



# The Political Economy of Indonesia's Development Strategy under China-USA Power Rivalry and Hegemonic Competition: A Middle Power with Its Hedging Strategy

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## ABSTRACT

In the new century, a growing power rivalry and contest between China and USA has significantly impacted the Asia-Pacific region. In turn, Indonesia has tried to avoid being caught in the middle between these two great powers. Among unanswered questions are how to respond to influences affecting politics and security and how to interact concerning economic cooperation and market integration. This article will explore how Indonesia tried to protect its own national interests amid this great-power competition by making strategic and timely policy choices from 2016 to 2022. We offer a new argument and interpretation for how a middle-sized power like Indonesia can flexibly and efficiently operate a hedging strategy toward US and China to promote its own security and development. Neoclassic realism will be applied to interpret a strategic triangle. As such, we explore Indonesia's state leadership, domestic politics, political culture, and economic entity within the context of US-China power rivalry, closely in related to facing China's Belt-and-Road initiative (BRI) as well as US's Indo-Pacific Strategy with Indo-Pacific Economic Framework (IPEF).

## KEYWORDS

Indonesia; hedging strategy; US-China power rivalry; belt-and-road initiative; Indo-Pacific strategy

## 1. Introduction: US-China rivalry mattered for Indonesia's development strategy

Indonesia has cautiously dealt with the new US-China power rivalry of world hegemony. It seems super-power rivalry and great power politics are back on the agenda of international politics (Ross et al., 2021). Indeed, the historical background from last century can readily be perceived by learning from the Cold war confrontation between the US and USSR.

Will the 21st century US-China strategic rivalry eventually become a new cold war struggle? Will the US-China rivalry eventually end up with inevitable military conflict?

It turns out that the current Ukraine-Russia war may be the best exemplar, which seems to still have the shadow of the US-Russia confrontation left over from the cold war of the previous century. Even, it is still too early to find a satisfactory answer to great powers military conflict. However, some explanations are offered by Graham Allison (2015) who theorizes about the Thucydides Trap and Bilahari Kausikan (2015) embraced Asia's Strategic Challenge.

Thucydides Trap refers to old Greek metaphor gives us cautious sense on the danger of clashing power between rising power (Athens) and ruling power-in decline (Sparta) or during World War I, between Great Britain versus Germany. Furthermore, Allison's (2017) book *Destined for*

War had invited to learn lessons from history and suggest cases on the trap. Yet, taking the opposite direction from Allison's analysis, Kausikan comprehends that despite strategic competition is unprecedented between US-China. Interestingly, Kausikan emphasized his premise with the essence of post-Cold War strategy on *ambiguity*, which offered a realist way of thinking and action on rivalry and competition as dynamic intrinsic parts of two great powers. Competition is not conflict and it does not inevitably lead to conflict. Definitely, US-China competition will not always be comfortable for Asian countries. Therefore, working along these essential conditions on what responses from Indonesia will be an interesting case to discuss and elaborate further in this article.

Asian states are necessary to observe whether the Sino-US relationship will be positioned in Thucydides' trap and avoid the inevitable conflict, or eventually end in the war (Forde, 2007). In a sense, the rising China brings opportunities and challenges simultaneously for Indonesia. In some studies, Indonesia's perception and strategy toward China's OBOR have been emphasized by hedging with balancing or double hedging strategy toward the US-China competition, discussed regional order in the midst of China's BRI, USA's Indo-Pacific Strategy, and Indonesia's Global Maritime Fulcrum (Mursitama & Ying, 2021). Yet, hereby it is important to conceptualize and offer a research framework for understanding the responses and reaction from middle powers, like Indonesia, on those determining foreign policy from role theory and development strategy (Thies & Sari, 2018 and Mubah, 2019). In other words, to analyze Indonesia's strategy with a distinctive role for the positive trajectory will be important on state's hedging responses and strategies to gain strategic national interests.

The central concern of this article is to describe and assess Indonesian development strategy under US-China power rivalry and hegemonic competition after 2016 to the present time. Two main focuses from Indonesia's perspective will be on Belt-and-Road Initiative (BRI) and Indo-pacific framework (economic and security).

The aim of this article elaborates on three related questions at the center of our inquiry: First, how the political and security aspect of Indonesia's strategy to survive and keep national interests under the rising China and weakening United States from 2016 onward? Second, how the economic cooperation and market integration pursued by Indonesia under the two great powers within the Indonesian context? This will discuss influences and challenges from the BRI and Indo-Pacific Economic Framework (IPEF). Third, how the Indonesian government strategic choices and foreign policy posture are adopted from 2016 onward up to 2024. Operationally, this article features three main points of discussion: one is to describe Indonesia as a middle power, two is to depict the hedging strategy on realist choice for Indonesia, and three is to discuss Indonesia's national interests for short-term and long-term goals.

## **2. USA-China relation since 2016 as power rivalry and hegemonic contestation: Historical context and theoretical framework**

The main objective of this part describes recent development over Sino-US relationship from an Indonesian's perspective. This part offers general figures over the economic and military capabilities, covering trade, for instance, volume export and import goods, population, military expenditure, and active military personnel. Subsequently, this part also briefly discusses neoclassical realism and Indonesian national interests which focuses the attention to domestic politics and president visions over economic development and choice of foreign policy.

Inspired from Dueck (2009), whose writing had examined neoclassical realms and the national interests with explanatory factors originated from presidents, domestic politics, and major military interventions. For many years, involvement of the US abroad through active foreign intervention was surprisingly neglected by scholars of international relations. Dueck's analysis offered a realist approach, with neoclassical theory (see for instance Lobell et al., 2009; Clinton, 2007), tried to

**Table 1.** Major economic indicators of Indonesia, USA, and China.

No	Indicators	China	Indonesia	United States
1	Total GDP (Trillion US\$)	17.458	3.246	22.996
2	GDP per capita (US\$)	12,359	3,757	69,231
3	Population (2022)	1,450,605,759	279,486,313	334,960,762
4	Economy as % of global GDP	18.62	2.44	15.74
5	Export goods volume (Billion US\$)	3,369	233	1,754
6	Import goods volume (Billion US\$)	2,686	189	2,832
7	Military expenditure (% of GDP estimated 2021)	1.50	0.8	3.60
8	Military service personnel (active)	2,000,000	400,000	1,390,000

Source: Total GDP, GDP per capita, economy as percentage of global GDP, Export/Import goods volume from [www.statista.com](http://www.statista.com);

Population from [www.worldmeter.info](http://www.worldmeter.info), military expenditure and service personnel (active) from CIA World Fact Book.

explain major military interventions with its domestic politics and the President. By contrast, our article explores domestic politics about China's BRI and American Indo-Pacific strategy with presidential policy.

Since President Joko Widodo (hereafter Jokowi) administration took the office in 2014, there were surely previous administration's legacies that was undoubtedly relevant. Indonesian government has faced and responded significant over global contestation, such as One Belt and One Road initiative, Indo-Pacific Strategy, Regional Comprehensive Economic Partnership (RCEP) sponsored by China, and Comprehensive and Aggressive for Trans-pacific Partnership (CPTPP) which evolved and transformed from Trans-Pacific Partnership (TPP), initially it was sponsored by the United States.

State relations between Indonesia and China during 2004–2014 were built on the basis of the need to strengthen mutual diplomacy. It is because Beijing becomes a major power in Asia and emerging its competing power with the USA. This has led to a major move toward expanding co-operations, not only bilaterally with China but also regionally with ASEAN countries. As economic relations with China deepened, Indonesia became one of the most dynamic emerging economies in the world and achieved sustaining granular growth with two other fast growing economies China and India.

There are some other aspects to the relationship between Indonesia and China, which are characterized by sentiments of Indonesian society toward overseas Chinese. This was a succession to the Indonesians as the world's largest concentration of Chinese diaspora, who played a major role in the transformation of the Chinese economy since the Suharto era (Novotny, 2010). The degree of interdependence between Indonesia and China had been increased, but it was not supported strongly by the urban middle class of Indonesia.

Concrete indication could be traced through low awareness from public opinion survey of Soebagio and Pattiradjawane (2014).<sup>1</sup> Moreover, it is also shown that negative attitudes toward China migrant workers who worked for the construction project funded by China's foreign debt has increased steadily, especially during the election years of 2014 and 2019.

Historically, Southeast Asia region experienced two trade regional blocs evolving: one is China-led RCEP and the other is TPP led by USA. Revisiting the TPP, it was formed in order to address twenty-first century issues, such as e-commerce, competition, issues of fair competition, and to update the trade rulebook as a cornerstone of Asia. The main agenda was clear on China's "exclusion." Just as President Obama revealed, the TPP was created to prevent China from writing rules and regulations on global or world trade regimes.

As Table 1 shows, it illustrates some statistics on population, total GDP, GDP per capital, export and import, military expenditure, and active military service personnel on Indonesia, China, and the USA. The Indonesia's economic and military scales are still far away from USA's and China's ones. This means, in some extent, Indonesia has no choice but to approach USA and China in order to gain better national interests.

Obviously comparing, relative strength and capabilities among three countries, Indonesia positions as middle power compared with USA and China. Indeed, TunsjØ persuasively shows that by 2015<sup>2</sup> China had already closed the gap with the United States along relevant indicators on security and economies (Goldstein, 2021). It can be sure that the prospect bipolar world rather than multipolar is coming.

Our main argument lies on current and projected Indonesia's position in the world stage as middle power. Indonesia definitely is not a small country and not yet to be a great power. The middle power country has to encounter simultaneous forces from foreign policy, entangling with Indonesia's national development strategy as well as dealing with strategic rivalry on USA-China hegemon competition. To operationalize our argument, this article adopts a strategic triangle approach for empirical analysis. It is worth and interesting to examine how the middle power can maneuver its hedging foreign policy against with USA and China power rivalry and can preserve national interest eventually (see, Cai (2013) for Singapore and Kuik (2008) for Malaysia and Singapore's hedging against Sino-US rivalry).

Two major events are our concerns to assess here: the first event is US-China trade war under President Trump and the second one is vaccine diplomacy sponsored by two countries as the so-called "vaccine diplomacy" to Indonesia. The US-China tariff war precedes to COVID-19 pandemic that refers to the sign of some fundamental problems associated with unequal benefits of the globalization. Trade war also reflects geographical, economic, and political competition for global leadership between China and the USA.

Concerning direct impact, it can be found that the slowdown in China's growth has slowed Indonesia's economic growth. As the US-China trade war has emerged and created uncertainty in global growth, especially China has become a major trading partner in the world. The broader impact of the US-China trade war requires deeper understand and respond to the root cause for a country, like Indonesia. Important stipulation for US-China trade war can be marked as a shift to unilateral pressure by tariffs and other means. As a result, the United States deems necessary to extract changes from China's challenges. Pangestu (2019) proposed that Indonesia also faces this one-sided problem pressure which can be identified as one of the countries to contribute USA's trade deficit.

Indonesia has benefited from being strategically important with close ties to the United States and China. To emphasize this importance, the United States has already provided Indonesia with health sector and economic support (Sulaiman et al., 2021). In April 2020, Trump said that the United States was ready to help Indonesia after Jokowi asked for help. The United States has promised to strengthen trade and economic cooperation in addition to supplying medical equipment. The United States has donated more than 25 million safe and effective vaccines to Indonesia in December 2021.<sup>3</sup> At the same time, Indonesia also received medical assistance and supplies from China. That year, Indonesia received a Chinese vaccine,<sup>4</sup> and in December 2020, Indonesia received 1.2 million vaccinations from China (Li 2020).

### **3. The politics and security strategies of Indonesia toward China and USA**

#### **3.1. Politics and Security Strategies of Indonesia toward China**

It is crucial to begin discussing Indonesian strategies in the realm of politics as well as security affairs. The Sino–America relationship is a very complex of bilaterality. China's assertiveness has increased alertness for those who has concern, especially from military and defense officials. Indonesia government positions to be indifferent as to whether it prefers a unipolar world or a bipolar world. Based on the latest Ministry of Defense (2015) white paper, China military power could create a security dilemma in the region along with the deep dispute against US security

interests. Facing strategic conflicts in the South China Sea, the White Paper kept its warning the importance of paying attention to China's military and economic policies and threats.

Regionally, Southeast Asian countries shared the same concern over choosing to fight with China. Meanwhile, the United States is rapidly losing influence in the region, especially after Donald Trump was elected president in November 2016. The latest Indonesian white paper on maritime diplomacy<sup>5</sup> expressed that the US reconciliation with Asia is "fading" and lacking "ideal values," namely "fair and peaceful existence, consistency and transparency." The White Paper resembled fears which could lead to a perception of a vacuum of regional power and China may attempt to fill through military projections.

However, to scrutinize cooperation between China and Indonesia, it was not necessarily vibrant along the way. This means that warning and threat stated in these two White Papers, Ministry of Defense and Ministry of Maritime have not translated into concrete policy action. Cooperation in defense does not appear to develop smoothly. Uneasy relations started after 2009, Indonesia and China exhibited deeper gaps in the handling of the conflict in SCS (Fitriani, 2018). These maritime incidents have added to the already complicated conflicts in the SCS, where six countries, including China and four ASEAN member states, Vietnam, the Philippines, Malaysia, and Brunei, claimed over small islands, islets, reefs, and maritime territories.

Back to 2008, Indonesia and China agreed to boost cooperation in the defense industry through a joint production of military transport vehicles and aircraft and to establish a collaborative committee to arrange joint military and training exercises (Dewabrata, 2008). Nevertheless, there was not much achieved in this area as checked and witnessed in 2017. Both countries have attempted to enhance security cooperation by developing the Action Plan 2010–2015, but growing Indonesian weariness of Chinese military developments in the SCS seems to slow down security cooperation.

Essentially, political and security strategies taken by Indonesia toward the rise of China is to maintain good diplomatic relationship at the one side. Indonesia also observes cautiously on what next action taken by the Chinese government toward the issues of SCS and sea territorial claim with ASEAN states at the other side. Indonesia always sees its role as traditional leader or big brother of Southeast Asia, due to the fact of its vast population as well as strategic location on the world's busiest maritime traffic routes. Therefore, Indonesia has always established the political and security strategies concerning its foreign policy goal of maintaining regional stability. Regional stability is always prerequisite for Indonesia to maintain its developmental economic objective.

### ***3.2. Politics and security strategies of Indonesia toward US***

Unlike the rising power of China in the region creating unprecedented responses, the United States as an old player had been considered as a well-established great power over the region. Certainly, under President Obama, the United States played a pivotal role in the region strategy. Then, truncated President Trump truncated his regional view and more inward looking on making America great again. In contrast, under President Biden, the US recalibrates and backs to the region with the Indo-Pacific strategy in order to confront with China already launched BRI in 2013.

Moreover, Indo-Pacific strategy as strategic thinking and tangible mechanism have to deal with three multifacet challenges, as argued by experts and policymakers, to maximize generational peace dividend in the Pacific Oceans and Indian Oceans region. The first problem is trust deficit as exemplified with Korean Peninsula's issue over constant nuclear threats from the Democratic People Republic of Korea (North Korea). The second problem comes from unresolved territorial claimants over SCS between China and several ASEAN member countries. There is a need for avoiding unintended crisis in the sea where border is delicate to resolve. The third problem refers to managing the impact of change, taking latest Myanmar's case of domestic dispute between the military and elected civil politicians. Along with these three multi-facet challenges, there is an

urgency and a need fresh perspective as Natalegawa (2013) suggested “dynamic equilibrium.” Dynamic provides suggestion that change is inherently a constant in the region while equilibrium refers to the fact that state of constant changes *does not* imply and end up into an anarchical state of affairs. It is because one single super-power unchecked or disorder/uncertainty due to multi-polar forces in the region.

Since Foreign Minister Natalegawa’s speech delivered in 2013, the concept of Indo-Pacific was evolved to form ASEAN Outlook of Indo-Pacific (AOIP). Indonesia was one of the earliest, if not the first, to propose the idea of Indo-Pacific. Nevertheless, it is unfortunate that Indonesia’s strategies to the Indo-Pacific tend to be isolated and narrow in responding the regional issues (Laksmana, 2021). Ministry of Foreign Affairs as the leading institution for foreign issues does not work properly guiding the government direction over the Indo-Pacific initiative. Jakarta’s strategic resources and political leadership are very inward-oriented. And there is only little room left for enhancement from the non-ASEAN member states to address the strategic challenges of the Indo-Pacific. In fact, current evidence over complaint AUKUS underlined bold claim that together Indonesia and ASEAN are increasingly being made strategic redundant, despite major powers lip-service support for ASEAN centrality.

Finally, our analysis offers narrative to assess Indonesia’s political and security strategy with the US. Indonesia needs to invest in its own strategic resources as well as intellectual or intellectual normative leadership. This thinking will require Indonesia to rethink how it organizes its defense capability including to establish and develop a strategic framework for defense diplomacy. The military and security initiative, for example, the governments have to make difficult decisions to reduce labor costs for training and exercises, and technical upgrades.

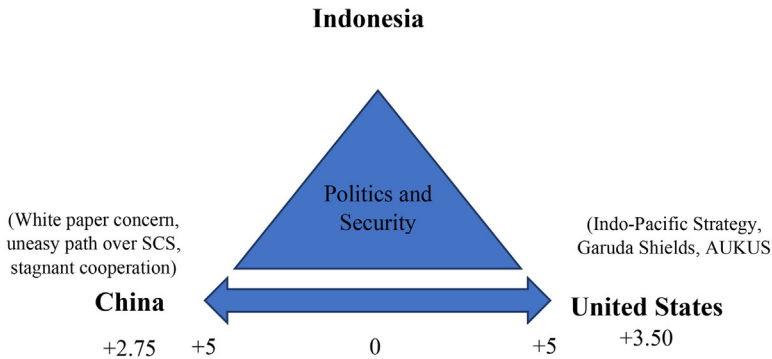
In terms of military ties, Indonesia and United States had entered a new era of bilateral relations, especially launched their biggest ever joint training exercise involving 3,000 troops (Davies, 2021). Speaking from Washington after meeting U.S. Secretary of State Antony Blinken and Indonesia Foreign Minister Retno Marsudi welcomed more U.S. engagement in the region and expressed high hopes for closer ties with the Biden administration. Nevertheless, defense diplomacy may approach traditionally and intensively in relations with development of strategic relation, not only just with military procurement.

### 3.3. Triangular relation on politics and security issues

The operationalized research framework is suggested by Soong (Forthcoming). It emphasizes how will Indonesia response its hedging strategy toward the USA and China on the basis of state-market-society relation under China’s BRI expansion and American Indo-Pacific Strategy (Soong and Htet Aung, 2020). According to 3.1 and 3.2 discussions, the case of Indonesia in the politics and security issues with China and the United States can be illustrated as Figure 1.

Figure 1 depicts Indonesia’s relative tendency toward USA and China with rating scores from 0 (light) to 5 (heavy). Our observation and assessment grants Indonesia scored +3.50 for the USA and scored +2.75 for China with supporting narratives that justified the points as given. This means Indonesia in the aspect of politics and security tends to closer with USA, but less reliable on China. It is because Indonesia can gain political and security support from the USA, but Indonesia will confront potential conflict over maritime sovereignty with China’s military expansion.

Prior to Asia financial crisis 1997/1998, Indonesia had been described as a mediating leader in the Southeast region. Current challenges for Indonesia’s historical moment in the region lie on the role of management to compete interests of the United States and China. There is a common understanding among ASEAN members for ensuring and maintaining their own status that no single state can dominate while also reaping economic benefits for ASEAN states by remaining in the middle. To that end, Indonesia maintains the concept of ASEAN centrality which aims to



**Figure 1.** An analysis of politics and security issues of Indonesia hedging strategy toward China-US power rivalry. Note: with rating scale of scores from 0 to 5 (light to heavy). Source: made by authors.

unite the foreign policies of ten Southeast Asian countries into a single unifying voice. Although practically single unified voice of the ten Southeast Asian countries somehow difficult and delicate overtime. In order to avoid choosing a side, Indonesia will better stay in the middle to defuse tensions between the US and China while also maintaining ASEAN unity.

However, to stay in the middle refers to hedge politics and security interest between the US and China, there are other variables of which the Indonesian has to consider carefully and strategically: economic cooperation with certain objective of integration and strategy choices over political and economy consideration. Economic cooperation and integration covers selective variables such as trade and investment including regional trade agreement, development projects especially infrastructure, regulatory framework over mining sector on which US firms had invested substantially in Indonesian economy.

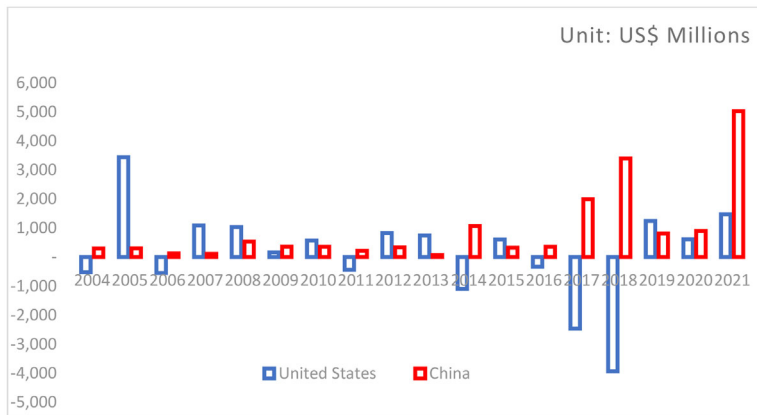
Among comprehensive study on OBOR initiative, Center for Strategic and International Studies (CSIS) argued that Indonesia currently tried to accelerate infrastructure development and filled in the gap of funding source from OBOR Initiative, and with opportunities to address partially the problem (Damuri et al., 2019). Beside opportunities, Chinese investment also suffered several risks in Indonesia, such as disruption of basic material (nickel) price, lack of health and safety assessment, and neglect principle of sustainable development and good mining practices (Dinata et al., 2020). All these insufficient shortcomings may cause disadvantages for Indonesian economic security.

## 4. The economic cooperation and integration of Indonesian economy toward USA and China

### 4.1. Economic Cooperation and Integration Indonesian Economy toward China

Jokowi's development strategies maintained the nation's influence over two powers on economic cooperation and integration in order to attach closely with the international market. Direct foreign investment has been taken as the crucial instrument for economic cooperation and integration into the global economy. Investment brings benefits for Indonesia's economy with new capital, technology transfer, and integrating domestic economies into the global market. Indonesian government has pursued strategies and ways to attract both investments from domestic and international sources through reforming legislation with less investment restrictions on capital across region.

There are several regulatory reforms sponsored by Jokowi's Administration and obtained support from Indonesian parliaments. These laws include the Omnibus law on Job Creation, amending Indonesian Corruption Eradication Law comprehensively with lesser political support to



**Figure 2.** The flow of FDI in Indonesia by USA and China, 2004–2021.  
Source: compiled by authors

eradicate corruption. In additions with two aforementioned laws, the government also had amended mineral law that relaxed environmental stringent regulation. These three laws are the cornerstone for easing the regulations of not favoring investors and burden to business.

The [Figure 2](#) portrays foreign direct investment (FDI) based on Balance of Payment from 2004 to 2021. It can be found that China has become an important source of FDI for Indonesia, compared to the United States, since 2016 to present. Yet, FDI from the USA in Indonesia withdrew and outflowed quite significant in 2017 and 2018, compared to China's FDI inflow. China's FDI inflow almost can cover the FDI outflow from USA in 2017 and 2018. Especially, in 2021, China's investment volume is very significantly bigger than USA's, almost up to 4–5 times.

Two infrastructure projects are crucial in Indonesia of economic cooperation and integration in relation to China's involvement, i.e., the Jakarta-Bandung High-Speed Railway (Jakarta-Bandung HSR) and the business-to-business Indonesia Morowali Industrial Park (IMIP). Both projects are under cooperation with China's BRI, which closely meets Jokowi's visions of Global Maritime Fulcrum (GMF). GMF is Jokowi's campaign promise during the 2014 Presidential election on enhancement of infrastructure and connectivity across the archipelagic nation.

For the first term of Jokowi, the government has promised to speed up infrastructure development. A concrete preparation to enact the president's campaign promise was a detailed plan documented in the National Medium-Term Development Plan 2015–2019. It should be noted that financing requirements are also reflected in the Indonesian yearly budget. The infrastructure budget has always received a large allocation during the era of Jokowi. In the 2015–2022 period, the total infrastructure budget reached IDR 2,785.9 trillion with an average of IDR 348.2 trillion per year or 14.8% of the average state expenditure (IBC, 2022).

Taken China's point of view construction of railways, it is critical to promote trade and investment links with other foreign markets. Securing such projects is also critical for China's infrastructure and engineering firms, as argued by Hung (2015) that many of which are suffering from overcapacity and domestic business slowdown as a result of the Chinese economy's deceleration after years of rapid growth. First project to discuss is Jakarta-Bandung HSR. According to Lim et al. (2021), the most high-profile BRI project is the US\$5.5 billion Jakarta-Bandung HSR. It is a 150-kilometer railway that connects Jakarta and Bandung, the country's largest and third-largest cities. While Japan had been conducting extensive feasibility studies on the HSR since 2009 (Purba, 2021), the Jokowi administration eventually awarded the project in September 2015 to China Railway Group Limited (CREC), a Chinese state-owned enterprise (SOE). The major consideration for China to buildup HSR is because of budget constraint and cheaper cost. The project is being carried out on a business-to-business basis, with Indonesia having a 60% interest



in the joint venture while China has 40%.<sup>6</sup> Yet, the US\$5.5 billion budget for HSR has unexpectedly increased to US\$7.9 billion.<sup>7</sup>

One of the major domestic constraints to speed up the Jakarta-Bandung HSR came from major opposition from the local government and to some extent the Parliament's, because the President is required to share power with the legislature (representation, oversight, and legislation). Eventually after significant delay, there was general consensus among relevant central and local economic actors that HSR is an important project for the national interest (Pattiradjawane, 2016). Therefore, the final decision maker must be the president.

Unlike high-speed railway project, the second project is the Indonesia Morowali Industrial Park (IMIP). Some features of IMIP may satisfy policymakers' wishes and expectations for BRI investment in Indonesia. IMIP is possibly China's largest investment in Indonesia to date. The government would like to apply the Business to Business (B-to-B) model, investment scheme, knowledge transfer, and temporary presence of foreign workers to BRI investment. However, it is unclear whether this model could be applied to every BRI projects. The B-to-B model can work for IMIP because Morowali has a large reserve of nickel deposits, which compelled both the Decent and Bintang Delapan Groups to collaborate in order to exploit that potential, as well as attracting other nickel-based companies to locate in IMIP.

This article also highlights that economic cooperation and integration toward China is much closer these years and future, due to the fact Chinese diaspora played a major role in the Indonesian business community (Laksmiana, 2011) as well as major conglomerates on infrastructure projects. Indonesia's economic cooperation and integration are also supportive of China's interests, in order to become the economic powerhouse and maintaining its current position in the region. More importantly, Indonesia and China have agreed upon the Regional Comprehensive Economic Partnership (RCEP), signed on November 15, 2020, which will be helpful for mutual economic advantages.

#### **4.2. Economic cooperation and integration Indonesian economy toward USA**

Figure 2 also provides self-evident that the US role in the matter of economic cooperation and integration is declining and China has already surpassed the US. However, the complete picture is far from easy to settle. Based on 2012 study,<sup>8</sup> extractive industries, including the oil and gas also mining along with manufacturing, accounted for more than 95% of total US foreign investment in Indonesia. Manufacturing, the largest FDI sector for US firms, is growing in importance. It is very interesting to see the FDI difference between manufacturing-oriented investment by USA and infrastructure-oriented investment by China.

Between 2004 and 2012, the extractive sector experienced 11% compound annual growth, while manufacturing experienced 21% annual growth. With extractive investment constrained by limited natural resource supplies, manufacturing sector has a greater potential for growth and expansion that enhances income and consumption continuing to rise.

In the mining industry, US companies had employed approximately 35,000 people in Eastern Indonesia, where most of their mining sites are located. Between 2006 and 2011, one of the largest US companies in Eastern Indonesia contributed up to 96.9% of regional GDP in its operational area and almost 2.2% of national GDP.<sup>9</sup> But taking the case of US-based Freeport-McMoran Copper, a gold transnational mining company, began its operation since 1973. It has invested and operated for almost a half-century in Indonesia and made a great contribution to Indonesian economic growth.

Rifai-Hasan (2009) documented and studies during the initial years of Freeport operation. It showed only little concern over environmental as well as social issues. Moreover, the company was involved with violation of human rights and environmental degradation within and around concession associated with Freeport's operation. Needless to say, during early years of mining

operation the company have to concern with achieving bottom line as priority; at the same time, with sidelining tertiary issues such as environmental and societal problems.

However along the changes of government policy toward mining industry, there is a compulsory requirement for value-added of minerals with divestment scheme for foreign mining company. The US-based Freeport and Newmont were among target with also Brazil-Vale who bought shares from Canadian-based International Nickel Corporation. Although, one has to acknowledge that the policy of value-added was not decided during the Jokowi Administration. But, it was the legacy of the 2009 Mining Law that was passed in the SBY Administration. This means Indonesian government has enjoyed relative economic autonomy against the influence of USA big companies.

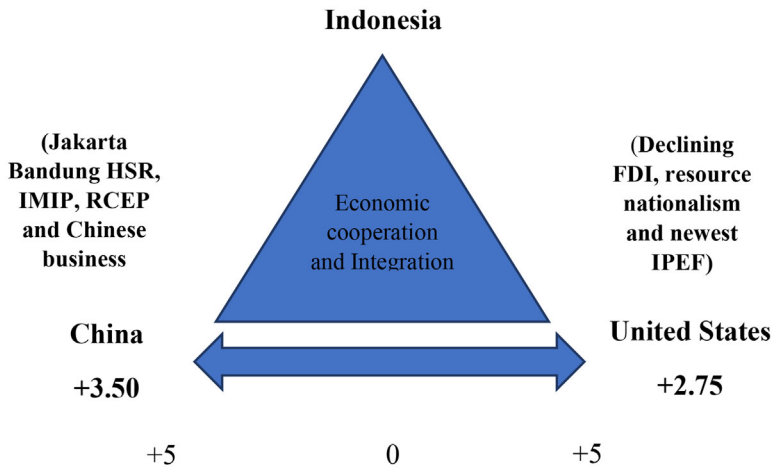
Beside domestic politics, it is obvious for the increasing commodity globally during the last decade of 2003–2013, resource nationalism was on the rise around the globe (Wilson, 2015). National resource endowments posed policy choices for resource governments. The developmental state policy toward resource nationalism has sets of goal objectives including using resource to nurture and support downstream industries in the manufacturing sector, to implement investment restrictions designed to ensure that resource firms will contribute to national developmental goals, and lastly, state interventions have been undertaken to support economic activities but not directly related to resource production.

Current initiative from President Joe Biden in order to bring back American influence in the realm of economic cooperation and integration toward Southeast Asian countries including Indonesia, under the Indo-Pacific Economic Framework for Prosperity (IPEF), with cooperation areas of trade, supply chain, clean energy, de-carbonization, and infrastructure, tax and anti-corruption. As time and effort continue, the IPEF is still in the early phase to provide sufficient evidence on the influence of newly economic cooperation over Indonesian economy. However, this current international development initiative of USA has to confront domestic politics support or not support in Indonesia as well as from the US domestic actors.

### **4.3. Triangular relation on economic cooperation and integration**

Economic cooperation and integration over two competing powers' interests are not the elementary tasks. Yet, this article argues politics vis-à-vis economy within the domestic influence have to be understood with larger state development over foreign capital and integration over global trade. As discussed above on Chinese influences in Indonesian economy, China has proofed and contributed significantly for Indonesia's development thru OBORI. Yet, the invitation of Chinese FDI in infrastructure does not receive positive perception from Indonesian society and local people.

However, the USA tries to renew economic influence by offering strategic partnership under IPEF as the signal of pivot to Southeast Asian countries after Trump's more inward looking policy. Under Biden, the USA's effort to pivot Asia intends to strengthen and continue its regional superior status and influence. Simultaneously, Indonesian government opens its doors and gives red carpet to ease burdensome regulation and tax from any foreign countries investing substantial amount in the provinces and regions across the archipelagic nation. [Figure 3](#) describes an observable assessment based on arguments presented at previous parts. To give an assessment in this part, Indonesia's relative economic cooperation and integration tendency toward USA and China with rating scores from 0 to 5. Our assessment marks Indonesia scored +2.75 for USA and scored +3.50 for China with previously supporting narratives to justify the points. This means Indonesia still urges China's investment and trade promotion, higher than from USA's investment and trade expansion, economically and geographically considered. Indonesia still expects to join China's OBORI in order to improve domestic infrastructure for promoting market development as well as national integration. Currently, Indonesia slightly suspects the economic effects of



**Figure 3.** An analysis of economic cooperation and integration of Indonesia hedging strategy toward China-US Power rivalry. Note: with rating scale of scores from 0 to 5 (light to heavy). Source: made by authors

IPEC and FDI from the USA, even though Indonesia still highly demands and expects USA's substantial investment and trade.

Indonesian economy in terms of potentials, such as young populations as middle class consumers, abundant natural resources, and domestic political stability, has possessed main competitive advantages to attract investment and foster cooperation from both USA and China at the same time. Indonesian economic cooperation with China is deeper and closer than United States during Jokowi's administration. In the future, we are still cautious to make projection whether existing economies performance will be similar to the 2022 assessment or not. However, the Indonesia government realizes and recognizes that national interests have to be prioritized and secured who ever external state tried continuously offers friendly arms for economic cooperation and integration to develop and grow prosperity for her citizens.

## 5. The strategic choices of the Indonesia under US-China power rivalry

Importantly put, strategic choice has taken into action by the Indonesian state facing external confrontation from great powers. The US-China hegemonic competition has intensified from time to time recently. In order to analyze how strategic choice carried out under strategic rivalry, this article modifies the idea on national interests from Dueck's (2009) work on America case. Noted that Foreign policy becomes the main public interest and the US President always gives responses over interests evolving the US interest abroad. Whereas, Jokowi's highly pragmatic stance over foreign policy direction differs substantially from his previous administration of Yudhoyono's credo: "a million friends and zero enemy" or called as "diplomatic activism."

For his first term 2014 to 2019 and second term 2019 to present, Jokowi's administration has prioritized upgrading industrialization for economic development. Upgrading economic development had been the strategic objectives for the country's foreign policy, including strategy and tactics. Jokowi has informed diplomats that increasing the wealth of everyday Indonesians is their top concern right now. It has been made clear to ambassadors that their success would be measured by their ability to boost investment and exports from Indonesia.

In contrast with current Indonesian president view over foreign policy and domestic objective, the US president differs naturally on foreign policy decision and making. The US President is not eager to intervene in America's domestic political sphere. Moreover, Jokowi offers his political campaign promises as the guidance for the country's development strategy. The case of

presidential campaign promise is quite similar between Indonesia and the US. Undoubtedly, infrastructure-driven policy becomes Jokowi's landmark of domestic economic goals, like the vision for Indonesia as the Global Maritime Fulcrum (GMF).

Jokowi has stated that economic development is his top priority. As he sees it, he is forcing democracy to serve as a mean to quickly build up a modern economy. Jokowi sees the pandemic as an opportunity to achieve his economic goals by implementing institutional reforms that will make Indonesia more competitive in the global economy. He had not met his first-term goal of 7% annual growth; instead, growth rate had averaged 5%.

Given that Indonesia is at the center of the US-China power rivalry in the South China Sea. Jokowi has urged the country to seize opportunities for gaining more national interests (Teresia, 2015). Sovereignty is at the heart of Indonesia's national interest, according to the Jokowi administration. In order to strengthen and ensure national sovereignty, the Jokowi administration decided in July 2017 to rename a portion of the South China Sea as the North Natuna Sea. After this bold initiative, China expressed strong opposition on Indonesian's decision. Contrarily, the United States has backed up Jokowi's administration to rename waters around Natuna Island.

The Sino-US diplomatic relationship with Indonesia has dynamic in nature and also historical rich. These diplomatic relations involve politics and security, economic cooperation and integration, and the implications of the ever-changing dynamics of Sino-US comprehensive powers, and presence in Southeast Asia. Indonesia has to weigh regularly its national interests and makes foreign policy decisions from time to time in the context of security alliance or partnership arrangements, mostly with great powers similar to United States and current extensive trade and economic relations with China.

To operate strategic triangle analysis on hedging strategy making, Indonesia is managing the competing interests toward the United States and China's political economies. Indonesia's strategic choice is to ensure that no single state can dominate the triangular relations for USA or China. As a middle-level power status, Indonesia can easily play a flexible role to win over USA or China or take a balance of power with either one. Indonesia also possesses its strengths on big consumer market, young labor forces, rich natural resources, population, and located in the geopolitical position between the Indian Ocean and Pacific Ocean. All these strengths would help Indonesia to attract more determinant investment and trade promotion from USA or China. Indeed, regarding current economic cooperation and engagement with Indonesia, China is more integrative and deeper than the United States during Jokowi's administration.

Based on strategic triangle framework by Soong (Forthcoming), Jakarta suggests to choose hedging strategy against both Washington and Beijing at the same time. Taking the strategic triangle as an operational framework, three aspects of power rivalry are considered as follows: (1) politics and security, (2) economic cooperation and integration, and (3) political and economic policy choices.

Indeed, Indonesia has a likely tendency closer to the USA rather than China in the sphere of politics and security. However, at the same time, Indonesia has a likely tendency closer economic cooperation and integration with China rather than the USA. Thus, Indonesia's policy choices could be weighed as the same equal importance over US and China.

Following our analytical assessment, our concern is relevant implication for future strategic choices of Indonesia under USA-China power rivalry. On the one side, Indonesia needs continuous United States military support for more security to balance the China's economic agenda and integration with national-domestic economy. On the other side, Indonesia is necessarily reliant on China's investment via BRI and interdependence through bilateral trade promotion as well as multilateral trade agreement like RCEP.

Indonesia's ultimate objective for hedging strategy by Jokowi is to advance its national development goals as freedom and democratic progress that have to deliver prosperity. Therefore, Indonesia still cautiously expects that the engagement of US's Indo-Pacific Economic Framework

can bring more economic opportunities for its economic growth. In other words, best strategy choice for Indonesia is hedging with balancing approach over Sino-US strategic competition for current state of affairs. Moreover, the case for assisting Indonesia in achieving its middle power status is compelling in every political and economic situation. Indonesian observers proclaim that Indonesia appears to be satisfied with its “traditional status as a middle power” and has attempted to maintain its superior position between the two great powers. Under such circumstance of hedging concern, Indonesia as a middle-level power, indeed, can enjoy relative economic and political autonomy as bargaining power against the USA and China to ensure its national interest.

In fact, Indonesia is establishing a “third room” to avoid becoming entangled in the USA-China power rivalry (Sukma, 2011). In addition, Thies and Sari (2018) have discussed about three auxiliary roles for Indonesia, i.e., being a good international citizen, supporting multilateralism, and supporting the current international order. As a middle-size power, Indonesia tends to efficiently apply the role of international citizen, multilateralism, and international institution in pursuit of national interests and political security.

Indonesia has obvious great power ambitions. Yet, this vision has been confronted with its current position as the middle power. Two stances can be evidenced. One is for President Jokowi’s view, rivalry between US and China is not seen as a huge problem; rather, it was an opportunity from their escalating trade war (Adyatama, 2019). Competition for access to maritime resources, energy and food will intensify in the near foreseeable future. The other is for foreign Minister Retno Marsudi, she emphasized amidst challenges over maritime boundaries, depleted marine resources, climate challenges, and maritime pollution pose serious problems for coastal communities (Marsudi, 2019). Now it is the time to deepen Indo-pacific cooperation which could not be delayed any longer. Clearly, Indonesia would like to act as a great power but not a middle power, in response to USA and China in the Indo-Pacific region.

Moreover, Indonesia basically rejects the idea of siding with either the USA or China, and thus qualifies itself as a “skeptical” middle power (Abbondaza, 2022) in terms of this binary choice. In fact, Indonesia still has a long way to go before it can be considered an effective Asia major power (Fealy & White, 2016; Rosyidin, 2017). Indonesia still faces many challenges which have to be overcome, like Indonesia’s economic trajectory remaining uncertain nowadays. Likewise, with existing military capability, Indonesia requires more efforts to establish and achieve strong military power in the region. Finally, the diplomatic capability and governance for this archipelagic nation has to be fostered and strengthen Indonesia’s influences of politics and economy in the region.

## 6. Conclusions: Indonesia way on hedging strategy

Indonesia’s relationship with China and USA possesses its relevancy and timeliness in the matter of post-pandemic world. With the strategic rivalry between USA and China for achieving hegemonic domination serves as main study interest for Indonesia. The result finding of our study indicates on three aspects:

First, Indonesia’s foreign policy and security strategy keeps to maximize the benefit of national interests and maintaining stability in the Southeast Asia region. For Jokowi administration, national interests reflect on the development of the economy as well as political stability. Based on the strategic triangle, Indonesia is tending closer to the USA than China in terms of politics and security affairs. Due to South China Sea sovereignty concern, Indonesia’s strategic choice on politics and security has positioned the US presence in the region as a balancing measure against China over the region in Southeast Asia.

Second, considering economic interests, the China’s BRI achievements on infrastructure and RCEP trade integration are important for Indonesia’s economic growth. By contrast, the USA

Table 2. Indonesia’s hedging strategy toward US and China.

Types	Before 2016		After 2016		Hedging Tendency	
Political and Security Strategy	USA	3.25	USA	3.50	USA	3.50
	China	2.50	China	2.75	China	2.75
Economic and Cooperation Strategy	USA	2.50	USA	2.75	USA	2.75
	China	3.00	China	3.50	China	3.50
Overall Political and Economic Strategy	USA	2.50	USA	2.75	USA	2.75
	China	3.00	China	3.50	China	3.00

Source: made by authors.

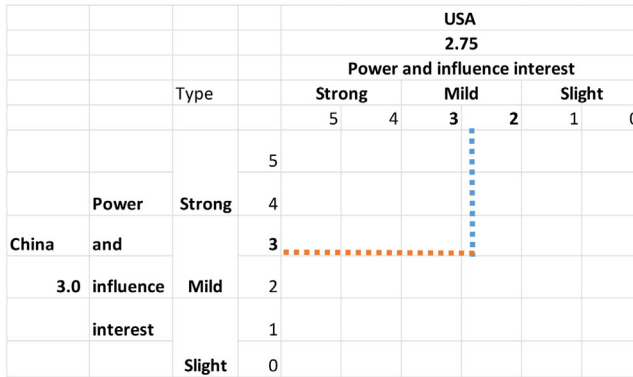


Figure 4. The best and worst strategy choice under US-China rivalry according Indonesia’s assessment. Source: made by authors

grows resource nationalism and declines the role of foreign direct investment in Indonesia. Quite clearly, Indonesia nowadays is positioned closer and deeper relations with China than the USA.

Finally, strategic choices over Sino-US power rivalry culminate the Indonesia’s stance. Indonesia firmly considers for maintaining its current hedging strategy toward US-China power rivalry. On the one side, Indonesia hedges the security reliance on US to balance or resist China’s trade and economic cooperation. On the other side, Indonesia considers hedging China’s economic integration with maintaining US influence in the Southeast Asia region. Therefore, the possible trend and change of hedging strategy overall on political and economic concerns for Indonesia can be predicted as +2.5 toward USA and +3.0 toward China, in contrast to +2.5 toward USA and +3.5 toward China during 2016–2022, as presented in the Table 2 and illustrated by Figure 4. It clearly states that Indonesia as a middle power dealing with USA-China power rivalry will try to adopt suitable hedging strategy in the middle, not so much change on the degree of reliance or resistance with China and USA. It is important as a strategy principle for Indonesia state playing a middle power to enjoy political and economic autonomy in relative to USA and China.

Apparently, this article elaborates and proposes a new interpretation of Indonesia as a middle power in the Indo-Pacific region against US-China power rivalry. This analysis also implies that Indonesia state intends to maintain and direct its strategic roles to maneuver over regional institutions, in order to secure national interests in the international forum and multilateral negotiation. As a middle power, Indonesia will not select a side totally on USA or China, but will efficiently manipulate hedging strategy between USA-China power rivalry and move closer relation around USA’s and China’s political and economic development purposes.

Theoretically, our analysis offers novel interpretation of neoclassical realism and national interest. Our article shows Indonesian president is able to optimize foreign policy contribute for domestic national goal, that is, accelerate national economic development amidst challenging

external environment and uncertain time after pandemic and on-going arm conflict in the Europe. However, there is still future research to conduct for explaining entanglement of foreign and domestic policies.

## Note

1. See for example, opinion report from Natalia Soebagjo and Rene Pattiradjawane, “2014 Public Opinion Polls: Indonesian Public Perception against China,” Jakarta: Center for Chinese Studies—Unpublished, 2014.
2. Avery Goldstein, “The Present as Prologue: The Gloomy Outlook for US-China Relations,” page 18 in Robert S. Ross et al. (2021), *US-China Foreign Relations: Power Transition and Its Implication for Europe and Asia*, New York: Routledge.
3. From US Embassy Jakarta, 16 December, 2021, Press Releases, USAID.
4. Li, Jane, “China’s Coronavirus Vaccine Diplomacy Has Already Begun,” *Quartz*, December 8 2020. <https://qz.com/1942494/indonesia-is-a-major-front-in-chinas-covid-19-vaccine-diplomacy>.
5. Coordinating Ministry for Maritime and Investments Affairs, “Buku putih diplomasi maritim Indonesia [*Indonesian Maritime Diplomacy White Paper*],” Jakarta, February 2019, page 11.
6. “Jakarta-Bandung High-Speed Railway, Indonesia,” *Railway Technology*, 2 September, 2022, from <https://www.railway-technology.com/projects/jakarta-to-bandung-high-speed-rail/>.
7. Sebastian Strangio, “Indonesia to Use State Budget for Cost Overrun on Chinese Rail Project,” Oct. 14, 2021, *The Diplomat*, from <https://thediplomat.com/2021/10/indonesia-to-use-state-budget-for-cost-overrun-on-chinese-rail-project/>.
8. For full report, see online version via this link: The Impact of US FDI on the Indonesian Economy\_FINAL.pdf (amcham.or.id).
9. Ibid.

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