

## WHY INDONESIA WILL NOT BE ASIA'S NEXT GIANT

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Speculation that Indonesia will be the next great economic and political power in Asia - the so-called "Third Giant" - has been growing over the past few years. This is more than just an obsession of academics, journalists and think tanks. It is a topic discussed by political leaders and business in Indonesia and Australia. The prospect of Indonesia becoming a vast new market is attractive to investors and exporters. And the idea that Indonesia might become a new political power in the region is significant when China is flexing its muscles in the South China Sea.

Several different and overlapping arguments are put forward to support claims that Indonesia is a rising power. One rests on Indonesia's relatively large and growing economy. It has the 16th largest GDP in the world, placing it above any of its Southeast Asian neighbors. New York University economist Nouriel Roubini is widely cited in his claim that Indonesia could even outperform China, given its low debt, a young demographic and low inflation.

Similar enthusiastic prognoses have also been made by business organisations and private consulting groups, including McKinsey. A second argument emphasises the importance of a new mood of popular nationalism and a growing aspiration among elites for Indonesia to be acknowledged as an important country. This has been reflected in the public statements of President Joko Widodo, as well as former presidential candidate Prabowo Subianto and, before them, former President Susilo Bambang Yudhoyono.

In the view of analysts like Greg Fealy and Hugh White, among others, this changed mood provides political incentives for these "great power" aspirations. Scholars such as Amitav Acharya and Rizal Sukma argue that Indonesia's success in building a working democratic system allows it to claim a special form of soft power. Widely respected and trusted, they propose that Indonesia has been accepted as a leader and bridge builder and model for others. This status is enhanced by Indonesia's apparent success in fusing political democracy with a Muslim-majority society. Yet if we look carefully at the "Indonesia Rising" literature there is a shortage of hard evidence. And in any case, most writers are cautious, even pessimistic. Their arguments are more about why Indonesia should or could have become an important player in the region and why it has not. In the case of the soft power arguments, the claims are mostly opaque and unverifiable.

For liberal economists like Hal Hill and Chatib Basri, the economic promise of earlier years has not been fulfilled because market reform has been undermined by continuing state intervention and protective policies. This is compounded by supply side costs imposed on investors by weak institutions, bad governance and corruption, as vested interests override the rational decisions of technocrats. And political analysts like Fealy and White see the new assertiveness of politicians and Indonesia's great power ambitions being undermined by the uncertainties of its economic trajectory, the weakness of its military power and its underdeveloped diplomatic capacity.

While I share the scepticism that Indonesia is on the way to some sort of big power status in Asia, I do so for different reasons. I argue that the problem is not simply one where market reform has been obstructed by vested interests. After all, most of the world's great economic powers have emerged on the back of interventionist states, policies of protection in trade and

investment, and widespread corruption. Nor is it a problem that might simply be addressed by technical and institutional fixes aimed at lifting the capacity of Indonesia's military and its diplomatic apparatus, constructing effective governance, or strengthening its economy.

It needs to be asked whether smaller powers can realistically ever overtake the entrenched economic and political powers where the structural gap in military power, technology and knowledge and the strength of educational and public institutions is so vast. Putting this aside, I propose that grand projects by governments to expand national power are undertaken when they are structurally important to the rise of the ruling political and economic forces. This was the case for the rulers of the British and Dutch mercantile economies in the eighteenth century, which required vast colonial empires to feed their nascent trading and manufacturing industries and to consolidate the new commercial or bureaucratic elites.

The same can be said for the United States in the first part of the twentieth century, where the political control of governments from Central America to the Middle East was part of the rise of US industrial and corporate power. For Japan in the decades before World War II, political empires established in Manchuria and Korea were integral to the expansion of its industrial empire. These conditions do not apply in Indonesia, where neither the economy nor its entrenched political and business oligarchies require the projection of national power for their survival or to consolidate and extend their power and wealth.

Their interests are found in domestic struggles for control over the state and its resources and over the distribution of these rents. If we look at the Indonesian state we can see it is different from the sort of party states that existed in countries like China, Japan or Korea or even Singapore when these built coherent national economies. Unlike the Chinese Communist Party, the Japanese governments after Meiji, or the People's Action Party (PAP) in Singapore, the Indonesian state today has little capacity for imposing collective national projects. It struggles to complete even the most modest of infrastructure projects. This is not to say it is a dysfunctional state.

It is highly efficient in concentrating power and rents and allocating them to achieve a coherent political structure. It is, for its beneficiaries, a state that works. The interests of Indonesia's business and political oligarchies are not in projecting national power to alter Indonesia's position in the regional system. Rather they are in securing a place within existing global production chains and investments in Indonesia, and within the political forums already established. They have no Soekarnoist ambitions to alter the existing architecture of global or regional power.

This is why Indonesian nationalism is not directed outwards but inwards, to the task of protecting oligarch interests and ensuring they have as big a share of the existing pie as possible. This is why, as analysts like Eve Warburton have observed, the energies of political and economic oligarchies alike are expended in wars over the spoils of foreign investment and the distribution of rents from governments. This leaves little left in the cupboard of 'Indonesia Rising'. The supporters of this idea must console themselves with fairly opaque claims to soft power and to leadership, trust and influence within organisations like ASEAN and APEC. Richard Robison has written widely on the political economy of Indonesia and is Emeritus Professor at Murdoch University's Asia Research Centre.

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