
Active Alignment: How Indonesia Can Shape the U.S.-China Strategic Competition

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Key Judgments

- Indonesia has the potential to use its strategic capital — its geography, resources, economic potential, and diplomatic leadership — directly and indirectly to shape how China and the United States manage their cross-domain strategic competition. To do so, Jakarta policymakers must move away from stubbornly clinging to a “nonalignment” that lacks strategy and instead adopt “active alignment.” This strategic posture involves actively engaging major powers through various policy coordination platforms (bilateral, minilateral, and multilateral) to reach mutual understanding on a range of regional and global issues, from climate change to crisis management. The goal of active alignment is not to choose sides or be strategically aligned with one major power over the other but to actively facilitate cooperation between both powers, persuading them to better align with each other and with Indonesia’s own strategic interests.
- Indirectly, Indonesia could leverage its multilateral leadership in groups such as Association of Southeast Nations (ASEAN), the Regional Comprehensive Economic Partnership (RCEP), and the G20, among others, to forge stronger and wider cooperation on common challenges like health security, climate change, economic development, and the energy transition. More directly, Indonesia should engage both the United States and China to promote the peaceful management of their strategic competition, offering options for cooperation and communication over a range of regional security flashpoints in the Asia-Pacific.
- Active alignment further requires Jakarta to convert its “passive assets” — such as its geography, resources, and diplomatic leadership — into “active capital”: workable policy options and leverage points that can help shape (though not resolve) the competitive dynamics between the United States and China. Doing so, however, will require policymakers to consider a series of domestic reforms and the overhaul of the country’s strategic policymaking ecosystem.
- As foreign policy often begins at home, Indonesia’s ability to navigate and influence the U.S.-China competition arguably depends on domestic “leveling up.” Since President Prabowo Subianto took the helm in October 2024, that challenge appears to have grown, as his larger-than-life personality and hands-on approach to foreign policymaking has sidelined professional diplomats and allowed military and defense policymakers to focus increasingly inward, from prioritizing social welfare programs to expanding the role of the army on issues ranging from health to agriculture.¹

The following sections discuss Indonesia’s role as a middle power, its collaboration with other middle powers, and the geopolitical contexts and risks that demand it rethink its middle power instincts and move toward an active alignment posture. The second section examines the various policy assets and capital that Indonesia could theoretically convert into more active platforms to help shape the trajectory of the U.S.-China relationship in the areas of maritime security, economy and trade, energy and climate change, and health and technology. The final section suggests the domestic economic, defense, and diplomatic policy reforms and conditions necessary to enable this conversion and draws broader policy lessons from Indonesia’s floundering middle power statecraft.

Indonesia’s Role and Importance as a Middle Power

Despite the many conceptual challenges of defining, measuring, and operationalizing “middle power,” Indonesia is clearly one such power due to its geopolitical heft and economic size in a region dominated by two “great powers”: the United States and China. Indonesia’s geopolitical outlook remains deeply rooted in

a “nonaligned” default position, even if not always by deliberate strategic choice. Beyond simply positioning itself as a bridge between the United States and China, Indonesia could deepen its engagement with its fellow middle powers. These relationships are not merely symbolic — they could offer real leverage if done systematically and strategically, allowing Indonesia to expand its strategic options, reduce overdependence on any single major power, and express its agency in pragmatic ways.

The challenge lies in avoiding overreliance on the label “middle power collaboration.” Cooperative paths should be sought because of shared strategic and functional goals, not just because countries have a shared perception of their identity. Cooperation pursued for no other reason than “being middle powers” is unlikely to be sustainable, given the probable lack of buy-in from domestic and regional policymakers. Finally, a key point of consideration is whether such collaboration can supplement, complement, or supplant existing bilateral, minilateral, and multilateral cooperation platforms in ways that are productive.

In the past, Indonesia has engaged in various defense and security partnerships with other middle powers, including Australia, Japan, Turkey, and Canada, each producing a specific set of deliverables. Between 2003 and 2019, Indonesia signed broader strategic partnership agreements with almost a dozen middle power countries, such as Brazil, South Africa, Australia, Canada, and Vietnam.² On the climate front, Indonesia played a pivotal role in launching the \$20 billion U.S.-dollar Just Energy Transition Partnership (JETP) during its G20 presidency in 2022. This was more than a funding commitment; it was a statement of collective middle power intent. Yet here, ambition has run into hard realities. The financing gap is stark: \$97 billion is needed by 2030, yet only \$20 billion has been pledged,³ mostly in the form of commercial loans rather than concessional finance. As in many cases of such initiatives, domestic policy headwinds have slowed progress.⁴ The recent U.S. withdrawal from the JETP, taking \$2 billion with it, deepened uncertainty.⁵ Without credible reform and a strong domestic push, the JETP risks becoming just another grand promise lost in bureaucracy and politics.

Similarly, Indonesia’s engagement with Mexico, Indonesia, South Korea, Turkey, and Australia (MIKTA), an informal middle power grouping, initially appeared promising. It aligns Jakarta with fellow middle powers that value strategic autonomy and rules-based multilateralism. The grouping might even help diversify partnerships beyond the U.S.–China axis and provide a flexible platform for joint positions on issues such as climate finance, global-governance reform, and digital norms. But MIKTA’s loose structure, modest track record, and differing member priorities limit its ability to deliver on hard security or geoeconomic outcomes.⁶ There is also the risk of strategic distraction: Indonesia must ensure that its role in MIKTA complements rather than dilutes its central leadership role in ASEAN. Used judiciously — for coordinated statements, knowledge sharing, and selective minilateral initiatives — MIKTA can broaden Indonesia’s diplomatic tool kit, although its ability to meaningfully shape the U.S.–China strategic competition remains in question.

Indonesia’s broader middle power collaborations, whether bilateral or minilateral, remain a useful strategic signaling tool as Jakarta seeks to develop alternatives to the United States and China in shaping regional and global developments. While such arrangements with fellow middle powers can show collective intent, lowest-common denominator partnerships rarely deliver substantial returns. Middle power collaboration without aligned strategic interests or sustainable specific outcomes, while avoiding U.S.–China pressures, may prove increasingly difficult to sustain. Still, if pursued strategically and with purpose and commitment, such collaborations could strengthen the connective tissue among like-minded countries — coalitions that can steer the global conversation, not just follow it. This approach could help Indonesia maintain its strategic maneuvering space in a world where binary choices are becoming harder to avoid.

Foreign Policy Between Great Powers: Interdependence and the Risks of Irrelevance

Indonesia should reconsider its alignment posture now that the age of prosperity driven by globalized interdependence has given way to growing vulnerabilities and even “weaponized interdependence,” as the pandemic years and the recent wars in Europe and the Middle East have demonstrated.⁷ Disruptions to global supply chains and the risks associated with relying on foreign markets underscore the importance of economic security over efficiency. The International Monetary Fund has recently highlighted the growing scale of geo-fragmentation across the world, warning that it could disrupt global supply chains.⁸ This risk is particularly acute because a small number of countries dominate the production of many critical minerals and commodities. Geopolitical tensions or domestic crises in these nations could easily trigger export restrictions that ripple through the global economy.

Trade barriers have also risen, contradicting conventional economic arguments that global trade and interdependence improve efficiency through lower costs. Furthermore, as geopolitical tensions between the United States and China intensify across multiple domains, from technology to economics and defense, many nations are shifting toward strategies like “friend-shoring” to secure supply chains and reduce risks. As a result, Indonesia is faced with difficult choices. On the one hand, its economic growth seems increasingly tied to China (as discussed below). Meanwhile, the United States provides various security goods, including military education, training, exercises, and access to Western arms and technology. Washington also provides the regional security presence to balance China’s increasingly aggressive posture.⁹ Yet the U.S. economic presence in Indonesia, and Southeast Asia more broadly, should not be minimized. The regional scramble to address President Donald Trump’s tariffs exposed the depth of American economic and financial ties to the region. Despite the complex policymaking realities behind these trends, Indonesian leaders have resisted making a binary choice, maintaining instead a nonaligned approach consistent with its traditional independent and active foreign policy philosophy.¹⁰

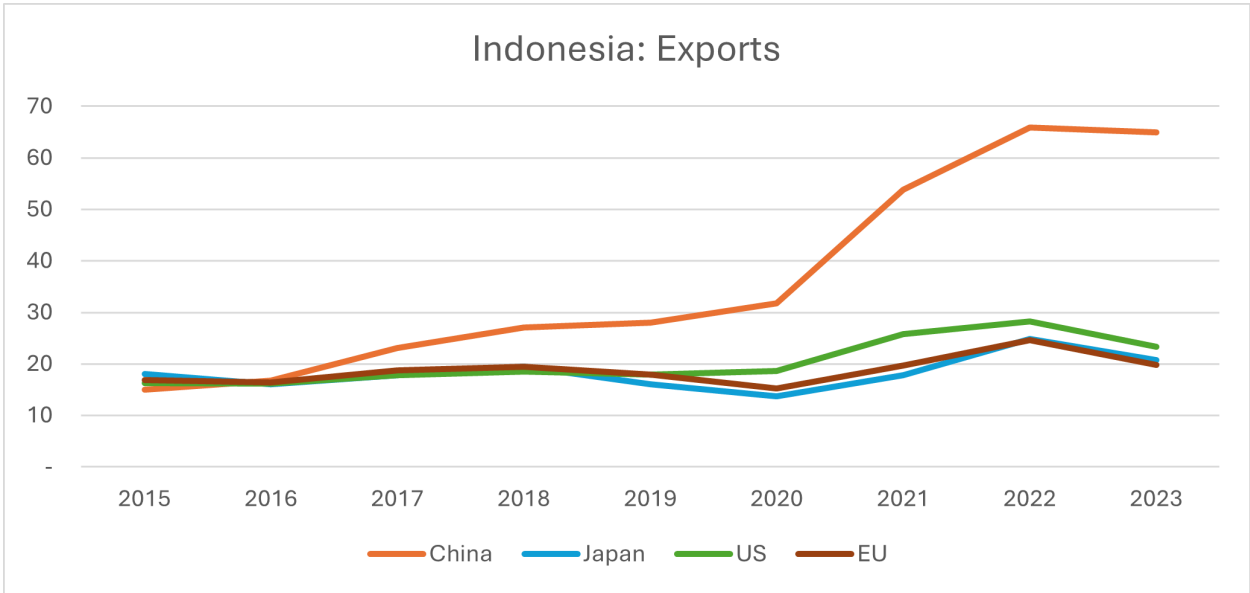
Even if Indonesia does not have the luxury to choose between the United States and China, trade is shifting from multilateral to bilateralism. If Jakarta fails to take proactive measures to shape the U.S.-China competition, it risks becoming a passive spectator, which carries significant risks. The public posture of circumnavigating — or attempting to avoid while exploiting — the U.S.-China binary choices is becoming increasingly untenable. The cross-domain competition between the United States and China has grown increasingly exclusionary; being part of one great power network now comes at the expense of the other. Moreover, and perhaps more importantly, both the United States and China have shown decreasing patience with regional hedgers, demanding that they choose a side. Senior U.S. and Chinese officials have signaled privately and publicly that working with both countries will become increasingly difficult. As Secretary of Defense Pete Hegseth said at the IISS Shangri-La Dialogue in June 2025, “Economic dependence on China only deepens their malign influence and complicates our defense decision space during times of tension.”¹¹ China, for its part, has also said that it welcomes regional countries to work “on the right side of history.”¹²

Given that other partners — such as Japan, Australia, France, the United Kingdom, or Germany — are unlikely to quickly replace the combined strategic heft of both powers in Southeast Asia, Indonesia cannot escape the U.S.-China strategic competition. Furthermore, global economic conditions, especially those driven by both powers, have and will continue to significantly impact Indonesia. Although Indonesia’s economy is relatively less interconnected with the global economy, with an export-to-GDP ratio of only 25% (compared to Singapore at 180% and Vietnam at 94%), global economic volatility continues to have profound effects. China is one of Indonesia’s main trade partners. As Figures 1 and 2 show, Indonesia is more reliant on China for exports and imports than the United States. If China’s economy slows or Indonesia loses its market in China, its exports will suffer, slowing economic growth. China is also a major investor in Indonesia, particularly in

the nickel, energy, and infrastructure sectors (see Table 1).

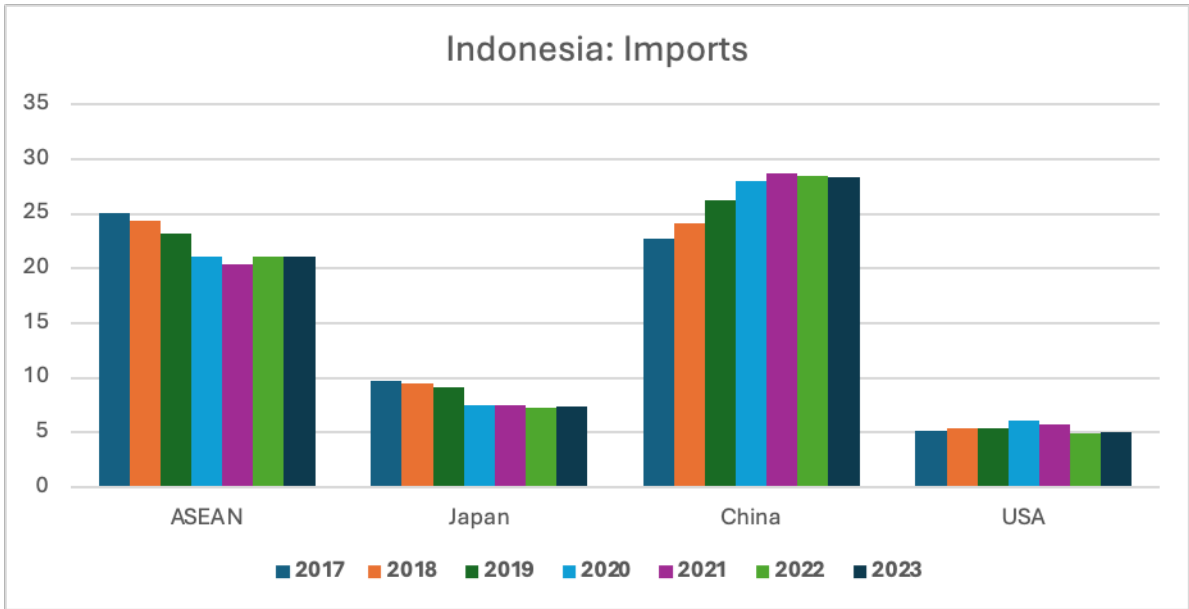
Still, the U.S. economy is critical for many emerging countries, including Indonesia. Indeed, U.S. monetary policy and financial market volatility significantly affect Indonesian exchange rates, financial markets, and, arguably, economic growth.¹³ For this reason, Indonesian economic officials take tariff negotiations with the Trump administration seriously.

Figure 1. Indonesia’s Major Export Destinations (\$ in Billions)



Sources: United Nations Statistics Division, UN Comtrade+ (via comtradeplus.un.org), Copyright © United Nations. [European Union, Trade in Goods with Indonesia](#) (European Commission, 2025)

Figure 2. Percentage of Indonesia’s Imports by Major Countries of Origin



Sources: United Nations Statistics Division, UN Comtrade+ (via comtradeplus.un.org). Copyright © United Nations. BPS-Statistics Indonesia (Badan Pusat Statistik), Exim data, <https://www.bps.go.id/id/exim>

Table 1. Indonesia Foreign Direct Investment Origin Countries: 2020-2024

2020	2021	2022	2023	Jan-Sep 2024
Singapore US\$ 9.8 B - (34.1%)	Singapore US\$ 9.4 B - (30.2%)	Singapore US\$ 13.3 B - (29.1%)	Singapore US\$ 15.4 B - (30.5%)	Singapore US\$ 14.4 B - (32.9%)
China US\$ 4.8 B - (16.7%)	Hong Kong US\$ 4.6 B - (14.8%)	China US\$ 8.2 B - (18.0%)	China US\$ 7.4 B - (14.8%)	Hong Kong US\$ 6.1 B - (13.9%)
Hong Kong US\$ 3.5 B - (12.1%)	China US\$ 3.2 B - (10.2%)	Hong Kong US\$ 5.5 B - (12.1%)	Hong Kong US\$ 6.5 B - (12.9%)	China US\$ 5.8 B - (13.2%)
Japan US\$ 2.6 B - (9.1%)	United States US\$ 2.5 B - (8.2%)	Japan US\$ 3.6 B - (7.8%)	Japan US\$ 4.6 B - (9.2%)	United States US\$ 2.8 B - (6.5%)
South Korea US\$ 1.8 B - (6.3%)	Japan US\$ 2.3 B - (7.3%)	Malaysia US\$ 3.3 B - (7.3%)	Malaysia US\$ 4.1 B - (8.1%)	Malaysia US\$ 2.7 B - (6.2%)

Source: Realization of TW IV Investment and January-December 2024 Period, Ministry of Investment/BKPM

At the same time, China continues to make significant investments in Indonesia's digital infrastructure through major businesses such as Huawei and Alibaba, particularly in 5G networks, cloud computing, and artificial intelligence. Huawei, for example, works with local telecom carriers to build out internet networks and reinforce telecommunications infrastructure. It also claims partnerships with more than 100 local companies and more than 30 universities and says it has created more than 20,000 jobs directly and indirectly. Huawei also cooperates on cybersecurity with the National Cyber and Crypto Agency (BSSN).¹⁴ If anything, Huawei and ZTE have both succeeded in Indonesia despite skepticism among Jakarta's defense and political elites toward China's broader geopolitical intentions, as well as growing Western scrutiny of Chinese involvement.¹⁵ These developments have nonetheless increased Indonesia's reliance on Chinese technology and hardware. More recently, China has also promoted artificial intelligence (AI) and future technologies through businesses such as TikTok (ByteDance) and Tencent, both of which have substantial impact on AI usage in Indonesian entertainment and social media, shaping how AI is integrated into daily life.

The United States, however, also shapes the trajectory of Indonesia's geo-technological landscape. American corporations such as Google, Microsoft, and Amazon dominate the country's cloud and digital services sector. The United States supports Indonesia's digital economy through Amazon Web Services, Google's digital training efforts, and Starlink's satellite internet service. Google, for example, has partnered with numerous Indonesian universities on AI research, boosting national technical competitiveness.

The dual impact of the United States and China is also visible in Indonesia's digital rules and policies.¹⁶ Indonesia frequently aligns its technology rules with international standards from the United States. However, the appeal of low-cost Chinese technology also influences government policies, particularly in smart city initiatives, the Internet of Things, and 5G infrastructure. The resulting technological divergence carries risks: U.S.-China competition could undermine Indonesia's strategic outlook by disrupting broader economic and investment relationships and exposing Indonesia's economy and national security to economic cyber-espionage.¹⁷

Similar challenges of interdependence and bifurcation can also be seen in Indonesia's defense sector. When it comes to military hardware, education and training, and technological development, Indonesia remains highly dependent on Western (European and American) providers. China provides a dozen or so education

and training exchanges annually and the occasional military exercises, but accounts for only about 0.09% of Indonesia's roughly \$30 billion in defense-import deals since 2014.¹⁸ Recognizing the underdeveloped state of defense relations, Jakarta and Beijing agreed during President Prabowo's November 2024 visit to China to upgrade their bilateral defense relations, designating them the "fifth pillar" of the overall strategic partnership. The inaugural 2+2 dialogue, pairing the ministers of foreign affairs and defense, took place in April 2025 and, as of October 2025, high-level policy discussions were underway on Indonesia potentially acquiring major Chinese weapons platforms, including the J-10 fighter aircrafts.

Taken together, Indonesia has long struggled to choose between strategic alignment with China or the United States, given their respective importance to different parts of the country's policy ecosystem. However, the alternative of not choosing is becoming increasingly untenable and carries its own set of risks. Given the centrality of the United States and China to Indonesia's geo-economic, geo-technological, and geo-strategic outlook, the risks of nonalignment are rising. Unless Indonesia can find the will and way to actively shape U.S.-China strategic competition, it will become a passive victim of the strategic friction between the two countries.

Converting Passive Assets to Active Capital

As a middle power, Indonesia holds a unique combination of economic, geopolitical, and diplomatic resources that could enable it to play an active role in shaping the U.S.-China competition. By diversifying its sources of investment and supply chains and enhancing its participation in international forums, Indonesia can further strengthen its bargaining position and leverage its economic influence to ease regional tensions. It can also utilize its geography, abundant natural resources (including critical minerals), economic potential, and leadership role within multilateral institutions to reduce the risks of geopolitical fragmentation.

While Indonesia is fully aware that it cannot resolve these tensions on its own, its efforts should be seen as contributing to the overall improvement of U.S.-China relations, ultimately advancing its national interests and ensuring regional stability. To do so, however, Indonesia needs to transform its "passive assets" — its geographic position, natural resources, economic potential, and ASEAN legacy — into "active capital" within an active alignment strategic policymaking ecosystem. This conversion could allow Indonesia to indirectly and directly influence the competitive dynamics between the United States and China, especially in four key areas: maritime security, economy and trade, energy and climate change, and health and technology.

Maritime Security

Indonesia occupies a highly advantageous geographic position between the Indian and Pacific Oceans and at the crossroads of global trade routes. The Malacca Strait and its surrounding waters are essential trading routes for global commerce, including energy shipments. As such, in the context of U.S.-China competition, Indonesia could ideally help ensure freedom of navigation and freedom from coercive behaviors, given that any maritime agenda involving both countries would require Indonesia's cooperation, whether in peacetime or wartime. For instance, American forces require open sea lanes of communication from Australia to the Philippines in the event of a regional conflict, while China's economy and energy sector is unlikely to thrive if access to the Straits of Malacca becomes compromised.¹⁹

Rather than leveraging its geographic centrality, however, Indonesian policymakers seem content to passively watch maritime rivalries play out, often seeking to balance one great power against another to secure domestic

and private benefits. Participation in China's Maritime Silk Road projects, for example, has done little to strengthen Indonesia's maritime strategy or leverage its geographic centrality. Instead, it has served as a path for Indonesian political and economic elites to profit from various Chinese-backed projects.²⁰ Despite the lofty ambitions articulated in President Joko Widodo's Global Maritime Fulcrum doctrine, it was stymied by bureaucratic inefficiency and performative talking points, leaving the navy underdeveloped and its maritime law enforcement agencies mired in bureaucratic squabbles.²¹

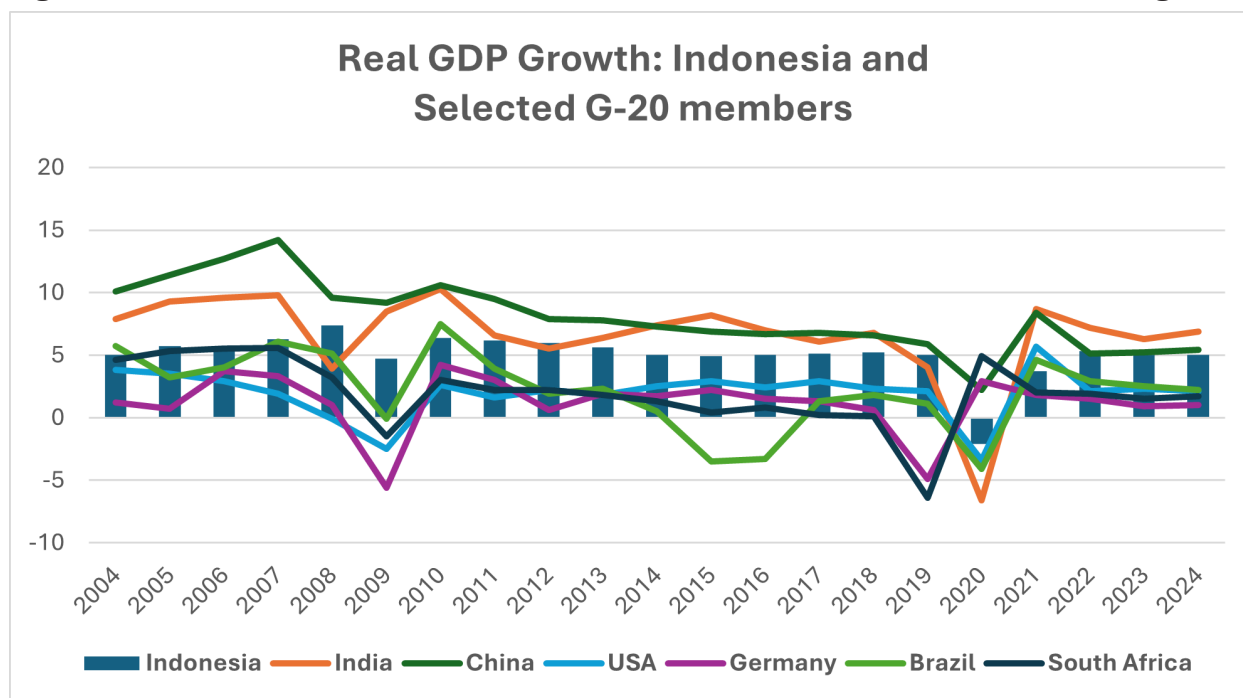
In contrast, Indonesia's cooperation with the United States has yielded tangible benefits around maritime security assistance, such as radar systems and major military exercises. The United States has also pledged more than \$5 million to boost Indonesia's maritime domain awareness and enforcement, along with \$3 million for a maritime training center in Batam, Indonesia.²² Yet this cooperation coexists with underlying mistrust. Just as Indonesian security policymakers occasionally express concern about developments in the South China Sea, they are also wary about American submarine operations within Indonesian archipelagic sea lanes and of the United States' Freedom of Navigation Operations (FONOPs), which sometimes target Indonesia itself. Similar concerns about possible U.S. intervention in the Malacca Strait in the early 2000s pushed Jakarta to develop the Malacca Strait Patrol with Singapore, Malaysia, and Thailand.²³

Overall, Indonesia's geographic centrality remains largely a passive asset in shaping the U.S.-China competitive dynamics. Should Indonesia be interested in pursuing a more active role, military planners could consider a trilateral maritime security exercise between the navies of Indonesia, China, and the United States focused on a relatively anodyne scenario, such as humanitarian assistance or disaster relief. After all, there are many shared maritime security interests between the three parties, from countering illegal fishing and armed robbery to maintaining open sea lanes for global trade. Indonesia could also indirectly convene a regular trilateral track 1.5 maritime security dialogue among experts and officials, possibly on the sidelines of major security meetings such as the annual IISS Shangri-La Dialogue in Singapore. All three countries could also work more closely together on maritime economy and sustainability through the East Asia Summit and the G20 or on preventive diplomacy at the ASEAN Regional Forum. In short, there are multiple bilateral, minilateral, and multilateral platforms through which Indonesia could leverage its maritime geography and influence U.S.-China strategic dynamics directly and indirectly.

Economy and Trade

Over the past two decades, Indonesia's economy has grown at an annual rate of 5%. According to a compilation referencing IMF data, Indonesia is ranked as the world's 16th largest economy by nominal GDP.²⁴ However, it is still classified as an upper-middle-income country in terms of per capita income. While Indonesia's economic development has lagged Vietnam and the Philippines in previous years, it possesses the highest GDP in ASEAN, accounting for 35% of the ASEAN economy.²⁵ Figure 3 illustrates Indonesia's economic growth in relation to many other countries globally. According to Price Waterhouse Coopers, Indonesia was ranked eighth internationally in 2016 based on GDP at purchasing power parity and is anticipated to become the fourth-largest economy by 2050. This robust economic performance gives Indonesia the economic scale to play a more significant role in shaping the dynamics between the United States and China, should it wish to do so.

Figure 3. Real GDP Growth: Indonesia and Selected G20 Countries (annual % change)



Source: The World Bank, *World Development Indicators: GDP growth (annual %)* (NY.GDP.MKTP.KD.ZG), CC BY 4.0, via data.worldbank.org.

With a population of over 270 million and a growing GDP, Indonesia is an attractive market for U.S. and Chinese technology investments. Both countries are interested in its large consumer base and vast potential for technologies such as 5G, AI, and renewable energy. Indonesia's rising economy and macroeconomic stability also appeals to Western investors. We argue that Western investors value its macroeconomic stability and expanding middle class, while Chinese investors are drawn to its rich mineral resources, role in the EV supply chain, and infrastructure ties under the Belt and Road Initiative. As a key trading partner for both the United States and China, Indonesia could utilize its trade and financial channels to bridge and strengthen relationships with both countries.

The challenge lies in projecting the appearance of “geopolitical neutrality” while upholding open and competitive investment policies that encourage corporations from the United States and China to invest in its domestic technology market. This maintains Indonesia's economic independence by allowing it to benefit from the U.S.-China rivalry while facilitating knowledge transfer and employment growth. Yet this approach may become increasingly unsustainable if the United States and China seek to engage in economic “de-risking” or “decoupling” strategies to avoid strengthening each other's economic lead in key sectors such as chips or minerals.²⁶ Indonesia must therefore use its economic ties to facilitate dialogue between the two economic partners, encouraging them to responsibly manage their competition.

To sustain an open trading system amid rising protectionism, Indonesia faces three main paths.²⁷ The first is continued unilateral reforms (first best choice), ideal in theory but difficult to implement from a domestic political economy standpoint, given the tendency toward protectionism during economic slowdowns. The U.S. policy posture may also make the option of “going it alone” less politically palatable. The second option is multilateral cooperation, which ideally provides optimal economic results by avoiding trade diversion. Multilateral approaches can also address difficult topics that cannot be settled regionally or bilaterally.

However, global progress has been modest. Finally, Indonesia could pursue regional cooperation through multilateral frameworks such as the ASEAN-led Regional Comprehensive Economic Partnership (RCEP), which Indonesia has championed. This is the second-best choice. The emergence of global populism, economic nationalism, and the U.S. withdrawal from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) demonstrate that first-generation globalization, which pushed broad trade liberalization, lacked substantial political backing.

Effective regional economic cooperation should therefore be implemented gradually, starting with common denominators and progressing to more difficult sectors, with a focus on politically and economically viable initiatives, like connectivity or capacity building. The reactivation of the ASEAN Infrastructure Fund is one worthwhile proposal to consider. RCEP provides a long-term framework that accounts for a large portion of world GDP and trade, giving Indonesia considerable geoeconomic power in supporting more inclusive trade and investment policies. Indonesia can thus use its position to facilitate a less geopolitically contentious and more collaborative economic conversation between the United States and China. Furthermore, as ASEAN's traditional leader, Indonesia might also arrange trilateral meetings between ASEAN, the United States, and China to explore mutually beneficial trade, investment, and technological cooperation. This would strengthen ASEAN's involvement in the U.S.-China conflict, increasing regional economic stability while protecting area interests.

China remains one of Indonesia's most significant — and, at times, most aggressive — foreign direct investors and trading partners, despite the high cost of doing business in the country.²⁸ To mitigate the risk of fluctuations in the Chinese economy, Indonesia needs to improve its overall investment climate to attract a more diverse set of investors to rebalance China's influence. Potential partners include the United States, Japan, South Korea, ASEAN members, and others. However, Indonesian policymakers have thus far leaned toward taking advantage of the U.S.-China competition rather than fundamentally reforming domestic institutions to draw more non-China investors.²⁹

After all, there is a substantial positive correlation between Indonesia's exports to China and China's exports to the United States, likely because many of Indonesia's exports have served as inputs for Chinese goods going to the United States. Since the 2018 trade war, this association has declined significantly. Additionally, Indonesia's exports to the United States have plateaued, while imports from China have surged dramatically, suggesting that Chinese goods are not being rerouted through Indonesia to reach the United States. This plateau also indicates that Indonesia has not yet fully benefited from China's investment shift, which might serve as a platform for accessing the U.S. market.

Since the trade war, the positive correlation between China's exports to the United States and Indonesia's imports from China has also decreased, a statistically significant change. As China began diversifying its export destinations, its share of exports to the United States decreased (from 19.2% in 2018 to 17.2% in 2021). At the same time, China's exports to ASEAN climbed to 14%, facilitated by the ASEAN-China Free Trade Agreement. For Indonesia, this underscores the necessity of diversifying its export markets and supply chains to reduce risks related to an overreliance on U.S. and Chinese markets. Expanding trade with partners in Southeast Asia, the Middle East, and Africa could open new markets for Indonesia's core products, such as agricultural, mining, and manufacturing goods.

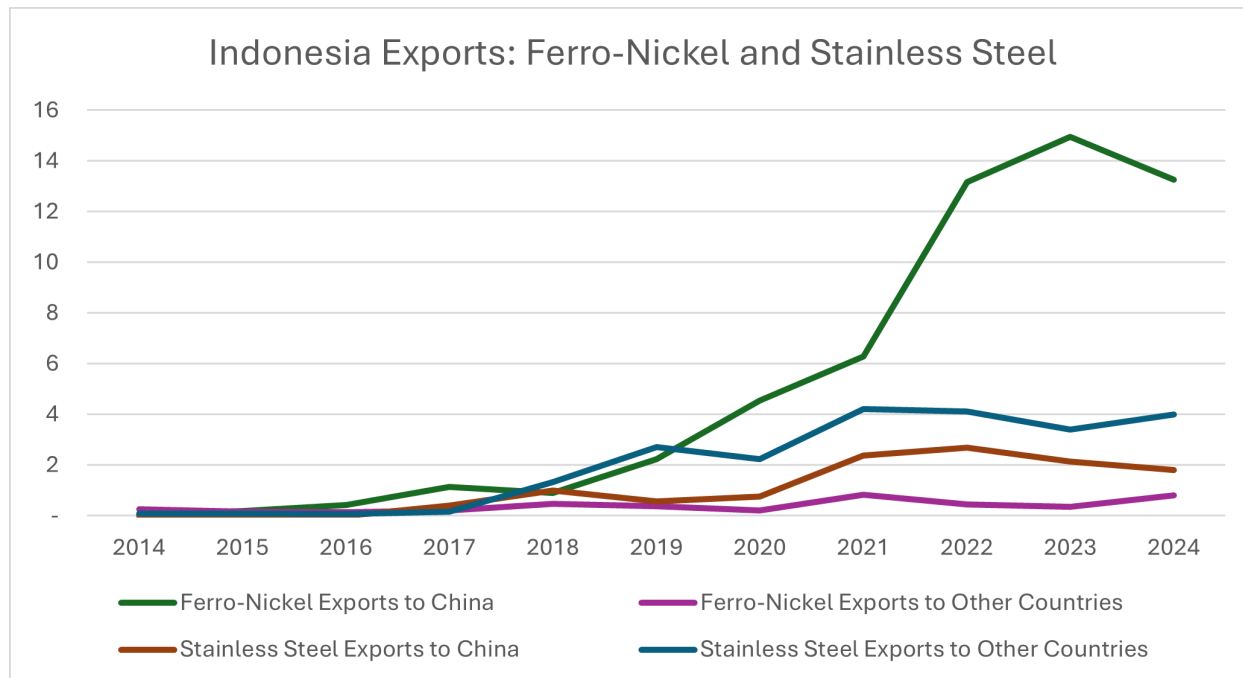
Energy and Climate Change

Indonesia has the largest nickel reserves in the world, covering approximately 2 million hectares of nickel-rich land, with deposits of 17.3 billion tons of ore and 174.2 million tons of metal, accounting for approximately 23% of global reserves.³⁰ In total, the country produces over 40% of the world's nickel. Increased demand for electric vehicles (EV) and stainless steel, which both depend on nickel, has made Indonesia an attractive investment partner for both the United States and China and a crucial node in the EV industry value chain.³¹ As a result, Indonesia seeks to leverage its abundant nickel reserves to develop a local EV supply chain and, potentially, a full-scale battery and EV manufacturing industry.³² During President Joko Widodo's tenure (2014-2024), Indonesia attracted around \$30 billion in investments in this area, primarily from Chinese investors. Incentives, including tax cuts and infrastructure for EVs, continue to support these efforts, though challenges remain, especially regarding access to the U.S. market due to the Inflation Reduction Act (IRA). Privately, Jakarta policymakers have expressed concerns that the United States' focus on Chinese participation in EV supply chains sets an impossible standard for Indonesia to sign a bilateral critical minerals agreement to unlock the benefits of the IRA.

China has been the primary source of investment in processed nickel, and Indonesia's major exports of ferro-nickel and stainless steel are also largely destined for China. While China's aggressive investments in Indonesia's nickel sector have boosted exports and investments, there is concern over possible developments of nickel substitutes and the difficulties of entering the U.S. market if Chinese-dominated processed nickel investments prevail. Given that Indonesia's nickel export prohibition has resulted in a dramatic spike in nickel costs, it could encourage innovation for new, less expensive battery materials. If such substitutes emerge, Indonesia's monopoly advantage may weaken over time. To prepare, the country is working to diversify investors' access to the market, given that Indonesia relies heavily on China as a market for processed nickel exports, such as ferro-nickel (see Figure 4). Since economic fluctuations in China could impact Indonesia's nickel export pricing, export diversification will be a critical concern going forward.

These challenges aside, Indonesia's nickel assets could allow it to play an important role in developing trilateral cooperation with China and the United States. To attract U.S. investment, Indonesia could promote a more favorable investment climate that encourages U.S. corporations to participate in nickel-processing projects, especially if it can improve environmental and labor standards. This approach would also improve the international image of Indonesia's nickel sector. At the same time, Indonesia should revive efforts to conclude a bilateral critical minerals agreement, though doing so requires concerted efforts to engage with the U.S. Congress and significant changes to China's role in the country's EV supply chain.

Figure 4. Indonesia's Exports: Ferro-Nickel and Stainless Steel (\$ in Billions)



Source: United Nations Statistics Division, UN Comtrade+ (via comtradeplus.un.org), Copyright © United Nations

In any case, Jakarta policymakers are interested in boosting Indonesia's nickel competitiveness by involving both the United States and China, including through collaboration in infrastructure development. However, they are not yet seeking to do so through better policy alignment between the two superpowers. Without directly engaging the United States and China in a trilateral format over their exclusionary competition, it would be difficult to persuade both countries to collaboratively invest in Indonesia's nickel industry. If Indonesia chooses, it could leverage and scale past experiences, such as the joint venture between U.S. automobile manufacturer Ford, China's Zhejiang Huayou Cobalt, and PT Vale Indonesia in a \$4.5 billion nickel-processing plant.³³

More broadly, Indonesia could engage both China and the United States through green technology. Given both countries' interest in the green transition, Indonesia could strengthen its leverage through its significant potential for renewable energy development, such as solar, wind, and geothermal power. It could also entice green technology investments from the United States and China through fiscal incentives and favorable regulations, with an added boost if the two countries agree to collaborate on specific projects. Furthermore, Indonesia could also propose a trilateral collaboration to integrate battery and renewable energy supply chains, developing a robust supply network from raw materials, like nickel, to finished products, like electric batteries, with each stage prioritizing environmentally responsible practices. Finally, Indonesia could develop a regional renewable energy research center with involvement from both countries, establishing the country as a regional hub for renewable energy innovation in Southeast Asia.

Indonesia's growing role in the global green transition is often associated with its leadership in nickel and electric vehicles. But this position alone is insufficient. A serious green energy strategy must go beyond minerals and manufacturing. The country has substantial potential in solar, wind, and geothermal power. Scaling up these sectors will require greater investment, stronger regulation, and the ability to attract co-financing not just from China and the United States but also from other middle powers with shared interests in energy resilience and low-carbon development.

At the regional level, Indonesia could lead by example. Establishing a Southeast Asia renewable energy research center, for instance, would allow it to pool regional expertise, mobilize financing, and push innovation in clean energy technologies. Additionally, it would provide a diplomatic opportunity. At COP29, Indonesia took the initiative in rallying developing countries to demand greater climate finance. That momentum should not be wasted. By convening middle power platforms on climate diplomacy, Jakarta could help press Washington and Beijing toward higher ambition, while also positioning itself as a credible broker for technology transfer and global cooperation. In short, Indonesia's green leadership will depend not only on its mineral reserves but on its ability to build institutions, forge partnerships, and shape the competitive dynamics between the United States and China.

Health and Technology

Following the COVID-19 pandemic, Indonesia was instrumental in establishing and maintaining the Pandemic Fund during its G20 presidency in 2022. The fund aims to improve global preparedness and response to future pandemics by combining financial resources from member countries and international organizations. Hosted by the World Bank with technical support from the World Health Organization, it seeks to help low- and middle-income countries with pandemic prevention, readiness, and response in disease monitoring, laboratory infrastructure, and workforce development. In addition to campaigning for this project within the G20, Indonesia provided financial and diplomatic support, encouraging other countries to commit resources.

While the Pandemic Fund exemplifies Indonesia's greater commitment to global health security, it could also serve as a forum for the United States and China to collaborate on the joint goal of building health resilience. This role strengthens Indonesia's image as a responsible global health leader capable of bringing together the United States and China. Its longstanding nonaligned foreign policy and balanced relationships with both nations allow it to frame pandemic cooperation as a global humanitarian necessity rather than a geopolitical competition. Multilateral platforms like the fund can facilitate tangible collaborative efforts, such as joint pandemic preparedness funds, shared vaccine research, and equitable global distribution mechanisms. By emphasizing the transnational nature of pandemics and mutual vulnerabilities, Indonesia can shift the focus toward shared interests and meaningful dialogue between the United State and China.

Similarly, in the geo-technological competition between the United States and China, Indonesia should avoid taking sides and encourage both countries to develop collaborative investments. For example, in the development of 5G networks and the Internet of Things, Indonesia could allow both Huawei from China and U.S. technological companies to contribute, subject to strong data security and privacy safeguards. Through its leadership in ASEAN, Indonesia could also support regional technology initiatives, such as the ASEAN Digital Economy Framework, which seeks to boost the technological autonomy of member countries through collaboration.³⁴ By becoming a regional technological cooperation hub, Indonesia could elevate ASEAN's strategic value in the eyes of both the United States and China. It could further encourage U.S.-China collaboration through ASEAN in areas including cybersecurity and data infrastructure, building its reputation as a tech development hub in Southeast Asia.

Still, Indonesia's growing reliance on Chinese and U.S. technology firms poses a quiet strategic challenge. From cloud infrastructure to 5G networks, the country's digital backbone is increasingly shaped by external actors. To preserve strategic room to maneuver, the country cannot afford to be overly dependent on any single source of technology. The first step is regulatory: all foreign tech investments must meet clear cybersecurity and data governance standards. But regulations alone are not enough. Indonesia also needs to build domestic capacity — by supporting local tech startups, expanding STEM education, and building

an innovation ecosystem that allows domestic firms to grow. Diversifying suppliers through partnerships with Japan, South Korea, and the EU will further reduce vulnerability and promote more open, interoperable systems. The goal is not autarky but resilience, ensuring that Indonesia has the tools, talent, and choices to chart its own course in a world increasingly shaped by digital competition.

Converting Passive Assets

The major challenge for Jakarta does not begin and end with exploiting the competitive dynamics between the United States and China. Not only could such impulses incentivize policymakers to sit back and watch the competition unfold, encouraging strategic complacency, but they could also undermine Indonesia's ability to mitigate future risks driven by geopolitical competitive pressures. While there are few platforms for trade coordination between Indonesia, China, and the United States — especially given the Trump administration's focus on trade deficits and tariffs — Indonesia could still facilitate broader diplomatic mechanisms under which those issues could be discussed.

An active alignment posture would require Indonesia to better manage its diplomatic ties while directly engaging with and seeking to shape the U.S.-China strategic competition. For instance, Indonesia could offer a trilateral platform for the United States, China, and itself to debate regional strategic concerns. This could take the form of an annual meeting where government officials, firms, and non-government experts debate trade and investment regimes as well as industries such as nickel, renewable energy, and digital technology. The forum might also address topics including maritime security, energy transition, health, and infrastructure development.

Indonesia could further consider coordinating trilateral agreements around policy and norms, such as establishing criteria for ecologically responsible investments, worker rights, and sustainable corporate practices. This could extend to legislation governing safe technological transfer. For example, Indonesia could offer a trilateral meeting to discuss mutually acceptable technology standards, such as 5G deployment and AI. The platform could also facilitate discussions about sustainable development, focusing on green projects involving all three countries. By proposing such a forum, Indonesia could create a communication channel that allows the United States and China to engage on matters of mutual interest while maintaining its foreign policy independence.

Additionally, Indonesia could strengthen its leadership in ASEAN, leveraging its related mechanisms, especially the ASEAN Regional Forum (ARF) and East Asia Summit (EAS), which includes the United States and China, to gradually enhance norms of crisis management and build confidence. The ARF, for example, has been working on measures related to regional security architecture and preventive diplomacy.³⁵ However, the forum has languished in strategic irrelevance, prompting ASEAN foreign ministers in early 2025 to formulate ways to “revitalize” it.³⁶ One potential approach is to directly involve the United States and China in developing built-in crisis management mechanisms on major security flashpoints such as the South China Sea or the Taiwan Strait.³⁷ Similar initiatives could institutionalize the EAS beyond an annual gathering of regional leaders reading pre-prepared statements.

Taken together, this analysis suggests how Indonesia can convert its passive assets — geography, resources, economic potential, and diplomatic leadership — into an active alignment posture. This posture does not treat the U.S.-China competitive dynamics as fixed; rather, it is open to influential middle powers like Indonesia. Active alignment includes both direct and indirect approaches, encouraging Indonesia to not only seek direct benefits from the United States and China through separate bilateral arrangements but to engage in trilateral

policy coordination across multiple platforms. In other words, Jakarta could encourage the United States and China to “hang together” with Indonesia rather than to “hang separately.” Achieving this outlook, however, requires Jakarta policymakers to go beyond exploiting the U.S.-China competition by actively bringing both major powers to the table.

Conclusions and Recommendations: Promises and Perils of Reforms

Foreign policy begins at home, and conversion of passive assets into active capital to shape the U.S.-China competition largely depends on domestic economic, defense, and diplomatic reforms in Indonesia. Without a credible investment climate, Indonesia will struggle to attract the kind of diversified foreign direct investment that lends economic weight and diplomatic flexibility. Simplifying licensing, improving infrastructure, and ensuring policy consistency are not just matters of economic reform — they are tools of strategic positioning. The same logic applies to defense. A credible security posture requires more than procurement; it demands personnel overhaul, institutional reforms, innovative doctrine, and a realistic budgeting process. Without it, Indonesia will continue to punch below its weight in shaping maritime norms and responding to regional security challenges.

Diplomatic capacity is equally essential. An active alignment posture, which engages both major powers without being beholden to either, requires a foreign ministry that is professional, well-resourced, and strategically oriented. That means investing in people, not just processes, to shape strategic outcomes. The challenge is not merely crafting elegant statements or hosting multilateral events; it is about sustained engagement, deep policy work, and the institutional memory to manage long-term relationships. These reforms are not peripheral — they are central. Without them, Indonesia will be forced to react to great power moves rather than help set the terms of engagement.

In the economic realm, three broad directions of travel are required. First, Indonesia must become a regional economic powerhouse to negotiate effectively with the United States and China and encourage collaborative policy alignments in the areas discussed above. To do so, Indonesia needs to increase its economic growth from 5% to 7% or higher. Achieving this requires improvements in productivity through advances in human capital, export growth, and foreign direct investment.³⁸ Exports must also be diversified in terms of product types and destination nations.³⁹ Countries with a mix of medium- and high-tech manufacturing tend to experience decreased export volatility,⁴⁰ while natural resource-rich countries like Indonesia experience greater volatility. Industrialization is therefore essential to increase Indonesia’s economic complexity, which remains low compared to Vietnam, Malaysia, and Thailand.

Another area required to boost productivity is export diversification, though it necessitates innovation underpinned by robust research and development (R&D). Unfortunately, Indonesia’s R&D efforts have lacked government support and proven ineffective. Offering tax breaks for R&D and workforce training across industries and emerging technologies could bolster domestic innovation. High shipping costs, which lower profitability and disincentivize product development, highlight the need for improved infrastructure and logistics. Innovation also requires high-quality human capital, so Indonesia needs an industrial policy that promotes skills development and R&D. This could be a challenge, however, given rising levels of youth unemployment, particularly among vocational high school graduates. Policies that encourage companies to train and upskill their workers, such as double tax deductions for qualifying programs, could help address this while building a stronger workforce.

Second, Indonesia needs to enhance domestic savings and boost government savings, requiring tax administration reforms.⁴¹ Third, Indonesia must develop public policies, such as simplified licensing and better infrastructure, to encourage investment from other partners beyond the United States and China, including Japan, the European Union, and Middle Eastern countries. Specifically, encouraging export-oriented foreign direct investment will generate foreign currencies, so when gains are repatriated, there will not be pressure on the balance of payments caused by currency mismatches. This could stimulate economic growth without jeopardizing Indonesian Rupiah stability. Taken together, these economic reforms around growth, savings, and diversification could allow Indonesia to better implement an active alignment posture vis-à-vis the United States and China.

But economic progress alone is insufficient to give Indonesia the leverage needed to help bridge the gap between the United States and China. The country must also consider reforms in defense capability development and diplomatic management. On defense, Indonesia remains an inconsequential military power in the Indo-Pacific. Roughly 70% of the military's operational history since 1945 has been geared toward internal security and domestic operations.⁴² Its combined military exercises scenarios have not been substantially updated since the 1990s, and its international experience has largely centered on United Nations Peacekeeping missions, with only a few expeditionary operations against pirates over the past two decades. Its annual defense budget has rarely reached 1% of GDP, and most of the military's equipment is more than three decades old on average. The armed forces continue to deal with various pathologies, including personnel mismanagement, doctrinal stagnation, education and training lethargy, and archaic defense planning systems.⁴³

Without a massive and fundamental overhaul of Indonesia's defense capabilities, Indonesia lacks the credibility to convince both China and the United States that it is ready to assume greater regional security responsibilities, let alone complicate the conflict risk calculus of both Beijing and Washington. Until then, convincing Beijing and Washington to collaborate on peacefully managing regional security flashpoints will be almost impossible. Similarly, Indonesia's diplomatic leadership in ASEAN will rely primarily on historical precedent and normative ideas rather than greater capabilities and commitment.⁴⁴ Only by showing a willingness to defend and commit resources to shared regional interests can Indonesia command regional followership. For the time being, Indonesia's defense sector is largely focused on its arms procurement efforts that Prabowo began when he was former president Jokowi's defense minister. Broader defense structural challenges are given hardly any consideration beyond procurement, and even those efforts face significant risks and impediments beyond funding shortfalls.

Finally, Indonesia needs to overhaul its diplomatic capabilities, including its foreign ministry.⁴⁵ Under Jokowi and former Foreign Minister Retno Marsudi, the foreign ministry became unhelpfully focused on process-oriented policies rather than path-breaking initiatives to achieve strategic outcomes. Whether in the case of the U.S.-China competition, maritime security, or the post-coup conflict in Myanmar, Indonesian foreign policy has largely become an exercise in producing "reference point" documents without meaningful strategy.⁴⁶ What's more, under Prabowo's larger-than-life personality, the foreign ministry has struggled to support Foreign Minister Sugiono, a Prabowo political party official and former staffer with no diplomatic or foreign policy credentials. The ministry's budget has also seen little growth in over a decade, and its regional and global credibility are on precarious ground due to lack of resources, strategic vision, and follow-through.

Bridging the gap between the United States and China requires a solid foreign policy team to support Prabowo's diplomatic impulses to engage in major international events or personal meetings with key global leaders. Stagecraft, after all, is not statecraft in world politics. It also requires a revamped foreign ministry less constrained by bureaucratic processes and more aware of geopolitical shifts. Equally important, Prabowo

must heed the advice of professional diplomats who have decades of experience navigating key foreign policy issues, such the South China Sea. Diplomatic reform therefore encompasses the economic and defense reforms necessary to convert Indonesia's passive assets into active capital that can influence the U.S.-China strategic competition.

In the short term, Indonesia can move quickly by convening trilateral maritime dialogues or advancing ASEAN digital initiatives. These are low-hanging fruits: practical, visible, and politically manageable. While they will not change the strategic landscape overnight, they can signal intent and help Indonesia carve out a more active role in shaping regional norms. Achieving medium- and long-term goals will be harder. A U.S.-China-Indonesia trilateral summit, for instance, would be ambitious — not just diplomatically but symbolically. It may not happen tomorrow but planting the seed matters. Structural reforms in defense and foreign policy will take even longer, requiring political will and institutional follow-through. But even incremental progress on these fronts sends a message: Indonesia is not just reacting to global dynamics but willing to shape them. Leadership, after all, is not just about outcomes. It's about showing up with ideas and the capacity to act.

What do the United States and China expect from Indonesia? Quite simply, they see it as a swing state in an increasingly contested region. Washington wants alignment on regional security and digital standards, especially in areas like cybersecurity and 5G infrastructure. Beijing, on the other hand, is focused on market access and infrastructure investment, from ports to industrial parks. Both are watching closely when it comes to critical minerals, defense procurement, and broader foreign policy signals. This puts Jakarta in a position of leverage — but only if it knows how to use it.

Indonesia can, and already has, benefited from the strategic rivalry between the two powers. Trade diversion in sectors like nickel, investment competition, and the push for tech localization have opened new opportunities. But influence is not automatic. It requires clarity of purpose and follow-through. Initiatives like the Pandemic Fund and the JETP show that Indonesia can help shape international norms when it brings ideas to the table and rallies support. The challenge now is to sustain that momentum. Domestic reforms must be consistent, diplomatic tools must be sharpened, and alliances with like-minded states must be cultivated — not for the sake of appearances but to amplify Indonesia's voice when it matters most.

The Indonesian case suggests the promises and pitfalls of middle power statecraft that seeks to avoid dealing directly with the source of geopolitical uncertainties — the strategic competition between the United States and China. Rather than viewing its middle power status as a strategic buffer from great power rivalry, policymakers should see it as an asset. Indonesia is large and influential enough that the United States and China cannot ignore it should they choose to engage and help shape the relationship between the two superpowers. That requires addressing domestic structural challenges and developing a deliberate policymaking ecosystem to execute long-term strategies, even when the costs of action seem high.

If middle powers like Indonesia do not assert themselves and take greater responsibility — including pushing back on the United States and China while providing them an off-ramp to collaborate — then there is more reason for Washington and Beijing to view them through the prism of their own interests. Rather than seeing middle powers as targets of influence or proxies in their competition, the United States and China should view them as partners in shaping the broader regional and global environment for the greater good. For Indonesia and other middle powers, all these considerations begin by acknowledging that they cannot ignore the U.S.-China competition and should start developing long-term strategies, backed by solid reforms, to tackle the problem head on. Standing by will only lead to the world passing the middle powers by.

Statements and views expressed in this commentary are solely those of the authors and do not imply endorsement by Harvard University, the Harvard Kennedy School, or the Belfer Center for Science and International Affairs.

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