

The
Economist

Intelligence
Unit

Hopes and doubts

Perspectives on the long road
to Indonesia's economic
development.

Sponsored by Shell



2 Joko Widodo's Indonesia: Control and reform

Aaron Connelly, South-East Asia Fellow, Lowy Institute

By the time Jokowi emerged from the state palace in a crisp white shirt to announce his first cabinet in October 2014, it was approaching evening. The announcement had been due to take place hours earlier on the lawn of his new residence. However, Jokowi was delayed by demands for special consideration in the composition of the new cabinet from party leaders and other wealthy supporters of his presidential campaign.

Most critically, former President Megawati Sukarnoputri, the chair of Jokowi's Indonesian Democratic Party of Struggle (PDI-P), vetoed several selections at the last minute. As journalists checked the time and wandered the lawn, Jokowi's lieutenants furiously sought acceptable replacements.

The lineup that emerged was a disappointment. It included many officials who owed their loyalty to Ms Megawati, or to Vice President Jusuf Kalla, or to National Democrat party chairman Surya Paloh, and others with a reputation as opponents of good governance. The announcement thus raised two questions that have come to define Jokowi's presidency. First, to what extent is Jokowi in control of his administration? And second, to what extent is the president himself a reformer?

First, the good news

In the days before Jokowi took office, concern for the stability of his new administration focused on the intentions of the opposition Red and White Coalition (KMP). Led by Golkar party head Aburizal Bakrie and defeated presidential candidate Prabowo Subianto, the reinvigorated opposition had cohered to a greater degree than at any point in the past decade, and promised a strident stance. In that feverish environment, Jokowi operatives even fretted that the opposition might try to round up enough votes to attempt to impeach the new president.

**The greatest success
of Jokowi's administration
has been the way in
which he quietly co-opted
the opposition.**

The greatest success of Jokowi's administration has been the way in which he quietly co-opted this opposition. Indeed, he has now pushed two budgets through the opposition-controlled legislature, including measures to drastically cut

fuel subsidies, once the third rail of Indonesian politics, with minimal resistance from the KMP. He has done so by spreading patronage to his erstwhile opponents; by, for example, signing a decree authorising legislators to pay for personal vehicles with state funds, and by authorising a US\$62m state loan to one of Bakrie's companies.

Jokowi's strategy presents risks because he was elected on the promise of a cleaner, more efficient government. The spread of patronage through regular channels, such as the award of contracts to politically connected state-owned enterprises, could prove a drag on Jokowi's ambitious infrastructure investment program, leaving him a disappointing record to take into his re-election campaign in 2019.

If patronage spreads through irregular means, allegations of graft could damage Jokowi's reputation with voters.

Moreover, if patronage spreads through irregular means, allegations of graft could damage Jokowi's reputation with voters. A sensational scandal that brought down the speaker of the House of Representatives in December illustrates the risks. The speaker, Setya Novanto, resigned after he was accused of trying to extort US\$4bn in shares from the local unit of Freeport-McMoRan. In a secret recording, Mr Novanto is heard

asking Freeport-McMoRan for a 20% stake in the company, and implies that his request has the blessing of the president and his top lieutenants.

All those concerned in Jokowi's administration have denied any knowledge of the apparent extortion attempt. But if the scandal does force Jokowi to rein in his aides' efforts to secure legislative support – legitimate or otherwise – the president could find a hungry KMP once again spoiling for a fight – frustrating his efforts to push through his legislative agenda, and himself bogged down by legislative investigations into his administration's conduct.

Controlling his own coalition

Managing differences within his own coalition has been a significant challenge for Jokowi. As one presidential advisor has noted, Jokowi is up against not just the KMP, but also "the other KMP" – Kalla, Megawati, and Paloh. His vice president, party chair, and primary financial backer, respectively, have competed over appointments and tangled over policy differences.

Jokowi has sought to satisfy them by appointing their allies to key positions, in ways that have diminished his administration's reputation for good governance. The Agriculture Ministry is led by a young Kalla protégé. The job of Attorney General, a particularly sensitive position with regard to efforts to fight corruption in the legal system, is held by a Paloh ally, just as Paloh has come under suspicion of corruption. And in a grave error, Jokowi sought to install Budi Gunawan, a former aide-de-camp to Ms Megawati, as national police chief.

Barely half of Jokowi's cabinet members are technocrats, while the other half primarily serves to satisfy the oligarch leaders of parties in his coalition.

Jokowi would come to regret each of these appointments, but none more so than that of Mr Gunawan. Shortly after Mr Gunawan was nominated as the police chief candidate, the Corruption Eradication Commission (KPK) named him a graft suspect. The police responded by naming each of the sitting KPK commissioners suspects for various crimes with little evidence. Under the law, criminal defendants cannot continue in public office, so the move had the effect of considerably weakening the leadership of the KPK, Indonesia's most trusted and popular institution.

Rather than standing up for the KPK and risking a showdown with both Ms Megawati and the police, Jokowi vacillated for weeks before delivering a compromise. Mr Gunawan would ultimately become deputy chief instead of chief, while KPK leaders with mixed credentials were appointed on a temporary basis to serve out the remaining nine months of their predecessors' terms. (Since then, a new slate of weaker leaders, chosen through a process involving the president and the legislature, has taken up full terms). While the KPK has continued to mount investigations against some powerful figures, it has since shied away from other obvious targets.

Jokowi's actions in the Budi Gunawan affair undoubtedly weakened the KPK, and set a disturbing precedent for police impunity, which is likely to leave corruption in the police force unchecked for years to come. Jokowi's motley crew of coalition partners and backers are likely to throw up other similar tests in his remaining three and a half years in office.

Is Jokowi a reformer?

Jokowi rose to prominence as a can-do mayor in Solo and as governor of Jakarta. However, his record since the election has prompted many foreign analysts to question whether Jokowi not only lacks control, but also the reformist instincts that they associated with his tenures at the municipal and provincial levels.

To some extent, this question is inextricably linked to Jokowi's lack of control. At the most fundamental level, Jokowi promised during his election campaign to transform Indonesian politics by refusing to offer cabinet seats to party leaders in exchange for their support in the legislature, and to compose a cabinet comprised mostly of technocrats.

But barely half of Jokowi's cabinet members are technocrats, while the other half primarily serves to satisfy the oligarch leaders of parties in his coalition. And while he initially refused to offer cabinet seats to entice opposition parties to defect from the KMP, the next cabinet reshuffle is likely to be the result of just such a deal. Jokowi's earlier use of patronage to secure legislative cooperation was no less problematic. Rather than changing the rules of the game, Jokowi has spent his first year learning to play it better.

Moreover, on questions of specific policies, Jokowi's record as a reformer has been mixed. Jokowi understands that Indonesia's infrastructure deficit holds back its economy, and has pledged to address it through an ambitious portfolio of infrastructure projects, many of which have been stalled for years under his predecessor. To do so, he seems also to understand that he needs to attract massive amounts of foreign investment. Yet, his ministers spent much of the early months of his administration implementing regulations that were inimical to foreign investment and trade.

At no point was this juxtaposition clearer than in April 2014. Jokowi promised investors "incredible profits" at a World Economic Forum conference in Jakarta, and told them to call him if they had a problem. Two days later, Jokowi delivered a keynote to leaders of non-aligned countries at the 60th anniversary of the Asia Africa Conference, in which he called for a new global economic order with a diminished role for Western institutions. And as the rupiah and share market plunged in the months that followed, Jokowi doubled down on protectionism, increasing tariffs on hundreds of items.

His appointment in August 2014 of Thomas Lembong, formerly a Singapore-based private equity investor, to trade minister signaled a shift in Jokowi's approach. In an interview on his first day in office, Mr Lembong told Bloomberg that "protectionism always backfires in the end". Over the remainder of 2015, Jokowi and Mr Lembong introduced seven packages designed to kickstart growth and foreign investment. These packages have improved the investment climate, but mostly at the margins, through the reduction of red tape in permitting processes. Dozens of

measures have been announced with little follow-up on implementation.

Yet Jokowi clearly believes himself to be a reformer, particularly in how he defines himself in relation to his predecessor, Susilo Bambang Yudhoyono.

Jokowi clearly believes himself to be a reformer, particularly in how he defines himself in relation to his predecessor, Susilo Bambang Yudhoyono.

The anti-SBY

Toward the end of Mr Yudhoyono's ten years in office, Indonesian public figures began to increasingly voice a critique of Mr Yudhoyono that combined reformist, nationalist and populist arguments. During Mr Yudhoyono's term, they suggested, Indonesia had become weaker. They argued that laws had gone unenforced, corruption had flourished and public resources squandered. They saw Mr Yudhoyono's globe-trotting attempt to raise Indonesia's profile on the world stage as nothing more than an ego trip, and some even believed he had given foreign governments and businesses special consideration in exchange for adulation.

Jokowi, by contrast, came into office promising humility. Though he was worth more than US\$2.5m by the time he assumed office, he played

up his humble background on the campaign trail. Campaign posters bragged that his suits were worth no more than US\$100. While Mr Yudhoyono had ordered the purchase of a Boeing 737 for presidential travel, Jokowi flew in economy class on commercial flights during the campaign and into the early days of his presidency.

Jokowi also presented himself as a firmer hand in what he perceived to be an increasingly dissolute Indonesia under Mr Yudhoyono, calling for a "mental revolution" in an op-ed published during the campaign. In his election manifesto, he pledged to "reject the weak state", and promised to get tough on corruption, drug trafficking and illegal fishing.

Although this agenda presented an opportunity for the reform of certain state institutions that had been enervated by corruption, it also provided an increasingly popular critique of the role of foreign governments and investors in Indonesia. Foreigners, the argument went, were complicit in and profiting from the weakness of the Indonesian state.

During the 2014 election, Mr Prabowo championed these views, lecturing on the dangers of "foreign intervention". He and his followers attracted more attention — and from foreign investors, more concern. But much of Jokowi's rhetoric has still accepted these nationalist concerns as valid, even if it has not seized on them like Mr Prabowo. Insofar as nationalist posturing supports the narrative that Jokowi's presidency has served to correct the perceived failures of Mr Yudhoyono's time, it is likely to continue to play a role in policymaking in his administration.

Where the rubber meets the road

Jokowi is thus faced with a dilemma. He will not be able to achieve his ambitious development goals without foreign investment. But the measures he must take to welcome foreign investment upset Indonesians' nationalist sensibilities, —with which Jokowi appears to be at least partly in sympathy.

Starting last August, with the appointment of Mr Lembong as trade minister, he has sought to split the difference by making minor permitting changes, and making the dramatic but unrealistic announcement that Indonesia would join the Trans-Pacific Partnership. He has also sought sovereign partners, particularly China and Japan, who may be willing to overlook the risk that the Indonesian system presents to foreign investors.

This will not be enough to attract investment on the scale that Indonesia requires. If Indonesia is to avoid another lost decade, Jokowi must take on corruption and local incumbents who have used the regulatory regime to take advantage of foreign investors. Doing so would be politically treacherous in any political environment, but will be even more so given Jokowi's weak political position and tenuous hold on the policymaking apparatus. ■



LONDON

20 Cabot Square

London

E14 4QW

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8500

E-mail: london@eiu.com

NEW YORK

750 Third Avenue

5th Floor

New York, NY 10017, US

Tel: (1.212) 554 0600

Fax: (1.212) 586 0248

E-mail: newyork@eiu.com

HONG KONG

1301 Cityplaza Four

12 Taikoo Wan Road

Taikoo Shing

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com

SINGAPORE

8 Cross Street

#23-01 PWC Building

Singapore 048424

Tel: (65) 6534 5177

Fax: (65) 6428 2630

E-mail: singapore@eiu.com

GENEVA

Rue de l'Athénée 32

1206 Geneva Switzerland

Tel: (41) 22 566 2470

Fax: (41) 22 346 9347

E-mail: geneva@eiu.com