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Indonesia's Role in the Region – An Australian Perspective

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EXECUTIVE SUMMARY

- Australia is comfortable with Indonesia's rise because Indonesia is neither too weak nor too strong in economic or military terms to be perceived as a threat or create difficulties for Australia.
- As a result, Australia has no interest in containing Indonesian power or influence. Instead, Canberra's goal is to neutralise or dilute Indonesia's threat perception of Australia, and minimise political and diplomatic tension between the two countries.
- In the medium term, Australia has no expectations that Jakarta will emerge as a genuine leader and agenda-shaper in the region. The minimal hope in Canberra is that Indonesia will 'do no harm' to Australian strategic interests. The greater hope is that Jakarta will increasingly look northward towards Northeast Asia for potential threats rather than southward, creating a modest strategic buffer for Australia.

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INTRODUCTION¹

The public rhetoric of the Abbott government suggests that Australia is presently comfortable with Indonesia's rise, with the prime minister commenting in positive terms that "Indonesia is an incredibly important country to Australia given its proximity, its size and its potential."² In recent times, Abbott has welcomed the "wave of confidence and renewal sweeping Indonesia" with the hope that the country under Joko Widodo whom Abbott praised as a "charismatic and inspirational figure" will allow Australia "opportunities to take part in the renewal and the reinvigoration of this important neighbour and partner."³

Such comfort stems in part from the relatively smooth and bloodless transfer of power from Susilo Bambang Yudhoyono (SBY) to Jokowi despite the protestations of the defeated presidential candidate Prabowo Subianto – signalling that Indonesia has become a significantly different country to what it was under Sukarno.

Even so, Australia is well aware that Indonesia's democratic transition is far from irreversible or permanent and that the future political direction of Indonesia is not assured or set in stone. In reality, Australia's current comfort with Indonesia's rise is also largely based on Canberra's assessment that the preferred 'Goldilocks' point has been reached for the foreseeable future – that Indonesia is neither too strong to threaten Australia's strategic interests nor too weak or divided a country to pose headaches for Canberra.

THE ECONOMIC RISE OF INDONESIA

Australian commentary on Indonesia is often driven by predictions that Indonesia could be the fourth largest economy in Asia by 2030.⁴ Current Australian government thinking on

¹ We would like to thank Vandana Prakash Nair for her editorial assistance.

² Quoted in Michael Gordon, "Tony Abbott expected to visit Indonesia," *The Age*, September 10, 2013 <http://www.smh.com.au/federal-politics/tony-abbott-expected-to-visit-indonesia-20130910-2tigs.html> accessed December 12, 2014.

³ Quoted in "Abbott hails Indonesia's confident new era," *Sky News*, October 20, 2014 <http://www.skynews.com.au/news/top-stories/2014/10/20/abbott-hails-indonesia-s-confident-new-era.html> accessed December 12, 2014.

⁴ For example, see PwC Economics, *World in 2050 - The BRICs and Beyond: prospects, challenges and opportunities*, January 2013 http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf accessed December 12, 2014. For an example of Australian commentary elevating Indonesia's importance based on these projections, see Ben Herscovitch, "Preserving Peace as China Rises II: Preparing for a Post-American Asian Order," *Foreign Policy*

Indonesia is however highly cognisant of the realities of Indonesia being still poor and developing country, of the challenges facing the country as it seeks to become a middle-income economy, and of the increased dependency on regional stability required for it to continue its rise.

According to World Bank figures, Indonesia is ranked a lowly 155th in terms of GDP per capita. It is ranked 120th out of 189 economies in the World Bank's *2014 Doing Business* report. The country's urbanisation rate is under 60 percent while about 12 percent of the population still lives in poverty (defined as US\$1 a day). If the more realistic standard of US\$2 a day is used, then over 40 percent of the population lives in poverty, amounting to about 100 million people.

If one looks at the current structure of the Indonesian economy, the services sector constitutes about one third of output, followed by manufacturing, which constitutes around one quarter of output.⁵ Significantly, Indonesia has not substantially adopted the export-orientated growth model of Asian Tigers such as South Korea, Taiwan and Singapore, meaning that it has not been as susceptible to downturns in major global consumption markets such as the United States and the European Union. In Indonesia exports represent 35% of GDP.⁶ As a comparison, the figures for Malaysia, Thailand and Singapore respectively are about 87%, 78% and 201%.⁷ When one considers non-commodity exports as a proportion of GDP, Indonesia's figure is 11%, compared to Malaysia and Thailand at 58% and 54% respectively.⁸ Even when one looks at Malaysia in 1990 when it had a similar per capita GDP to Indonesia today, Malaysia's exports in proportion to GDP was twice as high as Indonesia's is currently. This is important because it suggests that Indonesia is nowhere near as tapped into (and hence dependent on) the regional export manufacturing production chain for current economic growth and job creation as many of its successful East and Southeast Asia trade dependent neighbours are.

Analysis No. 10, September 1, 2014 <http://cis.org.au/images/stories/foreign-policy-analysis/fpa10.pdf> accessed December 14, 2014.

⁵ World Bank figures.

⁶ World Bank figures.

⁷ World Bank figures.

⁸ Bank of Indonesia; Bank of Thailand; Department of Statistics Malaysia figures.

While Indonesia's relative lack of dependency on export-manufacturing shielded it somewhat from the Global Financial Crisis that created downturns in advanced markets, at the same time the country has thus far missed out on many of the benefits gained by Asian export-manufacturers. In essence, advanced economy firms that dominate manufacturing and brands destined for advanced economy markets have poured capital (in the form of foreign direct investment or FDI) into countries such as Thailand, Malaysia and China to set up manufacturing firms there. In addition to creating much sought-after and relatively well-paid manufacturing jobs, this has accelerated the transfer of innovation and know-how to these countries, allowing them to rapidly move up the value chain and develop domestic capabilities for innovation. Advanced Asian economies such as Japan, South Korea, Taiwan and Singapore all pursued the same path to great success.⁹

For Indonesia to significantly and rapidly reduce its still high poverty rates, foster domestic capabilities for innovation and competitiveness, and generate higher paying jobs on a massive scale, the country has few options but to pursue the East Asian export-oriented model. The general Australian assessment is that Indonesia is incapable of doing so without substantial external assistance, which means Indonesia needs to abandon its protectionist policies in many sectors in order to entice foreign firms to invest in the country. It also means that significant improvements need to be made to the country's institutions in the areas of rule-of-law, transparency and the lowering of political and sovereign risk.

Importantly, if Indonesia embarks on the path of strengthening institutions as well as increasing reliance on capital from advanced economy firms (most of which are from democratic countries), the conditions needed for the country to continue and entrench its democratic transition will be strengthened – rendering Indonesia an inherently less ‘different’ and threatening entity to Australian eyes. It will also mean that Indonesia will become even more reliant on regional stability, as well as on free and open access to the maritime commons – encouraging the country to be a ‘status quo’ rising power generally content with U.S. and allied pre-eminence in the region.

⁹ See the ISEAS *Trends in Southeast Asia* series publication by John Lee on China's economic engagement with Thailand, Indonesia, Vietnam, Myanmar and Singapore:
<https://bookshop.iseas.edu.sg/publication-search#tq=%22john%20lee%22> accessed December 12, 2014.

In other words, as far as the Abbott government is concerned, Indonesia's economic rise can only occur if it remains a non-disruptive and 'status quo' power in strategic terms. The country cannot do so by returning to a Sukarno-style regime and foreign policy. Additionally, a rapidly rising Indonesian economy would begin from a very low base as has been pointed out. This means that in the foreseeable future, Indonesia, being furthermore flanked by middle- and high-income 'status quo' countries such as Singapore, Thailand and Malaysia, cannot become a dominant economy in the region even as it grows in weight and importance. This provides a degree of reassurance and comfort to those in Australia who still harbour lingering fears that Indonesia's rise will strain bilateral relations.

INDONESIA'S MILITARY MODERNISATION

It may be of comfort to Canberra and the Australian Defence Force (ADF) that Indonesia's planned military budget increases to 1.5 percent of GDP have not eventuated. Its current military budget of about US\$8 billion is still less than one percent of GDP and is likely to remain at low levels in the foreseeable future despite Jakarta's planned increases. Additionally, one assessment by an Australian analyst which is broadly representative of most Australian assessments is that Indonesia's "capacity to guide bureaucratic coordination in defence affairs remains limited." As government and parliamentary entities have only limited access to independent advice from outside experts, the Indonesian National Armed Forces (TNI) suffers from an "incoherent, ad hoc procurement process, riddled by a very high level of corruption."¹⁰ The result is that the TNI has, and will continue to have, grave difficulty formulating and executing an integrated defence strategy and policy.

Moreover, the general perception is that the dominant strategic culture of the TNI continues to be focused on the army, rather than one shifting towards the navy or the air force. Despite the Indonesian Navy proclaiming a goal of developing a 'green water' navy by 2024 consisting of 110 surface combatants, 66 patrol vehicles and 98 support ships,¹¹ Australian experts are highly sceptical that this will be achieved. Fewer than half of its navy's current

¹⁰ Benjamin Schreer, "Moving beyond ambitions? Indonesia's military modernisation," *ASPI Strategy Paper*, November 2013, pg. 15 https://www.aspi.org.au/publications/moving-beyond-ambitions-indonesias-military-modernisation/Strategy_Moving_beyond_ambitions.pdf See also Duncan McRae, "More talk than walk: Indonesia as a foreign policy actor," *Lowy Institute Analysis*, February 2014 http://m.lowyinstitute.org/files/mcrae_more_talk_web_0.pdf both accessed December 12, 2014.

¹¹ See Ristian Atriandi Supritanyo, "Indonesia's naval modernisation," *RSIS Commentary* no. 20, January 27, 2012 <http://www.rsis.edu.sg/wp-content/uploads/2014/07/CO12020.pdf> accessed December 12, 2014.

ships are deemed seaworthy and most were commissioned during the Cold War and are in urgent need of replacement.¹² Due to inadequate resourcing, the Indonesian Navy may actually oversee a shrinking fleet that will come to be based on a handful of smaller frigates and corvettes equipped with anti-ship missiles and guided-missile attack craft.¹³ The situation of the Indonesian Air Force is just as bad. Although it holds on to the goal of obtaining ten fighter squadrons by 2024, given budgetary realities, this remains unrealistic. In short, Indonesia's Air Force strategy is non-existent, its Air Force doctrine is incoherent, and its acquisition policy is confused and wasteful.¹⁴

The parlous state of Indonesia's military modernisation programme and resulting capabilities makes it highly unlikely that Indonesia will emerge as a military competitor to Australia (or vis-à-vis countries such as Malaysia or Singapore when it comes to force projection beyond its territory), much less one that could threaten Australia's northern and northwest approaches. Even if Australian analysts are severely underestimating the TNI's ability to 'professionalise' and significantly increase its future capabilities, the fact remains that the TNI's current goals, if realized, would still only allow it to defend its littoral waters.

In fact, there are many in the Australian strategic and defence establishment that would hope Indonesia can prove its doubters wrong in terms of force modernisation. If Indonesia were able to strengthen its maritime denial capabilities, improve its force projection abilities in its own littoral waters, and enhance its maritime domain awareness and other capabilities essential for protecting its own waters, Indonesia's capacity to emerge as a strategic and military buffer for Australia from potentially hostile entities emanating from Northeast Asia would be enhanced.

Moreover, a more capable TNI would improve the capacity of Indonesia to secure and control its own territories, meaning that the long-standing fear that Indonesian islands could be used as launch pads by hostile countries against Australian territory or interests would be significantly lessened.

¹² See Benjamin Schreer, "Moving beyond ambitions? Indonesia's military modernisation," pp. 18-19.

¹³ As above, pp. 21-22.

¹⁴ For a more detailed discussion of deficiencies with Indonesia's Air Force, see above at pp. 20-1.

BEYOND THE ‘INDONESIA THREAT’

Indonesia is becoming strong enough to feel secure as a nation-state but not so powerful that it can challenge Australia’s territory or core interests in any significant or sustained way. This means that rather than preventing or limiting the rise of Indonesia, which would be difficult or impossible to do in any event, Australia is better off convincing Indonesia that Jakarta’s potential threats and concerns lie to its north rather than its south.

Recent political and diplomatic obstacles have not been insignificant even if one ignores the decades of distrust between the two countries. For example, Abbott’s election pledge to ‘stop the boats’ including ordering the Australian navy to tow back boats of asylum seekers largely using Indonesia as a final launching pad into Australian waters was not well received by Jakarta.¹⁵ On this issue, the Abbott government decided that dissuading asylum seekers from arriving illegally would be the best way to prevent damage to relations between the two countries in the longer term.

Details from the Edward Snowden leaks months after Abbott took office that the previous Labor government had tapped the phones of Indonesian officials including SBY and the then president’s wife also temporarily derailed diplomatic relations, especially after Indonesia recalled its ambassador to Australia following the news. While Abbott insisted that Australia would continue to conduct similar intelligence operations, Canberra eventually signed a ‘code of conduct’ with Jakarta to allow the latter to save face, both sides offering the ambiguous pledge that they would not use intelligence to harm each other’s interests.¹⁶

Significantly, as a sign of his determination to mend ties with Indonesia, Abbott refused to allow protesters to use the Australian consulate in Bali to highlight abuse and ill-treatment of West Papuans in the Indonesian province during an APEC Summit, declaring that Australia

¹⁵ For example, see “Operation Sovereign Borders: The First Six Months,” *ABC*, March 26, 2014 <http://www.abc.net.au/news/interactives/operation-sovereign-borders-the-first-6-months/> accessed December 12, 2014.

¹⁶ See “Australia and Indonesia to sign code of conduct to avoid spying scandal,” *Sydney Morning Herald*, August 28, 2014 <http://www.smh.com.au/national/australia-and-indonesia-to-sign-code-of-conduct-to-avoid-another-spying-scandal-20140828-1099z7.html> accessed December 12, 2014.

has “a very strong relationship with Indonesia and we are not going to give people a platform to grandstand against Indonesia.”¹⁷

Although smart political and diplomatic management of the bilateral relationship is not by itself a sufficient basis for an enduring strategic partnership between the two countries, it is carried out to eliminate unnecessary tension. The Abbott government is well aware that a respectful relationship is the best that both countries can expect for the moment. In summary, the most sensible thing for Australia to do is facilitate and encourage current trends, while removing political and diplomatic obstacles that might alter such trends.

MAKING THE BEST OUT OF RELATIONS WITH INDONESIA

While Canberra wants a better relationship with Jakarta, there are no expectations that Indonesia will rapidly emerge as a leader and agenda-shaper in the region. It is at the same time well aware that friendly relations with Indonesia will remove potential political and diplomatic headaches for Australia, while deteriorating relations with Indonesia may carry high political and diplomatic costs even if the strategic costs of poor relations with Indonesia are less considerable in the short- to medium-term.

After all, Australia needs Indonesian cooperation to solve politically awkward issues such boat-borne asylum seekers. It may also need Jakarta’s close cooperation in counter-terrorism matters. Additionally, Indonesia is emerging as a moderate Muslim and democratic nation – a considerable achievement that draws global praise including from the United States,¹⁸ and grants Indonesia a measure of soft power status and standing. It is largely for this reason that Abbott offered the following public homage during a visit to Jakarta shortly after becoming prime minister:

“Indonesia is a member of the G20 and a leader of ASEAN as well as Australia’s most important neighbour. It’s the world’s most populous Muslim nation. It’s the world’s

¹⁷ See “Abbott backs Jakarta over West Papua issue,” *The Australian*, October 7, 2013 <http://www.theaustralian.com.au/national-affairs/foreign-affairs/abbott-backs-jakarta-over-west-papua-issue/story-fn59nm2j-1226734279460> accessed December 12, 2014.

¹⁸ For example, see Mark Landler, “Clinton Praises Indonesian Democracy,” *New York Times*, February 18, 2009 http://www.nytimes.com/2009/02/19/washington/19diplo.html?_r=0; Scott Wilson, “Obama praises Indonesia’s ‘spirit of tolerance’ as a model,” *Washington Post*, December 10, 2010 <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/09/AR2010110906579.html> both accessed December 13, 2014.

*third largest democracy. And with India, it's the emerging democratic superpower of Asia.*¹⁹

When it comes to strategic matters, regional realities mean that Australian and Indonesian interests are broadly aligned. In particular, Australia has taken note that Indonesian officials are increasingly voicing concerns that Chinese claims in the South China Sea include part of the waters off the Indonesian owned Natuna Islands.²⁰ As an official from the Indonesian Ministry of Defence exclaimed in unusually pointed terms during a recent press conference, “The unstable situation in the South China Sea and Asia-Pacific could be a threat to Indonesia as well as conflicts among countries in the region.”²¹

This means that while Indonesia is likely to continue to ‘hedge’ rather than actively ‘balance’ against China,²² Jakarta will increasingly look north rather than south in determining future threats, forming military strategy and altering force posture. Although Jakarta will remain committed to a non-aligned rhetoric, strategic realities will mean that it will have no choice but to ‘lean’ towards the United States. As one Australian expert summarised it about a comment from a senior Indonesian official, “Indonesia knows *pax Americana* and has no complaints about it at all, whereas things are less certain with China.”²³

In summary, the net Australian assessment is that at the very least, Indonesia will ‘do no harm’ to Australian interests. Jakarta may punch beneath its potential weight in strategic affairs but it will nevertheless quietly advocate for a status quo that favours the continuation of U.S. pre-eminence. As one Australian official quipped to this author, “it may be a hedgehog but as long as its spikes are not pointing in our direction...” If Jakarta does acquire

¹⁹ Excerpts of the speech of Prime Minister Tony Abbott, “Building an Indonesia-Australia Relationship for the 21st Century,” October 1, 2013, Jakarta <https://www.pm.gov.au/media/2013-10-01/building-indonesia-australia-relationship-21st-century> accessed December 14, 2014.

²⁰ For example, see Moeldoko, “China’s Dismaying New Claims in the South China Sea,” *Wall Street Journal*, April 24, 2014

<http://online.wsj.com/articles/SB10001424052702304279904579515692835172248> See also Greta Nabbs-Keller, “Is Indonesia shifting its South China Sea policy?”, *The Interpreter*, April 16, 2014 <http://www.lowyinterpreter.org/post/2014/04/16/Indonesia-Natuna-shift-south-china-sea-policy.aspx?COLLCC=2355848961&> both accessed December 14, 2014.

²¹ Cited in Amitav Acharya, *Indonesia Matters: Asia’s Emerging Democratic Power* (Singapore: World Scientific 2014), pp. 87-8.

²² See Andrew Shearer, “Southeast Asia and Australia: Case Studies in Responding to China’s Rise,” in Ashley J. Tellis and Travis Tanner (eds.,) *Strategic Asia 2012-13: China’s Military Challenge* (Washington DC: NBR 2013).

²³ Dave McRae, “More talk than walk: Indonesia as a foreign policy actor,” pg. 7.

significantly more capability than is expected, and assuming that the bilateral relationship remains friendly even if not intimate, then Australia will have its long-held wish of a northern buffer against possible troubles emanating from Northeast Asia.

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