



THE IMPLICATIONS OF A RISING INDONESIA FOR AUSTRALIA IN THE ASIAN CENTURY.

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SYNOPSIS

Decision-makers in Jakarta will be more of a threat to Australia than those in Beijing in the decades ahead. Indonesia's rise matters far more to Australia's security than any other country, including the United States (US). Indonesia will continue to grow in significance to the US at the expense of Australia's interests in the region. Australia needs to recognise the growing strategic threat posed by a rising Indonesia so it can adequately plan and offset this challenge independently of its allies. A newly democratic Indonesia at Australia's doorstep does little to mitigate the strategic threat posed to Australia. Indonesia is currently experiencing increased [nationalism](#), an upcoming presidential election in 2019, and a defence [re-posture](#) to West Papua – a historical potential [flashpoint](#) between Australia and Indonesia. The two countries also share two controversial seabed agreements that could cause future diplomatic tensions. Any one of these could cause Indonesia to look south and exert its growing strength. When it comes to dealing with the challenge of a rising Indonesia, Australia is likely to be alone.

INDONESIA'S RISE

Over the next two decades, Indonesia's military strength will match Australia's for the first time. Indonesia's defence force currently [consists](#) of 396,000 active, 400,000 reserve, and 281,000 paramilitary personnel. As Indonesia becomes the world's [fourth largest](#) economy by 2050, this

economic heft will underpin a substantial rise in national power, driving Indonesia's military modernisation ambitions. Indonesia's 10 to 15 year [modernisation plan](#) includes a 274-ship 'green-water navy', 10 fighter squadrons and 12 diesel-electric submarines. A modernised military capability will provide Indonesia with the power to project force south and is likely to challenge Australia's control over the "Air-Sea Gap" – the important region between Australia and Indonesia that provides Australia with a defensive buffer zone. Separating capability and intent is difficult. However, Indonesia's rising capabilities will increase the capability side of threat calculation influencing Australia's threat perception. The Indonesian archipelago will increasingly become a more important region for future considerations of force posture and acquisition, at the expense of periphery interests in Asia.

Indonesia's military procurement diversification has resulted in increased weapons systems procurement, technology transfer arrangements, and closer [defence relations](#) with new defence partners. Since 2009, Russia, South Korea and China have been the dominant [arms suppliers](#) to Indonesia. Indonesia's ongoing acquisition and technology transfer arrangements such as the Chinese [C-705](#) anti-ship missile is an indication of its ambitions to improve and develop an indigenous anti-access/area-denial (A2/AD) capability. Indonesia's enhanced A2/AD capability will allow Indonesia to [secure](#) its maritime borders and strategic sea-lanes at a time when they become increasingly vital to Australia's future economic prosperity. Indonesia's modernised capabilities will also provide it with the option to exert its strategic policy more effectively, probably at the expense of Australia's economic interests in the region. Indonesia could use its increased military capabilities to secure important offshore petroleum and gas deposits in the Arafura and Timor Seas along the [contestable](#) borders of its 1972 seabed agreement with Australia. Likewise, Australia's growing natural resource exports such as liquefied natural gas (LNG), must traverse Indonesia's deep water straits to access customers in north Asia, and these exports are exposed to significant supply chain risks with choke points within the Indonesian archipelago. Indonesia could exert its newfound strength by delaying or limiting exports through its straits, or prevent the vital petroleum and oil [imports](#) that sustain Australia's economy and the Australian Defence Force.

THE AUSTRALIA-INDONESIA RELATIONSHIP

While Australia's defence policy has long realised the importance of Indonesia to Australia's security – as a potential ally and adversary – its adversarial status has been overlooked in recent defence policy. The 2013 Defence White Paper described by [Stephan Frühling](#) as "the first post-Indonesia guidance document since the early 1950s" fails to mention Indonesia as a potential threat. Australia's

2016 [Defence White Paper](#), does no better at appreciating Indonesia as a strategic threat to Australia. Instead, the White Paper actively encourages Indonesia's defence modernisation, viewing it as an asset to regional security. This perspective is held despite the recognition that Indonesia's defence spending is likely to eclipse Australia's by 2035.

Although Australia has developed a strong security relationship with Indonesia, the relationship will be tested by hard power that Indonesia will become accustomed to over the next 20 years. The 2016 Defence White Paper argues that the strength of the bilateral security relationship is currently built on the framework of the [2006 Lombok Treaty](#), the [2012 Defence Cooperation Arrangement](#) and the 2014 Joint Understanding on [Intelligence Cooperation](#). This framework is underpinned by strategic dialogue including Ministerial talks, the Chief of the Defence Force-led High Level Committee, and the Indonesia-Australia Defence Strategic Dialogue. But if faced with challenges to the relationship, either party could easily disengage, as has happened in the past.

Australia needs to advocate for the best possible relationship, but also plan for the worst. Due to democratisation, Indonesia's policymaking process is now subject to increased influence by a wide range of interest groups throughout the country. This process makes the relationship far more challenging to manage compared to an Indonesia under authoritarian rule, where domestic and foreign policy remained separate from wider public participation. Australia's policymakers and defence planners need to remember that the relationship will always risk being [crisis-prone and volatile](#). Crises and tensions will not be solved by purely diplomatic means over the coming decades. Indonesia will eventually be able to escalate through the credible threat of force and this threat will need to be deterred by Australia.

AUSTRALIA'S LOSING ADVANTAGE

Technological superiority and capability over its neighbours has remained the cornerstone of Australia's [defence policy](#) since the late 1980s. Australia has managed to remain technologically and operationally superior compared to Indonesia due to its close relationship with the US. This relationship has allowed unprecedented access to state-of-the-art military and intelligence capabilities, albeit at a significant cost. But Australia's technological superiority will increasingly become less of a factor as Indonesia modernises its much larger military.

A rising Indonesia will also become more important to US interests over the next few decades because of: Indonesia's strategic location adjacent to important sea lines of communication; its proximity to the South China Sea; its growing [consumer economy](#); its abundance of natural resources; and its leadership role in the Association of Southeast Asian Nations. Together these factors will continue to make Indonesia the significant player in Southeast Asia. The US will have to constantly maintain or increase its relationship with Indonesia as its primacy in the Asia-Pacific is challenged by China. The Sino-Indonesia relationship has recently been boosted by the Jokowi administration's proactive efforts developing strong links in defence and economic sectors on the back of the Sino-Indonesia [comprehensive strategic partnership](#).

A stronger Jakarta-Beijing economic-axis will put increased pressure on the US to avoid supporting Australia's interests over Indonesia's in the region, as it could push Indonesia further towards China's growing influence. The US is unlikely to intervene over the next 20 years due to the growing importance of Indonesia to its own interests. As Indonesia will be the only major power facing Australia in its primary operating environment, Australia needs to be able protect its interests independently of its allies.

Indonesia's recent defence modernisation has seen its acquisitions diversified between several Asian and Western suppliers in line with its long-term goal of an 'independent and active' (*bebas aktif*) foreign policy. Indonesia will be able to avoid reliance on any one defence supplier to achieve its modernisation ambitions. The [2012 Defence Industry Law](#) was designed to make Indonesia more self-reliant by requiring offset provisions for foreign procured defence technology through local production arrangements. Indonesia aims to minimise the strategic risks of potential arms [embargoes](#) and supply chain vulnerabilities by foreign defence suppliers. Punitive actions such as the enforcement of defence export embargoes by Western suppliers to modify Indonesia's strategic behaviour towards its neighbours will no longer carry the same weight.

POLICY IMPLICATIONS

Indonesia will forever be Australia's gatekeeper to Asia – Australia's most important sea and air routes go through and over Indonesia – and this will continue to grow in significance as Australia's economic prosperity is underpinned by trade with Asia's growing economies. Increasing the bilateral relationship through trade and security cooperation have proven to reduce strategic tension. Economic interdependence and non-traditional security assistance, however, will become less

effective mechanisms as Indonesia rises economically and militarily, independently of its neighbours. Australia needs to avoid living dangerously by only advocating and planning for the best possible relationship in defence policy. Indonesia has proven willing to risk bilateral relationships over domestic policy issues, and its perception of territorial integrity continues to be the primary concern influencing its strategic and defence policy – both conditions are applicable to Indonesia’s perception of Australia. Current bilateral mechanisms have done little to mitigate these developments, and a rising Indonesia will force Australia to accept the enduring reality that dealing with Indonesia independently of its allies will remain Australia’s most significant strategic challenge going forward. The rise of Indonesia deserves more attention than the lucrative China choice debate. Australia has no choice when it comes to the challenge of a rising Indonesia.

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