RUSSIA-INDONESIA RELATIONSHIP: ASSESSING SHORTCOMINGS AND FRAMING A RESPONSE

The Russian Federation and the Republic of Indonesia share fundamental domestic and foreign policy priorities. Both countries are multi-confessional and multi-national, which makes them preserve the internal harmony and simultaneously develop democratic institutions. Both are geographically extended and place an overwhelming emphasis upon the country-wide infrastructure construction as a precondition for long-term and sustainable development. In the foreign policy narratives, both countries have in mind the “China factor” – Russia’s great neighbor to the South and Indonesia’s to the North. The elites of Russia and Indonesia see their countries in the cohort of global leaders. Finally, both countries prioritize strengthening international security, whether it relates to responding to traditional challenges (as R.Shweller put it, the present “global entropy”) or combating non-traditional threats (mostly, international terrorism). In sum, from the complementarity perspective reasons for cooperation between Moscow and Jakarta are in overabundance.

Surprisingly, however, this does not happen in practice. The Russia-Indonesia cooperation success stories are not many and the ones that exist are not breathtaking. To analyze the key reasons behind this gap between capacity and result on the eve of the 70th anniversary of diplomatic relationship between Moscow and Jakarta, is a timely and relevant exercise.

Building up Relationship: a New Task to Address

Although the Russia-Indonesia relations have been under close scholarly scrutiny, and their individual aspects have been extensively explored, an important point has been missing so far. What really matters is an unaddressed imbalance between the global, the regional and the bilateral dimension of these relations. While in the foreign policies of Moscow and Jakarta the first has been largely ignored, and the second
and the third are not substantiated by a strong economic foundation, at present, all three directions should be developed simultaneously.

At this specific juncture, developing the global dimension of the relationship Russia and Indonesia should do what they have not done yet, while with respect to the regional and the bilateral realms, Moscow and Jakarta have to revise the experience of cooperation they have obtained so far in order to reveal and eliminate the main bottlenecks.

From the global perspective, of note is the simultaneous rise of reasons to cooperate in Indonesia’s and Russia’s long-term priorities as the Greater Eurasian Partnership, Russia’s flagship foreign policy project, can stimulate upward trends. Several points bear relevance in this specific regard.

Addressed from Indonesia’s side, cooperation with Moscow under the framework of the Greater Eurasian Partnership allows Jakarta to diversify the instruments of its foreign policy and effectively hedge from China. The latter’s mega-strategy, the Belt and Road, Initiative incrementally but steadily embraces Indonesia’s neighborhood in Southeast Asia, South Asia and South Pacific.

Assuming that Indonesia continues to explore possibilities to raise its global influence, of note is its nascent bid to enter cooperation in the Arctic with an eye on developing the Northern Sea Route. The Indonesian big-picture strategic perspective also includes Jakarta’s participation in resolving conflicts in the Middle East, mainly as a display of its high status in the global Muslim community. In this regard, Russia’s importance for Indonesia is obvious.

Notably, cooperation in the Greater Eurasian area will include combatting the Islamic State of Iraq and Al-Sham (ISIS, forbidden in Russia). As Indonesia, the largest Muslim state in the world, is a likely target of terrorists, the project Greater Eurasia assumes special importance for Jakarta.

Finally yet importantly, the Eurasian vector of Indonesian foreign policy allows it to overcome difficulties stemming from its rise. Since the latter is premised upon Jakarta’s soft power rather than on its economic or military possibilities, Indonesia is referred to as a “reluctant” or even “shy” emerging power. In the current global entropy, however, this factor is more disadvantageous rather than beneficial, and should be complemented with military possibilities and uncompromising foreign policy – the advantages the Russian Federation completely possesses.

Russia’s interest in cooperation with Indonesia at the global level is a product of several factors. As part of the rise of Asia, Indonesia’s
potential is considerable – according to some estimates, the country can become the fifth and the fourth global economy in 2030 and 2050 respectively\textsuperscript{6}. With borders along the Indian Ocean and the Pacific Ocean, Indonesia can potentially act as the balancer between China and India, Russia’s two principal allies in Asia, whose relationship is deteriorating.

Besides, Indonesia matters from the perspective of the global maritime security and cooperation, as well as the project Indo-Pacific region. As the global maritime domain in general and the Indian Ocean and the Pacific Ocean in particular are likely to grow in importance in the coming years, contradictions between China and the current and prospective members of the Quadrilateral Defense Cooperation (\textit{Quad}) will expectedly intensify. If so, Indonesia, which undertook the initiative to shape ASEAN’s position on the Indo-Pacific region, has enough leverage to shape the evolution of this project which Russia considers to be detrimental to its interests.

Although the factors described above promise, or at least suggest, upward trends in Russia-Indonesia relations, they should be underpinned by a project with global repercussions but differing from the Chinese mega-strategy the Belt and Road Initiative. In this respect, the Greater Eurasia comes to prominence. The practical implementation of the project will not be easy from the substantial and institutional perspective. Nevertheless, Russia and Indonesia as influential Eurasian powers can give it an extra impetus to their best advantage. To a considerable extent, this relates to Indonesia, as it can strengthen the maritime component of the Greater Eurasia, as well as contribute to its institution-building.

Turning to the Asia-Pacific track of Russia-Indonesia relationship, its modest interim results are obvious. Specifically, Moscow and Jakarta have been only partially able to coordinate their prospective plans in regional institutions, which is best exemplified by APEC. Both Russia and Indonesia prioritize strengthening regional connectivity, which is evidenced, among other things, by the coincidence of agendas of the Russian and Indonesian APEC chairmanships in 2012 and 2013 respectively. At the same time, this coincidence of perceptions has not been substantiated by practical steps.

In the institutional realm, it seems fair to say that an increase in Russia-Indonesia cooperation can give added substance to Russia-ASEAN Strategic Partnership, which should be assessed through the prism of the ASEAN-led multilateral venues. On the one hand, they matter for Indonesia because, as A. Acharya accurately observed, “being a regional multilateral player gives it (\textit{Indonesia – E.K., L.S. and P.Sh.}) an
advantage that great power status would not”7. On the other hand, the ASEAN-led multilateral dialogue platforms provide Russia with a channel of permanent communication with its Asia-Pacific partners on political and military issues, an advantage Moscow manifestly lacks in the Euro-Atlantic direction. If so, the cumulative effect will be beneficial for Moscow and Jakarta, as well as for ASEAN-led multilateral dialogue platforms.

From the bilateral perspective, relations between Russia and Indonesia also have numerous bottlenecks. A case in point is the absence of direct flights between the two countries. The institutions of cooperation remain underdeveloped, suffice it to mention that the web-site of the Russia-Indonesia Business Council not always presents the up-to-date information. The people-to-people contacts, even among professionals, remain mostly sporadic rather than are carefully organized around a comprehensive strategic vision.

To Moscow’s and Jakarta’s credence, they have taken steps to eliminate their global and regional shortcomings. Mainly, the military and the political directions of dialogue have been intensified. The military-technical cooperation, exemplified by several contracts for arms transfers, has been developing since President of Russia V.V. Putin visited Jakarta in 2007. Inter-regional and inter-parliamentary connections, as well as contacts between security services of both countries, are being built up. The exploration of outer space for peaceful purposes is among “success stories” of cooperation, of which Moscow and Jakarta are rightfully proud.

But on the whole, the real achievements are modest at best. This is hardly surprising as Moscow and Jakarta, figuratively speaking, put the cart before the horse. While the specificity of Asia-Pacific economic and political-security success stories is their down-top vector, Moscow and Jakarta tend to do exactly the opposite. After the already mentioned congruence in Russia’s and Indonesia’s APEC chairmanships in 2012 and 2013, the two countries did not strengthen the grass-root level of their cooperation. Contacts between enterprises, not to mention individual businesspersons and professionals, are virtually non-existent. The after-effects of the shared priorities are still limited mostly to the participation of the Indonesian government officials in the Eastern Economic Forum. With all due deference to this event this is hardly an efficient instrument to add momentum to the Russian-Indonesian relationship.

As presently the parties have to implement their foreign policy in a radically different, as compared to the previous time, international con-
text, they have to strengthen the consolidating component of mutual cooperation. The more so since the trade and corporate sides of their dialogue face serious deficiencies and business alone cannot create impulses that will bring both countries closer.

**Trade Exchanges: the State of Play**

Trade relations between Russia and Indonesia cannot be described as dynamic or impressive. In 2018, the trade volume between Russia and Indonesia was USD$ 2.58 billion. The Indonesian export to Russia accounted for US$ 1.71 billion, while the Indonesian import from Russia stood at US$ 868 million. As of today, Indonesia stands only at number 44th as the Russian trading partner, which represents 0.37% of Russian world’s total trade.

The Russian Federation and the Republic of Indonesia set the trade target of USD$ 5 billion by 2020. It was announced by the Chairman of the State Duma during the bilateral meeting with the Chairman of the Regional Representative Council of the People's Consultative Assembly of Indonesia Oesman Sapta Odang in May 2016. While it might have looked attainable at that time, it is unlikely to be achieved with the current Russia-Indonesia trade performance. Nevertheless, this step signifies a political commitment for a stronger bilateral economic cooperation rather than technocratic foreign economic policy considerations.

There are numerous factors behind a low trade volume. Mainly, this includes the existing composition of traded commodities, a lack of banking and digital support, a lack of supply-production chains and underdeveloped logistics.

Regarding the spectrum of commodities traded by Russia and Indonesia, the products imported by either partner are mostly capital goods for manufacturing. Indonesia’s palm oil and natural rubber, for instance, are used as capital goods in Russia’s vegetable oil-based and rubber-based processed industries. At the same time, Russia’s main export groups – wheat, mineral or chemical materials – are used in the Indonesian processed food industry and chemical manufacturing. This pattern has both advantages and disadvantages. On the one hand, the imported commodities play an important role in the partner’s economic performance. On the other hand, while the sustainability of trade in such commodities is long-lasting, effort to enhance the trade volume is crucially dependent upon the absorption capacity of the partner’s relevant industries.
The Structure of Trade between Russia and Indonesia: Main Items

Russia’s Exports to Indonesia. The major share of Russian exports to Indonesia in 2018 (and in 2017) accounted for the following product types:

- Food products and agricultural raw materials (HS codes 01–24) – 30.23% of Russia’s total exports to Indonesia (25.93% in 2017);
- Chemical products (HS codes 28–40) – 23.98% of Russia’s total exports to Indonesia (23.48% in 2017);
- Metals and products from them (HS codes 72–83) – 21.01% of Russia’s total exports to Indonesia (22.20% in 2017);
- Mineral products (HS codes 25–27) – 15.80% of Russia’s total exports to Indonesia (16.52% in 2017);
- Wood and wood products (HS codes 44–49) – 4.71% of Russia’s total exports to Indonesia (4.63% in 2017);
- Machinery, equipment and vehicles (HS codes 84–90) – 2.02% of Russia’s total exports to Indonesia (4.59% in 2017).

Russia’s Imports from Indonesia. The major share of Russian imports from Indonesia in 2018 (and in 2017) accounted for the following product types:

- Food products and agricultural raw materials (HS codes 01–24) – 50.57% of Russia’s total imports from Indonesia (37.71% in 2017);
- Chemical products (HS codes 28–40) – 16.73% of Russia’s total imports from Indonesia (9.92% in 2017);
- Machinery, equipment and vehicles (HS codes 84–90) – 12.75% of Russia’s total imports from Indonesia (39.00% in 2017);
- Textiles, textile products and footwear (HS codes 50–67) – 11.29% of Russia’s total imports from Indonesia (8.20% in 2017);
- Metals and products from them (HS codes 72–83) – 1.99% of Russia’s total imports from Indonesia (0.96% in 2017);
- Wood and wood products (HS codes 44–49) – 1.21% of Russia’s total imports from Indonesia (0.78% in 2017).

Theoretically, a timely step would be for the two countries to increase the complementarity of their manufacturing sectors. For instance, the Russian producers of construction-related materials should be encouraged to participate in the on-going and prospective infrastructure projects in Indonesia. In practice, however, this has for decades remained more of wishful thinking rather than a comprehensive and nuanced strategy.
No less important hurdle to the bilateral trade, as well as to other forms of economic cooperation, is a lack of support from the banking sectors of the two countries. Although Russia and Indonesia are members of APEC and G20, interactions between their banking sectors and financial service industries are limited. The problem is further compounded by underdeveloped person-to-person ties in the business communities of the two countries. Having existed for years, these factors are presently exacerbated by the anti-Russian sanctions.

Russia risks to be late for the leaving train from the perspective of the digital support of its economic projects in the Asia-Pacific region in general and in cooperation with Indonesia in particular. In this respect, an example of how things should be done is presented by China whose IT giants acquire Southeast Asian marketplace sites simultaneously with laying internet cables and developing standards for digital cooperation. In Russia’s case, this is missing even at the level of prospective vision.

In the Asia-Pacific region, Russia is not involved in the regional supply-production chains developed by multinational companies, for instance, Japanese car assembly factories, in which Indonesia participates and which foster links between enterprises, banks, individual businesspersons, local and central government officials etc.

Lastly but importantly, the underdeveloped logistics matters. Being geographically separated, the two countries logically encounter high cost of transportation. At present, effort to connect the Far Eastern regions of Russia with Indonesian ports, in particular, utilizing Russia’s Far Eastern ports like Vladivostok as entry points of Indonesian export to Russia is at the incipient stage.

Recently the State Duma of the Federal Assembly of the Russian Federation adopted a bill to increase the value added tax rate from 10% to 20% per palm oil. This may negatively influence upon the trade exchanges between Russia and Indonesia since palm oil is Indonesia’s main export item to Russia and the Indonesian palm oil represents around 80% of the Russian overall import of this commodity. More than that, it will have overall detrimental implications for the Russian economy as palm oil is 100% used as capital goods for a number of manufacturing sectors (cosmetics, food processing etc.).

Remarkably, at the 12th Session of Joint Commission for Trade, Economic and Technical Cooperation held in Moscow in October 2018, Russia and Indonesia agreed to establish a Working group on banking and finance (along with two other sectoral working groups, i.e. on fisher-
ies and on agriculture). The results and implications of this undertaking remain to be seen. However, the very fact of creating the forum as a subsidiary body of the Joint Commission can be regarded as a step in the right direction, as the government and the banking officials from both sides will have a sustainable platform to engage in a direct dialogue.

But on the whole, the shortcomings of Russia-Indonesia trade exchanges are of the systemic nature and cannot be resolved by just issuing new memoranda or reiterating the virtues and potential benefits of cooperation. From the trade perspective, the parties need each other to the extent their industries need each other, which is insignificant at present. Accepting this reality, a logical question rises to prominence: can economic exchanges be intensified, or at least facilitated, by business communities of the two countries?

The Business Dimension

Before assessing the Russian-Indonesian cooperation from the business perspective, several factors should be mentioned. First, there are significant differences between the legal systems of the two countries. The Russian law relates to the Roman-Germanic legal norms while Indonesia, as part of the former colonial possessions of Holland, adopted the norms based on the Roman-German law, following the pattern of Dutch regulatory acts. However, in Indonesia the customary law, or adat, is common while the Sharia law is often applied in relations between the Indonesian Muslims. Ignorance of the specificity of Indonesia from the legal perspective may be detrimental to fostering personal and business contacts and, as a consequence, undermine the activity of Russian companies.

Second, Indonesia is surrounded by the dynamically-developing Asian economies – China, Japan, India, as well as the so-called "Asian tigers of the first wave" - South Korea, Singapore, Hong Kong and Taiwan. Their companies carved out the most technologically-advanced industrial and commercial niches in Indonesia. In these circumstances, for the companies of the predominantly fuel-based economy of Russia to find “entry points” in Indonesia in sectors other than raw materials is problematic.

On November 16, 2015, the Ministry of Economic Development of the Russian Federation published the document “On Trade and Economic Cooperation between the Russian Federation and the Republic of Indonesia”. Specifically, the document prioritized the construction of the rail line by the company Russian Railways for the transportation of
coal to the island of Kalimantan, the construction of floating nuclear power plants by the state-owned company Rosatom, as well as the inter-bank cooperation aimed at supporting foreign trade transactions in Indonesian rupees and Russian rubles.

From the company perspective, cooperation between «Rosneft» and «Pertamina» in the construction of an oil refinery on East Java may be promising. The readiness of the Russian companies «Zarubezhneft» and «Novatek» to participate in energy projects in Indonesia can also bear fruit. Other directions include the participation of Russian companies in the construction and modernization of Indonesian energy facilities, as well as cooperation in the joint development of Indonesia’s renewable energy sources.

During the Russia-Indonesia Business Summit held in October 2018, A.Novak, head of Ministry of Energy of the Russian Federation, reiterated Russia’s plans to build floating nuclear power plants in Indonesia. A few years ago, this seemed to be an overly ambitious project for Russia, since it has no precedents. Nevertheless, Russia is ready to cover all its costs, as well as to take attendant risks. To date, the first sample of the floating nuclear station «Akademik Lomonosov» has been built, and it is scheduled for commissioning in the late 2019. After testing this type of power plant, «Rosatom» will start their delivering it to other countries, including to Indonesia.

As for the railway construction, the project implemented by the Russian Railways was planned to be completed by 2019. Now the deadline is adjourned to 2022. At the same time, the plan has become more ambitious: the length of the road will be extended from the initial 217 to 575 kilometers. More importantly, by 2027 the passenger traffic is scheduled to start, while the original plan included only the transportation of goods.

On the whole, Russia explores “entry points” in the Indonesian economy from the large business perspective, mainly in the energy and transportation sectors. Assessed from the Russian angle, this policy has both weak and strong points.

In the former respect, this pattern will not allow fundamentally increasing the Russian share in Indonesia's foreign economic relations and outperform the Indonesian traditional partners – Japan, China and India. In the latter, Russia does not and should not aim to win this competition, since it lacks both economic resources and political-security interests comparable to those covering the post-Soviet space. Furthermore, cooperation in the energy and transportation sectors, in case properly main-
tained, will be beneficial in itself since it allows Russia to constantly support and upgrade the constructed facilities. In other words, this line of cooperation has good chances to be long-term and sustainable.

As for Indonesian entrepreneurs, they are just beginning to enter the Russian market. Examples include mainly the Torabika coffee company and several cafes\(^2\). Nevertheless, the Indonesian investment in the Russian economy has not yet reached a comparable level with the Russian investment figures in Indonesia. This fact indicates lack of knowledge and understanding of Russia’s legal and economic conditions for doing business in the Indonesian business community.

At this specific juncture, more government support for the implemented projects from both sides is obligatory. Otherwise, for Moscow and Jakarta the task to stimulate the business-to-business interaction will be increasingly difficult, if not impossible at all, to translate from wishful thinking into the de-facto existing reality.

**Conclusions**

An assessment of the relations between Russia and Indonesia, as well as of their current and prospective tasks, reveals a logical conclusion. In order to achieve even modest success, the parties should think outside the box as they have to develop their relations against the lack of resources of strategic significance and the steadily deteriorating international conditions.

Regarding the former, Russia and Indonesia are not intertwined by supply-production chains and well-developed institutions to foster trade exchanges, connections between companies etc. That is why business alone cannot undertake the initiative in driving the economic exchanges and remains reliant on the government support. In the latter case, the reason stems from the present rise of conflicting trends in global politics, along with the simultaneous rise of global dimension in Moscow’s and Jakarta’s international priorities. As a result, for the parties to cooperate in the business-as-usual manner is no longer a workable solution – the relationship will stagnate at best.

To rectify the situation, the top-down vector of dialogue should be strengthened. Specifically, this means that the two governments should stimulate the relationship by introducing a fresh bilateral foreign policy initiative in line with the logic of the Russia-ASEAN Strategic Partnership. Seen from this perspective, the establishment of the Russia-Indonesia Strategic Partnership on the eve of the 70th anniversary of
diplomatic relations between Moscow and Jakarta can be a timely step to strengthen their rationale for long-term and sustainable cooperation.

2 See papers on relations between Russia and Indonesia prepared by A. Drugov, a regular author of the journal “Southeast Asia: Actual Problems of Development”.
9 Ibid.
10 Ibid.