

Indonesian Hedging: Strategies to Counter a Growing Imbalance in Southeast Asia

A Monograph

by

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Abstract

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This monograph argues current American security assistance and security cooperation activities are not effective at countering growing Chinese influence in Indonesia. The geostrategic importance of Indonesia is an integral part of the current Sino-American tensions. Strained Sino-American relations caused each country to implement different strategies over the last decade to win Indonesia's trust: military assistance from the United States and economic incentives from China. Each strategy independently benefits Indonesia. Additionally, Indonesia cannot predict which country will serve as the long-term regional leader in Southeast Asia. This uncertainty resulted in Indonesia adopting its current strategy of hedging, which is common among nations in Southeast Asia.

This study analyzes historical and modern American military and Chinese economic interventions in Indonesia. Combining this with analysis of future events, such as the 2019 Indonesian presidential election, provides a unique strategic context. American and Chinese actions and policies will be analyzed through modern international relations theory. This monograph concludes by analyzing the expected return on investment of US security assistance and security cooperation in Indonesia and how to improve it in the future.

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Acronyms

AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
DoD	Department of Defense
DoS	Department of State
FDI	Foreign Direct Investment
FMF	Foreign Military Financing
IBRD	International Bank for Reconstruction and Development
IMET	International Military Education and Training
IMF	International Monetary Fund
IMSS	Integrated Maritime Surveillance System
MSI	Maritime Security Initiative
MSRI	Maritime Silk Road Initiative
NETSAFA	Naval Education and Training Security Assistance Field Activity
ROI	Return on Investment
SA	Security Assistance
SC	Security Cooperation
THAAD	Terminal High Altitude Area Defense
TNI	Indonesian National Armed Forces
USINDOPACOM	US Indo-Pacific Command

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Introduction

Background of the Study

In an October 2, 2013 speech to the Indonesian Parliament, Chinese President Xi Jinping unveiled the Maritime Silk Road Initiative (MSRI).¹ The MSRI is part of the greater Belt and the Road Initiative (BRI) meant to improve Chinese relations throughout Asia and Europe, increase trade, and stimulate economic growth. The MSRI distinguishes itself from the greater BRI because its efforts focus on developing infrastructure, such as railways and ports, to support Chinese economic and strategic interests.² Chinese foreign direct investment (FDI) is one of the primary means to achieve these aims. Through 2018, China underwrote over \$900 billion (USD) of infrastructure loans in 71 countries, stretching from Eastern Europe to the Pacific Islands.³ For MSRI to succeed, China must gain legitimacy as a nation working to benefit others, not just their domestic agenda. Xi highlighted this in his speech to Indonesia's Parliament. He referenced a Chinese idiom in his speech and stated: "the interests to be considered should be the interests of all."⁴ Co-opting the ten members of the Association of Southeast Asian Nations (ASEAN) is critical to MSRI's success. ASEAN acts as a deterrent to Chinese expansion, specifically territorial claims in the South China Sea. Influencing ASEAN will allow China to increase territorial gains and westward maritime access to India, the Middle East, and Africa. Unveiling

¹ Xi Jinping, "President Xi Gives Speech to Indonesia's Parliament." Presentation, Jakarta, Indonesia, October 2, 2013, accessed February 24, 2019, http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915_2.htm.

² Matthew Funaiole and Jonathan Hillman, "China's Maritime Silk Road Initiative: Economic Drivers and Challenges," Center for Strategic and International Studies, April 2, 2018, accessed February 24, 2019, <https://www.csis.org/analysis/chinas-maritime-silk-road-initiative-economic-drivers-and-challenges>.

³ "What's in It for the Belt and Road Countries?," *The Economist* (April 19, 2018), accessed January 11, 2019, <https://www.economist.com/the-economist-explains/2018/04/19/whats-in-it-for-the-belt-and-road-countries>.

⁴ Xi. "President Xi Gives Speech to Indonesia's Parliament."

the MSRI in Indonesia, the de facto leader and most populous nation within ASEAN, was a calculated political decision.

Indonesia's importance to the success of MSRI cannot be understated. Indonesia is the third-largest democracy and has the largest Muslim population in the world.⁵ Former US Secretary of Defense James Mattis highlighted the strategic importance of Indonesia to the United States by describing it as the "fulcrum between the Indian and Pacific Oceans."⁶ Within ASEAN, Indonesia has the largest gross domestic product and diplomatically acts as a mediator to settle conflicts between member nations. Since 1990, Indonesia led South China Sea territorial negotiations between Malaysia, the Philippines, Taiwan, Vietnam, and Brunei.⁷ Indonesia's persistent leadership allows ASEAN to present a unified front against Chinese territorial claims. The 2012 ASEAN annual meeting was one example of Indonesia utilizing its regional leadership. Indonesian Foreign Minister Marty Natalegawa mediated seventy-two hours of "shuttle diplomacy" so all member nations agreed on a statement condemning recent Chinese interventions in the South China Sea.⁸

Indonesia's demographics, economic power, and status as a regional leader cause it to be an attractive ally within Southeast Asia for the United States. The United States supports Indonesia through a variety of security assistance and security cooperation (SA/SC) programs. These programs provide equipment, training, and education to foreign militaries throughout the

⁵ "Indonesia," CIA World Factbook, accessed March 14, 2019, <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>.

⁶ James Mattis, "Press Gaggle by Secretary Mattis En Route to Indonesia," *US Department of Defense*, January 22, 2018, accessed January 8, 2019, <https://dod.defense.gov/News/Transcripts/TranscriptView/Article/1420752/press-gaggle-by-secretary-mattis-en-route-to-indonesia>.

⁷ Ralf Emmers, "Indonesia's Role in ASEAN: A Case of Incomplete and Sectorial Leadership," *The Pacific Review* 27, no. 4 (June 2014): 551-52.

⁸ Aaron Connelly, *Indonesia in the South China Sea: Going It Alone* (Lowy Institute for International Policy, 2016), accessed March 14, 2019, <http://www.jstor.org/stable/resrep10155>.

world. The United States utilizes SA/SC in the execution of maritime, land and air exercises in Indonesia each year. While not stated directly, one of the primary goals of SA/SC to Indonesia and throughout Southeast Asia is to counter Chinese aggression.

The United States increased its SA/SC commitment to Indonesia and Southeast Asia in 2016 through the Southeast Asia Maritime Security Initiative (MSI).⁹ The Department of Defense (DoD) funds this program and provides resources to American allies in Southeast Asia to increase military capacity. MSI is only one part of the greater SA/SC architecture, though its importance amplified over recent years. Traditional sources, such as the Department of State's (DoS) International Military Education and Training (IMET), have decreased funding for Southeast Asian allies in recent years.¹⁰ MSI is under pressure to mitigate this funding gap, build sustained capacity in Southeast Asia, and deter Chinese military overtures in the South China Sea.

In addition to its partnership with America, Indonesia has extensive bilateral military relationships with its Southeast Asian neighbors. The Indonesian National Armed Forces (TNI) conducts bilateral and multilateral exercises with their Southeast Asian neighbors. TNI conducts annual exercises with Malaysia and the Philippines focused on coordinated maritime and air patrols in the South China Sea to counter Chinese interventions. Previous Chinese military and fishing activities near Indonesia's northern Natuna Islands prompted significant concerns for Indonesian political leaders.¹¹

While it appears Indonesia is committed to halting the expansion of Chinese power, the reality is ambiguous. Indonesian President Joko Widodo, known by the portmanteau "Jokowi,"

⁹ National Defense Authorization Act for Fiscal Year 2016, Public Law 114-92, 114th Cong., 2d sess., (November 25, 2015), 1263.

¹⁰ US Department of State Joint Staff, *Foreign Military Training Report Fiscal Years 2017 and 2018: Joint Report to Congress Volume 2* (Washington, DC: Government Printing Office, 2017), Section 4-2, 8, accessed January 15, 2019, <https://www.state.gov/documents/organization/284929.pdf>.

¹¹ Tiola Javadi, "Indonesia's China Strategy: 'Flexible Hedging'," *The National Interest*, April 20, 2016, accessed January 15, 2019, <https://nationalinterest.org/feature/indonesias-china-strategy-flexible-hedging-15843>.

must balance two competing concerns.¹² First, he must maintain diplomatic and military relationships to counter China, as previously described. A secondary interest is Jokowi's responsibility to improve Indonesian infrastructure, which is heavily financed by Chinese FDI. Jokowi previously served as the Governor of Jakarta, Indonesia's capital. He had no prior military or foreign relations experience before his 2014 election and based his campaign on economic and infrastructure development.¹³ As of 2019, Jokowi is in the middle of a five-year \$450 billion domestic infrastructure development plan. Two-thirds of this funding is from FDI, with China investing over \$3.3 billion across 1,977 projects in 2017 alone.¹⁴ China supplements its FDI to Indonesia through its 2016 founding of the Asian Infrastructure Investment Bank (AIIB). The AIIB is similar to the World Bank and uses capital from member nations to fund global projects. Indonesia significantly benefits from AIIB financing, though China's preponderance in AIIB's voting power concerns US policymakers of potential ulterior motives.

Indonesia is hedging. It is balancing desires to counter China on diplomatic and military fronts while benefitting from Chinese FDI. This strategy is common across Southeast Asia over the last decade. Less influential nations, such as Indonesia, are uncertain whether China will overtake the United States as the global superpower.¹⁵ From 2008–2010, US-Sino tensions over the South China Sea escalated. China challenged US economic interests by threatening US oil companies. China also harassed multiple US Navy ships, calling into question China's stance on

¹² Connelly, "Indonesia in the South China Sea."

¹³ Ibid.

¹⁴ Indonesia Investment Coordinating Board, *Domestic and Foreign Direct Investment Realization in Quarter IV and January–December 2017* (Jakarta: BKPM, 2018), 20-36, accessed November 20, 2018, https://www.bkpm.go.id/images/uploads/file_siaraan_pers/PAPARAN_-_ENG_-_TW_IV_2017.pdf.

¹⁵ Van Jackson, "Article Navigation Power, Trust, and Network Complexity: Three Logics of Hedging in Asian Security," *International Relations of the Asia-Pacific* 14, no. 3 (September 2014): 331-56, accessed November 22, 2018, <https://academic.oup.com/irap/article/14/3/331/838526>.

freedom of navigation in the South China Sea. This led former Secretary of State Hillary Clinton in 2010 to call for a Code of Conduct between ASEAN nations and China over the South China Sea.¹⁶ Nine years later, this Code of Conduct has not been formalized, highlighting China's ability to influence ASEAN diplomatic decisions indirectly.

The United States also attempts to affect ASEAN diplomatically, though its effectiveness in Indonesia is lacking. American military SA/SC and diplomatic security guarantees are the primary methods to influence Indonesia to counter Chinese military, diplomatic, and economic overtures. Since 2005, annual military to military engagements between the United States and Indonesia increased from zero to over 170.¹⁷ While a numerical improvement, traditional SA/SC activities are only one part of a successful approach towards Indonesia. Relying primarily on American military means to influence Indonesia created a void the Chinese government is fulfilling through its economic actions. The United States must alter how it employs MSI resources as part of a greater SA/SC program within Indonesia. Doing so will build sustainable capacity in the TNI, limit Indonesian hedging, and counter growing Chinese regional influence.

Methodology

This monograph begins with a review of Indonesia's strategic environment through a qualitative review of primary sources, such as speeches from US policymakers and US Indo-Pacific Command (USINDOPACOM) posture statements. These primary sources depict the United States' historical and current strategy in Indonesia. Secondary sources, such as journal articles, frame the United States' prior actions in Indonesia and their potential impacts on the current environment. This section will define the unique responsibilities of DoS and DoD

¹⁶ Hillary Clinton, "Remarks at Press Availability" (National Convention Center, Hanoi, Vietnam, July 23, 2010).

¹⁷ Brian Harding, "Enhancing the U.S.-Indonesia Strategic Partnership," Center for Strategic and International Studies, July 9, 2018, accessed March 14, 2019, <https://www.csis.org/analysis/enhancing-us-indonesia-strategic-partnership>.

regarding SA/SC. Additionally, a brief review of historical and current SA/SC funding and activities in Indonesia and Southeast Asia provide a quantitative perspective. The next section analyzes Chinese interventions and how this influenced Indonesia's current hedging strategy. China's disruption of the international economic order is also influencing Indonesian political decisions. As a result, this monograph focuses on China's economic impacts within Indonesia compared to its military actions within the South China Sea.

Following a discussion of Chinese interventions, this monograph reviews three political science frameworks influencing Indonesia's political decisions: power transition theory, selectorate theory, and realist alliance theory. Power transition theory describes how the interventions of both the United States and China caused Indonesia to enact a hedging strategy. Selectorate theory's emphasis on domestic incentives helps explain why Chinese investment is necessary for Indonesian political leadership, specifically Jokowi, to remain in power. Realist alliance theory offers a perspective on the various reasons why Indonesia has instituted a hedging strategy between China and the United States. The final part of the monograph evaluates MSI's efficacy as part of a greater SA/SC strategy in Indonesia and how to improve it in the future. A revised American SA/SC strategy will not entirely halt Indonesian hedging or their reliance on Chinese economic incentives. The American commitment to Indonesia through SA/SC can improve the TNI's capacity and indirectly counter China throughout Southeast Asia. The reforms described in this monograph include focusing Indonesian MSI funding on training and education, increasing multilateral partnerships, even those not led by the United States, and inviting Chinese advisors to future multilateral exercises in Southeast Asia.

Evaluation Criteria

DoS and DoD do not have an official method to evaluate SA/SC activities. In FY19, DoD will implement a new assessment, monitoring, and evaluation framework to gauge the effectiveness of SC programs.¹⁸ Instead of a set evaluation method from DoS or DoD, this monograph will use a return on investment (ROI) approach. It analyzes MSI's effects on Indonesian hedging and identifies expected benefits, relative costs, and risk. Michael J. McNerney, director of Rand's International Security and Defense Policy Center highlighted the benefits of the ROI method to analyze existing SA/SC programs in his testimony to Congress in 2016.¹⁹ If current SA/SC activities are deemed insufficient to counter Indonesian hedging, this monograph will provide recommended policy changes.

Overview of Security Assistance and Security Cooperation

Historically, the United States utilized SA/SC to build an intricate web of alliances to deter potential adversaries and globally promote American interests. These alliances focused on the “hub and spoke” approach in Southeast Asia. Such an approach saw the United States form multiple bilateral alliances with individual as opposed to a large mutual defense bloc like NATO.²⁰ SA/SC was one method of how the United States strengthened bilateral alliances with individual countries. While the combined term “SA/SC” appears as a single entity, this is not the case. “Security assistance” and “security cooperation” are two separate programs, managed by

¹⁸ US Department of Defense, *Agency Financial Report Fiscal Year 2018* (Washington DC: Government Printing Office, 2018), 16, accessed March 14, 2019, https://comptroller.defense.gov/Portals/45/Documents/afr/fy2018/DoD_FY18_Agency_Financial_Report.pdf.

¹⁹ Hearing before the Committee on Armed Services Subcommittee on Emerging Threats, 114th Cong., 2d sess., March 9, 2016, 6.

²⁰ Jae Jeok Park, “The US-Led Alliances in the Asia-Pacific: Hedge Against Potential Threats or an Undesirable Multilateral Security Order?,” *The Pacific Review* 24, no. 2 (May 2011): 140.

DoS Title 22 and DoD Title 10 authorities, respectively.²¹ To appreciate the full complement of SA/SC activities in Indonesia, it helps to examine the individual parts.

Security assistance is defined as the method the United States "provides defense articles, military training, and defense-related services by grants, loans, credits, and cash sales to improve and advance national policies and objectives."²² DoS resources security assistance activities and coordinates the execution through DoD's Defense Security Cooperation Agency.²³ Two specific programs constitute a majority of American security assistance to Indonesia: Foreign Military Financing (FMF) and International Military Education Training (IMET).²⁴ FMF enables partner nations to purchase material items and services through foreign military sales or alternative commercial sales.²⁵ The former commander of USINDOPACOM, Admiral Harry Harris, described FMF as providing the "major end items" to build partner capacity.²⁶ In contrast to FMF, IMET enables allied military servicemembers to receive training, primarily at US military installations.²⁷ Resident attendance Fort Leavenworth's Command and General Staff Officers' Course is one example. A primary benefit of IMET is the relationships built between the US and international servicemembers throughout their careers.

²¹ US Department of Defense, Joint Staff, *Joint Publication (JP) 3-20, Security Cooperation* (Washington, DC: Government Printing Office, 2017), 2-1–2-4.

²² US Department of Defense, Joint Staff, *Joint Publication (JP) 3-22, Foreign Internal Defense* (Washington, DC: Government Printing Office, 2017), 1-18.

²³ US Department of Defense, *DoD Directive 5132.03 DoD Policy And Responsibilities Relating to Security Cooperation* (Washington DC: Government Printing Office, 2016), 16.

²⁴ US Joint Staff, *JP 3-20, Security Cooperation* 2017, 2-5.

²⁵ Ibid.

²⁶ Harry B. Harris, "Statement of U.S. Navy Commander, U.S. Pacific Command Before the Senate Armed Services Committee on U.S. Pacific Command Posture" (US Capitol, Washington, DC., February 23, 2016), 17.

²⁷ US Joint Staff, *JP 3-20, Security Cooperation* 2017, 2-5.

Security cooperation relies less on providing material resources to foreign militaries and more on “interactions” to build global defense relationships.²⁸ Such interactions enable the joint force peacetime and contingency access in future multinational operations. Examples of security cooperation activities include combined exercises, military education and training, and defense institution building.²⁹ Each Geographic Combatant Command develops a theater campaign plan to align security cooperation activities and resources to strategic objectives in support of a national defense strategy.

US Security Assistance and Security Cooperation in Indonesia

The history of the United States providing SA/SC to Indonesia is complex and the result of diplomatic motivations. After gaining independence from the Netherlands in 1949, the United States was among the first nations to establish relations with a sovereign Indonesia. This show of support quickly changed as the United States did not approve of Indonesian President Sukarno’s pro-communist policies. From September 1957 to May 1958, Indonesia first experienced American military power through its covert actions.

President Dwight Eisenhower waged a CIA-led paramilitary campaign to overthrow Sukarno, known as Operation Haik.³⁰ This campaign included supplying anti-communist rebels with money, weapons, and manpower. The CIA hired former American military pilots on a “soldier of fortune basis.”³¹ These pilots conducted a bombing campaign targeting TNI barracks, airbases, and naval ships. The covert operations culminated on May 18, 1958, when former US

²⁸ US Department of Defense, *DoD Directive 5132.03*, 16.

²⁹ *Ibid.*, 14.

³⁰ Douglas Kennedy, “Operation Haik: The Eisenhower Administration and the Central Intelligence Agency in Indonesia, 1957-1958” (master's thesis, University of Georgia, 1996), accessed December 3, 2018, <https://apps.dtic.mil/dtic/tr/fulltext/u2/a321861.pdf>, 6.

³¹ Kenneth Conboy and James Morrison, *Feet to the Fire: CIA Covert Operations in Indonesia, 1957-1958* (Annapolis: Naval Institute Press, 1999), 129.

Air Force pilot Allen Lawrence Pope was shot down by an Indonesian fighter jet and later captured.³² This incident became a diplomatic crisis for the Eisenhower administration.

Eisenhower immediately halted funding for Operation Haik and the CIA removed all of its operatives from Indonesia.³³

The failure of Operation Haik resulted in minimal US-Indonesian relations until Sukarno lost his remaining political goodwill and was forced out of office in 1967. DoS was initially in favor of Sukarno's successor, General Suharto and his "New Order," which improved relations with Western nations.³⁴ The United States recognized an Indonesian strategy of hedging as early as 1968, described by the declassified National Intelligence Estimate:

Though Indonesia will remain officially nonaligned, there is likely to be a continuation of the present trends toward improved relations with neighboring countries and the free world, cool relations with the USSR, and hostility toward Communist China. The present government would like to have the US involved somehow in the protection of Southeast Asia against China, yet it would not favor a direct security relationship with the US or any other outside power.³⁵

The United States did not sustain its improved diplomatic relations with Indonesia. In 1975, Indonesia invaded and annexed East Timor. The United States never formally recognized this annexation, though SA/SC activities between the two nations continued. On November 12, 1991, events in East Timor escalated. Indonesian special forces, known as Kopassus, killed over 250 pro-independence East Timorese demonstrators, an incident better known as the Dili Massacre. The Dili Massacre resulted in an immediate halt in SA funding from the United

³² Conboy and Morrison, *Feet to the Fire*, 129.

³³ Audrey Kahin and George McTurnan Kahin, *Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia* (Seattle: University of Washington Press, 1997), 182–84.

³⁴ Edward C. Keefer, ed., "Document 262: National Intelligence Estimate," in *Foreign Relations of the United States, 1964–1968*: vol. 26, *INDONESIA; MALAYSIA-SINGAPORE; PHILIPPINES* (Washington, DC: Government Printing Office, 2000), 1, accessed December 15, 2018, <https://history.state.gov/historicaldocuments/frus1964-68v26/d262>.

³⁵ *Ibid.*

States.³⁶ Included were IMET funds, which prevented Indonesian officers from attending training courses in the United States. All funding to Indonesian military forces was not restricted, however, creating a conflict between American military and diplomatic objectives.

With SA funding from DoS on hold, the United States maintained DoD-led SC activities in Indonesia through a program known as Joint Combined Exchange Training. This global program, which continues as of 2019, funds US special operations forces to conduct training with partner nation forces.³⁷ Congressional testimony in 1998 revealed American special operations forces provided infantry, reconnaissance, and urban operations training to Kopassus, before and after the Dili massacre.³⁸ One Indonesian general interviewed before the Dili Massacre in 1991 revealed "our real opponent is the internal riot," and added the United States "teaches us how to stop civil disturbances."³⁹ US special operations forces conducted 41 training exercises with Kopassus between 1991–1998.⁴⁰

IMET funding to Indonesia was partially reinstated in 1995 and completely restricted, again, in 1999. Similar to the Dili massacre, pro-Indonesia militia groups attacked independence-seeking Timorese. This violence surrounded a vote on a referendum which provided East Timor

³⁶ "Timeline: US-Indonesia Relations," *Contemporary Southeast Asia* 32, no. 3 (December 2010): 395-98, accessed December 2, 2018, <http://dx.doi.org/10.1355/cs32-3c>.

³⁷"International Training," Defense Security Cooperation Agency, accessed November 17, 2018, <https://www.samm.dscs.mil/chapter/chapter-10>.

³⁸ Hearing before the Subcommittee on International Operations and Human Rights of the Committee on International Relations, Human Rights in Indonesia—Part 2, 105th Cong., 2d sess., July 24, 1998, 19.

³⁹Dana Priest, "Sections Democracy Dies in Darkness Free of Oversight, U.S. Military Trains Foreign Troops," *Washington Post*, July 12, 1998, accessed November 15, 2018, https://www.washingtonpost.com/archive/politics/1998/07/12/free-of-oversight-us-military-trains-foreign-troops/1e54e47e-e4ed-4775-a079-1cfb09356c4e/?utm_term=.085a8b93fe0c.

⁴⁰ Ibid.

autonomy within Indonesia. Over 1,000 East Timorese died in referendum-related violence.⁴¹ The TNI and Kopassus were not directly linked to these killings, but they did provide training to paramilitary forces. A combination of East Timor achieving independence in 2002 and increased Congressional oversight prompted DoD and DoS to fully reinstate SA/SC to Indonesia in 2005. Part of the increased Congressional oversight is due to the "Leahy Amendment," named after Senator Patrick Leahy. This legislation prevents the United States from providing SA/SC funds to countries with credible allegations of human rights abuses.⁴²

On the surface, it appears fourteen continuous years of SA/SC in Indonesia strengthened US-Indonesia security relationships. The true extent of its impact, both in quantity and quality, is questionable. Within DoS, the Bureau of East Asian and Pacific Affairs manages US foreign policy across thirty-one countries, including Indonesia and the other nine ASEAN nations.⁴³ Security assistance funding from DoS did not reflect the 2011 pivot in US foreign policy to the Pacific. From 2012–2015, DoS provided countries in East Asia and the Pacific a combined average of \$61.8 million in FMF and \$9.8 million in IMET funding.⁴⁴ Only eight countries in Southeast Asia received FMF during this period, compared to fourteen countries who received IMET.⁴⁵ Indonesia's average share during this period was \$14 million in FMF and \$2 million in

⁴¹ "Indonesia/East Timor (1976-2002)," University of Central Arkansas, Department of Political Science, accessed November 15, 2018, <https://uca.edu/politicalscience/dadm-project/asiapacific-region/indonesiaeast-timor-1976-2002/>.

⁴² "Leahy Fact Sheet," US Department of State: Bureau of Democracy, Human Rights, and Labor, March 9, 2018, accessed November 18, 2018, <https://www.state.gov/j/drl/rls/fs/2018/279141.htm>.

⁴³ "East Asian and Pacific Affairs: Countries and Other Areas," US Department of State Bureau of East Asian Affairs, accessed November 18, 2018, <https://www.state.gov/p/eap/ci/index.htm>

⁴⁴ Desmond Walton, "Security Cooperation: The Key to Access and Influence in the Asia-Pacific," *Center for a New American Security* (May 2016): 6, accessed December 17, 2018, <https://www.jstor.org/stable/resrep06248>.

⁴⁵ "Security Aid Pivot Table," Security Assistance Monitor, accessed November 21, 2018, <http://securityassistance.org/data/country/military/International%20Military%20Education%20and%20Training/2012/2019/State%20Department/East%20Asia%20and%20the%20Pacific/>.

IMET funding.⁴⁶ These numbers pale in comparison to other regions and individual nations. IMET funding in East Asia and the Pacific in 2015 was lowest among all geographic areas. To highlight the disparity between individual nations, Indonesia’s FMF funding in 2016 (\$10 million) was lower than Moldova’s (\$13 million). In contrast, Egypt and Israel each receive annual FMF over \$1 billion, as depicted in figure 1.⁴⁷ Due to this disparity, the United States cannot expect East Asia and the Pacific countries to increase military capacity through FMF and IMET alone.

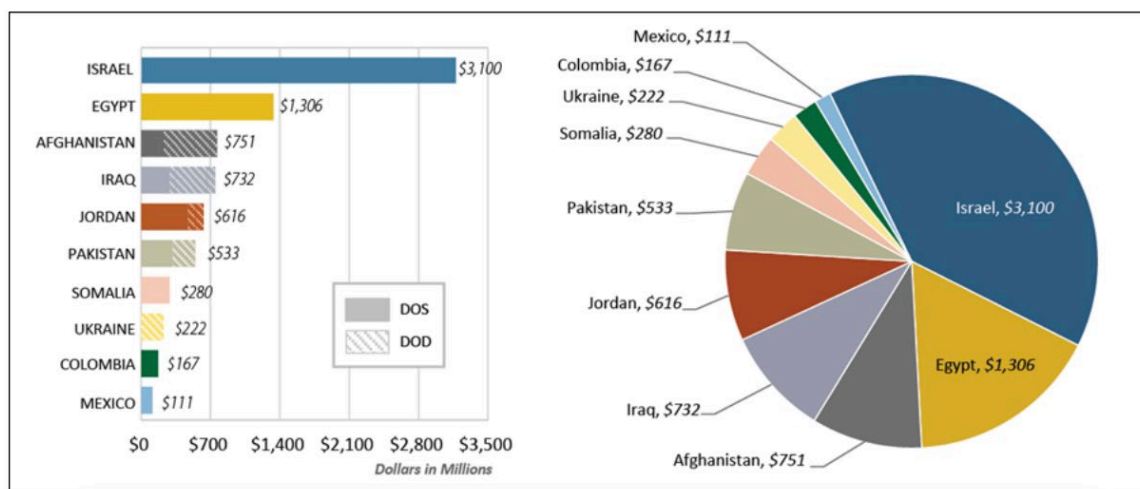


Figure 1. Top 10 Recipients of DoS/DoD Security Assistance and Security Cooperation Programs, FY 2016. *U.S. Security Assistance and Security Cooperation Programs: Overview of Funding Trends* (Washington, DC: Congressional Research Service, 2018), 6, accessed October 10, 2018, <https://crsreports.congress.gov/product/pdf/R/R45091>.

The funding plateau of DoS in East Asia and the Pacific caused DoD to utilize alternative funding sources to increase partner capacity in Southeast Asia, the most vital program being the Maritime Security Initiative (MSI). DoD initially allocated a total \$425 million over five years between 2016–2020 to support five Southeast Asian nations: Indonesia, Malaysia, the

⁴⁶ “Security Aid Pivot Table,” Security Assistance Monitor.

⁴⁷ Ibid.

Philippines, Thailand, and Vietnam.⁴⁸ Former Secretary of Defense Ash Carter stated MSI's primary purpose was not to provide hardware but develop a "principled security network" between the five nations to face regional maritime challenges, a phrase he repeated eleven times in a 2016 speech.⁴⁹ China was not directly mentioned as the primary adversary of MSI, though each of the five nations experienced maritime aggression from China prior to 2016. Another important distinction of MSI is unlike DoS' management of IMET, DoD has more latitude in how it utilizes MSI funding.

MSI was heavily promoted after its unveiling in 2016, but it has not received the same attention from DoD in subsequent years. USINDOPACOM posture statements from 2016–2019 show a steep decline in the promotion of MSI and its perceived net effect. Admiral Harris described MSI and how he intended to utilize the funds in his 2016 posture statement:

Under MSI, PACOM plans to provide niche capabilities, more multi-mission type of equipment, and connective tissue that will help partners better deploy and employ these maritime security capabilities, both domestically to protect their sovereign territory, but also as a means of fostering greater regional interoperability.⁵⁰

Specific to Indonesia, MSI funds intend to increase Indonesia's maritime domain awareness, such as intelligence, surveillance, and reconnaissance capacities and the ability to develop a common operating picture among the other MSI recipient nations. This includes increasing the maritime security capacity of the TNI, and improve maritime security of the disputed Natuna Islands.⁵¹

USINDOPACOM posture statements from 2017–2019 do not emphasize any direct progress resulting from MSI's implementation. The 2017 posture statement mentions MSI only

⁴⁸ Prashanth Parameswaran, "America's New Maritime Security Initiative for Southeast Asia," *The Diplomat*, April 02, 2016. accessed November 19, 2018, <https://thediplomat.com/2016/04/americas-new-maritime-security-initiative-for-southeast-asia/>.

⁴⁹ Ash Carter, "Remarks by Secretary Carter at the Shangri-La Dialogue, Singapore" (Shangri-La Hotel, Singapore, June 5, 2016).

⁵⁰ Harry B. Harris, "2016 U.S. Pacific Command Posture Statement", 17.

⁵¹ *Ibid.*

by restating the “connective tissue” description from the 2016 posture statement, verbatim.⁵² The 2018 posture statement mentions MSI in one bland sentence about its intention to improve maritime capacities of allies, without specifying direct benefits to any of the five original recipient nations.⁵³ In 2019, Congress approved a five-year extension for MSI through 2025. USINDOPACOM’s new commander, Admiral Philip Davidson, provided no further specifics in his first posture statement. He described MSI as one of many “weight tools available for building partner readiness, reducing capability gaps, and building capacity.”⁵⁴ For a program so heavily promoted and the significant monetary resources of MSI, it is unclear how MSI will develop the “principled security network,” as originally intended.

The joint DoS and DoD Foreign Military Training Report annually details US funding appropriated for training courses. From 2016–2018, collective IMET funding to the five original MSI recipient nations dropped from \$10.9 million to \$4.47 million, a 59 percent decrease.⁵⁵ Simultaneously, training courses funded by MSI for the same five Southeast Asian countries increased from \$950,000 to \$4.13 million, as depicted in table 1. Overall, this is a net decrease in training course funding for Southeast Asia. A decline in IMET funds means fewer Southeast Asian servicemembers will attend resident Professional Military Education courses in the United States, from Initial Entry Training to Senior Service Colleges. The courses funded by MSI are

⁵² Harry B. Harris, “Statement of U.S. Navy Commander, U.S. Pacific Command Before the Senate Armed Services Committee on U.S. Pacific Command Posture” (US Capitol, Washington, DC, April 27, 2017), 3.

⁵³ Harry B. Harris. “Statement of U.S. Navy Commander, U.S. Pacific Command Before the Senate Armed Services Committee on U.S. Pacific Command Posture” (US Capitol, Washington, DC, February 14, 2018), 51.

⁵⁴ Philip S. Davidson, “Statement of U.S. Navy Commander, U.S. Indo-Pacific Command Before the Senate Armed Services Committee on U.S. Indo-Pacific Command Posture” (US Capitol, Washington, DC, February 12, 2019), 26.

⁵⁵ US Department of Defense. Joint Staff, *Foreign Military Training Report Fiscal Years 2017 and 2018: Joint Report to Congress Volume 1* (Washington, DC: Government Printing Office, 2017), Section 3-3, 1-9.

specific to the maritime domain and shorter in duration. Additionally, most courses are tailored for international students.

Table 1: FY 2018 Southeast Asia Maritime Security Initiative (MSI) Training Courses			
Total MSI Funding in FY 2018 = \$99.6 million			
Country	Individual Students	Course Count	Dollar Value
Indonesia	31	11	\$843,073
Malaysia	29	12	\$897,979
Philippines	39	19	\$1,038,885
Thailand	24	9	\$633,703
Vietnam	26	11	\$722,498
Total	149	62	\$4,136,138
FY 2018 Proportion of MSI Dedicated to Training Courses			4.15%

Source: US Department of State, *Foreign Military Training Report Fiscal Years 2017 and 2018: Joint Report to Congress Volume 1* (Washington, DC: Government Printing Office, 2017), accessed 25 January 2019, <https://www.state.gov/documents/organization/284930.pdf>.

The funding spent on training courses in 2018 only accounted for 4.15 percent of MSI’s budget. A vast majority of MSI funds are spent on new equipment. In 2018, the Indonesian Navy utilized MSI funds and purchased four Boeing Insitu Scan Eagle unmanned aerial systems, which can be launched and recovered at sea.⁵⁶ The initial cost of this program is between \$3.5–\$5 million.⁵⁷ A continuous problem for SA/SC programs is a partner nation’s ability to maintain equipment programs once American funding ceases. While the Insitu Scan Eagle slightly increases the intelligence capabilities of the Indonesian Navy, the TNI’s ability to sustain the program without US funding is uncertain.

The small amount of visible benefits from MSI during its first three years causes concern into whether material investments will dramatically increase security and improve the “connective tissue” among Southeast Asian allies. The increase in MSI funding is a positive

⁵⁶ Ridzwan Rahmat, “Indonesian Navy to Establish New Unmanned Aviation Squadron,” *Jane’s* 360, July 12, 2018, accessed January 5, 2019, <https://www.janes.com/article/81719/indonesian-navy-to-establish-new-unmanned-aviation-squadron>.

⁵⁷ Mark Huber, “Scan Eagle UAS Offers New Capabilities,” *AIN Online*, February 3, 2018, accessed January 5, 2019, <https://www.ainonline.com/aviation-news/defense/2018-02-03/scaneagle-uas-offers-new-capabilities>.

supplement to FMF, but it only averages to \$17 million per country, per year. The purchase and maintenance of technical equipment will quickly deplete these funds, which runs counter to MSI's original purpose. DoD has not publicly defined how MSI will increase intelligence sharing and provide a shared common operating picture of the South China Sea. Without a publicized plan spanning multiple presidential administrations, it appears the United States believes it can build enough partner capacity through American taxpayer funding, reach a "tipping point," and maintain stability in Southeast Asia.⁵⁸ What goes unstated by MSI is the importance of building a cohesive ideology within the TNI to counter narratives threatening Indonesia's political legitimacy, including the prevention of future human rights abuses. This outcome is not guaranteed, as shown by TNI's complex history and their actions which run counter to American values.

If MSI is successful, Indonesia will increase multilateral engagement through military exercises with other recipient nations. Even though the United States is providing the material funding, there is no guarantee MSI will increase the collective capacity of partner nations in Southeast Asia. Furthermore, it is unlikely current SA/SC and supplemental funding through MSI will result in any Southeast Asian nation to permanently shift allegiances in the Sino-American competition. Without a modification to the United States' current strategy, hedging is likely to continue in Indonesia and throughout Southeast Asia.

Chinese Actions Within Indonesia

Similar to the United States' history with Jakarta, the Sino-Indonesian relationship is complex with a series of ebbs and flows. Indonesian leaders blamed China for supporting Sukarno's repressive pro-communist regime. In 1965, the Indonesian military, led by then-

⁵⁸ Michael Schurkin, "Improving the US Security Assistance Model," *The Rand Blog*, November 18, 2015, accessed January 10, 2019, <https://www.rand.org/blog/2015/11/improving-the-us-security-assistance-model.html>.

General Suharto, initiated an anti-communist campaign. This campaign specifically targeted ethnic Chinese Indonesians through harassment, robbery, and even murder. By 1967, over 500,000 ethnic Chinese emigrated from Indonesia due to the deteriorating domestic situation.⁵⁹ Consequently, China suspended diplomatic relations with Indonesia for twenty-two years.⁶⁰

Indonesia agreed to unfreeze diplomatic relations with China in 1999 for three reasons. First, Indonesian foreign policy in the 1980s holistically changed. Instead of perceiving external threats and responding through violence, Indonesian political leadership focused on identifying and improving internal weaknesses.⁶¹ Second, Indonesia feared normalized relations between Japan and the Soviet Union would provide Japan more influence within Southeast Asia and indirectly decrease the legitimacy of ASEAN.⁶² Third, Indonesian political leadership sought improved relations with Beijing to extract economic and political benefits.⁶³ All three of these factors influenced Indonesia's growing reliance on China towards the end of the 20th century.

The 1997 Asian financial crisis significantly harmed Indonesia's economy and created a dependence on Chinese economic assistance. The primary causes of the financial crisis within Indonesia were a combination of crony capitalism within the Suharto regime, high private sector debt, and currency devaluation. By the end of 1998, Indonesia underwent political and economic transformations. These transformations set the conditions for Indonesian reliance on Chinese financing in the 21st century and the continuation of hedging.

⁵⁹ Taomo Zhou, "Ambivalent Alliance: Chinese Policy Towards Indonesia, 1960-1965," *Cold War International History Project*, no. 2 (2013): 2, accessed January 15, 2019, https://www.wilsoncenter.org/sites/default/files/CWIHP_Working_Paper_67_Chinese_Policy_towards_Indonesia_1960-1965.pdf.

⁶⁰ Ibid.

⁶¹ Dewi Fortuna Anwar, "Indonesia's Relations with China and Japan: Images, Perception and Realities," *Contemporary Southeast Asia* 12, no. 3 (1990): 239, accessed January 15, 2019, <http://www.jstor.org/stable/42707626>.

⁶² Ibid., 243.

⁶³ Ibid.

Before the financial crisis, the Indonesian economy centered around one figure: President Suharto, who served as Indonesia's authoritarian president from 1968–1998. The unrestrained executive power of Suharto and lack of institutional controls caused instability among monetary and fiscal policies. Large Indonesian oil exports in the 1970s supported economic growth and FDI.⁶⁴ Suharto's family members and political allies also benefited from the centralized economy. It is estimated in 1998 Suharto's six children had financial stakes in over 550 businesses, totaling more than \$73 billion.⁶⁵

The seeds of the financial crisis in Indonesia were planted in the 1980s. Financial and government reforms in the late-1980s incentivized private sector companies to operate with substantial levels of debt.⁶⁶ Between 1988 to 1997, private sector debt in Indonesia increased six-fold, while public sector debt only increased by 35 percent.⁶⁷ Ninety percent of the private sector debt was in non-banking industries, financing individual consumption and property speculation, which did not produce long-term economic returns.⁶⁸ Indonesia's banking system had few regulations and encouraged the high debt to equity ratios of private companies. Government tax and regulatory policies increased the leveraged positions of the private sector, much of it short-term foreign debt.

⁶⁴ David C. Kang, "Transaction Costs and Crony Capitalism in East Asia," *Comparative Politics* 35, no. 4 (July): 451, accessed March 3, 2019, <http://dx.doi.org/10.2307/4150189>.

⁶⁵ Dwight Y. King, "Corruption in Indonesia: A Curable Cancer?," *Journal of International Affairs* 53, no. 2 (Spring 2000): 612, accessed January 15, 2019, <http://www.jstor.org/stable/24357767>.

⁶⁶ Anwar Nasution, "The Meltdown of the Indonesian Economy: Causes, Responses and Lessons." *ASEAN Economic Bulletin* 17, no. 2 (August 2000): 150, accessed January 15, 2019, <http://www.jstor.org/stable/25773625>.

⁶⁷ Ibid.

⁶⁸ R. Ramil and P. Nuryadin, "Ten Years After: Impact of Monetarist and Neoliberal Solutions in Indonesia," *Economic and Political Weekly* 42, no.50 (December 2007): 80, accessed January 10, 2019, https://www.jstor.org/stable/40277055?seq=1#metadata_info_tab_contents.

The sizable levels of foreign debt led to increased foreign currency speculation, placing pressure on the economies of Southeast Asia. The financial crisis in Southeast Asia began in Thailand after the baht lost 20 percent of its value in July 1997. Foreign currency speculation prompted Suharto's Western-educated monetary advisers, known as the "Berkley Mafia," to recommend *floating* the rupiah. This meant the rupiah's value was no longer tied to another currency, specifically the US dollar. Within two months, the rupiah lost 30 percent of its value.⁶⁹ In addition to the currency devaluation, Indonesian private sector companies simultaneously suffered increased interest rates on existing foreign debt and the withdrawal of foreign capital.⁷⁰ The financial crisis within Thailand and Indonesia became a "contagion", infected the rest of Southeast Asia, and later spread to Russia and Brazil.

Suharto initially relied on international institutions to resolve Indonesia's financial crisis. After the rupiah lost its value, the Indonesian government was unable to pay its short-term debt, estimated at \$33 billion.⁷¹ Suharto sought intervention from the World Bank and the International Monetary Fund (IMF). The IMF provided Indonesia a \$10 billion loan package to stabilize the rupiah's value.⁷² Along with the loan package, the IMF pressured Suharto to enact fiscal and monetary reforms, such as the liquidation of sixteen troubled Indonesian banks.⁷³ This action created a sequence of unintended consequences: a bank run on Indonesia's remaining financial institutions, which caused the rupiah's value to fall lower than before the IMF's intervention.⁷⁴

⁶⁹ "The Crash: Timeline of the Panic," Frontline, accessed January 10, 2019, <https://www.pbs.org/wgbh/pages/frontline/shows/crash/etc/cron.html>.

⁷⁰ Ramil and Nuryadin, "Ten Years After," 83.

⁷¹ "Indonesia: Memorandum of Economic and Financial Policies," International Monetary Fund, October 31, 1997, accessed January 10, 2019, <https://www.imf.org/external/np/loi/103197.htm#memo>.

⁷² Dick K. Nanto, "CRS Report: The 1997–98 Asian Financial Crisis," Federation of American Sciences, February 6, 1998, accessed January 10, 2019, <https://fas.org/sgp/crs/row/crs-asia2.htm>.

⁷³ Frontline, "The Crash".

⁷⁴ Ramil and Nuryadin, "Ten Years After," 84.

The deteriorating economic situation in Indonesia provided an opportunity for China to assist Indonesia and gain influence and access across Southeast Asia. Even though the two countries did not have diplomatic relations, China provided Indonesia loans of \$1 billion in 1997 and \$3 billion more in 1998. Similar to the financial packages from the IMF, this aid intended to stabilize the value of the rupiah. Unlike the IMF package, China did not attach political or economic reform contingencies with the money. China, alone, did not solve Indonesia's economic woes, but its act of goodwill towards Indonesia and smaller Asian nations were the catalyst for future economic interventions in the twenty-first century.

The Asian Infrastructure Investment Bank (AIIB) indirectly supplements the MSRI and increases Chinese economic influence worldwide. The AIIB was established in 2016 with the goal of fostering sustainable economic growth while working alongside previously established international institutions.⁷⁵ The AIIB's power quickly expanded beyond Asia. Within three years of its formation, 70-member nations joined, including most of Western Europe, Canada, and Australia.⁷⁶ As depicted in figure 2, there are over twenty "prospective nations" who previously applied, but have not met AIIB's membership requirements. Member nations contribute money to the AIIB through grants or loans and receive proportional voting powers. While China claims it does not intend to discredit international economic institutions, Chinese discontent at the current international economic order led to the AIIB's creation.

Since China joined the World Bank in 1980, it has grown increasingly frustrated with its power structure, dominated by the United States. The International Bank for Reconstruction and Development (IBRD), part of the World Bank, has a global mission similar to AIIB's regional

⁷⁵ "Asian Infrastructure Investment Bank Articles of Agreement," Asian Infrastructure Investment Bank, 2015, accessed January 11, 2019, https://www.aiib.org/en/news-events/news/2015/_download/20150629094900288.pdf.

⁷⁶ Ibid.

focus and provides loans and grants to middle-income and low-income countries.⁷⁷ Like the AIIB, the IBRD initially based voting power on a country's capital contribution. Once China emerged as a growing economic power, it did not receive commensurate voting power. In 2008, five nations held forty percent of the IBRD's voting powers: United States, Great Britain, France, Germany, and Japan.⁷⁸ Additionally, the US President by “gentleman’s agreement” maintains executive authority in choosing the World Bank’s president.⁷⁹



Figure 2. Asian Infrastructure Investment Bank Membership as of March 2019
 Source: Asian Infrastructure Investment Bank Informational Presentation, January 2018, accessed 25 January 2019, https://www.aiib.org/en/about-aiib/basic-documents/_download/AIIB_IR-Presentation.pdf.

The World Bank instituted reforms in 2010 to decrease voting power disparity between the current top five countries and some countries with emerging economies, such as China. This

⁷⁷ “International Bank for Reconstruction and Development,” World Bank Group, accessed January 11, 2019, <https://www.worldbank.org/en/who-we-are/ibrd>.

⁷⁸ Chris Simms, “Good governance at the World Bank,” *The Lancet* 371, no. 9608 (January): 202-3, accessed January 9, 2019, [http://dx.doi.org/10.1016/s0140-6736\(08\)60128-2](http://dx.doi.org/10.1016/s0140-6736(08)60128-2).

⁷⁹ Catherine Weaver, “The World's Bank and the Bank's World,” *Global Governance* 13, no. 4 (October 2007): 499.

shift resulted in emerging economies receiving a collective 3.13 percent increase in overall voting shares.⁸⁰ The increase in voting shares was spread across the top five emerging countries. China received over half of this transfer and currently has 4.4 percent of total voting power in the IBRD, the third-highest.⁸¹ While this voting share reform appears positive, it did not placate Chinese desires. The United States (15.98 percent) and Japan (6.89 percent), China's top global and regional competitors, maintain a significant advantage in voting power.⁸² From a Chinese perspective, the World Bank lacks the transparency, good governance and anti-corruption practices it intends to prevent. China's inability to gain significant influence within the World Bank was a primary factor in their decision to create the AIIB.⁸³

In its first three years, the AIIB's monetary support towards Indonesia was significant and nearly matched the backing from the World Bank's IBRD. In 2018, the IBRD contributed \$1.4 billion to Indonesia across six projects.⁸⁴ Two of these projects were not directly linked to infrastructure development. One focused on childhood nutrition intervention, while the other invested in health care reform. In total, the IBRD invested \$850 million in projects directly benefitting Indonesian infrastructure.⁸⁵

⁸⁰ Amy Horton, "Analysis of World Bank Voting Reforms," Bretton Woods Project, April, 2010, accessed January 23, 2019, <https://www.brettonwoodsproject.org/doc/wbimfgov/wbgovreforms2010.pdf>.

⁸¹ Ibid.

⁸² World Bank Group, *International Bank for Reconstruction and Development Subscriptions and Voting Power of Member Countries* (The World Bank, 2019), accessed February 28, 2019, <http://pubdocs.worldbank.org/en/795101541106471736/IBRDCountryVotingTable.pdf>.

⁸³ Amitai Etzioni, "The Asian Infrastructure Investment Bank: A Case Study of Multifaceted Containment," *Asian Perspective* 40, no. 2: 179, accessed January 20, 2019, <http://dx.doi.org/10.1353/apr.2016.0008>.

⁸⁴ "Projects and Operations," World Bank, accessed January 7, 2019, http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=ID.

⁸⁵ Ibid.

Growing financial parity between the AIIB and IBRD provided China an opportunity to increase its economic influence within Indonesia further. In 2016, the AIIB and IBRD signed a co-financing agreement, allowing financial collaboration on infrastructure projects within Asia.⁸⁶ Indonesia and the Jokowi administration directly benefit from this agreement. One example of this partnership is Indonesia's Strategic Irrigation Modernization and Urgent Rehabilitation Project, signed in 2018. This project intends to provide reliable, climate-resistant water supply across 386 square miles of the Jalituhur Irrigation System on West Java. 887,000 Indonesian households are estimated to benefit from this project.⁸⁷ The AIIB and IBRD co-financed this project, each contributing \$250 million.⁸⁸

Co-financing activities between AIIB and IBRD appear beneficial, initially. No single organization has the means to fund Jokowi's massive infrastructure campaign.⁸⁹ On the surface, this collaboration fulfills an international financial need. There is concern within the US government the Chinese-led collaboration may heighten current diplomatic and security concerns in Southeast Asia. China controls 28.8 percent of the voting power within the AIIB.⁹⁰ The large voting share means China has veto power when a 75 percent supermajority vote is required.

⁸⁶ *Co-Financing Framework Agreement Between Asian Infrastructure Investment Bank and International Bank for Reconstruction and Development and International Development Association* (The World Bank Group, 2016), 2, accessed March 19, 2019, <http://pubdocs.worldbank.org/en/522801471875210501/AIIB.pdf>.

⁸⁷ "AIIB Approves \$250 Million to Modernize, Rehabilitate Irrigation in Indonesia," *Development Aid*, July 3, 2018, accessed January 20, 2019, <https://www.developmentaid.org/#!/news-stream/post/25661/aiib-approves-250m-to-modernize-rehabilitate-irrigation-in-indonesia>.

⁸⁸ *Ibid.*

⁸⁹ Wataru Suzuki, "Indonesia Lives Dangerously with a \$355 Billion Infrastructure Drive," *Nikkei Asian Review*, November 23, 2017, accessed January 15, 2019, <https://asia.nikkei.com/Economy/Indonesia-lives-dangerously-with-a-355bn-infrastructure-drive>.

⁹⁰ Asian Infrastructure Investment Bank, 2016, *Asian Infrastructure Investment Bank Subscriptions and Voting Power of Member Countries* (2016), accessed January 20, 2019, https://www.aiib.org/en/about-aiib/who-we-are/membership-status/.content/index/_download/20160930035841674.pdf.

Examples of supermajority decisions include choosing the AIIB's president and amendments to the AIIB's bylaws, known as the Articles of Agreement.⁹¹ This provides China strategic influence it does not have in the World Bank and other international institutions.

The AIIB, along with traditional Chinese FDI gives China power once a country cannot repay its loans. The 2019 US Africa Command and USINDOPACOM posture statements highlight how China increases its regional power through "debt trap diplomacy," which threatens the sovereignty of individual countries.⁹² Many of China's FDI loans are structured so if they are unpaid, China gains equity in the infrastructure projects they funded. China not only increases financial equity from country's defaulting on its infrastructure loans. Physical ownership in specific international infrastructure provides China a geostrategic advantage.

One example of "debt trap diplomacy" creating geostrategic consequences is Sri Lanka's southern port in the city of Hambantota. This port is geostrategically important due to its location between the Malacca Straits and the Suez Canal. In 2007, China financed construction of the port after Japan, India, and the World Bank denied financing due to concerns regarding human rights and the economic viability of the project.⁹³ The port struggled to generate revenue after its opening in 2010, which caused Sri Lanka to seek additional Chinese financing to build neighboring infrastructure, such as an airport. By 2017, Sri Lanka owed \$8 billion to China. Instead of making debt payments, Sri Lanka provided Chinese state-owned firms 85 percent equity in the port and a 99-year lease to operate it.⁹⁴

⁹¹ Asian Infrastructure Investment Bank, *Overview of AIIB* (Asian Infrastructure Investment Bank, 2018), 24, accessed March 19, 2019, https://www.aiib.org/en/about-aiib/basic-documents/_download/AIIB_IR-Presentation.pdf.

⁹² Thomas D. Waldhauser, "Statement of U.S. Marine Corps Commander, U.S. Africa Command Before the Senate Armed Services Committee" (US Capitol, Washington, DC, February 7, 2019), 8.

⁹³ Sam Parker and Gabrielle Chefetz, "Debtbook Diplomacy: China's Strategic Leveraging of Its Newfound Economic Influence and the Consequences for U.S. Foreign Policy," *Belfer Center for Science and International Affairs* (May 2018): 3, accessed January 17, 2019, <https://www.belfercenter.org/sites/default/files/files/publication/Debtbook%20Diplomacy%20PDF.pdf>.

⁹⁴ Ibid.

Indonesia's debt to China is not at the crisis level of Sri Lanka, though there are doubts about its long-term outlook. This unease is caused by the growing Chinese proportion of Indonesian debt. China is on pace to replace Japan as Indonesia's second-largest lender, behind Singapore in 2019.⁹⁵ Indonesia's greatest short-term risk to its economy is the same variable which led to the 1997 crisis: foreign currency speculation. Due to Indonesia's growing reliance on external debt, foreign investors hold 40 percent of Indonesia's currency bonds.⁹⁶ In the event of a small economic downturn, foreign investors can amplify the effects by selling off the rupiah, further decreasing its value. Economic volatility and concerns over China's actual military intentions will persist in Indonesia after the April 2019 presidential elections.

Power Transition, Selectorate, and Realist Alliance Theories

Analyzing theories from political science provides structure to seemingly disparate and unpredictable events within Indonesia and Southeast Asia. Power transition, selectorate, and realist alliance theories each view Indonesia's situation in a different context. Analyzing power transition theory focuses on the growing competition between China and the United States. Selectorate theory offers understanding into the domestic politics and incentives of Indonesian leadership. Realist alliance theory provides a perspective on the various reasons why Indonesia instituted a hedging strategy between China and the United States. Collectively, the theories provide the theoretical frameworks for small states and further explain the relationships between Indonesia, the United States, and China.

Political scientist Kenneth Organski developed the power transition theory. This theory posits peace is preserved from a sustained imbalance of political, economic, and military

⁹⁵ "Southeast Asia's Foreign Debt Spirals," *Nikkei Asian Review*, July 16, 2018, accessed January 18, 2019, <https://asia.nikkei.com/Editor-s-Picks/FT-Confidential-Research/Southeast-Asia-s-foreign-debt-spirals>.

⁹⁶ Ben Otto and I Made Sentana, "Indonesia Market Selloff Shows Perils of Relying On Foreign Funding," *Wall Street Journal*, May 7, 2018, accessed March 21, 2019, <https://www.wsj.com/articles/indonesia-market-selloff-shows-perils-of-relying-on-foreign-funding-1525686062>.

capabilities between contenders and the current dominant nation.⁹⁷ This theory assumes a pyramid structure of the world's nations, with the most influential at the top. After the Cold War, Organski positioned the United States at the apex, the only dominant nation. Beneath the United States are "great powers."⁹⁸ For this monograph, China is classified as "great power" and threatens to displace the United States within the Indo-Pacific, aligning with the 2018 National Defense Strategy.⁹⁹ Organski argues dissatisfaction from emerging "great powers" arises because their influence increased after the establishment of the current international order, which does not recognize their new status nor is it organized to benefit them materially. China, for example, developed its current power and influence through economic and social developments after the United States emerged as the only dominant nation in the post-Cold War world.¹⁰⁰ China's creation of alternative banks is evidence of its dissatisfaction with the current order.

Two driving factors allow an emerging "great power" the ability to compete with a dominant nation and modify the existing international order. The first factor is the "[extraction and aggregation] of human and material resources into pools available for the national purpose."¹⁰¹ In China, this required a three-decade effort after the Second World War, focusing on political mobilization and the spread of the communist ideology throughout Southeast Asia. The Chinese government did not focus on economic reforms, such as the limiting state

⁹⁷ Abramo F. K. Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980), 37.

⁹⁸ Ibid.

⁹⁹ James N. Mattis, *Summary of the 2018 National Defense Strategy (NDS) of the United States of America* (Washington, DC: Government Printing Office, 2018), 2.

¹⁰⁰ George Friedman, "Beyond the Post-Cold War World," Stratfor, April 2, 2013, accessed October 10, 2018, <https://worldview.stratfor.com/article/beyond-post-cold-war-world>.

¹⁰¹ Organski and Kugler, *The War Ledger*, 20.

intervention in agriculture, until 1978.¹⁰² Organski argues China's rise in power after World War II contrasts with the historical growth of Western European nations in the 19th century. While Western European nations hinged their rise in power on the increase in economic productivity, China focused its post-WWII efforts until 1978 on political mobilization efforts and the spread of communist ideology. Spreading the communist ideology throughout Southeast Asia before instituting economic and financial reforms was an effective strategy. Countries such as North Korea and Vietnam benefitted from Chinese political and military support as they countered US military intervention. This fostered a strong communist following throughout Southeast Asia and provided China a power base greater than all other second-ranked nations before it began its economic modernization efforts in 1978.¹⁰³

Once China mobilized human capital and support through the spread of communism, it focused on the second factor in competing against the United States: increasing economic productivity. Gaining international support and legitimacy allowed China to receive foreign direct investment, starting in 1979.¹⁰⁴ This is a contributing factor to the ten percent average annual GDP growth China experienced from 1979 to 2010.¹⁰⁵ As explained by the power transition theory, China's economic rise led to the current conflict between China and the United States.

¹⁰² Loren Brandt, Debin Ma, and Thomas G. Rawski, "From Divergence to Convergence: Reevaluating the History Behind China's Economic Boom," *Journal of Economic Literature* 52, no. 1 (2014): doi:10.1257/jel.52.1.45, 75.

¹⁰³ David Lai, "The Power Transition Theory," in *The United States and China in Power Transition* (Carlisle, PA: Strategic Studies Institute, 2011), 16, accessed February 15, 2019, <https://apps.dtic.mil/dtic/tr/fulltext/u2/a555133.pdf>.

¹⁰⁴ Shang-Jin Wei, "Foreign Direct Investment in China: Sources and Consequences," *Financial Deregulation and Integration in East Asia*, January 1996: 78, accessed February 15, 2019, <https://www.nber.org/chapters/c8559.pdf>.

¹⁰⁵ "China GDP Growth (Annual %)," World Bank, accessed February 14, 2019, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?contextual=aggregate&end=2017&locations=CN&start=2017&view=bar>.

Chinese expansion in power and influence may lead their political leaders to believe they can rival the United States and disrupt the current international order.¹⁰⁶

Power transition theory is a useful framework because it predicts when a rising nation will challenge the existing hegemonic order. The United States used its power as the sole hegemon to *transform* its favorable position and create a more durable international order.¹⁰⁷ The post-Cold War international order was Europe-focused and included a reunified Germany joining NATO.¹⁰⁸ Based on neorealism, the United States' hegemonic order is maintained through coercion.¹⁰⁹ In such a situation, China would maintain its position in the existing international order until the benefits of challenging the United States outweighed the costs.¹¹⁰

Organski's power transition theory explains Indonesian incentives in partnering with China. As a rational actor, the United States has an incentive to only provide enough monetary and other benefits to lesser nations to maintain its standing as the global leader and prevent conflict.¹¹¹ While the United States has considerable economic resources, they are finite, and its commitments lie on a worldwide scale, outpacing any other nation. China's narrowed regional focus through the MSRI resulted in large increases of FDI to Southeast Asia. In 2017, China jumped to the third largest source of FDI to Indonesia, behind Singapore and Japan and contributed \$1.4 billion more than the United States.¹¹² A majority of this FDI went towards

¹⁰⁶ Organski and Kugler, *The War Ledger*, 36.

¹⁰⁷ G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars* (Princeton, NJ: Princeton University Press, 2001), 4.

¹⁰⁸ *Ibid.*, 5.

¹⁰⁹ *Ibid.*, 12.

¹¹⁰ *Ibid.*, 47

¹¹¹ Organski and Kugler, *The War Ledger*, 36.

¹¹² Indonesia Investment Coordinating Board, *Domestic and Foreign Direct Investment Realization*, 19-20.

infrastructure development, such as mining, utility development, chemical and, pharmaceutical industries.¹¹³

The second framework, selectorate theory, analyzes the decision making of state leadership. Although selectorate theory applies to all states; specifically, it explains why Jokowi is accepting Chinese FDI. Originally termed by Bueno de Mesquita, selectorate theory operates under the assumption every rational leader has a goal to remain in power. Three distinct population groups affect a leader: the nominal selectorate, the real selectorate, and the winning coalition.¹¹⁴ The nominal selectorate is the number of people who directly influence the selection of a leader. The real selectorate are those who voted for the winning leader. The winning coalition is a subset of the real selectorate and consists of those whose support translated into victory for a leader.

Once a leader achieves a position of power, actions must be taken to maintain it. The leader must conserve the winning coalition or new members must replace those who leave. Leaders in this position have two options to placate current members and recruit new ones: private goods and public goods. Private goods are enjoyed by a specific individual, at the exclusion of others. Examples of this include cash benefits, tax reductions, and even legal pardons. A leader can give out larger private goods, the smaller the winning coalition.

Conversely, public goods are indivisible, and a leader cannot prevent a specific segment of the population from enjoying its benefits.¹¹⁵ Examples of public goods include clean air, transportation infrastructure, and national defense.¹¹⁶ A leader has an incentive to focus on

¹¹³ Ibid.

¹¹⁴ Bueno de Mesquita, *The Dictator's Handbook: Why Bad Behavior Is Almost Always Good Politics* (New York: PublicAffairs, 2011), 4.

¹¹⁵ Ryan Kennedy, "Survival and Accountability: An Analysis of the Empirical Support for 'Selectorate Theory,'" *International Studies Quarterly* 53, no. 5 (September 2009): 698, accessed February 8, 2019, <https://www.jstor.org/stable/27735117>.

improving public goods with a larger winning coalition. Applying Chinese FDI to support domestic infrastructure projects provides a visible benefit to Indonesia's citizenry. An infrastructure-based campaign allowed Jokowi to maintain power in 2014 and hopefully maintain the presidency for his political party, the Indonesian Democratic Party of Struggle, in 2019.

The July 2014 Indonesian presidential election offers a recent example to extrapolate the effects of the selectorate theory on domestic policies. Indonesia is an interesting case study because of the relative youth of its democracy. Jokowi's 2014 victory was only the third democratic presidential election since the fall of Suharto's 30-year authoritarian regime. Determining the nominal selectorate, real selectorate, and winning coalition define the population subset Jokowi must appease with his policies. Indonesia had a nominal selectorate of 186 million eligible voters in 2014, out of a total population of 255 million.¹¹⁷ Of the eligible voters, 139 million people voted, a 70.9 percent voter turnout rate (for comparison, the United States' voter turnout was 55 percent in 2016)¹¹⁸ Jokowi secured a narrow victory over his sole competitor in 2014 by receiving 53.15 percent of the nominal selectorate. Jokowi's winning coalition consisted of 72.06 million people, slightly over 28 percent of the total population.

Four months after his victory in 2014, Jokowi attempted to support his winning coalition through public goods. At the November 2014 Asia-Pacific Cooperation Summit in Beijing, Jokowi addressed the leaders of twenty-one member nations. The Jakarta Globe newspaper

¹¹⁶ Mark Walker, "Public Goods Examples," University of Arizona, November 24, 2014, accessed February 15, 2019, http://www.u.arizona.edu/~mwalker/11_PublicGoods/Public%20Goods%20Examples.pdf.

¹¹⁷ "Final Results of the 2014 Presidential Election in Indonesia Announced," International Foundation for Electoral Systems, July 22, 2014, accessed February 17, 2019, <https://www.ifes.org/news/final-results-2014-presidential-election-indonesia-announced>.

¹¹⁸ Sandra Hamid, "Jokowi's Party Takes Lead in Indonesia's Elections, but Steep Road Ahead," The Asia Foundation, April 9, 2014, accessed February 17, 2019. <https://asiafoundation.org/2014/04/09/jokowis-party-takes-lead-in-indonesias-elections-but-steep-road-ahead/>.

unofficially titled his speech "we are waiting for you to invest in Indonesia."¹¹⁹ Jokowi bluntly described Indonesia's infrastructure concerns and the opportunities for foreign direct investment. He focused his effort on Indonesia's fisheries, rail infrastructure, and most importantly, electrical infrastructure.

We need power plants. We need around 35,000 megavolts to build our industries, to build our projects, to build our industrial zones, our manufacturing zones. So, we need power plants. This is also your opportunity to invest in this project.¹²⁰

To entice foreign direct investment, Jokowi stated how Indonesia streamlined its government permit practices. A foreign nation could enter Indonesia and receive a business permit within three days. This further improved in 2018, allowing foreign businesses to submit their application online and receive approval within an hour.¹²¹ Even with these actions, Indonesia has more significant economic barriers to entry, compared to its Southeast Asia neighbors. Based on the World Bank's 2018 "Ease of Doing Business Index," Indonesia ranked 73rd globally, while Singapore, Malaysia, and Thailand are ranked second, 15th, and 27th, respectively.¹²²

The two previous theories, power transition and selectorate, contrast in their scope. Power transition theory is focused on relations between nation-states while selectorate theory is focused on specific national leaders maintaining power. The third theoretical framework, realist alliance theory, blends elements of power transition and selectorate theory. It details the incentives of smaller countries to ally with the world's more influential nations. An understanding

¹¹⁹ "Full Speech: Jokowi at APEC CEO Summit 2014," *Rappler*, November 10, 2014, accessed February 15, 2019, <https://www.rappler.com/world/regions/asia-pacific/indonesia/74620-full-speech-joko-widodo-apec-summit-beijing>.

¹²⁰ *Ibid.*

¹²¹ Erwida Maulia, "Indonesia Starts Online Business Registration with One-Hour Permit," *Nikkei Asian Review*, July 9, 2018, accessed March 1, 2019, <https://asia.nikkei.com/Economy/Indonesia-starts-online-business-registration-with-one-hour-permit>.

¹²² World Bank Group, "Rankings and Ease of Doing Business Score," *Doing Business, Measuring Business Regulations*, accessed December 2, 2018, <http://www.doingbusiness.org/en/rankings>.

of realist alliance theory provides some insights into why Indonesia adopted a hedging strategy between the United States and China.

Realist alliance theory developed from the perspective the world is anarchic. In Indonesia's case, this anarchy results from their inability to define a regional leader in Southeast Asia between the United States and China. International affairs expert Stephen Walt argues states form alliances to respond to international security threats.¹²³ Entering into an alliance forces a binary decision: *balance* (ally in opposition to the principal source of danger) or *bandwagon* (ally with the state posing the primary threat). If Indonesia views Chinese maritime influence in the South China Sea as its greatest threat, a *balancing* strategy will lead Indonesia to form an alliance with the United States and increase military security cooperation. Conversely, a *bandwagon* strategy would result in Indonesia allying with China. Allying with China through *bandwagoning* may prevent a future attack and possibly allow Indonesia to share in Chinese spoils if their power throughout Southeast Asia surpasses the United States.¹²⁴

Realist alliance theory does have some limitations in explaining Indonesia's actions. A complete alliance with either the United States or China, whether through *balancing* or *bandwagoning*, places Indonesia in a vulnerable position. Beyond the fears of choosing the nation which loses in international competition, allying solely with a larger nation can undermine Jokowi's domestic legitimacy. As a result, Indonesia is utilizing a strategy of hedging through multilateral engagement. The United States provides military assistance, while China supports economic programs and increases Indonesia's diplomatic legitimacy as a leader within ASEAN.

¹²³ Stephen M. Walt, "Alliance Formation and the Balance of World Power," *International Security* 9, no. 4: 28, accessed December 15, 2018, <http://dx.doi.org/10.2307/2538540>.

¹²⁴ *Ibid.*, 7.

This multilateral engagement includes forming alliances with other small states in Southeast Asia to ensure no single power dominates the region.¹²⁵

Analysis of power transition, selectorate and realist alliance theories provide a holistic understanding of variables influencing the relationships between the United States, Indonesia, and China. Power transition theory explains China's growing hostility towards US interventions in Southeast Asia. Selectorate theory describes Indonesia's increasing reliance on Chinese FDI. Realist alliance theory depicts the conditions necessary for Indonesia to fully ally with either the United States or China. Combining these frameworks with Chinese economic interventions enables a predicted efficacy level of the United States' SA/SC strategy in Indonesia.

Estimated ROI of Current Security Assistance and Security Cooperation in Indonesia

As stated previously in Admiral Harris' 2016 posture statement, the purpose of MSI in Indonesia is threefold: increase the TNI's maritime domain awareness, increase maritime security capacity, and improve maritime security of the Natuna Islands. After balancing these purposes against the expected benefit, relative cost, and associated risk, the projected ROI of MSI is low. Relying primarily on material and technological solutions to increase maritime domain awareness and security capacity decreases the expected benefits of MSI. Prolonged congressional funding of MSI through 2025 suggests Indonesia will receive larger material and technological upgrades. It is unclear if Indonesia will dedicate the requisite funding, and institutional reforms to maintain such programs once American funding ceases. Previous programs have detailed the issues associated with Indonesian partner nation sustainment.

¹²⁵ Amitav Acharya, "Containment, Engagement, or Counter-Dominance? Malaysia's Response to the Rise of Chinese Power," in *Engaging China: The Management of a Rising Power*, ed. Alastair I. Johnson and Robert S. Ross (London: Routledge, 1999), 17.

From 2006–2008, the United States spent \$57 million in FMF to support Indonesia’s establishment of an Integrated Maritime Surveillance System (IMSS).¹²⁶ This cohesive set of ship and shore sensors intended to protect Indonesia’s maritime borders from illegal fishing, piracy, and terrorism. The US government handed the program over to the TNI in 2011, while committing another \$4.6 million annually in sustainment funding through 2014.¹²⁷ After American funding ceased, the effectiveness of the IMSS quickly degraded.

A 2017 DoD Inspector General report highlighted the IMSS as one example of systemic issues regarding partner nation sustainment. The report sent teams to nineteen partner nation countries, one of them Indonesia, who received Title 10, section 1206 funding. This security cooperation funding was appropriated to “enhance partner-nation security-force capabilities,” a goal similar to MSI.¹²⁸ The DoD report highlighted how partner nation sustainment, without US assistance, was the primary issue. Indonesian sustainment issues surrounding the IMSS included access to reliable electrical power, educating enough operators, and the availability and cost of repair parts. Initial plans for the IMSS did not include how Indonesia would financially and institutionally sustain the program without American funding.¹²⁹ The IMSS was set on a path for failure before Indonesia received the equipment.

American focus on material and technological interventions also risks inadvertently provoking a Chinese military response. Combined with bilateral exercises with Indonesia and

¹²⁶ “Fact Sheet: DoD-Funded Integrated Maritime Surveillance System,” US Department of State: US Embassy and Consulates in Indonesia, accessed February 12, 2019, <https://id.usembassy.gov/our-relationship/policy-history/embassy-fact-sheets/fact-sheet-dod-funded-integrated-maritime-surveillance-system>.

¹²⁷ Ibid.

¹²⁸ US Department of Defense, Office of the Inspector General, *Evaluation of Department of Defense Efforts to Build Counterterrorism and Stability Operations Capacity of Foreign Military Forces with Section 1206/2282 Funding* (Washington DC: Government Printing Office, 2017), 2, accessed February 22, 2019, https://media.defense.gov/2017/Oct/16/2001827868/-1/-1/1/DODIG-2017-099_1206_REDACTED.PDF.

¹²⁹ Ibid., 48.

ongoing American freedom of navigation activities, it increases the risk of miscalculation and escalation.¹³⁰ Even if military conflict does not erupt, elements from power transition, selectorate, and realist alliance theories detail a cascading path which may harm the United States' long-term relationship with Indonesia.

SA/SC activities and other US military actions near Indonesia increases Chinese dissatisfaction towards the current international order, as seen in the power transition theory. Such dissatisfaction may embolden China to increase its economic pressure on Indonesia and intensify hedging. China took swift economic action against South Korea after the United States deployed a Terminal High Altitude Area Defense (THAAD) antimissile battery to South Korea in 2017.¹³¹ China's economic response towards South Korea included limiting market access on specific exports, canceling previously signed international business ventures, and increasing cyberattacks on South Korean companies.¹³² The Chinese government is willing to accept slower economic growth in exchange for greater influence on their domestic economy.¹³³

Indonesia's reliance on American military material and technology leaves it vulnerable in the same manner as South Korea. This pressure would likely threaten future Chinese FDI. Dan Blumenthal, from the think tank American Enterprise Institute, testified to the Senate Foreign Relations Committee in 2018. He stated Indonesia, the Philippines, and Vietnam are vulnerable to

¹³⁰ Dale C. Copeland, *The Origins of Major War*, (Ithaca, NY: Cornell University Press, 2001), 35–43.

¹³¹ Ethan Meick and Nargiza Salidjanova, *China's Response to U.S.-South Korean Missile Defense System Deployment and Its Implications* (Washington DC: US–China Economic and Security Review Commission, 2017), 3, accessed March 8, 2019. https://www.uscc.gov/sites/default/files/Research/Report_China%27s%20Response%20to%20THAAD%20Deployment%20and%20its%20Implications.pdf.

¹³² *Ibid.*, 7.

¹³³ Dan Blumenthal, “Statement before the Senate Committee on Foreign Relations Subcommittee on East Asia, the Pacific, and International Cybersecurity Policy On The China Challenge, Part I: Economic Coercion as Statecraft: Economic Coercion as a Tool in China's Grand Strategy,” (US Capitol, Washington, DC, July 24, 2018), 5.

Chinese economic coercion and “susceptible to outright bribery.”¹³⁴ The AIIB is positioned as a conduit for economic coercion. Based on the selectorate theory, a threat to Jokowi’s infrastructure development plans risks his real selectorate, winning coalition, and future as Indonesia’s president. Preventing the progress of Jokowi’s infrastructure development plans is an effective approach to influence Indonesia’s electorate.

Even though it is not currently in Indonesia’s long-term interest, there is a growing probability Indonesia will *bandwagon* in favor of China. Increasing global requirements strain the American hub-and-spoke system, resulting in Indonesia competing for American attention. Professor G. John Ikenberry aptly calls this “imperial overstretch.”¹³⁵ Ikenberry determined two causes leading to a *bandwagon* strategy. First, growing financial and commercial reliance on China will eventually outweigh security concerns.¹³⁶ Second, a “black swan” event, such as a global economic crisis, terrorist attack in the United States, or relapse of Indonesia’s human rights policies may cause a swift change in American foreign policy. This would result in a sudden retraction of American resources from Indonesia, increasing China’s regional power.¹³⁷ Ikenberry’s analysis highlights the risk associated with the United States’ current SA/SC strategy. Events outside the United States’ control can limit sustained funding and support for Indonesia’s military.

Path Forward

A revised American SA/SC strategy, alone, will not entirely halt Indonesian hedging or reliance on Chinese economic incentives. Even though this requires a whole of government

¹³⁴ Ibid., 6.

¹³⁵ G. John Ikenberry, “American Hegemony and East Asian Order,” *Australian Journal of International Affairs* 58, no. 3 (September 2004): 365, accessed March 5, 2019, https://scholar.princeton.edu/sites/default/files/gji3/files/american_hegemony.pdf.

¹³⁶ Ibid.

¹³⁷ Ibid.

approach, SA/SC reforms are necessary. Relying on the status quo will not build sustained capacity within the TNI and place Indonesia under increasing economic pressure from China. To build sustained capacity within the TNI without enflaming geopolitical tensions, the United States must focus on institutional reforms within the Indonesian military. The recommended improvements include programming more MSI funding towards training and education and decreasing the dependence on material and technological solutions. Concurrently, the United States can utilize MSI to build multilateral partnerships and develop interoperability among Southeast Asian militaries.

When asked about bridging capability gaps among Southeast Asian nations at the 2018 Shangri-La Dialogue, former Secretary of Defense Mattis highlighted “education and training as the primary avenues to close those gaps.”¹³⁸ Utilizing MSI funds towards partner nation education and training will provide a greater return on investment, compared to material and technological solutions. As described earlier, just over four percent of MSI funding is dedicated to training courses. With appropriate foresight, these training courses promote multilateral military relationships between MSI recipient nations. Developing these interpersonal relationships between Southeast Asian militaries is more aligned with MSI's original purpose of developing a "principled security network." MSI recipient nations can also maintain these partnerships regardless of the United States' long-term presence in Southeast Asia.

The US Navy's International Maritime Intelligence Course is one example of how MSI funds can build multilateral relationships throughout Southeast Asia. This three-week course was held in San Diego during August 2017. The course trained naval officers in the grades of O-1 to O-3 to provide naval intelligence support in both afloat and ashore environments and promote

¹³⁸ James N. Mattis, “Remarks by Secretary Mattis at Plenary Session of the Shangri-La Dialogue” (Shangri-La Hotel, Singapore, June 2, 2018).

international interoperability.¹³⁹ Each of the five original MSI recipient nations, including Indonesia, sent a minimum of three officers to the course. Indonesia spent \$11,164 in MSI funds for each student. The benefits beyond the technical knowledge were not lost on the students. One Royal Malaysian Navy officer commented how “this course is good for strengthening diplomacy between our nations.”¹⁴⁰

Increasing the throughput of students and a variety of courses funded with MSI will have a lasting impact on partner nation capacity and interoperability within Southeast Asia. The Naval Education and Training Security Assistance Field Activity (NETSAFA), in coordination with security cooperation officers, is the best organization to fulfill the education and training needs. NETSAFA currently offers hundreds of training courses across the entire maritime domain, such as aviation, surface warfare, and submarine. NETSAFA also offers many courses taught in partner nations through mobile training teams.

There are multiple benefits to utilizing mobile training teams. More partner nation students can receive the training if completed in a partner nation country. In 2017, the Philippines and Thailand were the only two nations which received in-country training through MSI, a lost opportunity for the US military.¹⁴¹ Increased throughput from shorter courses also provides DoD a chance to evaluate students for more selective resident courses, such as the Command and General Staff Officer Course. Recent analysis from the Council on Foreign Relations detailed how DoD is not adequately examining students before enrolling them in longer IMET-funded courses.¹⁴² Training courses funded from MSI can provide DoD information on a student’s

¹³⁹ Patrick C. Rumsey, “IWTC San Diego Holds International Maritime Intelligence Course Graduation,” US Department of the Navy, May 18, 2018, accessed February 25, 2019. https://www.navy.mil/submit/display.asp?story_id=105652.

¹⁴⁰ Ibid.

¹⁴¹ US Department of State, *Foreign Military Training Report Fiscal Years 2017 and 2018*: Section 3-3, 1-9.

academic aptitude and other qualitative measures, such as the student's views on human rights. Improved screening procedures would appease congressional and public concerns of abusive officers attending training courses in the United States.¹⁴³ Reforming the institution of the TNI through training will also decrease the risk of immediate halts to American SA/SC, similar to the aftermath of the Dili Massacre.

Conclusion

This monograph determined the United States' current SA/SC activities in Indonesia are insufficient to build capacity within the TNI and prevent hedging. The expected benefits of the current SA/SC strategy do not outweigh the associated costs or risks. The United States must take action and readjust SA/SC activities as part of a whole of government approach to limit Indonesian hedging and counter growing Chinese influence in Southeast Asia. Small but meaningful changes can be implemented very quickly. Such changes include diverting a small percentage of MSI funds to increase multinational training course throughput. Instead of immediate, holistic changes to SA/SC in Indonesia an iterative approach is beneficial. It enables buy-in from all stakeholders within the United States and Indonesian governments and militaries.

As training throughput increases, so does the importance in monitoring its effectiveness. The forthcoming DoD security cooperation evaluation framework is a positive step, but its information must be accessible to military leaders and policymakers. The United States' troubled history in providing IMET to the TNI offers unique challenges in the future. Steps must be taken to ensure TNI members who receive in-country or resident training in the United States embody appropriate values, especially regarding human rights.

¹⁴² Joshua Kurlantzick, "Reforming the US International Military Education and Training Program," Council on Foreign Relations, June 8, 2016, accessed March 8, 2019, <https://www.cfr.org/report/reforming-us-international-military-education-and-training-program>.

¹⁴³ Ibid.

Regardless of the outcome of the upcoming 2019 Indonesian presidential election, Indonesia will likely continue its large infrastructure program, heavily financed by China. Indonesia's increasing reliance on the AIIB and other foreign Chinese financing poses a risk to in the event of a future economic downturn. Increasing the capacity of the TNI today can prevent or limit future Chinese military incursions against Indonesian territory. Developing the institutional capacity of the TNI and increasing its self-sufficiency will decrease China's view of the United States as a coercive hegemon.

Further research is necessary to determine the relationship between revising SA/SC activities and the effect on hedging. The ideas of this research could be applied to other countries across Southeast Asia and throughout the world to establish the effect cross-nationally through regression analysis. Ideally, DoD could predict the expected increase in military capacity based on the amount and mixture of SA/SC provided to a partner nation and examine the extent this influences their decision to balance, bandwagon, or hedge.

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