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Indonesia's Rise & Its Regional Implications

By Emirza Adi Syailendra

Synopsis

Indonesia's projected rise as a medium power may see at least two likely scenarios. The first is one of power diffusion while the second sees Indonesia asserting a greater leadership role in the Asia Pacific. What are the implications for the region?

Commentary

INDONESIA RECOVERED from the detrimental impact of the 1997 Asian financial crisis and came through relatively unscathed from the 2008 global financial turmoil. In fact, the 'Asian Tiger' has emerged much stronger and is currently ranked the 16th largest economy in the world. The McKinsey Global Institute (MGI) forecasts that such promising trends would continue in the future. MGI predicted that by 2030, Indonesia would overtake Germany and the United Kingdom as the world's seventh most powerful economy, trailing behind only China, the United States, India, Japan, Brazil, and Russia.

Sustainable growth pattern

The Global Competitiveness Report in 2010 and the recent MGI report served to confirm Indonesia's potential as an economic power. According to McKinsey, this growth has been due to several changes. Firstly, in addition to Jakarta, growing middle-sized cities such as Medan, Surabaya, and other regional cities will contribute significantly to GDP. Secondly, Indonesia's economic growth is not only driven by its rich natural resources, but also by domestic consumption and services. Thirdly, Indonesia's productivity gains also came primarily from the improvement in various sectors. In this case, Indonesia's economy is now built on a more stable and diversified foundation than many external observers have assumed.

Whether we adopt a favourable or sceptical view of the MGI report, the fact is that Indonesia does have potential capacity. One prominent factor is an expanding productive workforce. According to the Indonesian Central Statistics Agency (BPS), in 2012, those aged between 1-29 years old comprised approximately 55 per cent of total population. Following such trends, MGI argued that in 2030, 135 million people will become part of the consumer or middle class and 113 million skilled workers will join the labour force as a result of individual empowerment and urbanisation.

In the future, an expanding middle class should raise Indonesia's potential by increasing savings and spending power, while enhancing productivity. The resulting economic growth will make Indonesia stronger than any Asian economy other than China and India.

The broader resurgence of Asia will also benefit Indonesia as the unprecedented economic transformation of China and India will increase the demand for energy. For example, in 2010, China became the largest export destination for Indonesian coal and was generating approximately USD 3.6 billion in revenue; followed by India's purchase of USD 2.0 billion in coal exports. Therefore, the resurgence of Asia's economies will accelerate demand for a range of resources and commodities supplied by Indonesia.

Competition or cooperation?

Indonesia, however, is confronted with a security dilemma given the current uncertainty in international politics in the Asia Pacific; the geopolitical turbulence especially in disputed waters; and the emergence of new sources of conflict involving resources.

Against this backdrop, Indonesia's quest to improve its military capability, if realised, will influence the regional balance. In previous years, Indonesia was never able to meet its defence budget. For example, in 2008 only 28% of the overall budget was fulfilled by the government. Economic growth should help Indonesia to unleash its full potential to build up its military. Indonesia has recently passed a Defence Industry Law, demonstrating a political will to increase its military capability. But as the regional power balance shifts, it could potentially stimulate a reaction from neighbouring countries such as Australia, Malaysia and Singapore, especially over border issues, such as the unresolved dispute over Ambalat with Malaysia.

The alternative scenario is that Indonesia will increase its importance by fostering a peaceful regional order particularly within ASEAN, and promoting cooperation between conflicting stakeholders, such as China and the US. Engaging the big powers via a regional platform where they can communicate their interests is important to avoid misperceptions, particularly amidst the current volatile atmosphere in the Asian region.

Geopolitical tensions could draw Indonesia and other regional countries into a protracted conflict and set back peace and economic development. Against this backdrop, Indonesia chose to play a constructive role by forging a consensus to manage the maritime disputes in the wake of the failure of the recent ASEAN Ministerial Meeting on the South China Sea issue. Recently, Indonesia also circulated a draft code of conduct in the South China Sea to ASEAN foreign ministers as a confidence-building measure. This diplomatic initiative is a manifestation of Indonesia's benign rise, which should be a positive force for regional peace.

Key determinants

There are at least three key determinants in Indonesia's future rise. The first is the vision of Indonesia's future president after 2014, whoever the leader may be, which will determine the next phase of Indonesia's foreign policy. Secondly, domestic sentiments on certain issues are also important in terms of their impact on Indonesia's foreign policy posture. Islamic nuances in foreign policy are already evident as a consequence of domestic pressures, for example raising concerns about the plight of the Rohingya community in Myanmar; advocating an anti-blasphemy law in the United Nations; and Foreign Minister Marty Natalegawa's recent call for nations in the UN to review diplomatic ties with Israel and to boycott its products in solidarity with Palestine.

The final determinant is whether Indonesia will be able to effectively play its part in institutionalising regional cooperation to face the growing competition and quest for influence between the US and China.

Indonesia still faces domestic problems such as corruption, inequality, issues of governance and government effectiveness, and communal tensions, which can stand in the way of its rise. Therefore, whether Indonesia can fulfill its potential as an emerging medium power really depends on how successfully it can capitalise on its current growth trajectory to leap into the future.

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