Indonesia’s Economic Advancement through Leveraging the Geopolitical Rivalry and Geostrategic between the USA and China in the Indo-Pacific Region

Muhamad Rizal Ibrahim¹, Rudi Sukandar², Lusita Astuti Nusantari³*
¹Indonesian Air Force Command and Staff College (Seskoau), Indonesia
²LSPR Business and Communication Institute, Indonesia
³Abimantrana Nusantara Energi, Indonesia

ibrahimrizalm@gmail.com¹*, rudi.s@lspr.edu², lusita@ptane.net³
*Corresponding Author

Article Info

Article history:
Received: March 29, 2023
Revised: June 27, 2023
Accepted: August 30, 2023

Keywords:
Geopolitical, Geostrategic, Indonesia’s economic advancement, Indo-Pacific Investments,

Abstract

Indonesia’s challenge in leveraging the USA-China rivalry for economic advancement requires a nuanced approach, considering its passive foreign policy, strategic dependence, and domestic development challenges. The country aims to enhance recovery prospects by strengthening food and financial security, rebuilding regional growth, and connectivity, while also accelerating the transformation towards an inclusive and participatory digital economy. The study aims to explore how Indonesia can strategically leverage the USA-China rivalry in the Indo-Pacific to enhance its economic opportunities and examine the implications of the rivalry on its economic growth and development. This study employs a qualitative research design, analyzing, and interpreting data from literature reviews. The results show Indonesia's economic growth and development are intricately linked to its approach to leveraging the USA-China rivalry, managing infrastructure dependencies, and promoting the digital economy. To ensure sustainable progress and poverty reduction, well-designed policies and a multi-pronged approach are essential. Balancing relations with both the USA and China will be pivotal in attracting investment and expanding trade while avoiding undue external influence. Emphasizing digital infrastructure, talent, economy, and government sectors can also enhance the digital economy and contribute to Indonesia’s long-term success on the global stage. Finally, Indonesia must navigate geopolitical complexities, its passive foreign policy, and domestic challenges to fully capitalize on the benefits of the USA-China rivalry while safeguarding its interests and promoting regional stability.

DOI:
http://dx.doi.org/10.33172/jp.v9i2.8823

2549-9459/Published by Indonesia Defense University This is an open-access article under the CC BY-NC license (https://creativecommons.org/licenses/by-nc/4.0/).
INTRODUCTION

The term geopolitics is frequently used in today's international security discourse to indicate various things. Nevertheless, geopolitics is more than a fancy term for discussions among the world’s capitals in smoky rooms. It establishes a fundamental connection between a nation’s geographic perspective and political culture and is significant in critical geography (Lefevre, 2022). The USA-China geostrategic competition has intensified in the Indo-Pacific region, with China’s Belt and Road Initiative (BRI) revealing its strategic ambitions and assertive foreign policy. The accelerating geostrategic rivalry between the leading liberal states and China has created an increasing strategic challenge for Asian states in terms of balancing and hedging between the two great powers, as they seek to develop friendly and cooperative relations with China while also being wary of its expanding authoritarian influences (Jung, Lee, & Lee, 2021).

The USA geopolitics in the area predates the current power structure by nearly two centuries and is, therefore, driven by far more fundamental geopolitical inclinations. Understanding that the Indo-Pacific is a region with its own identity, history, and people population is equally vital (Lefevre, 2022). Leveraging the geopolitical and geostrategic rivalry between the USA and China in the Indo-Pacific to enhance Indonesia’s economic opportunities is multifaceted. Indonesia’s foreign policy has been largely negative, with a list of what it does not want, which is no longer suited to an era of renewed great-power competition in the Indo-Pacific region (Laksmana, 2021).

Indonesia’s strategic dependence and vulnerability to the great powers pose a challenge to its goal of leveraging the rivalry between the USA and China to enhance its economic opportunities (Campbell, 2023). The geopolitical and geostrategic rivalry between the USA and China in the Indo-Pacific region has become a defining factor in the region’s dynamics (United States Department of State, 2022). As Indonesia seeks to navigate this complex landscape, it is crucial to explore how the country can strategically position itself to take advantage of this rivalry. Indonesia’s strategic location in the Indo-Pacific region makes it a potential major player in the USA-China geopolitical and geostrategic rivalry (Zhen, 2022). Indonesia faces the challenge of balancing and hedging between the USA and China as they compete for dominance in the region. While seeking friendly and cooperative relations with China, Indonesia also needs to be cautious of China’s expanding authoritarian influences. Navigating this delicate balance is crucial for Indonesia’s economic opportunities and political interests (Abbondanza, 2022).

The geopolitical and geostrategic rivalry between the USA and China in the Indo-Pacific region has become a defining factor in the region’s dynamics. Understanding the complexities of this rivalry and its implications for Indonesia is crucial for formulating effective strategies and policies (Zafar, 2022). By positioning itself strategically, the country can create job opportunities and improve the well-being of its people. However, Indonesia’s passive foreign policy, reliance on strategic partnerships, and internal development issues may hinder its ability to fully leverage the rivalry for its benefit (Randev, 2022). The economic security of the region is a key consideration in leveraging the rivalry between the USA and China. The Indo-Pacific region is the center of gravity for USA undertakings on reducing over-dependence on China, strengthening resilience in critical supply chains, and protecting sensitive technologies. Partner buy-in and regional economic diplomacy are essential for achieving these goals. Indonesia could play a crucial role in regional economic security by working with other countries in the region (Dollar et al., n.d.). However, Indonesia’s foreign-policy reflexes are long
Indonesia's challenge of leveraging the USA-China rivalry in the Indo-Pacific for economic advancement requires a nuanced approach that takes into account its passive foreign policy, strategic dependence, and domestic development challenges. Indonesia aims to boost recovery prospects to rebuild regional growth, connectivity, and competitiveness. This includes strengthening food and financial security by ensuring food supply chains (Erskine, 2022). Indonesia seeks to accelerate the transformation of an inclusive and participatory digital economy. This involves improving the quality of digital infrastructure to bridge the digital divide and promote digital inclusion. Indonesia emphasizes the importance of sustainable economic growth (Erskine, 2022).

A study by Hu (2020) highlights the USA-China rivalry as a geopolitical competition between free and repressive visions of world order. The study emphasizes the strategic competition between the two countries and its implications for the Indo-Pacific region. Stromseth (2019) investigates the contending strategic visions of Washington and Beijing and closely examines the region’s response. It examines regional reactions to the Trump administration’s Free and Open Indo-Pacific (FOIP) strategy and how the USA allies and regional partners prefer to have constructive relations with both the USA and China. Perry World House (n.d.) discusses the increased rivalry between the USA and China and its impact on the Indo-Pacific region’s economic security and future global order. Study Denisov, Paramonov, Arapova, & Safranchuk (2021) provides a literature review of different countries’ views on the Indo-Pacific region, including the United States, India, Australia, Japan, ASEAN, and China.

All studies above highlighted Indonesia's economic growth and development, along with the challenges and opportunities it faces. However, a research gap occurs concerning how Indonesia can leverage the USA-China geopolitical rivalry in the Indo-Pacific to promote its economic interests. While some studies touch on the impact of this rivalry on the region’s economic security and global order, there is limited research on how Indonesia can strategically position itself to benefit from it. Specifically, there is a need to investigate how Indonesia can balance between the two powers, develop friendly relations with China, and utilize its strategic location to create jobs and improve the well-being of its people. Additionally, research is required to address regulatory and business environment challenges, enabling firms to innovate and compete effectively in the digital economy. This study aims to explore how Indonesia can strategically leverage the USA-China rivalry in the Indo-Pacific to enhance its economic opportunities and examine the implications of the rivalry on its economic growth and development.

METHODS

This study employs a qualitative research design, which involves analyzing and interpreting data from the literature review to develop a nuanced understanding of the topic. The qualitative approach allows for a deeper exploration of the research question and provides insights into the complex dynamics of the USA-China rivalry and its implications for Indonesia’s economic advancement. The study draws on a range of sources, including academic journals, policy papers, and news articles, to provide a comprehensive overview of the topic. The findings of the literature review are used to develop a conceptual framework for understanding Indonesia’s economic advancement through leveraging the USA-China rivalry and geostrategic competition in the Indo-Pacific region.
RESULT AND DISCUSSION

Indonesia Leverages the Geopolitical and Geostrategic Rivalry between the USA and China in the Indo-Pacific to Enhance its Economic Opportunities

Improving Economic Security

Indonesia has made significant progress in transitioning from a low-income to a middle-income country. However, a need consistently arises to improve its economic security in enhance its competitiveness. The World Bank’s Indonesia Poverty Assessment: Pathways Towards Economic Security suggests that a carefully designed set of policies embedded in a multi-pronged approach can help sustain Indonesia's success story in extreme poverty reduction (Kahkonen, Pape, & Ali, 2023). Rising an economic portfolio is a thing but in a world with vulnerability and disruption after a long pandemic, a winner is those who survive and sustain.

To achieve this, Indonesia needs to develop mechanisms to improve research and development policymaking decisions and strategies to make better use of its resources. This would help Indonesia to enhance its economic competitiveness and reach economic security, such that shocks cannot easily push households into poverty (Kahkonen et al., 2023). Again, the pandemic and the changes have taught us to be adaptive, more simple, and prepared for any upcoming shocks in the economy that has gone global while any incident on the edge of the world could affect others.

The Indonesian economy faces challenges such as the potential impact of USA tariff barriers on imported products, which could increase inflation, suppress consumption and investment, and hamper domestic economic growth (Bank Indonesia, 2018). Nevertheless, Indonesia’s strategic location in Southeast Asia makes it a potential major player in the USA-China geopolitical and geostrategic rivalry. To enhance its economic competitiveness, Indonesia needs to focus on developing mechanisms to improve research and development policymaking decisions and strategies. This would help Indonesia make better use of its resources and achieve economic security (Myers, 2023). This, for example, is shown in the development and issuance of the omnibus law of labor to simplify and ease investments. By developing renewable energy, improving economic security, balancing relations with the USA and China, and developing a critical view of its great power aspirations (Campbell, 2023), Indonesia can enhance its economic competitiveness and contribute to regional stability and prosperity in the Indo-Pacific region.

Balancing Relations with the USA and China

Indonesia’s foreign policy approach should be proactive and aim to address its strategic dependence and vulnerability to the great powers (Jung et al., 2021). Being in great powers, Indonesia should show its statement of economics to both the USA and China. Indonesia needs to approach both economic powers with real data resources and sectors rather than approach only political-economic-partnership. Indonesia, again, needs to focus on developing mechanisms to improve research and development policymaking decisions and strategies to make better use of its resources and enhance its economic competitiveness (De Lecea & Zozaya, 2022). With improved research in both policymaking and resources, Indonesia would deeply understand which sector best to work in and approach the powers, the USA or China.

Both the USA and China are among the major investors in Indonesia, according to BKPM (National Single Window for Investment). Maintaining good relations with both countries could help attract more foreign direct investment to Indonesia (Myers, 2023). In other words, as China and the USA are Indonesia’s largest trading partners,
maintaining good relations with both countries could help Indonesia expand its trade relations and increase its exports (Rayhana, 2023).

Furthermore, Indonesia's economy is expected to grow in the coming years, and maintaining good relations with both the USA and China could help Indonesia achieve its economic growth targets (Grossman, 2021). Indonesia is rich in natural resources, and maintaining good relations with both the USA and China could help Indonesia secure access to the markets of those resources to fuel its economic growth (Grossman, 2021). In short, both the USA and China have the potential to help Indonesia improve its infrastructure, which is essential for economic growth.

**Economic Dependence**

Indonesia's economy heavily relies on exports with China and the USA being two of its largest trading partners. According to BPS (*Biro Pusat Statistik*), Indonesia's exports to both The USA and China were valued at 28.000 MUSD and 65.000 MUSD, any disruption in trade relations with either country could have a significant impact on Indonesia’s economy. China and the USA are also major investors in Indonesia. Any disruption in economic relations with either country could also have a significant impact on Indonesia’s economic growth. This approach has limited Indonesia’s ability to shape the regional order. Indonesia’s infrastructure needs significant investment, and both the USA and China have the potential to help Indonesia improve its infrastructure. However, while rich in natural resources, Indonesia still relies on both the USA and China to secure technological access to, infrastructure development, and the market of these resources.

**Infrastructure Dependence**

Indonesia’s infrastructure needs significant investment, and both the USA and China have the potential to help Indonesia improve its infrastructure. However, this also makes Indonesia vulnerable to great power influence in its infrastructure development. In 2019, Indonesia’s Ministry of National Development released a $412 billion infrastructure investment plan to construct power plants, mass transit, and airports (Washington Business Dynamics, 2021). The World Bank (n.d.) estimated Indonesia’s infrastructure investment gap to be $500 billion over five years. While Indonesia has made progress in closing the gap, it still requires significant investment from the public and private sectors. Infrastructure investment is essential for economic growth in Indonesia, and it is the priority of the economic policy of the Jokowi administration (Hamada, 2019).

Indonesia needs to be cautious about the influence of great powers in its infrastructure development. Indonesia’s infrastructure deficits need to be analyzed from a developmental perspective to ensure that the infrastructure development is appropriate for Indonesia’s needs (Kim, 2023). Helping an Indonesian non-bank financial institution mobilize private capital for sustainable infrastructure could be a way to develop infrastructure that generates fewer negative environmental and social impacts (The World Bank, n.d.).

**Enhancing Digital Economy**

Indonesia aims to leverage the geopolitical and geostrategic rivalry between the USA and China in the Indo-Pacific to enhance its digital economy. According to a study by Global Asia (Oh, 2021), in June 2019, President Xi and Indonesian President Joko Widodo agreed to continue bilateral cooperation on smart cities and the digital economy as new drivers. The Indonesian government has announced a digital roadmap for 2021-
2024, intended to accelerate Indonesia's digital transformation agenda (International Trade Administration, 2021). The roadmap focuses on four strategic sectors: Digital Infrastructure, Digital Talent, Digital Economy, and Digital Government. Infrastructure is recognized as a key enabler for digital transformation in Indonesia, and the government has identified specific ICT (Information and Communication Technology) Infrastructure development priorities, including the completion of 4G infrastructure in more than 10,000 subregions by 2022. A recent study by Google, Temasek, and Bain & Company projected Indonesia's Digital Economy to exceed USD 124 Billion by the end of 2025 (International Trade Administration, 2021).

Indonesia's passive foreign policy, reliance on strategic partnerships, and internal development issues may hinder its ability to fully leverage the rivalry for its benefit (Laksmana, 2021). Indonesia tends to wait and be in the middle of the conflict. Indonesia should more often open and initiate the discussion with both The USA and China as shown in the initiative to connect a peaceful discussion with Ukraine and Russia. According to a study, Washington needs to move closer to nonaligned, and sometimes quarrelsome, emerging powers like Indonesia and help them become less reliant on China. The goal should not be to peel Indonesia away from China but to support President Joko's plans for economic and social development and help the country become an alternative pole of strength to challenge the emerging sense in Asia that China alone holds the keys to the region's future. Indonesia needs to balance its relations with both the USA and China to maximize its economic opportunities and political interests (Hamilton-Hart & McRae, 2015). Indonesia should approach The USA with balanced power values while continuing close economic cooperation with China. Thus, the understanding between the three should be achieved through active and open discussion initiated by Indonesia.

The Implications of the USA-China Rivalry on Indonesia's Economic Growth and Development

The USA-China rivalry has significant implications for Indonesia's economic growth and development. China's Belt and Road Initiative (BRI) and the USA's Free and Open Indo-Pacific (FOIP) strategy have created a strategic challenge for Indonesia in terms of balancing and hedging between the two great powers. Indonesia's neutral approach in the USA-China rivalry has allowed it to maintain relations with both countries, but it also poses a challenge to its goal of leveraging the rivalry to enhance its economic opportunities (Hamilton-Hart & McRae, 2015). The USA-China trade war has also affected Indonesia's economy, with the decline in primary commodity prices affecting the country's exports (Iqbal, Elianda, Akbar, & Nurhadiyanti, 2022). The trade tensions have created increasing uncertainties, lower world demand, and diverted East Asian regional production networks, which have impacted Indonesia's trade and investment (Ing & Vadila, 2019).

As globalization is driven by digital infrastructure, economic growth is also driven by digital economy such as digital banking, e-commerce, trading apps, and collaboration between them. To enhance its digital economy, Indonesia has been more receptive to Chinese investment, and some experts argue that China views Indonesia as an anchor for its economic, digital, and geopolitical interests (Oh, 2021). E-commerce platforms like Tokopedia, Shopee, and Lazada are strengthened by Chinese Investors. However, Indonesia needs to be cautious of China's expanding authoritarian influences and navigate the delicate balance between seeking friendly and cooperative relations with China while being wary of its expanding authoritarian influences (Rayhana, 2023).
A study claims that “Indonesia aims to accelerate the transformation of an inclusive and participatory digital economy by improving the quality of digital infrastructure to bridge the digital divide and promote digital inclusion. Indonesia's challenge of leveraging the USA-China rivalry in the Indo-Pacific for economic advancement requires a nuanced approach that takes into account its passive foreign policy, strategic dependence, and domestic development challenges (Rayhana, 2023).” Therefore as the investors for e-commerce are mostly from China, Indonesia needs to balance the infrastructure with the nation’s pride backbone or the USA.

CONCLUSIONS, RECOMMENDATIONS, AND LIMITATIONS

The results of this study show that Indonesia’s economic growth and development are influenced by its approach to leveraging the USA-China rivalry, infrastructure dependence, and efforts to enhance the digital economy. To sustain success in poverty reduction and achieve economic security, well-designed policies and a multi-pronged approach are needed. Balancing relations with both the USA and China is essential for attracting investment and expanding trade, but caution is necessary to avoid undue influence in infrastructure and resource management. Focusing on digital infrastructure, talent, economy, and government sectors can enhance the digital economy. However, Indonesia’s passive foreign policy and internal challenges could limit its full benefits from the USA-China rivalry. Striking a delicate balance between the two powers will enable Indonesia to contribute to regional stability and prosperity, advancing its growth and development while navigating geopolitical complexities. A proactive and strategic approach to foreign relations and economic policies will be key to Indonesia’s long-term success on the global stage.

Indonesia’s economy is significantly impacted by the USA-China rivalry, and its neutral stance allows it to maintain relations with both countries but presents challenges in leveraging the rivalry for economic growth. The USA-China trade war has affected Indonesia’s exports and created uncertainties in the region. While embracing Chinese investment for its digital economy, Indonesia must be cautious of China’s expanding authoritarian influences. The country aims to foster an inclusive digital economy, but achieving economic advancement through the USA-China rivalry requires a nuanced approach considering its passive foreign policy, strategic dependencies, and domestic development challenges. Balancing friendly relations with both powers while safeguarding its interests is crucial for Indonesia to navigate this complex geopolitical landscape successfully.

To achieve sustainable and inclusive economic growth, Indonesia needs a proactive approach that includes diversifying trade partnerships, investing in infrastructure, promoting digital inclusion, and fostering innovation. Strengthening domestic institutions and addressing environmental concerns is vital for long-term resilience. Active engagement in regional economic cooperation forums like ASEAN offers opportunities for trade diversification and integration. Leveraging the USA-China rivalry, Indonesia should focus on attracting tech investments, enhancing digital trade relations, and strengthening cybersecurity. Further research should explore the impact of trade tensions, digital talent development, regulatory environment, inclusion strategies, and geopolitical implications on Indonesia’s digital economy. The study on Indonesia’s digital economic growth and development in the context of the USA-China rivalry may be limited by data availability and reliability, the dynamic nature of the digital economy and rivalry, scope constraints, complexity of the geopolitical landscape, and potential subjectivity in concluding.
References


Indonesia's Economic Advancement through Leveraging the Geopolitical Rivalry and Geostrategic between the USA and China in the Indo-Pacific Region


