



UAE-Indonesia Ties: Model for Potential GCC-ASEAN Collaboration

Dr N. Janardhan and Amb. Gyorgy Busztin



Dr N. Janardhan

is the Director of Research and Analysis at the Anwar Gargash Diplomatic Academy, Abu Dhabi. He steers the institution's strategic policy agenda and offers diplomats PGD, MA and executive training courses on Gulf and Asian foreign policies. He is also an adjunct faculty at the Paris School of International Affairs, Sciences Po and a non-resident fellow at the Arab Gulf States Institute in Washington. Dr Janardhan received his PhD from the Jawaharlal Nehru University, New Delhi, and the last of his four books is *The Arab Gulf's Pivot to Asia: From Transactional to Strategic Partnerships* (Gerlach). He is part of several Track 2 and Track 1.5 initiatives and a regular contributor to international think tank activities, academic publications and media outlets.



Amb. Gyorgy Busztin

is a visiting diplomat-in-residence at the Anwar Gargash Diplomatic Academy, overseeing the Innovative Diplomacy Programme. He served as Hungary's former ambassador to Iran and Indonesia. He was also the United Nations Deputy Special Representative for Iraq, overseeing critical initiatives in conflict resolution and national reconciliation from 2011 to 2017. He has held consulting roles with the CMI Martti Ahtisaari Peace Foundation, Helsinki, and the Austrian Study Center for Peace and Conflict Resolution, and was a visiting research professor at the National University of Singapore's Middle East Institute. Amb. Busztin has a Doctorate in Arabic Language and Semitic Philology from Lorand Eotvos University, Budapest. He is fluent in several languages, including English, Arabic, French, Farsi, and Malay.

Summary

- Contemporary Gulf's "Look East" policy has focused on Asia's Big Four – China, India, South Korea, and Japan – paying less attention to several major investment and trade deals with Indonesia.
- Until recently, Indonesia's trade with the Gulf Cooperation Council (GCC) countries was significantly lower than the trade volumes of many other GCC partners in Asia and around the world. It stood at \$16 billion in 2022 with GCC countries and \$4.35 billion with the UAE in 2023.
- However, some of the recent UAE-Indonesia investment deals make an interesting case for other GCC countries to explore replicating such collaboration with others in the 10-member Association of Southeast Asian Nations (ASEAN).
- The UAE joining the ASEAN as a sectoral dialogue partner and the the adoption of 2024-2028 UAE-ASEAN action plan, both in 2022, could strengthen this endeavour.
- Apart from citing some recent big-ticket UAE-Indonesia projects between 2019 and 2021, which add up to a whopping \$60 billion, the Insight links this bilateral template with the efforts underway to re-energize GCC-ASEAN cooperation after the summit in Riyadh in 2023.
- It focuses on how the continued rise of Indonesia – a G-20 economy, which is also among the top workforce providers, especially female domestic workers, to the UAE and the region¹ – offers an avenue for the GCC's economic diversification and ASEAN's growth endeavours, thus offering multiple options for synergy.
- This fits well with a recent finding that emerging Asia is set to become the Gulf's biggest trading partner before the end of this decade, with trade reaching nearly \$580 billion, thus surpassing the trade with advanced economies.²

mechanisms that suit the changing times.

- Establish a consultative body to ensure neutrality amid superpower rivalry.
- Explore UAE/GCC joining the Regional Comprehensive Economic Partnership, which includes Indonesia and other ASEAN countries.
- Tap the potential for minilateral arrangements with CEPA partners, Rafale buyers and EV stakeholders in both blocs.
- Consider setting up a joint committee to brainstorm alternative security arrangements.

The Issue

The Gulf-Southeast Asia relations can be traced back centuries, with Arab spice merchants from the Hadhramaut Valley in Yemen introducing Islam to present-day Indonesia (and Malaysia). While religious, cultural and people-to-people affinities made the Gulf states natural partners for Indonesia, the growth in Gulf-Asia economic relations during the last two decades, focussing largely focussed on China, India, Japan and South Korea, has also made GCC-Indonesia engagement acquire new and pragmatic synergies in recent years.

Following decades of economic disconnect, partly due to Indonesia being mired in terrorism, natural disasters, political instability, and financial crisis, the archipelago showed signs of living up to its true potential during the reign of President Jokowi Widodo.³

This Insight alludes to the recent GCC-Indonesia dynamic, but specifically tracks how the UAE is a key part of Indonesia's next phase of development. The UAE has invested in a wide range of sectors, including fossil and renewable energy, healthcare, digitalisation road infrastructure, agriculture, and port infrastructure, among others. A commitment to partnering in financing Indonesia's evolving new capital Nusantara, Borneo, is a bonus. The UAE even admitted Indonesia into its circle of closest economic partners by signing a Comprehensive Economic Partnership Agreement (CEPA).

Though the UAE-Indonesia trade bill was just \$4.35 billion in 2023, a 7.2% increase over 2022, from a GCC-Indonesia cumulative total of about \$16 billion, the UAE is now Indonesia's chief Gulf investor.⁴ Jewellery and precious metals top the trade list, followed by cars, gold, palm oil and derivatives, and mobile phones.

While Jokowi has visited other GCC countries seeking investment and signing agreements, the burgeoning UAE-Indonesia relationship is amplified by the personal chemistry between the countries' two leaders, which was evident during their reciprocal visits, including Jokowi's last visit to the UAE in July 2024.

Moreover, the UAE and Indonesia serve as true models of tolerance. Indonesia has achieved significant success in promoting acceptance within its diverse society, comprising over 17,000 islands, with residents speaking more than 700 languages and encompassing multiple ethnicities. Its foundational state philosophy of Pancasila and the concept of 'Islam Nusantara' have been key drivers of Indonesia's development, like the UAE, which has globalised its social and religious heritage built on coexistence.

This Insight delves into several similar and dissimilar factors at play and also argues that the thriving UAE-Indonesia collaboration could become a template for a more broad-based GCC-ASEAN cooperative model. This is relevant because the two groupings share common bonds, including their strategic locations, economic progress, fostering international investment partnerships, cultural development, and the promotion of international peace and stability.

It is indeed surprising that though their relations date back to 1986 when the GCC initiated economic dialogue with the ASEAN, it was not until 2009 that their first joint ministerial meeting for strategic dialogue was held in Manama. After another long hiatus, the foreign ministers of the 16 countries held talks in 2018 on the sidelines of the United Nations General Assembly session in New York. These efforts culminated with the hosting of the first GCC-ASEAN Summit in

late 2023, which underscores the joint commitment to establishing an ambitious future strategic partnership among their blocs through a framework of cooperation.⁵

Deepening bilateral Ties

The UAE-Indonesia bilateral trade volume has slowly moved from about \$1 billion in 2001 to \$4 billion in 2021.⁶ This includes UAE's exports of petroleum and related products to the tune of \$1 billion. Other exports included iron and steel, aluminium, precious stones, precious metals, sulphur, cement, and pharmaceuticals. Indonesia's biggest export item to the UAE was palm oil and its related products, worth nearly \$300 million in 2021. Additional items included precious stones, precious metals, vehicles and their accessories, as well as electrical machinery and equipment.⁷ The UAE is the leading regional investor in the Southeast Asian markets, accounting for 74% of GCC countries' investments in the 10-member bloc between 2016 and 2021.⁸ The two countries signed CEPA in 2022, which aims to increase annual bilateral trade to \$10 billion by 2027 through eliminating trade barriers on a number of goods and services.⁹

One of the evident positive results emanating from the CEPA is that bilateral trade increased to \$4.4 billion in 2023.¹⁰ In a boost to UAE exports and trade, the agreement grants over 80% of Emirati exports duty-free access to Indonesia. Indonesian palm oil, food products, fashion wear, and other products and commodities will benefit from the reduced or eliminated tariffs. Further, the agreement simplifies customs procedures and stresses digital trade, which should make it easier for UAE companies to expand their businesses in Indonesia.

The deal is also expected to channel \$10 billion of investments into priority sectors, such as agriculture, energy, infrastructure, and logistics, while also promoting collaboration in tourism, entrepreneurship, and healthcare. Further, the two countries will increase cooperation in emerging sectors like renewable energy, Islamic finance, digital economy, and automation.

Huge Investments

The agreement is the next step toward promoting trade and services after the two countries signed a string of investment deals in 2019 and 2020. During then-Abu Dhabi Crown Prince and current UAE President Mohammed bin Zayed Al Nahyan's visit to Indonesia in July 2019, Emirati and Indonesian companies signed deals worth \$9.7 billion.¹¹

The Abu Dhabi National Oil Company (ADNOC) signed an agreement with Indonesia's state-owned energy company PT Pertamina for oil and gas collaboration in both countries and globally, with a potential value of \$2.5 billion. The deal also covered projects in the UAE's upstream oil and gas sector, as well as refining and petrochemicals, LNG, LPG, aviation fuel, and fuel retail opportunities in Indonesia. The plans included developing a naphtha cracker and petrochemical complex valued at \$6 billion and an agreement with Dubai Port World to develop a \$1.2 billion container terminal in Gresik in East Java.

It is interesting to note that the UAE is not among the top fossil fuel suppliers to Indonesia. The Southeast Asian country imports over 400,000 barrels of oil per day. Most of this comes from Saudi Arabia and the rest from among Malaysia, Kuwait and a few others. Qatar has also been a stakeholder in the gas and coal sectors.

In January 2020, the UAE and Indonesia signed about a dozen deals worth nearly \$23 billion, including in the energy and infrastructure sectors.¹² This included a \$12.6 billion agreement between the Abu Dhabi National Oil Company and Pertamina to develop a crude-to-petrochemical plant in West Java. Other investments targeted ports and renewable energy, with money potentially flowing into Indonesia's planned new capital in Borneo (East Kalimantan), moving away from overcrowded Jakarta.

In November 2021, the UAE committed another investment tranche of \$27 billion in Indonesia.¹³ The deals announced during a visit by Jokowi involved Abu Dhabi artificial intelligence company Group 42 investing in smart city initiatives, telecommunications, and genomics laboratories. They also included a \$10 billion investment in the Indonesia Investment Authority to tap opportunities in infrastructure, roads, ports, tourism, and agriculture.

Other projects included: building a gasification plant to turn low-calorie coal into dimethyl ether, a substitute for propane in liquefied petroleum gas, a standard fuel in Indonesian kitchens; and a \$3 billion long-term deal related to naphtha supply between ADNOC and PT Chandra Asri Petrochemical Tbk;¹⁴ DP World committed to developing seaports over a 30-year period; and Etihad Credit Insurance teamed up with Indonesia Re to improve funding access to small and medium enterprises to boost exports.¹⁵

Renewable Energy

Unlike the fossil fuel sector, the UAE is a critical partner with Indonesia in the renewable energy sector. For example, Abu Dhabi's clean energy company Masdar has signed a power purchase agreement with Indonesia's state electricity company to develop Indonesia's first floating solar photovoltaic plant. And the Abu Dhabi Investment Authority has made a substantial investment to promote Indonesia's biggest technology company, GoTo.

In the realm of climate change cooperation, the Mohammed bin Zayed-Joko Widodo International Mangrove Research Centre is a result of the UAE's \$10 million commitment to nurturing mangrove ecosystems. This project is part of the critically important nature-based solutions in combatting climate change and preserving coastal ecosystems.

Finally, in an example of cross-investment that the UAE has been encouraging in its energy sector, Indonesia's Pertamina opened an office in Dubai in July 2024 to explore opportunities for acquiring new oil and gas blocks.¹⁶

In addition to strong economic ties, Indonesia, the most populous Muslim country in the world, and the UAE are highlighting shared common values regarding moderate Islam and a readiness to work together to promote tolerance and the fight against religious extremism. In Abu Dhabi in 2021, Jokowi said, "I think this is a great potential. I see that religious moderation and diversity in the UAE are widely respected. And this is an area of cooperation we would like to explore more because we both share the closeness in the vision and characters of moderate Islam that propagates tolerance."¹⁷

This sentiment and the camaraderie between the Emirati and Indonesian leaders are reflected in Abu Dhabi honouring the Southeast Asian country's leader by naming a street and mosque after him in the UAE's Diplomatic Enclave.¹⁸ Additionally, Abu Dhabi funded a Sheikh Zayed Mosque replica in Jokowi's hometown, Surakarta.

Security Collaboration

In the security arena, the UAE and Indonesia are forging partnerships in defence and counterterrorism.¹⁹ Their ministries and companies have signed cooperation agreements to encourage scientific and technological development as well as manufacture and supply military products, such as drones, rifles, and aerospace machinery.²⁰

Further, the two countries have agreed to facilitate mutual visits of armed forces' officers and human resource development. They – through Tawazun Economic Council and PT PAL – are also collaborating in production and maintenance of patrol boats and light frigates. Both countries are members of the Indian Ocean Rim Association and Indian Ocean Naval Symposium, and the UAE has had a defence attaché posted in its Jakarta mission since 2019.

The UAE and Indonesia have also placed orders worth \$17 billion and \$8 billion in 2021 and 2022, respectively, for Rafales from France, which allows for potential 'minilateral' engagement among the three countries, along with other Rafale buyers.²¹

Collaboration in the security sphere assumes importance because both countries share a common perception on global affairs and refuse to be drawn into the orbit of great power competition. Both are keen to pursue an independent foreign policy, and both are strongly committed to protecting the flow of international trade, with special regard to the freedom of navigation. This makes security of sea lanes passing across their strategic straits a shared concern.

Ties with Others in the Region

In contrast to the huge deals with the UAE, Saudi Arabia's investments in Indonesia have been minuscule and relations, while promising, have been slow to develop.²² Amid heightened expectation during King Salman bin Abdulaziz's nine-day visit in 2017, the first by a Saudi king in nearly five decades, the kingdom's companies finalized \$2.4 billion in investment agreements, including in housing, a biomass power plant, and medical services. A Saudi plan to co-build a major oil refinery in Central Java did not take off due to wrangling over the details. The kingdom committed to building five mosques for Indonesia's Defense Ministry and fund three new satellite campuses of the Institute for Islamic and Arabic Studies in Indonesian provinces.

Saudi Arabia's funding of Indonesian religious institutions had led many Indonesians to feel that it promotes conservative Wahhabism and Salafism.²³ As a counter, some indigenous outfits like Muhammadiyah and Nahdlatul Ulama have promoted Indonesian brands of Islam in mosques and schools. Relations between the two Muslim powerhouses were also tested over Indonesia's lack of participation in the Saudi-led coalition against Daesh in 2015.²⁵

Another area of public disagreement pertained to an Indonesian maid being executed for murder in Saudi Arabia in 2011. Jakarta then announced a moratorium on its nationals working in the kingdom.²⁶ In response, Riyadh stopped issuing permits for workers from Indonesia. The two governments have moved on and signed a new agreement in 2018 to reduce differences. The relations have now come a full circle after Riyadh hosted the GCC-ASEAN Summit.

New Leadership and Future Ties

Asia is part of the mix of global partners for the UAE, which is actively pursuing accelerated economic growth to double its GDP to over \$800 billion by the end of the decade.²⁷ To fulfill this objective, it is seeking trade deals and partnerships in different quarters.

With 275 million people, the fourth largest in the world, India is a huge market. And its demography – with 25% of the population below 15 years of age and only 7% over 65 years – holds the potential for massive dividends, if tapped well. The challenge, however, is disproportionate growth and wealth distribution across the country. While Jakarta's GDP per person was \$19,000 in 2022, Java's was below \$3,000 and other areas even less.²⁸

The optimism about Indonesia's economy is also predicated on its middle class, which has been growing faster than other groups. At least 52 million or 20% of Indonesians are now considered economically secure. This group now represents close to 50% household consumption in the country, compared to just 12% in 2002.

Moreover, Indonesia is rich in commodities resources, some of which are in global demand owing to the ongoing energy transition – nickel, for example. It is suggested that Indonesia could be the world's fourth-largest producer of green commodities, after Australia, Chile and Mongolia, by 2030.²⁹ The government has banned exports of some minerals, forcing MNCs to build refineries locally (downstreaming). Indonesia also aims to become the hub of electric-car batteries. But Malaysia, Thailand and Vietnam, which reportedly have lesser government regulations, have attracted more investors while moving their supply chains away from China.

Continuity Over Change

As Prabowo Subianto succeeds Jokowi as President in late 2024, Indonesia will embark on the next phase of its development drive. Under Jokowi the country maintained a steady 5% development pace – the envy of many in Southeast Asia – despite the ravages of COVID-19. Other than its almost inexhaustible human resources, the archipelago possesses a wealth of natural resources that can sustainably fuel its fast-extending economy.

The composition of Indonesia's economy – the third largest democracy in the world and the largest economy in Southeast Asia – is approximately 42% industry, 42% services and 12% agriculture.³⁰ Indonesia looks to process its primary commodities into higher added value goods as it extends its manufacturing base. Dynamic growth in the digital and green economies add to make Indonesia a lucrative target for outside investors, including the UAE and the GCC countries.

During the last decade, Jokowi introduced several important reforms that boosted the country's economy, including a radical shake-up of the country's labour market and increased spending on infrastructure. The country's challenging geography encouraged a digital services boom. Jakarta is among Southeast Asia's most successful incubators of new technology companies. For example, nearly four-fifths of Indonesians own smartphones, which is a remarkably high number for a developing country. Jokowi constructed scores of airports, ports and dams and hundreds of kilometres of toll roads, earning him the nickname of "builder-in-chief."³¹

Prabowo, the newly elected president, has pledged to continue with his predecessor's popular economic reform agenda. It will be interesting to see how he deals with Jokowi's plans to relocate the national capital from Jakarta to Nusantara in East Kalimantan (eastern Borneo), at an estimated cost of \$32 billion, and to transform Indonesia into a global hub for battery manufacturing.

The new president's main challenge is increasing economic growth to 7%, a promise made in his election campaign, through a combination of bolstering internal consumption and attracting more FDI. The planned overhauling of Indonesia's agriculture sector also calls for massive investments. To facilitate this, Prabowo will surely look towards the UAE and other GCC countries, which also promises lucrative entry points for UAE and GCC companies.

While the close personal relationship between the leaders was a key facilitator of robust UAE-Indonesia ties, Prabowo has indicated that he is willing to stick with continuity. The fact that Prabowo's deputy will be Jokowi's eldest son Gibran Raka makes continuity easier than otherwise.

The UAE and the GCC countries could also take comfort in Indonesia reported to have disciplined macroeconomic policies. The increase in exports of processed metals has kept external deficits under check and improved infrastructure has reduced logistics costs, thereby bringing inflation under control and offering optimism for further economic growth.

It is possible that Indonesia could face economic difficulties if Sino-American tensions escalate and tariffs or sanctions may hit Chinese firms that the country depends on. However, the fact that Jakarta sees UAE investment as ideally suited to meet its expectations, with no tags attached, serves as an enabler for growth.

Rebooting GCC-ASEAN Ties

As a founding member of the nonaligned movement, Indonesia prides itself as a balanced middle power in a multipolar world. For the UAE and Saudi Arabia, this fits into their "long-term hedging strategies" as they seek to develop relationships outside the traditional security ties they hold with the United States.³² As the US-China superpower competition is likely to intensify in the coming years, almost certainly prompting middle powers to accelerate hedging activities, Indonesia, as well as other ASEAN countries, and the UAE and GCC countries would have many reasons to expand strategic relations. The two blocs have forged a 2024-2028 cooperation framework agreement, highlighting the areas of partnerships, which are not limited to just trade and investment.³³

The UAE-Indonesia ties must be contextualized in this broader canvas of GCC-ASEAN relations, which remained tepid for nearly two decades until their leaders met in Riyadh in late 2023 to discuss ways of rebooting the relationship. At first glance, the GCC-ASEAN annual trade volume of about \$110 billion, up from \$94 billion in 2019, might already seem robust. Behind China, India and the European Union, the GCC is ASEAN's fourth-largest trading partner.³⁴

But these figures pale compared to the potential. With a combined GDP of about \$5.5 trillion, the blocs' bilateral trade could grow considerably as economic diversification in both regions accelerates. Some of the building blocks have been discussed earlier in this Insight, which increases the scope for wider collaboration.

While energy will remain an important factor in the arrangement, contributing about 70% of the current trade volume, GCC countries' economic vision and diversification plans include many other sectors. The India-Middle East-Europe Economic Corridor signed in late 2023, which includes the UAE and Saudi Arabia, will also open new trading opportunities, strengthen energy resource pipelines, and improve digital connectivity.³⁵

Similarly, the ASEAN Connectivity 2025 project aims to promote competitiveness, inclusiveness, and community within and beyond the bloc.³⁶ The GCC's vibrant marketplace and members' economic diplomacy gels with that of ASEAN countries. This will enable new partnerships between sovereign wealth funds in both blocs.

Some hurdles certainly exist. The historic inability to promote more meaningful institutional cooperation may be the biggest. While the blocs had their first formal contact in 1990, it wasn't until 2009 that the inaugural ministerial meeting was held. The ASEAN-GCC Joint Vision on trade, which was adopted at that meeting, offered many promises but yielded lower-than-expected results.³⁷

The summit in Riyadh could turn this around.

Some GCC countries, particularly the UAE and Saudi Arabia, have already begun to diversify their partnerships. Both have been invited to or have joined international forums, including the G20, the Shanghai Cooperation Organization, and the BRICS-plus. Foreign ministers of both blocs meet annually, and with GCC countries growing in economic stature, a formal association with ASEAN is now a real possibility.

This in turn could enable new diplomatic and security cooperation. As tensions between the United States and China deepen, countries in both blocs are caught in the middle. The summit in Riyadh was an opportunity to interlink economic, diplomatic and security dynamics to give the GCC and ASEAN new outlets for engagement.

Bilaterally, this is already happening. Vietnam will be the next country, after Indonesia and Cambodia, to sign a CEPA with the UAE.³⁸ Unlike free trade agreements, CEPAs include services, which fosters economic diversification. Two years after the UAE and India signed a CEPA in 2022, trade between the two countries surged 15%.³⁹ Country-to-country deals could even pave the way for a broader GCC-ASEAN free trade agreement (FTA). It is worth highlighting that Singapore signed a free trade pact with Qatar in 2008, which was eventually expanded to the entire GCC. Indonesia and the GCC began FTA negotiations in July 2024, which could eventually facilitate a broader GCC-ASEAN deal.⁴⁰

Such a future is by no means guaranteed. The GCC is not a homogenous entity, and members' interests are diverse, making the process of achieving consensus on economic issues difficult. Past attempts by the EU, the US, and India to sign a free trade deal with the GCC have failed, and the China-GCC free trade agreement remains stalled.⁴¹ And yet, in a post-COVID world, developing countries, like those in ASEAN, are looking to revive bilateral and multilateral engagements. Countries in the two blocs have competitive advantages, and this could add dynamism to the Global South's push for South-South cooperation.

The GCC states prioritize partnerships that contribute to their strategic goals – particularly the desire to reshape global supply chain routes. Aware of this, ASEAN countries should work to create conducive business environments that facilitate this objective. The two sides could consider linking with China's Belt and Road Initiative, for example, to broaden their engagement.

The GCC has been looking East for decades, seeking to build long-term trade relationships to diversify economic and political dependence away from the West.⁴² This process of 're-globalization' is accelerating, and as it does, the rules of economic diplomacy are being rewritten. Driven by the momentum of the UAE-Indonesia bonhomie, the GCC and ASEAN blocs must seize the opportunity to ensure that the new rules favour emerging powers in the Gulf and Asia.

Recommendations

In this backdrop, the following ideas could help the governments in both countries and blocs overcome existing challenges and tap latent opportunities:

1. Consultative body to ensure neutrality amid superpower rivalry:

Since the UAE and Indonesia, as well as their regional groupings, are in similar quagmires in terms of dealing with the US-China rivalry, establishing informal bilateral consultation mechanisms between the countries of the two regional groups and collectively would help. This will enable evolving effective diplomatic ties to ensure neutrality, without impacting their ties with either superpower. This could be done through the establishment of a committee comprising senior officials from the economic, foreign and defence ministries.

2. UAE/GCC joining Regional Comprehensive Economic Partnership (RCEP):

At the multilateral level, since Indonesia and other ASEAN members are part of the RCEP, the UAE and the GCC members could also consider responding positively to Jakarta's call at the GCC-ASEAN Summit in 2023 for the Gulf bloc to join the largest trade bloc to explore greater synergies. The RCEP encompasses the 10 ASEAN members, as well as its dialogue partners: China, Japan, South Korea, Australia, and New Zealand. The trading pact, which makes up almost 30% of the global GDP, seeks to lift trade barriers. The UAE/GCC joining such a bloc will bolster its drive to put economy before politics and strengthen its observance of superpower neutrality.

3. Minilateral CEPA arrangements

Given that some of the countries that the UAE has signed CEPA with – especially India, Indonesia and Cambodia (and Vietnam soon) – have collaborative relations, some of these governments could consider minilateral arrangements among themselves to collectively maximise individual country's strengths.

4. Rafale club

One example of minilateral collaboration could be via the UAE, Indonesia and India's association with France's ongoing Rafale jets supplies (which also includes Qatar). This opens doors for potential engagement in joint aircraft production, maintenance, and spare parts manufacturing. The fact that varied offset clauses are built into the Rafale deals could facilitate this collaboration.

5. EV partnership

Another area of dynamic bilateral or minilateral growth open to UAE/GCC investment is Indonesia's automotive industry, with electric vehicle (EV) production at its core. The archipelago has vast nickel reserves, which is ideally suited for the EV industry, and major foreign enterprises, including Chinese companies, are already operating there. An MoU on establishing the UAE-China High-Level Investment Cooperation Committee, which was signed during President Sheikh Mohammed bin Zayed's visit to Beijing in 2024 provides good ground for expansion beyond the bilateral sphere.

6. Joint committee to brainstorm alternative security arrangements

The UAE/GCC and Indonesia/ASEAN defence attaches should form a consultative forum to evolve collective strategies to face the new security threats in their regions, especially from non-state actors. Amid the rewiring of the supply-chain mechanisms and discussion about the "end of free riders,"⁴³ formal discussions about alternative security arrangements are no more just an academic exercise.

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