IPRC BRIEF 1 : 2025

Navigating Geopolitical Tensions: Indonesia's Strategic Position Between the OECD and BRICS+

EXECUTIVE SUMMARY

Indonesia is at a pivotal crossroads in the evolving geopolitical landscape, striving to balance its relationships with two major international coalitions: the OECD and the recently expanded BRICS+. As the largest economy in Southeast Asia and a G20 member, Indonesia serves as a crucial bridge between developed and developing nations. The OECD acts as a club of predominantly developed countries that promotes policies enhancing economic and social well-being. Indonesia's accession to the OECD will provide access to best practices in governance, economic development, and sustainable methods, which are essential for its national development goals. Meanwhile, the BRICS+ coalition, comprised of emerging economies, offers Indonesia a platform to voice the concerns and aspirations of developing countries. As Indonesia navigates this complex geopolitical terrain, it must carefully balance its commitments and aspirations. Indonesia's recent decision to join BRICS+ is primarily motivated by political reasons instead of economic gains. However, the challenge lies in aligning its domestic policies with the interests of both coalitions while also addressing broader issues such as climate change, economic inequality, and geopolitical instability.

THE HEADLINES

1. As the largest economy in Southeast Asia and a G20 member, Indonesia plays a crucial role as a mediator and bridge between developed and developing nations.

2. Indonesia's membership in BRICS+ could solidify its position in the global political economy, provides access to alternative development funding from mainstream financial institutions, and contribute to the effort of reforming the Western-dominated global governance system.

3. OECD standards will provide Indonesia with opportunities to promote economic governance reform and encourage greater stability for economic development among many others. However, short-term impacts because of it may cause tensions

4. Indonesia must carefully balance its commitments and aspirations, aligning its domestic policies with the interests of both coalitions while also addressing additional broader issues.

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INTRODUCTION

A recent change in Indonesian leadership has shifted its foreign policy orientation. The previous administration under President Joko Widodo hesitated to join the BRICS+ coalition—comprising emerging economies from Brazil, Russia, India, China, and South Africa, along with several other nations—and was actively preparing for Indonesia's accession to the Organization for Economic Cooperation and Development (OECD) instead. Shortly after his inauguration, the new President of Indonesia, Prabowo Subianto, made a different choice by joining BRICS+ immediately. Concurrently, geopolitical tensions have defined the global landscape. While the world faces pressure to address issues like climate change, ensuring food security, and fostering a green transition, there has been competition among superpowers for resources, digital advancement, and market access, accompanied by a trend towards strategic protectionism enforced by many countries. The new U.S. administration under Donald Trump has further complicated the global political landscape.

This brief aims to examine how Indonesia navigates its standing at a pivotal crossroads in the ever-evolving landscape of global geopolitics, where it strives to balance its relationships with two major international coalitions: the OECD and the recently expanded BRICS+. As the largest economy in Southeast Asia and a G20 member, Indonesia plays a crucial role as a mediator and bridge between developed and developing nations. With its recent ascension to the G20 presidency and active participation in multilateral forums, Indonesia increasingly leverages its unique position to foster dialogue and cooperation across divergent economic and political ideologies. On one side, the OECD represents a club of predominantly developed nations focused on promoting policies that enhance economic and social well-being based on free market principles. Indonesia's engagement with the OECD allows it to access best practices in governance, economic development, and sustainability, which are vital for its national development goals. Conversely, the BRICS+ coalition offers Indonesia a platform to voice the concerns and aspirations of developing countries. The economic partnership fostered within BRICS+ emphasizes cooperation in areas such as trade, investment, and technology transfer, which is particularly relevant for Indonesia as it seeks to boost its economic growth and reduce its reliance on traditional markets.

We propose that political motives, rather than economic gains, primarily drive Indonesia's decision to join BRICS+. In the short term, Indonesia's membership in BRICS offers numerous benefits, solidifying its position as a global economic power. Nevertheless, in the long term, compliance with the OECD standard would significantly impact Indonesia's political and economic reform. The challenge is aligning domestic policies with the interests of both coalitions while addressing climate change, economic inequality, and geopolitical instability.

Understanding: BRICS+ and OECD

BRICS is an acronym for a group of five major emerging national economies: Brazil, Russia, India, China, and South Africa. Initially, this grouping included only four countries: Brazil, Russia, India, and China (BRIC). The term was first coined by Jim O'Neill, an economist at Goldman Sachs, in a 2001 research paper titled "Building Better Global Economic BRICs."[1] In this paper, Jim O'Neill predicted that over the next ten years, the real GDP of emerging economies like Brazil, Russia, India, and China would exceed that of the G7 countries. He argued that the influence of BRIC, especially China, would grow, raising significant questions about global economic impact. If these four economies could maintain their growth, they would dominate the global economy by 2050. In line with these predictions, he suggested that existing world policymaking forums should be reorganized, particularly the G7, which should be adjusted to include BRIC representatives.

The expansion of the G8 to the G20 following the financial crisis in 2008 can be seen as a strategic response to the prediction made by Jim O'Neil, representing a reorganization of global policymaking forums to include representatives from the BRIC countries. Conversely, the BRIC nations also reacted to this prediction by organizing the inaugural BRIC summit, which took place in 2009 in Yekaterinburg, Russia. In 2010, South Africa joined the grouping, leading to a change of the acronym to BRICS. The inclusion of South Africa was seen as a way to enhance the grouping's geographic representation and strengthen ties with the African continent. On January 1, 2024, Egypt, Iran, the United Arab Emirates, Saudi Arabia, and Ethiopia became members, followed by Indonesia, which officially joined BRICS on January 7, 2025, becoming the first Southeast Asian member. Since then, the acronym has evolved to BRICS+ and now comprises more than a quarter of the global economy and nearly half of the world's population.

Although BRICS+ has recently evolved into an intergovernmental organization, it remains a loose coalition of non-Western economies coordinating their economic and diplomatic efforts around shared goals. It aims to establish an alternative to what they see as the dominance of the Western perspective in major multilateral groupings, such as the World Bank, G7, and UN Security Council. The formation of BRICS as an official bloc was founded on the belief that existing international institutions were overly controlled by Western powers and failed to accommodate the interests of developing countries. This bloc seeks to align its members' economic and diplomatic policies, promote economic cooperation, and tackle global issues. It has also created new financial institutions to lessen reliance on the US dollar.

Unlike BRICS+, the OECD is a formal intergovernmental organization. Often referred to as the "rich-country club," the OECD comprises primarily high-income countries. When founded in 1961, it was originally designed as the Organization for European Economic Cooperation, established to administer American and Canadian aid under the Marshall Plan for reconstructing Europe after World War II. Over time, it evolved to encompass a broader scope beyond European reconstruction. The OECD's main objectives are to promote global economic growth, trade, and social well-being through market liberalization. This is achieved by setting international standards and serving as a platform for sharing policies and best practices.

Another significant difference between the OECD and BRICS+ is the process for gaining membership. While joining BRICS+ does not require rigorous alignment with existing standards from prospective members, becoming a member of the OECD involves navigating a complex accession procedure. This process includes various stages, such as technical reviews and evaluations by all the technical committees to determine whether the applicant country complies with the OECD's standards, policies, and practices. The technical review encompasses a range of areas, including structural reform, open trade, investment, governance, inclusive growth, anti-corruption efforts, digitalization, and environmental protection and climate action. The accession process may take several years, with Estonia's experience being the fastest, taking two years after submitting its membership application. Conversely, the most prolonged accession process for OECD membership is Colombia's process, which lasted around seven years. The duration of the accession process primarily depends on the country's readiness to adopt OECD standards and its commitment to implementing necessary reform measures.

Indonesia at a Critical Crossroads

Indonesia's membership in BRICS offers numerous benefits, solidifying its position in the global political economy. BRICS+ membership may provide Indonesia access to alternative development funding from mainstream financial institutions, such as the World Bank and the Asian Development Bank, through the New Development Bank which aims to finance infrastructure and sustainable development projects in member countries. Additionally, Indonesia can utilize the NDB's Sustainable Financing Policy Framework to support its green projects. Furthermore, Indonesia can leverage the BRICS Contingent Reserve Arrangement, which aims to provide liquidity support to member countries during financial stress[2], serving as an alternative to the International Monetary Fund (IMF).

As BRICS+ countries are mostly emerging markets and rapidly growing economies, Indonesia may have the potential for increased trade and investment. Indonesia can leverage its membership to access new markets and attract foreign direct investment from BRICS+ countries, diversifying its trade portfolio, stimulating South cooperation, and fostering collaboration with fellow emerging economies to advance shared principles of equality, mutual respect, and sustainable development. However, the trade data shows that China and India are already Indonesia's largest trading partners.[3] Both India and China are among Indonesia's prominent five export destinations. China is also Indonesia's number one top importer of its products. Indonesia and China are already involved in similar regional economic cooperation initiatives, such as the Regional Comprehensive Economic Partnership, the China-ASEAN Free Trade Agreement, and the Asia-Pacific Economic Cooperation. China was also the second-largest source of Indonesia's foreign direct investment in 2024.[4] In this regard, membership in BRICS+ will bring added value if Indonesia can expand its economic relations (in trade and foreign direct investment) with countries other than China and India.

Two main factors make expanding economic relations with other BRICS+ members less realistic in the short term. First, the average trade complementarity index of BRICS members with Indonesia is below 50, particularly when compared to G20 or ASEAN members.[5] The trade complementarity index from the World Bank indicates how well a country's export profile aligns or complements the partner's import profile. A high index suggests that two countries could benefit from increased trade and may be particularly useful when assessing prospective bilateral or regional trade agreements. Second, some members, such as Iran and Russia, are still under international economic sanctions. This situation restricts Indonesia's ability to expand its economic relations with these two countries.

Nevertheless, considering the recent development characterized by geopolitical tensions, Indonesia may also need to enhance its global political position and increase its leverage to ensure that its national interests are achieved. Considering the uncertainties in the global context, membership in BRICS+ may provide an opportunity to contribute to the effort of reforming the Western-dominated global governance system. The BRICS+ nations aim to revise global governance institutions, known as the Bretton Woods System, such as the IMF and the World Bank, to ensure they are more representative and inclusive of emerging market economies. Additionally, Indonesia's membership in BRICS+ presents a chance for the country to tackle global challenges like climate change, poverty, and inequality by prioritizing the perspectives of developing nations. For instance, concerning energy transition, BRICS+ countries have advocated for a framework guided by the Common but Differentiated Responsibility and Respective Capabilities, ensuring that the rights of developing countries to pursue economic growth are respected while working towards net-zero emission targets. Overall, BRICS+ provides a platform for member countries to promote economic cooperation, reform global governance, and address global challenges. While BRICS has made significant progress in recent years, it still faces challenges in implementing its agenda and achieving its goals.

While Indonesia's membership in BRICS offers numerous benefits, there are also challenges to consider. Increased trade with BRICS+ countries may lead to competition for Indonesian industries, potentially harming domestic businesses. Indonesia's economy may become more dependent on exporting primary commodities to BRICS countries rather than diversifying its economy. China's dominance in BRICS cannot be overlooked. Membership in BRICS also risks Indonesia, potentially increasing its dependency on China's economy. Rivalry within the BRICS+, especially between China and India, has increased tensions over decades-old border disputes and growing competition for economic and geopolitical leadership in the Global South. The Ukraine – Russia conflict has sparked the division within the group, those who agreed with Western-led sanctions and those who ignored it.

The accession process to the OECD will benefit Indonesia's domestic reforms. In its endeavor to become an OECD member, Indonesia will be compelled to undertake significant regulatory reforms and ensure that its standards, policies, and practices align with those of the OECD. In the long term, aligning with OECD standards will provide Indonesia with opportunities to promote economic governance reform, encourage greater stability for economic development, escape from the middle-income trap, and increase its global competitiveness. However, the drawback of this process is that it will have a short-term impact on the Indonesian political economy, as the reforms may create tensions. Additionally, by focusing solely on economic growth, Indonesia's accession to the OECD has received critical responses from civil society regarding how this process may correlate positively with increased welfare, reduced poverty, and rampant inequalities.[6]

CONCLUSION

Indonesia's involvement in both BRICS+ and the OECD presents its own benefits and challenges. In the short term, BRICS+ may accelerate economic diversification and provide access to alternative development finance with more flexibility, as it does not require substantial domestic or structural reforms. However, in the long term, the OECD offers stability in economic policies and enhances governance, which can improve Indonesia's global competitiveness. Yet, being an OECD member might expose Indonesia to Western powers and their interests, including the promotion of liberalization and a free market as the cornerstone of its economic development. On the other hand, BRICS+ could also place Indonesia at risk of falling under China's influence due to its dominance in BRICS. Additionally, tensions and divisions among the BRICS+ countries, such as India – China rivalry and division between cooperating with Western-led sanctions on Russia, pose significant challenges. In this context, Indonesia must navigate these challenges and identify strategic priorities. Rather than viewing OECD and BRICS+ as mutually exclusive options, they should be perceived as complementary-prioritizing long-term economic stability requires Indonesia to undertake domestic regulatory reforms that meet the highest standards. Simultaneously, strengthening its relations within BRICS+ can provide an opportunity to influence global governance reform in ways that align with the perspectives of developing countries.

As Indonesia navigates this complex geopolitical terrain, it must carefully balance its commitments and aspirations. The challenge is to align its domestic policies with the interests of both coalitions while also addressing the broader issues of climate change, economic inequality, and geopolitical instability. Indonesia's proactive diplomacy and commitment to multilateralism are essential as it works to establish itself as a key player on the global stage, advocating for a more equitable and inclusive international order. Through this delicate balancing act, Indonesia not only positions itself as a significant influencer in global discussions but also enhances its own development trajectory, demonstrating the potential of emerging economies to thrive amidst the pressures of geopolitical tensions.

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[3] https://oec.world/en/profile/country/idn

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