



PREMIUM SERIES: MIDDLE POWERS WITHOUT WORLD ORDER

Indonesia: everyone's friend

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August 6, 2026, 06:15 Reading time: 6 min.



The Strait of Malacca should remain free: a vessel of the Indonesian Navy. dpa

Middle powers face the challenge of reducing their dependence on the great powers, the USA and China. In this series, we examine how individual states are tackling this. After Saudi Arabia and South Africa, we now turn to Indonesia.



“Indonesia sits on a strategic global trade and energy route,” explained Indonesian Finance Minister Purbaya Yudhi Sadewa on 22 April at an infrastructure symposium in Jakarta. He then went on to discuss whether Indonesia should not actually be sharing a transit fee for the Strait of Malacca with Malaysia and Singapore. Whilst the whole world — and Asia in particular — grapples with the unresolved situation in the Strait of Hormuz, a member of the Indonesian government appeared to want to remind people which country controls the ultimate bottleneck of the global economy.

In fact, around 21% of global trade in goods and commodities, as well as up to 25% of global energy trade, passes through this strait — which is only 2.7 kilometres across at its narrowest point, and connects the Indian and Pacific Oceans. Before international unease could really gather momentum, Foreign Minister Sugiono dismissed speculation that Indonesia might seek to turn its key geostrategic position on the world's most important trade route into a means of exerting geo-economic pressure.



Illustration: Sarah Wehrlin

China, in particular, is dependent on traffic passing freely through the strait. In 2003, the then Chinese Party leader Hu Jintao coined the term 'Malacca Dilemma'. At that time, more than 70% of China's oil imports and around 60% of its total foreign trade passed through the Strait of Malacca — without China being able to exercise any military or political control over them. Since then, China has managed to reduce the share of its foreign trade passing through the strait to below 20%, but its dependence on oil imports is actually stuck at around 70%. The strategic problem remains unresolved. Is this dilemma for China a trump card for Indonesia?

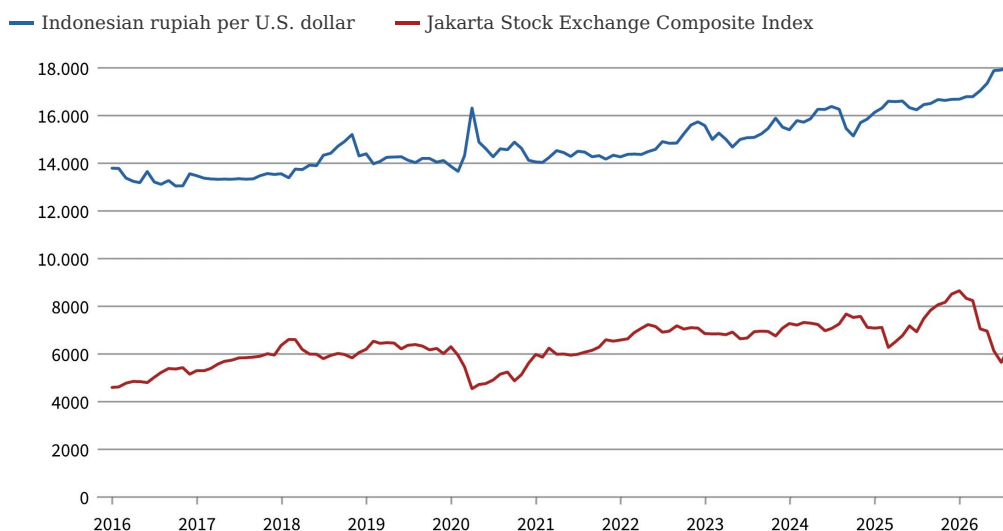
Guardian, not controller, of the Strait of Malacca

In fact, the entire Indo-Pacific region shares an overwhelming interest in keeping the Strait of Malacca fully open. It wasn't surprising that the Australian government, for example, immediately responded to the speculation in Jakarta. Apart from the Dutch colonial period, Indonesia has been the victim of a military occupation on one occasion: during the Second World War by Japan, which thereby secured Indonesia's oil reserves in order to neutralise the oil embargo imposed by the USA in 1941.

During the Cold War, ships from both the US and Soviet navies patrolled the Strait of Malacca. Today, it is a central flashpoint in scenarios of escalation between the US and China over Taiwan. For Indonesia, this means that its geostrategic position dictates a role as guardian, not controller. And to avoid going from guardian to victim, the country pursues the strategic objective of never being drawn into a military conflict.

Indonesia struggles to make headway

Indonesian rupiah per U.S. dollar and Jakarta Stock Exchange Composite Index, in rupiah



<https://www.faz.net/weltwirtschaft> / Source: Bloomberg / F.A.Z. graphic: green.

Since 1946, Indonesia has followed a foreign policy doctrine it describes as “active and independent”. The conference it hosted in Bandung in 1955 was a key step towards the creation of the ‘Non-Aligned Movement’, and the country became a key initiator and driving force of the movement. In keeping with this tradition, the current President and then Minister of Defence, Prabowo Subianto, stated in 2021: “A thousand friends, no enemies”. After the Vietnam War, the establishment of the Jakarta-based ‘Association of Southeast Asian Nations’ (ASEAN), comprising eleven Southeast Asian states, was similarly based on the idea of preventing the countries of Southeast Asia from falling back into a bloc confrontation.

In line with this logic, Indonesia is constantly developing frameworks — such as ASEAN Plus and the ‘Treaty of Amity and Cooperation’ (TAC) — designed to integrate the entire Indo-Pacific into a network of dialogue and cooperation mechanisms. At the global level, Indonesia seeks to forge links in all directions: In 2025, it joined the BRICS alliance of emerging economies and submitted an application for membership of the Organisation for Economic Co-operation and Development (OECD). As the only G20 country in South-East Asia, the world's largest Muslim-majority country — with an estimated population of over 280 million — it certainly has clout on the world stage.

No ties to a major power

Striking the right balance in the key geopolitical conflict between the US and China remains a challenge for Indonesia, both in terms of foreign and domestic policy. Jakarta is restrained in its criticism of China's expansionist actions in the South and East China Seas. But the President did allow his Minister of Culture to flatly deny the well-documented riots against Chinese communities in 1998. On the other hand, Indonesia maintains a close security partnership with the US. The two regularly conduct joint military and naval exercises as part of ‘Cooperation Afloat Readiness and Training’ (CARAT) and the ‘Super Garuda Shield’. However, extending these exercises to the Strait of Malacca is strictly avoided. It also remains to be seen whether the US will be granted the requested overflight rights over the Strait.

This well established, carefully calibrated strategic masterplan is often described as ‘hedging plus’. The fact that it was called into question by a serving Minister of Finance, of all people, has caused more than just political consternation.

Seeking international capital

For Indonesia has also spent decades trying to free itself from economic dependencies as well. First it was Japan's dominance in infrastructure and sectors such as the automotive industry. That gave way only to a rapidly-expanding Chinese presence. Around 90% of all internal combustion engine cars on Indonesian roads still come from Japan — but one in two electric cars now comes from China.

In 2020, Indonesia introduced a ban on nickel exports, hoping this would be a spur to domestic processing. The ban has made China the dominant major investor and buyer in the processing of this raw material within just a few years — but it hasn't created a value chain for battery products with scope for expansion.

The trade agreement recently concluded with the EU certainly creates incentives for increased investment. However, for genuine diversification and the development of its own industrial base, Indonesia would absolutely need a stable

inflow of international capital. And instead, this flow has been at risk of drying up in recent months. Ministers and senior officials are appointed on the basis of family connections, whilst a former high-profile entrepreneur is serving a draconian prison sentence following a brief stint as Minister of Education. A nationwide, centrally-organised free school meals programme that was intended to alleviate the severe educational deprivation among Indonesia's malnourished children and young people became a major source of concern. Completely oversized, it — together with other measures — is blowing Indonesia's budget, and moreover, it is becoming a lucrative money-spinner for the police and the military.

Let the oligarchs pay

A sovereign wealth fund, the Indonesia Investment Authority (INA), was established in 2020 under President Prabowo's predecessor, Joko Widodo, widely known as Jokowi, with a contribution from the Indonesian government. By the end of 2025, it had financed a series of co-investments in Indonesian infrastructure alongside such renowned international investors as KKR from the US and ADIA from the United Arab Emirates. Prabowo, however, has taken a different approach: under his new sovereign wealth fund, Danantara, all state holdings have been consolidated and Indonesian commodity exports centralised under its umbrella. To finance this, Prabowo is relying on a very particular source of capital: the so-called 'nine dragons' — as the Chinese-origin oligarch families in Indonesia are known — were enlisted to issue 'patriot bonds', which, as securities bearing interest rates below market levels, were intended to contribute to social equity.

The President's socialist, planned-economy voluntarism, coupled with corruption, threatens to catapult Indonesia back into the past. The capital market is now presenting the bill: since Prabowo took office just under two years ago, the rupiah has fallen by around 15% and has, at times, reached a record low. At the same time, the stock markets have experienced a decline of up to 30% at times.

The starkly contrasting assessments of the President's supporters on the one hand and his few outspoken critics on the other are emblematic of the tense mood in Jakarta. Tom Lembong, a former banker and ex-Minister of Investment and Trade who was briefly imprisoned on trumped-up corruption charges, predicts an impending crash of the Indonesian financial market. Havas Oegroseno, Deputy Foreign Minister and former Indonesian Ambassador to Germany, on the other hand, considers the critics to be ignorant and believes the financial markets are driven by "emotions and narratives". Even his own advisers doubt that the President will decide to make any changes.

Some see a repeat of 1998 coming, when the financial crisis escalated into a systemic crisis. One commentator has noted that the word "amok" is of Indonesian origin. Despite the expansion of his executive powers, the President is unlikely to risk a showdown with his people. He will seek to balance the competing interests between the business elite, the security apparatus and the handful of families that have governed Indonesia since independence. But none of that will resolve Indonesia's structural problems. Consequently, the key MSCI Indonesia share index has already been downgraded from an 'emerging' to a 'frontier' market. Despite low overall debt — at around 40% of gross domestic product — and growth of around five percent, Standard & Poor's investment-grade rating hangs in the balance.

For its own protection, Indonesia, as a middle power, seeks to neutralise the factor of power within the complex architecture of its radically nonaligned foreign policy, which is built around dialogue with all sides. On the world stage, its president is cultivating relations with Donald Trump, Xi Jinping and Vladimir Putin. However, the international capital that the country so urgently needs is currently biding its time. Should the president choose to let a trial of strength with the financial markets occur, investors have alternatives in the dynamic economies of its East Asian competitors.



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