

Strategic Importance of Indonesia Boasting Growing Presence

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From June 20 through 22, I visited the Indonesian capital of Jakarta to attend an international conference sponsored by the International Energy Forum. I then had opportunities to exchange views with energy policy officials, energy industry people and energy experts in and outside Indonesia at the conference and other places. Here, I would like to make a comment on the situation of Indonesia that has been increasing its presence as a key Asian emerging economy.

No one can deny the fact that the presences of China and India among Asian emerging economies are globally outstanding. It is not an exaggeration to say that China and India are becoming a center of gravity in the world, as indicated by their great and fast-growing overall national powers measured by various gauges including those regarding politics, economy and military.

But Indonesia's very robust growth or development over recent years highlights the nation as the next Asian emerging economy chasing China and India. In the ASEAN region, Indonesia has commanded a key geopolitical position facing the Straits of Malacca. It is geographically large, measuring about 1.9 million square kilometers. Among the ASEAN countries, it has the dominantly largest population (at 232 million at the end of 2009). Traditionally, Indonesia has been a great power in the region. Its military size, of about 400,000 regular troops, and the country hosting the world's largest Islamic population, estimated at around 200 million, have also indicated Indonesia's presence as a great and unique regional power.

After seeing its economic growth plunging on the Asian economic crisis, Indonesia has recovered smooth growth, sustaining firm growth of 5-6% since the early 2000s. In its latest World Economic Outlook, the International Monetary Fund has projected the Indonesia economy to grow 6.2% in 2011 and 6.5% in 2012 after a 6.1% expansion in 2010. Indonesia is thus expected to sustain relatively higher growth among the ASEAN countries. Various factors are cited as supporting the robust economy, including rich natural resources, as well as brisk domestic demand backed by the huge population and the growing middle class.

Indonesia is a leading Asian producer/exporter of energy resources. In 2010, it produced 990,000 barrels per day of oil and 82 billion cubic meters of natural gas and exported 31.4 billion cubic meters of liquefied natural gas. Indonesia is also rich with mineral resources including coal, tin,

copper, nickel and bauxite. As natural resources prices are rising globally, it is natural for Indonesia to increase its presence as a resource-rich nation. But limits exist on conventional natural resources in areas that have been already developed. Oil production has thus followed a downward trend. Nevertheless, expectations have been growing on unconventional gas resources such as coalbed methane. Interests are growing in rich low-grade coal resources that have remained untapped. Regarding energy resources, Indonesia also has rich potentials in geothermal power generation and biofuel. Expectations are growing on their development as well.

Political stability over recent years is also cited as a factor behind Indonesia's firm, stable economic growth. Indonesian President Susilo Bambang Yudhoyono was first elected in 2004 and reelected in 2009 for another five-year term lasting until 2014. His stable political management has paved the way for his long period in office. Although there are various political management challenges in this multi-racial country with a large poverty group, the long-term political stability has worked to the advantage of Indonesia as a whole.

In addition to the robust economy and stable politics, Indonesia has a democratic governance system where the top leader is elected in a presidential election every five years. It is based on capitalism and market principles. Indonesia thus shares a wide range of values with the world. This point is also emphasized as a factor behind its growing presence. On top of all of the above points, China's fast-growing presence and influences have been a particular factor behind the growing strategic importance of Indonesia.

As the Chinese economy has continued rapid growth, its economic, trade and investment relations with Indonesia have grown closer. Chinese investors and companies have maintained a strong presence in the Indonesian economy over a long time so that China-Indonesia relations can be viewed as very deep. As Western countries and some Asian countries including ASEAN members have grown more vigilant with regard to China due to its very rapid expansion of influences and its enhancement of "assertive diplomacy" over recent years, however, Indonesia's strategic importance has attracted more attention.

During his June 16-18 visit to Japan, Indonesian President Yudhoyono called at a region hit by the March 11 Great East Japan Earthquake and offered Indonesia's solidarity with Japan in overcoming disasters. Japan and Indonesia then agreed to deepen their strategic partnership in a wide range of areas from energy, infrastructure, trade and other economic areas to politics and security and to enhance their cooperation in addressing Asian and global problems. The agreement can be interpreted as indicating Japan's symbolic offer to give priority to Indonesia. With Indonesia, however, the United States, European countries, the other ASEAN countries and China will also continue moves to enhance or rebuild relations.

As a matter of course, Indonesia has challenges affecting its further growth and development. For example, even its energy sector, which has supported the nation's growth, is plagued with challenges including how to secure energy supply capacity meeting rapid energy

demand growth, how to cope with energy subsidies that have contributed to accelerating demand growth and generating huge government spending, and how to introduce foreign funds for proceeding with natural resources and infrastructure development. In some sense, Indonesia faces many challenges that are not easy. The Indonesian situation, including responses to these challenges, has been attracting global interest and attention. International energy market watchers must pay attention to Indonesia's future development and growth, and its international situation.

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