

THE EU - INDONESIA RELATIONS*

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I

Asia has been undergoing its worst economic - and in some parts spilling over to social and political - crisis in decades. The 16-month long downward picture spreads rapidly to other regions. The world is cautiously watching and calls it the worst economic crisis in the last half of the century. It finds Asia as no more the champion of economic growth as it had previously been described. The expected zero, even negative growth in Asia in 1988 and 1999 makes IMF reduced its forecast for global GDP growth to 2% in 1998 from 3.1% in its 1998 Outlook.

The effect of the crisis is evident, ranging from the deceleration of the GDP growth, the widening current account deficit, the declining trade and investment, the sky-rocketing inflation, to the stagnation of economic activities, the soaring of the number of poor people and other social - and political - costs.

Among the nations hit by the crisis, Indonesia is undoubtedly the most. Since July 1997, rupiah depreciated by 80%, interest rate has risen to 64.6% and stock market fell to 45%, GDP growth decreased as much as 8%, inflation topped 66%, and, in turn, people living under the poverty

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line soared again from 11% to 40%. In his speech before the Parliament on 15 August 1998, President Habibie admitted that the achievement of three decades had been wiped out by a crisis that took place for only several months.

II

Of the course of the crisis, one particular result cannot and should not be overlooked, the overwhelming review of existing values as well as practices. The release of power from President Soeharto to President Habibie paves the way for such re-examination. It is acknowledged that the unfolding crisis currently points at the need to first iron out political aspect, before, for instance, gaining investors' confidence or re-igniting national economic machine.

The Indonesian Government, instead, decided to undertake policies to re-adjust both political and economic system. Albeit far from being perfect, a series of political reform has been taken. The release of political prisoners days after Habibie assumed the presidency, the ratification of human rights convention, the making of new political laws, the still-struggling effort to abolish nepotism, corruption and cronyism, or the decision to put forth political agenda with three main events: parliament special session in November 1998, general election in May-June 1999, and parliament general session in December 1999.

On the other hand, the Government have been taking economic measure to curb the problem. Two main targets are the availability of food stuff and basic commodities for the people at affordable prices, and the revival

of the national economy. Although there are still shortcomings and weaknesses in channelling them, Indonesia is able to make available the nine basic commodities for the whole of the society. For the second target, Indonesia has implemented economic stabilisation and reform programs comprising four elements viz. to give a very high priority to strengthening up of the financial institutions, to solve problems related to the private sectors debt, to make economy more efficient and competitive by eliminating monopoly practices, and to promote openness and transparency in the governance and in the management of business.

It is in this light that the relations between Indonesia and the European Union is positioned.

III

The EU-Indonesia relations has been colourful, economically fruitful but politically unstable. Trade and economic relations between Indonesia and the EU has been increasing, especially since the opening of the EU's representation in Jakarta in 1988 and the creation in Brussels of the Indonesian Mission to the EC in 1990.

The volume of Indonesia-EU trade has consistently been increasing. Indonesia at present ranks the 20th as the EU's export destination country worth ECU 8.25 billion in 1997, and the 17th source of the EU's import worth ECU 8.27. Indonesian export and import with the EU increased by 15.8% and 17.8% from 1996. Having trade surplus of ECU 20 million, among Indonesia's main export commodities are textiles, footwear, wood and furniture.

In the field of economic and development cooperation, the EU maintains its assistance in currently 13 on-going projects covering environment and forest protection and rural development. The EU also consistently renders humanitarian assistance such as in the case of national disasters occurrence and supplying fresh water or health monitoring. Forest fire in Kalimantan last year also enjoyed an assistance worth ECU 200.000. The EU, too, has actively been participated in the Consultative Group on Indonesia.

Through EC Investment Partner (ECIP) scheme, the EU provides investment facilities in the form of joint ventures. In this field, respective member countries are among the biggest investors especially UK, the Netherlands, Germany, Luxembourg and France, in the sectors of mining and energy, banking, insurance, pharmaceutical and leasing.

The European Investment Bank (EIB) which was initially aimed at giving assistance to ACP countries, has been expanding its facility to also cover Asia and Latin America. Indonesia has made use of the facility and currently submitting new proposals to secure the facility to fund Padang, Pontianak and Sorong airports development, third telecommunication project, and gas pipe project in South Sumatera.

Political relations, on the other hand, has yet to match economic remarkable result. At the centre of the stage is the difference of the values. The built-in principles of democracy, respecting human rights, good governance, and the like, of the EU, are categorically positioned in contrast vis-à-vis the so-called Asian values.

EU's Declaration on Human Rights of 1991 and Maastricht Treaty clearly stated that respecting, promoting, and safeguarding human rights is an essential part of international relations and one of cornerstones of Europeans cooperation as well as of relations between the EU and its members and other countries, and that the EU should safeguard the common values and to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms. Asians, on the other side, has been very firm to defend the community obligation on top of individual freedom and rights, and accused the EC of putting non-trade issues as unacceptable conditionality hampering trade.

The row has later been tainted, since 1986, by the issue of East Timor. The tug-of-war reached its culmination in early 1990s when the EC broke the negotiation to renew the ASEAN-EC Cooperation Agreement and the endorsement of the EU common position on East Timor in 1996. Asia's consistent positive and extra-ordinary growth, however, helped lighten the discord. The pragmatic approach taken by the EU to give more due attention to ways and means to develop economic cooperation rather than "playing with words", further opened more opportunities for both sides to develop their relations.

IV

The present crisis, therefore, gives a new horizon amid pervasive changes in the region and in Indonesia as well. A two-fold option is perceived. First, it is undoubtedly urgent and a must that the EU, and the world at large, provides its utmost to help Indonesia, and the countries in

the region, out of the crisis. The crumbling of one country, in this very environment of globally interconnected world, will pose problem to others, regionally as well as internationally, as the effect of the crisis for the last 14 months has shown. Second, along the line of the reform being undertaken, it is deemed necessary and worth doing that a more open and transparent but mutually-respecting dialogue be held between both sides, to discuss the difference that can encumber the furtherance of the relations.

The EU has so far done good. Responding to this period of extraordinary difficult situation of crisis, it has reiterated its willingness to increase its support to Indonesia. In terms of practical assistance, the EU will continue to play an integral role in the assistance package agreed between the IMF and the Government of Indonesia. It also announced, in wider context, two major programs to benefit the region at the 2nd Asia-Europe Summit, in April 1998, in the form of ASEM US\$ 45 million Trust Fund and a network of European financial experts to accelerate the reform of Asia's banks and insurance companies. A part of ASEM Trust Fund is already available for carrying out most urgent projects, for example, the education of Indonesian children. The Commission, too, has earmarked for this and the coming calendar year special funds for the social sector and poverty-alleviation and is currently examining where additional help can most usefully be provided.

This positive response is, of course, not without annotation. Concerns have been expressed over disheartening events in Indonesia. The EU does send clear message to Habibie's administration "to work urgently for more accountable and transparent Government to meet aspirations of

the Indonesian people”, and “to encourage President Habibie to implement his commitment to political and economic reform.” The assertion that Indonesia needs to correspond accordingly.

Amid still-far-from-being-over situation, however, one thing is clear. There are determination of the Indonesian Government to continue its reform, both politically and economically, and positive response from the world over including the EU. Politically, giving Indonesia a full support would certainly help it performing recovery programs. Economically, due importance should be given to one remaining fact, that trade is still a powerful force to generate economic stability and growth. All have to realise that the crisis has left the economies of the US and the EU remain relatively strong. If these economies can continue to absorb imports from the crisis-hit countries, we can expect to put an end to further deterioration of the crisis, and we can hope for the revival of Asian. This, in turn, would facilitate countries to bring the relations among them to even stronger and beneficial cooperation.

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Sources:

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