

# PERSPECTIVE

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## **US Vice-President Mike Pence’s Visit to Indonesia: A US “Return” to Southeast Asia?**

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### **EXECUTIVE SUMMARY**

- US Vice President Mike Pence’s visit to Indonesia appears to mark a turning point in President Donald Trump’s foreign policy towards Southeast Asia.
- The visit prioritised the strengthening of US-Indonesia economic ties. Its political and security significance was not clear judging from the public statements which touched mainly on information sharing to combat radicalism and terrorism.
- The two countries signed trade and investment deals worth more than \$10 billion, mostly in the energy and technology sectors.
- The announcement that President Trump will attend the US-ASEAN Summit and the East Asia Summit this year bodes well for US-ASEAN relations.

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## INTRODUCTION

After four months, the Trump Presidency finally came around to focussing on Southeast Asia by dispatching Vice President Mike Pence to Indonesia.

Of the four countries that Pence visited between April 16 and April 23, Indonesia was the only one that is not part of the USA security alliances in the Asia Pacific region. (The other countries he visited were South Korea, Japan and Australia).

Why was Indonesia selected for a visit by the Vice-President? American commentators noted that this was due to concerns about China gaining more economic and security influence in Southeast Asia.<sup>1</sup> In fact, Indonesia seems a natural choice since it is the largest economy in the region and has the largest Muslim population in the world. It is also perceived as the major player in ASEAN.

During President Joko ‘Jokowi’ Widodo’s visit to America on 26 October 2015, US President Barack Obama stressed the importance of Indonesia to US foreign policy in the region. He considered the agreement between the US and Indonesia to deepen cooperation as “part of the effort to rebalance the Asia-Pacific region”<sup>2</sup>. He further called Indonesia “a key strategic partner” in the region. Jokowi, however, did not talk about the strategic partnership in his statement but on economic cooperation instead. He was quoted then as saying: “We are the largest economy in Southeast Asia. And Indonesia intends to join the Trans-Pacific Partnership.”

Jokowi was “looking to attract more American investors into his country.”<sup>3</sup> This was also the case in his discussion with Pence. Interestingly, it was Pence, and not Jokowi, who mentioned a strategic partnership between the two countries.

## STRENGTHENING ECONOMIC TIES

Arguably, the visit’s priority was US-Indonesia trade relations. Pence sought to clarify the recent listing of 16 countries that had contributed significantly to its growing trade imbalances with the rest of the world. Indonesia is placed in 15<sup>th</sup> place. The Trump administration has claimed that Indonesia enjoyed a trade surplus of US\$13 billion with the US.

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<sup>1</sup> Matthew Pennington and Ken Thomas, “Nervous about China, Southeast Asia gets Trump’s attention”, Associated Press. 20 April 2017.  
[http://hosted.ap.org/dynamic/stories/A/AS\\_PENCE\\_INDONESIA\\_ASOL-?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT](http://hosted.ap.org/dynamic/stories/A/AS_PENCE_INDONESIA_ASOL-?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT) . Accessed 23 April 2017.

<sup>2</sup> Mary Alice Salinas, “US, Indonesia Agree to Deepen ‘Key Strategic Partnership’”, VOA, 26 October 2015, <http://www.voanews.com/a/us-indonesia-agree-to-deepen-key-strategic-partnership/3023848.html>. Accessed 23 April 2017.

<sup>3</sup> Ibid.

Indonesian trade statistics, however, recorded a surplus at a much lower US\$8.4 billion in 2016.

The US has blamed Indonesian trade barriers for the imbalance, and Pence called for a levelling of the playing field in order to provide American exporters with the same freedom that Indonesian exporters had had in many sectors in the US. He said the US administration would seek to negotiate a new “win-win” commercial relationship with Indonesia.<sup>4</sup>

Indonesia exports apparel (25% of total exports), rubber (11%) and footwear (5%) to the US and imports machinery, mechanical appliances and electrical equipment from the US (amounting to around 25% of total imports).

There has been a recent decline in bilateral trade however, and this can be attributed to an increase in trade barriers. The US applies relatively high tariffs for consumer goods, ranging between 10-13% for apparel and 9.5% for footwear from Indonesia<sup>5</sup>. Similarly, Indonesia applies implicit – or what Pence called “hidden” trade barriers on US products, effectuated through a lack of intellectual property legislation, a lack of transparency, and requirements on local content for products to be sold on the Indonesian market.<sup>6</sup> According to Pence, these barriers had caused American exports to fall by more than 30 percent in the last four years.

After the last economic crisis, US importance as a trading partner to Indonesia has been declining. Figure 1 shows that the US share of Indonesia’s total trade has declined from around 12 percent in 2008 to around 7 percent in 2016. At the same time, China’s share of Indonesia’s total trade value increased from around 10 percent to around 14 percent over the same period.

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<sup>4</sup> Haeril Halim, Liza Yosephine and Fedina S. Sundaryani, “RI, US seek win-win so-lu-tion to thorny trade issues”, The Jakarta Post, 21 April 2017.

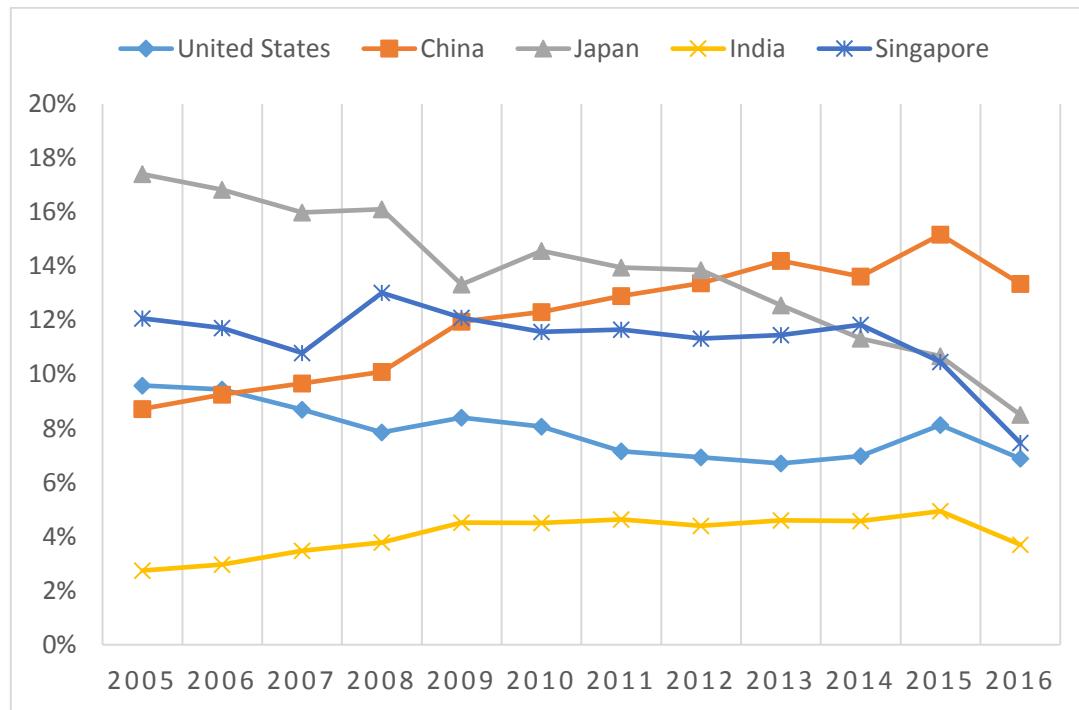
<http://www.thejakartapost.com/news/2017/04/21/ri-us-seek-win-win-solution-to-thorny-trade-issues.html>. Accessed 23 April 2017.

<sup>5</sup> Indonesia has been recently removed from the US’ Generalized System of Preference (GSP), which provides special treatment through lower tariffs to enter the US. See Lili Yan Ing, “Trump’s economic policy and impact on Indonesian economy”, the Jakarta Post, 29 November 2017.

<http://www.thejakartapost.com/academia/2016/11/29/insight-trumps-economic-policy-and-impact-on-indonesian-economy.html>. Accessed 23 April 2017.

<sup>6</sup> Indonesian government has been enforcing regulations to increase the use of local content in the oil and gas sector and telecommunications industry.

**Figure 1: Share of Total Trade with Indonesia's Select Key Trading Partners (%)**



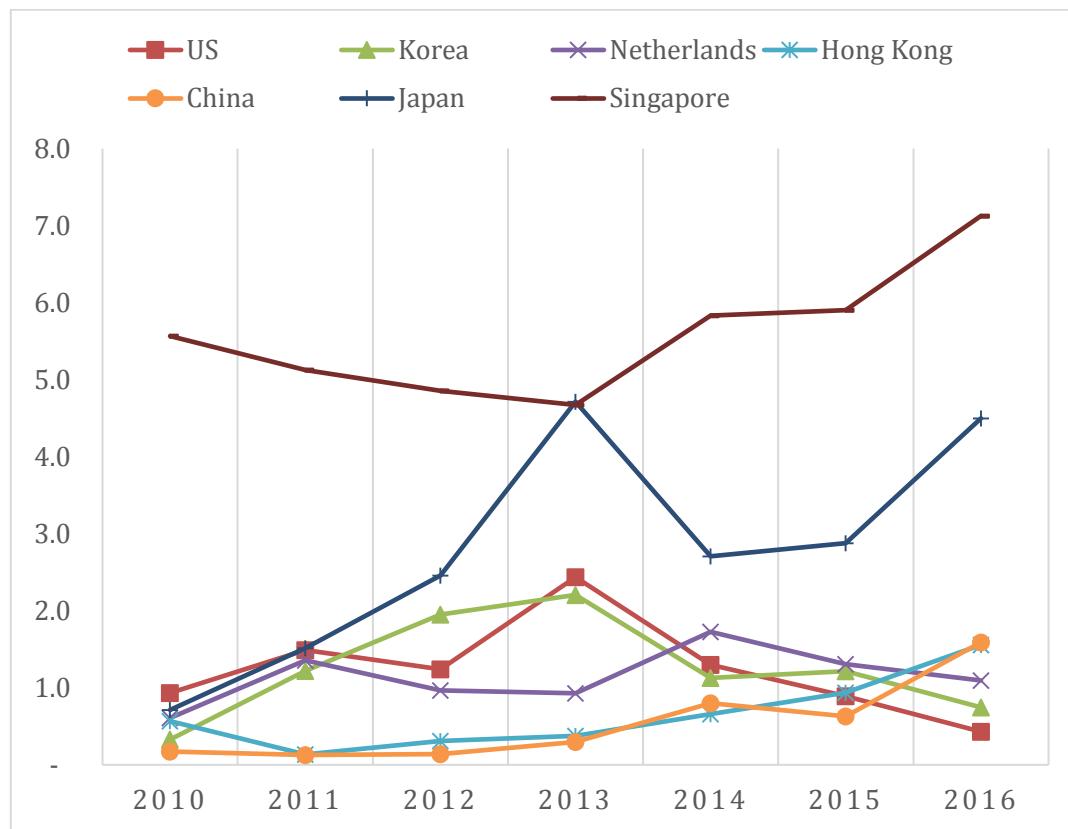
Source: Ministry of Trade

At the same time, Pence acknowledged and expressed appreciation for Jokowi's efforts to reform the business environment in Indonesia. In fact, since the start of his Presidency in October 2014, the Jokowi administration has issued 14 economic policy packages for that purpose.

Based on Investment Coordinating Board (BKPM) data, the US was Indonesia's seventh-biggest investor in 2016. Figure 2 shows FDI from the US declining since 2013<sup>7</sup>. In comparison, China's FDI into Indonesia has been on an upward trend. Chinese FDI focuses on mining, power plants and infrastructure, while US investments are mainly in the energy, mining, pharmaceutical, and banking/finance sectors.

<sup>7</sup> BKPM data does not include the oil and gas sector. This may underestimate the FDI from the US.

**Figure 2: Major Source of FDI Inflow in Indonesia (US\$ billion)**



Source: Investment Coordinating Board (BKPM)

After meeting Jokowi, Pence and Vice President Jusuf Kalla witnessed the signing of agreements on trade and investment worth US\$10 billion. A majority of these deals were in the energy and technology sectors. The US-based ExxonMobil and Indonesia's state-owned oil and gas company PT Pertamina signed a US\$6 billion deal to the import of one million ton liquefied natural gas (LNG) each year to Indonesia for the period 2025-2045.<sup>8</sup> The second major deal is between Indonesia's state-owned electricity firm PT PLN and US-based Pacific Infra Capital LLC. The two companies signed a US\$2 billion deal to implement an advanced electrical transmission infrastructure in Java and Bali. An agreement was also signed between Honeywell, an airplane machinery producer, and PT Dirgantara Indonesia (PT DI). Indonesia will buy 34 units of turboprop TPE331 engines within four years. These engines will be used in Indonesia's locally made NC212i small aircraft. In exchange, Honeywell will provide technological transfer and aircraft maintenance at PT DI.

Pence's visit also touched on the future of Freeport in Indonesia. Freeport, a US-based mining company, is Indonesia's oldest foreign investor, which started its operations in the

<sup>8</sup> Haeril Halim, Liza Yosephine and Fedina S. Sundaryani, "RI, US seek win-win so-lu-tion to thorny trade is-sues", The Jakarta Post, 21 April 2017.

<http://www.thejakartapost.com/news/2017/04/21/ri-us-seek-win-win-solution-to-thorny-trade-issues.html>. Accessed 23 April 2017.

Grasberg mine in 1967. Since then, Freeport has been perceived by many Indonesian politicians and activists as a symbol of US economic imperialism in the country.

The Coordinating Minister for Maritime Affairs Luhut Pandjaitan, was reported in the *Jakarta Post* as saying that Jokowi explained Indonesia's rationale for demanding that Freeport divest 51 percent of its shares in its local unit. Pence did not publicly respond to this issue, and this indicates that the negotiations between Freeport and the Indonesian government are going well<sup>9</sup>. In fact, Freeport saw its copper export permit resumed soon after Pence discussed the copper miner's dispute with Jakarta<sup>10</sup>. The US and Indonesia trade and investment team will meet this month to re-evaluate bilateral economic relations. There was no mention of Trump's personal joint venture in Bali Island with Harry Tanoeesoedibjo, an Indonesian tycoon.

If Pence's visit had had any original intention of chastising Indonesia for its trade surpluses with the US, this did not become apparent. Moreover, the visit was not confined to economics but extended to political and security issues as well.

## STRENGTHENING NON-ECONOMIC TIES

Initially, Pence's schedule in Indonesia was reported to comprise only of meetings with President Jokowi, Vice-President Jusuf Kalla and the Secretary-General of ASEAN Le Luong Minh in Jakarta. But eventually, Pence also visited Istiqlal mosque, the largest mosque in Indonesia, in a move that was then interpreted by the media as signalling the Trump's administration interest in mending ties with the Muslim community.

Pence's visit to Indonesia coincided with the Jakarta gubernatorial election in which the incumbent Basuki Tjahaja Purnama (Ahok), a Chinese-Indonesian Christian, was defeated by an Arab-Indonesian Muslim by a large margin. Despite religious tensions, there was no upheaval during and after the election.

Pence was reported to have said that "As the second- and third-largest democracies in the world, our two countries share many common values including freedom, the rule of law, human rights and religious diversity". Pence also said that "The United States is proud to partner with Indonesia. It promotes and protects these values."<sup>11</sup> He also said that "Indonesia's tradition of moderate Islam frankly is an inspiration *to the world and we commend you and your people.*"

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<sup>9</sup> Fedina S. Sundaryani, "Freeport accepts govt terms", the Jakarta Post, 31 March 2017, <http://www.thejakartapost.com/news/2017/03/31/freeport-accepts-govt-terms.html>. Accessed 23 April 2017.

<sup>10</sup> <http://jakartaglobe.id/business/freeport-collects-export-permit-pence-visit/>. Accessed 23 April 2017.

<sup>11</sup> <http://www.dailymail.co.uk/news/article-4428030/Mike-Pence-praises-Indonesia-s-moderate-Islamic-culture.html#ixzz4f4mE85Tn>. Accessed 23 April 2017.

There was also a report that Pence stated that US and Indonesia would have defence cooperation on combating terrorism.<sup>12</sup> However, details on this are lacking.

The Associated Press (AP) noted that “Indonesia is the latest stop on an Asian tour by Pence that is reinforcing traditional US alliances at a time when Donald Trump’s presidency has raised questions about the strength of the US’ commitment to the region”. It further noted that “Pence said at a joint news conference with Jokowi that the US wants to strengthen its strategic partnership with Indonesia. In brief comments, Jokowi said they agreed to boost cooperation.”<sup>13</sup>

Indonesian official response to Pence’s visit was warm. The Indonesian media were also generally positive. Major newspapers such as *Kompas* and *Jakarta Post* considered Pence’s visit important as this was the first top member of the Trump administration to visit Indonesia. The Islam-oriented newspaper, *Republika*<sup>14</sup>, also noted that Pence’s positive remarks on moderate Islam in Indonesia showed that the Trump administration respected Indonesian Muslims.

During his short stay in Indonesia, Pence visited the ASEAN Secretary-General in Jakarta and announced that President Trump would attend the US-ASEAN Summit and the East Asia Summit, both to be held in the Philippines in November this year.<sup>15</sup> In the same month, Trump would be attending the APEC summit in Vietnam.<sup>16</sup>

Pence’s visit to Indonesia puts into question earlier assumptions by many that the Trump administration would have little interest in Southeast Asia.

## TRUMP’S CHANGING FOREIGN POLICY?

Mike Pence’s 10-day Asia-plus-Australia tour may indicate Trump’s changing interest in Southeast Asia. In both economic and security issues, China’s influence is growing in Southeast Asia, and this would be at the expense of the US. During his trip, Pence reaffirmed US commitments to its allies and economic partners, and prioritized the settling of trade deficits for a “win-win” situation. The US seems willing to make adjustments in the economic field in order to strengthen ties with its key countries in the region. It was reported that Pence was interested to explore ways to strengthen defence partnership to confront various security threats, including terrorism.

<sup>12</sup> <http://www.voaindonesia.com/a/as-indonesia-sepakati-kerjasama-kontra-teroris-untuk-perdamaian-dunia/3818079.html>. Accessed 23 April 2017.

<sup>13</sup> <https://www.voanews.com/a/pence-indonesia-trade/3818008.html>. Accessed 23 April 2017.

<sup>14</sup> <http://nasional.republika.co.id/berita/nasional/umum/17/04/20/oopjgf377-mike-pence-bahas-toleransi-dengan-tokoh-lintas-agama>. Accessed 23 April 2017.

<sup>15</sup> <http://cnnphilippines.com/news/2017/04/19/trump-philippines-asean-summit.html>. Accessed 23 April 2017.

<sup>16</sup> Ibid.

Jokowi, however, has pointedly appeared more interested in economics than in security matters where the US is concerned.

While Pence's visit may be a turning point in Trump's foreign policy towards Southeast Asia, it is too early yet for any definite conclusion to be drawn about it keeping to a sustained direction.

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