East China Sea to protect Chinese interests there. These recent Chinese moves suggest that although bilateral tensions between Japan and China have eased somewhat, Beijing is taking a more assertive line in protecting its interests, which Southeast Asian nations are no doubt taking note of. This not only created apprehensions in the United States, but also in India. From a short term perspective, its self-proclaimed 'peaceful rise' is sugar-coated with a charm offensive meant to reassure all - big or small - countries in the region and outside, regarding its supposedly benign economic and military power. But the long term objective has been to establish its supremacy in Asia by countering the lengthening shadow of the United States, in East Asia, and to curb the influence of India, the other rising Asian power and a perceived rival, in South Asia, India's traditional backyard, and also in Southeast Asia, which India has rediscovered with its Look East Policy.

While the sovereignty and sea-based resources disputes arising out of China's aggressive pursuit of its 'core interests' have created uncertainties in the strategic environment, the forces of globalisation and the resultant maritime trade have increased density of maritime traffic from the Pacific to the Indian Ocean. This growing economic maritime interdependence, is making other emerging powers like Japan, India, Indonesia, Vietnam and South Korea stakeholders in the maintenance of free and peaceful Sea Lanes of Communication (SLOC). China however rejects all other external stakeholders even though they have trade and transit interests in the region. The benign neglect of Southeast Asia in the post-Cold War period by the United States together with the growing military and economic might of China has tilted the current regional power balance in favour of the latter. This is obviously a matter of major concern for both India and the countries of ASEAN, as their interests converge in ensuring that the region is not dominated by any single power. The US, Japan, India and to an extent Australia have often taken on the offshore balancing role in the region. With legitimate trade and transit interests trans-crossing the South China Sea, the role of the external stakeholders has been very much welcome. Robust political, economic and even defence cooperation with all the important actors is an essential prerequisite for attaining such an objective. There is also a further need for a strengthening of the naval capabilities of India and the countries of Southeast Asia, particularly of Indonesia, Malaysia and Vietnam through bilateral and multilateral engagements and even by acquiring interoperability through joint naval exercises. Such initiatives will send strong signals to any one power to desist from the overdrive to regional hegemony. India has made a beginning on all these counts and trade with the region, and beyond, is now a substantial 55 per cent of India's total trade; naval engagement with Southeast Asia in South China Sea and with South Korea, Japan, Russia and the United States in the East Pacific is steadily increasing since 2001. Focussing on Singapore, Vietnam, Philippines in Southeast Asia and with Japan, South Korea and Russia in Northeast Asia, India has made attempts to establish an enduring naval footprint in the region that can serve to reinforce its soft presence in the form of energy development and trade. With Indonesia India has been undertaking joint military patrols in the Straits of Malacca as

part of the strategic partnership established between the two countries in 2005. But more needs to be done for India to project itself as the alternate- and more attractive -pole to China, while maintaining a vital strategic and geopolitical balance in the emerging security architecture in the region.

The region, therefore, has to develop a new balance of power amidst conditions that are rapidly changing. The strategic imperatives for co-operation arise from the prevailing uncertainties in regional security environment. The threat of terrorism - both from within and across borders - now confronting both India and ASEAN countries calls for close monitoring, coordination and the fashioning of a joint approach for combating the scourge. Other areas where India and ASEAN nations can co-ordinate their efforts include piracy, environmental pollution, narcotics traffic, illegal migration and other security-related issues. Above all, India and ASEAN need to contribute to the maintenance of peace and stability in the region, so that the countries of the region can ensure the economic development and prosperity for their people.

### **Role of Indonesia in India's policies and strategies in ASEAN**

Having outlined the broad contours and parameters of India's Southeast Asian regional policies and strategies, it will be worthwhile to highlight the importance of Indonesia in that strategy. Indonesia, the largest and the most important country in Southeast Asia, is a close geographical neighbour and both countries have a mutual stake in each other's progress, prosperity, stability and territorial integrity. The last island in the Andaman and Nicobar chain is only 80 nautical miles from the northernmost island of Indonesia. This narrow gap guards the entry into the Bay of Bengal and is also the gateway to the Arabian Sea and the Gulf, from the east. The geographical location and proximity makes it imperative for both countries to cooperate with each other as maritime powers. As pluralistic democracies and developing societies, we face similar challenges. Indonesia is not only the most populous country in the region with the largest Muslim population in the world; it has also immense natural resources and a strategic location, with a archipelagic coastline of 54,716 kms<sup>1</sup>, stretching 5271 kms east to west and 2210 kms north to south dominating key international waterways - the Malacca, Sunda, Lombok and Makassar straits. Indonesia controls all or part of every major waterway between the Pacific and the Indian Ocean. The US Pacific command transits these SLOCs (Sea-Lanes of Communications) in order to support its operations in the Gulf. The Japanese need these waterways to transit their oil tankers. More than half of all the international shipping trade traverses these waterways.

Indonesia is the fulcrum of Southeast Asia and, therefore, key to the stability and security

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<sup>1</sup> <http://www.nationsencyclopedia.com/Asia-and-Oceania/index/html>

of the region ASEAN's formation was a result of Indonesia adopting a more cooperative approach towards its neighbours. The cohesion among ASEAN countries has added to the stability of the East Asian region by allowing smaller countries to band together to form a counterweight to larger regional powers. By far the largest member of ASEAN, Indonesia has been careful to ensure that ASEAN remained an organisation of equals, and did not ruffle the sensitivities of smaller states, and in the process guaranteeing the stability of the region. The health of ASEAN is dependent on the health of Indonesia. A blow to Indonesia during the economic crisis of 1997-98 had undermined regional security and the integrity of ASEAN as an institution. Now after more than a decade, Indonesia has not only recovered from its earlier meltdown, but has maintained its political stability and economic progress at a time when many other countries are badly affected by the world recession. It now has the most open, extensive, decentralised democratic system in all of Southeast Asia, achieved possibly at some cost to economic growth but with little localised disorder, and with the settlements of the Aceh and Timor Leste issues to its credit. Indonesia is the world's 13th largest economy measured by GDP on a purchasing power parity basis, and is on an upswing economically given its position as a major player in global energy, minerals and food. Relatively unscathed by the global financial crisis, Indonesia's economy is projected to grow at a healthy 6.1 per cent in 2010 and at 6.3 per cent in 2011 - one of the fastest in Asia (and the world). What is more, its per capita GDP is projected to increase by almost 20 per cent in the next two years. Since 2009, Indonesia has had Asia's second-best-performing stock market. It now is a \$550 billion economy that is on an upward trajectory. A number of analysts are now suggesting that the BRIC grouping might soon have another member.

Part of the growth is driven by the country's abundant natural resources – it is a major exporter of timber, coal and silver – but Indonesia's manufacturing sector is growing as well. Chinese clothing and furniture companies, which prospered by making goods for the American market, are now increasingly moving production to Indonesia, taking advantage of a free trade agreement between the two countries, which is now just coming into effect. A peaceful and orderly presidential election last year reassured international markets for the country's political stability, and Indonesia's foreign direct investment, increased 34 per cent this year to \$3.7 billion in the second quarter. The country still has a poverty rate of around 14 per cent, which increased slightly this year due to the financial crisis, but Deutsche Bank projects<sup>2</sup> that 52 million Indonesians will enter the middle class in the next five years, a development with potentially monumental consequences. And it is not just an economic story: Indonesia stands a good chance of becoming world's first Muslim and democratic super power.

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<sup>2</sup> Quoted in "Stories You Missed: The Indonesian Tiger," *Foreign Policy* (New York), December 2010. p.12

Indonesia's weight in the international arena also increased with its membership of the G-20, which has been turned into the world's main council for economic cooperation replacing the elitist G-8 forum, particularly after the summit in Pittsburg in 2009. In Pittsburg, Indonesia's President Yudhoyono was the keynote speaker on climate change at the invitation of U.S. President Barack Obama. Yudhoyono's call for immediate international action on climate change resonated well with most summit participants, and even with some of the protesting activists outside the meeting. As a result, Indonesia is increasingly viewed as a regular participant in global forums. More importantly, Indonesia's membership of the G-20 has also strengthened its role in the ASEAN. This has undoubtedly granted Indonesia a greater say in ASEAN affairs, particularly in its stated objective of democratising the ASEAN charter. Indonesia's offer at the ASEAN summit in Hua Hin, Thailand in October 2009 to "coordinate" with the other member states before future G-20 summits allayed the fears of other members of the organisation of being neglected by their largest and influential member and has given it the status of ASEAN's international spokesman. As Indonesia will assume the chair of ASEAN in 2011 and will welcome the U.S. and Russia for the first time to the East Asian Summit (EAS) or ASEAN plus 8, it will play a critical role in shaping the discourse and agenda of the region.

In recognition of its strategic position as an important player in Southeast Asia, even the United States under the Obama administration has decided to deepen its ties with Indonesia to a "comprehensive partnership between two of the world's most important democracies," to quote Kurt Campbell, assistant secretary of state for Asia Pacific. In her first tour of this region, Secretary of State Clinton included Indonesia in her itinerary, which goes a long way in indicating the importance of Indonesia in U.S. foreign policy. President Obama's visit to Indonesia in November - after two cancellations, - though short, implied that the country is becoming a leading global actor. The "Comprehensive Partnership" that the two countries formally launched during this visit represents the kind of long-term commitment that can go far in helping Indonesia pull its weight in global affairs. The United States now depends on Indonesia both as an important ally and as a partner in tackling issues such as climate change, cross-border terrorism and global trade.

All of the above factors indicate the growing strategic and diplomatic importance of Indonesia in Southeast Asia, making the country of greater interest to India than ever before. The most fitting manifestation of Indonesia's special place to India was the welcome of President Sukarno as the chief guest on our very first Republic Day in 1950 and it is no wonder that the same honour has been extended to President Susilo Bambang Yudhoyono to mark the 60<sup>th</sup> anniversary of India-Indonesia relations.

### **India's Stakes in the success of Democracy in Indonesia**

The success of Indonesia, as a pluralistic and democratic state is essential not only for the

peace and prosperity of the Southeast Asian region, but also to the security of India. As the country with the largest Muslim population in the world, Indonesia has a key role to play in demonstrating the virtues of tolerance and mutual respect in a diverse, multi-ethnic polity. That so many Muslims thrive economically while living in a democratic and just society shows the way forward for Muslim and multi-religious societies like India. If democracy fails in Indonesia, it will not only lead to the revival of the authoritarian forces and the old regime but also the rise of militant Islam in a country that has tried to preserve a secular society. That, in turn, will impact on the security and stability of the region as a whole. India, therefore, has a great stake in the success of Indonesia's democracy. Not that India is a beacon of democracy, but it does have long years of experience in capacity and institutional building. Emphasising the importance of democracy in strengthening the bond between India and Indonesia Prime Minister Manmohan Singh noted:

We are Asia's largest pluralistic democracies. The focus of governance in democracies is to meet popular aspirations and to ensure that equity and social justice accompany economic growth. Both our countries are engaged in meeting this challenge. In fact, there has been considerable expansion of our trade, economic and investment relations over the past few years.<sup>3</sup>

India is fiercely proud of its democracy and there is no doubt that holding elections for a potential constituency of 714 million voters is an incredible undertaking. Indonesia could learn much from the speed and transparency with which votes are tallied and the extensive powers accorded to the Election Commission (EC). On paper it could be argued that comparatively Indonesia has a much better chance of making democracy work. It has only a fifth of India's 1.03 billion population, its literacy rate is 87 per cent and on all the indicators including gross national income, life expectancy and infant mortality rates, Indonesia ranks higher.

The former President Wahid and many other Indonesian leaders have great respect for India's democracy despite its many shortcomings. In my conversation with him in July 2000, Wahid evinced a particular interest in 'Panchayati Raj' - a system of governance that empowers people at the grassroots level by transferring decision-making from the bureaucracy to elected local bodies, and the decentralisation mechanism in our centre-state relations. He wanted to empower the people at the local level through his decentralisation schemes, which have been in force since early 2001. While the central government in Jakarta is impatient to implement further autonomy in the hope that a fairer distribution of national wealth will assuage separatist sentiments and violence, there

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<sup>3</sup> *Jakarta Post*, 25 April, 2005, accessed on 7 May 2006

is a lack of institutions for absorbing such autonomy at the local level. Autonomy alone cannot ensure economic justice and community peace unless there are institutions and procedures to administer the decentralisation. This is where India can help through its IT (technical cooperation) programmes that can provide training in Panchayati Raj and institution building at the grassroots level. With little investment, India can reap rich dividends in terms of the promotion of democracy in a vitally important neighbouring country and the goodwill of the Indonesian leadership as well as the people.

As the two largest democracies in Asia, India and Indonesia have a stake also in the promotion of democracy in Burma (MYANMAR). If any ASEAN country can persuade the Burmese junta to change its ways, to democratise gradually without falling apart, it has to be Indonesia. It has made such a transition, albeit from a very different and more successful authoritarian government. Unlike Singapore, Thailand and Malaysia, it does not have local commercial interests for dictating policy to Burma. As India prefers back-room diplomacy to open condemnation of the Burmese junta, India and Indonesia can work together in nudging the regime into making a gradual move towards democracy.

### **Threat of Terrorism as a Common Concern**

Both India and Indonesia are facing growing threats from Islamic militancy and terrorism arising out of the changing nature of Islam. Indonesia has done well in fighting terrorism. Most Indonesians practice a syncretic, moderate form of Islam. Yet a small band of homegrown extremists is waging a bloody jihad. A string of bombing campaigns, from Jakarta to the holiday isle of Bali, has claimed hundreds of foreign and local lives over the past eight years. Just weeks before Obama was due in Indonesia, police shot dead at an Internet café outside Jakarta a man believed to have orchestrated the 2002 bombings of two Bali nightclubs. Indonesia's efforts to counter its terror threat — so far it has had impressive success in netting hundreds of suspected extremists and re-educating youths susceptible to the call of militant clerics — can teach the world how to excise the cancer of religiously inspired violence from the Islamic faith. There's no question that orthodox dogma is gaining sway in Indonesia, like elsewhere in the Muslim world. In Jakarta, for instance, the number of women wearing headscarves has increased dramatically compared to a decade ago. As local governments have gained more autonomy, some have implemented a variety of Islamic-based legislation — ranging from enforced Koran literacy for Muslim children to the as-yet-un-enforced stoning to death for adultery — despite the fact that Indonesia is officially a secular nation.

The rapid 'Arabisation' of Islamic beliefs and practices at the grassroots level in Southeast Asia could lead to fundamentalism and militancy. This is a development that Indian policy makers and security experts need to watch. As yet Islamic militancy in Indonesia is restricted to very few and the general orientation of most Indonesians is secular. But if the nascent democracy in Indonesia falters and the economy does not pick up enough to

mitigate the growing economic inequalities, the people can veer toward the millenarian hopes that Islam offers. The curbing of terrorism, therefore, has emerged as a basis for cooperation between India and Indonesia.

## India's Potential as the Educational Hub of Asia

Another area where India can help Indonesia and in which she has a comparative advantage is in the field of higher education. While answering questions from the editors of *Jakarta Post* Prime Minister Manmohan Singh's during his visit to Indonesia in April 2005 for the commemoration of the Bandung Conference - declared that India intended to stay engaged by sharing experiences – “gained from our own development process — with nations in Asia”. To quote Singh: “Human resource development holds the key to employment and wealth creation, particularly in this age of globalisation. This has been our strategy and we have laid particular emphasis on training and skills development as we globalise. We have extended technical assistance valued at about \$1 billion. We stand ready to do more.” Undoubtedly Indonesia has been one of the prominent beneficiaries of India's technical cooperation programmes meant for fellow developing countries. Around 1000 Indonesian experts as well as officials received training in India under India Technical and Economic cooperation (ITEC). India offered more than 1100 scholarships to Indonesian students to study at Indian universities. In 2005 India opened a \$750,000 Vocational Training Centre in Aceh followed by another one more recently. But there is greater potential for India-Indonesia cooperation in education, which will be of benefit to both the countries.<sup>4</sup> To promote people to people contacts, it is time that Indian and Indonesia universities establish academic programmes involving exchange of teachers, and joint research projects of common interest. There is also an urgent need for regular Track-II dialogue on both bilateral and regional issues between the think tanks of the two countries. One major factor standing in the way of improved relations between the two

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<sup>4</sup> It will be worthwhile to quote a letter that appeared in the *Jakarta Post*, a leading Indonesian English daily on 21 April 2006: “if India reaches out, especially in the field of education, it will benefit the common people here. India has one of the best and cheapest education systems in the world. Presently Microsoft, Intel, etc., are some of the companies managed by the Indians. If India offered scholarships to deserving Indonesian students, maybe just 25 seats in the areas of medicine, engineering, hotel management, tourism, IT, nursing, etc., it would be a real continuation of cooperation between the two countries. So many Indonesian women leave the country to earn money as maids. If Indian nursing schools opened up branches in Indonesia or offered Indonesian women scholarships to study in India, local women could earn higher salaries as trained nurses in developing countries could, where the aging population is increasing. Indonesian people have great compassion, and very clean habits. The Indonesian women could prove to be excellent nurses with much higher earning potential than as housemaids. I take this opportunity to draw the attention of the honourable ambassador of India to these suggestions. I am sure it would go a long way to further cementing the relations between the two great countries.” *Jakarta Post*, 21 April 2006, accessed on 7 May 2006

countries is the lack of knowledge of each other's society, politics, economy and strategic imperatives. Regular dialogues between civil societies, religious groups, academics and intelligence communities of the two countries will remove misperceptions and ignorance about each other and help foster empathy in each other's concerns and stakes.

One of the important reasons for the Asian economic crisis of the late '90s was that while there had been a shift in the production process, there was no commensurate development in higher education in most Asian NICs to keep pace with such shift. India has a lead in information technology and our IITs and IIMs have a very high reputation in those countries. Many Indonesians have expressed a desire not only to come and study in those institutions, but also to have these institutions to set up campuses in Indonesia. There are Indonesian businessmen of Indian origin who would only be too glad to raise the money for these institutions. What they want is the brand name and some experienced back up faculty from India. Till that is done, India should open the doors of our premier institutions, like the IITs, IIMs, Delhi School of Economics and universities like JNU by reserving a few seats exclusively for them. The dividend from such a policy will be enormous, as the products of these institutions would eventually emerge as critical elites in decision-making in Indonesian government and corporate life, and India will surely strike a familiar chord for them. Under the I-Tech programme, India has trained a number of Indonesian engineers and technicians at the Roorkee Engineering College. Then there are others who have done their higher studies, including PhDs in Indian universities and have high regard for the Indian educational system. The Indian embassy and other the cultural and commercial centres in Indonesia need to keep track of the people who have been beneficiaries of Indian education and training, cultivate them so that they could form the critical mass and constituency to speak for India in Indonesia.

### **Culture as a tool of Diplomacy**

Yet another area that can promote India's soft power in Southeast Asia in general and Indonesia in particular, is its culture. Indian culture is an inseparable part of Indonesia as our cultures and values are closely related, bearing in mind the 2000 year history of the civilisational contacts between India and Indonesia. Dance in much of Southeast Asia also includes movement of the hands, as well as the feet to express emotion. The Apsara dance form, with its strong hand and feet movements, is a great example of a dance form embodying Hindu symbols. The arts and literature in Indonesia retain elements of the Hindu and Buddhist influence brought in centuries ago. Yet one must appreciate the strong presence of indigenous elements, which have greatly transformed the original Indian tradition. The Indonesian cultural scene, may be reminiscent of India but there is a strong stamp of Javanese elements in their theatre, dance-drama and shadow play making these art forms a fusion of Indian and Javanese influences. Credit must go to the genius of the locals for adapting Indian traditions to their own forms and improvising them to suit their own needs and requirements. An example is the Wayang Kulit (Shadow Puppet)

and Hindu epics like the Ramayana and the Mahabharata, whose Indonesian version reflects a strong local flavour incorporating events and stories unfamiliar to Indians, thereby rendering it a typically Indonesian in character.

The flow of cultures was not in one direction only. Indonesia's unique batik printing and gamelan orchestra had a profound influence on Rabindranath Tagore when he visited Indonesia in 1927, and who made it a point to send his own daughter-in-law to learn batik and adapt it in Indian system of dying and printing. He also sent Santideb Ghosh, a renowned exponent of Tagore songs to incorporate gamelan in his music. Similarly, Tagore's experiment in education in Santiniketan deeply influenced Ki Hadjar Dewantoro, a renowned Indonesian nationalist and an educationist to start his Taman Siswa movement. India needs to revive and restore these cultural linkages to further an understanding of each other's world views. Our cultural diplomacy, if pursued carefully and imaginatively, can further cement the bond between the two countries based on our pluralist traditions and our need for maintaining 'unity in diversity.' It is not just the old cultural linkages but the more contemporary Bollywood movies are extremely popular both among the older and the younger generation of Indonesians and can be leveraged to promote bonds at the people-to-people level.

Promotion of tourism as a means of people to people contact can be an important instrument of our cultural diplomacy in Indonesia.<sup>5</sup> Even though Indonesia happens to be the largest Muslim country in the world, its cultural heritage essentially Hindu-Buddhist in origin manifesting in the temple architecture of Prambanan and Borobudur in Central Java and the innumerable 'Candis' scattered all along the area. While their origins might have been Indian, Indonesian themselves have contributed significantly by improvising and enriching that culture. Indian tourists could be encouraged to travel in larger numbers to those sites to discover the inherent genius of the Indonesian people in preserving their culture and values, and in the process strengthen the common bond between the two

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<sup>5</sup> In this respect India should take a leaf from China, which has been vigorously attracting tourists to China from Southeast Asia, and in the process creating a cultural bond with the people of Southeast Asia, particularly the Chinese diaspora. The emphasis of Chinese tourism policy is to project its culture and history, part from the progress that the country achieved over last two decades. See, Ingrid d'Hooghe, "The Rise of China's Public Diplomacy", *Clingendael Diplomacy Paper No. 12*, The Hague, Clingendael Institute, July 2007, ISBN 978-90-5031-1175, pp. 36. Also see, Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New Haven, Yale University Press, 2007). Earlier in 2010 at the National People's Congress, Premier Wen Jiabao stated in his government work report that China will attach more importance to cultural development to enhance the international influence of Chinese culture. This is just the latest confirmation that China recognises that it has to enhance its global image by the exercise of soft power. See, *Global Times* (Beijing) 20 September 2010, accessed on 6 January 2011

countries. Similarly, Islamic cultural heritages and monuments are part of our composite Indian civilisation, which need to be showcased for the Muslims of Indonesia and Malaysia. Taj Mahal, Fatehpur Sikri, Ajmer, Delhi, Hyderabad, the abode of Tipu Sultan in Mysore and innumerable Islamic cultural sites and sufi shrines in India could provide a spiritual feast for Indonesian Muslim tourists. Muslims from all over the world will surely go to Mecca, the birthplace of Prophet Mohammed on pilgrimage, but for spiritual experiences, and understanding pluralism and multiculturalism they need to come to India. Similar packages could be developed for Buddhist heritage centres, like Bodh Gaya, Rajgir and Nalanda - the last one particularly since in ancient times it attracted students and pilgrims from other parts of Asia, and where India with the help of the international community is appropriately building up an international university in an attempt to restore its old glory as a great centre of Buddhist learning. Even though tourism is an important item of our dialogue with ASEAN, not much has been done to develop this area to promote people to people contact. So far, tourism is moving in one direction – Indians going to Southeast Asia but not the reverse. Imaginative packages need to be evolved and sufficient incentives offered to attract the tourists from countries in Southeast Asia, and Indonesia in particular. That will not only bring revenues to our national coffers but will also cement civil society interactions - an important component of mature and enduring state to state relations.

Signifying the ancient cultural relations India and Indonesia signed a Cultural Agreement as early as 1955, which has acted as the central guideline for bilateral cultural interaction. The cultural agreement has been updated regularly through the cultural exchange programme (CEP), which has facilitated inter-institutional linkages and collaborative programmes between the two countries. Much of the cultural activities are either sponsored or undertaken by the Indian Council for Cultural Relations (ICCR), which oversees India's cultural relations with other countries. India now has an active cultural exchange programme with Indonesia. The focal points for this exchange are the two Indian cultural centres established in Jakarta and Bali. The embassy of India organised a Festival of India in Indonesia in 2009 that included 48 performances in seven cities of Indonesia, a food festival, an art exhibition and a fashion show. A seminar was organized by ICCR in Jakarta and Yogyakarta in early October 2010 on India's historical and civilisational Links with Southeast Asia. In the year of the 150<sup>th</sup> birth anniversary of Rabindranath Tagore, who for the first time spoke about Asian identity and solidarity based on cultural and educational exchanges, the Indian Cultural Centre in Indonesia organised a Tagore festival to disseminate the ideas of Asia's Renaissance man. Tagore visited Indonesia to discover Indian culture in Southeast Asia and promote Asian cultural identity by restoring lost cultural ties with India. He wanted a two-way traffic in scholarship and arts between India and Indonesia and launched his own cultural exchange programme. In that sense he was a pioneer bridge-builder between India and Indonesia. Tagore was the first Indian to highlight the need for extending hands to each other, look into each other's eyes, and recognise old connections and the possibilities of a new fraternity. India will do well to rename its cultural centre in Jakarta as the Tagore Centre.

## An Account of Past and Present India-Indonesia Relations

India-Indonesia relations have passed through ups and downs and have been characterised by both friendship and indifference. India provided both emotional and material support to during Indonesia's independence struggle against the Dutch. India convened a special conference on Indonesia in 1949 in New Delhi to condemn Dutch colonialism and to mobilise international support for its independence. Together with Australia, India championed the cause of Indonesia's freedom in the United Nations, which eventually was able to persuade the Dutch to leave Indonesia. In recognition of India's role in the freedom struggle Indonesia conferred the highest title of 'Pahlawan Indonesia' to Jawaharlal Nehru, India's first prime minister and to Biju Patnaik, who took great risk in flying a plane to Jogjakarta, the then republican capital to rescue Sutan Sjahrir and Soekarno. As a consequence India-Indonesia relations in the immediate post-independence period were characterised by friendship and a common approach to world issues based on their commitment to nonalignment, anti-colonialism and anti-racialism. India and Indonesia worked together to spread the message of freedom among all oppressed peoples of the world as co-sponsors of the Bandung Conference of 1955. Together they served as pillars of the Non-aligned Movement with the principal objective of bringing an end to colonialism and subjugation of the people of Asia and Africa. There is some nostalgia in both countries about the special relationship that existed in the fifties between the charismatic leaders of the two countries, Nehru and Soekarno. Even though India's economic relations with the region were generally weak during the period, yet they were quite substantial with Indonesia. But the friendly relations were quite short-lived, as Indonesia internal developments together with its changed foreign policy perspectives in the late fifties and early sixties drove the two countries away from each other.

Even though relations became normal during the Suharto era, but given Indonesia's political and economic orientation and a very pro-American foreign policy, India, with its command economy, a messy democracy (as perceived by the Indonesian elite at the time) and its closeness to the erstwhile Soviet Union, was not at all an attractive partner for close cooperation, and vice versa. Indian prime ministers did not bother to visit Indonesia, the second largest country in East Asia and a strategically important maritime neighbour for 14 years during the past two decades. However, thanks to the end of the Cold War and India's Look East Policy from the early 1990s, perceptions of each other have changed dramatically. During the past six years, every Indonesian president visited India and two successive Indian prime ministers, Vajpayee and Manmohan Singh went to Jakarta. Starting with former president Abdurrahman Wahid in 2000 and accelerating under Megawati Sukarnoputri and President Susilo Bambang Yudhono administrations, Jakarta moved closer to New Delhi. Prime Minister Manmohan Singh also led a high level delegation to the Asian-African summit (AAS) in Jakarta in April 2005.

To further improve relations with 'a superpower in information technology and world's

fourth largest modern economy' President Yudhoyono visited Bangalore, Agra and New Delhi and agreed to establish a "strategic partnership" to open a new chapter in bilateral relations. The New Strategic Partnership (NSP) is designed to address the long term interests of both countries, through closer diplomatic coordination, stronger defence relations, enhanced economic relations especially in trade and investment, greater technological cooperation, intensified cultural ties, educational linkages and people to people contacts. By working together and drawing upon each other's strengths, it is hoped that the NSP will enable India and Indonesia to contribute to regional and global peace, prosperity and stability. The NSP is premised on the recognition that "as the world's largest democracies, and as independent-minded nations with a long tradition of internationalism, the combined voice of Indonesia and India can make a difference in international affairs."<sup>6</sup> Indonesia strongly supported India's participation in the first East Asian summit (EAS), which was held in Kuala Lumpur in December 2005 as a means of balancing China's influence. Indonesia, for example, avoided aligning with China while retaining friendly ties with other powers such as the US - a classic "hedging" strategy. The participation of India, Australia and New Zealand was seen as ensuring that ASEAN remained the core of any emerging East Asian community.

### **Growing Emphasis on Defence Cooperation**

The two countries signed a Defence Cooperation Agreement in 2001 and have had regular defence exchanges including high level visits, ship visits, officers studying in staff colleges in either country and joint coordinated patrols at the mouth of the Malacca Strait. The first meeting of the Joint Defence Cooperation Committee (JDCC), at the defence secretary level was held in Jakarta in June, 2007. The second meeting of the JDCC was held in New Delhi on June 17-18, 2010. Recognising the important role India and Indonesia are called upon to play in the promotion of regional security, the officials of the two countries agreed to hold an annual India-Indonesia strategic dialogue during President Yudhoyono's visit. The two countries also agreed to intensify cooperation to curb terrorism, a menace common to both. This was an attempt to further institutionalise the already existing 'Bilateral Agreement on Cooperative Activities in the field of Defence' concluded in 2001, and expand this cooperation.

The MoU on 'Cooperation to Combat International Terrorism' is another important move by the two countries to synchronize their efforts to fight terrorism in a comprehensive and sustained manner. Yudhoyono welcomed India's offer of cooperation in the procurement of defence supplies, defence technologies, joint production and joint projects.

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<sup>6</sup> Joint Declaration between the Republic of India and the Republic of Indonesia, <http://www.meaindia.nic.in/declarestatement/2005/11/23jd01.htm>, accessed on 7 May 2006

He also met with then Indian minister of defence Pranab Mukherjee which was to be followed up by meetings at the ministerial level. He was then travelling around the world seeking defence cooperation agreements in order to gradually detach his country from dependence on the United States and Britain, which had for years supplied war machines to Indonesia, but had stopped because of the human rights abuses in Aceh. The Indonesian air force chief of staff Air Marshal Djoko Suyanto, who accompanied President Yudhoyono, told *Jakarta Post* that the government was seeking to purchase spare parts and missiles from HAL for the country's Russian-made Sukhoi jet fighters. "We are more interested in the Sukhoi equipment produced by HAL. We may start purchasing equipment from the company in 2007," said Djoko.<sup>7</sup> The presidential spokesman at the time Dino Patti Djalal also admitted: "The visit is mostly aimed at strengthening cooperation in the defence industry and technology sector. Indonesia is lagging behind in reforming these two sectors."<sup>8</sup>

Since both countries have large exclusive economic zones and maritime interests, India and Indonesia have also agreed to work closely to enhance cooperation in these sectors as well as fisheries. Other deals include MOUs for the establishment of a joint study group to examine capacity building, technical assistance and information sharing and the feasibility of a comprehensive economic cooperation agreement. There is also an agreement for cooperation in education and training between the Indonesian ministry of foreign affairs and the Indian ministry of external affairs.

Besides Yudhoyono's visit, several events in 2005 strengthened bilateral relations between the two countries. In response to the tsunami disaster in Aceh, India, which was also affected by the waves, deployed two naval ships for carrying medical teams and \$1 million relief materials. The then Indian foreign minister Natwar Singh said later in Jakarta that, "We are happy to place the strengths of the Indian navy for use in humanitarian relief in the region". The Indian navy's hospital ship *INS Nirupak*, packed with emergency rations, medicines, tents and first aid kits was stationed in Sumatra for more than a week to treat the victims. Natwar Singh attended the tsunami summit in January 2005 and the country announced another US\$ 2 million in aid to Nias, which was shattered by a deadly earthquake in March 2005. In May 2006 India joined the international community in offering relief and assistance to Indonesia in the aftermath of the devastating earthquake that hit Java. The then defence minister Pranab Mukherjee, who was touring China and Japan during the time, called up his Indonesian counterpart to offer assistance. Prime Minister Manmohan Singh, President A.P.J. Abdul Kalam and Lok Sabha Speaker Somnath Chatterjee further reaffirmed India's commitment to help Indonesia. India put together

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<sup>7</sup> *The Jakarta Post* 22 November 2005, accessed on 10 April 2006

<sup>8</sup> Ibid

an emergency aid package worth \$2 million, and an Indian air force (IAF) aircraft flew to Solo in the affected arc to deliver supplies. An Indian Navy destroyer, *INS Rajput*, which was on a goodwill voyage in the neighbourhood of Indonesia at the time of the disaster, was diverted to Jakarta port, where the medical personnel provided emergency kits for the needy. In early June, one more Indian ship and IAF aircraft delivered additional relief material. India's positive action was noteworthy in a context marked by the frustration of several other countries that they faced difficulties in channelling humanitarian help in the perceived absence of recognisable Indonesian nodal agencies.

In July 2005 Indian chief of naval staff Admiral Arun Prakash visited Indonesia to strengthen defence cooperation between the two countries. His visit coincided with the arrival of Indian aircraft carrier *INS Viraat* and four other ships in Jakarta. The Indian naval squadron in Tanjung Priok harbour in Jakarta Bay led by the aircraft carrier *INS Viraat* as its flagship presented "the most impressive display of India's growing maritime strength since the visit of the cruiser *INS Delhi* in June 1950," to quote an editorial in the *Jakarta Post*. The editorial went on to suggest that the visit of the aircraft carrier *INS Viraat* with the Indian chief of the naval staff, Admiral Arun Prakash, on board was an event whose significance went well beyond a run-of-the-mill showing-the-flag exercise.

"The arrival of such an impressive Indian naval squadron in Indonesian waters while President Susilo Bambang Yudhono is visiting the People's Republic of China is surely an indication that, given the interesting geopolitical shifts that are sure to affect the overall balance of power in the Asia-Pacific region, Indonesia must be smart and nimble in formulating and implementing its politico-military strategy so as to further the country's national interests," commented the *Jakarta Post*.<sup>9</sup> India and Indonesia conducted joint naval patrols off the Andaman Islands in the Bay of Bengal to check poaching, smuggling and drug trafficking in 2002. India is also providing an escort for ships passing through the Indian Ocean bound for Southeast Asia through the Malacca Strait, between Malaysia and Indonesia.

India's chief of the army staff, General J.J. Singh, visited Indonesia in mid-March 2006 on a four-day trip. He met the then Indonesian defence minister Juwono Sudarsono and his Indonesian counterpart General Djoko Santoso and discussed defence cooperation between the two countries. During his talks with Sudarsono, in Jakarta, Gen. Singh suggested "a joint exercise [and] joint training, with a United Nations peace-keeping backdrop or a counter-terrorism scenario." It was left to Indonesia to respond to this initiative, he said. Asked about Mr. Sudarsono's comment that India and Indonesia were exploring the possibility of a strategic partnership in the military domain, General Singh said the bilateral

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<sup>9</sup> *Jakarta Post*. 29 July 2005, accessed on 7 May 2006

dialogue was “not really” focused on “revolutionary military affairs” despite the emergence of some “strategic dimensions.”<sup>10</sup> Sudarsono said both sides were currently studying possible partnerships, including cooperation between their state-owned weapon industries and that he would coordinate with the ministry for research and technology to assess the sophistication and the price of some defence technology India had offered. He said Indonesia was seeking non-lethal technology defence equipment for transportation and logistics.<sup>11</sup>

The security agreement between India and Indonesia could include human resource training, the exchange of officers, joint border patrols, counter terrorism and battling sea piracy. Another important area of cooperation for the two is likely to be maritime security in the Indian Ocean and the sea lanes that traverse the region as a conduit for international trade. Given their location and capabilities India and Indonesia have a critical role to play as sentinels guarding these vital lifelines for the interest of their own security. As the interests of the two countries converge, they have a stake in ensuring that the emerging security architecture of Asia that is not dominated by any single country. This is even more important at a time when the rise of China and its recent assertiveness in South China Sea through its creeping occupation of territories claimed by some other ASEAN states is creating strategic uncertainty in the region. At a time when Indonesia is engaged in diversifying its defence supplies, the agreement could also become the basis for military equipment purchases from India and the establishment of joint production facilities. All in all, it could mark the beginning of an extensive relationship between Asia’s two largest democracies.

## Cooperation in Science and Technology

The agreement on scientific and technical cooperation was signed in 1982. The agreement provided the basis for cooperation between India and Indonesia in the field of science and technology, but no notable progress was made for a long time, except in the field of remote sensing. The cooperation between the Indian Space Research Organisation (ISRO) and its Indonesian counterpart LAPAN has made considerable progress since the two organisations began cooperating in the early 1990s. In 1998, Indonesia agreed to set up a Telemetry Tracking Command and Network (TTC) ground station in Biak in Papua province for satellites and geostationary launch vehicles. India is building a second \$ 900,000 ground station, that is bigger than the previous one, in Biak. In January 2003, during the visit of Prime Minister Vajpayee, a MoU for cooperation in the field of science and technology was signed under which a joint committee has been established. The areas

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<sup>10</sup> *The Hindu*, 15 March 2006, accessed on 10 May 2006

<sup>11</sup> Quoted in *Jakarta Post*, 15 March 2006, accessed on 7 May 2006

of cooperation identified under the MoU are biotechnology, renewable energy sources, medical sciences, science policy, science popularisation, information technology, agriculture and marine science. After a gap of 25 years, India organised an 'Indiatech 2005' in March 2005 in Jakarta to promote its engineering products in Indonesia.

## **Economic Interactions**

Economic interactions between India and Indonesia go back to ancient times, contributing to the historical and civilisational affinities between the two countries. In the modern era, trade relations were formalised under a trade agreement signed in June, 1978 committing both countries to take all appropriate measures to facilitate, strengthen and diversify bilateral trade. However, there was no forum for regular talks with Indonesia during the Suharto years and only an agreement on avoidance of double taxation, between the two countries was concluded in January, 1986. An agreement for the promotion and protection of investments, that was signed in February, 1999, came into force in January, 2004. The first ever India-Indonesia Joint Commission Meeting (JCM) was held in Yogyakarta in September 2003. Apart from taking major decisions to promote bilateral economic and commercial relations in various fields, the JCM decided to constitute an "India-Indonesia Expert Working Group" with the specific mandate of reporting to the JCM with concrete recommendations for enhancing and diversifying bilateral trade, economic and investment relations. This expert working group held its first meeting in New Delhi on February 24, 2005. The second meeting of the JCM was held in New Delhi on March 1, 2005. Specific areas for enhancement of bilateral trade and economic relations were identified. The third JCM was held in Jakarta from June 16-19, 2007 in which a comprehensive "plan of action" for all areas including cooperation in economic, trade, industrial and infrastructure, financial and investment sectors was agreed upon. During the visit of Indonesian president to India in 2005, KADIN the apex and the only Indonesian Chamber of Commerce & Industry with a sizeable presence at the federal level and outreach in the provinces, decided to have a 'India Committee' which would be a specialised body for promoting bilateral economic relations between India and Indonesia and work to enhance interaction between the chambers of commerce and industry of the two countries and promote the business interests of the private sector. KADIN signed a MoU with FICCI in November 2005 to achieve this objective. Its India committee that was formally launched in November 2006 included S.P. Lohia, an Indian with business interests in Indonesia

## **Bilateral Trade**

Indonesia is India's second largest export market in ASEAN (after Singapore) and one of its major trading partners in the region. The recovery of the Indonesian economy after the Asian financial crisis coupled with political change gave a fresh lease of life to the economic relations between the two countries. Prime Minister Manmohan Singh's visit to Indonesia in April 2005 for the Asian-African Summit was soon followed by the Indonesian

president's visit to India in November 2005 and resulted in the enhancement of bilateral trade between the two countries, targeted to reach the figure of \$10 billion in the next five years. However, that target was achieved by 2008 - two years in advance. Between 2005 and 2008 the bilateral trade increased from \$4 billion to \$10 billion. In 2009, there was a marginal dip in trade and the trade volume declined to \$9.6 billion, but picked up again in 2010 to touch \$11.7 billion. India's exports to Indonesia have registered an increase of 56 per cent to reach \$1,544,118,483. Significant increases in export were registered in the following commodities: Refined petroleum products, telecommunication equipment and components, hydrocarbons, n.e.s, FULL FORM and their halogenated nitrated derivatives, and oil seeds used for extraction of soft fixed vegetable oils. India's imports from Indonesia have registered an increase of 23 per cent to reach \$4,248,222,791. Significant increases in import also were registered in following commodities: coal pulverised or not, copper ores and concentrates; and natural rubber latex, natural rubber and similar natural gums.

The net balance of trade currently favours Indonesia, as India is Indonesia's largest buyer of crude palm oil (CPO) and an importer of its minerals (particularly coal and copper ore), petroleum, rubber, pulp & paper and textile products. India imports two million tons of crude palm oil, worth more than \$2 billion, per year from Indonesia.. India exports refined petroleum products, hydrocarbons and its derivatives, animal feeds, iron and steel products, cotton, copper and dyes & chemicals to Indonesia.

### **Investments/Joint Ventures/Projects**

There are over twenty major Indian manufacturing joint ventures in Indonesia with direct Indian participation or financed by overseas Indians. The bulk of these first phase investments were made in the 1970s and 80s, and in fact up to 1985 India was among the top five investors in Indonesia. Major during this period were in textiles, garments, synthetic fibre, steel and hand tools. Major Indian players who invested in Indonesia during this first phase were the Lohia group (Indorama Synthetics), Ispat group (Indo Ispat), Aditya Birla group (having four units in textiles and yarns), Tolaram group, Jaykay Files Indonesia, Gokak Indonesia and the Kewalram group. In the 90s, just prior to the Asian economic crisis, the second phase of investment brought in Essar Group which set up a cold rolling steel mill, PT Punj Lloyd, Indonesia who invested in oil and gas infrastructure, petrochemicals and refineries and Oberoi Hotels. It was then estimated that the total Indian investment was around \$1.5 billion in assets in Indonesia and the output of these companies was between \$1 – 1.5 billion.

Recently, after the upturn in the Indonesian economy and the political change in the country, a new wave of Indian investment is flowing in and partnerships are budding in new sectors such as automotive, infrastructure, mining, banking, IT and tourism. TVS Motors of Chennai have already invested in a motorcycle plant near Jakarta. Bajaj Auto is converting traditional three wheelers into CNG powered ones and launched its new two

wheeler model 'Bajaj Pulsar' in the Indonesian market in November 2006. The Jindal group invested in a cold rolling operations in December 2004; PT Minda Asean Automotive have started manufacturing automotive and engineering components; the Aditya Birla group set up PT Indo Raya Kimya a chemical unit in 2002. Many other private players are investing in coal mining, plantations for bio-fuel, extraction of minerals etc. Tata Power has signed an agreement for a 30 per cent stake in two coal mines owned by PT Bumi Resources Indonesia. Essar Steel Limited, which has a cold-rolled steel mill near Jakarta, is looking to make a major investment in an integrated steel production facility in Kalimantan. National Aluminium Company Limited (NALCO) is interested in setting up an aluminium smelter plant in Indonesia.

The Reliance ADA Group plans to make a \$7.5 billion investment. They have acquired three coal concessions in South Sumatra and the Jambi province. Reliance also has an interest in the laying of a 230 km railway line from the mines to the port at Maura Sabak on the northern coast of Sumatra and in building a mine mouth coal fired supercritical power plant of 4000 MW capacity in South Sumatra. When completed, this will rank as the largest investment ever by a business group in Indonesia. PT Adani Global and the government of the province of South Sumatra and PT Bukit Asam TBK have signed the Head of Agreement (HOA) for the construction of a railway line for coal transportation from Tanjung Enim to Tanjung Carat and the construction of a coal terminal in Tanjung Carat.

A large number of Indian companies have also been involved in supplying equipment to and undertaking projects in Indonesia. These include IRCON, WAPCOS, TCIL, Punj Lloyd, STUP Consultancy India Ltd. NIIT and APTECH, LCC InfoTech, Tech Mahindra have established IT training centres in Indonesia. Bharat Heavy Electricals Ltd. (BHEL) has opened its representative office in Jakarta in 2006 to bid for power projects, contracts with the objective of participating in the power generation sector in Indonesia. Tata Consultancy Services (TCS) has also set up an office in Indonesia in 2006 for local and Asia-Pacific markets. It has been working on various projects with the local banks and some in collaboration with Microsoft and other companies. Essar and Gujrat State Petroleum have an exploration licence for gas on shore in Sumatra. Balmer and Lawrie & Co Ltd. Have entered into a joint venture to manufacture grease and lubricants in Indonesia. Godrej Consumer Products (GCPL) the FMCG arm of the Godrej Group has entered into an agreement to acquire the \$120 million Megasari Makmur Group and its distributor Intrasari Raya in Indonesia. The deal will catapult the Godrej Group to the third position in the Asian household Insecticide market. State Bank of India and the Bank of India have branches in many Indonesian cities. ICICI Bank has opened a representative office in Jakarta in 2006 and other Indian banks are also showing interest in the Indonesian financial sector.

Indonesian investment in India is rather low and it ranks 18<sup>th</sup> in FDI inflow to India.<sup>12</sup> Indonesian companies have started bidding for infrastructure and energy related projects in India. For example, in 2006, Adhi Karya, an Indonesian state owned enterprise, was awarded a contract by Rail Vikas Nigam Ltd. worth \$90 million to develop infrastructure facilities in the state of Orissa. In early last year the West Bengal government signed an agreement with Indonesia's Salim Group in Jakarta to set up a special economic zone (SEZ) with an industrial city, a knowledge city, a biotechnology park and a health city. The SEZ is planned over 5,000 acres near Kolkata in South 24 Parganas, even as Trinamool Congress chief Mamata Banerjee vowed to stall any acquisitions of agricultural land here. The Salim Group had also signed an MoU in Kolkata recently to set up a township in Howrah district of West Bengal. It has also entered into an agreement with the state government for setting up a two-wheeler manufacturing facility at the Uluberia Growth Centre in Howrah. The future of all these investments are quite uncertain in view of the political turmoil in the state. India needs to attract much greater Indonesian investment in India for its government to develop a political stake in improved relations between the two countries. Until Indonesian investments are large enough in this country, Indonesia's interest in India will remain peripheral.

### **Promising areas for trade/investment/joint ventures/services**

There is still a large untapped potential for products such as pharmaceuticals, dairy and non-dairy products, processed foods including meat, handicrafts, furniture, gems and jewellery, leather goods, handloom and services like tourism, banking and IT. Cooperation can be enhanced between India and Indonesia by investing in sectors such as energy, mining including coal, oil and natural gas both upstream and downstream, power generation, non-conventional energy, plantation, infrastructure such as toll roads, ports, railways, telecommunications and healthcare facilities. The India-Indonesia Joint Study Group (JSG) after studying the advantages of a Comprehensive Economic Cooperation Agreement (CECA) recommended holding of talks to negotiate a pact that can increase the two-way trade to \$ 20 billion by 2020.

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<sup>12</sup> According to the data provided by the Department of Industrial policy and Promotion, Ministry of Commerce and Industry, Indonesia stands at 18<sup>th</sup> position in terms of FDI inflows (from April 2000 to August 2010). However, according to the fact sheet on FDI, October 2010, Indonesia is at the 19<sup>th</sup> position (from April 2000 to October 2010). [http://dipp.nic.in/fdi\\_statistics/india\\_FDI\\_October\\_2010.pdf](http://dipp.nic.in/fdi_statistics/india_FDI_October_2010.pdf)

## Conclusion

Political, economic and strategic factors in the post-Cold War period call for expanded co-operation between India and Indonesia. It is essential that all-round ties be steadily strengthened and expanded so that both emerge stronger not only to face the new challenges in the areas of security, politics and economics, but also the problems emanating from deep asymmetry of power in the international system. The 21st century is inevitably the Asian century and, India, Indonesia and Southeast Asian countries are destined to play a major role in ensuring peace, stability and prosperity for humanity. This has long been an untapped relationship, somehow lost in the vagaries of time. But now the time seems right to reconnect and bolster relations, more so in view of the increase in China's power. The NSP has marked the beginning of extensive relations between Asia's two largest democracies. Indonesian strategic thinkers have recently been inclined to look beyond ASEAN and are in favour of a regional architecture in which major nations of the Asia Pacific region and beyond are represented. In such a grouping, Indonesia, as the fulcrum of Southeast Asia, could be a valuable interlocutor in India's interactions with Southeast and East Asia.

# Annexure

## I. Bilateral Trade between India and Indonesia (Source; Embassy of India in Jakarta, Indonesia)

Trade between India and Indonesia

(January – June, 2010)

Period	India's Exports (in US\$)	India's Imports (in US\$)	Total Trade (in US\$)
During June 2010	267,619,989	805,518,319	1,073,138,308
During Jan – June 2010	1,544,118,483	4,248,222,791	5,792,341,274
During Jan – June 2009	989,443,627	3,463,474,643	4,452,918,270
Percentage Variation (+ or -)	56%	23%	30%

## II. Overall balance of Trade India-Indonesia

Value: 000 US\$

Total trade	Jan-Dec 2007	Jan-Dec 2008	Change (%)	Jan-June 2009	Jan-June 2010	Change (%)
Total Trade	6,553,512	10,065,,18 8	53.5	4,452,918	5,792,341	30
Oil & Gas	64,268	495,641	671	128,552	94,831	(-) 26
Non Oil & Gas	6,489,244	9,569,547	47	4,324,365	5,697,510	32
India's Export	1,609,606	2,901,852	80	989,443	1,544,118	56
Oil & Gas	5,324	393,157	7284	70,106	65,189	(-) 7
Non Oil & Gas	1,604,282	2,508,695	563	919,337	1,478,929	61
India's Import	4,943,905	7,163,336	45	3,463,474	4,248,222	23
Oil & Gas	58,944	102,484	74	58,446	29,642	(-) 49
Non Oil & Gas	4,884,961	7,060,852	45	3,405,028	4,218,580	24
Balance of Trade (In favour of Indonesia)	3,334,299	4,261,484	28	2,474,031	2,704,104	9
Oil & Gas	53,620	290,673	442	11,660	35,727	206
Non Oil & Gas	3,280,679	4,552,157	39	2,485,691	2,739,651	10

Source: Central Bureau of Statistics, Jakarta (Indonesia) publication

### III. Indian Exports

The following table gives the top fifteen items of Indian exports to Indonesia during, Jan-June, 2010 and their percentage variation from the previous year.

Value: 000 US\$

SIT C	Commodity	India's exports during 2007	India's exports during 2008	Change (%)	India's exports Jan-June, 2009	India's exports Jan-June, 2010	Change (%)
334	Petroleum products refined	4,649	374,230	8000	58,573	297,564	408
764	Telecommunication equipments & parts	57,144	226,338	300	156,721	210,607	34
511	Hydrocarbons, n.e.s. and their halogenated, nitrated Derivatives	269,609	332,779	23	85,031	106,864	26
222	Oil seed used for extraction of soft fixed vegetable oils	49,242	88,100	78	73,281	90,551	24
263	Cotton	69,801	153,011	119	17,182	84,830	394
782	Motor vehicle for the transportation of goods	34,554	77,684	11	52,794	47,811	(-) 9
081	Animal Feed	174,222	313,328	79	73,803	47,495	36
675	Flat rolled product, alloy steel	117,701	64,926	(-) 45	25,677	42,383	65
781	Passenger motor cars	25,416	22,111	(-) 13	1,700	27,536	1,519
684	Aluminum	58,712	11,778	(-) 80	7,012	23,798	239
044	Maize, Unmilled	13,058	19,342	48	5,413	23,019	325
522	Inorganic Chemical Elements, Oxides and Halogen Salts	19,777	38,092	93	12,318	20,109	63
531	Synthetic organic colouring matter	23,191	36,692	58	15,419	19,673	28
575	Other plastics in primary forms	17,119	20,768	21	8,168	18,899	131
512	Alcohols, Phenols, Phenol-Alcohols and Their Halogenated	3,488	6,055	74	1,608	18,203	1032

## IV. Indian Imports

The following table gives the top fifteen items of India's imports from Indonesia during Jan-June, 2010 and their percentage variation from the previous year.

Value: 000 US\$

SITC	Commodity	India's imports during 2007	India's imports during 2008	Change (%)	India's imports during Jan-June, 2009	India's imports during Jan-June, 2010	Change (%)
422	Fixed vegetable fats and oils, solid, crude, refined/fractionated	2,282,856	4,249,950	86	1,461,470	1,576,032	8
321	Coal, pulverized or not	803,669	1,230,979	53	981,950	1,272,033	30
283	Copper ores and concentrates	533,939	273,087	(-) 49	384,025	481,415	25
231	Natural rubber latex, natural rubber and similar natural gums	100,633	71,881	(-) 29	62,077	133,622	115
733	Machine tools for working metals	26,832	21,512	(-) 20	49,426	77,947	58
251	Pulp and waste paper	59,456	81,330	37	26,137	71,136	172
431	Animal and vegetable oil; fat processed and their wax	63,451	17,283	(-) 72	5,046	42,917	750
511	Hydrocarbon and their halogenated, nitrated derivatives	269,609	8,561	(-) 97	4,270	37,385	775
776	Thermionic, cold cathode and photo cathode valves/tubes	7,366	50,776	589	21,488	35,903	67
641	Paper and Paperboard	57,858	75,511	31	30,173	24,870	(-) 18
541	Medicinal and Pharmaceutical Products	22,812	32,575	43	10,730	24,763	130
532	Dyeing/tanning extracts and synthetic tanning materials	20,888	31,636	51	17,087	21,274	25
334	Petroleum products refined	39,900	21,176	(-) 47	16,388	20,867	27
057	Fruit and nut, fresh or dried	16,088	86,442	437	21,429	20,508	(-) 4
513	Carboxylic acids and their anhydrides, halides peroxides	17,094	28,200	65	14,029	19,760	41