

## Economic challenges facing Jokowi in his second term

Siwage Dharma Negara

After winning the presidential elections in April this year, President Jokowi's focus will be on boosting economic growth to 6% per annum in his second term. To surpass the current 5% growth rate, Indonesia needs to boost both investment and exports growth simultaneously. This will not be easy given today's unpredictable global economy and rising protectionism around the world.

Although Jokowi's administration has improved the country's rank in the World Bank's Ease of Doing Business from 120th in 2014 to 73rd in 2018, Indonesia can still do more to make herself attractive to international investors. The current US-China trade tensions are a good case in point. Indonesia has not been able to attract significant benefits even though manufacturers are relocating from China to Southeast Asia. This is because foreign investors find Indonesia's neighbours, such as Vietnam, Malaysia and Thailand, more attractive as new production bases. In view of Indonesia's lack of competitiveness, President Jokowi has promised to accelerate structural reforms in the areas of human resources, infrastructure, and institutions. These factors are important for improving Indonesia's competitiveness in the global economy.

Stronger growth is needed to create decent jobs for an estimated 3-4 million new workers each year. In his first term, open unemployment declined slightly from 5.9% in 2014 to below 5.3% by 2018. Nevertheless, the declining official unemployment figures disguise the real employment situation. More than half of the total workers in Indonesia are engaged in informal employment. Youth unemployment has reached as high as 17%.<sup>1</sup> Moreover, the labour force is dominated by

low skilled labour, with about 40% of the total labour force armed with only primary school qualifications, while only 9% of the labour force have a university degree.

This has been complicated by an ongoing structural change in the labour market. Rapid technological change, especially in IT-related activities, requires Indonesia to train and equip its labour force for the new economy. However, Indonesia's educational performance continues to lag, despite significant increases in education sector funding over the past decade.<sup>2</sup>

Given this concern, Jokowi has re-emphasised that in his second term, his administration will focus more on human capital development. To boost human capital quality, Jokowi's administration will continue to spend 20% of its annual budget on education. This spending will complement the expansion of a number of social policies such as conditional cash transfer for poor households through the Family Hope Programme (PKH); the Health Care and Social Security Agency (BPJS Kesehatan); and the pre-employment card (Kartu Pra-Kerja). Though these programmes may seem populist in nature they are critical in supporting lower income households and the unemployed. However, implementation challenges such as financing, targeting, and monitoring remain complex. Specifically, improving the targeting mechanism and inter-jurisdictional coordination are the biggest challenge for effective service delivery.

President Jokowi also plans to reduce the regional inequality by "building from the peripheries (villages)", and spending generously on infrastructure to improve connectivity across the nation-wide land, sea and air areas. However, not all things are

moving smoothly. For instance, his flagship *tol laut* (sea highway) project may face financing difficulty given a wide imbalance between the supply and demand of ships needed to transport goods between Java and the outer islands. Jokowi's proposed plan to shift the capital from Jakarta to East Kalimantan is also challenging. He hopes that capital relocation will boost development outside Java and thus promote regional equality. However, considering the current infrastructure bottlenecks, attracting investors to the outer islands such as Kalimantan might be wishful thinking. The recent major blackout across West Java and Greater Jakarta might make investors think twice about the state of infrastructure in the country, especially on the outer islands.

Finally, all government spending commitments (for infrastructure, education, social programmes and subsidies) will eventually have to face the reality of a weak financing capacity. The country's persistently weak tax revenue is a structural issue which will constrain the implementation of various government policies and programmes going forward.

Maintaining macroeconomic stability amidst growing global uncertainties will be high on the agenda. Jokowi administration will maintain an expansionary fiscal policy to counter the slowing growth momentum. The country's persistent weak tax effort is likely to carry on, dragging the overall fiscal balance down as his administration continues with gradual tax policy reforms. On state spending, there will hardly be any significant changes to the existing expenditure priorities such as infrastructure, education, health and various social safety-nets programmes.

Considering the complexity of regional and multilateral trade agreements, Indonesia will prioritize bilateral trade and investment deals that are considered beneficial to its domestic economy. One case in point is China's Belt and Road Initiative (BRI). Jokowi's administration has been keen to join BRI as it is perceived to be an opportunity to support his infrastructure ambitions. While there are no official BRI projects in Indonesia to date, there has been a significant increase in Chinese FDI since 2016.

However, China's investment to Indonesia has declined by 29% to \$2.4 billion in 2018 because of US-China trade tensions.<sup>3</sup> Indonesia will have to look for other alternative sources to compensate for China's FDI dip.

In conclusion, success in attracting FDI will depend partly on the progress of Indonesia's deregulation process and policy reform. However, policy reform at the sector and sub-national level will be more difficult. There are still too many problematic local regulations that hinder investment. While Jokowi's administration has tried to scrap some of such regulations, the Constitutional Court has ruled that the central government cannot annul regional bylaws. The Court's decision will adversely affect the deregulation process and hinder investment.<sup>4</sup> Finally, Indonesia needs to reform its outdated labour regulatory regime in order to accommodate the development in digital economy and new types of industries. However, a strong political will is required when dealing with trade unions, and it remains to be seen if Jokowi can surmount all his second term challenges.

Siwage Dharma Negara is Senior Fellow at ISEAS – Yusof Ishak Institute and Co-coordinator of the Indonesia Studies Programme (ISP)

### Notes

- <sup>1</sup> 'Unemployment Rate by Age Group, 2015-2018', *Statistics Indonesia*; <https://tinyurl.com/urag2015-2018>; accessed 21 August 2019.
- <sup>2</sup> Pellini, A. 2016. 'Indonesia's PISA results show need to use education resources more efficiently', *The Jakarta Post*, 18 December 2016; <https://tinyurl.com/pellini18dec2016>; accessed 21 August 2019.
- <sup>3</sup> 'China Turun ke Posisi 3 Negara dengan Investasi Terbesar di Indonesia', *Kompas.com*, 30 July 2019; <https://tinyurl.com/chinaindoinvest>; accessed 21 August 2019.
- <sup>4</sup> Wirayani, P. et al. 2017. 'Red tape "wardens" legally win', *The Jakarta Post*, 7 April 2017; <https://tinyurl.com/wirayaniredtape>; accessed 22 August 2019.



Above: Prabowo Subianto and Sandiaga Uno. Image in the public domain, courtesy Wikimedia. Published and distributed by the Government of Republic of Indonesia.

(Nasdem), United Development Party (PPP) and National Mandate Party (PAN) were expected to have a good chance of crossing the electoral threshold of 4 per cent of the votes and getting into parliament. On the other hand, the People's Conscience Party (Hanura) and the new political parties – Indonesian Unity Party (Perindo) and Indonesian Solidarity Party (PSI) – seemed unlikely to meet the threshold and therefore may not be represented in the new parliament.

The surveys also reported the demographic characteristics of the supporters of both pairs of presidential candidates. The Jokowi-Ma'ruf pair was more likely to attract rural voters and those with low and medium education, and

has overwhelming support from Catholics and Protestants. In addition, younger voters and those with higher income tended to support the Prabowo-Sandiaga pair.

There were also clear geographical patterns related to support for Jokowi and Prabowo respectively. Results of the 2014 election indicated that Jokowi had stronger support in Central and East Java, and much of the rest of Indonesia. Prabowo's strongest support came from the provinces of West Java and Banten, as well as various parts of Sumatra. Surveys suggested that this general picture would remain largely the same for 2019, although there were some differences on the outcome for West Java, Banten and Jakarta.

On 21 May 2019, the General Elections Commission declared Jokowi the winner of the presidential election with 55.5 per cent of the votes against Prabowo's 44.5 per cent. The 11 per cent lead was smaller than what the surveys suggested, but it was significantly larger than the 6.3 per cent lead he had in 2014.

As for the political parties, the 'coattail effect' was not as pronounced as predicted, although PDI-P and Gerindra did lead the pack with 19.33 per cent and 12.57 per cent of the votes respectively. Also as predicted, Hanura and the new political parties did not cross the electoral threshold and would not be represented in parliament, suggesting

that the smaller and new parties will face an uphill task in trying to get a foothold in national politics.

While there is no conclusive evidence on the demographic characteristics of supporters for both pairs of candidates, the geographical voting patterns are more apparent. In fact, not only are the geographical voting patterns of 2014 generally upheld, they have also deepened in 2019. While Jokowi won a greater percentage of the votes in 2019, the provinces where he has the majority of votes decreased from 23 (out of 33) to 21 (out of 34). Correspondingly, Jokowi's majority has increased substantially in provinces such as Central Java, East Java and Bali, whereas Prabowo's majority in Aceh and West Sumatra has jumped significantly as well. The general pattern is that Jokowi's support has deepened in Javanese and non-Muslim majority areas, while Prabowo's support has deepened in non-Javanese Muslim majority areas.<sup>2</sup> It remains to be seen if these broad religious and ethnic fault lines will continue to be a mainstay of Indonesian national politics, and whether future presidential candidates will exploit them.

Hui Yew-Foong is Senior Fellow and Co-ordinator of the Indonesia Studies Programme.

### Notes

- <sup>1</sup> Opinion polls and survey findings used in this article are summarized from Yew-Foong Hui, Made Supriatma, Aninda Dewayanti and Benjamin Hu, 'Preview of the 2019 Indonesian Elections', *ISEAS Perspective* 2019/24 (9 April 2019); <https://tinyurl.com/iseas942019>; accessed 26 August 2019.
- <sup>2</sup> See Tom Pepinsky, 'Religion, ethnicity, and Indonesia's 2019 presidential election', *New Mandala*, 28 May 2019; <https://tinyurl.com/pepinsky2852019>; accessed 26 August 2019.