

Introduction

The Indonesian Economy in Transition – Policy Challenges in the Jokowi Era and Beyond (Part II)

Hal Hill and Siwage Dharma Negara

The Regional Economic Studies Programme and the Indonesia Studies Programme of the ISEAS – Yusof Ishak Institute organized a conference in March 2018 with financial support from the Konrad-Adenauer-Stiftung to examine key development issues and policy challenges confronting the Indonesian economy.

Six of the papers from the conference have been included in the August 2018 issue of this journal. Subsequently, five papers from the conference appear in this issue. Collectively, they cover a number of dimensions that are key to understanding the economic changes in — and challenges to — the Indonesian economy as it seeks to attain high-income status.

This special issue starts with Arianto A. Patunru’s article regarding rising economic nationalism in Indonesia. He argues that protectionism has started to make its way back into the country since the early 2000s. Despite some reform initiatives, economic nationalism has amplified under the current administration, and might continue to do so in the near future. The political-economic factors that explain the re-emergence of protectionist measures under Joko Widodo’s presidency form the body of this study. Using the case studies of fuel and rice, he shows that while economic nationalism might prove to be politically rewarding, its detrimental impact on the poor cannot be ignored. It is therefore in Indonesia’s best interest to resist the continuing push for protectionist policies.

In the second article, Eve Warburton discusses how, over the course of the past decade, Indonesia’s economic planning has become increasingly developmentalist in orientation. While aspects of this model have deep roots in the country’s history, a more self-conscious developmentalist agenda re-emerged during President Susilo Bambang Yudhoyono’s second term in office (2009–14). Her paper suggests that under President Joko Widodo, a new developmentalism has crystallized further and, arguably, become a defining feature of Indonesia’s political economy. To advance this argument, she draws upon studies of the “new developmentalism” in middle-income and emerging economies. This new developmentalism is characterized by a normative commitment to an activist state that can engineer fast economic growth,

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direct industrial upgrading, and ensure economic redistribution. However, developmental agendas should be distinguished from developmental outcomes. For Indonesia, state-led programmes for industrialization and inclusive economic growth have often fallen short. The article highlights some structural constraints upon the new developmentalism in the nation, with a particular focus upon politics. Specifically, it identifies patronage and clientelism as fundamental challenge to an effective state-led developmental model. Successive Indonesian governments, Jokowi's included, have taken a conservative approach to the political problems that undermine their developmental goals.

The third article written by Budy P. Resosudarmo and Ellisa Kosadi discusses Indonesia's massive environmental issues. It argues that the current administration has not significantly helped manage Indonesia's environment in a better way. President Susilo Bambang Yudhoyono openly showed the world that he was willing to tackle the problem by making climate change policy a top national priority. However, under President Joko Widodo, it is not very clear whether that is still the case. Although Jokowi's controversial illegal fishing war has attracted considerable attention, this paper argues that the actual impact of the policy on the environment is difficult to determine. The findings indicate that the impact on the national formal fishery sector has been relatively small. The impact might be significant at a local level, but only in a few areas in Eastern Indonesia — which could negatively affect large fishing companies but benefit small fishers. The article also suggests that it is time for Indonesia to start seriously dealing with its huge environmental challenges.

In the subsequent article, Wilmar Salim and Siwage Dharma Negara examine the challenges of developing infrastructure in Indonesia. Decades of underinvestment and poor asset management have left the country with a significant infrastructure deficit. This article shows that the key problems faced by the Jokowi administration in infrastructure are similar to those faced by his predecessor. However, compared to the previous administration, the Jokowi government has taken a more pragmatic approach to achieve results. One major policy has been to shift budget allocations away from fuel subsidies towards infrastructure. This has also been accompanied by continued efforts to reform regulatory and institutional frameworks. Despite these measures, the overall progress of the government's infrastructure push has not been as smooth as expected. Limited resources and capacity mean that the administration needs to re-evaluate the number of national strategic initiatives and be more selective in prioritizing infrastructure projects. The study also suggests that the national strategic projects should be linked to larger development plans, such as the National Spatial Plan and sectoral master plans in order to achieve integrated regional development.

In the last article, Ari Kuncoro analyses the rise and fall of Indonesia's manufacturing sector. The sector has transformed from being the driver of economic growth into a sector that is almost completely dependent on the growth of domestic demand. The commodity boom that took place between 2005 and 2012 has resulted in a Dutch disease situation in which the expansion of one sector has reduced the incentive for manufacturing to export, given that domestic demand is readily available. This article shows that Indonesian manufacturing has been lagging behind its nearest neighbours in reaping the benefits of international value chains. Being more inward-looking, manufacturing now depends on other sectors to generate growth. While some industries like textiles and automotive are still promising, in order to keep the momentum going on manufacturing exports, Indonesia needs additional reforms, including: better logistics; fewer non-tariff barriers; and improved human resource quality.
