

INDONESIA



POLITICAL RISK REPORT / MAY 2022

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Indonesia. Political Risk Report. May 2022

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EXECUTIVE SUMMARY

Regarding the economy, the Indonesian government has spent more on short-term rather than long-term fiscal measures due to the urgent nature of the COVID-19 economic crisis therefore in 2023, the budget deficit is expected to be cut to 3% of GDP. However, Indonesia's GDP is expected to increase to 5.9% in 2022 and 6.4% in 2023 assuming that new variants of the virus will not cause further disruptions and fiscal policies and monetary measures will remain stable boosting domestic consumption in the upcoming years. The archipelago's inflation rate is in the indicated margins which translates into the gradual movement toward stable growth as productivity from the labor market improves. Indonesia is prioritizing economic growth by maintaining low-interest rates, bilateral and multilateral agreements, and implementing trade policies. However, the country has significant protectionist policies that hinder the achievement of its full potential.

In regards to the social outlook, it is important to highlight that Radical Islam has risen in the past two decades and the activism within radical Islam groups will presumably diminish or continue to be the same, but it will not upsurge as government efforts to combat them have shown results. Moreover, it is improbable that Sharia Law will be applied all throughout Indonesia and the separation of West Papua and the Independence of Aceh is unlikely to happen. Indonesia is a solid democracy, but it is still highly corrupt. Nonetheless, it is one of the few countries that has shown steady and gradual improvement in corruption. The next presidential elections will take place in 2024. Pranowo's electoral victory would probably establish a prominent coalition government based on a moderate approach and on liberal economic policies. However, if either Anies Baswedan or Prabowo Subianto wins, the political division between Islamists and Nationalists might get stronger, hindering social stability.

Indonesia will chair ASEAN in the coming year, making it an ideal opportunity to uphold its leadership in the region. The BRI can be a big opportunity if cautiously managed as the consequences of Chinese foreign investment could foster rejection and intolerance toward the Chinese-ethnic minority. The RCEP will contribute around \$1 billion to Indonesia's trade surplus and will increase investment inflows by 1.7 billion by 2040. Finally, the Strait of Malacca will remain the most favorable route in the South East Asia region for the next decades, Indonesia will unlikely use the Straits of Sunda and Lombok for its leadership projection in the region.

1. ECONOMIC OUTLOOK

- GDP is expected to increase to 5.9% in 2022 and 6.4% in 2023 assuming that new variants of the virus will not cause further disruptions and fiscal policies and monetary measures will remain stable boosting domestic consumption in the upcoming years.
- Indonesia's inflation rate is in the indicated margins which translates into a gradual movement toward stable growth as productivity from the labor market improves. It will rise by 2.8% in 2022 and 3.2% in 2023
- The Indonesian government has spent more on short-term rather than long-term fiscal measures due to the urgent nature of the COVID-19 economic crisis therefore in 2023, the budget deficit is expected to be cut to 3% of GDP.
- Indonesia is prioritizing economic growth by maintaining low interest rates, bilateral and multilateral agreements, and implementing trade policies, yet the country needs less protectionist policies to grow to its full potential.
- Indonesia's low taxes can negatively affect the current deficit.

Evolution of the Economy

In the 70s, the New World Order gave the country the opportunity to open its borders and start building its industrial infrastructure. Later on, the East Asian financial crisis of 1997 negatively impacted the economy of the country. By that year, the Rupiah – the Indonesian currency – depreciated 55%.¹ Most of the assets and investments were removed by foreign investors. Indonesia became one of the worst affected countries in the region, feeling the impacts of the recession for a period of approximately seven years.

The roaring years began in 2005 when the Indonesian economy started to recover. The government successfully implemented the recapitalization of its banking sector and took radical steps to create policies of economic growth and foreign investment. From 2005 to 2008 Indonesia's GDP improved by 5.89%. The growth rate fell 4.63% in 2009 by the effects of the US financial crisis and it picked up between 2010 and 2012 to grow at an average rate of 6.14% as commodity prices surged and the US Federal Reserve's quantitative easing (QE3) improved liquidity.

¹ASEAN. "ASEAN Economic Bulletin." 2012. Jstor.org. <https://www.jstor.org/stable/i25773537>.

A fall in commodity export prices caused by China's slowdown, coupled with the tapering of QE3, led to a slowdown in the growth rate between 2013 and 2014 declining from 5.56% to 5.01%. In 2015, growth dropped to 4.88%. The country experienced a stable inflation rate, interest rate cuts, increased investment spending, as well as an increase in international trade during 2016 and 2017. Nonetheless, the economy experienced stagnant growth in 2016 and a similar pattern the following year primarily due to weak consumer demand and low prices for palm oil.

As a result of a strong job market, increasing government spending for social assistance programs, and improving commodity prices, the GDP grew by 5.17% in 2018. External factors, including the US-China trade war and a slowing in investments, led to a 5.02% growth in 2019.

Macroeconomic Forecast

INDONESIA'S MACROECONOMIC INDICATORS

Indicator	2022	2023
GDP	Increase by 5.9%	Increase by 6.4%
Inflation	Increase by 2.8%	Increase by 3.2%
Public Deficit	4.85%	3%
Public Debt	Around 41%	Around 41%
Trade Balance	\$2 billion	\$2.7 billion

Source: IMF

GDP

As is the case in most countries, the pandemic directly influenced the economy negatively. In 2020, the Indonesian economy contracted by 2.1% compared to the 5.02% growth in 2015. The economy GDP increased by 3.2% in 2021 and it is forecasted to increase by 5.9% in 2022. Estimations for Indonesia's GDP in 2023 are at 6.4%.² The economy is expected to have steady growth in the following years assuming that new variants of the virus will not cause further disruptions and monetary and fiscal policies remain stable.³

² IMF. "Indonesia and the IMF." 2022. IMF. <https://www.imf.org/en/Countries/IDN>

³ Orbis Research. "Global Pestle Industry 2017 Market Research Report." 2022. Orbis Research. <https://www.orbisresearch.com/reports/index/pestle-insights-macroeconomic-outlook-report-indonesia>.

In comparison to other Asia Pacific countries, Indonesia's performance in terms of GDP growth was moderate in 2020. Other countries in the region like Vietnam (2.906%) and China (2.348%) found themselves in growth.⁴ However, in the second quarter of 2020 Malaysia, the Philippines, Singapore, and Thailand all experienced double-digit contractions compared to Indonesia. This was due to severe measures that resulted in an economic sensitivity that reduced international trade.

The Indonesian economy had a strong start in the first half of 2021. However, its recovery was delayed by renewed restrictions and uncertainty as the Delta COVID-19 variant spread rapidly between the months of June and August. During the second quarter of 2021, Indonesia's consumption and investment increased, driven in large part by consumer spending and the reopening of the economy.

Sustaining growth in the middle of a global pandemic is difficult in every political context. This scenario proves that there is a correlation between measurements such as restrictions and GDP growth or decline. When restrictions are imposed, the economy contracts. Indonesia remains vulnerable until it achieves widespread vaccine coverage.⁵

Inflation

At the beginning of 2020, the inflation rate was 3.3%, which was within Bank Indonesia's target range. Inflation decreased to 2.0% in 2020 due to weaker purchasing power following the COVID-19 pandemic which has adversely affected consumer demand. In 2021, inflation further decreased to 1.6%. As a result of the accommodative monetary policy followed through 2021, inflation rate prices in 2022 are expected to increase by 2.8% and 3.2% in 2023.⁶

Currently, there is a price hike in goods like housing, food, transport, and energy around the globe. To mitigate this effect, many developed nations, like the United States, the European Union, and other emerging countries injected huge amounts of money into the economy during the first year of the pandemic.⁷ These nations are currently experiencing the fastest inflation

⁴ World Bank. "GDP Growth (Annual %) - Indonesia | Data." Worldbank.org. 2015. <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ID>

⁵ Sihombing, Grace, and Claire Jiao. "Indonesia GDP Grows Most since 2008, New Curbs Stem Recovery." 2021. Bloomberg.com. <https://www.bloomberg.com/news/articles/2021-08-05/indonesia-s-contraction-ends-as-gdp-expands-7-07-in-2nd-quarter>.

⁶ IMF. 2022.

⁷ Super User. "2022 Indonesia and Global Economic Outlook | ARISE+ Indonesia." 2021. Ariseplus-Indonesia.org <https://ariseplus-indonesia.org/en/activities/2022-indonesia-and-global-economic-outlook.html>.

rate in over a decade. Indonesia followed the example and pumped-up huge amounts of stimulus to their economy. However, inflationary pressures have been avoided.

Inflation rates in Indonesia seem to be staying within the target margins because of several factors. First, Indonesia's baseline inflation is between 2-3%. President Jokowi has been credited for curbing inflation, in part by intervening in the market and maintaining the average inflation rate between 2009 and 2020 at 4.6%.⁸ Second, the government spending was mostly directed to social packages and not to bank accounts. Therefore, this money will not be spent immediately in the economy, which could overload the market and increase the prices of goods. Another major difference is that Indonesia is not as dependent on global supply chains as other countries, so the effects of global supply constraints can have less impact on elements like energy prices, which triggers inflation.⁹ Stable inflation seen in Indonesia indicates stable growth for the upcoming two years. Low inflation rates will be maintained by increasing national production capacity and gains in demand by the Central Bank of Indonesia (BI).¹⁰

Public Deficit and Public Debt

When the pandemic hit, an emergency spending was enacted and the fiscal deficit was raised from 2.2% of GDP in 2019 to 6.2% in 2020 and was budgeted to be 5.8% in 2021. The government expects an acceleration of economic growth and a narrower budget deficit of 4.85% in 2022. In 2023, it plans a stricter fiscal consolidation, with a budget deficit of 3%.¹¹

As a result of the huge fiscal stimulus, the public debt rose from 31% of GDP in 2019 to about 41% in 2021 and no significant variation is expected in 2022 and 2023.

Fiscal support from the government helped mitigate the further impact on Indonesia's economy. However, there is a medium risk in the increase of its debt if GDP levels decline due to current global dynamics uncertainty. The emergence of new deadly variants and the disruption of commodities due to the war in Ukraine are events that disrupt capital outflows, debt, and investment. If companies decide to move their assets out of the country, the outflow could lead

⁸ Soeriaatmadja, Wahyudi. "Indonesia Braces Itself for Higher Inflation." 2022. The Straits Times. <https://www.straitstimes.com/asia/se-asia/indonesia-braces-itself-for-higher-inflation>.

⁹ Guild, James. "Why Isn't There More Inflation in Indonesia Right Now?." 2021. The Diplomat. <https://thediplomat.com/2021/12/why-isnt-there-more-inflation-in-indonesia-right-now/>.

¹⁰ Suroyo, Gayatri, and Stefano Sulaiman. "Indonesia Govt Sets 5.3%-5.9% GDP Growth Forecast for 2023." 2022. Reuters. <https://www.reuters.com/markets/rates-bonds/indonesia-govt-sets-53-59-gdp-growth-forecast-2023-2022-02-16/>.

¹¹ OECD. "Indonesia." 2021. *OECD Economic Survey*. <https://www.oecd.org/economy/surveys/indonesia-2021-OECD-economic-survey-overview.pdf>.

to currency depreciation and tighter monetary policies to contain inflation which in turn will have a direct impact on investments. External shocks still remain a main concern as shown in 2013 and 2018, when the price of bank shares plummeted due to a weakening currency.¹² In 2022, the government will keep an eye on the global monetary tightening, which could trigger capital outflows and push the government bonds up.

Yet, it is important to mention that thanks to the increase in deficit and debt, the country is expected to have a slow but sure recovery process since it has a solid economic base, prudent fiscal policies, and monetary measures that have increased the country's internal consumption.

Since inflation has remained within the expected margins, BI can keep supporting the recovery through accommodative policies and is expected to rise gradually within the inflation target range in 2022.¹³ Currently, Indonesia is in the process of gradually rolling back its fiscal stimulus, which is a key factor to maintain the economic recovery stable.¹⁴ All projected macroeconomic projections, until now, have been met.

Trade Balance

For the first quarter of 2022, Indonesia's trade balance is expected to be \$2 billion and it is expected to increase to \$2.7 billion in 2023.

Exports declined by 5.8% in 2019 mainly due to the US-China trade war. They contracted by 13% in 2020 due to the pandemic. Exports of oil and non-oil components increased steadily in 2021 in response to recovering global demand, which surged mainly by China, the United States, and Japan.¹⁵ In the first half of 2021, commodity exports increased by 39.2% compared to the same period the previous year. Moreover, amid the surging commodity prices, in April 2022, exports in Indonesia grew by 47.76% from the previous year, marking a record high and the fastest pace in five months.¹⁶

¹² OECD. 2022.

¹³ IMF. "IMF Executive Board Concludes 2022 Article IV Consultation with Indonesia." 2022. IMF. <https://www.imf.org/en/News/Articles/2022/03/22/pr2284-imf-executive-board-concludes-2022-article-iv-consultation-with-indonesia>.

¹⁴ Person. "Indonesia Govt Sets 5.3%-5.9% GDP Growth Forecast for 2023." February 16, 2022. Reuters. <https://www.reuters.com/markets/rates-bonds/indonesia-govt-sets-53-59-gdp-growth-forecast-2023-2022-02-16/>.

¹⁵ Haryono, Erwin. "Trade Surplus Maintained in June 2021" June 15, 2021. Bank Indonesia https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2317221.aspx.

¹⁶ Trading Economics. "Indonesia Balance of Trade - 1960-2021 Historical." 2022. Tradingeconomics.com. <https://tradingeconomics.com/indonesia/balance-of-trade>

Low purchasing power and oil prices caused imports to decline by 7.1% in 2019 and by 21.7% in 2020. In the first seven months of 2021, imports of commodities showed an increase of 35.5% compared to 2020. In spite of the government's effort to replace fossil fuels with local biofuels, Indonesia's oil and gas imports accounted for the vast majority of its trade deficit. In April 2022, exports in Indonesia grew by 21.97% from the previous year.

In the first quarter of the year, Indonesia's trade surplus increased dramatically to \$7.56 billion in contrast with \$2.29 billion in the same month of 2021, beating the market consensus of \$3.25 billion. This large trade surplus is due to the increase in commodity prices and demand. Ukraine's war may alter the trade balance for what is left of the year. For the first four months of 2022, exports gained 38.68%, while imports rose by the smallest amount in a year at 28.51%.

Trade is expected to have steady growth in the medium term due to the prospects of multilateral and bilateral agreements. Canada and Indonesia signed a free trade agreement. In addition, in January of 2021, they launched public consultations on a Comprehensive Economic Partnership Agreement (CEPA) with Indonesia.¹⁷ In 2018, the country signed various bilateral treaties with countries such as Australia, India, and Singapore that aim to strengthen economic ties, and in the first quarter of 2022 it is expected to ratify the Regional Comprehensive Economic Partnership which will account for the largest economic bloc in the world.

A Positive Panorama for Indonesia

This year is supposed to be the year for Indonesia's recovery due to its promising manufacturing sector, fast vaccination rates, and prudent fiscal policies and monetary measures. This positive panorama is reflected in The Jakarta Composite Index (Indonesian Stock Market), which is expected to fluctuate within the normal limits and remain stable amidst uncertainty due to the outbreak of the war.¹⁸ The downside risk is still the low vaccination rate and the war in Ukraine.

It is very likely that domestic recovery will come in large part in employment and higher consumption in the country. These, combined with exports of coal and other metals, will be the drivers of the increase in the GDP. The lockdown forced the tourism and hospitality industry,

¹⁷ ASEAN. "Canada, Indonesia Trade Talks Begin for Comprehensive Economic Partnership Agreement." 2021. ASEAN Business News. <https://www.aseanbriefing.com/news/canada-indonesia-trade-talks-begin-for-comprehensive-economic-partnership-agreement/>.

¹⁸ RTTNews. "Indonesia Stock Market Expected to Remain Rangebound." 2022. Nasdaq.com. <https://www.nasdaq.com/articles/indonesia-stock-market-expected-to-remain-rangebound-0>.

as well as many businesses to close resulting in many job losses. However, the reopening of the economy and its current evolution will open the window to regain employment. Consequently, unemployment rates are expected to fall from 6.5% in 2021 to 6% in 2022 and to 5.6% in 2023.¹⁹ Not to mention, the new technological shifts combined with the fiscal packages and Indonesia's Long-Term National Development Plan will boost the domestic economy.²⁰ Digital banks, healthcare, and technology companies are the promising sectors that are going to contribute to growth in the following years. The global trade tensions and circumstances have encouraged investors' trust in the potential of Indonesia's tech-centric startups with a historic investment of \$3.4 billion in 2020 and 2021.²¹

POSSIBLE UKRAINE'S WAR EFFECTS ON COMMODITY PRICES IN INDONESIA

Commodity	Description	Impact	Probability
Coal and Palm Oil	Indonesia is a top global exporter of crude palm oil (CPO), coal and metals like aluminum, copper, and nickel. Russia and Ukraine are also big exporters of these resources. The Ukrainian conflict has resulted in soaring oil prices all around the world. The closure of trade ports in Ukraine and the sanctions on Russia have caused a global shift to palm oil instead, increasing overall demand and price for this commodity which will increase Indonesia's exports.	High	Likely
Wheat	Ukraine is Indonesia's top wheat supplier. Wheat is a key ingredient for the domestic production of noodles, flour, and bread. The shortage of wheat can increase domestic inflation on several products.	Moderate	Unlikely

Source: Author's elaboration

The two scenarios are interconnected. Both risks will have a direct effect on Indonesia's economy because the palm oil demand will turn into gains for Indonesia, while the scarcity of wheat will do the opposite. This will create a balance, limiting the economic impact that the impending war will continue to have for the rest of the year in Indonesia. COVID-19 already raised commodity prices, hence, if global inflation arises, Indonesia will be much more

¹⁹ Lapitsky, Ivan. 2022. "Indonesia Unemployment Forecast 2019-2024, Data and Charts - Knoema.com." Knoema. April 21, 2022. <https://knoema.com/stvidq/indonesia-unemployment-forecast-2019-2024-data-and-charts>.

²⁰ Indonesia Investments. "National Long-Term Development Plan (RPJPN 2005-2025) | Indonesia Investments." 2022. Indonesia-Investments.com. <https://www.indonesia-investments.com/projects/government-development-plans/national-long-term-development-plan-rpjp-2005-2025/item308>.

²¹ Deloitte Southeast Asia Innovation Team. "Indonesia's Innovative Startups Are the Catalyst for Increasing Investment". 2022. Krasia. <https://kr-asia.com/indonesias-innovative-startups-are-the-catalyst-for-increasing-investment>.

prepared because it has enjoyed a trade surplus for several months. Likewise, since the start of the Ukrainian invasion, the rupiah has been the winner among Asian currencies. As palm oil and coal prices go up, Indonesian exports will expand, even more, creating better stability to respond to surging import prices of wheat.

Dealing with Price Hikes

Macroeconomic policy action has been stepped up in the face of the pandemic in order to contain price hikes. Indonesia has injected a significant amount of money to contain the effects of the pandemic on their economy. The overall package amounted to 4.3% of the GDP.²²

Indonesia gave out generous fiscal stimulus packages. However, tax efficiency in Indonesia is lower than in many G20 and ASEAN countries.²³ In order to keep financing the economy, it is imperative to increase the tax base and incorporate the various labor sectors into said base. Without tax revenue, public debt could increase and simultaneously jeopardize the growth of the country. Recently, the Harmonization of Tax Regulations (HPP) Law was signed by the Indonesian President seeking to impact Income Tax, Value-Added Tax (VAT), and the General Tax Provisions Law.²⁴ This new law will help finance the country's expenditures and control price hikes.

Indonesia is still characterized by a high number of restrictions to enter its market. Protectionist policies hurt the country's growth potential. COVID-19 accelerated the implementation of the Omnibus Bill in 2020 which eliminates thousands of regulations in ten main areas, including labor reform, ease of doing business, investment, tax, and land procurement.²⁵ This will reduce the barriers to foreign investment and provide the first bases to liberalize many sectors that will provide new job opportunities and enhance the economy as a whole.

Moreover, Indonesia is lowering its interest rate in order to boost consumption and furthermore increase foreign investment which will add liquidity to the economy. At its monetary policy

²² OECD. "OECD Library." 2021. *Oecd-ilibrary.org*. <https://www.oecd-ilibrary.org/sites/5b8db79c-en/index.html?itemId=/content/component/5b8db79c-en>.

²³ PwC. "Paying Taxes 2020: Data Explorer." 2020. PwC. <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html>.

²⁴ EY. "Indonesia Passes Wide-Ranging Tax Law Amendments." 2022. EY.com. https://www.ey.com/en_gl/tax-alerts/indonesia-passes-wide-ranging-tax-law-amendments.

²⁵ OECD. "Indonesia." 2021. *OECD Economic Survey*. <https://www.oecd.org/economy/surveys/indonesia-2021-OECD-economic-survey-overview.pdf>.

meeting, which took place in the midst of March, the BI decided to leave the interest rate at the all-time low of 3.50%—where it has been since February 2021.²⁶ Indonesia is prioritizing economic growth. Still, protectionist policies limit the country's potential growth and there is a long way ahead in foreign investment policy.

On the other hand, economic recovery will depend largely on access to vaccines. There is a positive correlation between countries that have high vaccination rates and economic growth projections. Currently, Indonesia has vaccinated 69.7% of the country's population.²⁷ Jakarta is keeping up with its vaccination rates to prevent future outbreaks and lockdowns that would immediately impact the economic recovery.

This year, the BI will continue to implement prudent mixed response policies in the economy as part of the national economic policy direction to accelerate the economy while maintaining stability. These efforts will focus on the following four points: (1) Monetary policies will be oriented to stabilize the Rupiah and maintain inflation within targets in a gradual manner to avoid disrupting the economic recovery; (2) priority of bank lending to Micro, Small and Medium Enterprises, which will accelerate the national economy and pursue green economy and finance; (3) develop Modern Payment Infrastructure to all sectors; money and foreign exchange market deepening will be accelerated.²⁸

The Pandemic's Silver Lining

Currently, there is a global supply chain crisis that has affected all the countries in the world and Indonesia is no exception. In addition, lockdowns and social mobility restrictions have caused massive disruptions within the state supply chains of manufacturing companies that depend on basic, intermediate materials, or components from suppliers in different countries. For example, in Indonesia, the semiconductor chip shortage has deeply affected the manufacturing industry and simultaneously the economy.²⁹ This disruption has given the archipelago the opportunity to seek post-COVID supply chain resilience to absorb the shock. The country is now implementing new policies and strategies to prevent supply chain

²⁶ FocusEconomics. "Indonesia Interest Rate - Indonesia Economy Forecast & Outlook." 2022. FocusEconomics. <https://www.focus-economics.com/country-indicator/indonesia/interest-rate>.

²⁷ Bhatia, Gurman, Prasanta Kumar Dutta, and Jon McClure. "Indonesia: The Latest Coronavirus Counts, Charts and Maps." 2022. Reuters. <https://graphics.reuters.com/world-coronavirus-tracker-and-maps/countries-and-territories/indonesia/>.

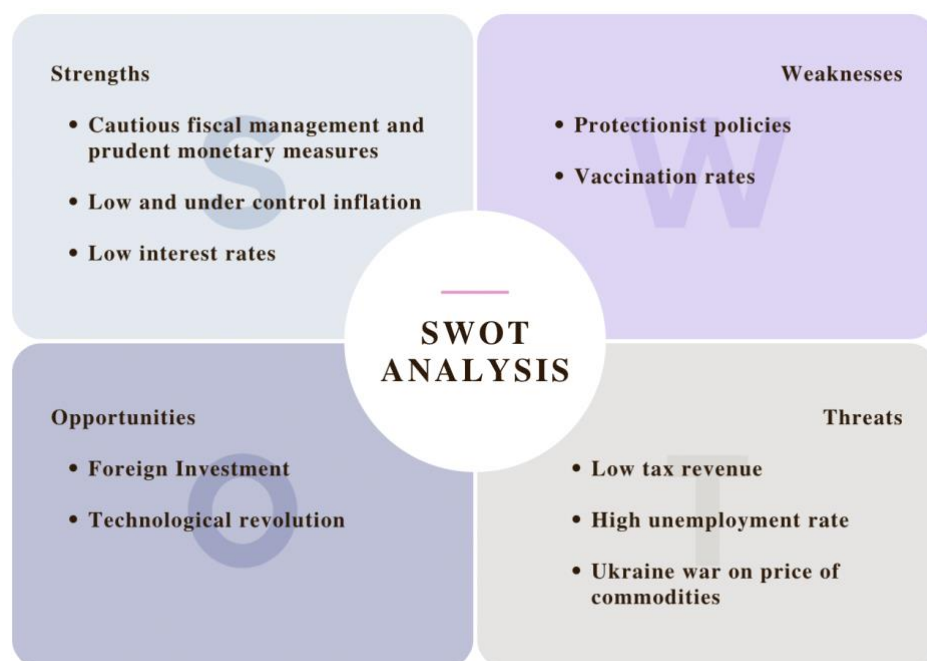
²⁸ Bank of Indonesia. "Bank Indonesia Projects Economic Growth in 2022at 4.7-5.5%". 2022. Bank of Indonesia. https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2331221.aspx

²⁹ FocusEconomics. 2022

disruptions that will have a positive outcome in the near future. In Indonesia, technology is being seen as the means to create value and a way to avoid being dependent on supply chains.

The Indonesian government is working to modernize the nation's supply chain and logistics sector. They want to change from the conventional linear supply chain process to a digital supply network (DSN). As the industry aims to recover and grow, technology will increasingly play a major role in the state. President Jokowi has already announced the urgent necessity to implement DSN technology.³⁰ The government is already doing this as part of its 'Making Indonesia 4.0' plan in which technologies such as artificial intelligence, the Internet of Things, virtual reality, 3-D printing, and next-generation robotics are being carried out. By incorporating such technologies manufacturers can boost employee productivity and gain a competitive edge on global markets.³¹

Technological innovation arises due to Indonesia's geographical poor connectivity which deeply impacts the price of consumers of goods and services. This overcomes the issue of maintaining logistical and operational integrity over long distances and the supply chain.³²



Author's elaboration

³⁰Assegaf, N. "The Agility of Supply Chains in the Pandemic Era." 2021. The Jakarta Post. <https://www.thejakartapost.com/academia/2021/08/18/the-agility-of-supply-chains-in-the-pandemic-era.html>.

³¹ Kearny. "Indonesia 4.0: The Transformation Opportunity - Kearney." 2022. Kearney. <https://www.kenarney.com/operations-performance-transformation/indonesia-4.0-the-transformation-opportunity>.

³²Deloitte Southeast Asia Innovation Team. "Indonesia's Innovative Startups Are the Catalyst for Increasing Investment" 2022. Krasia. <https://kr-asia.com/indonesias-innovative-startups-are-the-catalyst-for-increasing-investment>.

2. SOCIAL & ENVIRONMENTAL OUTLOOK

- It is improbable that Sharia Law will be applied all throughout Indonesia
- Radical Islam has risen in the past two decades, but so have government efforts to combat radical groups
- Activism within radical Islam groups will presumably diminish or continue to be the same, but it will not upsurge, unless the 2024 presidential elections shift this trend backward.
- The separation of West Papua is unlikely, and further, politically, and economically inviable.
- Aceh is very unlikely to rebel again, as the Helsinki Peace Agreement has ceased the conflict.
- Climate change is instigating natural disasters such as volcano eruptions, earthquakes, and tsunamis, which pose great socio-economic risks to Indonesia
- There is a positive trend towards renewable energy for Indonesia's future, which will be beneficial for the environment and create new opportunities but will eventually stagnate the coal industry.

Demographic Overview

Population & fertility

Indonesia has the world's fourth-largest population, with around 275,122,131 people, 51% male, and 49% woman. The total population has been steadily growing since the 1960s and is projected to expand to 320 million by 2045, even while the birth per woman ratio has been slowly decreasing from 5.6 in the 1960s to 2.3 in 2019. This is due to the large number of women in childbearing age. The government has created a family planning program that has been successful in social acceptance and has favored the government to fulfill its objective of achieving the replacement level of fertility, which is 2.1 children per woman.³³

³³ The World Factbook. "Indonesia." Central Intelligence Agency. Central Intelligence Agency, March 2, 2022. <https://www.cia.gov/the-world-factbook/countries/indonesia/#people-and-society>.

Age & Gender

The predominant age range for the country is between 25 and 54 years, which corresponds to 42% of the population; is a remarkable statistic, as the working-age population is the largest.³⁴

Due to the rapid growth and prominent numbers of youth, Indonesia is undergoing a demographic transition. Today, the country's amount of working-age people in the total population outweighs those considered dependent, those below 15, or older than 65. If this were combined with high investments in human capital such as education, healthcare, capacity building, and the creation of employment opportunities, demography alone could accelerate development and boost the growth of the economy.³⁵

Ethnicity

Indonesia's motto, "Unity in Diversity", conveys a message regarding the country's countless cultures and ethnicities who are all living in peace. As one of the most diverse countries in the world, there are around 1,300 distinct native ethnic groups, resulting from the endless divisions of mountains and seas, which has hindered the blend of traditions and created clear-cut groups. The biggest group, the Javanese, account for 40% of the population, and most live in central and eastern Java.³⁶ In Java's western region live most of the Sundanese, the second largest ethnic group accounting for 15% of the population. They are related to the Javanese but different in traditions and language. Other prominent ethnicities are Malay (3.7%), Batak (3.6), Madurese (3%), and the list goes on with the remaining 35% being hundreds of other ethnicities.³⁷

Education & Employment

In education, school life expectancy – which refers to primary to tertiary education – is 14 years, for both males and females. Literacy, meaning the population over 15 that can read and write is at an average of 95.7%, for men being 97.3% and 94% for women.³⁸ Consequently,

³⁴ The World Factbook. 2022.

³⁵ UNDRR. "Disaster Risk Reduction in Indonesia," no. Status Report 2020 (2020). <https://www.undrr.org/media/48530/download>.

³⁶ Britannica. "Ethnic Groups." Encyclopedia Britannica. Encyclopedia Britannica, inc. Accessed March 9, 2022. <https://www.britannica.com/place/Indonesia/Ethnic-groups>.

³⁷ The World Factbook. 2022.

³⁸ Index Mundi. "Indonesia Demographic Profile." Indonesia demographics profile. Accessed March 9, 2022. https://www.indexmundi.com/indonesia/demographics_profile.html.

unemployment in Indonesia is certainly low, being 4.28% in 2020.³⁹ Many consider less than 5% to be full employment and not unusually concerning.⁴⁰

Religion

Indonesia's population is predominantly Muslim with an astounding 87.2%, making it the largest Muslim population of any country in the world. It is then followed by 7% Protestant, 2.9% Roman Catholic, 1.7% Hindu, and 0.9% who follow other religions like Buddhism and Confucianism.⁴¹ While the Constitution of Indonesia guarantees freedom of religion, it only recognizes six official religions.

National Cohesion

Radical Islam

To assess the situation of Radical Islam in Indonesia, a proper definition must first be given. Islam is a 1,500-year-old religion with 1.6 billion followers worldwide.⁴² Radical refers to affecting the fundamental nature of something,⁴³ in this case being extreme views, practices, and policies. Radical Islamic groups are known for two defining characteristics. First, they give extensive emphasis to those sections of the Quran that refer to punishments, devotions, and social relations, believing that they must implement it fully and in its literal form. Second, they are generally hostile towards the way of life of others, believing society must be rebuilt with the teachings of Islam, and persistently reacting to this through physical violence and other manifestations.⁴⁴

³⁹ World Bank Data. "Unemployment, Total (% of Total Labor Force) (Modeled ILO Estimate) - Indonesia." World Bank Org. Accessed March 9, 2022. <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ID>.

⁴⁰ Kagan, Julia. "What Is Natural Unemployment?" Investopedia. Investopedia, February 8, 2022. <https://www.investopedia.com/terms/n/naturalunemployment.asp#:~:text=Many%20consider%20a%204%25%20to,exists%20with%20non%2Daccelerating%20inflation>.

⁴¹ The World Factbook. 2022.

⁴² Fisher, Max. "When a Phrase Takes on New Meaning: 'Radical Islam,' Explained." The New York Times. The New York Times, June 16, 2016. <https://www.nytimes.com/2016/06/17/world/when-a-phrase-takes-on-new-meaning-radical-islam-explained.html>.

⁴³ Oxford Dictionary. "Radical Definition." radical_1 adjective - Definition, pictures, pronunciation and usage notes | Oxford Advanced Learner's Dictionary at OxfordLearnersDictionaries.com. Accessed March 10, 2022. https://www.oxfordlearnersdictionaries.com/definition/english/radical_1#:~:text=%2F%CB%88r%C3%A6d%C9%AAk1%2F-,%2F%CB%88r%C3%A6d%C9%AAk1%2F,and%20detailed%20synonym%20far%2Dreaching.

⁴⁴ Fealy, Greg. "Islamic Radicalism in Indonesia: The Faltering Revival?" Southeast Asian Affairs, 2004, 104–21. <http://www.jstor.org/stable/27913255>.

In the past, there was a consensus among common knowledge, the media, and even scholars, that Indonesian Muslims were the most permissive, broad-minded, and peaceful in the Islamic world. As in any religion, the community had its radicals, but they were kept supervised and on a short leash by Soekarno and Suharto's authoritarian regimes, barely ever engaging in violent activity.⁴⁵

During the last two decades, that consensus has been inverted. Since 1998, in the post-Suharto era, the lifting of restrictions and the right of speech and press led to a visible spread of Islamic media and websites. Thus, radical movements that were previously repressed by the regimes started to freely publish banned texts, form military units, and protest in the streets for their causes. Over the past years, Indonesia has made global headlines on many occasions due to atrocious terrorist attacks, the presence of several terrorist networks, and training camps.⁴⁶

Sharia is Islam's legal system, and it acts as a code for Muslim living. While Indonesia does not have Sharia Law as such, its implementation in various aspects has been increasing ever since its democratization in 1998. At a regional level, several provinces introduced Sharia-inspired bylaws such as Islamic dress code and Quran teaching for all schools. At the national level, some legislation reflects Sharia Law, for example, the punishable by caning offenses of gambling, pornography, adultery, or drinking alcohol. In the Sumatran province of Aceh, Sharia law is implemented entirely.⁴⁷ Even though Sharia is not a problem by its very nature, many radical groups see its enforcement as inevitably linked to the creation of an Islamic state in Indonesia. They argue that only in an Islamic state can God's law be applied in full.⁴⁴ However, Aceh continues to be the only Province that is authorized by the central government to implement Islamic Sharia laws, due to a very specific peace treaty between Aceh and the government which will be examined later on, and, even in Aceh, Sharia is more permissive than expected, and un-Islamic behavior is still observable in public.⁴⁸ Hence, there shouldn't be a current uneasiness regarding an all-country implementation of Sharia law.

On the other hand, rising radical groups and a latent Islamic State are a current fear of many. The Islamic State militant group, better known as ISIS, a terrorist militant group that has

⁴⁵ Idem

⁴⁶ Indonesia Investments. "Radical Islam in Indonesia." Indonesia Investments, 2021. <https://www.indonesia-investments.com/business/risks/radical-islam/item245>.

⁴⁷ Fealy, Greg. 2004.

⁴⁸ Manan, Abdul. 2020. "Acceptance of the Implementation of Islamic Sharia Laws in West Aceh, Indonesia". *KnE Social Sciences* 4 (14), 615–627. <https://doi.org/10.18502/kss.v4i14.7919>.

become well-known over the past decade due to abominable acts, has been a source of inspiration for Indonesian radical and terrorist groups.⁴⁹ For example, Jemaah Islamiyah (JI) is an Indonesian jihadist group that seeks to establish a regional caliphate in Southeast Asia. In October 2002, JI carried out Indonesia's deadliest terrorist attack to date, when a suicide bomber and a car bomb killed 202 people on the resort island of Bali. The group has since pledged loyalty to ISIS in July 2014. JAD or Jamaah Ansharut Daulah is another ISIS-linked group that formed in 2015 and is responsible for several terrorist attacks, the most shocking being a series of suicide bombings by whole family units including small children.⁵⁰

While these groups have been increasing, government efforts to combat radical groups have been on the rise as well. In May 2018, the Indonesian parliament approved an updated anti-terrorism law which included: basics descriptions of terrorism, new penalties for pre-existing crimes, chemical and biological terrorism, special procedural rules for terrorism cases, prohibitions on interfering in terrorism cases, witness protection, and inchoate offenses such as financing, accessories, incitement, and attempt.⁵¹ Indonesia's previous anti-terrorism law was considered a weak tool because authorities had to wait for there to be victims before any arrest could be made. The new law enabled prevention and investigation measures for all radical Islam groups.⁵²

Further, Indonesia has been working with the US and Australian authorities to catch terrorists. Densus 88, is a special counter-terrorism squad funded by the American government and trained by the CIA, FBI and US Secret Service, which has had considerable success in weakening terrorist networks, especially the radical group JI. Over the past twenty years, more than 100 terror suspects have been killed and more than 1,000 have been arrested. It is among the Indonesian government's top priorities to detect radical Islamic groups, monitor their activities, and intervene if there is terrorist activity.⁵³ Taking this into account, activism within radical Islam groups will most likely diminish or continue to be the same, but it will not

⁴⁹ Fealy, Greg, and Aldo Borgu. "Radical Islam in Indonesia: History, Ideology and Prospects." *Local Jihad: Radical Islam and Terrorism in Indonesia*. Australian Strategic Policy Institute, 2005. <http://www.jstor.org/stable/resrep04150.6>.

⁵⁰ Al-Kaabi, Akram. "Indonesia: Extremism and Terrorism." Counter Extremism Project. Counter Extremism Project, January 4, 2022. <https://www.counterextremism.com/countries/indonesia>.

⁵¹ Butt, Simon. "Anti-Terrorism Law and Criminal Process in Indonesia," 2018. https://doi.org/https://law.unimelb.edu.au/__data/assets/pdf_file/0010/1546327/AntiTerrorismLawandProcessInIndonesia2.pdf.

⁵² Indonesia Investments. "Radical Islam in Indonesia." Indonesia Investments, 2021. <https://www.indonesia-investments.com/business/risks/radical-islam/item245>.

⁵³ Idem.

upsurge. Nonetheless, it is important to consider the weight of the 2024 presidential elections in which there are high chances that an Islamic-backed candidate could win. This, in turn, could give more visibility to these groups and give them a sense of empowerment that can signify a resurgence of activity, and ultimately cause social instability.

National Fractures

In Indonesia, there are two allegedly impending national fractures, the possibility of independence of Aceh, and the risk of separation of West Papua. Regarding West Papua, for some context, it must be noted that New Guinea is the biggest island on the planet after Australia and Greenland. It is divided exactly in half by a straight line, a border that separates Papua New Guinea, a sovereign state, from Western Papua, a region of Indonesia. In Western Papua, there are around 1,134,000 people, who are mostly part of more than 1000 tribes, many untouched by civilization. Among these people, a big separatist movement has emerged, mainly because the population wants to completely own the Grasberg Freeport Gold Mine, the largest gold mine in the world and the second largest in copper, which the Indonesian government has nationalized. They also want to own all their resources including oil and gas, as one-third of the gas that Indonesia exports is produced in Papua.

Additionally, Indonesian Papuans have little to no cultural ties or common history with the rest of the Indonesians. New Guinea used to be “controlled” by the United Kingdom, Germany, and the Netherlands. However, it was considered so worthless that no one was interested in turning it into a proper colony nor cared about what went on inside the island, to the extent that most of the indigenous people didn’t even know they had been conquered or colonized by anyone, and their tribal system remained the same. When Indonesia became independent from previous Dutch colonization, they claimed this Dutch-controlled territory too, and after exploring the island realized all the treasures that were hidden inside. Treasures that the Indonesian government is not willing to let go of. The social clash has been unpleasant for Indonesian Papuans, as they feel mistreated by Jakarta, giving lots and getting almost nothing in return.⁵⁴ Also, racism towards the tribal people is palpable, as they are considered inferior, and even called “monkeys” by those on the outside.⁵⁵

⁵⁴ The Guardian. “The \$100bn Gold Mine and the West Papuans Who Say They Are Counting the Cost | Susan Schulman.” The Guardian. Guardian News and Media, November 2, 2016. <https://www.theguardian.com/global-development/2016/nov/02/100-bn-dollar-gold-mine-west-papuans-say-they-are-counting-the-cost-indonesia>.

⁵⁵ VisualPolitik. “Why does WEST PAPUA want to separate from INDONESIA?” *YouTube* video, 13:00. Nov 17, 2019. https://www.youtube.com/watch?v=EKTp0_gnbxs

While having legitimate reasons for wanting independence, the real risk of any movement happening is low, due to the great disadvantages of a tribal civilization in today's globalized world. An independent West Papua would face significant obstacles. In case of a referendum for independence, most of the population would not even be aware of what is going on, and among those who do, only a minority could read or write the common languages in order to participate in a voting ballot. Furthermore, given that the migrant Indonesian Austronesian population in West Papua outnumbers the West Papuan Melanesian population, there is little incentive for the migrant residents to vote for independence.⁵⁶

In the unlikely case that such a vote was held and won, West Papua would then experience several fatal blows. Economy-wise, 70% is owned by Indonesians outside of West Papua,⁵⁷ which would crumble or perhaps cause new conflicts. Education, technology, and health infrastructures, among others, would need to be built almost from scratch. Politicians would need to learn English to at least be able to partake in international forums. There would need to be a communication strategy among all 1000 tribes and a new organization of a government. A set culture of corruption would need to be overcome. The lack of national identity could also lead to another separatist movement within them. Countless complications would arise for West Papuans as they attempt to go past tribalism and into a sovereign state. Perhaps this is another reason why the movement has not been as strong as others because they know what it would entail for their people. The separation of West Papua is unlikely, and further, politically, and economically inviable.

On the other hand, the aspiration for the independence of Aceh is a movement that is no longer alive, like the one in West Papua. The story of Aceh has unfolded in three phases, all with the goal of making the province of Aceh independent from Indonesia. The Aceh people first fought against the Dutch colonialists for thirty years in 1873, then against the central government after Indonesian independence, also involving the Darul Islam rebellion of 1953, and finally in the Free Aceh Movement (GAM), from 1976 to 2005. The conflict caused a large number of casualties, deterioration of infrastructure, and generational harm. Finally, in August 2005, the Government of Indonesia and the GAM signed a peace agreement, ending the conflict.⁵⁸

⁵⁶ Webb-Gannon, Camellia. "Is an Independent West Papuan State Possible?" Fair Observer, May 26, 2014. https://www.fairobserver.com/region/asia_pacific/independent-west-papuan-state-possible/.

⁵⁷ Farneubun, Petrus. "Autonomy and the Economy in Papua." Policy Forum. Asia & the Pacific Society, September 21, 2020. <https://www.policyforum.net/autonomy-and-the-economy-in-papua/>.

⁵⁸ Ansori, M.H. "From Insurgency to Bureaucracy: Free Aceh Movement, Aceh ..." Stability Journal, 2012. <https://pdfs.semanticscholar.org/0769/80de525b7a6f55cbf38a8c3cd85fc774c47d.pdf>.

The Helsinki Peace Agreement required the GAM to disband itself and transform into a political party, allowing GAM members to compete for political power in the province. Through the new Aceh Party, former rebels have occupied various prestigious and strategic political and social positions in the province. Currently, Aceh has political independence, and this can be seen on the legislative side as well, as Aceh is the only part of Indonesia to apply Sharia law to criminal law. Thus, there should be no existing risk of Aceh rebelling again, as the peace agreement has served both sides of this conflict.

Environment

Natural Disasters

Most of Indonesia's geographical space consists of water, while also being located on the Pacific Ring of Fire, a path along the Pacific Ocean classified by having active volcanoes and frequent earthquakes. These two circumstances make the country vulnerable to natural disasters such as volcanoes, earthquakes, tsunamis, landslides, and cyclones. All these are situations which are worsened by climate change and by the weak state of some of the country's infrastructure.

Regarding volcanos, Indonesia is the country that contains the most active volcanoes of all countries in the world, estimated to have 129, all carefully observed by the Centre of Volcanology and Geological Hazard Mitigation because they show continuous activity. "Danger zones", are areas that should be evacuated in case of rising activity, and it is a pressing concern that there are more than five million people who are living within these zones, simply refusing to leave. Nonetheless, data shows that Indonesia is only rocked by a major volcanic eruption – one that takes a considerable amount of lives – once every 15 to 20 years, and today, volcano eruptions take fewer human lives than ever due to better observation methods and further evacuation organization. However, small volcanoes can also hurt economies by damaging plantations, livestock, and enterprises that are involved in tourism.⁵⁹

What has become increasingly troubling, however, is the way climate change is having an effect on volcanoes. As the atmosphere keeps on getting hotter due to climate change, the flows of ash and gas emitted by large volcanic eruptions will rise ever higher, accelerating the

⁵⁹ Indonesia Investments. "Natural Disasters in Indonesia." Indonesia, 2022. <https://www.indonesia-investments.com/business/risks/natural-disasters/item243>.

transport of volcanic material from the tropics to higher latitudes. The combined effect of these two developments can also cause volcanic aerosols to block more sunlight from reaching Earth's surface, amplifying the temporary cooling caused by volcanic eruptions.⁶⁰

Earthquakes are probably the biggest threat in terms of natural disasters in Indonesia as they can strike anywhere and inadvertently, occasionally causing tsunamis. Earthquakes can also be a direct aftermath of climate change. Melting glaciers and thermal expansion of oceans are raising the water, which can translate to an increased shift for liquefaction during earthquakes. Due to Indonesia's location on the Pacific Ring of Fire, seismic risks arise from the interaction of the Pacific, Eurasian, and Australian plates which produce frequent earthquakes, making them occur almost daily with a magnitude of around five on the Richter scale. Per year, Indonesia will endure at least one earthquake with a magnitude of six, which can generate casualties as well as infrastructure damages.⁶¹

When a large earthquake ruptures, the faulting can cause a vertical slip that is large enough to agitate the overlying ocean, producing a tsunami that will travel outwards in all directions.⁶² The level of fear in Indonesia is high regarding tsunami's ever since the 2004 Indian Ocean Tsunami, which was the deadliest tsunami ever recorded, causing approximately 230,000 casualties and an estimated total of \$4.45 billion in damages.⁶³

Due to the high frequency of the natural hazards that Indonesia is vulnerable to, the impact of disasters can clearly hamper the economy and its future development significantly, but let's not forget disasters also affect human wellbeing, livelihood, and health. Impacts can penetrate socio-economic elements such as education and mental health. Inequality can play a big part as well, as those who have less or are victims of poverty often experience more relative loss and this is worsened by their lack of services and protection mechanisms such as insurance.

⁶⁰ Collins, Sarah. "Climate Change Will Transform Cooling Effects of Volcanic Eruptions, Study Suggests." University of Cambridge, August 11, 2021. <https://www.cam.ac.uk/stories/volcanoesandclimate#:~:text=Where%20and%20when%20a%20volcano,eruptions%20will%20rise%20ever%20higher.>

⁶¹ UNDRR. "Disaster Risk Reduction in Indonesia," no. Status Report 2020 (2020). <https://www.undrr.org/media/48530/download.>

⁶² Fukuji, Tammy. "How Do Earthquakes Generate Tsunamis?". International Tsunami Information Center, 2014. http://itic.ioc-unesco.org/index.php?option=com_content&view=article&id=1158&Itemid=2026#:~:text=When%20a%20great%20earthquake%20ruptures,travel%20outwards%20in%20all%20directions.

⁶³ Indonesia Investments. 2022.

Natural disasters can go so far as affecting people based on hierarchies of power, marginalization, income, availability of support networks, and other factors.⁶⁴

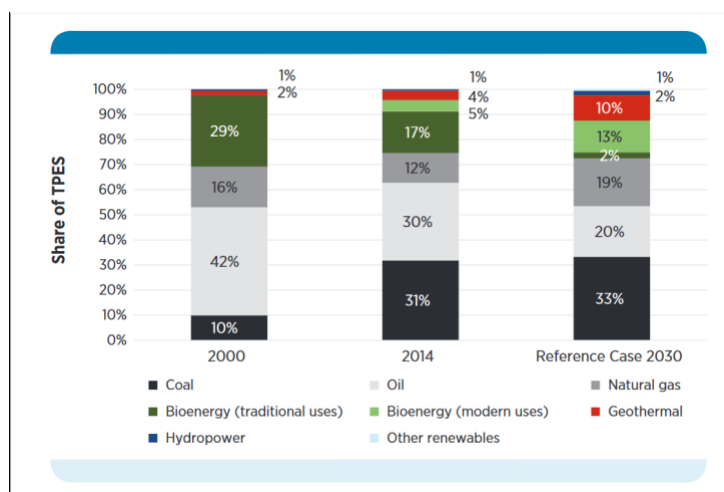
Renewable Energy

Indonesia is the world’s fourth-largest producer of coal and Southeast Asia’s biggest gas supplier. It is also the largest producer of biofuels worldwide. This makes the country a crucial actor in the renewable energy transition. Indonesia has been slightly increasing its dependence on domestic coal and imported petroleum products, among other conventional fuels, to satisfy its energy consumption needs. However, its growing usage of renewables is notable as well. Renewable sources have consistently been added to the country’s overall energy sustenance.

Through national energy policies, Indonesia’s goal is to have 23% of its total energy supply be generated by renewable sources by 2025, and 31% by 2050. However, experts estimate that it would take roughly \$16 billion worth of investments per year until 2030 to reach the 2050 goal. This would be a considerable investment, which policymakers would need to be account for.⁶⁵

The coal industry will clearly be directly affected in the long term by this shift. If Indonesia were to continue the path it’s on, the coal industry would continue to grow steadily. With the shift toward solar, geothermal, wind, and hydropower energies, some projections show that the growth would be much slower and eventually plateau in 2030.⁶⁶

FUEL MIX IN PRIMARY ENERGY SUPPLY



Source: IRENA

⁶⁴ UNDRR. 2020

⁶⁵ Tachev , Viktor. “The Growth of Renewable Energy in Indonesia – Current State, Opportunities and Challenges.” Energy Tracker Asia, January 29, 2021. <https://energytracker.asia/renewable-energy-in-indonesia/>.

⁶⁶ IRENA. Renewable Energy Prospects - Indonesia , March 2017. <https://energytracker.asia/renewable-energy-in-indonesia/>.

3. POLITICAL OUTLOOK

- According to Transparency International's Annual CPI, in 2020, Indonesia scored 38 out of 100 (on which 0 means highly corrupt and 100 means the opposite). However, it is one of the few countries in the CPI that has shown steady and gradual improvement.
- Pranowo's electoral victory in 2024 would probably establish a prominent coalition government based on a moderate approach and on liberal economic policies. Therefore, leadership at the regional level will likely grow.
- If either Anies Baswedan or Prabowo Subianto win the elections, the political division between Islamists and Nationalists might get stronger, hindering social stability. Both would lean toward a nationalist economic policy.
- Regardless of who wins the 2024 presidential elections, Indonesia is a solid democracy with functioning checks and balances.

Political Overview

Since its independence from Japanese rule in 1945, Indonesia has shifted several times from different political systems. The last and most recent period is known as the Reform Era, which began in 1998 after the resignation of the authoritarian leader Suharto due to a massive popular uprising. From that moment on, there has been an evolving democratic process, far from being perfect, but that remains up to this day.⁶⁷

In Indonesia, the president and vice-president are directly elected as a pair by the people, according to the 1945 Constitution, they can only serve for two consecutive periods of five years each. The current president, head of state, and government of the Republic of Indonesia, Joko Widodo "Jokowi" was elected for the first time in October 2014 and was re-elected in April 2019 for his last presidential term.⁶⁸ For this second period, Jokowi established a coalition government referred to as the "Onward Indonesia Cabinet" aimed at achieving political stability and passing major resolutions.

⁶⁷ Jakarta Globe. "Understanding Indonesia's Political System | Noteworthy Ep.1." 2019. YouTube Video. <https://www.youtube.com/watch?v=6IDnHUuq4VM>.

⁶⁸ Tani, Shotaro. "Jokowi Forms Broad Indonesia Coalition, Bringing in Rival Prabowo." 2019. Nikkei Asia. <https://asia.nikkei.com/Politics/Jokowi-forms-broad-Indonesia-coalition-bringing-in-rival-Prabowo>.

Considering that under Suharto's New Order, most political parties were prohibited, the Reform Era came with the widespread support of multi-party democracy. In this sense, the archipelago has not seen a single party dominating the political arena to the extent that no party has held the majority in Parliament.⁶⁹ Thus, coalition of political blocs and coalition governments have become common practice in Indonesia politics seeking to make executive and legislative mandates more effective. However, experts suggest that in countries in transition to a mature democracy, multi-party systems can make national stability more vulnerable. As frictions between the parties that make up the coalition rise, and as the next presidential election approaches, weaker alliances, conflicts between parties, and a pragmatic opposition are related to destabilizing government institutions and therefore the effectiveness of the mandate.⁷⁰

Notwithstanding and although it is already a widespread practice, there are two reasons that make the Onward Indonesia Cabinet distinctive: its composition and its extension. On the one hand, the biggest and most controversial move of Jokowi was the appointment as Defence Minister of Prabowo Subianto, leader of the former opposition Gerindra Party and Jokowi's biggest rival at his two presidential elections.⁷¹ Later, in 2020, the businessman Sandiaga Uno was also incorporated into the cabinet, making it the first time in the history of the Republic that all former contestants of a presidential election were in the same coalition government.⁷² In Indonesia, the president decides on the configuration of the government, composed at the time by 38 ministers, however, strong parliamentary support is required not only for these appointments but for any major changes in the government system.⁷³

The appointment of Subianto in one of the ministries can be received with bewilderment since when the results of the 2019 elections were released, the first thing he did was categorize them as fraudulent, but later he joined the cabinet. Subianto and his party want to be in power, so this is a good alternative for them to position themselves for the 2024 elections.⁷⁴ However, at

⁶⁹ Russell, Martin. "BRIEFING Continental Democracies." 2020. European Parliamentary Research Service (EPRS) [https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/646149/EPRS_BRI\(2020\)646149_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/646149/EPRS_BRI(2020)646149_EN.pdf).

⁷⁰ Mietzner, Marcus. "Coercing Loyalty: Coalitional Presidentialism and Party Politics in Jokowi's Indonesia." 2016. ResearchGate. https://www.researchgate.net/publication/308150096_Coercing_Loyalty_Coalitional_Presidentialism_and_Party_Politics_in_Jokowi's_Indonesia.

⁷¹ Tani, Shotaro. 2019.

⁷² Matius Alfons. "Resmi! Sandiaga Uno Jadi Menparekraf Gantikan Wishnutama." 2020. Detiknews. <https://news.detik.com/berita/d-5305355/resmi-sandiaga-uno-jadi-menparekraf-gantikan-wishnutama>.

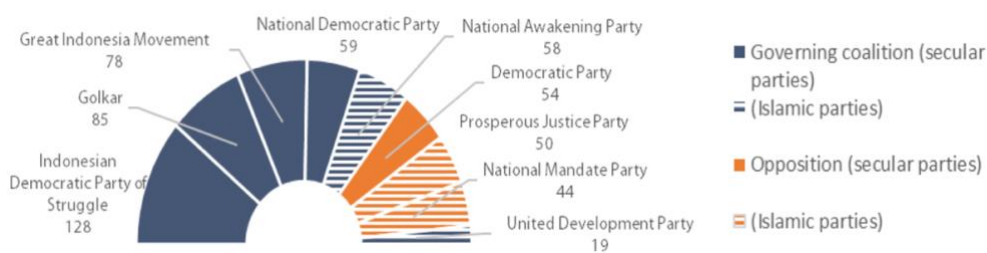
⁷³ Jakarta Globe. 2019.

⁷⁴ Mietzner, Marcus. 2016.

the government level, and although Jokowi has built the largest coalition possible to pass resolutions to further foster Indonesia's economic growth, in a healthy democracy, it is crucial to have a strong opposition that will create enough incentives to foster good governance.⁷⁵

The extension of the coalition government can be better seen in the House of Representatives (DPR), which is one of the chambers of the People's Consultative Assembly (MPR) alongside the Regional Representative Council (DPD). This is the only body that has the power to formulate and pass bills as well as to approve budget proposals. In 2019, the DPR was enlarged from 560 to 575 seats, these seats are filled by members of parties that are elected by proportional representation from 80 constituencies, whose number of seats can range from three to ten. In order to have a seat in the DPR, a party must have the national vote of at least 4%.⁷⁶

POLITICAL PARTIES IN INDONESIA'S HOUSE OF REPRESENTATIVES



Source: House of Representatives⁷⁷

There are nine parties that hold seats in the DPR, five secular or nationalists, and four Islamic. The four largest ones are secular, these are: (1) the Indonesian Democratic Party of Struggle (PDIP) to which Jokowi is a member; (2) the Golkar which is currently led by Megawati Sukarnoputri, the country's fifth president and the daughter of Sukarno; (3) the Great Indonesia Movement or also referred as Gerindra, which is a right-wing party that separated from Golkar in 2008 and is led by Subianto; and (4) the Democratic Party, led by Susilo Bambang Yudhoyono, Jokowi's predecessor.⁷⁸

⁷⁵ Tani, Shotaro. 2019.

⁷⁶ Russell, Martin. 2020.

⁷⁷ House of Representatives. the House of Representatives of the Republic of Indonesia. 2015. Dpr.go.id. <https://www.dpr.go.id/en/tentang/fraksi>.

⁷⁸ Russell, Martin. 2020.

Out of the 575 house members, only 104 consider themselves opposition, making the coalition government the leading force in any resolution that passes in this government body.⁷⁹

Secularism and Islamism

The Islamic and secular movements have shaped Indonesia's politics even before its independence. The post-1945 Indonesia was characterized, among many other dynamics, by the tensions between the nationalists and the Islamists who aimed to address in Parliament whether or not Islam or Pancasila – which means the 'belief in God' – should become the foundation of the republic. After a long period of rising ideological clashes between these two groups, topped with communist influences, strain in the country intensified. Moreover, when Suharto took power, aware of the political segregation in Indonesia and in rejection of the communist legacy, he decided to separate the country's political parties into those that identified themselves as secular, and those that were more affiliated to Islamic beliefs, pushing away any reference associated to communism and the left. However, Suharto's authoritarian behaviour led to the depoliticization of Islam as it became an "anti-government act" for Muslims to reach the public's political sphere.⁸⁰

In the current Reform Era, Islamic ideas have (re)flourished and Islam became again a strong political factor rather than just a cultural one. It has been gradually gaining more prominence at both the federal and the local level to the point that in Indonesia, 422 Sharia laws are being implemented in certain localities. Despite being a secular country, Pancasila is one of the five principles of Indonesia's state philosophy, therefore, all political parties, both secular and Islamic, respect and endorse this religious principle.

However, Islam has begun to be used not only as an ideal but also as a means and as a political instrument to gain support and advance certain agendas. An adequate example of this would be the Ahok case, where political polarization in Indonesia gained special momentum. In the context of the 2017 Jakarta regional elections, candidate Basuki Tjahaja Purnama—commonly known as Ahok—, a Christian of Chinese descent, became ammunition for his Islamist

⁷⁹ Ruhman, Fadhli. "Indonesia's Political Climate to Stabilize in 2022: BRIN Researcher." Antara News. ANTARA. February 2, 2022. <https://en.antaranews.com/news/212997/indonesias-political-climate-to-stabilize-in-2022-brin-researcher>.

⁸⁰ Andhika, Wendy. "Islamic Ideas versus Secularism. The Core of Political Competition in Indonesia". 2017. International Institute for Asian Studies. <https://www.iias.asia/the-newsletter/article/islamic-ideas-versus-secularism-core-political-competition-indonesia>.

opponents, Anies Baswedan and Sandiaga Uno.⁸¹ After establishing a Koranic verse to gain further voter support, the Jokowi ally triggered widespread opposition and rage among the Islamic hard-line groups such as the Islamic Defenders Front (FPI) which led to his arrest on the grounds of blasphemy charges. Following this incident, the Islamic political alliance between Baswedan and Uno was strengthened, later resulting in Baswedan's victory as Governor of Jakarta.⁸²

The secular political parties support a much moderate democracy and pluralist society, while Islamic parties tend to back a stronger role of Islam in politics and life.⁸³ Notwithstanding, the distinction of the two groups is not very pronounced as both discuss and prioritize religious issues in their policies because 87% of the population is Muslim, and also it is simply part of their identity as a country.⁸⁴ This blurred ideological position allows a smoother collaboration and flexibility when forming coalition governments.

The Threat to Democracy: Widespread Corruption

Since 1998, Indonesia has made a significant effort to advance its democratic transformation. For many scholars, the archipelago is Southeast Asia's most vibrant democracy as it has been named the freest of the 10 countries that are part of this region.⁸⁵ However, in the process of guaranteeing the protection of human rights, building strong institutions, promoting the separation of powers, and decentralizing decision-making away from Jakarta to the districts, the government has failed to combat systematic corruption.

Corruption is an impediment that hinders the fight for injustice, the achievement of the country's fullest economic potential, and undermines the investment and business climate since investors have to deal with a higher degree of legal uncertainty. Therefore, it is imperative to take decisive action to tackle it. In this attempt, in 2003, the Corruption Eradication Commission (KPK) was established, a government agency that seeks to fight corruption by

⁸¹ Suzuki, Jun. "Hard-Line Islamists Are Growing in Power in Indonesia." Nikkei Asia. Nikkei Asia. October 19, 2017. <https://asia.nikkei.com/Politics/Hard-line-Islamists-are-growing-in-power-in-Indonesia>.

⁸² Afrimadona. "Revisiting Political Polarisation in Indonesia: A Case Study of Jakarta's Electorate." 2021. *Journal of Current Southeast Asian Affairs* 40 (2): 315–39. <https://doi.org/10.1177/18681034211007490>.

⁸³ Indonesia Investments. "Governance in Indonesia - Indonesian Bureaucracy - Analysis | Indonesia Investments." 2022. Indonesia-Investments.com. <https://www.indonesia-investments.com/business/risks/governance/item242>.

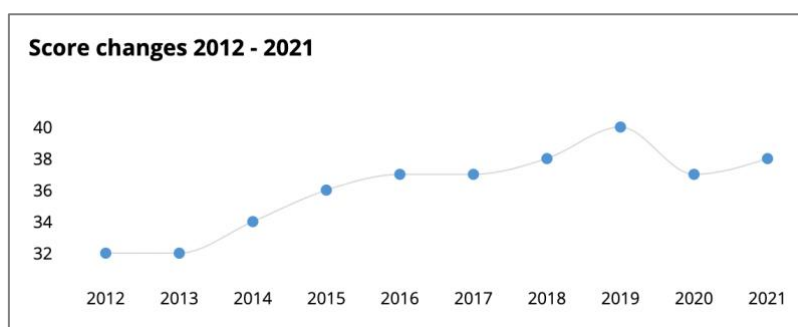
⁸⁴ Russell, Martin. 2020.

⁸⁵ Freedom House. "Countries and Territories." 2020. Freedom House. <https://freedomhouse.org/countries/freedom-world/scores>.

investigating and prosecuting such cases. This agency has gained momentum since 2014, as it has moved from a low-profile scheme to one in which it has led to the arrest and sentencing of more than 24 corrupt legislators. However, it remains a weak institution sucked into the system of fragmented and generalized corruption.⁸⁶

Jokowi entered the presidency under common political rhetoric characterized by the battle against corruption. In this line of action, he has taken innovative measures such as the transfer of some government processes to the online format, which not only makes them more accessible but also more transparent. According to Transparency International's Annual Corruption Perception Index (CPI), which is the most widely-used global corruption ranking, in 2020, Indonesia scored 38 out of 100, on which 0 means highly corrupt and 100 means the opposite.⁸⁷

INDONESIA'S CORRUPTION PERCEPTION INDEX SCORE



Source: Transparency International

Although it is clear that there is still a long reform road ahead, Indonesia is one of the few countries in the CPI that has shown steady and gradual improvement. In a poll conducted on 870 people in 2019, it was found that 47.4% of the participants believe that Indonesia is now less corrupt than ten years ago, 21.4% think that corruption has remained at the same level, 20.5% considers that it has worsened, and 10.8% had no opinion on the matter.⁸⁸ However, according to a survey made by GCB Asia, 92% of Indonesians think that corruption in government institutions and political parties is a big problem in their country.⁸⁹

⁸⁶ Indonesia Investments. "Corruption in Indonesia - Analysis | Indonesia Investments." 2019. Indonesia-Investments.com. <https://www.indonesia-investments.com/business/risks/corruption/item235>.

⁸⁷ Transparency International. "2021 Corruption Perceptions Index - Explore Indonesia's Results." 2022. Transparency.org. <https://www.transparency.org/en/cpi/2021/index/idn>.

⁸⁸ Indonesia Investments. 2019

⁸⁹ Transparency International. "How Does Corruption Shape Asia? - News." 2020. Transparency.org. <https://www.transparency.org/en/news/how-does-corruption-shape-asia>.

The great challenge in Indonesia is grand corruption, which involves the abuse by high-level officials who benefit at the expense of the entire population. In this sense, it is vital – not only to protect democracy, but also entire sectors and even the population itself – to encourage deep technical intervention, strengthen the KPK, and educate and inform the population. Tackling grand corruption goes far beyond prosecuting those guilty of these acts, as it entails digging in the structure, culture, and mentality of all social levels.

Forecast of Indonesia's 2024 Elections

Two years away from the presidential elections the friction between political parties that aspire to better position themselves for 2024 is already beginning to be felt. A survey carried out by Arus Survei Indonesia suggests that little will change from the 2019 elections as the same three parties continue to dominate the voter support: the PDIP with 19.6%, the Gerindra Party with 14.9%, and Golkar with 10.4%. Notwithstanding, it also showed that only seven of the 16 largest political parties are likely to pass the 4% threshold required to take seats in Parliament.⁹⁰

These three parties are likely to dominate the Parliament seats, however, considering that in the context of presidential elections, voters tend to thoroughly evaluate the profile of the candidates, it is complex to forecast what would be the outcome of 2024. Therefore, the popularity of the PDIP does not suggest that its nominee will win the election even though it enjoys the benefit of incumbency and of the successful policies and achievements of both of Jokowi's presidential terms.

There are three names that are circulating the most: (1) Ganjar Pranowo, the Governor of Central Java, as candidate for the PDIP; (2) Anies Baswedan, the Governor of Jakarta, with no party alignment, but with clear tendency towards the Islamic groups; and (3) the third-time runner Prabowo Subianto, current Defence Minister, with the Gerindra Party.⁹¹ Current surveys aiming to address who leads the race, vary depending on who conducts them, so what is certain is that most likely one of these three candidates will be the one who heads the executive power in 2024.⁹²

⁹⁰ Malik, Asmiati. "Who Will Succeed Joko Widodo as Indonesia's President?" *The Diplomat*.com. December 13, 2021. <https://thediplomat.com/2021/12/who-will-succeed-joko-widodo-as-indonesias-president/>.

⁹¹ Indra Hendriana. "These 3 Political Parties Predicted to Become Anies Nyapres Vehicle in 2024." 2021. *VOI*. <https://voi.id/en/news/41013/these-3-political-parties-predicted-to-become-anies-nyapres-vehicle-in-2024>.

⁹² Bayuni, Endy. "2024 Election: Who's Got the Ticket to Ride? But Voters Care." 2021. *The Jakarta Post*. <https://www.thejakartapost.com/opinion/2022/01/11/2024-election-whos-got-the-ticket-to-ride-but-voters-care.html>.

Possible Scenarios

The three-point estimation provides three possible scenarios, one of which is the most likely estimate, another is the best-case estimate, and the last one is the worst-case estimate. There are also possible consequences for each of these cases, and their probability measured in percentage (%).

SCENARIOS: THREE-POINT ESTIMATION

	Economic Growth	Societal Integration and Tolerance	Corruption	Indonesia as a Regional Leader
Ganjar Pranowo wins with the support of PDIP The best-case estimate	80%	65%	65%	85%
Anies Baswedan wins with the support of PKB and PKS The worst-case estimate	45%	20%	60%	30%
Prabowo Subianto wins with the support of the Gerindra Party The most likely estimation	60%	40%	75%	50%

Source: Author's elaboration

Note: 0% means almost impossible; 50% means possible and 100% means almost certain
Critical – Beneficial

Pranowo's electoral victory would probably give continuity to Jokowi's policies and achievements. Likewise, it would seek social and political integration and tolerance through moderate measures and with a large coalition government such as the Onward Indonesia Cabinet. A major challenge, in this scenario, would be the hard-line Islamist groups that engender narratives of intolerance and that already come with a hostile attitude after the Jokowi administration marginalized them by banning the FPI.⁹³ Islamist hardliners are on the rise but still lack dominance. The vast majority continue to be the silent moderate Muslims who are more closely related to the proposals of the PDIP and who embrace the ideology of the Pancasila.

⁹³ Al Jazeera. "Indonesia Bans Hardline Islamic Defenders' Front." Aljazeera.com. Al Jazeera. December 30, 2020. <https://www.aljazeera.com/news/2020/12/30/indonesia-bans-islamic-defenders-front-a-hardline-group>.

Moreover, through liberal economic measures, Pranowo's presidency could not only maintain steady economic growth through national infrastructure development efforts and a beneficial scenario for Foreign Direct Investment (FDI) but could also coincide with greater leadership at the regional level by being the next Chair of ASEAN.⁹⁴

If either Anies Baswedan or Prabowo Subianto win the elections, the political division between Islamists and Nationalists might get stronger, hindering societal integration with minority groups.⁹⁵ This social dynamic would be more evident in the case of Baswedan's victory since the current governor of Jakarta is mainly supported by Islamist parties – like the National Awakening Party (PKB) and the Prosperous Justice Party (PKS) – and Islamist hardliner groups who pose a danger to Indonesia's historically pluralist social contract and hamper the social stability of the Republic.⁹⁶ Although Subianto has also been characterized by forming alliances with conservative Muslim groups, his involvement in the Onward Indonesia Cabinet as Defence Minister could moderate his approach, reaching moderate Muslims as well.

Baswedan and Subianto would lean toward a nationalist economy with inward-looking policies in front of the current regional dynamics. The post-COVID panorama, calls for further integration, so regional opportunities would only become beneficial for Indonesia if it takes advantage of them. Accordingly, Subianto's rhetoric in his past election campaigns has been characterized by anti-foreign and anti-establishment language, which could affect the foreign investment landscape and trade relations with Indonesia's top trading partners if he wins the elections.⁹⁷

Notwithstanding, regardless of who wins, there may not be immediate radical changes in the internal dynamics of the Republic. In a fair and solid democracy, checks and balances avoid power concentration in the executive. Therefore, Indonesia's multi-party system fuels a government of coalitions, which can hinder the incentives to maintain good governance, but simultaneously, limit the social polarization of society inside the DPR.

⁹⁴ Afrimadona. 2021.

⁹⁵ Suzuki, Jun. 2017.

⁹⁶ Kuipers, Nick, Gereth Nellis, and Michael Weaver. "What Happens When Islamists Win Power Locally in Indonesia? - New Mandala." New Mandala. August 4, 2020. <https://www.newmandala.org/what-happens-when-islamists-win-power-locally-in-indonesia/>.

⁹⁷ Afrimadona. 2021.

4. REGIONAL INTEGRATION

- The Consequences of Chinese foreign investment, related to the treatment of Indonesian workers, could foster rejection and intolerance toward the Chinese-ethnic minority.
- Indonesia will chair ASEAN in the coming year, making it an ideal opportunity to uphold its leadership in the institution.
- The BRI can be a big opportunity if managed cautiously.
- The RCEP will contribute around \$1 million to Indonesia's trade surplus and will increase investment inflows by 1.7 billion by 2040.
- Government bureaucracy, corruption, and lack of commitment will hinder Indonesia's effort to become a global maritime actor by making maritime infrastructure development.
- The Strait of Malacca will remain the most favourable route in the Southeast Asia region for the next decades. Therefore, Indonesia will be unlikely to use the Straits of Sunda and Lombok for its leadership projection in the region.

Indonesia as a Strong Regional Actor

Indonesia's management of great power relations – as is the case of China and the United States – might be characterized by the notion of “pragmatic equidistance”, meaning that as a developing country with a strong profile, Indonesia looks for the best way to benefit from the strategic partnerships while maintaining autonomy. This notion should not be detached from how Jakarta interacts with the rest of its associated states, rather, it should be understood as a complementary approach to Indonesia's foreign policy that naturally focuses on Association of Southeast Asian Nations (ASEAN).⁹⁸

This association was established in 1967 aiming to accelerate economic growth, social progress, and cultural development, and promote regional peace and stability.⁹⁹ Indonesia, like

⁹⁸ Laksmana, Evan A. “Pragmatic Equidistance: How Indonesia Manages Its Great Power Relations.” 2017. ResearchGate. unknown. https://www.researchgate.net/publication/318246513_Pragmatic_Equidistance_How_Indonesia_Manages_its_Great_Power_Relations.

⁹⁹ Guerrero, Rosabel. “Regional Integration: The ASEAN Vision in 2020.” n.d. <https://www.bis.org/ifc/publ/ifcb32c.pdf>.

the rest of the countries, benefited from cooperation and external flows of investment and skills at the very beginning. But from being a regional obstacle in the 60s, Indonesia came a long way in democratic transformation becoming an outstanding peace-making actor within ASEAN. Indeed, Jakarta's way of exerting influence in the institution was represented in its measures and proposal for its success as a democratic state.¹⁰⁰

Now after many years of existence, ASEAN perhaps has not moved forward with the establishment of an economic community as intended back then – although efforts continue to be mobilized to make it a reality by 2025 –, however, such an organization has gone through crises, territorial disputes between its member states, tensions, but since its creation, it has become a forum for dialogue and an element of the regional stability.¹⁰¹ Moreover, for the last decades, it has also promised constant economic growth and will keep doing so if the opportunities that now lie in the South East Asia region are properly managed and directed toward building stronger and more resilient systems domestically.¹⁰²

The volatility of the financial markets, the coercive economic behaviour by China, and the aftermath of COVID-19 pose threats and uncertainties to ASEAN member states.¹⁰³ The consequences of interdependence fuelled by integration efforts, imply the sharing of responsibilities. Therefore, Indonesia should influence its associated state to lie on its notion of pragmatic equidistance, but simultaneously remain flexible to take advantage of the opportunities that current dynamics might generate. Scholars and academics argue how President Jokowi's shift in its foreign policy can signify a decline of its leadership in the organization.¹⁰⁴ However, Indonesia will chair ASEAN in the coming year, making it an ideal opportunity to regain its role. Indeed, leadership in the ASEAN is deeply represented in the chairmanship, by being able to influence decision-making among its members.¹⁰⁵

¹⁰⁰ Putra, Bama Andika. "Indonesia's Leadership Role in ASEAN: History and Future Prospects." 2015. *IJASOS-International E-Journal of Advances in Social Sciences* 1 (2): 188. <https://doi.org/10.18769/ijasos.82584>.

¹⁰¹ Development Bank. "Economic Brief - Regional Integration in South-East Asia: Lessons for the Southern Mediterranean Countries." African Development Bank - Building Today, a Better Africa Tomorrow. May 13, 2019. <https://www.afdb.org/en/documents/document/economic-brief-regional-integration-in-south-east-asia-lessons-for-the-southern-mediterranean-countries-50705>.

¹⁰² Aristyo Rizka Darmawan. "Reformulating ASEAN's Outlook on the Indo-Pacific | East Asia Forum." 2021. East Asia Forum. <https://www.eastasiaforum.org/2021/09/29/reformulating-aseans-outlook-on-the-indo-pacific/>.

¹⁰³ IMF. "The Future of Southeast Asia – IMF Finance & Development Magazine." 2018. [Imf.org. https://www.imf.org/external/pubs/ft/fandd/2018/09/future-of-southeast-asia-bhaskaran.htm](https://www.imf.org/external/pubs/ft/fandd/2018/09/future-of-southeast-asia-bhaskaran.htm).

¹⁰⁴ Shiraishi, Takashi. "Global Perspective: Indonesia's 3 Challenges in Becoming a Southeast Asian Power - the Mainichi." 2021. The Mainichi. <https://mainichi.jp/english/articles/20210921/p2a/00m/0op/018000c>.

¹⁰⁵ Putra, Bama Andika. 2015.

Hence, in the efforts to rebuild its post-pandemic economy and move forward with an ASEAN-led infrastructure, Indonesia's chairmanship should be pushing toward the reliance on the measures, coordination, and its ASEAN-centric non-aligned and active diplomacy, rather than solely following other countries' agenda. Certainly, the future and a great part of the integration of the region depends on this.¹⁰⁶

Indonesia in Current Regional Dynamics

Belt and Road Initiative: Opportunity or Threat?

The Belt and Road Initiative (BRI) is one of the most ambitious economic infrastructure development projects in the world. It has the absolute potential not only to change the trade structure of the Asian continent and part of Europe, but it can also catalyze the Chinese rise as a stronger global economic and political power. The initiative was announced by the Chinese president, Xi Jinping, during the ASEAN Summit in Indonesia in 2013.¹⁰⁷ Here's the first point. In recent years, Indonesian foreign policy has been characterized as independent and active. By "independent", it doesn't mean that it neglects global dynamics, but rather that no outside influence determines its position. By "active", it means that it is committed to common regional and global efforts and goals.¹⁰⁸

The fact that Xi Jinping has announced the BRI in Indonesia and at the ASEAN summit sends a clear message. China seeks to count on Indonesia and the rest of the countries in the region for its implementation. There is still no official list of BRI participants, but it does involve more than 60 countries that see it as a disruptive effort to boost their foreign trade.¹⁰⁹ Due to its geopolitical positioning, Indonesia cannot turn a blind eye to such a dynamic but must see it as an opportunity that requires deep pragmatic preparation.

China has been increasing its investments in Indonesia since the announcement of this initiative. In 2006, its FDI in the archipelago was \$32 million, but 10 years later China began to dominate the FDI proportion with \$2.7 billion. Notwithstanding, the Jokowi government has

¹⁰⁶ Yeong, Bryan. "Looking at ASEAN's Post Pandemic Future." 2021. Eastspring Investments. <https://www.eastspring.com/insights/thought-leadership/looking-at-asean-s-post-pandemic-future>.

¹⁰⁷ Chatzky, Andrew, and James McBride. "China's Massive Belt and Road Initiative." 2019. Council on Foreign Relations. <https://www.cfr.org/backgroundunder/chinas-massive-belt-and-road-initiative>.

¹⁰⁸ Mochamad, Yanyan, and Ian Montratama. "Indonesia and ASEAN in 2025: A Political and Security Perspective." 2018. *Dinamika Global* / 03 (02). <http://fisip.unjani.ac.id/wp-content/uploads/2019/01/INDONESIA-AND-ASEAN-IN-2025-A-POLITICAL-AND-SECURITY-PERSPECTIVE-Yanyan-Mochamad-Yani-Ian-Montratama.pdf>.

¹⁰⁹ Chatzky, Andrew, and James McBride. 2019.

also welcomed these investments. In 2019, it offered 30 projects to China worth \$91 billion at the second BRI Forum.¹¹⁰ The obvious and superficial impact of these dynamics is positive since the countries involved can benefit from the Chinese infrastructure development programs. Nonetheless, Indonesia has to be cautious with its opening to these investments considering that there are also negative implications such as the debt trap that would generate direct dependency for those that fall into it and, the issue with human security.

Especially Indonesia could be affected by the second scenario considering that Chinese companies lack a safe work environment that hampers the proper treatment of Indonesian workers. Likewise, Chinese investments in sectors such as textiles and steel could cause many interest groups' workers in Indonesia to lose their jobs and be replaced by foreign human capital. This can also happen when Chinese manufacturing technology firms enter a country with little technological knowledge. Clearly, the first option will be to hire experienced Chinese workers, displacing the capabilities of nationals.¹¹¹ Thus, internal preparation is crucial. Indonesia has a fragile harmonious diversity that has generated susceptibility toward the economic activity of the Chinese ethnic minority in the country. Therefore, these Chinese foreign investment consequences could foster rejection and intolerance toward this minority.

The anti-Chinese sentiment is not only linked to historical reasons related to communism but also has to do with the levels of inequality in the Republic. According to an Oxfam report, Indonesia's four wealthiest people have as much wealth as 100 million poor people.¹¹² Therefore, the State must first pay special attention to standing firm with its pragmatic equidistance so as not to put Indonesia too close to China at the expense of the people. Secondly, it must support these groups by investing not only in infrastructure but also in the capacity building of its workers so that, as it is for the state, these investments can represent an enriching opportunity for the population. As long as the government bears in mind that it is vital for the stability of its country to have high skilled human resources and handle investments skeptically and carefully, the BRI may not signify a Trojan horse, but an opportunity.

¹¹⁰ Pratiwi, Fadhila. "China Belt and Road Initiatives (BRI) in Indonesia's Socio-Economic Security Challenges: A Policy Recommendation from Sorotan Kebijakan Luar Negeri Indonesia Di Mata Akademisi Muda Indonesia on JSTOR." 2019. Jstor.org. <https://www.jstor.org/stable/resrep25407.9?seq=1>.

¹¹¹ Idem.

¹¹² Idem.

The Impacts of the RCEP in Indonesia

ASEAN's post-pandemic future calls for further regional integration which will entail greater intra-regional connectivity and incentives for competition. To a large extent, all this is related to the advances in economic agreements such as the Regional Comprehensive Economic Partnership (RCEP), which after almost a decade of negotiations, at the end of 2020, was finally signed.¹¹³ This agreement is particularly relevant since it integrates previous Free Trade Agreements (FTA's) between ASEAN members and their top five trading partners with considerable economic and commercial leverage, these are China, South Korea, Japan, Australia, and New Zealand.¹¹⁴ To get an idea of its magnitude, when talking about the RCEP, it not only refers to the largest economic bloc in the world, but also the framework that accounts for 27% of the world trade, 29% of the global GDP and FDI, and 30% of the world's population.¹¹⁵ Indonesia has not yet ratified the agreement, however, in January 2022, the Indonesian Minister for Coordinating Economic Affairs, Airlangga Hartarto, stated that the Indonesian government aims to ratify the framework in the first quarter of 2022.¹¹⁶

Indonesia is the first economy among ASEAN members and the fourth among RCEP members, but it has the potential to climb to the 4th largest economy in the world by 2045. In this sense, through the RCEP, Indonesia has a tremendous opportunity to increase its internal capacities and further influence the steady growth that the region has witnessed in recent years. Nine of its top eleven trading partners are participating members of this framework. This agreement covers a wide range of areas, from goods, services, MSMEs, and investment, to technical cooperation, e-commerce, intellectual property, and competition. From 2015 to 2020, Indonesia's export data to 14 RCEP member countries show positive growth of 7.35% and RCEP members reached 65.79% of Indonesia's total imports.¹¹⁷ However, from a long-term

¹¹³ Yeong, Bryan. "Looking at ASEAN's Post Pandemic Future." 2021. Eastspring Investments. <https://www.eastspring.com/insights/thought-leadership/looking-at-asean-s-post-pandemic-future>.

¹¹⁴ Aprilianti, Ira. "Will RCEP Be Beneficial for Indonesia?" 2019. ResearchGate. https://www.researchgate.net/publication/341803498_Will_RCEP_be_beneficial_for_Indonesia.

¹¹⁵ Yan Ing, Lili. "What Does the RCEP Mean for Indonesia?" 2021. Economic Research Institute for ASEAN and East Asia - ERIA. <https://www.eria.org/news-and-views/what-does-the-rcep-mean-for-indonesia/#:~:text=In%20terms%20of%20trade%2C%20it,Indonesia%20by%20USD%201.7%20billion>.

¹¹⁶ Indonesia Investments. "Indonesia Aims to Ratify the RCEP Trade Agreement in Q1-2022 | Indonesia Investments." 2022. Indonesia-Investments.com. <https://www.indonesia-investments.com/business/business-columns/indonesia-aims-to-ratify-the-rcep-trade-agreement-in-q1-2022/item9494?>

¹¹⁷ Moenardy, D., S. Sutantri, D. Roespinoedji, and M. Saudi. "View of Indonesia's Strategy in Facing the Regional Comprehensive Economic Partnership (RCEP)." 2021. Turcomat.org. <https://turcomat.org/index.php/turkbilmat/article/view/9905/7578>.

perspective, it is estimated that the RCEP will contribute around \$1 million to Indonesia's trade surplus and will increase investment inflows by \$1.7 billion by 2040. According to the Ministry of Trade and Finance, it will increase the GDP of the archipelago by 0.07% by the same date.¹¹⁸

The agreement will not only generate the absorption of Indonesian workers by foreign companies but also, the reduced trade barrier will bring many benefits to companies.¹¹⁹ With lower tariff rates for its exports, access to cheaper quality inputs for its production, to enjoy a much more transparent environment, this framework is essential to boost the archipelago's trade even more steadily, the development of the economy, industries, and the workforce.¹²⁰

Nonetheless, an important point to consider is the presence of China in the agreement. Indonesia and the other members of ASEAN must find a way not only to take advantage of the other participating states but also to solidify economic rapprochements with China's economic rivals to avoid a further dependency and separate from the reliance on the Chinese supply chain ecosystem – accelerated by the BRI – fostering growth and job creation within their territories.¹²¹ It is crucial that Indonesia makes policy adjustments and strategically directs the management of these foreign investments because, same as the BRI, the RCEP can be another opportunity for growth, but also of burden for many industries and interest groups.

Therefore, within the focus of the infrastructure development plan, the workforce and industries must be trained to face these investments in a resilient manner and simultaneously take advantage to increase quality, standards, and competitiveness domestically and abroad.¹²² These efforts are not about protecting the workforce and leaving them staked, but about giving them incentives, support, and growth towards an economy that is rapidly advancing in the digital industry.

Indonesia and the Development of Maritime Infrastructure

Indonesia is an archipelagic country that encompasses more than 17,000 islands and whose geography makes the transport and logistics sector a vital element of its economic

¹¹⁸ Yan Ing, Lili. 2021.

¹¹⁹ Aprilianti, Ira. 2019.

¹²⁰ Yan Ing, Lili. 2021.

¹²¹ Yeong, Bryan. 2021.

¹²² Moenardy, D., S. Sutantri, D. Roespinoedji, and M. Saudi. 2021.

development.¹²³ Hence, current president Jokowi transformed how the Indonesian foreign policy performed. In his first foreign policy speech as a president in 2014, Jokowi coined the global Maritime Nexus Doctrine with which he aimed to place the national identity, prosperity, and future of the country by how the waters were managed.¹²⁴ As part of this effort, several policies and plans have been implemented that seek to address the growing need to facilitate domestic transportation, its international trading links, and its internal connectivity through investment in maritime infrastructure as part of the endeavor of turning Indonesia into a global maritime axis, thus advancing its strategic autonomy.¹²⁵

Indonesia has 1,700 ports of which 111 are commercial and only 11 are container ports. However, historically they have unfulfilled their goals due to their poor infrastructure which increases transaction costs and directs much of Indonesia's cargo through Malacca and Singapore. All of these obstacles have hampered Indonesian firms and consumers from taking full advantage of growing global trade linkages. Hence, Jokowi's maritime approach was launched in conjunction with "Sea Toll Road" system, which specifically became the framework to modernize the antiquated and inefficient port network. More than 20 port facilities across the archipelago have received restorations and expansion, but the largest port in the country, the Tanjung Priok in Jakarta – better known as Kalibaru port –, has been the most ambitious project since it accounts for 50% of maritime traffic.¹²⁶

If these plans and policies were properly implemented, Indonesia could significantly benefit from a more efficient supply chain that would lower the high costs of shipping within the archipelago and increase inter-island connectivity. However, these efforts have not worked as the Jokowi administration hoped. Compared to the other ASEAN countries, Indonesia ranks 4th in port infrastructure quality, after Singapore, Malaysia, and Thailand.¹²⁷ Perhaps the fourth place does not seem so negative, however, Vision 2045, envisions that the economy will grow on an average of 5.1% per year until 2045, making it the fourth economy in the world by that

¹²³ OECD. "OECD Reviews of Regulatory Reform Indonesia Regulatory and Competition Issues in Ports, Rail and Shipping." 2012. *OECD*. <https://www.oecd.org/indonesia/Chap%205%20-%20Ports%20Rail%20and%20Shipping.pdf>.

¹²⁴ Mochamad, Yanyan, and Ian Montratama. 2018.

¹²⁵ Laksmana, Evan A. 2017.

¹²⁶ ITE. "Ports in Indonesia Ready to Expand | ITE Transport & Logistics." 2017. *Transport-Exhibitions.com*. <https://www.transport-exhibitions.com/Market-Insights/Indonesia/Ports-in-Indonesia-ready-to-expand>.

¹²⁷ Wahyuni, Sari, Alif Azadi Taufik, and F.K.P Hui. "Revealing Indonesian Port Competitiveness. Challenge and Performance." 2019. *Openedition.org*. <https://doi.org/https://books.openedition.org/obp/11478?lang=es>.

year. When this projection is assumed, the port infrastructure quality, does, in fact, says a lot about its position.¹²⁸

Undoubtedly, these projects aimed at enhancing maritime infrastructure are beneficial for many parties and although there is general support from the public budget and private investments for their realization, the government bureaucracy, corruption, and lack of commitment generate a significant gap in policy expectation and implementation. This panorama induces a scenario of uncertainty that destabilizes Indonesia as a "global maritime actor", however, there are still two years left for the Jokowi presidency to end. Two years in which progress can still be made and perhaps achieve an important maritime position as long as it is in the interest and commitment of the Onward Indonesia Cabinet for the geopolitical and economic future of Jakarta.

On the other hand, the high saturation of the Strait of Malacca which accounts for 60% of the international maritime trade, has resulted in many maritime accidents, making many countries explore alternative routes. China, for example, through its BRI has developed new routes that are likely to reduce its dependency on the Malacca Strait. Likewise, Indonesia has natural geographic alternatives such as the Sunda and Lombok Straits, however, these routes are generally used for very specific waterways, ships, and in the case of an unexpected disruption in Malacca that causes forced detours. To get an idea, a week of the closure of the Strait of Malacca can result in approximately \$64.5 million in extra shipping costs, and the cost of rerouting all the ships to Lombok will be approximately \$119 million.¹²⁹

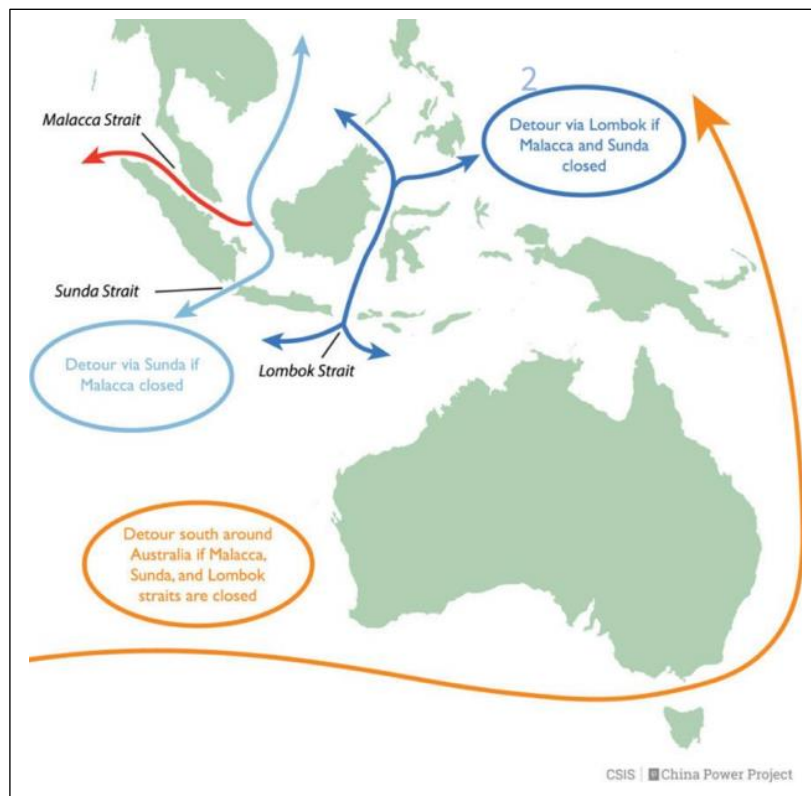
In the case of the Sunda Strait, although it is an important waterway that connects the Indian Ocean with the Java Sea, the strait suffers from many navigational hazards that can interrupt safe navigation and its narrowness makes it unsuitable for many modern large ships to cross. Moreover, a detour along this route would pass through the Port of Singapore, which has sufficient capacity to receive a large cargo.¹³⁰

¹²⁸ Shiraishi, Takashi. 2021.

¹²⁹ Jariod, Elisenda. "Prospection and Analysis of New Maritime Trade Nets of Asia in the Malacca Strait Final Project." 2019. [https://upcommons.upc.edu/bitstream/handle/2117/169660/140869_ElisendaVenturaJariod_TFG%20\(1\).pdf](https://upcommons.upc.edu/bitstream/handle/2117/169660/140869_ElisendaVenturaJariod_TFG%20(1).pdf).

¹³⁰ Mohd Rusli. "CO12024 | Maritime Highways of Southeast Asia: Alternative Straits?" 2012. Rsis.edu.sg. <https://www.rsis.edu.sg/rsis-publication/rsis/1686-maritime-highways-of-southeast/#.YkUKThBBxfV>.

DETOURS THROUGH SUNDA AND LOMBOK STRAITS



Source: CSIS

The Malacca Strait has been following a steady growth, but comparing this decade to the last one, growth rate is slowing down. Notwithstanding, both China and Indonesia acknowledge that Malacca remains the most favourable option, and whilst many countries think the same and the Strait of Malacca remains open – which will be the case for the next decades at least – no other alternative in Southeast Asia will be able to exceed its functionality. Therefore, Indonesia does not have a feasible option to fully take advantage of its straits to further support the projection of Jakarta's regional influence.

CONCLUSIONS

Indonesia's economy will keep expanding along with its GDP and its stable inflation rate. The archipelago is prioritizing economic growth, however, the achievement of its full potential is dependent on the ability to move away from protectionist policies.

Moreover, the rise of Radical Islam and national fracture movements in West Papua and Aceh have been properly managed to point that they are unlikely to grow or to happen respectively. Indonesia is a solid democracy, but it is still highly corrupt, nonetheless, there have been gradual improvements.

The 2024 presidential elections can either signify continuity or can hinder social stability depending on who wins, notwithstanding checks and balances avoid power concentrations in the executive.

Regionally, there are many opportunities in which Indonesia can take advantage. From chairing ASEAN and the involvement in economic agreements such as the RCEP to its participation in the BRI, the archipelago must cautiously manage these dynamics to maintain autonomy and uphold its leadership in the region.

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