

## ***Joko Widodo: A New Paradigm for Indonesian Leadership?***

A USINDO Special Open Forum with

**Adam Schwarz**

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***On February 26, 2014, USINDO hosted an Open Forum with Adam Schwarz, distinguished scholar and authority on Indonesia, who is also Co-Founding Partner and Chief Executive Officer-Asia of the Asia Group, discussing President Joko Widodo's leadership during his first four months in office. This brief is USINDO's summary of the talk.***

***The photos of this event can be accessed [here](#).***

## **Adam Schwarz's Remarks**

Mr. Schwarz provided his insights on President Jokowi's presidency after four months in office, including (1) the evolution of its economy; (2) its economic challenges and opportunities, (3) what President Jokowi has done, what has gone well and what not so well, and (4) the political terrain facing Indonesia.

### **Economic trajectory**

Indonesia is not yet a trillion-dollar economy (its current GDP is \$868 billion, down in dollar terms due to the depreciation of the rupiah.) The growth rate, while still high compared to many other countries, has eased in the past two years; currently it is at 5.3 percent, and is unlikely to reach the government's 2015 target growth rate of 5.7-5.8 percent.

Indonesia continues to have prudent macroeconomic policies. Its debt-to-GDP ratio is low – halved from 46.3 percent to 23.1 percent in the past eight years. FDI has tripled over the past five years and reached USD36.5 billion in 2014, with the United States as the third largest investor for the past three years. As a result of money coming in and a steady increase in consumption and investment, GDP per capita has grown at a steady rate from USD1,273 in 2006 to USD1,810 in 2014, in constant US dollars.

Tax revenue remains low – at around 13 percent of GDP -- owing to capability and capacity issues with Indonesia's tax collection administration.

Indonesia has also been running a chronic current account deficit for the past two years due to the slowing of exports as a result of a low global demand, particularly in China, and Indonesia's ban on mineral exports. Imports have continued to rise, thanks in good measure to the consumption habits of a growing middle class. The current account deficit is now nearly 3 percent of GDP, which is why President Jokowi is very anxious to have new FDI to help cover the deficit. There is also capital-account vulnerability with respect to Indonesia's sovereign debt, given that almost of a third of it is held by foreigners.

## **Long Term Challenges and Opportunities**

One of the biggest challenges facing Indonesia according to Mr. Schwarz is the ease (or lack thereof) of doing business in Indonesia. Although it has improved slightly in recent years, Indonesia is still currently ranked 114 out of 189 countries in the World Bank's "Doing Business" index, not comparing very well with Indonesia's peer countries. It is essentially an institutional problem, with corruption and inadequate infrastructure among the main contributing factors.

Another challenge is under-investment in infrastructure, particularly from the private sector. At only 3 to 4 percent of GDP, Indonesian investment in infrastructure is behind China, Vietnam and Thailand. There is a crowding out effect from preferential treatment given to SOEs and local governments, which also contributes to the lack of ease of doing business.

At the same time, there has been a rise in "economic nationalist" policies in the form of protectionist measures and non-tariff barriers. This may be more an indication of vested interests than an ideology as such. It is too early to say that President Jokowi is a protectionist, as much of these measures have been inherited from the previous administrations. But all three challenges – nationalist policies, infrastructure, and weak institutions – have been keeping the ease of doing business in Indonesia low.

The share of the manufacturing sector in the economy has also declined in the past decade, when it should have increased, given rapid urbanization, the growing labor force, and Indonesia's current state of economic development.

On the positive side, demographically Indonesia is undergoing rapid urban growth, which should provide a major boost to growth in the coming decades. By 2030 twice as many Indonesians will be living in cities rather than rural areas. If its institutional and infrastructure challenges are effectively addressed and Indonesia capitalizes on its great natural resources and the demographic bonus, it can position itself as a significant global economic player in the next decades.

## **100 Day Reform Program**

President Jokowi is a unique Indonesian leader as he is not from military, business, or political elites. He talks about politics differently. President Jokowi is Indonesia's first democratically elected leader who came to power almost in spite of the political elite, rather than as a product of elite-level bargaining. This is representative of how much Indonesia has changed economically, demographically, as well as politically, and it has taken the political elite by surprise.

President Jokowi's priority is the maritime sector. He aspires to make Indonesia a maritime axis, which can benefit the country both economically and strategically. This requires a fairly substantial shift in the mindset of how Indonesians see their country.

According to Mr. Schwarz, President Jokowi gives priority to three other sectors: infrastructure, manufacturing, and tourism. He is mindful of why Indonesia scores poorly in 'doing business' surveys. The "one-stop services" policy being implemented at the Investment Coordinating Board has progressed much further in his first few months in office than under his predecessors.

President Jokowi is also working to increase legal certainty – including trying to resolve ongoing corporate criminalization cases – to improve the business investment climate. He set up an independent team to work on the corporate criminalization cases, and several of his ministers have actively supported this effort.

Mr. Schwarz praised President Jokowi's bold move to remove fuel subsidies, just a few weeks after he entered office. The move has also been helped by the global fuel price drop. The fuel subsidy removal is estimated to have saved about 12 percent of the 2015 national budget, which can be redirected to more "productive sectors."

Another issue being tackled by President Jokowi is electricity, with a hugely ambitious target for 2014-19 to achieve 100 percent electrification rate in rural areas and to produce enough power to support a sustained annual growth rate of 7 percent. This will require the addition of 35 gigawatts of new electricity capacity in the coming five years, a rate of growth seven times higher than achieved in the past five years.

Improvements in healthcare and education are being implemented through Indonesia Health Card and Smart Card programs. These reforms are by and large successful, and have helped stem the shift to a more unequal distribution of wealth.

To achieve his goals, according to Mr. Schwarz, President Jokowi is pushing for bureaucratic reform through merging departments within ministries, creating new ministries, streamlining regulations, and improving coordination among government agencies. President Jokowi also emphasizes the importance of public and media relations and has commissioned a media review of the ministries.

Several issues in the past few months have elicited significant criticism, including some of President Jokowi's cabinet appointments, the sinking of illegal foreign fishing vessels that is met with concern from neighboring countries, and the

death penalty sentence for drug criminals from several countries such as Australia, the Netherlands, and Brazil.

## **Uncertain Political Terrain**

Finally, Mr. Schwarz addressed the uncertainty of the political landscape that President Jokowi is facing. With the support of PDIP, PKB, Nasdem and Hanura, President Jokowi's coalition has 37 percent of the total seats in Parliament, while the opposition (Gerindra, PKS and Golkar) has 36 percent. The other three parties, PD, PPP and PAN, are nominally in the opposition camp but acting increasingly like independent parties. But Golkar and PPP are having leadership conflicts which may potentially bring them to President Jokowi's coalition should the pro-Jokowi factions in the parties win. President Jokowi's own party, PDIP, may in the end be the most difficult political challenge he will have to face, given the strained relationship between the President and the PDIP Chairperson Megawati Soekarnoputri.

Another big issue raised by Mr. Schwarz is the current conflict between KPK (the anti-corruption agency) and Polri (the Indonesian National Police), which not only weakens anti-corruption movements but also highlights the internal tension within President Jokowi's own coalition. The reform of the police may not be achievable in the near term. Mr. Schwarz believed that the success of President Jokowi's reform agenda will heavily depend on his ability to manage the reform-resistant political elites.

## **Question and Answer Session**

**Q: How do the commerce and (maritime) connectivity parts work? What kind of political backing exists for allocating the fuel subsidy cut for infrastructure, for supporting Jokowi's vision of Indonesia as a maritime country?**

A: Jokowi's own background is not related to the maritime sector, but he is profoundly engaged with the concept that Indonesia is a maritime nation. The domestic connectivity idea is very popular because it strengthens the political and national unity of Indonesia. The economic gap and lack of connectivity between Eastern and Western Indonesia continue to pose a major challenge to development. Indonesia needs to increase the competitiveness of islands off-Java to stem the rising inequality of wealth distribution which, if unchecked, could eventually pose a risk to national unity. The central thesis of maritime national connectivity is to lower logistics cost within Indonesia and by so doing increase the competitiveness of Indonesian production and exports.

The decision to allocate fuel subsidy savings for infrastructure through SOEs is controversial among economists. They believe there are better ways to invest the money, but the administration wants to do it more quickly. It is too early to say whether this will be successful or not.

**Q: It was surprising to learn that in the 2014 election, the more urban and educated population did not vote for Jokowi. Why is that?**

A: This reflects in part the discomfort amongst urban-based and educated voters about an outsider like Jokowi. Jokowi does not come from the establishment, and is not a member of the political elite, which makes him different from all post-Suharto presidents before him. He was relatively unknown before he became the Governor of Jakarta, which was only two and a half years ago. There is also a style issue. The elites found SBY to be presidential regardless of whether they agreed with his policies, while they don't see Jokowi as such. The elites don't mix well with him.

The Prabowo camp was quite effective in highlighting that Jokowi cannot be trusted because he is not experienced (at least not according to Jakarta-based elites) and is an outsider. This view influenced the election results. Ironically, Prabowo himself never held an elected government role, whereas Jokowi held office as a mayor and a governor for a decade. Simultaneously, Prabowo was also trying to be more of a populist as head of the national farmer's organization, though in the end it was not successful.

**Q: It may be too early to talk about decentralization, but what are the prospects of the continuation of decentralization policy?**

A: There has not been much talk about decentralization since Jokowi took office. One interesting development occurred on the last day of the SBY administration, which was the passing of Law 23/2014 which elevates a range of authorities from the districts to the provincial level. But there has not been much press coverage on this, as much more attention went to the attempt – pushed by Prabowo and supported by the Golkar leadership – to eliminate direct elections at the district and provincial levels. It is widely held amongst political and business elites in Jakarta that the decentralization effort has been implemented too quickly and as such has acted as a brake on economic growth. But President Jokowi has not opined on decentralization one way or the other.

**Q: How about United States-Indonesia bilateral relations? What is the current climate for US investment in Indonesia? Is it positive?**

A: In the political arena, the U.S. and Indonesia bilateral relationship is quite good. The Comprehensive Partnership between the two sides has created space for regular dialogue and intensified partnership. Both sides contend they are satisfied with the current state of bilateral relations, although some tensions are there. President Obama was very well received during his last visit to Indonesia.

In the military area, the U.S. and Indonesia currently experience a vigorous military-to-military relationship. There are more than 200 interactions between the two countries per year at all levels. Sales of U.S. military equipment to Indonesia, however, remain low.

The U.S. economic presence in Indonesia is large. The U.S. has historically been a major investor in Indonesia, and there is a lot of room for growth. But in recent years, a wave of protectionist regulations – including non-tariff barriers, local content restrictions, labor restrictions and other laws have raised anxiety levels in the U.S. business community.

It is too early to say how Jokowi views this nationalist trend in economic policy. He has inherited much of this regulatory framework from the previous government. We'll get a better sense over the next 6-9 months whether he will continue this direction or not. If he does continue in the same direction, it will make it extremely difficult for him to achieve his stated targets on growth, inward investment and exports.

**Q: What is the situation regarding KPK? Is the effort to weaken KPK serious?**

A: In the last KPK vs Police case, KPK has been weakened. People even started writing eulogies about KPK in editorials. I don't think the situation is that dire. KPK is not dead yet. People trust and support KPK. But the KPK has run into mounting and vigorous resistance from the political elite, and the latest furor over the police chief nomination – and Jokowi's poor handling of it – have given those elites an opportunity to weaken KPK. That said, I believe Jokowi fully understands the importance, both real and symbolic, of a successful KPK and he will not let it be weakened significantly. The reality is that a weakened KPK would at the same time weaken Jokowi's political power and leverage, and I think he is keenly aware of that.

**Q: How about Jusuf Kalla (JK)? What is his role?**

Since the beginning of the Jokowi administration, JK has handled things really well in my view. He has acted quite differently than when he was vice-president in the first SBY administration. He and Jokowi share a similar pragmatic, action-oriented style. He has a lot of experience with elite-level politics that Jokowi lacks. However, it seemed that Jokowi did not involve JK that much during the Budi Gunawan turmoil, perhaps because he felt that JK was siding with Megawati on pushing the nomination through.

**Q: Is there any tension between the reformists and the elitists among the bureaucrats in Jokowi's government? What is the decision calculus for the current civil servants?**

A: Jokowi has chosen many strong reformers as his cabinet ministers— ministers such as Anies Baswedan, Susi Pudjiastuti, Sudirman Said, Sofyan Djalil, etc. They are ambitious and they have a big vision for Indonesia. However, they also need a president with strong political backing to be able to succeed with their programs.

For the rank-and-file bureaucrats, I think it's safe to say there is still a lot of confusion with regard to Indonesia's policy direction. On the one hand, Jokowi has inherited a legacy policy framework that has been making Indonesia less competitive and less integrated into the regional and global economy. On the other hand, the vision he has laid out – including much higher rates of foreign investment, a tripling of exports, and huge infrastructure spending, among others – calls for a very different policy framework, one which reduces costs and increases openness to the global economy. It remains unclear, not just to bureaucrats but also for that matter to investors also, just how and how quickly Jokowi is going to reconcile the inherent inconsistency between these two policy directions.