Summary

Over the last 15 years, Indonesia has experienced rapid economic growth and has grown to be one of the more vibrant economies in South-East Asia. Its ongoing prosperity and stability could, however, be challenged by a number of factors in the coming years. Following the discussion of political stability, extremism and ethnic and religious violence in Part One of this paper, this part will examine the security implications of economic inequalities, food insecurity, natural disasters and the circumstances of Papua and Aceh provinces, along with possible external security threats.
Analysis

*Economic Stability and Inequality*

Indonesia has experienced a prolonged period of growth since the Asian Financial Crisis. Over the last decade, it has had an annual GDP growth rate of five to six per cent – an economic performance that has gained significant praise from economists for its relative strength and lack of volatility. Most analysts suggest a lower annual growth rate of three to five per cent through to 2030 is likely. Unlike other countries in the region, Indonesia’s growth can be attributed to increases in domestic consumption and services, rather than manufacturing and exports. These factors were critical to Indonesia’s economy weathering the global financial crisis, during which those countries most reliant on global markets experienced the most severe impacts.

Economic and income growth is unevenly distributed, however, with significantly faster income growth occurring in the cities. Cities have been the engine of Indonesian economic growth, with the approximately 53 per cent of the population resident in urban areas producing around 86 per cent of GDP. It is also in the cities that the middle class has grown, a trend replicated throughout Asia. Rural areas, meanwhile, continue to experience poverty and a strong divide exists between economic conditions on the island of Java, particularly in Jakarta, and elsewhere in the archipelago. Seventy per cent of Indonesia’s poor live in rural areas and 46 per cent of all Indonesians live on less than US$2 per day.

These conditions have resulted in migration from rural to urban areas as people search for better employment and living conditions. Expanding and more demanding urban populations are placing energy supply and infrastructure, both utilities and transport, under strain. As noted previously, the government is struggling to address these issues. Poor energy supply and infrastructure have a detrimental effect on business investment and productivity. Additionally, in a country prone to natural disasters, cities that have experienced significant population growth without being able to accommodate it can pay a higher cost, both in terms of human life and rupiah.

An impoverished rural population that perceives itself as missing out on national growth also has the potential to provide fertile ground for extremist recruiters. As noted, Islamic State (IS) and similar organisations are increasingly active, both through social media and more directly. The prospect of a salary, education and an effective payment to their families should they die in battle overseas, has the potential to be of great appeal to many. More broadly, however, fundamentalist recruitment does not limit itself to just the poor; it recruits from all strata of Indonesian society.

Poverty is also a major driver of piracy and, in recent years, Indonesian waters have seen a spike in piracy cases. Piracy also continues to be a major issue in the Strait of Malacca, where many of the perpetrators have either Indonesian links or are based in Indonesia.

The Indonesian Government is acutely aware of these issues and revenues gained from the removal of fuel subsidies at the beginning of 2015 have been redirected towards social
welfare initiatives. Should the price of petrol rise again, however, there could be renewed pressure to bring back the fuel subsidies and decrease welfare payments.

The Economist Intelligence Unit projects that over the period 2017-20, the Indonesian economy is expected to expand by an annual average of 5.4 per cent, below the government’s target of seven per cent annual expansion by 2018. While a significant proportion of growth will be through domestic consumption, private sector investment in the country may be stymied by a poor business-enabling environment – including for foreign direct investment – and a lack of investment in adequate infrastructure. Energy price fluctuations will also have an impact on Indonesia’s growth, with movements in oil prices and subsequent government reactions likely to significantly influence stability.

**Food Security**

Food security has been a significant issue for successive Indonesian governments and will continue to be in the foreseeable future. The Economist Intelligence Unit ranks Indonesia 74 out of 109 countries in terms of food security, with a gradual decline in its ranking since 2012. The UN estimates that around eight per cent of the population, or some 20 million people, live in chronic hunger. Undernourishment, which is harder to track, continues to affect a significant percentage of the population, with estimates suggesting that 28 per cent of all Indonesian children are undernourished.

Successive governments have sought to create greater food self-sufficiency; most recently, the Widodo Administration placed restrictions on food imports. This, however, had the effect of driving up domestic prices, which contributed to Indonesia’s declining food security ranking. On average, most households in Indonesia spend around one-third of their incomes on food before price rises occur. The liberalisation of the food industry, however, is also controversial. Brief experiments with liberalisation have put many farmers, the majority of whom live in poverty, out of work and there is little price certainty for crops, particularly at a time when global food prices have fluctuated dramatically with increasing demand from Asia’s growing middle class. Liberalisation has also resulted in a shift to crops such as palm oil, which provide minimal incomes, are often environmentally destructive and do not contribute to food security.

In an economy that is steadily becoming less agrarian, is subject to greater climatic fluctuations and that has to support more concentrated population centres, having access to cheap food is of growing importance. Fluctuations in pricing and food security generally will play a significant part in the political discourse and be a key rallying issue for disgruntled sections of the community. Indonesians often cite the high price of food as one of the key populist reasons for the fall of Sukarno and similar shortages of rice and oil for popular dispositions with Suharto and his eventual departure from office during the Asian Financial Crisis. The issue of food security, beyond just being a development issue, is likely to be a significant policy issue for future governments, one that has the potential to alter election prospects.
Natural Disasters

Natural disasters continue to pose a significant challenge to Indonesia, particularly in Sumatra and Java, where property damage and the displacement of people have the potential to create a destabilising effect at a regional level. Located on the Pacific “Ring of Fire”, earthquakes and volcanic eruptions are common in Indonesia. In 2010, the eruption of Mount Merapi displaced over 300,000 people and the eruptions of Mount Sinabung in Northern Sumatra and Mount Kelud in East Java in 2014 together displaced another 130,000 people. Similarly, floods continue to be a significant hazard, with illegal logging and deforestation exacerbating their effects and increasing their frequency. Notably, Jakarta continues to be at risk of serious flooding, with almost half of the city below sea level; the capital experienced significant flooding in 2007 and 2014. More severe flooding is likely to occur in the near future, with few effective measures in place to mitigate its effects. Forest fires are increasingly becoming a significant issue, with tens of thousands of Indonesians suffering ill health, particularly in the west of the country. It has also become an international issue, drawing in Singapore, Malaysia and Thailand.

The combined factors of urbanisation, poor zoning, high-density populations, poorly-built and -maintained infrastructure and the limited capacity of the government to respond to disasters across the archipelago exacerbate the scale and effects of disasters when they occur. The majority of disasters occur in poorer, rural areas, where economic inequality is already high and the ability of the government to provide services is limited. Natural disasters damage the national economy, with losses estimated at US$1.5 billion annually. Forest burn-offs in 1997 alone are estimated to have caused US$9 billion in damage. International tourism, transport and commerce are also often affected.

While progress has been made in the government’s ability to respond to natural disasters since the 2004 tsunami and the acquisition of a number of military capabilities, particularly naval assets, which can assist with emergency responses, there is still a long way to go and the difficulties of Indonesia’s terrain make responses challenging. Disasters do have the potential to affect the political climate. The 2004 tsunami, for instance, resulted in a massive shift in relations between the government and the political factions in Aceh. The adequacy of responses to local disasters can, moreover, have a great impact on the perceived legitimacy of local governments. Impoverished communities in need of assistance, whether long- or short-term, may also be potential breeding grounds for extremists. While events such as the 2004 tsunami are rare, more frequent low-level disasters will continue to be of concern.

Papua and Aceh

Tanah Papua (the provinces of Papua and West Papua) continues to be a highly sensitive issue for Indonesia, both domestically and internationally. Minor clashes continue to occur between the Organisasi Papua Merdeka (Free Papua Movement) and government forces and between transmigrated newcomers from elsewhere in Indonesia and the indigenous people of the two provinces. Much of this is evident in stalled election processes and perceived discrimination against ethnic Papuans for job opportunities and administrative roles. Additionally, despite having the highest per capita government spending and the
highest per capita fiscal revenue, Tanah Papua continues to have some of the worst development indicators across the archipelago. The Indonesia-wide issues of poor infrastructure and weak institutional and governance structures are exacerbated in Tanah Papua.

The pro-independence movements are not expected to gain significantly more traction in the next five to ten years. Significantly, a focus on stability in Papua is a priority of the Widodo Government. Restrictions on the movements of press personnel have been lifted and political prisoners and resistance fighters have been freed from prison. A lift in living standards has been promised, including through the implementation of a version of the accelerated development programme. While this attempt to normalise relations by Widodo is not necessarily popular across the security services, who still favour a firm security stance in Tanah Papua, the repressive policies of the past are unlikely to return. Of key note is the recently announced formal end of the application of the transmigration programme to Papua.

Aceh remains a low security concern. While a peace treaty was signed in 2005 between the Free Aceh Movement (Gerakan Aceh Merdeka, GAM) and the army, the possibility of future conflict in the area cannot be discounted. Increasing crime rates, dysfunctional governance and a lack of economic development have the potential to breed greater resentment. Additionally, the dissatisfaction of former combatants with their current status has the potential to contribute to unrest. A combination of poor development and a lack of opportunities in both Aceh and Papua is likely to be the biggest contributor to future instability in the two regions and may lead to renewed support for pro-independence groups.

**External Threats to Stability**

No other countries currently pose a conventional threat to the stability of Indonesia. While Indonesia has a number of border disputes with Malaysia, unlike much of South-East Asia, it does not have maritime issues with China (although any Chinese moves towards the Natuna Islands are watched closely). Despite this, a strong focus has emerged on naval power, including the protection of maritime resources, the expansion of port infrastructure and a rapid development of naval forces, much of which are indigenously-built. The navy has already been used to sink illegal fishing boats in Indonesian waters and is taking a stronger role in combating piracy, two issues that Indonesia considers to be critical to its sovereignty, particularly in a period of economic growth where resources are stretched and trade is critical.

While former president Yudhoyono pursued a policy of “a thousand friends and no enemies”, this is expected to give way to a more nationalist and commercially-oriented approach to foreign policy as the Widodo Presidency progresses. Relative inexperience with foreign policy and a focus on domestic issues, however, has the potential to lead to strained relations with neighbours, as was the case with Australia in early 2015. Indications also suggest that Widodo will be less focussed on ties with members of ASEAN, as his domestic economic focus will drive engagement with a broader range of economic suitors. This is
particularly so in regard to China which, economists have suggested, has been “late to the party” in investing in Indonesia.

The various — often competing — concerns discussed above will challenge Widodo during his term of office, but if he is able to confront them successfully, the generally positive outlook for Indonesian stability and security should be expected to continue.

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About the Author: Mr Patterson has written extensively on the Asia-Pacific region for a number of publications. Mr Patterson has taught Political Science and Security Studies at a number of universities and is currently completing a PhD in International Relations.

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