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### Omni-Directional Engagement and Development Strategy: Indonesia in a Fragmented Global Order

*Keterlibatan Omnidireksional dan Strategi Pembangunan: Indonesia  
dalam Tatanan Global yang Terfragmentasi*

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#### Abstract

Indonesia's development strategy in 2025 reflects the challenge of pursuing industrial transformation amid intensifying geopolitical rivalry and domestic constraints. This study examines three interconnected arenas—nickel downstreaming, ASEAN dynamics in the South China Sea, and the Nusantara capital project—using a qualitative case study approach based on document analysis and process tracing. It advances the concept of *omni-directional engagement* to explain how Indonesia engages multiple global actors to maximize economic opportunities while preserving strategic autonomy. The findings show that this strategy has generated short-term gains, particularly in resource-based industrialization and diversified partnerships. However, its sustainability is constrained by institutional fragmentation, environmental pressures, and fiscal limitations. The article argues that stronger governance capacity, policy coordination, and integration of environmental and social considerations are essential to transform short-term gains into long-term development outcomes.

**Keywords:** Indonesia; Omni-directional Engagement; Development Strategy; Nickel Downstreaming; Geopolitics

#### Abstrak

Strategi pembangunan Indonesia pada tahun 2025 mencerminkan tantangan dalam mendorong transformasi industri di tengah rivalitas geopolitik yang meningkat dan keterbatasan domestik. Penelitian ini menganalisis tiga arena utama—hilirisasi nikel, dinamika ASEAN di Laut Cina Selatan, dan proyek Ibu Kota Nusantara—dengan pendekatan studi kasus kualitatif berbasis analisis dokumen dan penelusuran proses. Studi ini mengembangkan konsep *omni-directional engagement* untuk menjelaskan bagaimana Indonesia berinteraksi dengan berbagai aktor global guna memaksimalkan peluang ekonomi sekaligus mempertahankan otonomi strategis. Hasil penelitian menunjukkan adanya keuntungan jangka pendek, terutama dalam industrialisasi berbasis sumber daya dan diversifikasi kemitraan. Namun, keberlanjutannya dibatasi oleh fragmentasi kelembagaan, tekanan lingkungan, dan keterbatasan fiskal. Oleh karena itu, penguatan kapasitas tata kelola, koordinasi kebijakan, serta integrasi aspek lingkungan dan sosial menjadi kunci bagi keberhasilan jangka panjang.

**Kata Kunci:** Indonesia; Omni-directional Engagement; Strategi Pembangunan; Hilirisasi Nikel; Geopolitik



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## INTRODUCTION

Indonesia's development trajectory in 2025 reflects a paradox faced by many emerging economies: strong macroeconomic performance alongside persistent structural limitations. Despite maintaining steady growth and attracting significant foreign investment, Indonesia remains heavily dependent on commodity exports, particularly in sectors such as nickel.<sup>1</sup> At the same time, intensifying geopolitical rivalry between the United States and China has increased external pressure on Southeast Asian states, placing Indonesia in a complex position between competing global interests. This convergence of economic ambition and geopolitical tension presents a critical challenge: how can Indonesia pursue industrial transformation without compromising its strategic autonomy?

Existing scholarship has examined Indonesia's foreign policy and development strategy from different perspectives. Studies rooted in realism and institutionalism emphasize material interests and regional cooperation frameworks such as ASEAN.<sup>2</sup> Meanwhile, constructivist approaches highlight Indonesia's identity as a leader of the developing world and its commitment to non-alignment.<sup>3</sup> From an economic standpoint, development scholars have explored the structural constraints of middle-income countries, particularly the persistence of commodity dependence and the challenges of industrial upgrading.<sup>4</sup> More recent analyses have also examined resource nationalism and downstream industrialization in Indonesia, especially in the nickel sector.<sup>5</sup> While these studies provide valuable insights, they tend to treat foreign policy and development strategy as separate domains, overlooking their interaction in shaping state behavior.

This separation creates an important gap in the literature. Indonesia's development policies—particularly its push for nickel downstreaming and infrastructure expansion—are not merely economic initiatives but are deeply embedded in its external relations. Similarly, its diplomatic positioning within ASEAN and its responses to great-power competition are influenced by domestic development priorities.<sup>6</sup> By analyzing these domains in isolation, existing studies fail to capture the strategic interplay between internal economic transformation and external geopolitical constraints.

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- 1 Lahadalia, Bahlil, Chandra Wijaya, Teguh Dartanto, and Athor Subroto. 2024. "Nickel Downstreaming in Indonesia: Reinventing Sustainable Industrial Policy and Developmental State in Building the EV Industry in ASEAN". *JAS (Journal of ASEAN Studies)* 12 (1):79-106. <https://doi.org/10.21512/jas.v12i1.11128>.
  - 2 I. Storey, *Southeast Asia and the Rise of China: The Search for Security* (Routledge, 2011), <https://doi.org/10.4324/9780203847138>; Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order (3rd Ed.)* (Routledge, 2014).
  - 3 Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order (3rd Ed.)*; L. Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*, 47, no. 1 (2025): 34–58, <https://doi.org/10.1355/cs47-1b>.
  - 4 H. Hill, *The Indonesian Economy*, 2nd ed. (Cambridge University Press, 2000), <https://doi.org/10.1017/CBO9780511606403>.
  - 5 E. Warburton, "Jokowi and the New Developmentalism," *Bulletin of Indonesian Economic Studies* 52, no. 3 (2016): 297–320, <https://doi.org/10.1080/00074918.2016.1249262>.
  - 6 Sarjito, Aris. 2025. "Governance and Public Policy Challenges in Industrial Downstreaming: The Case of Indonesia's Nickel Sector". *Jejaring Administrasi Publik* 17 (2):151-69. <https://doi.org/10.20473/jap.v17i2.76136>; 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/symphonia/article/view/110>

This article addresses this gap by examining how Indonesia navigates the intersection of development strategy and foreign policy in 2025. It focuses on three key arenas: nickel downstreaming, ASEAN dynamics in the South China Sea, and the Nusantara capital project. The main objective is to understand how these interconnected domains shape Indonesia's broader approach to development under conditions of structural constraint.

Drawing on dependency theory, constructivism, and development economics, this article argues that Indonesia has adopted a strategy of *omni-directional engagement*—a flexible approach that seeks to maximize economic and diplomatic opportunities by engaging multiple global actors simultaneously. This strategy reflects what can be described as “structurally constrained agency,” where Indonesia exercises strategic choice within the limits imposed by global economic structures and domestic institutional capacity. While this approach has generated short-term gains, its long-term sustainability remains uncertain due to persistent challenges in policy coordination, environmental governance, and fiscal capacity.

### Method

This study employs a qualitative research design to examine Indonesia's development strategy in 2025, particularly the interaction between domestic economic transformation and external geopolitical dynamics. A qualitative approach is chosen to capture policy processes, institutional dynamics, and strategic behavior that are context-dependent and not easily quantified.<sup>7</sup> The research adopts a case study method, focusing on Indonesia as a single case with three embedded units of analysis: nickel downstreaming, ASEAN dynamics in the South China Sea, and the Nusantara capital project. These cases are purposively selected as they represent key intersections between domestic policy and international engagement, enabling analytical depth and contextual comparison within a unified framework. Data collection relies on secondary sources, including government documents, international organization reports, and academic literature, which are systematically analyzed using a document analysis framework.

To ensure replicability, the study follows a structured procedure consisting of document selection based on credibility, coding into analytical categories, cross-case comparison, and interpretation using the theoretical framework. Data triangulation is applied to enhance validity by comparing multiple sources. The analytical approach combines qualitative content analysis and process tracing to identify patterns, policy orientations, and causal linkages between domestic decisions and international outcomes, allowing both descriptive and explanatory insights.<sup>8</sup> Despite its strengths, the study has several limitations, including reliance on secondary data that restricts access to internal policy processes, limited generalizability due to its single-country focus, and a temporal scope confined to 2025, which may not fully capture longer-term developments.

## RESULTS AND DISCUSSION

### Nickel Nationalism and Its Geopolitical Fallout

Indonesia's decision to ban the export of unprocessed nickel ore, first implemented in 2020 and steadily tightened thereafter, was one of the more consequential industrial policy choices of the decade.<sup>9</sup> The basic logic was straightforward: Indonesia sits on more than a quarter of the world's nickel reserves, and those reserves are increasingly critical for electric vehicle batteries.

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7 John W. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches (4th Ed.)* (SAGE Publications, 2014).

8 Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (MIT Press, 2005).

9 Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

Shipping the ore abroad for processing made no sense when the value—and the jobs—could be captured domestically.<sup>10</sup> By 2025, the strategy had produced measurable results. Indonesia had become the world's dominant supplier of refined nickel products, and the industrial parks in Sulawesi and Maluku had attracted billions of dollars in mostly Chinese investment.<sup>11</sup> What the advocates of the policy were slower to acknowledge was the geopolitical cost. The EU lodged a formal WTO complaint in 2021 and obtained an adverse ruling the following year—a ruling Indonesia declined to implement, on the grounds that industrial sovereignty trumped trade obligations.<sup>12</sup>

European officials, already under pressure from their own industry to secure battery metal supply chains, grew increasingly impatient. By early 2025, quiet but serious discussions were underway in Brussels about targeted tariffs on Indonesian products that would not fall under WTO dispute procedures. Washington, for its part, oscillated between pressure and courtship, wanting to reduce Chinese dominance of Indonesian nickel processing without offering enough incentives to make a genuine difference.<sup>13</sup> The result was a situation of managed tension that suited no one perfectly, but Jakarta was, at least for the moment, managing to sustain. The Prabowo government's approach was to play the competition between external partners off against each other—accepting Chinese investment in smelting while pitching American, Japanese, and South Korean investors on the downstream end of the battery supply chain. It was an approach that required considerable diplomatic dexterity, and it generated occasional contradictions as different ministries aligned with different partners.

Less amenable to diplomatic management was the environmental and social fallout from the nickel boom. The Morowali Industrial Park in Central Sulawesi, the largest of the Chinese-invested smelting complexes, had by 2025 become something of an international cause célèbre. Reports of severe water pollution, land subsidence, and respiratory illness among surrounding communities attracted attention from international NGOs, the UN Special Rapporteur on Indigenous Peoples' Rights, and—most consequentially for trade—European battery manufacturers trying to comply with the EU's Battery Regulation.<sup>14</sup> The regulatory requirement that batteries sold in the EU meet minimum sustainability standards for their raw material inputs put Indonesian nickel producers in a difficult position.

The country's voluntary certification scheme, launched in early 2025, was widely regarded by independent auditors as inadequate—too reliant on self-reporting, too thinly staffed to enforce, and too politically sensitive to apply consistently. Several European automakers quietly began exploring alternative nickel sources in Australia and Canada, a development that received surprisingly little attention in the Indonesian press but that worried officials in the Ministry of Energy and Mineral Resources.<sup>15</sup> None of this invalidates the basic logic of the downstream industrialization strategy. The long-term trajectory—one that forces value addition, builds domestic processing capacity, and captures more of the battery supply chain—remains defensible. But the speed at which it was pursued, and the degree to which environmental and

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10 Hill, *The Indonesian Economy*.

11 Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

12 World Trade Organization, *Indonesia—Measures Relating to Raw Materials: Report of the Panel*, (WT/DS592/R) (WTO, 2022), <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/DS/592R.pdf>.

13 Wendt, *Social theory of international politics*.

14 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>.

15 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>.

governance concerns were sidelined in the rush to attract investment, created vulnerabilities that were becoming visible by the middle of 2025.

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At the institutional level, control over the nickel sector is spread across several important agencies, such as the Ministry of Energy and Mineral Resources, the Ministry of Industry, and the Investment Coordinating Board (BKPM). While these bodies all aim to promote downstream industrialization, their methods often vary. The energy ministry usually emphasizes regulatory oversight and revenue generation from extraction activities, while the industry ministry is more focused on boosting industrial growth and job creation. Meanwhile, investment authorities are keen on fostering a welcoming investment environment, which can sometimes lead to regulatory leniency that undermines previous nationalist policy commitments.<sup>20</sup>

These institutional differences have resulted in inconsistencies in policy implementation. Although the government has formally enforced export bans on raw nickel ore, enforcement has not always been uniform. In some cases, firms have benefited from regulatory leniency due to lobbying pressures or concerns about maintaining investment flows. In major industrial areas such as Morowali, the rapid pace of development has also outstripped the state's regulatory capacity, leading to gaps in environmental oversight and labour protection.<sup>21</sup> These governance challenges extend beyond the domestic level and have shaped Indonesia's position in international trade disputes, particularly with the European Union over nickel export restrictions.<sup>22</sup> The challenges of downstreaming are made even more complex by the involvement of local governments. In areas rich in resources, local authorities often back nickel-based industrial projects because they can create jobs and boost regional income. However, this support doesn't always come with strong regulatory enforcement, particularly when it comes to environmental management. Consequently, national policy goals are often influenced by local political and economic interests, leading to a multi-layered governance challenge.<sup>23</sup>

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16 Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

17 Hill, *The Indonesian Economy*.

18 Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

19 Rodrik, "Industrial Policy for the Twenty-First Century."

20 Hill, *The Indonesian Economy*; R. McLeod and R. (Eds) Garnaut, *East Asia in Crisis: From Being a Miracle to Needing One* (2005), <https://doi.org/10.4324/9780203025697>.

21 United Nations Special Rapporteur, *Communication to the Government of Indonesia Regarding Mining and Processing Operations* (Communication No. OL IDN 2/2024).

22 World Trade Organization, *Indonesia—Measures Relating to Raw Materials: Report of the Panel*.

23 United Nations Special Rapporteur, *Communication to the Government of Indonesia Regarding Mining and Processing Operations* (Communication No. OL IDN 2/2024); Warburton, "Jokowi and the New Developmentalism."

Looking at the bigger picture, these dynamics reveal an important takeaway from development economics: industrial policy is deeply intertwined with politics. Its success hinges not just on how well the policies are crafted, but also on the government's ability to bring together various institutions, oversee private entities, and juggle competing interests.<sup>24</sup> Indonesia's journey showcases both the advantages and drawbacks of this method. While efforts to boost local production and attract investment have made strides, persistent coordination issues still limit its long-term success.<sup>25</sup> In this light, Indonesia's strategy of engaging with a range of international partners isn't just a reaction to outside geopolitical pressures; it's also a smart way to deal with internal challenges. By diversifying its partnerships, the government enhances its flexibility and negotiating power. However, this approach might also deepen domestic divisions, as various stakeholders align themselves with different external partners, each bringing their own set of priorities and expectations.<sup>26</sup>

When we look beyond just the economic and geopolitical factors, it's clear that Indonesia's approach to nickel downstreaming is increasingly influenced by concerns about environmental governance and social legitimacy. While this policy has certainly brought about notable improvements in investment and industrial capacity, it has also led to considerable environmental challenges and social unrest, especially in areas where large processing facilities are located. One of the most pressing challenges we face is the environmental impact of nickel processing. Areas like Morowali and Weda Bay have seen rapid growth, often outpacing the ability to regulate them effectively. Reports highlight serious issues such as water pollution, deforestation, and worsening air quality, which raise significant concerns about the long-term sustainability of Indonesia's industrialization approach.<sup>27</sup> These environmental challenges aren't just technical hurdles; they have real consequences for Indonesia's role in global supply chains, especially as international markets—particularly in Europe—shift towards stricter sustainability standards.

At the same time, the social dimension of downstreaming has become increasingly important. Local communities in mining and industrial areas have faced land-use conflicts, labor concerns, and uneven distribution of economic benefits. While industrial projects generate employment opportunities, these benefits are not always evenly shared, and tensions can emerge when local populations perceive that environmental and social costs outweigh economic gains.<sup>28</sup> In this context, social legitimacy becomes a critical factor in determining the long-term viability of industrial policy. These dynamics are closely linked to broader shifts in global governance. The rise of environmental, social, and governance (ESG) standards in international trade and investment has introduced new forms of external pressure on resource-producing countries. For Indonesia, this creates a dual challenge: maintaining the competitiveness of its nickel industry while also meeting increasingly stringent sustainability expectations from global markets.<sup>29</sup> Failure to address these concerns could limit market access and undermine the very objectives of downstream industrialization.

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24 Rodrik, "Industrial Policy for the Twenty-First Century."

25 Hill, *The Indonesian Economy*; McLeod and Garnaut, *East Asia in Crisis: From Being a Miracle to Needing One*.

26 Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 3rd ed (Routledge, 2014), <https://doi.org/10.4324/9781315867137>; Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

27 United Nations Special Rapporteur, *Communication to the Government of Indonesia Regarding Mining and Processing Operations (Communication No. OL IDN 2/2024)*.

28 Warburton, "Jokowi and the New Developmentalism."

29 World Bank, *Indonesia Country Economic Memorandum 2025: Navigating Structural Transformation* (World Bank Group, 2025), <https://doi.org/10.1596/978-1-4648-XXXX-X>.

From a policy perspective, this highlights the need to move beyond a narrow focus on value addition toward a more integrated approach that incorporates environmental sustainability and social inclusion. As argued in the development literature, effective industrial policy requires not only economic coordination but also institutional capacity to enforce regulations and manage social trade-offs.<sup>30</sup> In Indonesia's case, strengthening environmental governance and community engagement mechanisms will be essential for ensuring that downstreaming remains both economically viable and politically sustainable. In this light, environmental governance and social legitimacy should not be seen as secondary concerns, but as central components of Indonesia's broader development strategy. Without them, the gains achieved through resource nationalism risk becoming increasingly fragile, both domestically and internationally.

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30 Rodrik, "Industrial Policy for the Twenty-First Century."

31 United Nations Special Rapporteur, *Communication to the Government of Indonesia Regarding Mining and Processing Operations (Communication No. OL IDN 2/2024)*.

32 Warburton, "Jokowi and the New Developmentalism."

33 World Bank, *Indonesia Country Economic Memorandum 2025: Navigating Structural Transformation*.

34 Rodrik, "Industrial Policy for the Twenty-First Century."

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### **ASEAN Under Strain: Indonesia and the South China Sea**

Indonesia does not formally claim territory in the South China Sea. This has long been a source of quiet pride in Jakarta—the country presents itself as an honest broker rather than a claimant, which gives it a kind of credibility in ASEAN discussions that Vietnam and the Philippines, with their direct territorial disputes with China, cannot easily replicate. The problem, which the Prabowo government found no easier to resolve than its predecessors, is that China's expansive claims overlap with Indonesia's exclusive economic zone around the Natuna Islands. And in the first quarter of 2025, Chinese vessels were back. The pattern was familiar: Chinese Coast Guard ships escorting fishing vessels into waters that Indonesia considers unambiguously its own, calibrated to be provocative without crossing the threshold that would trigger a formal diplomatic incident. The Prabowo government's response was notably more assertive than Jokowi's had typically been. Additional naval vessels were deployed, construction on a new coast guard facility was accelerated, and—for the first time in several years—a senior Indonesian minister publicly described the incursions using language that left little room for diplomatic ambiguity.<sup>35</sup>

The regional reaction was instructive. Vietnam and the Philippines welcomed the harder line, seeing it as a potentially useful signal to Beijing that ASEAN patience had limits. Cambodia and Laos, whose economic dependence on China has made them reliably resistant to any ASEAN position that Beijing might construe as hostile, pushed back in the usual ways — insisting on balanced language, questioning whether the incidents were as serious as reported, and generally slowing the process of reaching any collective statement. The result, at ASEAN's foreign ministers' meeting in April 2025, was a communiqué that managed to say less about the South China Sea than the previous year's, a feat of diplomatic minimalism that satisfied nobody.<sup>36</sup> Acharya, writing nearly a decade ago, posed the question of whether ASEAN centrality had become a myth — invoked constantly, operationalized rarely.<sup>37</sup> The events of 2025 did not settle that debate, but they did sharpen it. The problem is not simply that ASEAN lacks enforcement mechanisms, though it does. The deeper problem is that the geopolitical context for which ASEAN was designed — a Southeast Asia of newly independent states seeking to insulate themselves from great-power competition — has changed fundamentally. Both the US and China are now engaged in the region in ways that bypass ASEAN frameworks entirely, building bilateral relationships, economic arrangements, and security partnerships that treat ASEAN consultation as optional.

Indonesia's response to this structural shift has been to double down on the rhetoric of ASEAN centrality even as the substance has eroded. Prabowo's early speeches were full of references to Indonesia's role as the “backbone” of ASEAN, the indispensable country without whose leadership the organization would drift. This is partly sincere—the Indonesian foreign policy establishment genuinely believes in multilateralism—and partly strategic, since the language of ASEAN centrality gives Jakarta a way to decline both American and Chinese pressure without

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

36 Alexandra, *Indonesia's Strategic Dilemmas in the South China Sea*.

37 Amitav Acharya, “The Myth of ASEAN Centrality?,” *Contemporary Southeast Asia* 39 (2) (2017): 273–79, <https://doi.org/10.1355/cs39-2f>.

appearing simply obstructionist. The practical limitations of this approach became apparent when the US pressed Indonesia on the Indo-Pacific Economic Framework. The IPEF's labor, environment, and digital trade commitments were, from Washington's perspective, relatively modest. From Jakarta's perspective, they looked like constraints on industrial policy autonomy—the very autonomy that the nickel strategy depended on. Indonesia participated in IPEF discussions throughout 2025 but consistently resisted binding commitments, a position that frustrated American negotiators and reinforced doubts about whether Jakarta was a reliable partner or merely an opportunistic one.

### Nusantara: Symbol, Signal, and Fiscal Reality

The relocation of Indonesia's capital from Jakarta to a purpose-built city in East Kalimantan was always more than a planning decision. Jakarta is sinking—literally, at rates of up to 25 centimeters per year in some neighborhoods—and hopelessly overcrowded, but governments have known this for decades without doing much about it. What made Jokowi's Nusantara project politically possible was precisely its symbolic ambition: the idea that Indonesia was the kind of country that could build a new capital from scratch, that it was not merely managing decline but actively constructing a different future. Prabowo inherited that ambition and, to his credit, did not abandon it. But he also inherited the gap between aspiration and execution.<sup>38</sup>

In international terms, Nusantara served a specific diplomatic function. By 2025, the Nusantara Capital City Authority had secured formal investment commitments from entities in Japan, South Korea, Singapore, the UAE, and Malaysia, alongside the ongoing Chinese infrastructure investment in surrounding connectivity projects. OIKN officials were not shy about the significance of this geographic diversity—it was presented, in briefings to foreign investors and in diplomatic meetings, as concrete evidence of Indonesia's ability to practice genuine non-alignment. If the nickel sector looked uncomfortably Chinese-dominated, Nusantara offered a more visually balanced picture. The World Bank's Indonesia Country Economic Memorandum, released in February 2025, was diplomatically worded but difficult to misread. The public expenditure commitment to Nusantara over the 2024–2029 plan period represented about 4.2 percent of projected cumulative government revenue<sup>39</sup>. That number sounds abstract until you set it against what Indonesia needed to be spending on health, education, and social protection—areas where decades of underinvestment had left the country well behind its regional peers. The IMF's 2025 Article IV consultation made a similar point, more gently, in its section on medium-term fiscal risks .

The more immediate problem was that the private investment the project depended on was not materializing at the projected pace. The original financing plan assumed that roughly 80 percent of development costs would come from private sources. By mid-2025, actual private commitments fell considerably short of that figure, and several prominent international developers had quietly deferred or withdrawn. The reasons were not mysterious: regulatory uncertainty around land tenure, the challenge of projecting commercial returns for a city with few residents, and the general wariness of real estate investors about large-scale greenfield developments. The Prabowo government's response—stretching the completion timeline to 2045 and reducing near-term capital expenditure—was fiscally sensible but narratively costly. A project that had been presented as Indonesia's confident stride into modernity became, in practice, something more incremental and uncertain. This did not invalidate the project, but it did complicate the signaling function it was supposed to serve.

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38 Sarjito, Aris. 2025. "Governance and Public Policy Challenges in Industrial Downstreaming: The Case of Indonesia's Nickel Sector".

39 World Bank, *Indonesia Country Economic Memorandum 2025: Navigating Structural Transformation*.

## The Omni-Directional Gamble: Coherence, Limits, and What Comes Next

Viewed together, the three arenas we have examined reveal a consistent strategic logic, even if the execution was uneven. Indonesia in 2025 was trying to do something genuinely difficult: extract maximum economic and diplomatic value from its structural position without locking itself into dependencies that would constrain future autonomy. The nickel strategy tried to capture more of the battery supply chain while playing competing investors against each other. The ASEAN stance tried to maintain normative credibility while resisting binding commitments that would constrain industrial policy. Nusantara tried to demonstrate developmental ambition while managing fiscal exposure. Each of these moves made sense on its own terms. The question is whether they add up to a sustainable whole.

There are reasons for cautious optimism. Indonesia's bargaining position in the critical minerals sector is real and durable—no major battery supply chain can be built without Indonesian nickel, and that gives Jakarta leverage that smaller economies could only dream of. The country's democratic stability, relative to most of its regional neighbors, continues to make it an attractive partner for investors who care about governance risk. And Prabowo, whatever his critics say, has shown a pragmatic flexibility in economic policy that has reassured markets.

But the vulnerabilities are also real. The governance capacity of the Indonesian state has not kept pace with the ambitions of its development agenda. The fragmentation between ministries—each cultivating its own relationships with different foreign partners—produced coordination failures that cost both efficiency and credibility. Effective industrial policy, as Rodrik (2007) has argued, is institutionally demanding; it requires not just political will but bureaucratic coherence, regulatory competence, and the ability to learn from and correct mistakes.<sup>40</sup> The Indonesian state, as currently organized, has all of these qualities in pockets, but not consistently across the government.

Debt sustainability deserves more attention than it received in the domestic political debate of 2025. Total public and publicly guaranteed external debt reached approximately 38 percent of GDP by mid-year—within conventional safety margins, but trending upward.<sup>41</sup> More concerning than the aggregate level was the composition: a growing share of infrastructure debt concentrated in projects with uncertain commercial returns, including some of the connectivity investment tied to the Nusantara development. The IMF's concern was not that Indonesia was heading toward a debt crisis—it was not—but that the margin for error was narrowing.<sup>42</sup>

Finally, there is the question of regional leadership. Indonesia cannot simultaneously claim to lead ASEAN and spend its senior diplomatic bandwidth managing bilateral relationships with Washington and Beijing. The two activities are not incompatible in principle, but in practice, the attention and political capital they require tend to crowd each other out. Vietnam's expanding regional diplomatic footprint in 2025—building coalitions on maritime governance, climate finance, and digital trade that ASEAN as a whole was failing to address—was partly a consequence of the leadership vacuum that Indonesia's inward-looking preoccupations had created.

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40 M. Mietzner, "Reinventing Asian Populism: Jokowi's Rise, Democracy, and Political Contestation in Indonesia," *East-West Center Policy Studies* 72 (2015): 164; Warburton, "Jokowi and the New Developmentalism."

41 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](https://www.bi.go.id/en/publikasi/stabilitas-sistem-keuangan/kajian/Pages/KSK_4425.aspx).

42 International Monetary Fund, *Indonesia: 2025 Article IV Consultation (IMF Country Report No. 25/XX)* (IMF, 2025), <https://www.imf.org/en/Publications/CR/Issues/2025/indonesia-article-iv>.

### CONCLUSION

This study demonstrates that Indonesia's development strategy in 2025 reflects a complex balancing act between industrial transformation and intensifying geopolitical pressures. Through the analysis of nickel downstreaming, ASEAN dynamics in the South China Sea, and the Nusantara capital project, the findings reveal a consistent strategic pattern characterized as *omni-directional engagement*. This approach enables Indonesia to engage multiple global partners simultaneously in order to maximize economic opportunities while maintaining strategic autonomy. In practice, this strategy has produced tangible short-term gains, particularly in strengthening Indonesia's position in the global nickel value chain and diversifying investment partnerships. However, the analysis also highlights structural constraints, including fragmented institutional coordination, uneven environmental governance, and growing fiscal pressures, which collectively limit the long-term sustainability of these gains.

The main contribution of this study lies in bridging the analytical divide between development policy and foreign policy by demonstrating their deep interconnection in shaping state strategy. By introducing the concept of *omni-directional engagement* alongside the notion of *structurally constrained agency*, this research provides a more integrated framework for understanding how emerging economies navigate global power competition while pursuing domestic development goals. Empirically, the study contributes to the literature by offering a multi-sectoral analysis that links industrial policy, regional diplomacy, and infrastructure development within a single analytical lens. This interdisciplinary approach not only enriches discussions in international political economy and development studies but also provides policy-relevant insights into the challenges faced by Global South countries operating in a fragmented global order.

Despite these contributions, the study has several limitations. Its reliance on secondary data restricts access to internal policy processes and decision-making dynamics, while the single-country focus limits broader generalizability. In addition, the temporal scope centered on 2025 captures a specific policy moment but may not fully reflect long-term trajectories. Future research should address these limitations by incorporating primary data, such as elite interviews and field-based observations, to deepen causal analysis. Comparative studies across other resource-rich or middle-income countries would also be valuable to assess the broader applicability of *omni-directional engagement*. Furthermore, future work should explore the evolving role of environmental, social, and governance (ESG) standards and their implications for development strategies under conditions of geopolitical uncertainty.

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