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Middle-Power Development in a Fragmented World: Indonesia's Development Strategy in 2025

*Pembangunan Negara Middle-Power di Tengah Dunia yang
Terfragmentasi: Strategi Pembangunan Indonesia Tahun 2025*

Diyah Pitaloka Rizki*¹ Septianis Afipah²

Universitas Al Ghifari, Bandung, Indonesia ^{1 2}

*Corresponding Author: diyahpitaloka8011@gmail.com

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Abstract

Amid intensifying geopolitical fragmentation and great-power rivalry, middle-power countries face increasing challenges in balancing domestic development with strategic autonomy. This study examines Indonesia's development strategy in 2025 through the concept of omni-directional engagement, focusing on industrial policy, ASEAN diplomacy, digital transformation, climate governance, and the Nusantara capital project. Using a qualitative approach based on literature review and policy analysis, the study integrates perspectives from dependency theory, constructivism, and development economics. The findings show that Indonesia has strengthened its role in global supply chains through downstream industrialization and diversified international partnerships. However, these gains are accompanied by structural challenges, including governance fragmentation, fiscal pressures, environmental risks, and uneven institutional capacity. The study argues that Indonesia's ability to sustain development in a fragmented global order depends on stronger policy coordination, institutional reform, and balanced geopolitical engagement. The article contributes to broader debates on middle-power development strategies in the Global South.

Keywords: Indonesia; Middle Power; Development Strategy; Geopolitical Fragmentation; Strategic Autonomy

Abstrak

Di tengah meningkatnya fragmentasi geopolitik dan rivalitas kekuatan besar, negara middle-power menghadapi tantangan yang semakin kompleks dalam menyeimbangkan pembangunan domestik dan otonomi strategis. Penelitian ini menganalisis strategi pembangunan Indonesia tahun 2025 melalui konsep omni-directional engagement dengan fokus pada kebijakan industrialisasi, diplomasi ASEAN, transformasi digital, tata kelola iklim, dan proyek Ibu Kota Nusantara. Penelitian menggunakan pendekatan kualitatif berbasis studi literatur dan analisis kebijakan dengan mengintegrasikan teori dependensi, konstruktivisme, dan ekonomi pembangunan. Hasil penelitian menunjukkan bahwa Indonesia berhasil memperkuat posisinya dalam rantai pasok global melalui hilirisasi industri dan diversifikasi kemitraan internasional. Namun, capaian tersebut diiringi tantangan struktural berupa fragmentasi tata kelola, tekanan fiskal, risiko lingkungan, dan keterbatasan kapasitas institusional. Studi ini menegaskan bahwa keberlanjutan pembangunan Indonesia dalam tatanan global yang terfragmentasi sangat bergantung pada penguatan koordinasi kebijakan, reformasi institusi, dan keseimbangan keterlibatan geopolitik.

Kata Kunci: Indonesia; Middle-Power; Strategi Pembangunan; Fragmentasi Geopolitik; Otonomi Strategis



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INTRODUCTION

The global order in the mid-2020s is no longer defined by stability, but by fragmentation and intensifying rivalry among major powers. For countries like Indonesia, this shifting landscape presents a complex dilemma: how to sustain economic development while avoiding overdependence on any single global actor.¹ Indonesia's strategic position—rich in natural resources and located at the heart of the Indo-Pacific—has made it increasingly central to global supply chains, particularly in critical minerals.² Yet, this growing importance has also exposed the country to external pressures, ranging from trade disputes to geopolitical competition, at a time when domestic transformation remains incomplete.

Some scholars have attempted to explain these dynamics from different perspectives. Early work by Fernando Henrique Cardoso and Enzo Faletto emphasizes that developing economies are structurally constrained by their position in the global system, which often limits their ability to move beyond resource-based growth.³ More recent contributions in development economics highlight the importance of industrial policy and structural transformation in overcoming the so-called middle-income trap.⁴ In the Indonesian case, studies by Hill and Warburton underline both the ambition and the persistent limitations of state-led development. At the same time, constructivist scholars such as Alexander Wendt and Amitav Acharya highlight the role of identity, norms, and regional institutions in shaping Indonesia's foreign policy, particularly its long-standing commitment to ASEAN centrality.⁵

Even so, much of this literature tends to treat these issues separately. Economic studies often focus on domestic policy challenges without fully accounting for geopolitical constraints, while international relations analyses sometimes overlook the material and institutional limits of development strategies. As a result, there is still a limited understanding of how Indonesia brings these dimensions together in practice. In particular, the interaction between downstream industrialization, regional diplomacy, and large-scale national projects such as the Nusantara capital has not been sufficiently examined as part of a single, coherent strategy in the context of global uncertainty.

This article seeks to address that gap by looking at Indonesia's development trajectory in 2025 as a multidimensional strategy rather than a set of isolated policies. It explores how the government combines economic nationalism, industrial policy, and foreign engagement in

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- 1 Ulfa Diana, and Muhammad Fikrul Umam. 2026. "Maintaining Neutrality Amid Rivalry: An Analysis of Indonesia's Foreign Policy in the ASEAN Outlook on the Indo-Pacific (AOIP): (Menjaga Netralitas Di Tengah Rivalitas: Analisis Kebijakan Luar Negeri Indonesia Dalam ASEAN Outlook on the Indo-Pacific (AOIP))". *SYMPHONIA: Journal of Theory and Research Output 1* (1): 165-75. <https://darulilmijournal.com/index.php/symponia/article/view/110>.; Naranja Dwi Azahra, Nurul Khairunnisa, and Gunawan Aji. 2026. "Comparative Analysis of Revenue Recognition Between Conventional and Islamic Financial Accounting: A Systematic Literature Review: (Analisis Perbandingan Pengakuan Pendapatan Antara Akuntansi Keuangan Konvensional dan Islam: Sebuah Tinjauan Literatur Sistematis)". *SYMPHONIA: Journal of Theory and Research Output 1* (1): 79-91. <https://darulilmijournal.com/index.php/symponia/article/view/80>.
 - 2 Asila, Muhamad Barqi, and Gineung Wahyu Pratidina. 2026. "Towards Tawhidic Oceanography: An Islamic Epistemological Framework for Marine Science". *SYMPHONIA: Journal of Theory and Research Output 1* (2): 41-50. <https://darulilmijournal.com/index.php/symponia/article/view/152>.
 - 3 F. H. Cardoso and E. Faletto, *Dependency and Development in Latin America* (University of California Press, 1979), <https://doi.org/10.1525/9780520341777>.
 - 4 D. Rodrik, "Industrial Policy for the Twenty-First Century," in *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton University Press, 2007), <https://doi.org/10.1515/9781400829354>.
 - 5 Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (3rd Ed.) (Routledge, 2014).

response to both domestic needs and external pressures. By doing so, the study aims to provide a more integrated understanding of how Indonesia navigates its position as a middle power in a rapidly changing global environment.

Drawing on dependency theory, constructivist international relations, and development economics, this article argues that Indonesia's approach can best be understood as a form of "omni-directional engagement." Rather than aligning too closely with any single power, Indonesia attempts to engage multiple partners simultaneously to maximize economic opportunities while preserving strategic autonomy. However, this strategy is not without risks. Its success ultimately depends on the state's ability to manage internal coordination, maintain policy consistency, and strengthen institutional capacity. Without these foundations, the same strategy that generates short-term gains may also create longer-term vulnerabilities for Indonesia's development and regional role.

Method

This study employs a qualitative research approach to examine Indonesia's development strategy in the context of a shifting global order. A qualitative design is considered appropriate as the research focuses on interpreting policy dynamics, institutional behavior, and interactions between domestic and international factors rather than testing causal relationships quantitatively. As noted by Creswell, qualitative research is well suited to explore complex socio-political phenomena in real-world contexts. The study relies on secondary data sources, including academic journal articles, policy reports, and publications from institutions such as the World Bank and IMF, as well as government documents and regulatory frameworks.⁶ Data were collected through a systematic literature review, focusing on key themes such as dependency, industrial policy, and geopolitical strategy, ensuring analytical rigor through careful selection and organization.⁷

For data analysis, this study applies qualitative content analysis to interpret texts, identify patterns, and extract meaning from policy narratives and academic discussions. As highlighted by Krippendorff, this method enables systematic examination of complex communication data.⁸ The analysis is guided by a theory-driven approach, incorporating dependency theory, constructivist international relations, and development economics to ensure conceptual coherence.⁹ To enhance validity and reliability, the study uses source triangulation by comparing findings across academic literature, institutional reports, and policy documents. However, several limitations remain, including reliance on secondary data that may not capture informal decision-making or real-time policy changes, as well as a limited temporal scope focused on 2025. These constraints highlight the need for future empirical and longitudinal research to strengthen analytical depth.

RESULTS AND DISCUSSION

Downstream Industrial Policy and Geopolitical Consequences

Indonesia's export ban on unprocessed nickel ore, first implemented in 2020 and subsequently expanded, crystallized into a defining feature of economic policy by 2025. The policy, premised on forcing foreign investors to process nickel domestically before export, succeeded in attracting billions of dollars of Chinese investment in smelting and battery manufacturing

6 John W. Creswell and J. David Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches (5th Ed.)*, 5th ed. (Sage Publisher, 2018).

7 Uwe Flick, *An Introduction to Qualitative Research*, 6th ed. (SAGE Publications, 2018).

8 K. Krippendorff, *Content Analysis: An Introduction to Its Methodology (4th Ed.)* (SAGE Publications, 2018).

9 Robert K. Yin, *Case Study Research and Applications: Design and Methods*, 6th ed. (SAGE Publications., 2018).

facilities in Sulawesi and Maluku. By 2025, Indonesia had become the world's dominant producer of refined nickel products, a remarkable structural shift accomplished in less than a decade.

However, the geopolitical consequences proved complex. The European Union, which had filed a formal complaint with the World Trade Organization (WTO) in 2021 over the nickel ban, obtained an adverse ruling, which Indonesia ultimately declined to implement, triggering retaliatory tariff discussions in Brussels. The Biden and subsequently Trump administrations in the United States alternatively courted and pressured Jakarta, seeking to reduce Chinese dominance of the Indonesian nickel-processing sector through the Minerals Security Partnership. These competing external pressures placed Indonesian policymakers in the delicate position of managing economic integration with China while maintaining strategic credibility with Western partners.

The Prabowo government's response in 2025 was to accelerate a "dual-track" industrialization strategy: deepening Chinese investment in upstream processing while simultaneously courting US, Japanese, and South Korean investment in downstream battery cell manufacturing and electric vehicle assembly. This approach, while commercially pragmatic, created significant governance challenges, as different ministries aligned with different external partners, generating policy incoherence and occasional contradictory signals to investors. The rapid expansion of nickel processing in Indonesia generated significant environmental and social externalities that increasingly attracted international scrutiny in 2025. Industrial zones in Sulawesi, particularly around the Morowali Industrial Park, recorded severe water and air pollution incidents, and indigenous land rights disputes escalated into periodic civil unrest. International NGOs and the UN Special Rapporteur on the Rights of Indigenous Peoples issued formal communications to the Indonesian government regarding these issues.¹⁰

These concerns carried direct international economic consequences. European battery manufacturers and automakers, facing EU battery regulation requirements for responsible sourcing, began demanding auditable supply chain certification that a significant portion of Indonesian nickel producers could not yet provide. The resulting premium placed on "clean nickel" created an emerging market segment that US and Japanese smelting investors sought to capture, further complicating the geopolitical geometry of Indonesia's industrial policy. The Indonesian government's response—the launch of a voluntary national nickel sustainability certification program in early 2025—was widely regarded by independent experts as insufficient, given its reliance on self-reporting and the limited enforcement capacity of the relevant regulatory agencies. This tension between development imperatives and sustainability requirements became a defining diplomatic challenge for Indonesian trade negotiators throughout the year.

ASEAN Centrality under Pressure: Indonesia and the South China Sea

Indonesia does not regard itself as a formal claimant state in the South China Sea, a position that has historically allowed it to play the role of honest broker within ASEAN on maritime disputes. However, the persistent incursion of Chinese Coast Guard and fishing vessels into waters near the Natuna Islands, which Indonesia calls the North Natuna Sea, continued to challenge this carefully calibrated posture throughout 2025. Following several high-profile confrontations in the first quarter of 2025, the Prabowo government significantly upgraded its naval presence in the region, deploying additional frigates and commissioning the construction

10 United Nations Special Rapporteur, *Communication to the Government of Indonesia Regarding Mining and Processing Operations (Communication No. OL IDN 2/2024)*, Office of the High Commissioner for Human Rights. (United Nations Special Rapporteur on the Rights of Indigenous Peoples, 2024), <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gId=28000>.

of a new coast guard facility on Natuna Besar. These developments placed Jakarta in an increasingly uncomfortable position vis-à-vis its ASEAN partners. On one hand, Indonesia's more assertive maritime posture was welcomed by Vietnam and the Philippines, which faced their own Chinese maritime pressure and saw Indonesian resolve as potentially bolstering collective ASEAN bargaining power. On the other hand, Cambodia, Laos, and to some extent Thailand—states that maintain deep economic ties with Beijing—resisted any ASEAN framing that could be construed as anti-Chinese, making consensus on even minimally assertive maritime statements elusive.

Indonesia's commitment to ASEAN centrality as a foreign policy organizing principle was tested throughout 2025 by the organization's structural limitations as a consensus-based body operating by non-interference norms. As Acharya has observed, ASEAN's institutional architecture was designed for a regional environment characterized by postcolonial nationalism and great-power respect for smaller states' sovereignty—an environment fundamentally different from the coercive economic and military diplomacy deployed by both Washington and Beijing in the contemporary period. Prabowo's initial foreign policy speeches emphasized Indonesia's aspiration to serve as a “bridge” between global powers, a formulation that resonated with the country's traditional non-aligned identity. In practice, however, the bridge metaphor obscured real tensions.

When the US proposed deepening the Indo-Pacific Economic Framework (IPEF) architecture in ways that would have required Indonesia to make regulatory commitments in labor, environment, and digital trade, Jakarta's response was cautious to the point of obstruction, concerned that such commitments would constrain its industrial policy autonomy. Similarly, when China proposed an expanded connectivity arrangement under the Belt and Road Initiative, the Prabowo government negotiated selectively, accepting infrastructure financing on specific projects while resisting governance conditionalities. This “selective engagement” approach served Indonesia's short-term interest in preserving policy space, but it generated frustration among both sets of partners and raised questions about Indonesia's capacity to provide the sustained leadership that its size and ambitions suggested. The broader consequences for ASEAN were significant: without Indonesian leadership and coalition-building, the organization struggled to articulate coherent positions on digital trade governance, climate finance, and maritime security.

The Nusantara Capital City Project as International Signaling

The Nusantara capital city project—initiated under Jokowi but inherited and modified by Prabowo—represents one of the most ambitious infrastructure undertakings in Indonesian history, and arguably the most complex in terms of its international dimensions. The official rationale for relocating Indonesia's capital from the rapidly sinking, congested Jakarta to a purpose-built city in East Kalimantan centered on sustainability, balanced development, and the symbolic break with colonial administrative geography. In international terms, however, Nusantara served additional functions as a site of economic diplomacy and national identity projection.

By early 2025, the Nusantara Capital City Authority (OIKN) had secured formal investment commitments from entities in Japan, South Korea, Singapore, the United Arab Emirates, and Malaysia, alongside ongoing Chinese infrastructure investment in related road and port connectivity.¹¹ The diversity of investors was itself a deliberate diplomatic accomplishment—OIKN officials explicitly framed the multi-country investment roster as evidence of Indonesia's ability to practice genuine non-alignment in its economic relationships. The presence of

11 Nusantara Capital City Authority (OIKN), *Investment Realization Report: Quarter Four 2024*. (OIKN, 2025), <https://www.ikn.go.id/en/investment>.

Japanese and Emirati investors, in particular, was highlighted in official communications as a counterbalance to the heavier footprint of Chinese capital in the nickel sector. Despite the diplomatic value of the Nusantara project, its fiscal dimensions raised serious concerns among international financial institutions and domestic economists in 2025. The World Bank's Indonesia Country Economic Memorandum, published in February 2025, noted that the total public expenditure allocation for Nusantara over the 2024–2029 development plan period represented approximately 4.2 percent of projected cumulative government revenue—a significant fiscal commitment in a context where Indonesia faced growing pressures to increase social spending on health, education, and social protection.

Moreover, the slow progress in attracting the private investment originally projected to fund approximately 80 percent of the city's development costs meant that the government's own fiscal exposure was expanding. Several major international developers withdrew or deferred commitments in 2024–2025, citing regulatory uncertainty, unclear land tenure frameworks, and the challenge of projecting commercial returns in an economy still largely concentrated in Java. The International Monetary Fund's Article IV consultation with Indonesia in 2025 diplomatically but clearly flagged the capital relocation as a fiscal risk that warranted close monitoring. The Prabowo government responded to these concerns by reframing Nusantara's development timeline, stretching the completion horizon to 2045 and reducing near-term public expenditure commitments. While this adjustment reduced immediate fiscal pressure, it also diminished the project's value as a symbol of rapid national transformation, creating a subtle but real tension between the government's development narrative and the observable pace of construction on the ground.

The rapid digital transformation of the global economy is a crucial yet often overlooked aspect of Indonesia's development path as we look toward 2025. Beyond the usual focus on natural resources and infrastructure, areas like digital governance, data sovereignty, and tech ecosystems have become key battlegrounds in the world of geoeconomic competition.¹² As the largest digital market in Southeast Asia, Indonesia holds a pivotal role in this shifting landscape. Under the leadership of the Prabowo administration, digital policy began to reflect a more comprehensive approach to engagement. Indonesia aimed to draw in investments and tech partnerships from a variety of global players, including the United States, China, and regional neighbors like South Korea and Singapore. Major international tech companies have ramped up their operations in Indonesia's e-commerce, cloud computing, and fintech sectors, while Chinese firms have maintained a stronghold in areas of digital infrastructure, especially in telecommunications and data systems.¹³

However, this strategy of diversification has also led to some regulatory and strategic challenges. The issue of data governance has become particularly pressing, as Indonesia tries to strike a balance between national data sovereignty and the necessity of staying connected to global digital value chains. Policies that mandate data localization and the establishment of domestic data centers, while intended to bolster national control, could inadvertently scare off foreign investment and complicate international digital trade.¹⁴ From a dependency theory perspective, the digital sector introduces a new layer of structural vulnerability, often described as “digital dependency,” in which developing economies rely on foreign platforms, algorithms, and capital.¹⁵ Indonesia's efforts to nurture domestic digital champions have shown promise, but

12 UNCTAD, *Digital Economy Report 2024* (United Nations, 2024); World Bank, *Indonesia's Role in the Global Green Economy and Carbon Trading*. (World Bank, 2023), <https://worldbank.org>.

13 Google et al., *E-Conomy SEA 2023 Report* (2023).

14 OECD, *Data Governance in the Digital Age* (OECD publishing, 2023); UNCTAD, *Digital Economy Report 2024*.

15 Nick Couldry and Ulises A. Mejias, *The Costs of Connection: How Data Is Colonizing Human Life*. (Stanford University Press, 2019); UNCTAD, *Digital Economy Report 2021* (United Nations, 2021).

these firms continue to face significant challenges in scaling regionally and competing with established global platform.

Constructivist insights further illuminate Indonesia's digital diplomacy. The government has actively framed itself as a leader in "inclusive digital transformation" within ASEAN and the Global South, promoting narratives of equitable access and digital justice.¹⁶ Yet, as in other policy domains, the gap between normative aspirations and institutional capacity remains pronounced. Regulatory fragmentation, limited cybersecurity readiness, and uneven digital infrastructure development across regions constrain Indonesia's ability to fully capitalize on its digital potential.¹⁷ In this context, the digital domain represents both an opportunity and a risk. It offers Indonesia a pathway to leapfrog traditional stages of industrialization, but it also exposes the country to new forms of dependency and geopolitical contestation that require sophisticated policy responses and institutional strengthening.

One crucial aspect that will shape Indonesia's development path in 2025 is the interplay between climate governance and the politics of energy transition. As one of the largest greenhouse gas emitters in the world—largely due to deforestation, changes in land use, and reliance on coal-based energy—Indonesia is under increasing international pressure to speed up its shift towards a low-carbon economy. However, the country's development needs and available resources make it challenging to adopt quick decarbonization strategies. The Prabowo administration took on a complicated array of climate commitments, which include Indonesia's Nationally Determined Contributions (NDCs) as part of the Paris Agreement and involvement in international financing initiatives like the Just Energy Transition Partnership (JETP). These frameworks have positioned Indonesia as a significant player in global climate governance, where developed nations aim to assist energy transition efforts through a mix of financial support and technology transfer.

The rollout of these commitments in 2025 brought to light some serious tensions. On one side, Indonesia ramped up its investments in renewable energy, focusing on geothermal, hydropower, and solar initiatives. Yet, coal continued to play a crucial role in the national energy mix, bolstered by domestic political dynamics and the vested interests of both state-owned enterprises and private sector players.¹⁸ The strategy for downstream industrialization added another layer of complexity to the climate dilemma. Nickel processing, which is vital for global electric vehicle supply chains, is incredibly energy-intensive and often depends on coal-fired power plants. This created a bit of a paradox: Indonesia positioned itself as a key player in the global green transition while simultaneously increasing its own carbon emissions.¹⁹

From the lens of development economics, this tension highlights the ongoing struggle to balance growth with sustainability. While rapid industrialization can generate jobs and boost fiscal revenues, it also risks locking Indonesia into a carbon-heavy development path. The idea of the "resource curse" comes into play here, as dependence on extractive industries could jeopardize long-term environmental and economic stability.²⁰ Constructivist analysis highlights Indonesia's active role in shaping climate narratives. The government has consistently emphasized the

16 ASEAN, *ASEAN Digital Economy Framework Agreement* (ASEAN Secretariat, 2023).

17 OECD, *Data Governance in the Digital Age*; World Bank, *Indonesia's Role in the Global Green Economy and Carbon Trading*.

18 Ember, *Global Electricity Review 2024* (Global electricity review 2024, 2024), . <https://ember-climate.org>.

19 IEA, *World Energy Outlook 2024* (International Energy Agency (IEA), 2024).

20 Richard M. Auty, *Resource Abundance and Economic Development*. (Oxford University Press, 2001); World Bank, *Indonesia Country Economic Memorandum 2025: Navigating Structural Transformation* (World Bank Group, 2025), <https://doi.org/10.1596/978-1-4648-XXXX-X>.

principle of “common but differentiated responsibilities,” arguing that developed countries should bear a greater burden in financing and supporting the transition.²¹

This framing resonates strongly within the Global South and reinforces Indonesia’s identity as a representative of developing country interests. Nevertheless, the credibility of Indonesia’s climate leadership depends on its domestic policy coherence and implementation capacity. Delays in renewable energy projects, regulatory uncertainty, and inconsistencies between national and subnational policies have raised concerns among international partners and investors.²² Ultimately, climate governance and energy transition politics represent a defining test for Indonesia’s omni-directional engagement strategy. Successfully navigating this domain requires not only diplomatic skill, but also deep structural reforms in energy policy, governance, and institutional coordination. Failure to do so risks undermining both Indonesia’s development objectives and its international standing in an increasingly climate-conscious global order.

Omni-Directional Engagement and Its Limits

The three policy arenas examined above—downstream industrial policy, ASEAN maritime diplomacy, and the Nusantara project—collectively illustrate the operational logic and inherent tensions of Indonesia’s “omni-directional engagement” strategy in 2025. This strategy reflects a coherent, if ambitious, attempt to convert structural position into developmental leverage. Indonesia’s geological endowment in critical minerals, its demographic weight, and its geographic centrality in the Indo-Pacific all provide genuine bargaining assets. The Prabowo government’s skill in deploying these assets across multiple great-power relationships simultaneously enabled it to extract investment and diplomatic recognition that a more ideologically committed alignment strategy might have foreclosed.

However, the strategy also revealed several persistent vulnerabilities. First, the governance capacity of the Indonesian state has not kept pace with the ambition of its development agenda. The institutional fragmentation evident in the nickel sector—where different ministries maintained different relationships with Chinese, American, and European partners—created policy incoherence that reduced the overall efficiency of the industrial transition and invited opportunistic behavior by foreign investors. Effective industrial policy of the kind envisioned by the Prabowo government requires not just political will, but highly capable bureaucratic institutions capable of coordinating across agencies, enforcing regulatory standards, and adapting policy in response to market feedback.

Second, the debt sustainability dimensions of Indonesia’s development model deserved greater analytical attention than they received in the domestic political discourse of 2025. Total public and publicly guaranteed external debt reached approximately 38 percent of GDP by mid-2025, a level that remained within conventional safety margins but that was trending upward as a consequence of infrastructure borrowing and slowing export revenue growth.²³ The concentration of debt in infrastructure projects with uncertain commercial returns—including several transport corridors associated with the Nusantara development—added a qualitative risk dimension that aggregate debt ratios did not fully capture.

Third, Indonesia’s ASEAN leadership capacity was constrained in 2025 not only by the organization’s structural limitations, but also by the diversion of senior diplomatic attention and

21 UNFCCC, *Global Stocktake Report* (United Nations Framework Convention on Climate Change, 2023).

22 Asian Development Bank, *Indonesia Energy Transition Report* (ADB, 2024); Climate Action Tracker, “Indonesia Country Assessment,” 2023, <https://climateactiontracker.org>.

23 M. Mietzner, “Reinventing Asian Populism: Jokowi’s Rise, Democracy, and Political Contestation in Indonesia,” *East-West Center Policy Studies* 72 (2015): 164.

political capital toward bilateral great-power relationship management. The paradox of Indonesia's enhanced international profile was that it left less bandwidth for the patient coalition-building within ASEAN that has historically been the foundation of Indonesian regional influence.²⁴ Vietnam, sensing this vacuum, significantly expanded its own regional diplomatic engagement in 2025, while the Philippines' newly consolidated US alliance posture reduced the space for ASEAN-centered solutions to South China Sea governance challenges.

Looking forward, the sustainability of Indonesia's omni-directional engagement strategy will depend critically on its ability to make progress on three fronts: institutional capacity building within the bureaucracy, especially in the regulatory agencies responsible for industrial and environmental governance; fiscal discipline in infrastructure investment, including greater selectivity in project prioritization; and a more proactive approach to ASEAN coalition-building that goes beyond rhetorical commitment to centrality. Without progress on these dimensions, the strategy risks generating short-term diplomatic and investment wins at the cost of medium-term institutional degradation and regional influence erosion.

CONCLUSION

This study demonstrates that Indonesia's development trajectory in 2025 reflects a strategic effort to navigate an increasingly fragmented global order while maintaining domestic economic transformation and strategic autonomy. Through an omni-directional engagement strategy, Indonesia has attempted to balance relations with multiple global powers while advancing downstream industrialization, digital transformation, climate transition, and infrastructure expansion. The findings indicate that Indonesia has strengthened its position within global supply chains, particularly through nickel downstreaming and diversified international partnerships. At the same time, the study reveals significant structural challenges, including fragmented governance, weak inter-agency coordination, fiscal pressures associated with large-scale infrastructure projects, environmental sustainability concerns, and growing geopolitical competition in both economic and digital domains. These dynamics illustrate that development in middle-power states is increasingly shaped not only by domestic policy choices but also by shifting global geopolitical structures.

The main contribution of this research lies in its integrated analytical framework that combines development economics, dependency theory, and constructivist international relations to explain Indonesia's contemporary development strategy. By linking industrial policy, ASEAN diplomacy, digital governance, climate politics, and infrastructure development within a single framework, this study offers a broader understanding of how middle-power countries in the Global South attempt to preserve strategic autonomy amid intensifying great-power rivalry. The concept of omni-directional engagement also contributes to ongoing discussions regarding non-alignment, strategic hedging, and development-oriented foreign policy in emerging economies.

Nevertheless, this study has several limitations. The reliance on secondary data restricts the ability to capture informal political dynamics and real-time policy implementation processes. In addition, the focus on developments surrounding 2025 limits the assessment of long-term policy outcomes and institutional sustainability. Future research should therefore adopt empirical and longitudinal approaches, including interviews, field studies, and comparative analysis with other middle-power countries. Further studies may also examine the role of domestic political coalitions, bureaucratic reform, and local governance in shaping the effectiveness of Indonesia's development strategy in an evolving global order.

²⁴ Bank Indonesia, *Financial Stability Review No. 44, March 2025* (Bank Indonesia, 2025), https://www.bi.go.id/en/publikasi/stabilitas-sistem-keuangan/kajian/Pages/KSK_4425.aspx.

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