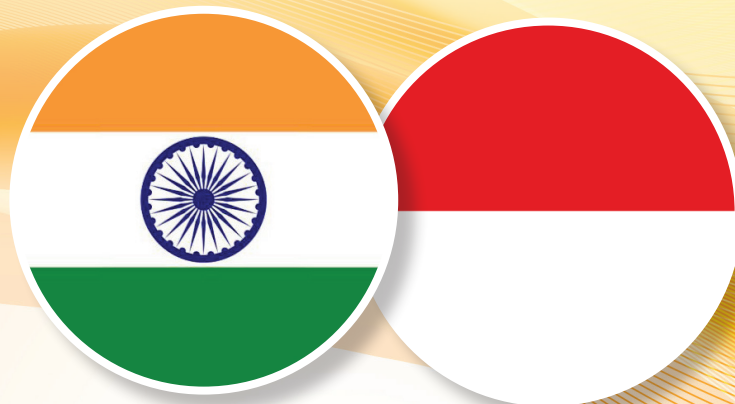




Celebrating 75 Years of
INDIA - INDONESIA
DIPLOMATIC RELATIONS

India-Indonesia Partnership: A Renewed Understanding, New Opportunities and Critical Steps Ahead



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Research and Information System
for Developing Countries

विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

Report of the Panel Discussion on
**India-Indonesia Partnership:
A Renewed Understanding,
New Opportunities and
Critical Steps Ahead**

17 January 2024, New Delhi



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India-Indonesia Partnership: A Renewed Understanding, New Opportunities and Critical Steps Ahead

Background

India and Indonesia share a deep-rooted historical and cultural connection which goes back centuries. The formal diplomatic relations between the two nationals were established in 1951. Since then both the nations have emerged as close partners. At present, India and Indonesia share a dynamic and multifaceted relationship characterized by strong strategic and economic cooperation. As two major economies in the Indo-Pacific region, both countries have shown commitment to deepening bilateral engagements across various sectors, including trade, defence, and people-to-people exchanges. With a shared vision of promoting regional stability and prosperity, India and Indonesia continue to collaborate closely on regional and global issues, further solidifying their strategic partnership. This relationship, which is rooted in mutual respect and common interests, serves as a cornerstone for fostering peace and prosperity in the broader Indo-Pacific region. In 2024, India and Indonesia are celebrating 75 years of diplomatic relationship. In this context, the ASEAN-India Center at RIS organised a panel discussion on “India-Indonesia Partnership: A Renewed Understanding, New Opportunities and Critical Steps Ahead” on 17 January 2024 in hybrid mode. Experts from India and Indonesia participated in the panel discussion to ponder on India-Indonesia relations. This present report provides the gist of the panel discussion.

Welcome Remarks



Professor Sachin Chaturvedi
Director General, RIS

India and Indonesia share close relations which over the years have grown phenomenally. However, the changing geo-politics, climate change and digital transition are posing multiple challenges making it essential for India and Indonesia to strengthen the bilateral cooperation. Specifically, food security, seamless cross-border connectivity, mitigating climate change, ensuring inclusive digital transition, resilient infrastructure development are some of the major challenges faced by the Global South countries including India and Indonesia. There is immense potential for collaborative endeavors in areas such as infrastructure development, renewable energy, and digital innovation.

Chair's Remarks



Dr Preeti Saran

Former Secretary (East), Ministry of External Affairs

Dr Preeti Saran, former secretary East, Ministry of External Affairs, Government of India chaired panel discussion. She talked about the historical, cultural, and economic ties that bind Indonesia and India and argued that there is a need to recognise the shared values and mutual interests that form the foundation of India-Indonesia partnership. Delving into the intricacies of the evolving geopolitical landscape in the Indo-Pacific region and its ramifications for Indonesia and India, Ambassador Saran advocated for strengthening strategic cooperation in key areas such as trade, defence, and maritime security to ensure stability and prosperity in the region. The volume of trade and investment between India and Indonesia, despite witnessing a recent spurt has remained below potential. There is need to identify the constraints and suggest measures to further boost bilateral economic integration.



Dr Satish Chandra Mishra
Senior Fellow, Habibie Centre, Jakarta

Indonesia has witnessed a “caterpillar to butterfly” type systemic transition during the last two and a half decades. Despite initial skepticism, it has successfully emerged as a stable multi-ethnic democracy with robust economic growth and moderate Islam. Politics in Indonesia transcends the left-right divide, focusing more on shades of Islam which has largely remained transactional.

After the fall of the authoritarian regime, Indonesia has prioritised economic progress while carefully navigating social fragmentation. Indonesia has given the highest priority to human development. It has not only introduced a national health insurance system but has also amended the constitution to ensure that 20 per cent of national budget is allocated for education.

China is a significant player in Indonesia. Industrial sector in Indonesia is dominated by Chinese people. Additionally, Indonesia has also accepted substantial Chinese investment under Belt and Road which has raised concern. However, the situation is more complex than it appears because foreign direct investment in Indonesia is not restricted to the Chinese alone.

Indian investment in Indonesia has grown recently. Around three dozen big Indian firms are now operating in Indonesia. However, the investment potential has not been fully realised. There exists a lot of potential for Indian firms in health, education, energy and Information and Technology sectors. However, these sectors in Indonesia are dominated by public sectors. Therefore, Indian firms need to learn the art of working in public private partnerships to realise investment potential in Indonesia. Indian firms also need to invest in branding to make an in Indonesia.



Professor Shankari Sundararaman

Centre for Indo-Pacific Studies, JNU

The historical context of India-Indonesia relations reflects a dynamic evolution, with phases of cooperation and interaction. The impact of the East Asia economic model, internal challenges, economic collapse and issues of food security, as well as regional complexities such as the East Timor movement, have significantly shaped Indonesia's trajectory.

The Global Maritime Fulcrum initiative underscores Indonesia's strategic vision to leverage its maritime geography for economic development, security, and geopolitical influence. This initiative encompasses economic growth, security, infrastructure, and environmental sustainability.

The China-Indonesia partnership plays an important role within ASEAN. Within Indonesia-China relations, participation in the Belt and Road Initiative provides opportunities for economic diversification. However, it comes with transparency, environmental impact, and debt sustainability challenges, highlighting the delicate balance Indonesia must strike in its relationship with China.

The role of the Indonesian military in the state is crucial. However, it has evolved towards a more moderate and non-political stance since the transition to democracy. Professionalization, humanitarian efforts, and a focus on national security underscore its commitment to civilian governance.

Indonesia's political and economic landscape that reflects a complex interplay of historical legacies, diverse influences, and strategic initiatives. These factors have shaped its position in the global arena.



Dr Pankaj Vashisht
Associate Professor, RIS

Indonesia share a deep-rooted historical and cultural connection which goes back centuries. The economic relation between India and Indonesia has witnessed phenomenal growth especially, after 1991 when India opted for the Look east policy. Several bilateral institutional mechanisms have been put in place to strengthen India's the relations with Indonesia. The trade ministers of both countries have been meeting regularly since 2011. Similarly, CEO forum has been put in place to explore the economic opportunities.

Bilateral mechanisms along with India's deeper engagement with ASEAN, of which Indonesia is an important member, has strengthened India's economic relation with Indonesia. The bilateral trade between India and Indonesia was US\$ less than US\$3 billion in 2000 which increased to US\$ 14.2 billion in 2010 and further to USD 38.85 Billion in 2022-23. The trade between both national has become much more diversified.

Despite this impressive growth, there continues to be unrealised trade potential. The bilateral trade potential between India and Indonesia stands at US\$ 61 billion which around 33 per cent higher than the actual current trade volume. The trade potential exists in a wide range of products including certain agro products, pharmaceuticals products, automobiles, automotive components, engineering products and certain minerals and metals.

High tariff, non-tariff barriers along with low FTA utilisation are major constraints to trade. India-Indonesia trade is governed the ASENSA-India FTA which has reduced tariff barriers on large number of products. However, India-ASEAN FTA has a long exclusion list. India has placed 11 per cent of tariff lines under exclusion list. Similarly, Indonesia has put around 4 per cent tariff lines under exclusion list. Significant trade potential exists in tariff line under exclusion list. Non-tariff barriers are another major constraint to trade. Around 70 per cent of Indonesian tariff lines are subject to non-tariff barriers while the corresponding figure for India stands at 45 per cent. FTA utilisation has also remained very low at around 25 per cent.

The rationalisation exclusions list along with harmonization of standards should be explored to unlock the trade potential. Additionally, both countries should explore the possibility of single windows Interoperability to ensure paperless trade.

Digital technology offers opportunities as well as poses several challenges. Both countries have made impressive achievements in deinitialisation. India has done remarkably well in building digital public infrastructure which has improved delivery of public services and unleashed several digital innovations. Similarly, Indonesia has done well in promoting digitalisation of MSMEs. Therefore, there is a great scope for mutual learning through experience sharing which should be explored.

Digital technology in the form of e-commerce is offering immense benefits. It has the potential to improve the participation of MSME in international trade. Similarly, cross border digital payment can reduce the transaction cost leading to more trade and tourism. Given the benefits, both countries can work together to harmonise regulatory frameworks to facilitate cross-border e-commerce and digital payment transactions. Both countries can explore cooperation in fintech sector to promote financial inclusion and innovation.

RIS A Think-Tank of Developing Countries

Research and Information System for Developing Countries (RIS) is a New Delhi-based autonomous policy research institute that specialises in issues related to international economic development, trade, investment and technology. RIS is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on global and regional economic issues.

The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. RIS is engaged across inter-governmental processes of several regional economic cooperation initiatives. Through its intensive network of think tanks, RIS seeks to strengthen policy coherence on international economic issues and the development partnership canvas. For more information about RIS and its work programme, please visit its website: www.ris.org.in

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