

Is Indonesia Changing Direction ?

Indonesia Study Group

ANU Canberra

25 May 2016

Today's Questions

For more than a decade, Indonesia's economic policy-making has been inward-looking and defensive. Since August last year the government has been singing a new song of reform, global engagement and competition.

- ❖ How real is this change in direction?*
- ❖ How broadly and deeply is it accepted with in the body politic, bureaucracy and amongst the public at large?*
- ❖ What are the chances for success?*

Some Background: the Narrowing of Space for the Private Sector 2005-2014

- ***Beginning in 2005, the Negative Investment List (DNI) has been used to steadily reduce the areas where foreigners can invest and the maximum equity percentages they can hold in numerous sectors.***
- ***Rules, often unwritten, on minimum levels of capital investment restrict foreign entrepreneurs from investing in start-ups and the service industry.***
- ***The landmark trade, agriculture and industry laws passed by the previous parliament are highly detailed, prescriptive and intrusive.***
- ***These laws clearly reflect the view that entire economy is under threat from external forces, cannot be competitive and needs as much protection as possible.***
- ***They demand a very high level of bureaucratic micro-management that exceeds the competence level of many of the officials charged with implementing them, increase bureaucratic discretion and invite more corrupt, collusive behavior.***
- ***In the course of the promulgation of these laws, there was no resistance from any significant element of the Indonesia body politic advocating liberal, open-market, pro-private sector policies or for reducing the role of the bureaucracy or state-owned enterprises***

Trade Protectionism [Lowy Inst June 2015] (1)

- ***...the policies the government is pursuing...are heavily protectionist in nature.***
- ***Unfortunately, the good economic times also attracted the attention of crony capitalists.***
- ***...[over the past decade] the government and the parliament passed new laws on mining, farming, and horticulture that had a serious impact on openness to trade and investment.***
- ***Although Indonesia may not be the worst offender in the region in imposing new trade-restrictive regulations, it is one of the worst when it comes to non-tariff measures.***
- ***The anti-foreign attitude also helps explain why Indonesia has been less enthusiastic about participating in the global value-added network.***

Trade Protectionism [Lowy Inst June 2015] (2)

- ...there are few indications that President Jokowi is going to abandon the protectionist trend in Indonesian economic policy.
- *...interventionist policy may lead to a wasteful allocation of resources.*
- *...the worry for Indonesia is that it will repeat the mistakes it has made before...*

Paying the price:

- *Increasing protectionism is likely to prove immensely counterproductive for the Indonesian economy. Rather than pursuing interventionist policies the Indonesian government needs to return to the basics: infrastructure, logistics, and consistency of rules and regulations. Unfortunately, for the immediate future, that seems very unlikely.*

Today's Presentation

- *Indonesia & its Emerging Market Peers*
- *GDP Growth & the Budget*
- *Macro-Economy & Banking*
- *Trade & Investment*
- *The Real Sector*
- *Employment & Poverty*
- *The Political Landscape*
- *The Future: Changing Course?*

Jokowi's Challenges – Wall of Reality

INDONESIA OCTOBER 2014 – Jokowi Takes Office



Source: *The Jakarta Globe*

The World 2016



The Wall of Reality – The World

- ***Fragile Global Recovery***
- ***A Slowing China***
- ***Weak Commodity Prices***
- ***Asynchronous Monetary Policy- US vs RoW (the Rest of the World)***

Source: IMF

Indonesia

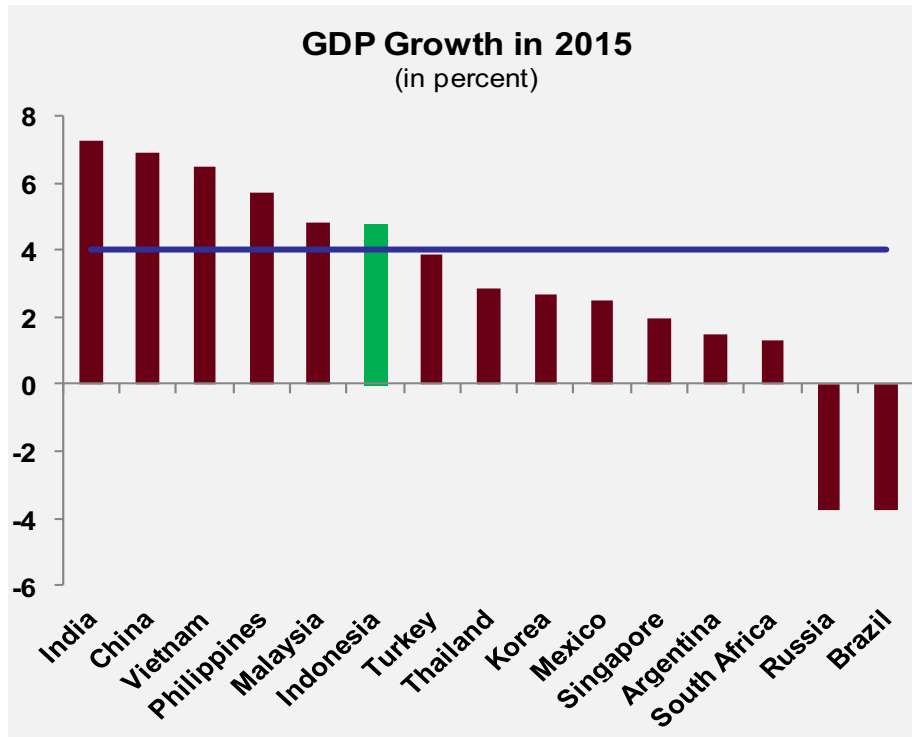


The Wall of Reality - Indonesia

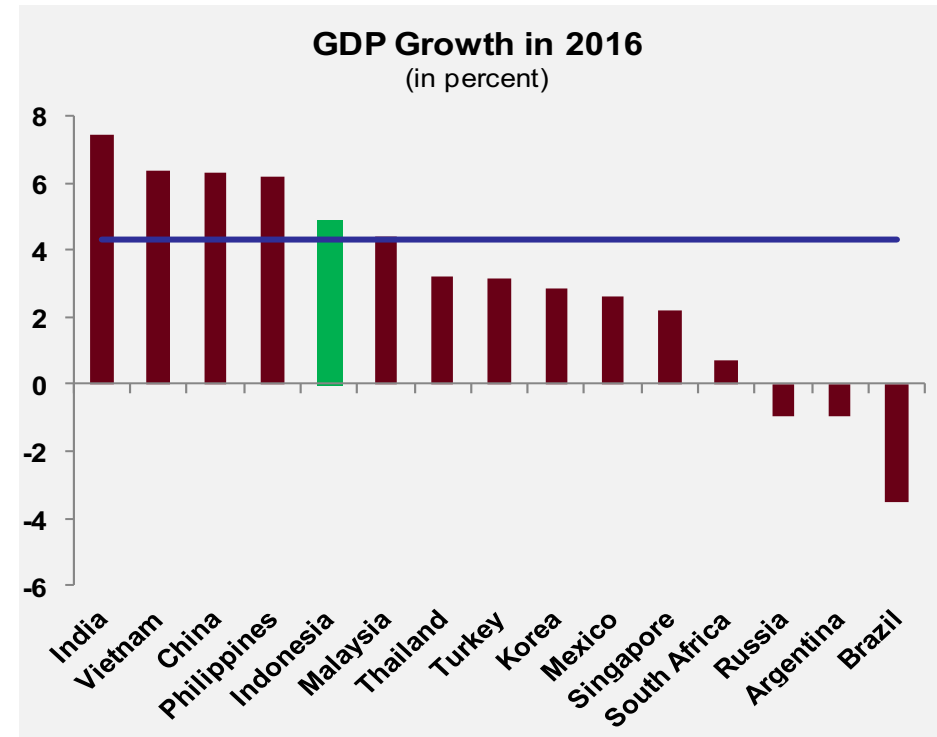
- ***The Budget – Declining revenue***
- ***Macro – Debt, Currency, Interest Rates***
- ***Recalcitrant Bureaucracy***
- ***Rent seeking elements of the Elite***
- ***Politics - Golkar, PDIP/Mega, PPP
wracked by internal faction struggles.
SBY/PD seeking cracks for 2019***

Indonesia weathered the challenging conditions in 2015 well.....

Growth has held up well relative to other EMs.....



Source: IMF WEO Database



Source: IMF WEO Database

Emerging Market GDP Growth 2014 - 2017

Nevertheless, growth has been slowing and Indonesia is falling behind its regional peers Vietnam, Philippines and India

	Real GDP Growth - YoY %			
	2014	2015	2016F	2017F
China	7.3	6.9	6.5	6.2
India	7.2	7.3	7.5	7.5
Philippines	6.1	5.8	6.0	6.2
Vietnam	6.0	6.7	6.3	6.2
Emerging Asia*	6.8	6.6	6.4	6.3
Malaysia	6.0	5.0	4.4	4.8
INDONESIA	5.0	4.8	4.9	5.3
Sri Lanka	4.5	5.2	5.0	5.0
EM Asia ex China & India	4.6	4.7	4.8	5.1
Taiwan	3.9	0.7	1.5	2.2
South Korea	3.3	2.6	2.7	2.9
Hong Kong	2.6	2.4	2.2	2.4
Singapore	3.3	2.0	1.8	2.2
Thailand	0.8	2.8	3.0	3.2

Source: International Monetary Fund - April 2016

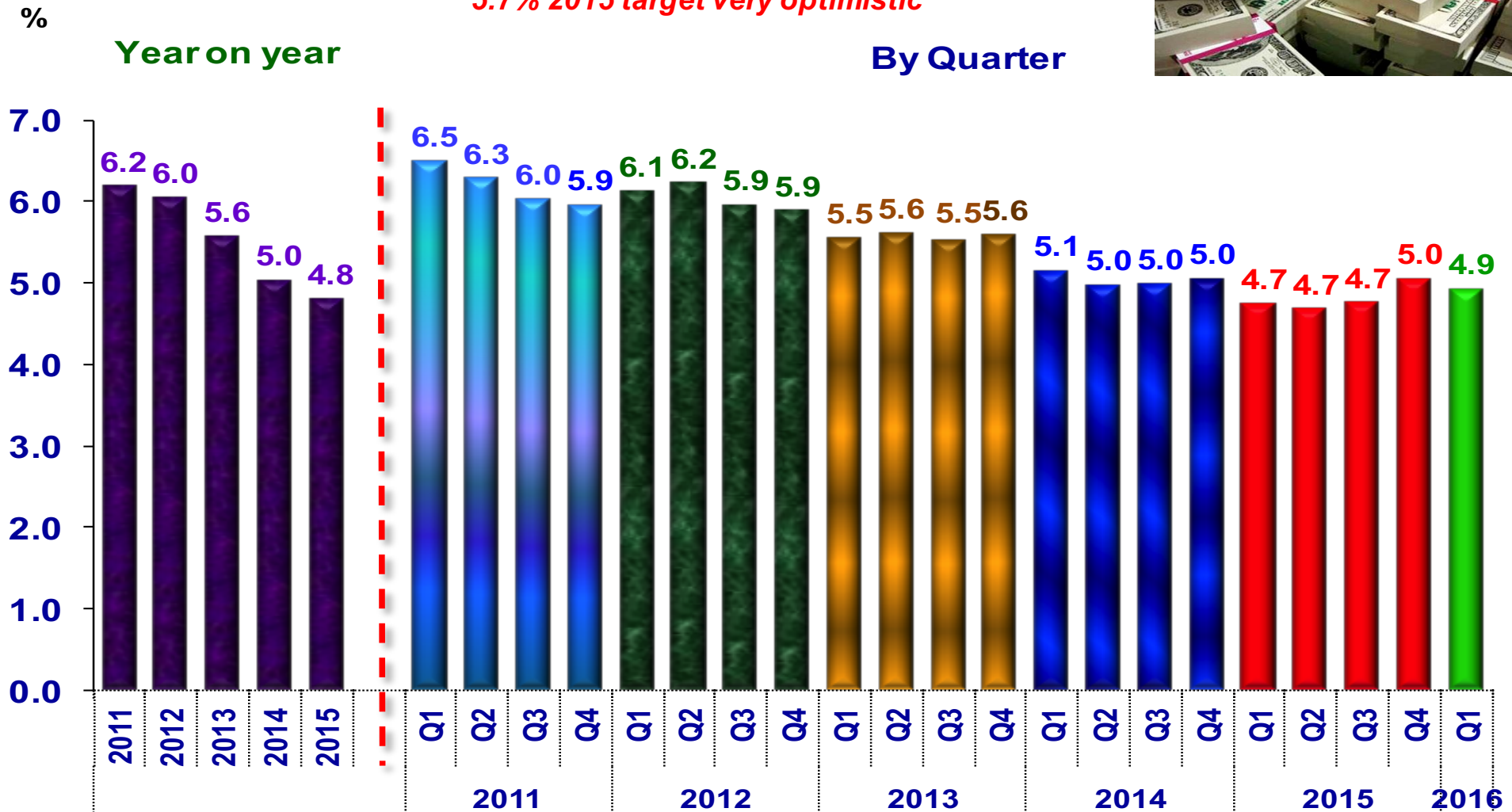
Macro Economy & Banking



GDP Growth (%)

2011 – 2016

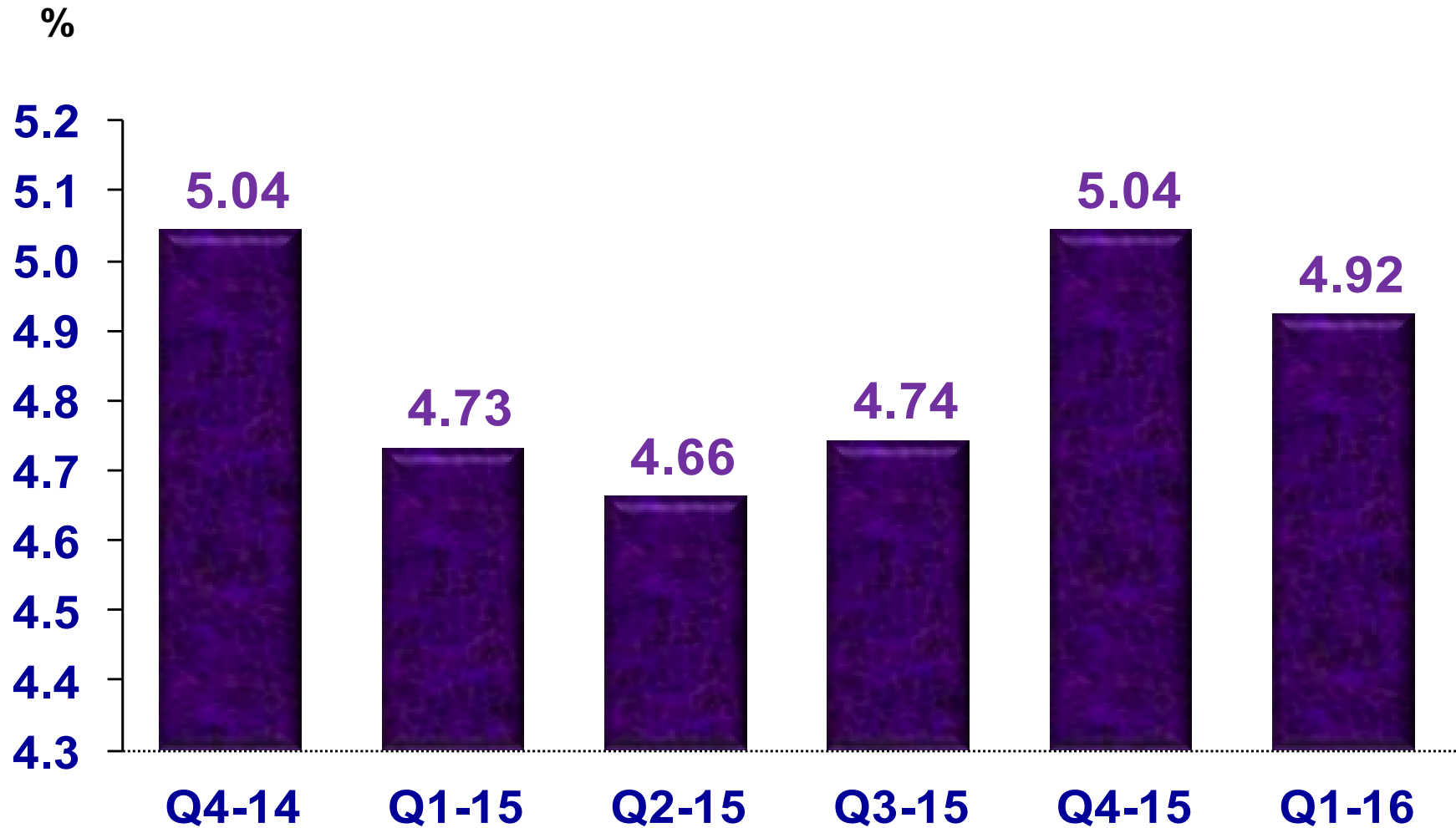
*Slow, steady growth decline
may have bottomed out. Gov't's
5.7% 2015 target very optimistic*



Sources: CBS, CastleAsia

GDP Growth (%)

Q4-2014 thru Q1-2016



Sources: CBS, CastleAsia

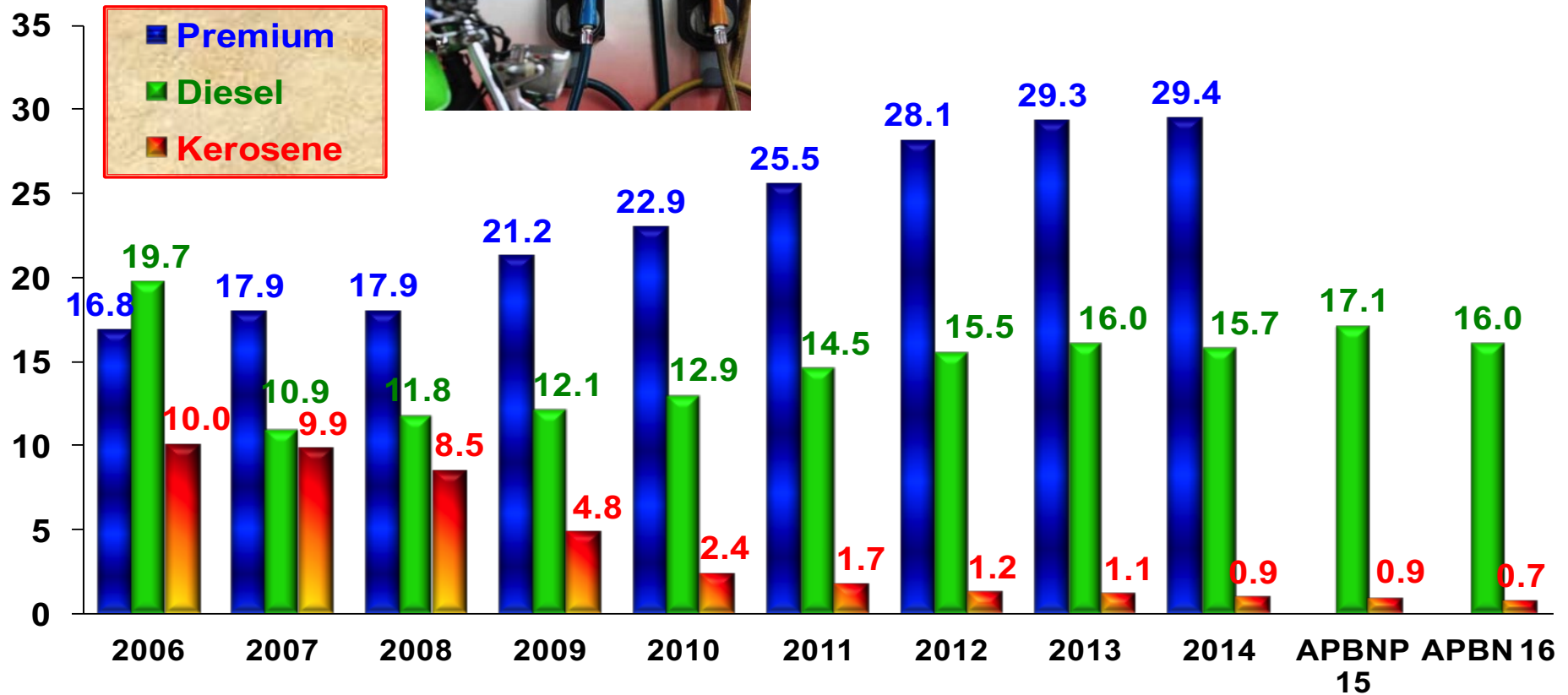
Annual GDP Growth and Share of GDP, by Services Subsector, Indonesia 2000 - 2014

	Average annual growth (%)		Share of GDP (%)		
	2000 - 10	2010 - 14	2000	2010	2014
Transport and communication	12.9	10.6	4.7	9.4	10.9
Trade, hotels and restaurants	6.0	7.3	16.2	17.3	18.0
Construction	7.0	6.7	5.5	6.5	6.7
Finance, real estate & business services	6.7	6.6	8.3	9.5	9.9
Other services	5.3	5.9	9.3	9.4	9.4
Electricity, gas and water supply	8.0	5.5	0.6	0.8	0.8
Manufacturing	4.5	5.4	27.7	25.8	25.5
Agriculture, livestock, forestry, & fisheries	3.5	3.5	15.6	13.2	12.1
Mining and quarrying	1.1	1.6	12.1	8.1	6.7
All services	7.1	7.4	44.6	52.9	55.7
Excluding construction & electricity, gas & water supply	7.1	7.6	38.5	45.7	48.3
GDP	5.2	6.0	100.0	100.0	100.0

Source: Data from BPS

Actual Consumption of Subsidized Fuels (2006 – 2016)

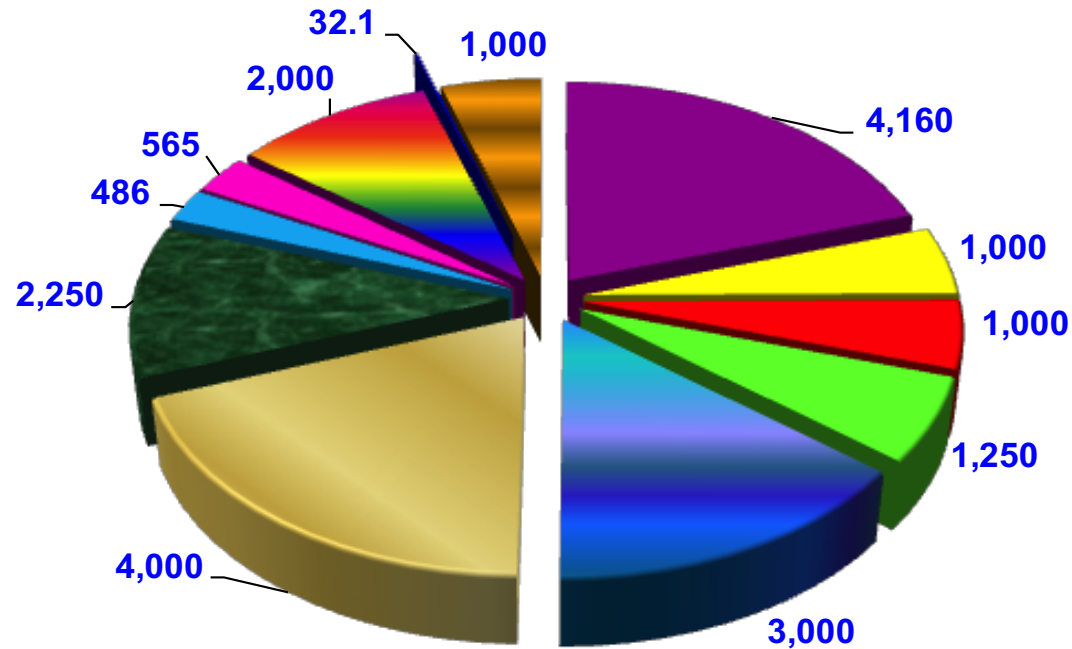
(Million Kilotre)



Source: Gov't Budgetary Note 2016 - 14 Jan 16

Government SOE Capital Injection Program: Infrastructure & Maritime Development Allocation

**Total Rp 20,742 Billion
(US\$1.56 Billion)**



- PT Sarana Multi Infrastruktur
- PT Penjamin Infrastruktur Indonesia
- PT Sarana Multigriya Finansial
- PT Jasa Marga
- PT Hutama Karya
- PT Wijaya Karya
- PT Pembangunan Perumahan
- Perum Perumnas
- PT Pelayaran Nasional Indonesia
- PT Angkasa Pura II
- PT Amarta Karya
- PT Pelindo III

Source: 2016 Budget

National Road Management in Indonesia and South Africa

	Indonesia	South Africa
Institution	Bina Marga	SANRAL
Length of Network (km)	38,570	21,403
Employees	7,372	295
Km per Employee	5.23	72.5
Number of Contracts	3,266	175
Average Speed (km/h)	46	98
Budget Allocation (\$ mln)	3,593	1,011
Allocation per network km (\$)	79,317	47,246

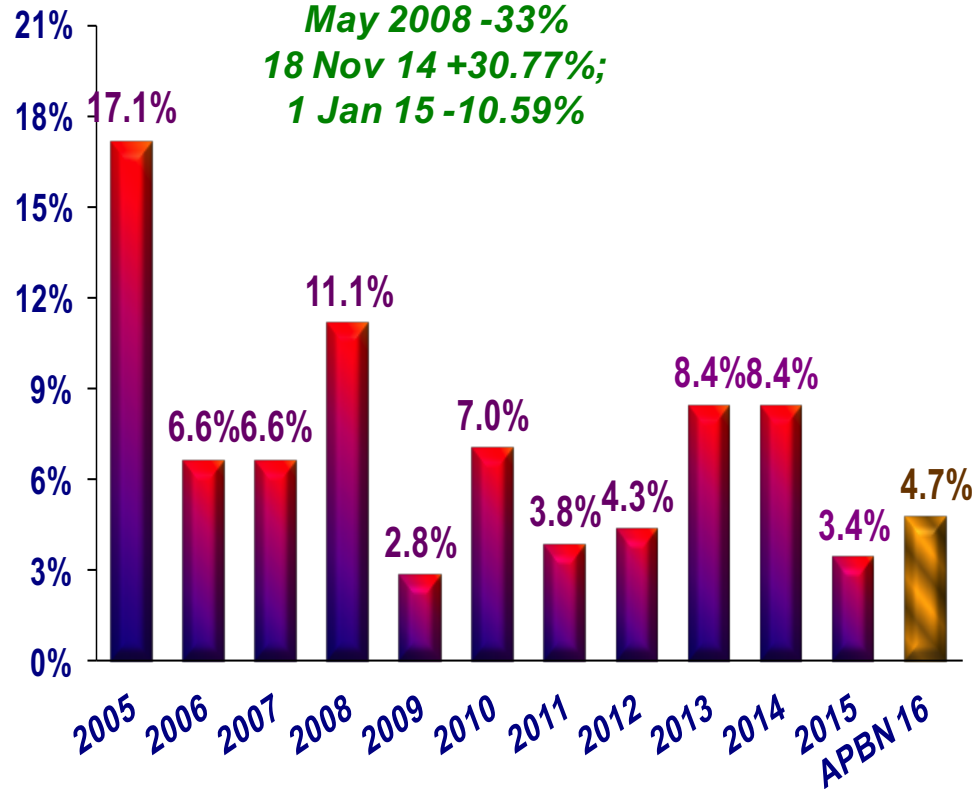
Sources: *Badan Pusat Statistik, the Ministry of Public Works and Housing, and SANRAL, BIES*

Inflation 2005 – 2016*

2005 – 2016*

Fuel price hikes 2005:
Mar 33%; Oct 100%

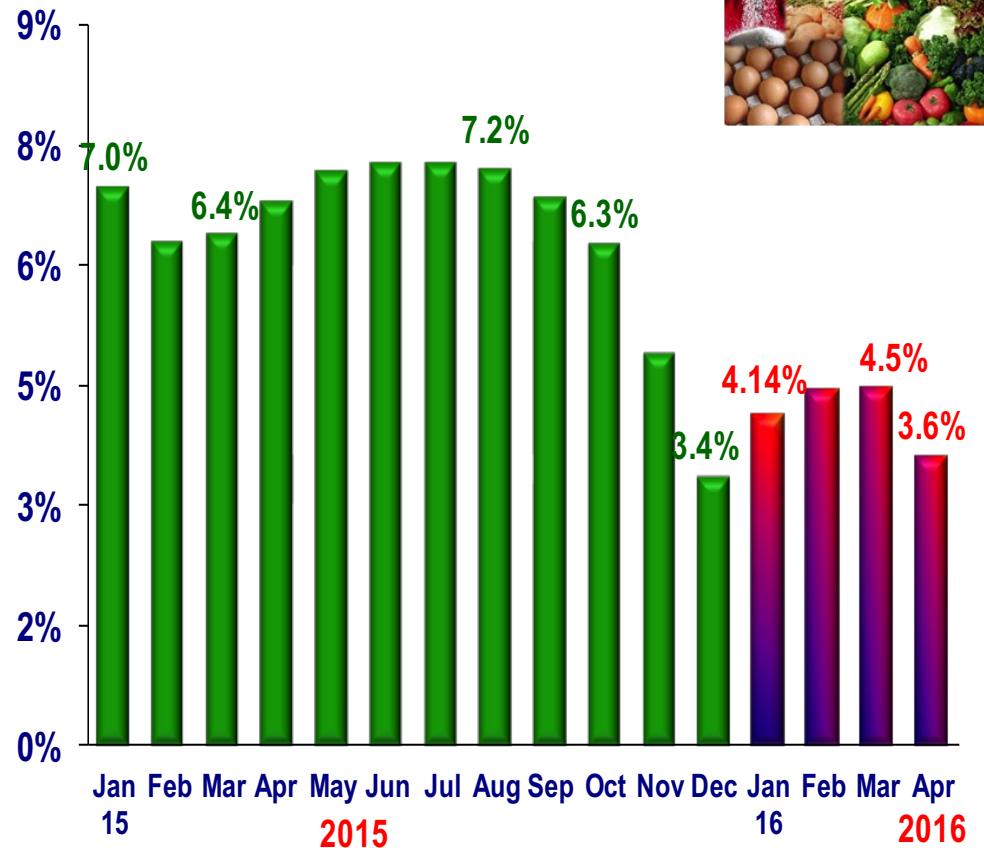
Fuel Price Hike :
May 2008 -33%
18 Nov 14 +30.77%;
1 Jan 15 -10.59%



Budgetary Note - Dec 15

Sources: CBS, CastleAsia

Monthly 2015 – 2016 (YoY)

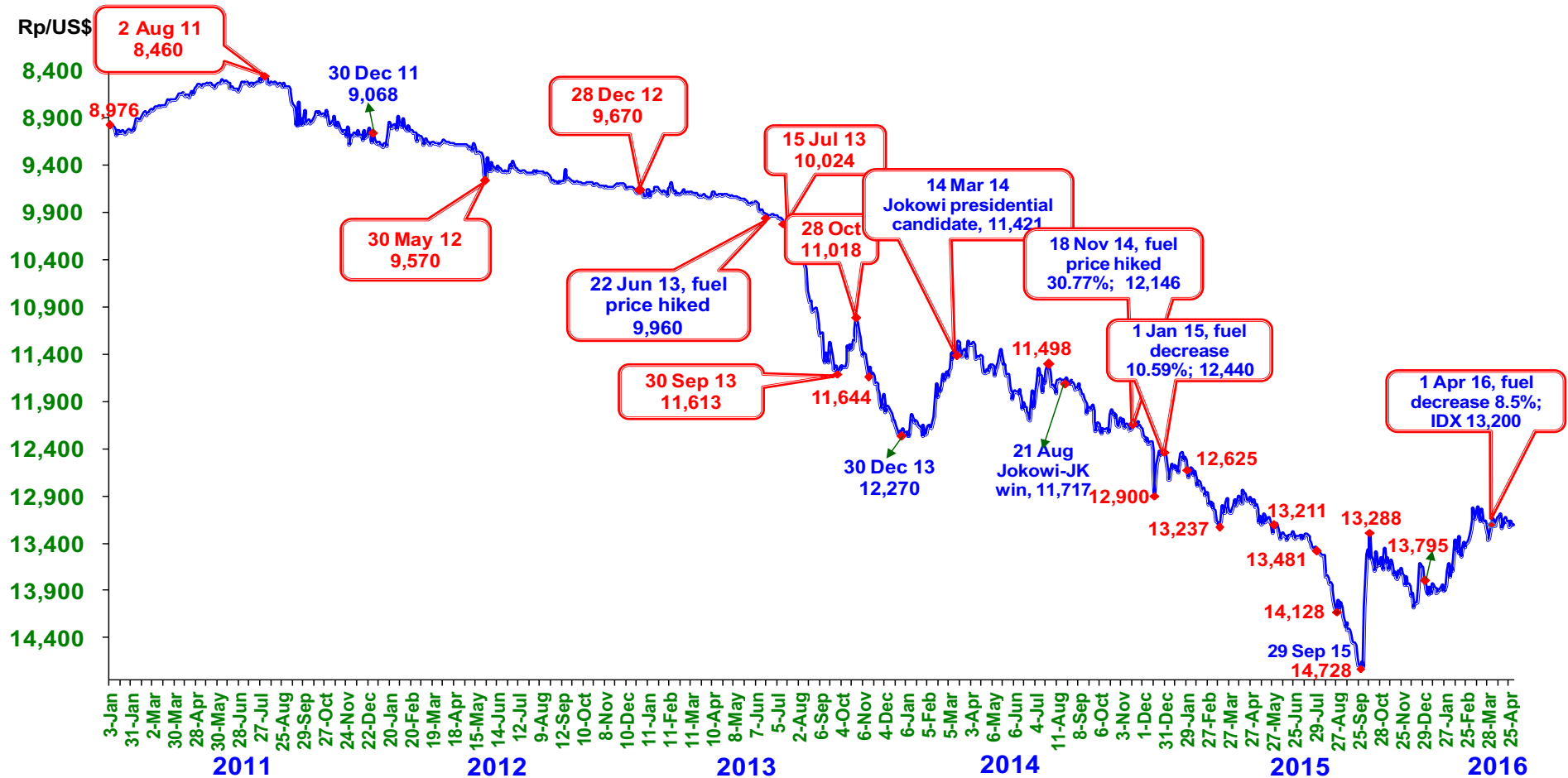


Rupiah vs. US\$

January 2011 – 29 April 2016

Rp hit 8,495 in July 2011, strongest level since 2004

**29 April 16
US\$ = 13,204**



Source: Bank Indonesia

Foreign Exchange Reserves



Sources: BI, CastleAsia

Banking: Credit Growth - Commercial Banks (y/y % change)

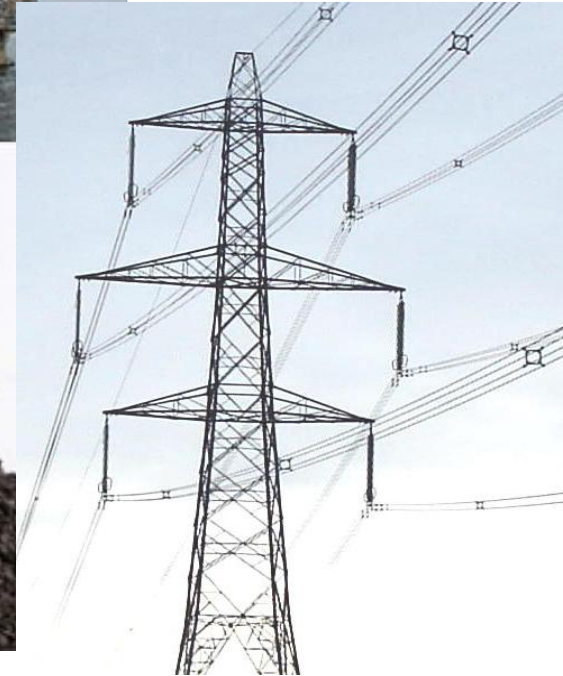


	2010	2011	2012	2013	2014	2015	Feb 16
Working capital	26.4%	21.6%	23.4%	20.2%	10.6%	8.5%	4.9%
Investment	16.8%	33.3%	27.6%	34.4%	12.5%	14.6%	12.7%
Consumption	22.9%	24.3%	19.8%	13.8%	11.6%	9.1%	9.2%
<i>Property*</i>	12.8%	24.7%	24.0%	26.5%	17.3%	11.9%	11.4%
Total Credits	23.3%	24.7%	23.2%	21.4%	11.3%	10.1%	8.0%
Total NPL to total Credit	2.6%	2.2%	1.9%	1.8%	2.2%	2.5%	2.9%

**working capital, investment and consumption credits*

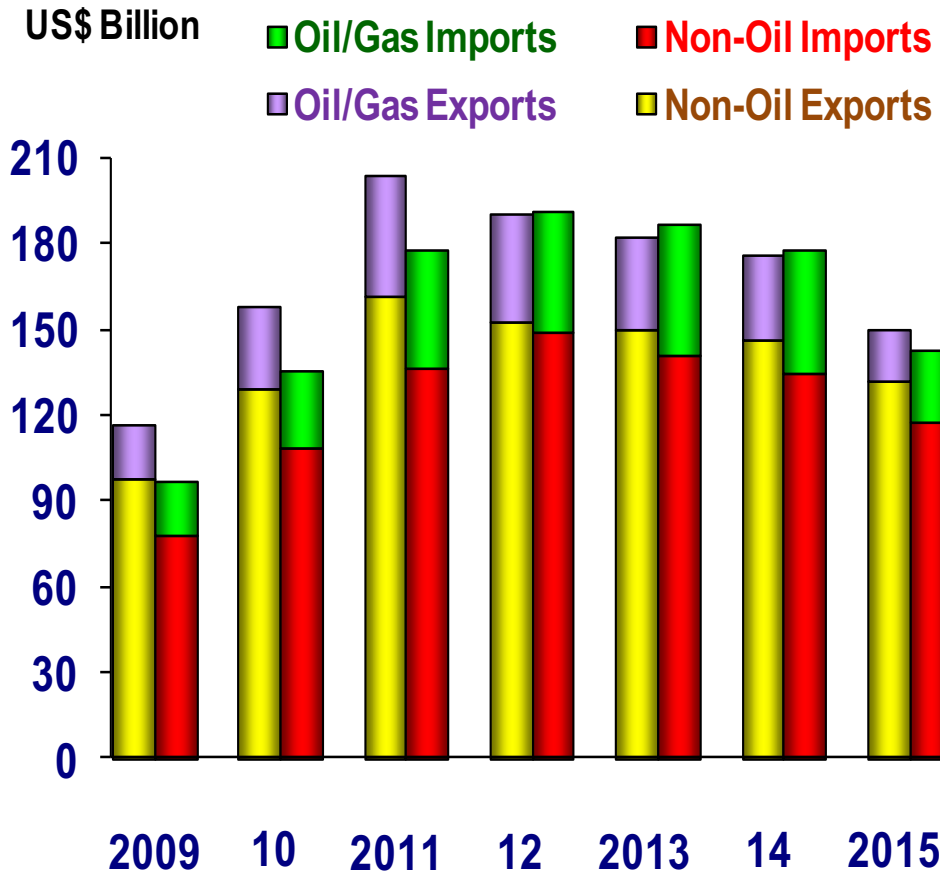
Source: Bank Indonesia

Trade & Real Sector

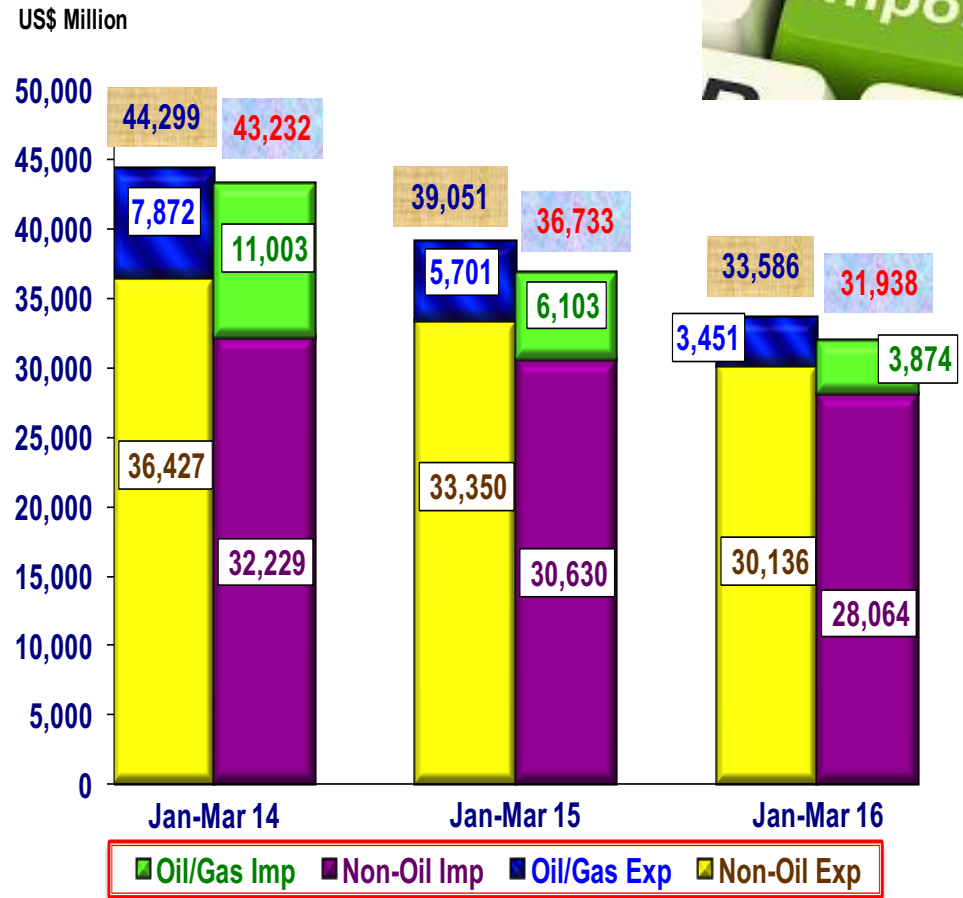


Trade

2009 – 2016



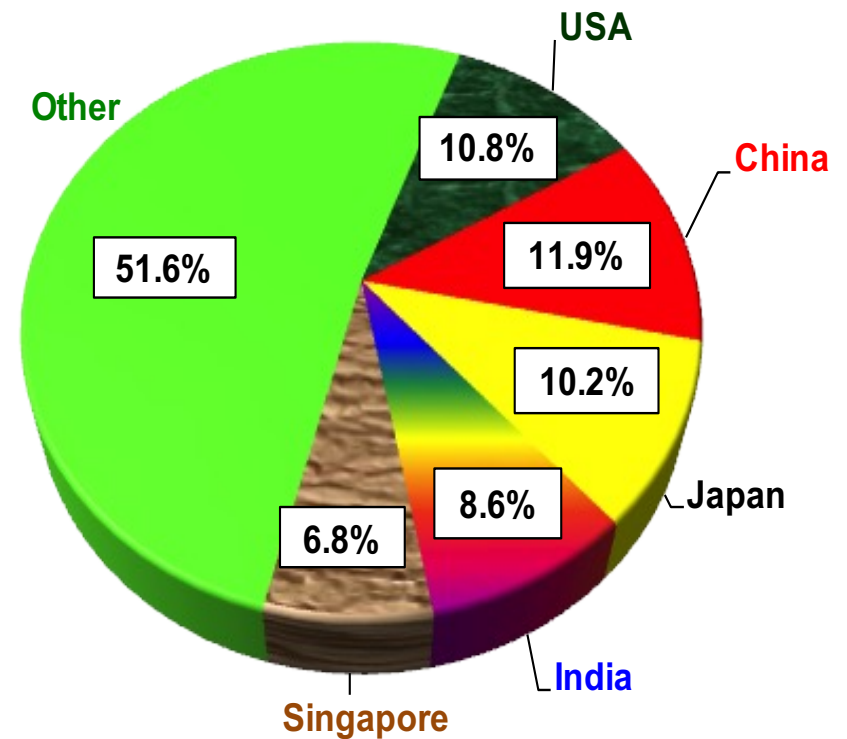
2014 - 2016



Top Five Non-Oil Exports Markets

Non-oil Exports	US\$ Million		
	2013	2014	2015
USA	15,082	15,857	15,307
China	21,282	16,459	13,260
Japan	16,084	14,566	13,090
India	13,010	12,224	11,584
Singapore	10,386	10,066	8,661
Other	74,075	76,790	69,829
TOTAL NON-OIL EXPORTS	149,919	145,961	131,730

**Total Non-Oil Exports :
2013-2015 : US\$ 427.6 billion**

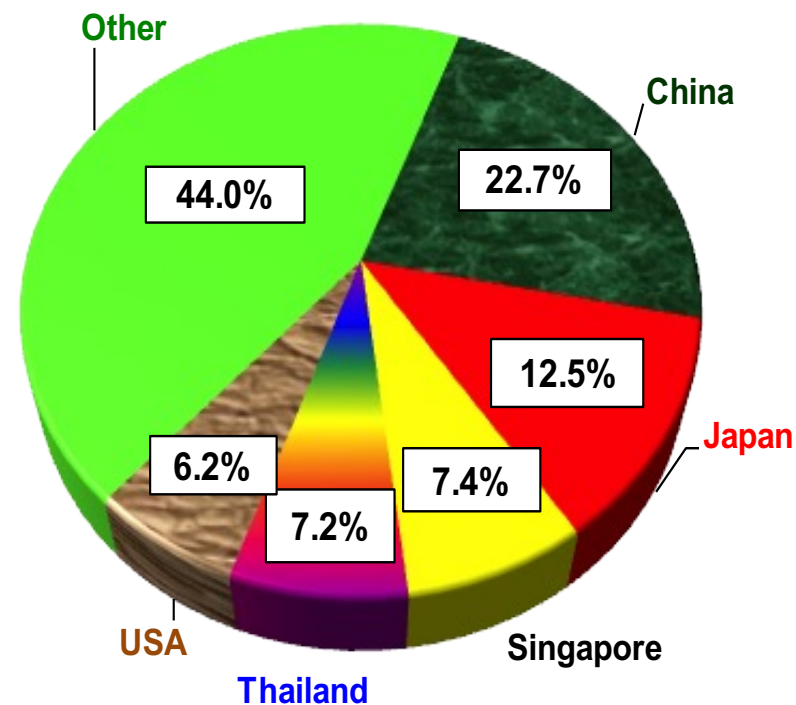


Sources: CBS, CastleAsia

Top Five Non-Oil Import Sources

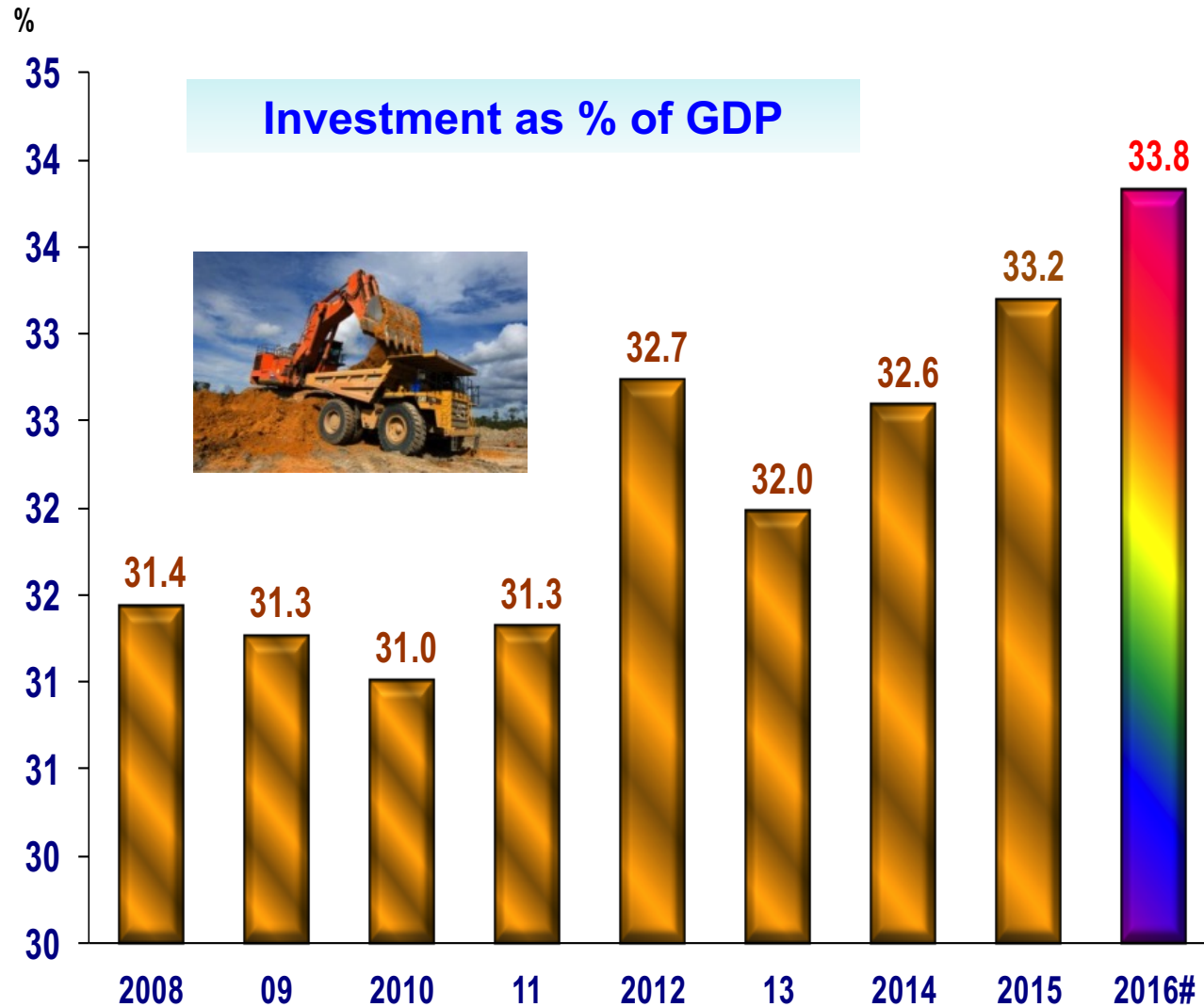
Non-oil Imports	US\$ Million		
	2013	2014	2015
China	29,570	30,462	29,225
Japan	19,054	16,938	13,233
Singapore	10,159	10,151	8,975
Thailand	10,614	9,695	8,019
USA	8,874	8,102	7,551
Other	63,091	59,371	51,079
TOTAL NON-OIL IMPORTS	141,362	134,719	118,082

**Total Non-Oil Imports :
2013-2015 : US\$ 394.2 billion**



Sources: CBS, CastleAsia

Investment as % GDP



Source: Gov't Budgets

Budgetary Note 2016,
14 Jan 16

Greenfield Investment 2015

Selected Emerging Markets**

Country	Capex, \$bn**	Projects
India	63	697
China	56.6	789
Indonesia	38.5	166
Mexico	24.3	351
Brazil	17.3	268
Russia	11.6	179
Turkey	5.8	147
Egypt	14.5	59
Saudi Arabia	9.8	78

**India leads China.
Indonesia in 3rd place**

* Top countries per region by capital investment

** includes estimates

Source: fDi Report 2016, fDi Intelligence ; Financial Times, Apr 2016

Total Direct Investment Realization by Sector (BKPM)

Based on Capex in 2010-2015, not including financial, oil & gas sectors

Rank	Business Field	Total (US\$ Million)	Rank	Business Field	Total (Rp Billion)
FOREIGN INVESTORS			DOMESTIC INVESTORS		
1	Mining	23,556	1	Electricity, gas, water supply	101,936
2	Transport, warehouse, telecom	19,420	2	Food industry	94,724
3	Metal, machinery, electronic inds.	13,679	3	Transport, warehouse, telecom	80,757
4	Chemical & pharmaceutical inds.	12,452	4	Food corps and plantation	59,063
5	Electricity, gas, water supply	11,305	5	Non metallic mineral inds.	57,486
	Others	66,266		Others	298,586
	TOTAL FDI	146,677		TOTAL DDI	692,552

Source: BKPM



Total FDI Realization by Country (US\$ Million)

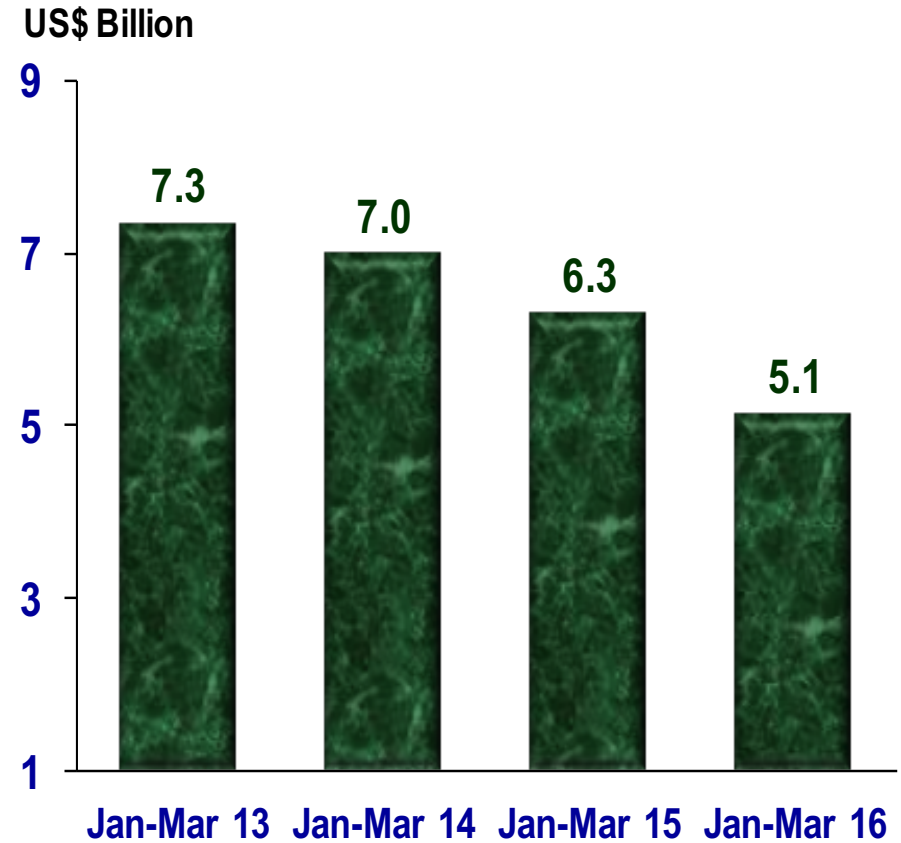
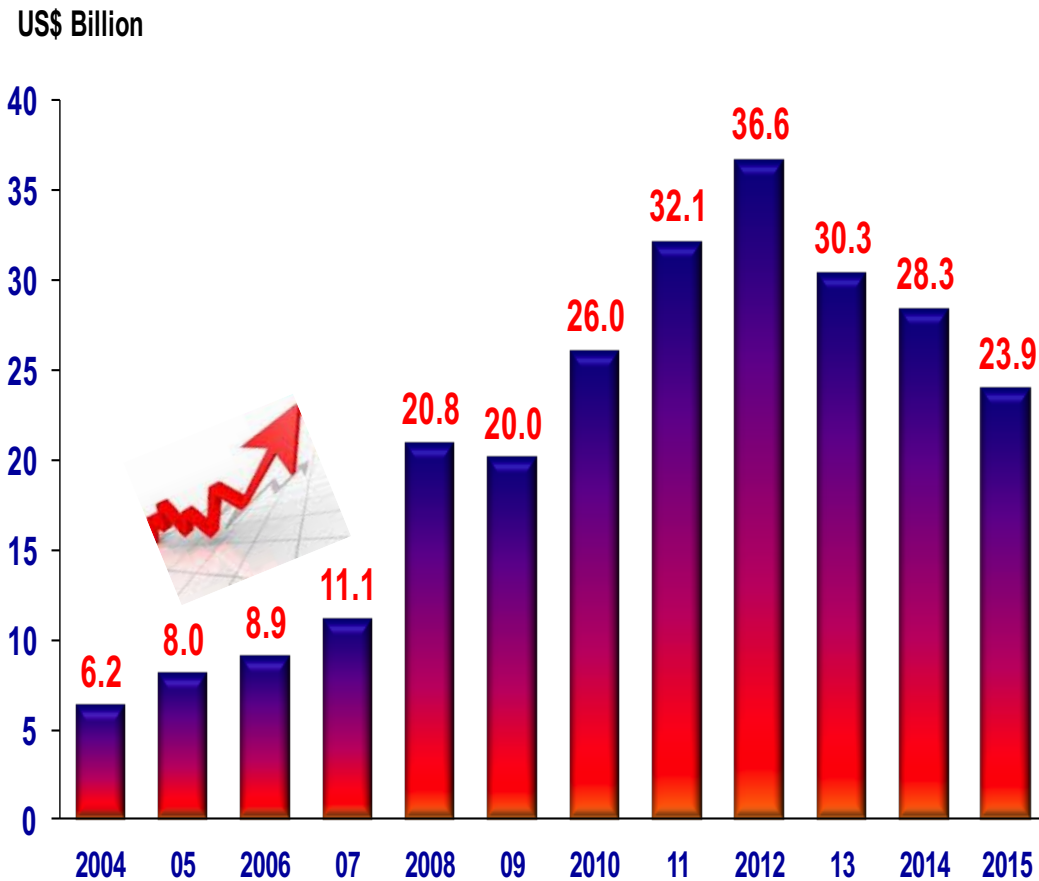
Rank	Country	2010	2011	2012	2013	2014	2015	1st Q 16	TOTAL
1	Singapore	5,565	5,123	4,856	4,671	5,832	5,901	2,863	34,811
2	Japan	713	1,516	2,457	4,713	2,705	2,877	1,590	16,571
3	United States	931	1,488	1,238	2,436	1,299	893	11	8,296
4	South Korea	329	1,219	1,950	2,205	1,127	1,214	189	8,232
5	Malaysia	472	618	530	711	1,776	3,077	102	7,286
6	Netherlands	608	1,354	967	928	1,726	1,308	267	7,158
7	British Virgin Islands	1,616	517	856	786	624	731	172	5,301
8	United Kingdom	276	419	934	1,076	1,588	503	55	4,851
9	Hongkong	566	135	310	376	657	937	507	3,488
10	China	174	128	141	297	800	628	465	2,633
11	Mauritius	23	73	1,059	780	541	44	4	2,525
12	Australia	214	90	744	226	647	168	60	2,149
TOTAL (Top 12 Countries)		11,487	12,680	16,042	19,205	19,322	18,281	6,283	103,301
TOTAL (90 Countries)		16,215	19,475	24,565	28,618	28,530	29,276	6,917	153,594

Capital Goods Imports

2004 – 2015

*Still Capital
Goods imports continue to
decline . . .*

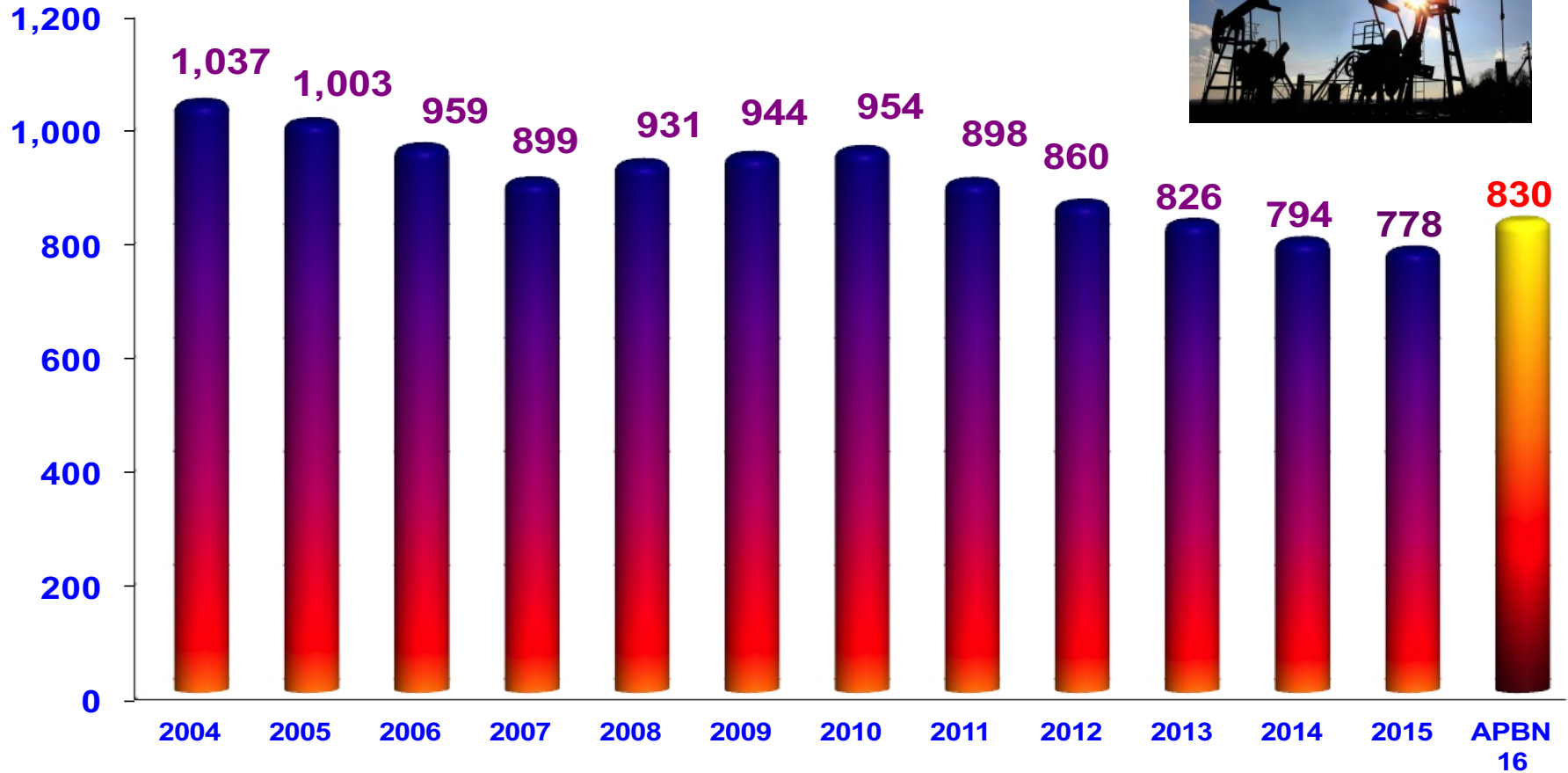
January - March



Sources: CBS, CastleAsia

Crude Oil – Production Realization 2004-2015

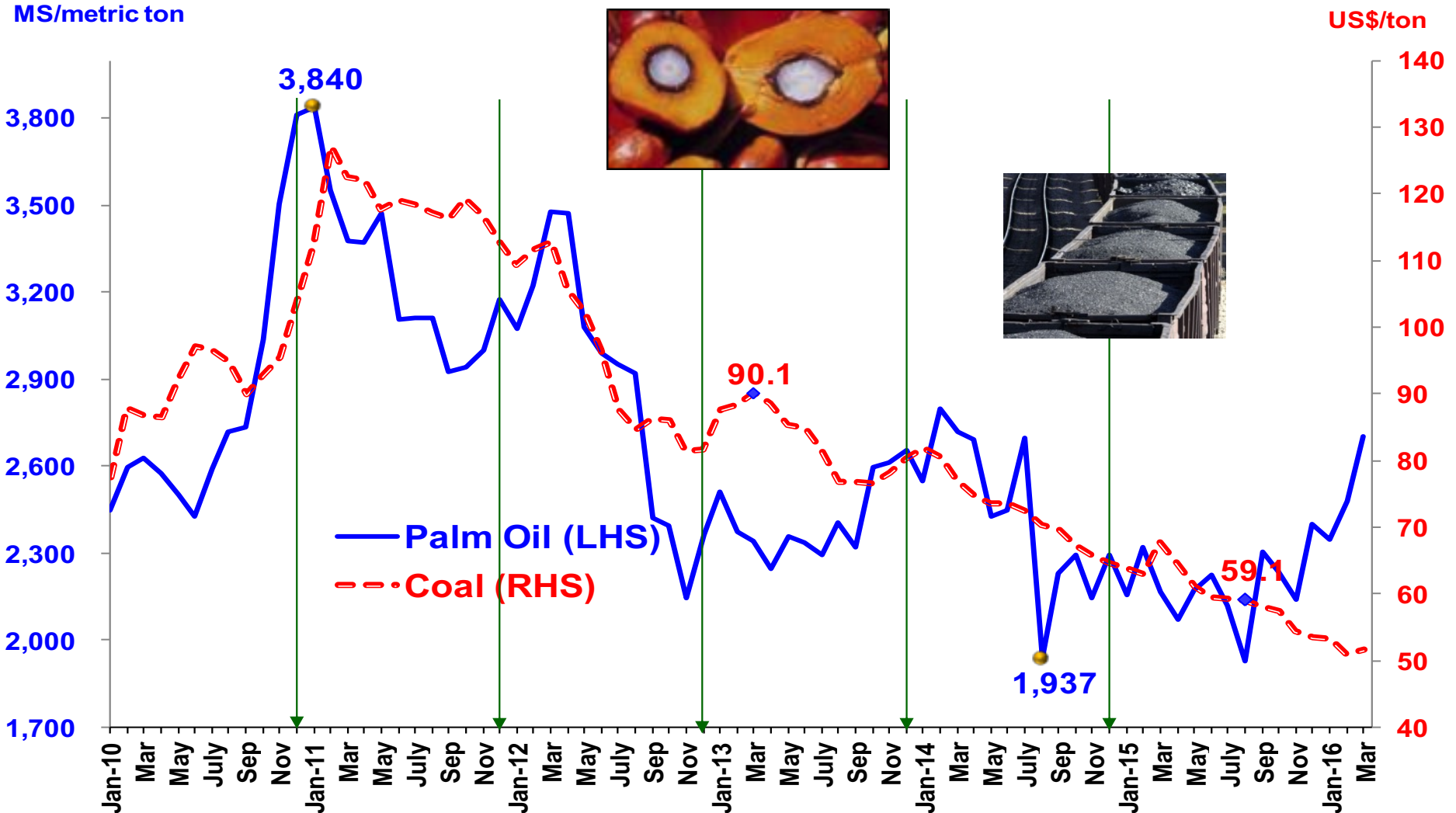
thousand barrels per day



Budget Note -14 Jan 16

Source: Gov't Budgetary Note 2016 - 14 Jan 2016

Palm Oil and Coal Price Trends



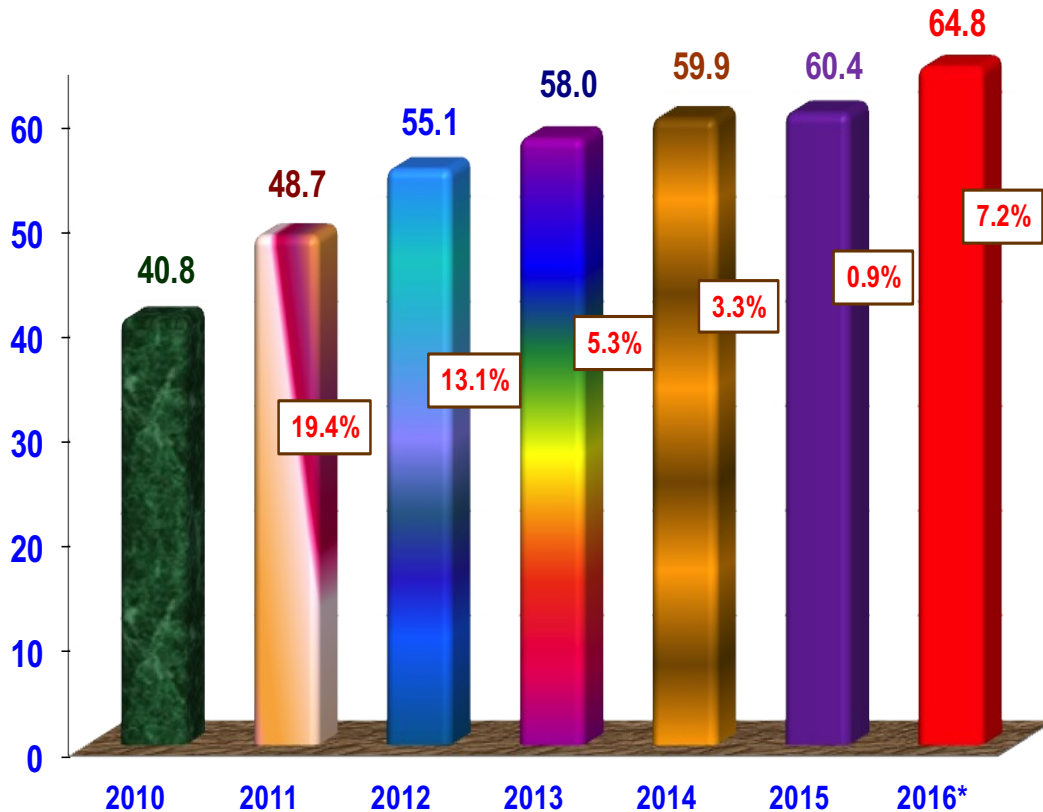
MAJOR DEALS -- Mar-Apr 2016

- **GARUDA INDONESIA WILL BUY 14 NEW AIRBUS A330-900NEO PLANES WITH ROLLS ROYCE TRENT 7000 ENGINES FOR US\$5.2 BILLION.**
- **ENERGY GIANT BP HAS SIGNED A MULTI-BILLION DOLLAR CONTRACT WITH STATE POWER UTILITY PLN TO SUPPLY THE LATTER WITH LNG UP TO 2033**
- **STATE ALUMINUM PRODUCER INALUM AND STATE MINER ANTAM HAVE SIGNED A JOINT VENTURE AGREEMENT TO BUILD A US\$1.8 BILLION SMELTER GRADE ALUMINA REFINERY**
- **STATE MINER ANEKA TAMBANG (ANTAM) HAS SIGNED A PROJECT DEVELOPMENT AGREEMENT (PDA) WITH GERMANY'S CRONIMET HOLDING AND FERROSTAAL INDUSTRIAL PROJECTS TO BUILD A US\$800 MILLION FERRONICKEL PRODUCTION FACILITY IN POMALAA, SOUTH SULAWESI**
- **ASTRA INTERNATIONAL SAID IT WILL RAISE RP10.1 TRILLION (US\$765 MILLION) FROM RIGHTS ISSUES BY THREE OF ITS SUBSIDIARIES**
- **AN INDONESIAN CONSORTIUM SEEKING TO BUY NEWMONT'S BATU HIJAU COPPER MINE IN WEST NUSA TENGGARA HAS SECURED A US\$750 MILLION LOAN FROM TWO STATE BANKS FOR THE PURCHASE**
- **STATE TOLL ROAD OPERATOR JASA MARGA HAS SECURED A RP7.7 TRILLION (US\$583 MILLION) SYNDICATED LOAN FROM THREE STATE-OWNED BANKS**
- **THE WORLD BANK WILL PROVIDE US\$500 MILLION IN LOANS TO STATE POWER UTILITY PLN TO EXPAND ELECTRICITY ACCESS IN SUMATRA**

Cement Consumption

2010 – 2016*

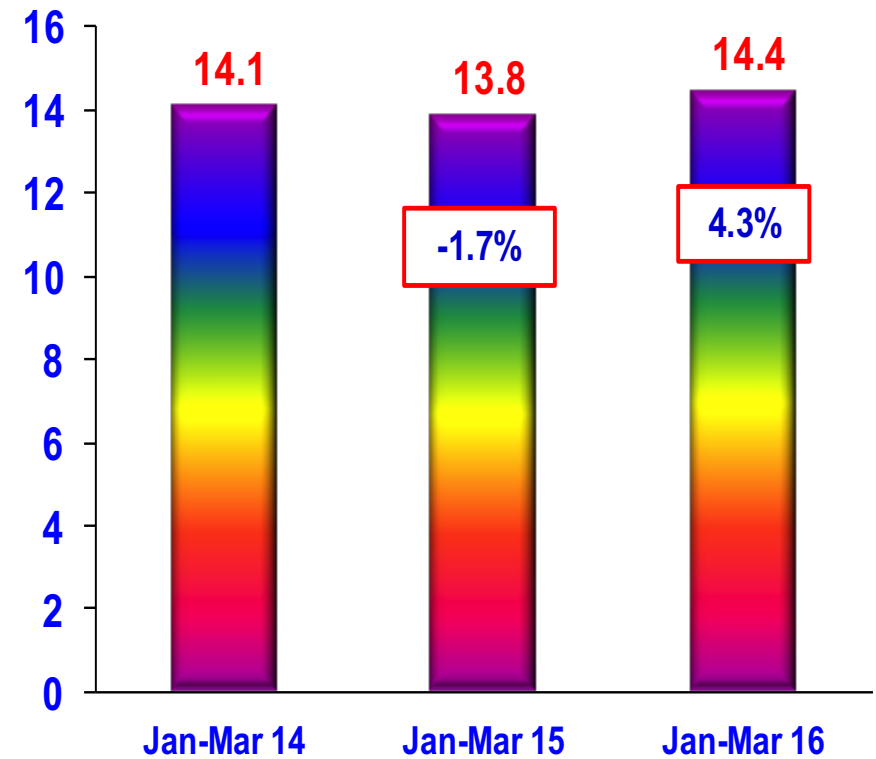
(Million ton)



Source: ASI

2014 - 2016

(million ton)



ASEAN Motor Vehicle Sales 2012 – 2015

Country	(unit)				% Change 2015/14
	2012	2013	2014	2015	
Singapore	37,247	34,111	47,443	78,609	65.7
Vietnam	80,453	98,649	133,588	209,267	56.7
Philippines	156,654	181,738	234,747	288,609	22.9
Malaysia	627,753	655,793	666,487	666,674	0.03
Thailand	1,436,335	1,330,672	881,832	799,632	(9.3)
INDONESIA	1,116,212	1,229,901	1,208,019	1,013,291	(16.1)
Brunei	18,634	18,642	18,114	14,406	(20.5)
TOTAL	3,473,288	3,549,506	3,190,230	3,070,488	(3.8)

Source: Asean Automotive Federation

ASEAN Motorcycle Sales 2012 – 2015

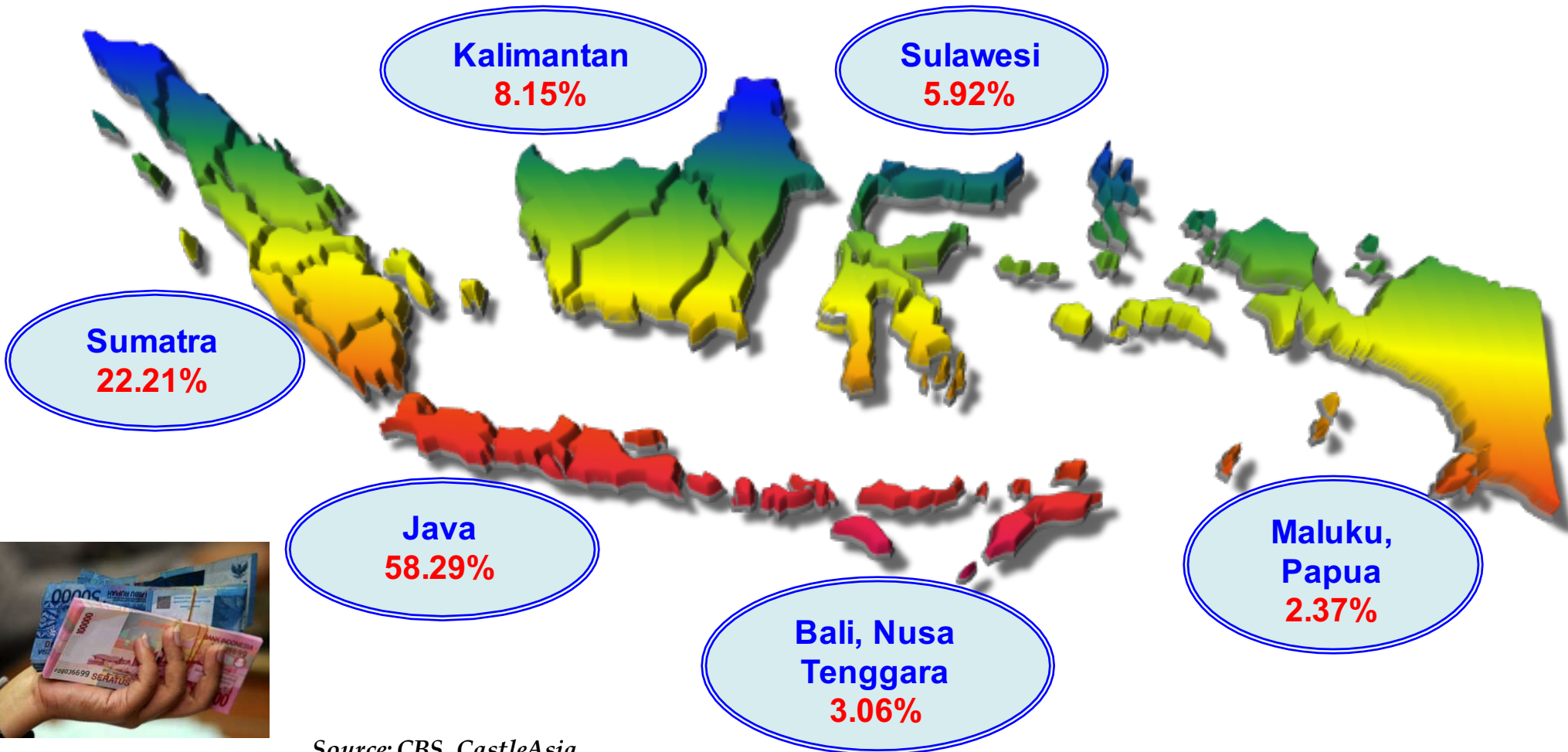
Country	(unit)				% Change
	2012	2013	2014	2015	2015/14
Philippines	702,599	752,835	790,245	850,509	7.6
Thailand	2,130,067	2,004,498	1,701,535	1,639,090	(3.7)
Singapore	9,923	11,650	8,145	7,459	(8.4)
Malaysia	537,753	546,719	442,749	380,802	(14.0)
INDONESIA	7,141,586	7,771,014	7,908,941	6,708,384	(15.2)
TOTAL	10,521,928	11,086,716	10,851,615	9,586,244	(11.7)

Source: Asean Automotive Federation

Employment & Poverty



GRDP Contribution By Area 2015

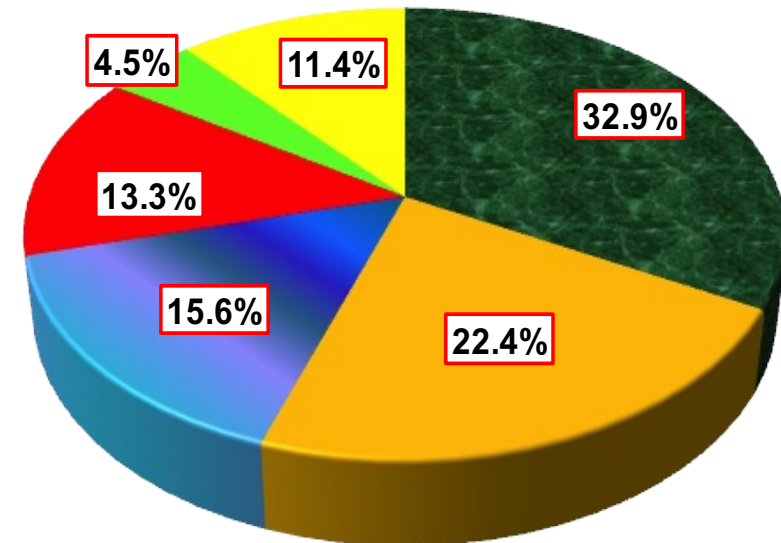
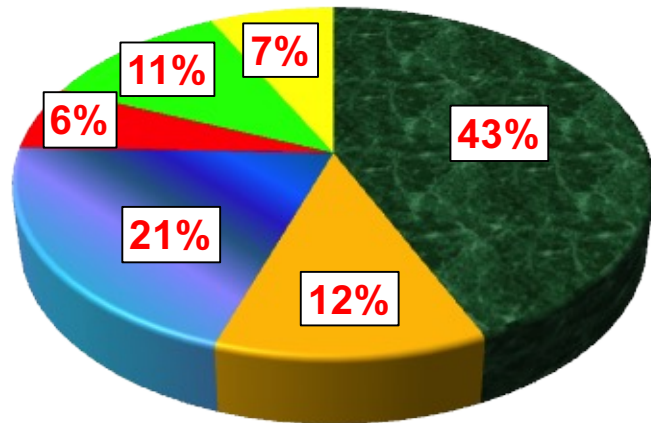


Employment By Main Industry

2004 = 93.7 million

August 2015 = 114.8 million

The role of agriculture and public services in employment is declining. The role trade and manufacturing is growing



- Agric'r, fishery
- Trade, Restaurant
- Public services
- Manufacturing
- Transp'n, Comm.
- Other (construction, mining, elect, water)

Sources: CBS, CastleAsia

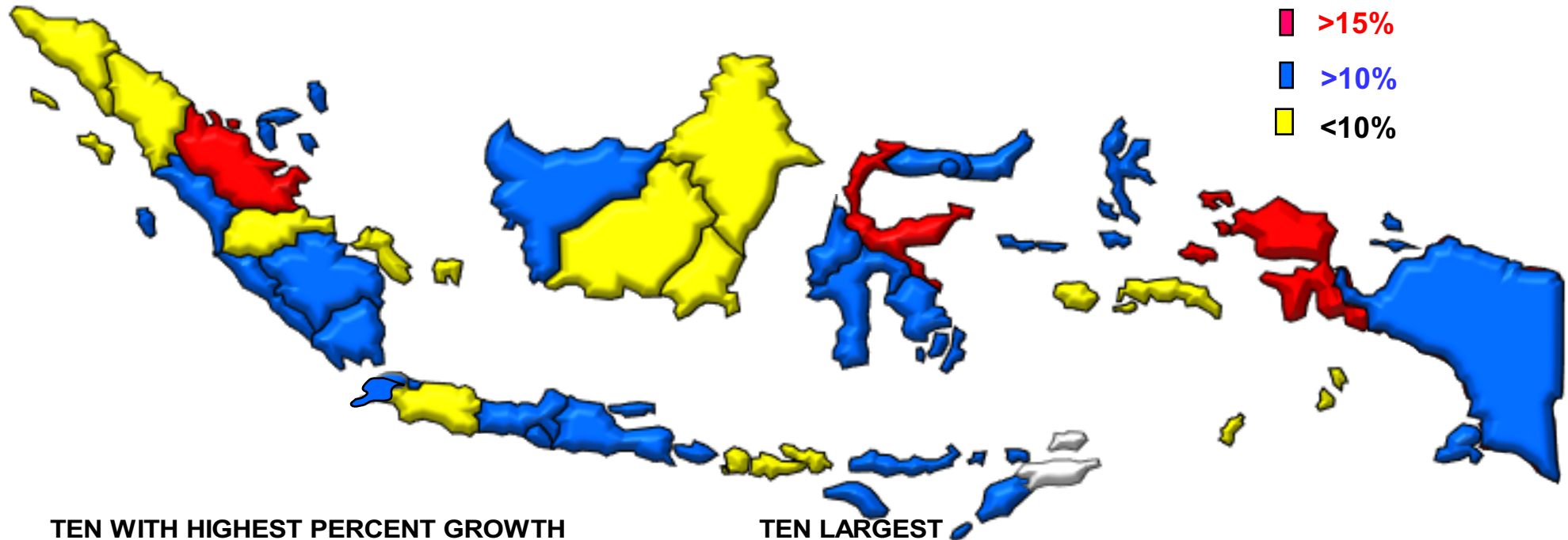
Provinces With Highest Economic Growth 2014



	PROVINCE	Growth 2014 (%)			
		GDP	AGRIC'R	MANFG'R	OTHER
1	West Sulawesi	8.73	6.00	35.88	6.17
2	North Kalimantan	8.16	7.39	4.88	8.76
3	Jambi	7.76	13.23	4.05	6.25
4	South Sulawesi	7.57	9.99	9.41	6.37
5	Riau Island	7.32	7.61	7.93	6.89
6	Gorontalo	7.29	6.43	5.98	7.93
7	Bali	6.72	4.68	8.81	6.94
8	Maluku	6.70	6.44	8.29	6.67
9	North Sulawesi	6.31	3.46	3.42	7.72
10	S/E. Sulawesi	6.26	9.12	7.69	5.15
	INDONESIA	5.02	3.85	5.47	5.39



Growth of Outstanding Credits by Province, 2014-2015



TEN WITH HIGHEST PERCENT GROWTH

	Rp Billion Dec 2015	% Chg 2015-14
Central Sulawesi	30,010	23.3
West Papua	11,193	20.7
Riau	85,963	15.0
East Nusa Tenggara ¹⁾	20,650	14.6
West Kalimantan	55,743	14.3
South Sulawesi	102,555	13.8
West Sulawesi	6,570	13.8
Central Java	277,609	13.3
North Sulawesi	32,980	13.1
Banten	235,444	12.6

TEN LARGEST

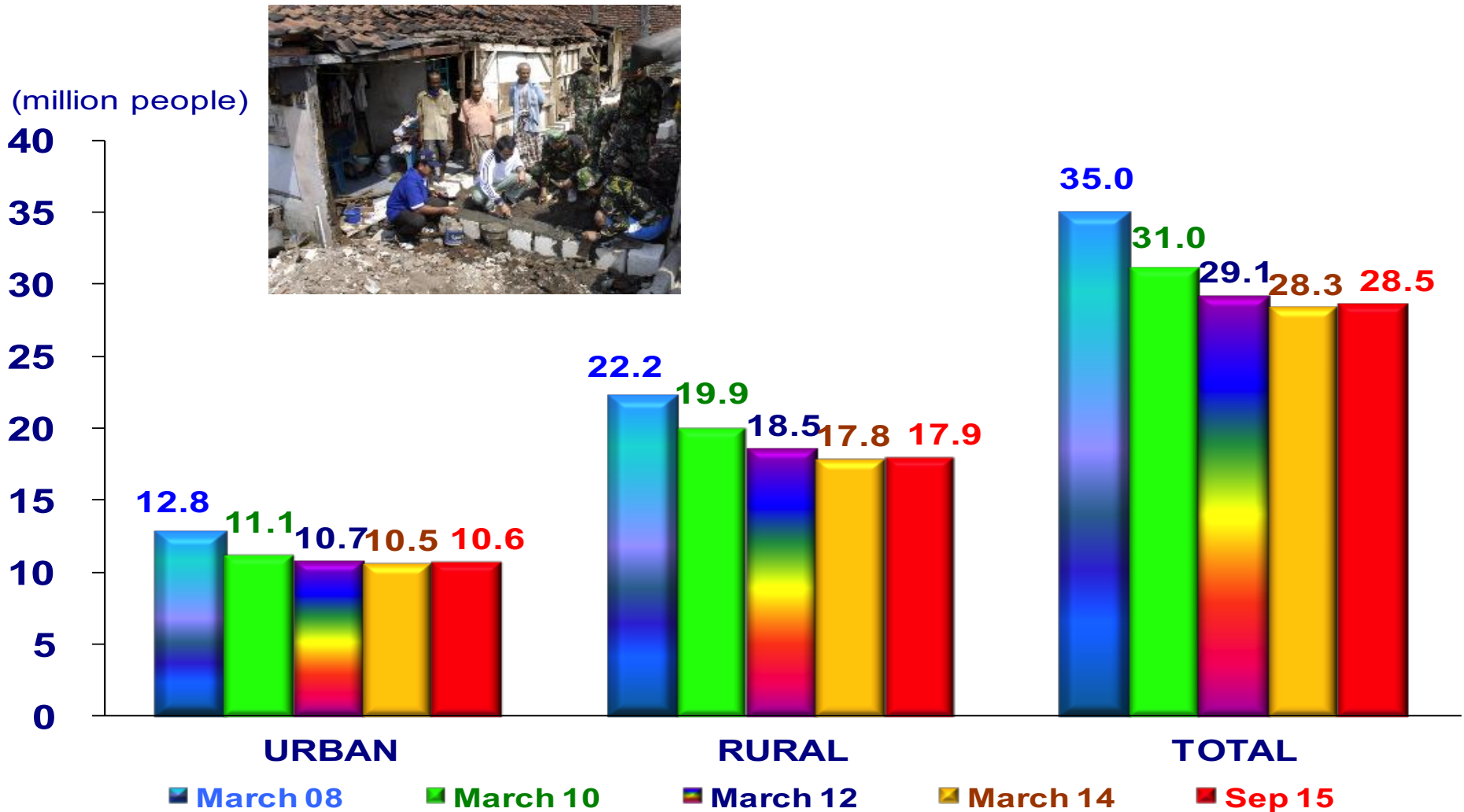
	Rp Billion Dec 2015	% Chg 2015-14
D.K.I. Jakarta	1,307,199	10.4
West Java	536,702	8.1
East Java	444,402	10.5
Central Java	277,609	13.3
Banten	235,444	12.6
North Sumatera	173,662	6.8
East Kalimantan	104,880	(1.8)
South Sulawesi	102,555	13.8
South Sumatera	95,362	10.1
Bali	87,467	11.6

Number Poor People by Area September 2015



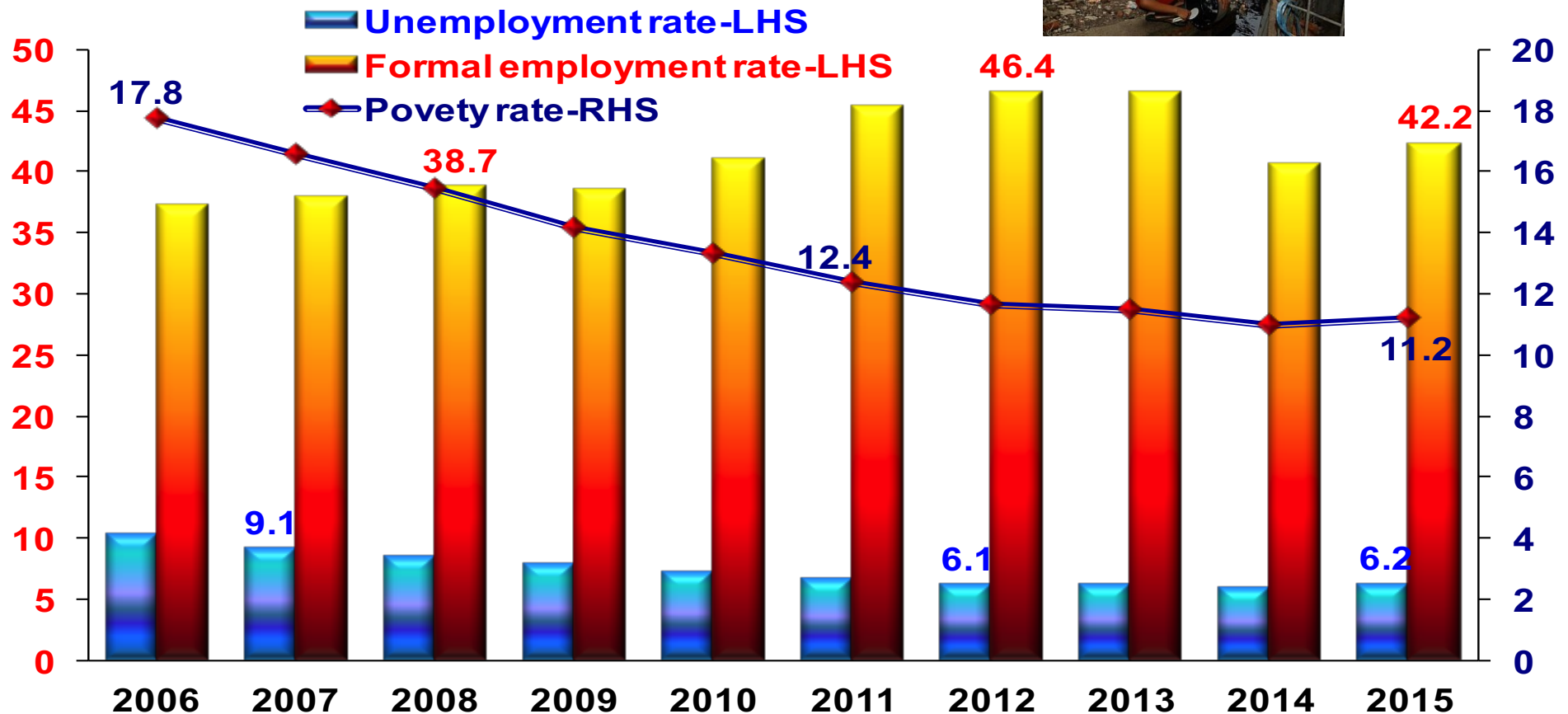
Source: CBS

Indonesia's Poor 2008 - 2015



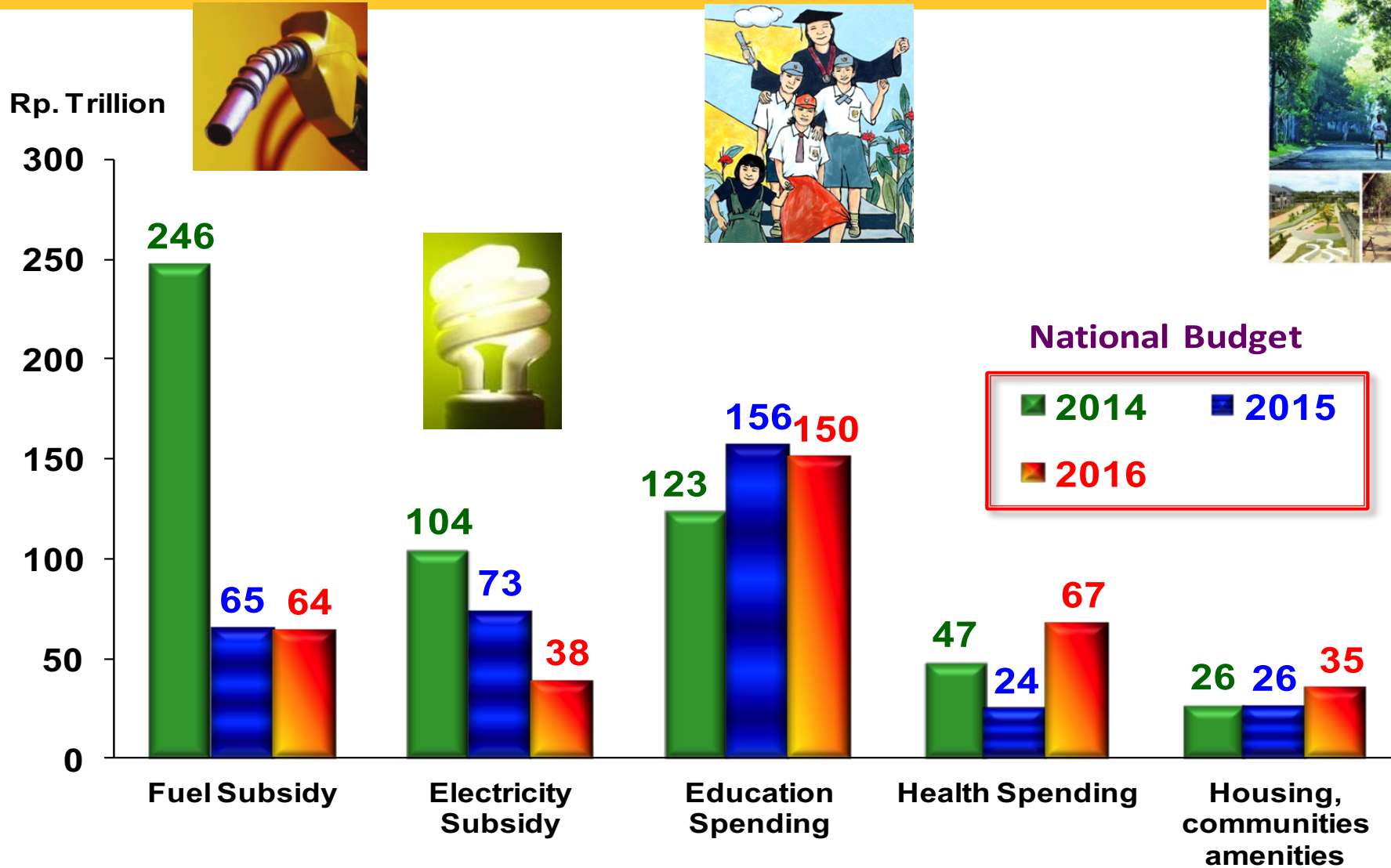
Source: CBS

Poverty and Unemployment rate



Sources: CBS, CastleAsia

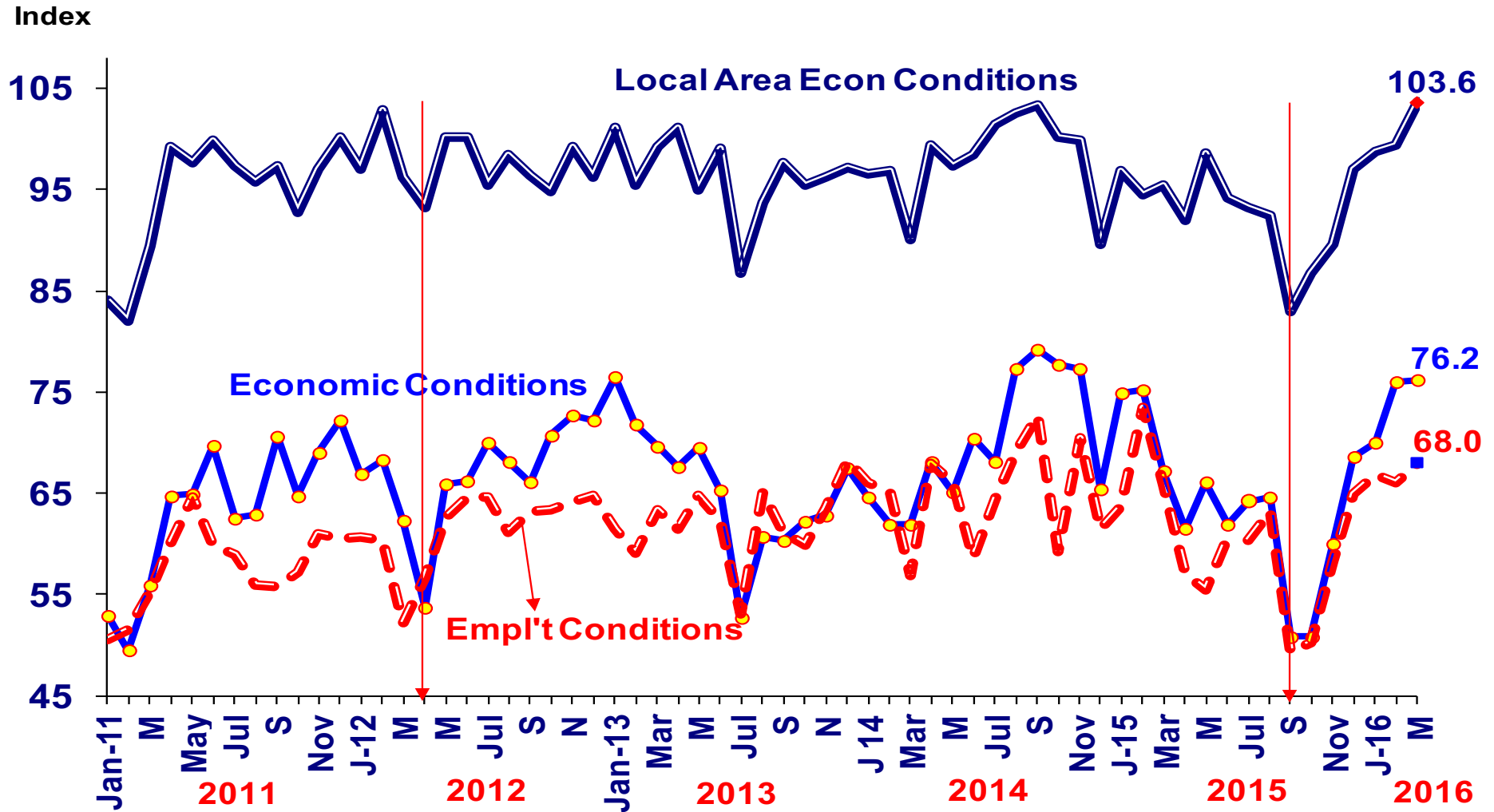
Subsidies vs Education and Health Care Tough Choices 2014 - 2016



Source: Budgetary Note 2016 - 14 Jan 2016, CastleAsia

Appraisal of Current Situation

January 2011 thru March 2016



Source: Danareksa Research Institute

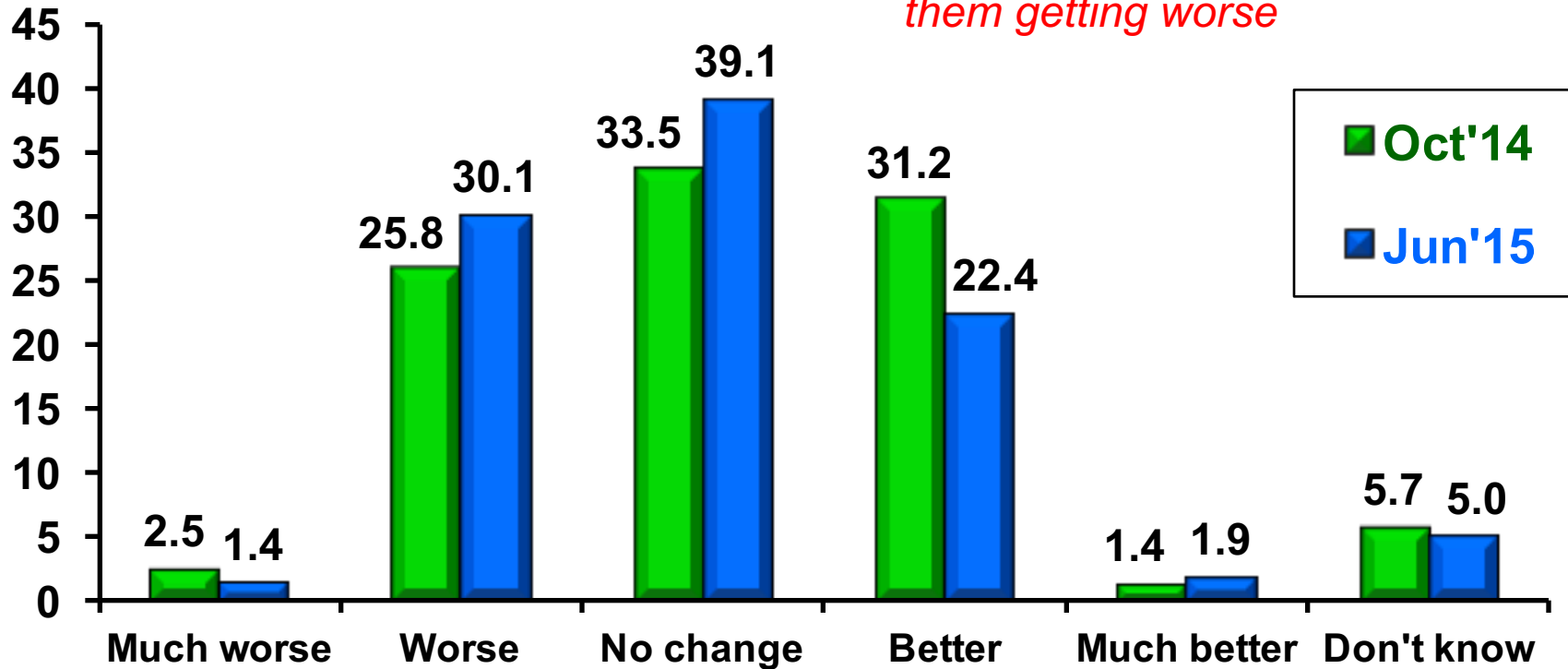
The Political Landscape



Mid 2015 polls looked bad for President ...

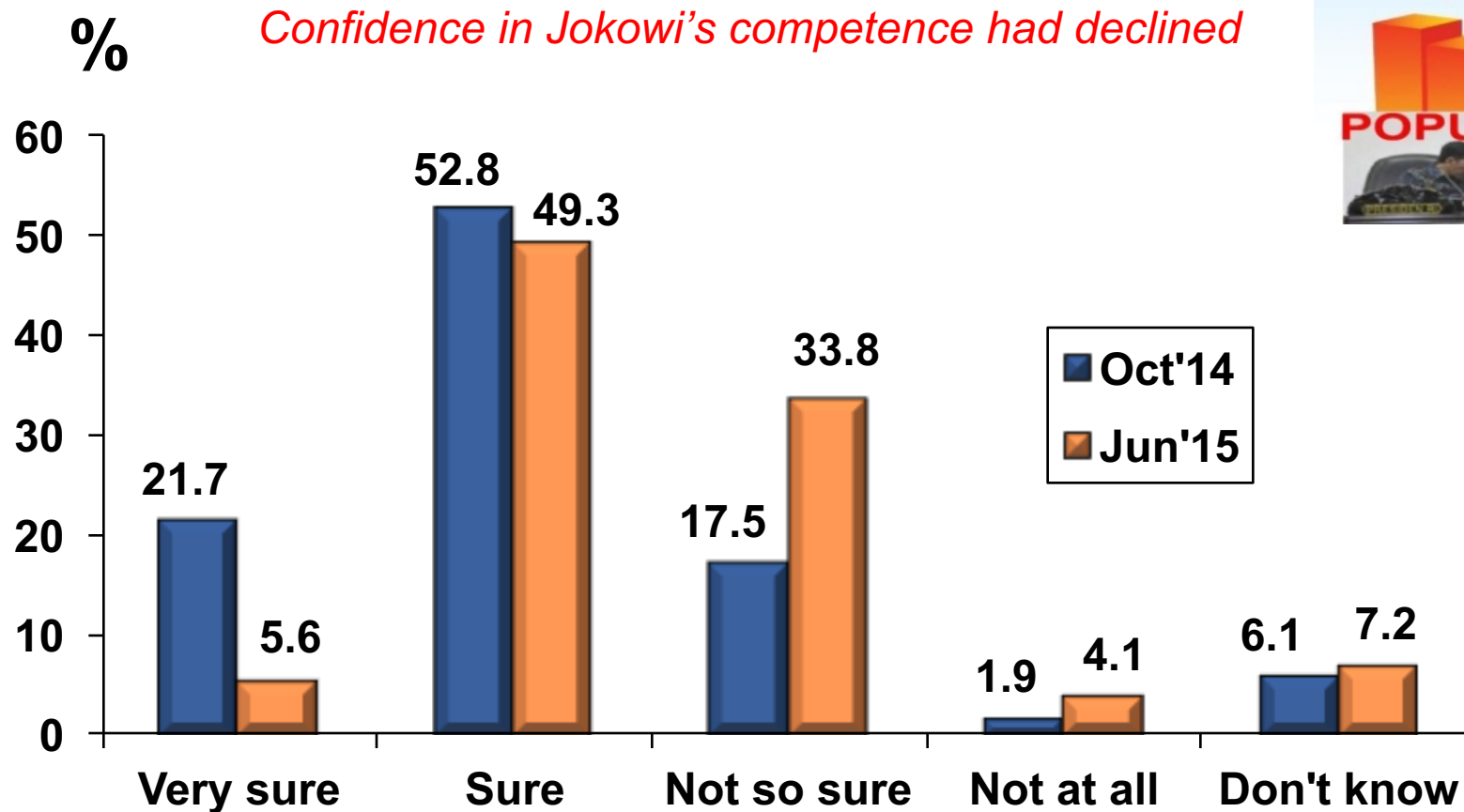
Current economic conditions compared to last year...

In mid-2015, fewer saw economic conditions getting better, more saw them getting worse



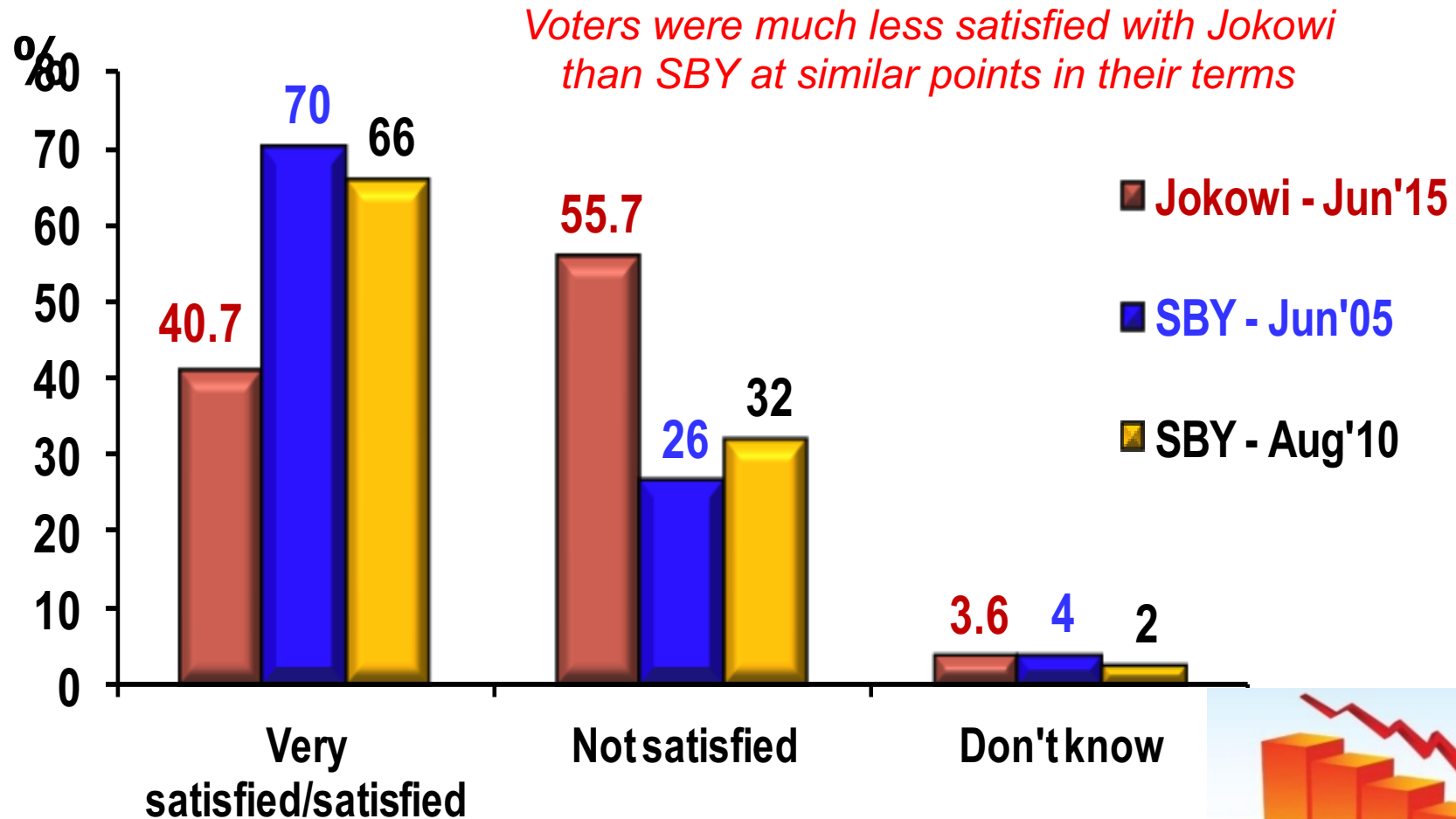
Source: Saiful Mujani Research & Consulting, June 2015

Public confidence in Jokowi's competency... June 2015



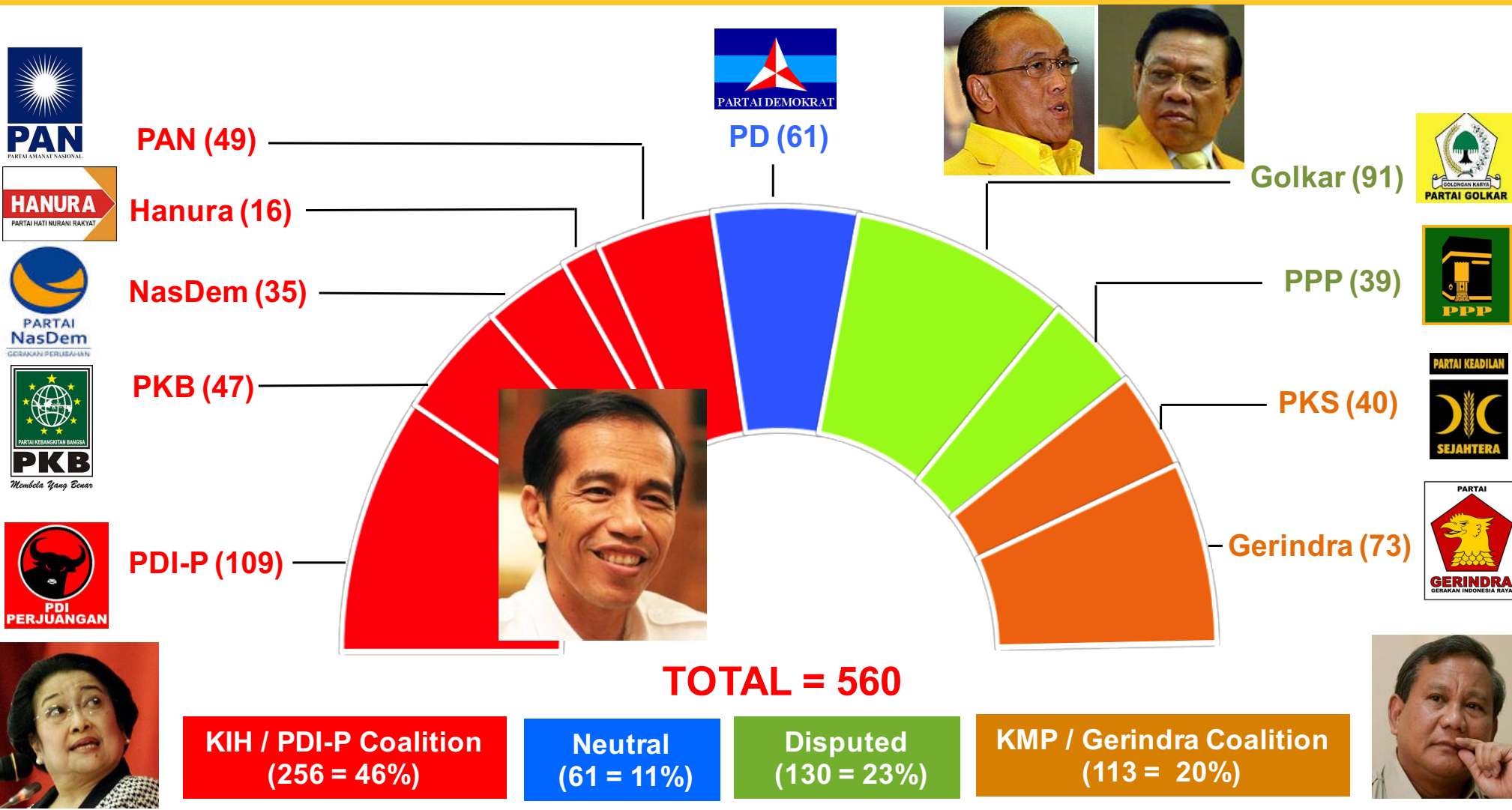
Source: Saiful Mujani Research & Consulting, June 2015

Jokowi vs SBY: Satisfaction ... June 2015



Source: Saiful Mujani Research & Consulting, June 2015

KIH vs. KMP -- DPR Seats



Source: Compiled from DPR website & The Jakarta Post, 2015

August 2015 – Something Old, Something New...



Darmin Nasution
replaced Sofyan Djalil
as Coordinating
Minister of Economic
Affairs



Luhut Panjaitan
replaced Tedjo Edhi
Purdijatno as
Coordinating Minister
of Security Affairs



Teten Masduki
replaced Luhut
Panjaitan as
Presidential Chief
of Staff



Pramono Anung
replaced Andy
Widjajanto as Cabinet
Secretary



Rizal Ramli
replaced Indroyono
Soesilo as
Coordinating Minister
of Maritime Affairs



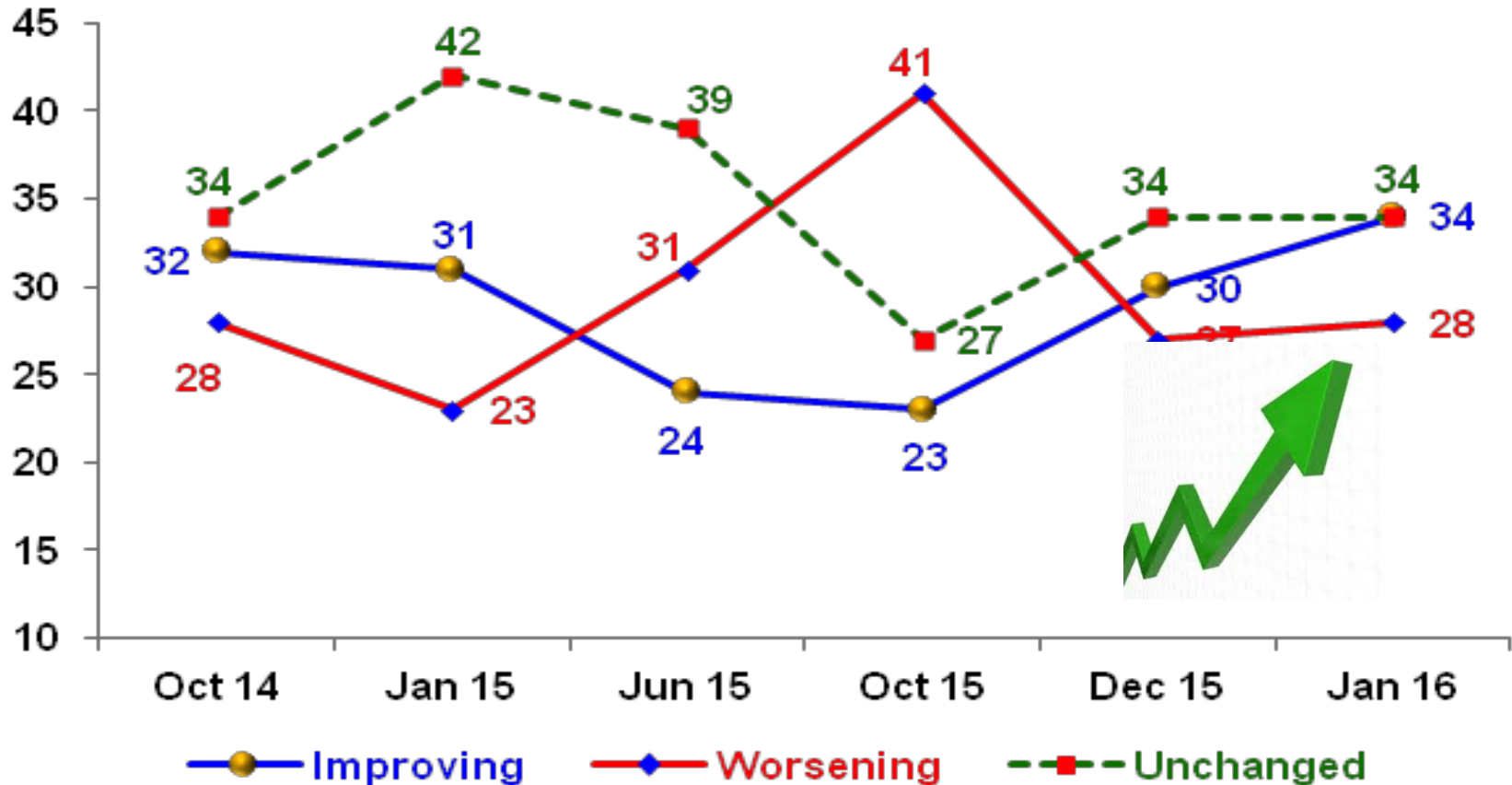
Sofyan Djalil
replaced Adrianof
Chaniago as Head of
the National Planning
Agency/Bappenas



Thomas Lembong
Replaced Rahmat
Gobel as Minister of
Trade

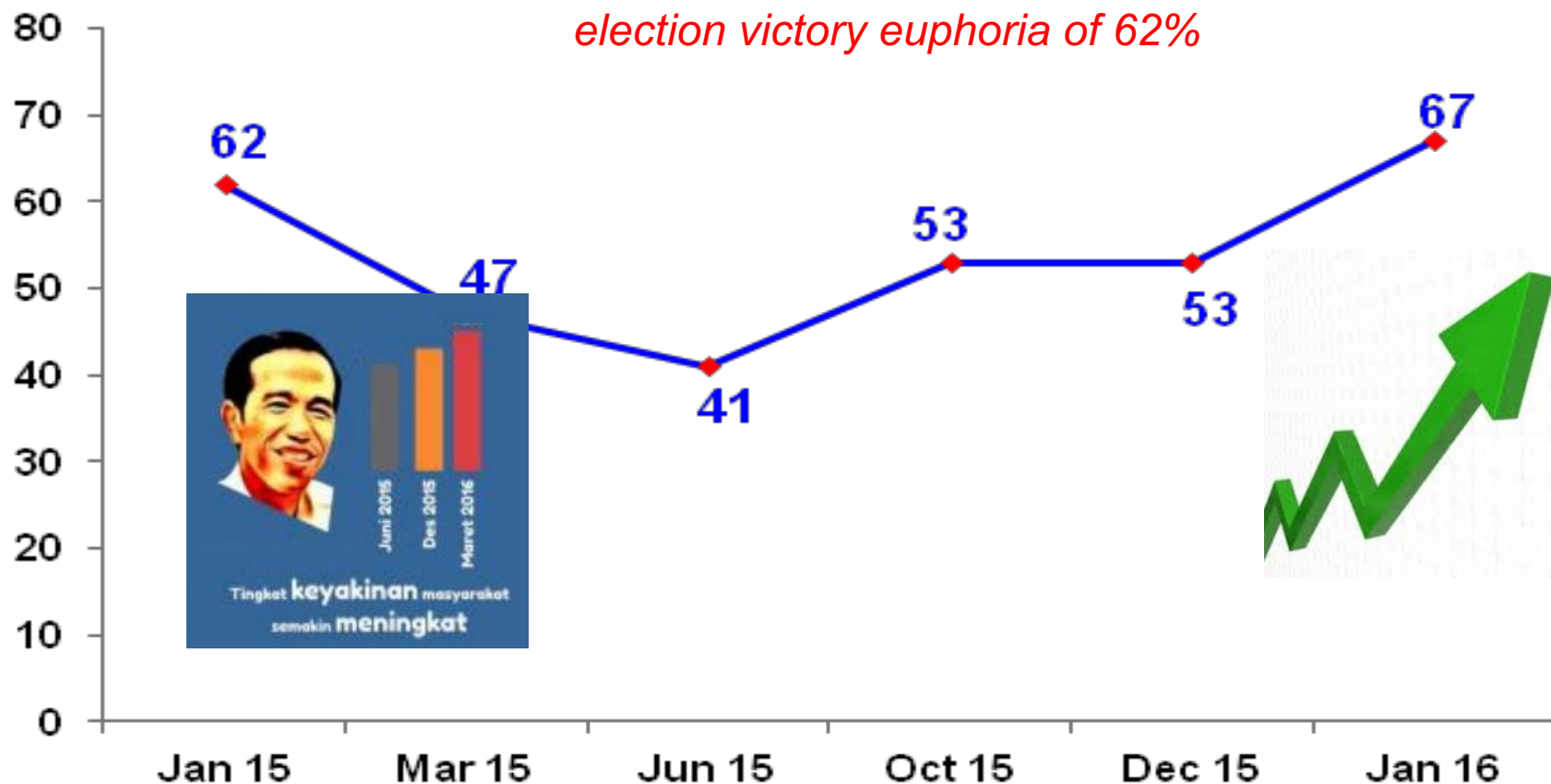
By Jan 2016 perceptions were improving . . .

How do you view Economic Conditions over the past 4 months? (% thru Jan 2016)
34% said economy was improving in Jan '16 vs 23% in Oct '15. "Worse" dropped from 41% to 28% in the same period.



... and satisfaction with President's performance was trending upwards

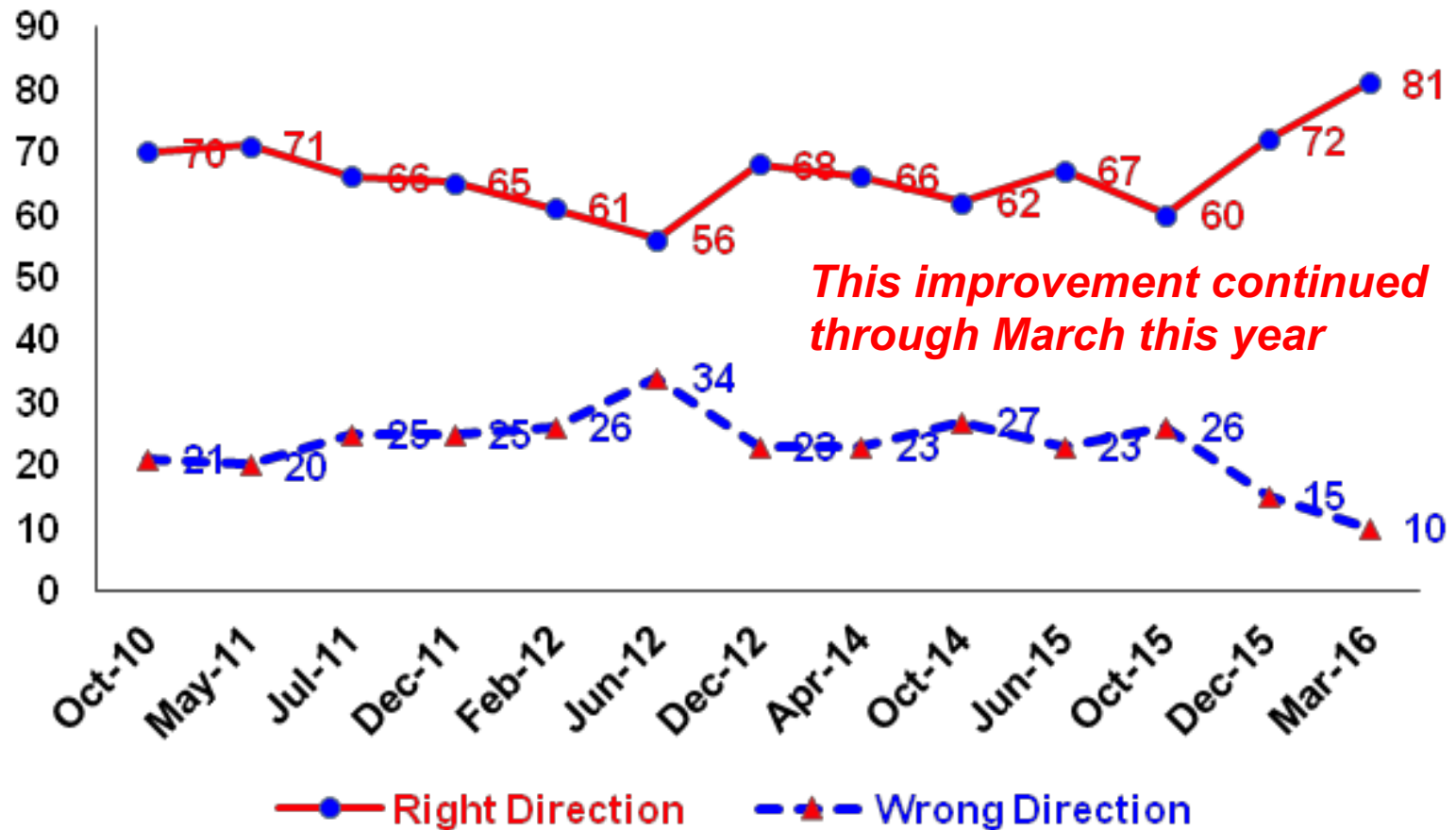
Public Satisfaction with Jokowi's Performance? (% thru Jan 2016)
Satisfaction recovered from 41% in June '15 to 67% in Jan 16, exceeding election victory euphoria of 62%



Source: Indikator Politik, 18-19 Jan 16

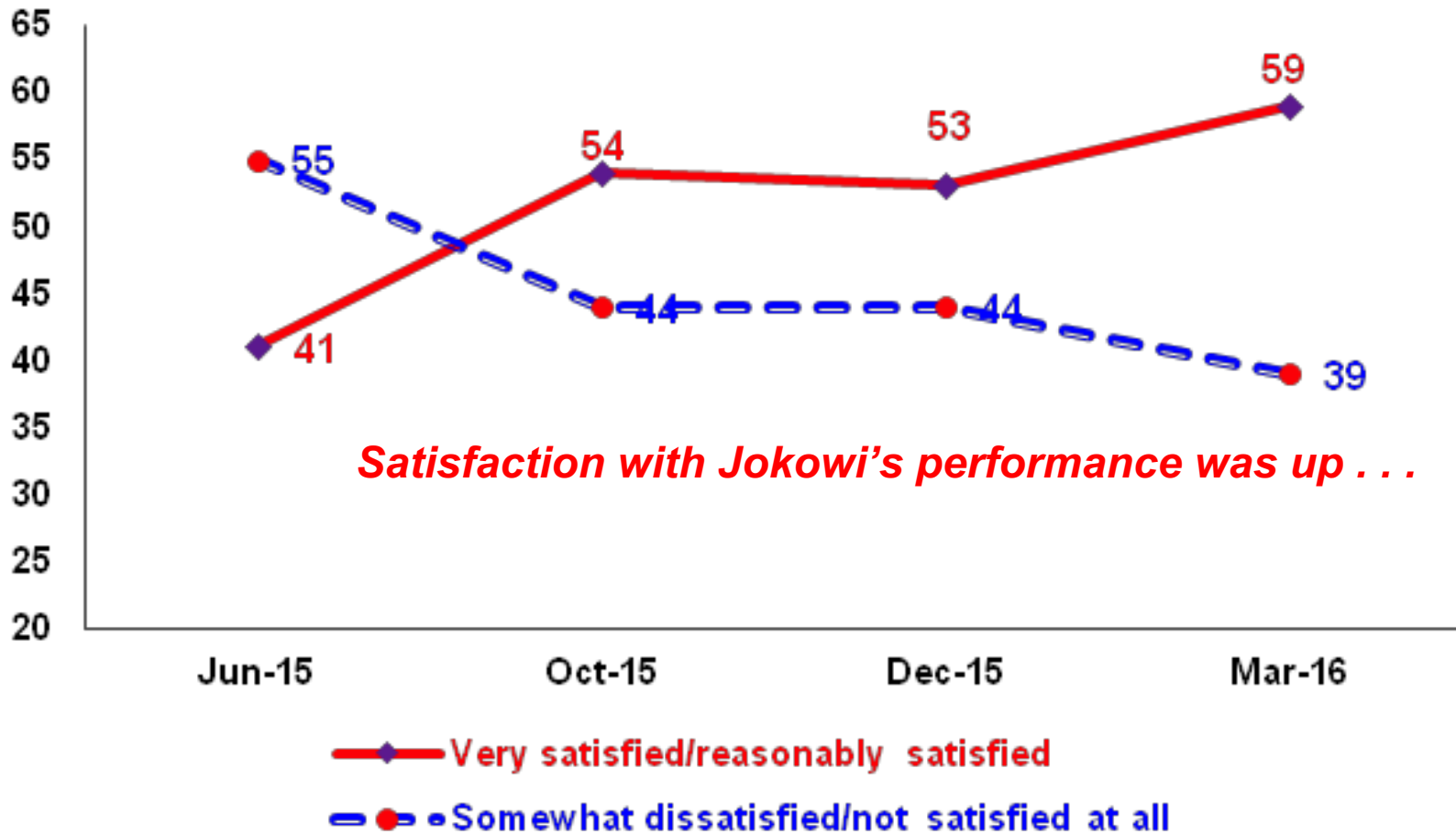
President riding high – Latest SMRC Polls (1)

Is Indonesia moving in the right or wrong direction? (% April 2016)



President riding high – Latest SMRC Polls (2)

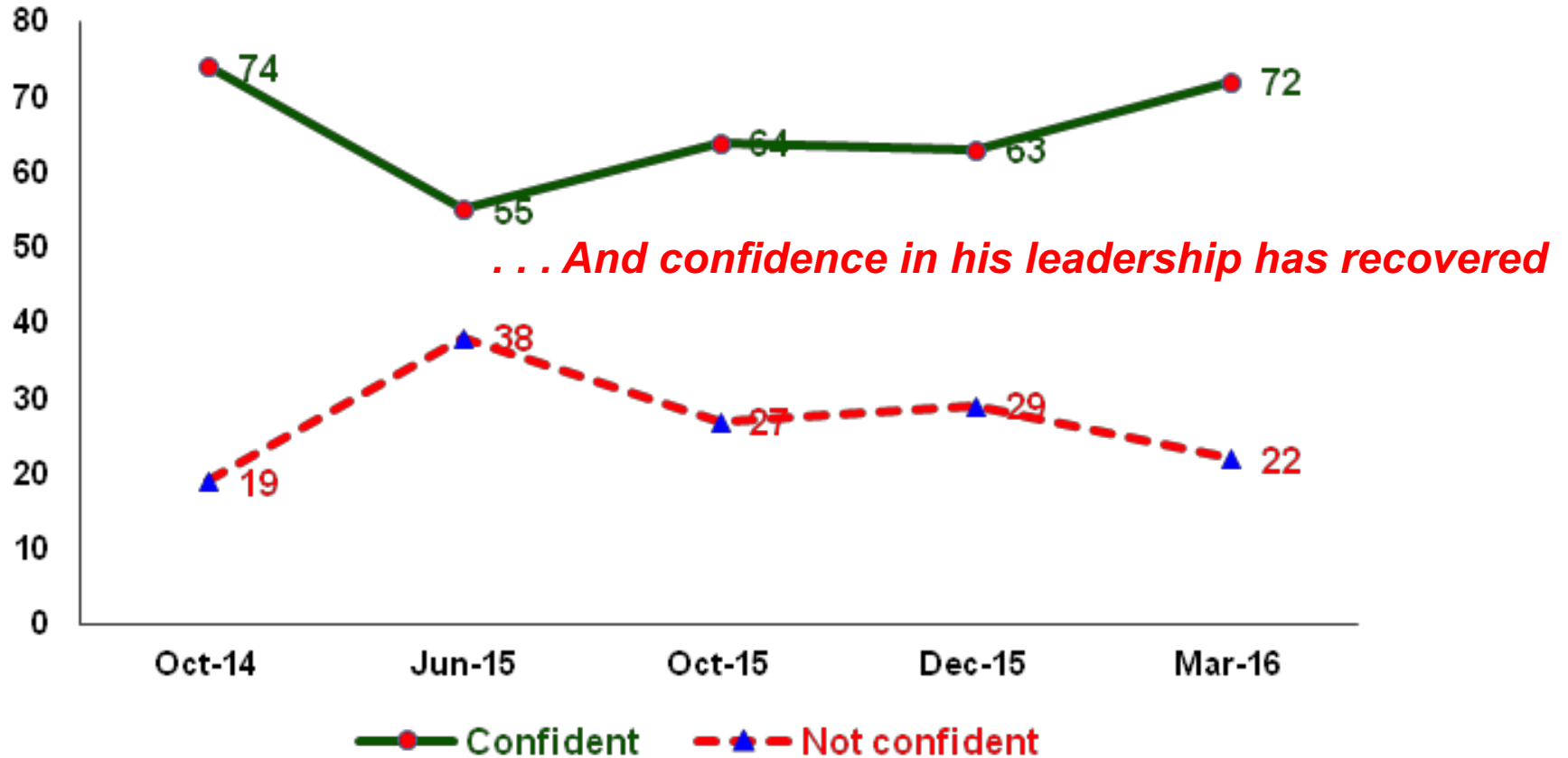
How satisfied are you with President Jokowi's performance? (% April 2016)



Source: Saiful Mujani Research & Consulting (SMRC), April 2016

Jokowi Riding High – Latest SMRC Polls (3)

How confident are you in Jokowi's ability to lead the nation ? (% April 2016)

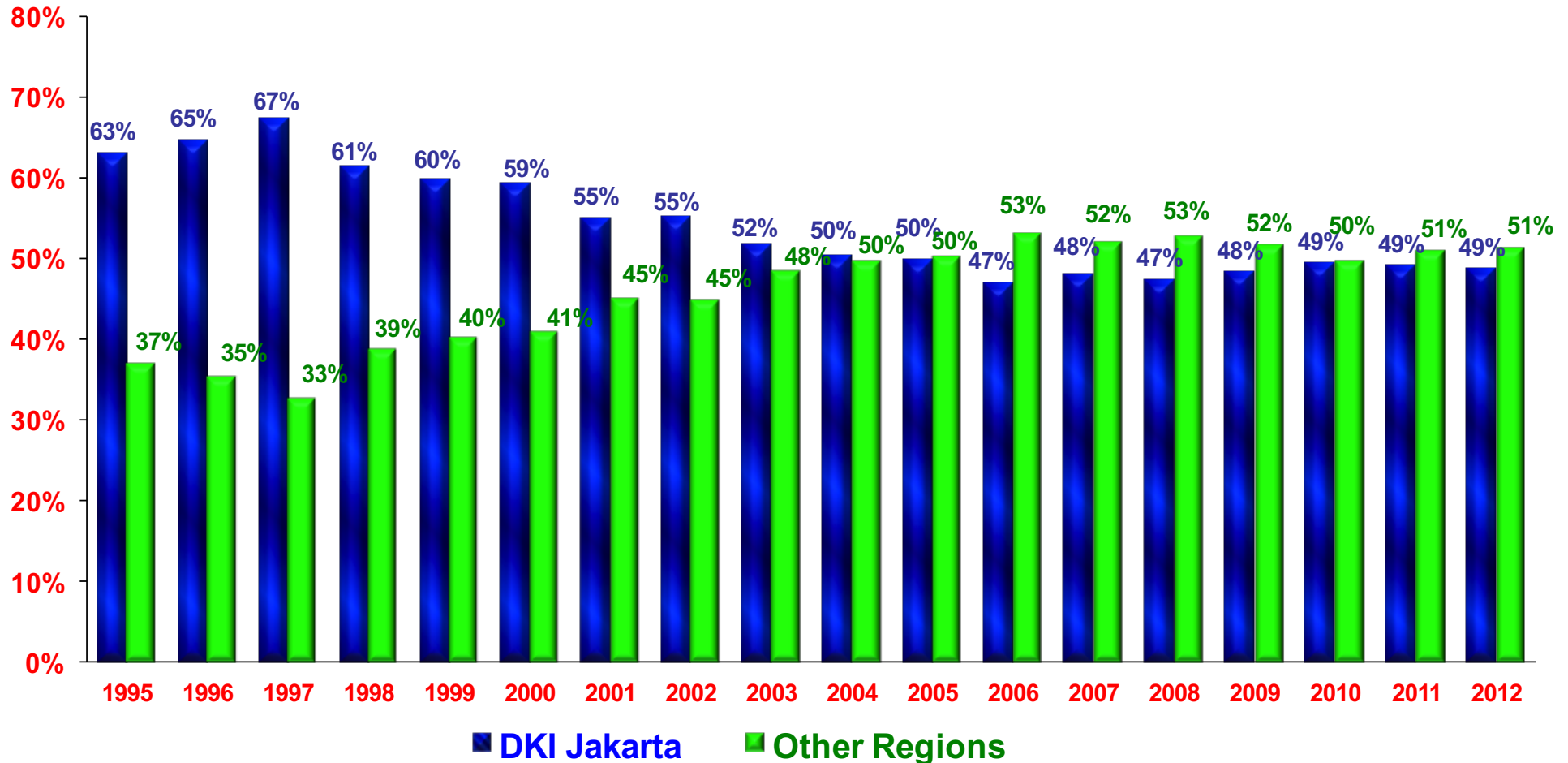


Source: Saiful Mujani Research & Consulting (SMRC), April 2016

Decentralization – A Comment

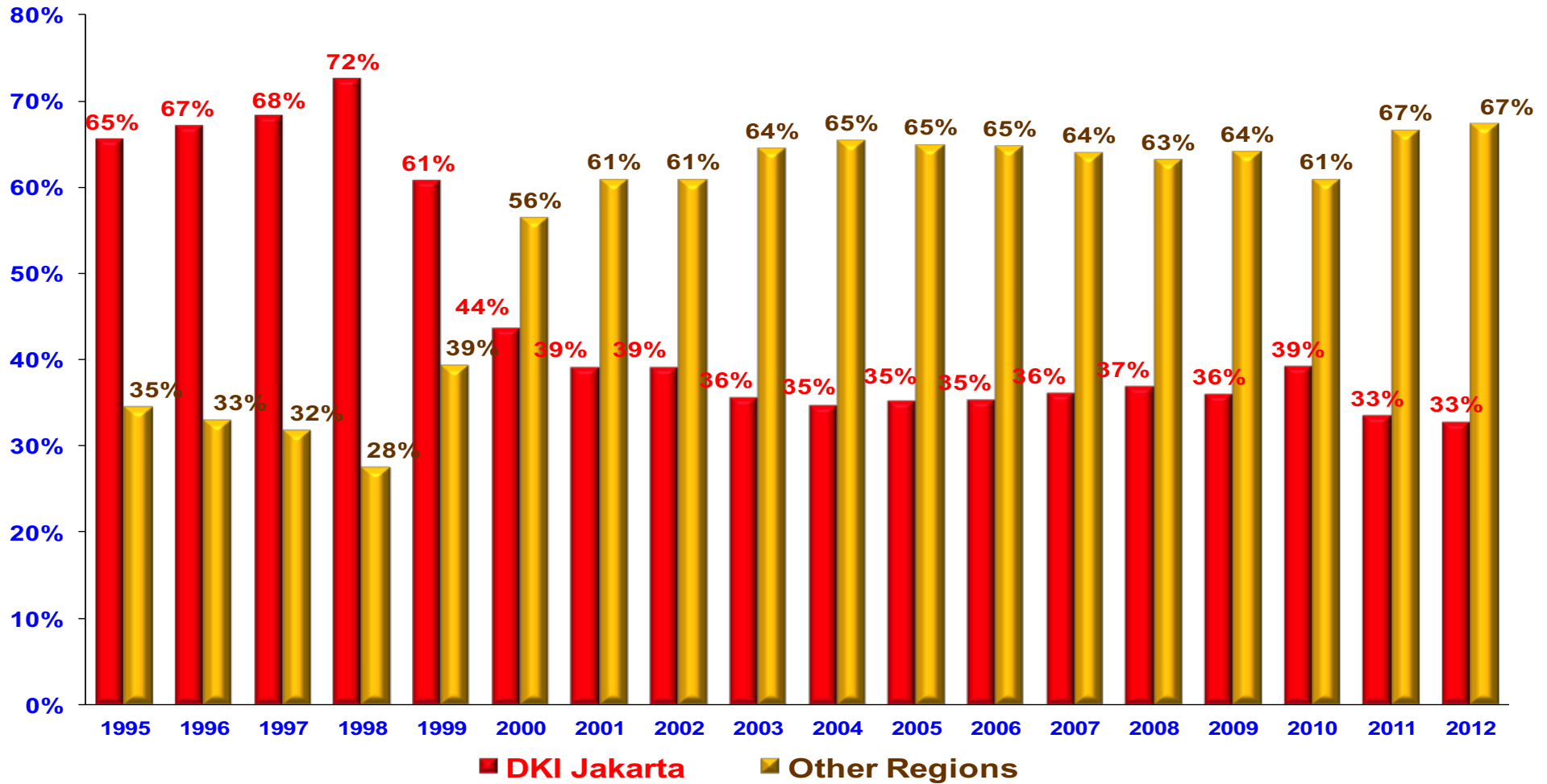
Radical Decentralization in 2000

Bank Deposits: Jakarta vs. rest of country



Sources: Bank Indonesia, CastleAsia

Bank Credits: Jakarta vs. rest of country



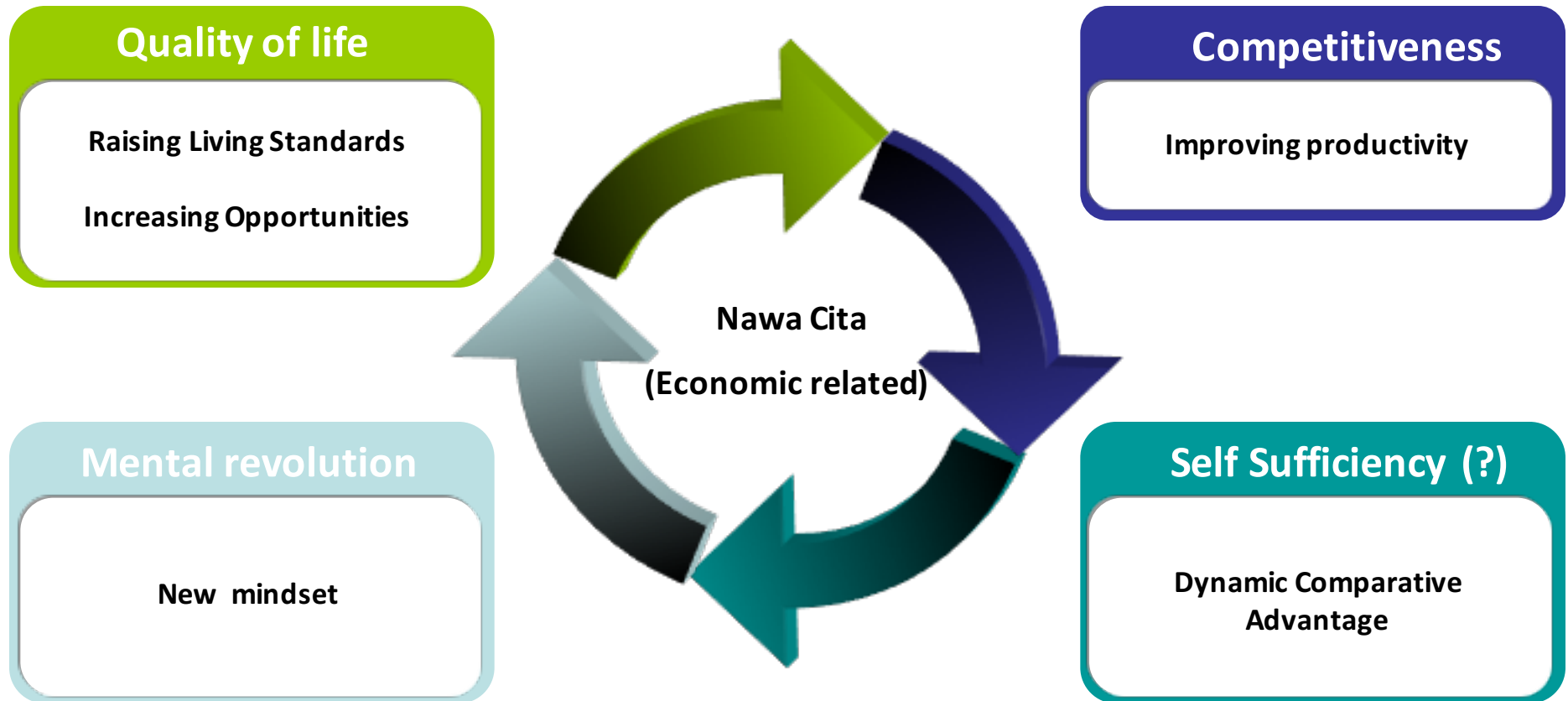
Sources: Bank Indonesia, CastleAsia

The Future: Changing Course ?



Support the Nawa Cita Framework

(Successful implementation of the framework is key to the MT outlook....)



The Latest Package

The latest package (#12) aims to reduce the time and cost to meet Govt Regs in various areas including:

- Business Start Ups*
- Construction Permits*
- Employment*
- Property Registration*
- Tax Payments*
- Closing Businesses*

For the foreign investor climate, the implementation of the proposed changes in the DNI are the key reform

Some Background

The volatility of change

The Presidency - New Order vs Reformasi

53 Years – Two Presidents / 6 Years – Four Presidents

- Soekarno – 1945 - 1967
- Soeharto – 1967 - 1998
- B. J. Habibie – 1998 - 1999
- Abdurrahaman Wahid 1999-2001
- Megawati Soekarnopoetri – 2001 - 2004
- Susilo Bambang Yudhoyono – 2004 - 2014
- Joko Widodo – 2014 - present



The Cabinet – Reformasi Musical Chairs 1998 - 2005

- ❖ *New Order: 30 years –5 Finance & 6 Trade Ministers*
- ❖ *Reformasi - Democratic Indonesia: 18 years -- 10 Finance & 7 Trade Ministers*

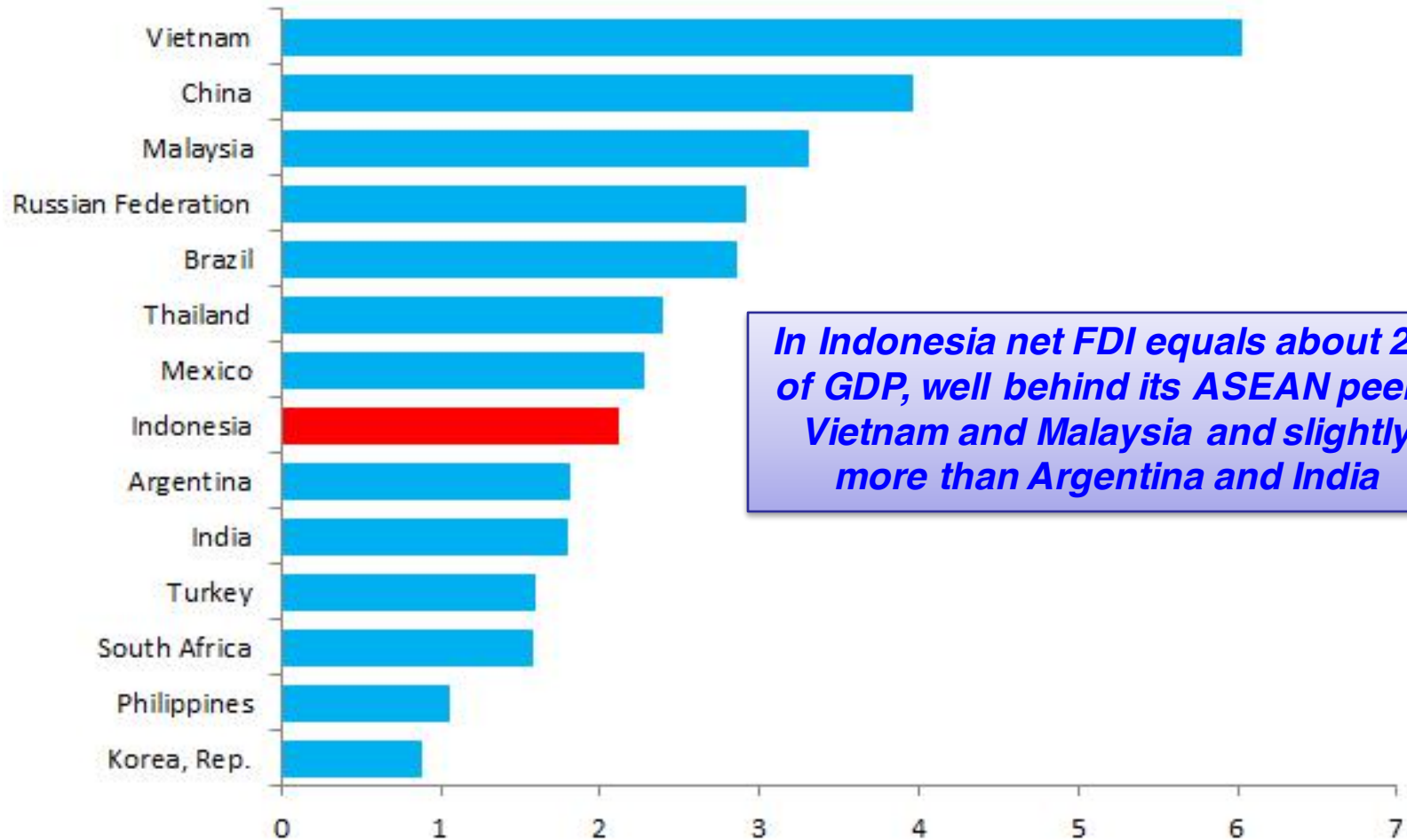
- *1967 – 1998 = 5 Finance Minister (New Order)*
- *1967 – 1998 = 6 Trade Ministers (New Order)*
- *1998 – 2004 = 5 Finance Ministers (Habibie, Gus Dur, Mega)*
- *1998 – 2004 = 3 Trade Ministers (Habibie, Gus Dur, Mega)*
- *2004 – 2016 = 5 Finance Ministers (SBY, Jokowi)*
- *2004 – 2016 = 4 Trade Ministers (SBY, Jokowi)*

Two important myths have dominated elite political thinking and economic policy-making in the Reformasi Era

- Indonesia has too much foreign investment*
- Indonesia imports too much*

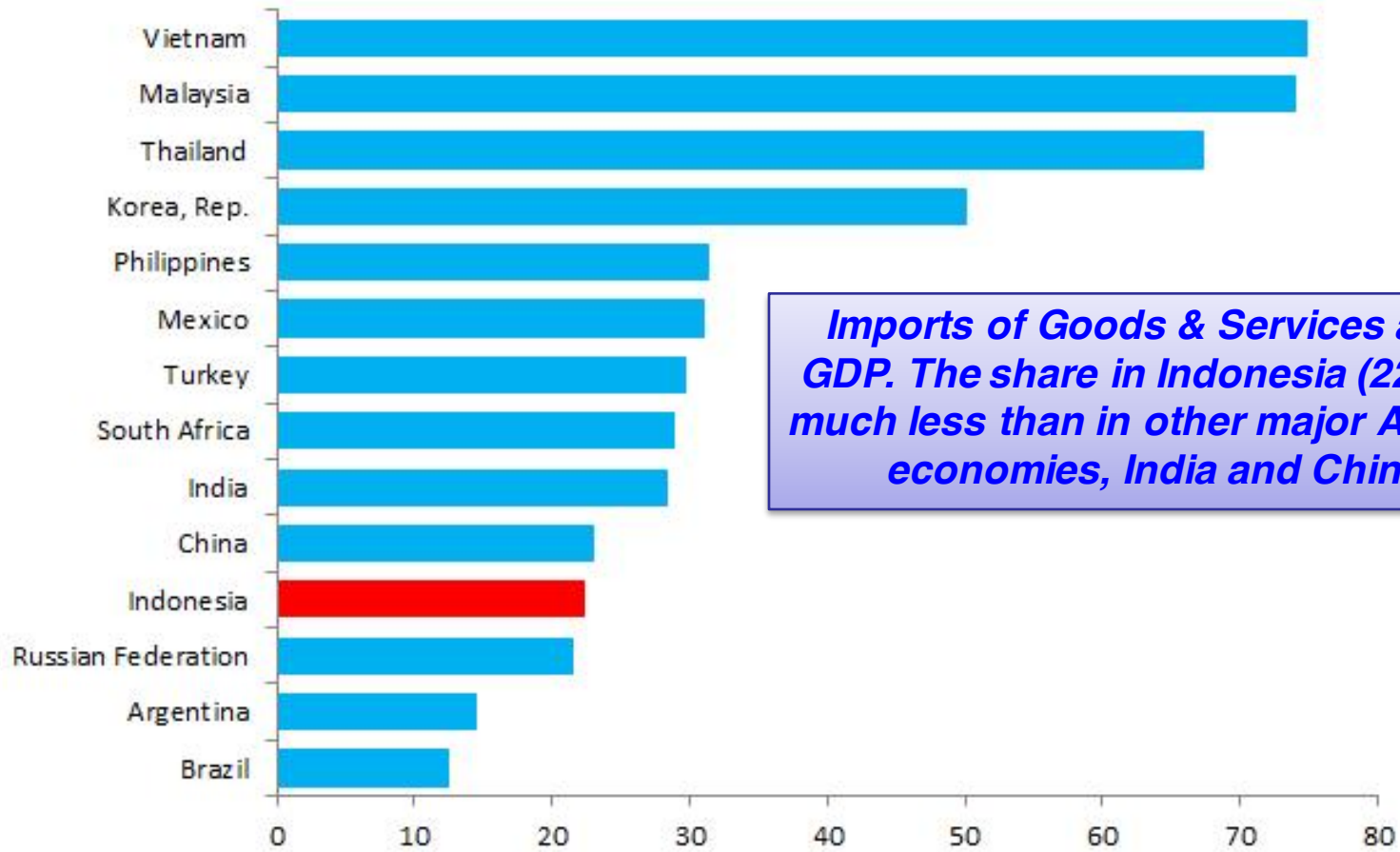
Myth #1: Indonesia has too much Foreign Investment

Foreign Direct Investment, net inflows (2009-2013 - % of GDP)



Myth #2: Indonesia imports too much

Imports of Goods and Services (2009–2013 - % of GDP)



Imports of Goods & Services as % GDP. The share in Indonesia (22%) is much less than in other major ASEAN economies, India and China

Underlying the Mythology

“Indonesia is a nation brought together by three centuries of Dutch colonization which ended only 69 years ago....the population is largely proud of its country and nation, won by extended wars, costing a huge number of lives...So deep in their collective psyche, Indonesians distrust Western powers which they associate with their colonizers and their then allies, who nearly reseized the country they fought so hard to win....

“Along with this mistrust, there is an ingrained suspicion that, given the slightest opportunity, even today, any Western power would not hesitate to exploit and coerce Indonesia into submission in order to do their bidding. And faced with such situations – perceived or real -- Indonesian tends to become obstinate and often, irrationally so.”

Dewi Anggraeni, Author “The May 1998 Tragedy and the Birth of the National Commission for Women”. Tempo, March 29, 2015

The Unpleasant Impact of Political Myths

- *These myths also reflect the belief that the international system is inherently unfair to developing countries and that Indonesia is uniquely vulnerable.*
- *These myths are used by crony capitalists to justify protectionism, quotas and cartels and by bureaucrats to build complex and intrusive regulatory regimes to expand their power.*
- *The monetization of these myths by elements of the political, business and bureaucratic elites is the most serious obstacle to reform and growth and the major threat to the Jokowi regime and any serious reforms towards a more open and competitive modern economy and a more equitable distribution of incomes.*

The Unpleasant Impact of Political Myths

- *Jokowi's confrontation of with these myths began with the elimination of the fuel subsidies in November 2014 and accelerated with the cabinet reshuffle of August 2015.*
- *The outcome of this confrontation will determine Indonesia's future. Reasonable success will propel growth and make Indonesia one of the largest economies in the world over the next several decades.*
- *Failure will condemn the country to chronic underperformance that is likely to lead to unpleasant social and political consequences over the same period.*

Prospects for Change

- *Progress will be slow and setbacks like the troubling decisions Masela Block gas investment will occur.*
- *The current pattern of frequent minor reform packages that nibble at specific bureaucratic inefficiencies are welcome but inadequate.*
- *Nevertheless, this is the first Indonesian government in living memory to publicly and persistently acknowledge the need to actively compete in the global economy.*
- *Its ability to stay the course will determine the country's future.*

Today's Questions

- ❖ *How real is this change in direction?*
- ❖ *How broadly and deeply is it accepted with in the body politic, bureaucracy and amongst the public at large?*
- ❖ *What are the chances for success?*
- ❖ *The desire of the president and several key ministers is very real*
- ❖ *Unfortunately the political parties and the bureaucracy have not gotten on board*
- ❖ *The chances for major successes in the short term are modest indeed, but if the economy improves over the next several years, the president's credibility will grow and the momentum for change will increase*

Thank You

