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What Will Break Indonesia, and What Must Not

Executive Summary

- **Indonesia is not in transition.** It sits at a nexus of three structural failures: geopolitical realignment, institutional erosion, and economic model exhaustion.
- **The current policy approach is too comfortable.** Analysts discuss megatrends, hedging strategies, and opportunity windows. The real question is bold: will Indonesia survive for what is coming?
- **This brief names three fault lines**, Sovereignty, Legitimacy, and Prosperity, each representing a category of failure that, left unaddressed, does not merely slow Indonesia's development. It means survival.
- **The findings draw on a cross-sector policy lab** convened in Tangerang (December 2025), but go beyond what that room fully articulated, because the room, too, was sometimes careful when it needed to be blunt.
- **Seven decisions** cannot be deferred beyond this government's term. Deferral is itself a choice, with compounded consequences.

Bottom Line: Indonesia Does Not Lack Assets, It Lacks the Institutional Coherence to Use Them

Indonesia has everything it needs to be a formidable sovereign nation in the emerging multipolar order: strategic geography, demographic scale, natural resource depth, and a democratic tradition worth defending. What it lacks, and what must be built in this government's term, is the institutional quality and political will to translate these assets into durable national power. The fault lines are active and must be addressed before it ruptures.

1. Fault Line One, Sovereignty Under Pressure

Indonesia's bebas dan aktif (free and active) foreign policy is a genuine strategic asset, in a stable world. In the world now forming, it is becoming a liability dressed as a virtue. The US–China rivalry is not a temporary tension. It is a structural reorganisation of the global order, and every country in Southeast Asia is being asked, overtly and covertly, to make choices.

What is already happening:

- **Indonesia is being read**, in Washington and in Beijing, not as a principled neutral, but as a vacancy. A country that will not lead is a country that can be led.
- **Critical mineral wealth**, nickel, bauxite, cobalt, is no longer purely an economic asset. In an environment of strategic competition, it is a target. Competing powers are already manoeuvring for preferential access.
- **The Malacca Strait** carries 40% of global trade, including the bulk of Indonesia's export revenues. Indonesia does not currently have a coherent doctrine for what happens if that strait becomes contested. This is not a planning gap, it is an existential design failure.
- **Democratic backsliding does not arrive as a coup**. It arrives as efficiency, as security necessity, as executive streamlining. The global rise of authoritarian leadership, normalises executive consolidation in ways that Indonesia is not immune to.
- **ASEAN's structural inability** to take positions on great-power disputes leaves Indonesia without an effective bloc to shelter behind or lead through.

What this fault line requires:

- A defined position on technology supply chain alignment, what Indonesia will and will not trade away for market access from either power.
- Substantive ASEAN leadership with Indonesia setting agendas, not managing consensus.
- A maritime defense doctrine to accommodate Indonesia's archipelagic nature, being articulated, funded, and exercised.
- Institutionalisation of foreign policy so that diplomatic continuity does not collapse with each change of leadership or minister.

2. Fault Line Two, The Legitimacy Crisis

Indonesia's governance problem is not technical. It is structural, and it begins at the wrong end of the analysis. Most reform discussions focus on bureaucratic capacity and regulatory quality, these are downstream effects. The culprit is pointing out to is political parties.

The governance supply chain is broken:

- **Indonesia's political parties** do not function as institutions of democratic representation. They function as financing vehicles for elite patronage networks. Corrupt parties produce corrupt governments. Patronage-driven parties produce patronage-driven policy. This is not a governance weakness, it is the governance system.

- **The quality of the executive, legislature, and bureaucracy** is determined by the quality of the human beings that parties select and promote. Reforming the outputs of this system without reforming the supply chain is maintenance, not transformation.

Civil society as early-warning system, now being dismantled:

- **Indonesia's civic space has narrowed over the past decade.** Independent media has come under pressure. Academic institutions have become more cautious. CSOs face regulatory burden and funding restrictions.
- **A weakened civil society is a weakened early-warning system.** When the state begins to fail, when corruption compounds, when policy incoherence accumulates, it is civil society that sounds the alarm. Removing that function does not prevent failure. It ensures failure arrives without warning.
- **The post-Truth dynamic**, the erosion of shared factual ground through digital disinformation, compounds this. A government that cannot communicate reliably with citizens cannot govern them. A public trained to distrust institutional information cannot be mobilised for the collective action that crisis management demands.

What this fault line requires:

- **Legislated party financing transparency** and internal democratic accountability, not encouraged as a best practice, but mandated.
- **A statutory anti-corruption mechanism** with genuine prosecutorial independence. KPK in its current form is insufficient.
- **Active protection of civil society, independent media, and academia** as strategic national assets, not governance nuisances to be managed.

3. Fault Line Three, The Prosperity Trap

Indonesia's economic narrative, large middle class, abundant resources, young population, demography bonus, 280 million consumers, is real and incomplete. The extractive model that powered this growth is approaching the limits of what it can deliver, precisely as new pressures arrive from three directions simultaneously.

Three converging pressures:

- **The demographic dividend is expiring.** A young population is an asset only if it is employed, educated, and economically integrated. AI and automation are already reshaping the mid-skill jobs Indonesia's emerging workforce was expected to fill. Underinvestment in education quality, a mismatched skills system, and accelerating automation are not risks, they are an ongoing failure with a compounding cost.
- **Oligarchic capture of economic gains.** Industrial relocation creates opportunities, but without active state intervention, those gains flow to whoever has capital and connections, in Indonesia, that is oligarchs. Stability without equity is not development.

It is managed decline, and it generates the political conditions in which authoritarian consolidation finds its constituency.

- **Regional inequality as a sovereignty risk.** The gap between Java and the outer islands is not merely an equity concern. Infrastructure deficits in Sumatra, Kalimantan, Sulawesi, and Papua are economic dead zones and, in extremis, sovereignty vulnerabilities. An archipelago whose periphery is marginalised cannot be effectively defended or governed.

On downstreaming, the right instinct, inadequately pursued:

- **Moving from raw commodity export to domestic processing** is correct. But instinct without industrial policy is aspiration. Without genuine value-chain integration, workforce development, and technology transfer, downstreaming produces slightly more expensive commodities, not an industrial economy.

What this fault line requires:

- **An AI and automation transition strategy** with binding labour protection commitments, before the displacement curve steepens.
- **Industrial policy that explicitly targets oligarchic capture** not just market regulation.
- **Outer island infrastructure investment redirected** from prestige projects to economic integration. Nusantara is a symbol. Connectivity is a strategy.

4. Cross-Cutting Observation: Where All Three Fault Lines Meet

The three fault lines are not independent. They amplify each other. Institutional decay weakens the state's ability to exercise strategic autonomy on the sovereignty fault line. Oligarchic capture on the prosperity fault line finances the patronage politics that sustains institutional decay on the legitimacy fault line. Geopolitical pressure on the sovereignty fault line accelerates the authoritarianism risk that threatens to close the legitimacy fault line permanently.

| Fault Line | If Unaddressed | Amplifies |
|--------------------|--|---|
| Sovereignty | Indonesia becomes a target, not a player, in great-power competition | Legitimacy (security nationalism) + Prosperity (resource capture) |
| Legitimacy | Democratic backsliding; state loses capacity to implement any reform | Prosperity (oligarchic lock-in) + Sovereignty (foreign policy incoherence) |
| Prosperity | Social fracture, populism, loss of demographic dividend | Legitimacy (elite-public fracture) + Sovereignty (internal instability as target) |

5. Decisions That Cannot Be Deferred

These are not long-term policy ambitions. They are decisions that must be made as soon as possible to ensure Indonesia's survivability.

1. **Legislate party financing transparency and internal democratic accountability.** The governance supply chain remains broken. Every other reform operates on corrupted foundations.
2. **Define Indonesia's position on technology supply chain alignment, and defend it.** Both the US and China will make this decision for Indonesia, through incremental pressure, if Indonesia does not make it first.
3. **Establish a statutory anti-corruption mechanism with genuine prosecutorial independence.** Corruption is the primary drag on every national priority. KPK in its current form is insufficient.
4. **Articulate and fund a maritime defense doctrine for contested sea disputes scenarios.** Indonesia has no defined response to archipelagic disruption. This is not a planning gap, it is an existential gap.
5. **Adopt an AI and automation transition strategy with binding labour protections.** The demographic dividend is expiring. A generation of under-employed young Indonesians is a political crisis in formation.
6. **Actively protect civil society, independent media, and academia.** When institutions fail, civil society is the buffer. Dismantling it in peacetime removes the buffer before it is needed.
7. **Redirect outer island infrastructure investment from prestige projects to economic integration.** Regional marginalisation is both an economic waste and a sovereignty vulnerability.

6. What Indonesian Survivability Actually Requires

The word 'survivability' is chosen deliberately. Indonesia's policy discourse too often defaults to aspiration: Indonesia as regional leader, as G20 voice, as the anchor of ASEAN. These are legitimate ambitions. But they are unavailable to a country that has not first secured the minimum threshold conditions for coherent self-governance.

- **Survivability means** a state that can implement its own decisions; a political system that produces leaders accountable to citizens rather than financiers; an economy that generates broadly shared prosperity; and a foreign policy that exercises, rather than performs, strategic autonomy.
- **Indonesia does not need to be everything at once.** It needs to be coherent. A coherent Indonesia, institutionally capable, democratically legitimate, strategically positioned, is more formidable than an ambitious Indonesia that cannot execute.

- **There is still time** to make the necessary choices deliberately. That window is measured in years, not decades. The fault lines are active.

The convergence of pressures described in this brief – geopolitical realignment, institutional decay, economic model exhaustion – is not uniquely Indonesian. But Indonesia's response to that convergence will be uniquely Indonesian, shaped by choices made now, in this government's term, about what kind of state Indonesia wants to be.

The Pace of Change Has Accelerated Beyond Normal Policy Timelines

Events in Indonesia's strategic environment, tariff reversals, judicial rulings, escalatory executive action, are now moving within 72-hour windows. Indonesia's policy architecture was not designed for this tempo. The fault lines described in this brief are not merely long-term structural concerns. They are present vulnerabilities being stress-tested in real time.

The decisions made, or deferred, in this government's term will not shape the next five years. They will determine the next fifty.

IIFA Policy Brief provides concise, evidence-based analysis on key global and regional developments relevant to Indonesia. Drawing on research and policy expertise, it outlines practical considerations and clear recommendations to support informed discussion and decision-making. For enquiries, email us at iifa@uiii.ac.id or visit our website at iifa.or.id.

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