Indonesia and Malaysia: Prospects for Closer Co-operation

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Key Points

- Indonesia-Malaysia relations are becoming increasingly important to political developments in South-East Asia.
- As Muslim-majority countries, Indonesia and Malaysia can play an important role in delegitimising extremist groups throughout the region.
- Further co-operation in addressing piracy throughout the Malacca Strait and wider territorial waters is unlikely.
- Although both countries have adopted a similar position on China’s presence in the region, co-operation between the two is limited given China’s preference to deal with disputes on a bilateral basis.

Summary

The Indonesia-Malaysia relationship has gone through periods of turmoil and co-operation. Today, the two countries, and their relationship, are becoming increasingly important to the political structure of South-East Asia, as both the United States and China look to further their influence in the region. Closer relations between Indonesia and Malaysia, both significant leaders in the Association of South-East Asian Nations (ASEAN) may help to lessen the risks of a divided region with competing links to China and the United States.
Analysis

The Relationship Up Until Now

The relationship between Indonesia and Malaysia began shakily soon after both countries became independent in 1945 and 1957 respectively. During the presidency of Sukarno, Indonesian hostilities with Malaysia grew and led to the 1963-66 Confrontation (“Konfrontasi”). According to Noor Mat Yazid, writing in the Journal of Politics and Law, in the eyes of Sukarno, the Federation of Malaya, which, under British auspices, united Malaya with Singapore, Brunei and the Borneo Crown colonies of Sarawak and Sabah, was a form of neo-colonialism and a way for Britain to maintain political and economic power in South-East Asia. Konfrontasi took place in the context of East-West Cold War rivalry that saw Indonesia receive support from China and the Soviet Union and Malaysia receive support from Great Britain and the United States. After the fall of Sukarno in 1967 and the start of the New Order period under Suharto, relations were quickly stabilised, signalling the start of a more co-operative era. Unlike Sukarno, Suharto was very much pro-Western, was strongly backed by the US and pursued an anti-communist agenda, thus aligning Indonesia’s interests with those of Malaysia and marking a major turning point in the relationship.

During most of the Suharto period, international relations were framed by the divide between capitalist/democratic and socialist/communist ideologues. Indonesia’s growing attraction to capitalism and democratic ideals, as well as its rejection of communist ideology, played a major role in its relationships with Malaysia and the West. That relationship was tested during the reformasi of 1998. The emerging calls for reform (“reformasi” in Bahasa) followed the Asian financial crisis of 1997 and, along with numerous other factors, prompted Suharto to step down. According to Ali Maksum and Reevany Bustami, writing for the Centre for Policy Research and International Studies, the reformasi movement created a domestic political divide in both Indonesia and Malaysia, changing the their political configurations and reshaping the respective countries’ outlook towards each other. There was little impact, however, on the bilateral relationship. Unlike the 1965 coup, the international political climate at the time of reformasi was not predicated upon an East-West divide. Rather, the focus was on the spread of capitalism, democracy and globalisation – in which Malaysia and Indonesia were relatively small players. Today, however, Malaysia and Indonesia are becoming increasingly important in the region given China’s movements in the South China Sea, the strategic importance of the Malacca Strait, as well as renewed US interest in South-East Asia. Their respective relationships with China and the West, therefore, will be a key factor in the political future of the region and may also become an influential factor in bilateral relations with each other.

**Economic Relations**

The two countries enjoy a significant trade relationship. Overall bilateral trade has grown steadily over the years even though it has dipped significantly in the past three to four years. Indonesia accounts for approximately 4.9 per cent of Malaysia’s export market and 4.5 per cent of its import market, while Malaysia makes up 4.2 per cent of Indonesia’s export market and 6.9 per cent of its import market. While both countries make up a sizeable portion of each other’s total trade, China, Singapore, Japan and the US remain their preferred trading partners by a wide margin. There is also room to diversify trade, especially since mineral fuels and oils make up almost half of their bilateral trade. The recently signed Trans-Pacific Partnership (TPP), however, may see Indonesia direct its attention to extra-regional markets if it decides to join the agreement. The TPP should give a further boost to exports and new markets may open up for Indonesia. That may possibly come from the South American TPP signatories, where demand is strong for commodities such as coal, natural gas and palm oil, all of which are exported by Indonesia. Along with the TPP, there will also be an external push for economic reforms for both countries to meet some of the requirements under the TPP. If Indonesia is to join the TPP, key reforms will need to take place, including the restructuring of inefficient state-owned enterprises, the reduction of restrictions on foreign ownership and the improvement of investment protections for foreign investors. This will require a major shift away from a traditionally inward-looking economic policy towards one of much greater interdependence under the TPP. In both Malaysia currently and Indonesia potentially, the TPP provisions would have to be ratified by their respective parliaments.

Indonesia has enjoyed steady growth in foreign direct investment (FDI) over the past five years. Primary contributors have been Singapore and Japan, with Malaysia’s contribution being insignificant until recently. In 2013, Malaysia accounted for around 2.5 per cent of Indonesia’s total FDI inflow. The following year, however, saw that contribution double to 6.2 per cent. It is on track to double again, accounting for 13.6 per cent of foreign towards the end of 2015.

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3 According to 2013 data from the Observatory of Economic Complexity.
Counter-terrorism

Counter-terrorism is a key issue for both Indonesia and Malaysia. With the rise of Islamic State (IS) and the possible threat posed by its local admirers, both countries are taking steps to counter its influence. There have been calls within Indonesia to reduce the threat of extremism, while Malaysian police have begun providing anti-IS lessons to schools and joined a US-led coalition to counter IS. A key area of focus is de-radicalisation, with Malaysia to hold a workshop in the coming year on that subject. Indonesia will be invited to attend, as will other countries including Australia, Britain and the United States. According to a recent poll by the Pew Research Centre, while the vast majority of Muslims in both countries oppose IS, four per cent of Indonesians had a somewhat or very favourable opinion of Islamic State, with nine per cent of Malaysians holding the same view. Executive Director the MAARIF Institute, Fajar Riza Ul Haq, in speaking to the Nikkei Asian Review, outlined some underlying reasons behind such apparent sympathy with IS: ‘I have seen that slowly, post-Paris attacks, some Muslims begin to think that ISIS seems to be only one who can fight the West…. At a time when Muslims feel cornered and marginalised, some begin to see ISIS as some kind of a hero. This is dangerous’. To tackle this, there needs to be a strong counter-narrative to extremist propaganda. A recent example of this comes from Indonesia’s largest Muslim movement, Nahdlatul Ulama which aims to spread messages about a tolerant Islam as a response to radicalism, extremism and terrorism. As part of their campaign, the group recently released a 90-minute film in November 2015. The film, according to the New York Times, amounted to a ‘relentless, religious repudiation of the Islamic State and the opening salvo in a global campaign by the world’s largest Muslim group to challenge its ideology head-on’. Nico Prucha, a research fellow at King’s College London, also notes that counter-narrative is the only way that Western governments can deal with IS propaganda. Coming as it does from secular Western governments, however, such a counter-narrative will do little to dissuade those succumbing to extremist ideologies. Anti-IS campaigns led by Muslim organisations within Muslim-majority countries such as Indonesia and Malaysia can be more powerful tools in the fight against extremism in the region.
Piracy

Piracy remains a key concern in South-East Asia, especially for Indonesia and Malaysia given their proximity to the Malacca Strait – a hotspot for low-level piracy attacks. As noted in a previous Strategic Weekly Analysis, despite an overall decline in the level of piracy on a global scale, piracy attacks in Indonesian waters have more than doubled since 2010 and attacks in South-East Asia now account for over half of global piracy incidents. According to the International Chamber of Commerce’s (ICC) International Maritime Bureau, the overwhelming majority of incidents in the region are low-level opportunistic thefts from vessels. There is, however, a need to curb the problem before it escalates further. If the issue is not addressed, piracy could become a key source of revenue for terrorist groups in the region. Both Malaysia and Indonesia have refused to join the Regional Co-operation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), a regional government-to-government agreement to promote and enhance co-operation against piracy. It is unlikely that this will change any time soon, as the National Consortium for the Study of Terrorism and Responses to Terrorism states, Malaysia will not join ReCAAP as long as the agreement’s secretariat is in Singapore, whereas Indonesian objections stem from ingrained concerns about the maintenance of sovereignty. Both countries prefer the so-called “ASEAN way” in their approach to piracy – collectively taking a domestic approach with a spirit of non-interference. At the same time, there has been some progress in bilateral co-operation, with both counties focussing on efforts to enhance joint patrols. Going beyond this level of co-operation, however, seems unlikely for some time.

The Haze Issue

Haze caused by deliberately-set forest fires in Indonesia has been a source of diplomatic friction between the two countries. The fires are started yearly and result from illegal slash-and-burn practices used to clear land for the production of paper, pulpwood and palm oil. It is in the interests of both countries to address this issue and there have been signs of possible progress on that front. As observed in a recent Strategic Weekly Analysis covering the 2015 haze crisis, Malaysia offered military assistance to tackle the fires and provided a Bombardier CL-415 MP water bomber. As of yet, there have been no longer term commitments to address the issue outside of the fire season. Preventing the fires over the next season, however, will be difficult and will require reforms to the Indonesian judicial system (there is little Malaysia can do in this regard). Despite the introduction of tougher laws, under which companies convicted of illegal land clearing and burn-offs can be fined up to US$690,000 and individuals will face up to ten years jail, there has been no progress in preventing the seasonal haze. Partly to blame is a weak judicial system on the Indonesian side that struggles with corruption, meaning there is little deterrent for the companies that practice large-scale burn-offs, as well as a lack of incentives to switch to the more expensive method of mechanised land clearing. At the 2015 Paris Climate Change Conference, Widodo touched on renewed efforts to address the haze problem:

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‘Recently, Indonesia experienced peat land fire. El Niño made it worse and more difficult to address it, but we have succeeded in doing so. We have strictly enforced the law enforcement. We have prepared prevention efforts and implemented some. We conduct peat ecosystem restoration and are going to establish a Peat Restoration Agency.’

Widodo’s goals are ambitious, however, and wider reforms will need to take place if the haze issue is to be finally resolved.

**South China Sea Dispute**

Indonesian and Malaysian interests have aligned in dealing with China’s activities in the South China Sea. At the ASEAN-China meeting on 16 October 2015, Chinese President Xi Jinping attempted to use the forum to legitimise Beijing’s stance on the South China Sea dispute. As FDI has noted in the *Strategic Weekly Analysis*, Malaysia was critical of China’s recent construction activity in the Spratly Islands, calling it an ‘unwarranted provocation’ – although that statement was quickly followed by a more conciliatory pronouncement:

‘We have got to accept the reasons given by the government of the People’s Republic of China as to the purpose of the development of these islands ... I hope that it is for good purposes and the purposes of all human kind’.

Indonesia, on the other hand, appeared to be more supportive of the Chinese position, but Jakarta has since made its position clear by threatening to take China to the International Criminal Court if dialogue fails to resolve the dispute. Jakarta feels compelled to adopt a tougher stance on the issue because Beijing’s position on the boundaries of Indonesia’s Exclusive Economic Zone is unclear. The scope for Indonesian-Malaysian co-operation in resolving the South China Sea dispute is limited, however, given that China has explicitly stated that it wishes to resolve any territorial disputes on a bilateral basis.

**Conclusion**

The bilateral relationship between Indonesia and Malaysia is at an interesting point. Today, both countries are becoming increasingly important in the international system. Their economic relationship, while strong, may not reach its full potential as Indonesia may look to expand its extra-regional markets if it becomes a signatory to the TPP. There are numerous areas of co-operation that could strengthen the relationship, although territorial issues in conjunction with the preferred “ASEAN way” approach of non-interference could hinder any progress. In saying that, counter-terrorism could be an area in which both countries can cooperate effectively. As two Muslim-majority countries, strong co-operation on counter-terrorism with a focus on de-radicalisation will go a long way towards delegitimising extremist groups in the region and weakening their support base. From the perspective of the West, strong relations between Indonesia and Malaysia are essential to countering the influence of China in the region – regardless of whether Beijing’s intentions are ultimately benign or otherwise.

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