



American Indonesian Chamber of Commerce
"for Business and Understanding"

Beyond 2019: Indonesia's Economic Outlook

On December 5th, AICC hosted **Vasuki Shastry**, who until December 2018 was Global Head of Public Affairs and Sustainability for Standard Chartered Bank based in Singapore.

Vasuki began his presentation mentioning his recent book "Resurgent Indonesia - From Crisis to Confidence" noting that it is largely optimistic -given its time frame (1998-2018)--but that his forward view is not as rosy.

His main thesis is that Indonesia's last 20 years were remarkable; economic and political outcomes exceeded expectations. But going forward Indonesia will need to make some serious adjustments to unleash its potential.



20 years ago many feared Indonesia was on the verge of collapsing in the wake of the fall of the Soeharto regime and the rise of secessionist movements. Giving credit to the presidencies of Wahid, Habibie, Megawati, and SBY, Shastry noted that the collapse never occurred because these leaders listened to Indonesia's "street" and got the "essential things right": a free press, directly elected Parliament, trade unions, and successive free and fair elections.

Economically Indonesia benefited from a rising China, especially its sustained commodity import boom (2002-2014) during a time when its own stability was not fully clarified. But this "super driver" masked many economic difficulties that the current government is grappling with.

Shastry does not believe that Indonesia's next 20 years will be as easy as it has not replaced the commodity export model with one of similar clarity. Furthermore, if the state is unwilling to get out of the way of business, future growth will have a hard time sustaining the current 5% or going to 6 or 7%.

Headwinds:

- Nationalism- The current consensus --which began in the later stages of SBY's presidency- is more nationalistic than any since the 1950's time of President Soekarno. There is a well-defined sense that by controlling its own economic destiny through mandating local content and ownership Indonesia can grow at a much faster pace. The reality is that average growth over the last decade has been only 5%, a reasonable number, but far less than what leaders aspire to achieve and too low to move the country up the economic ladder.
- State Intervention- Mandates to manufacture downstream products in Indonesia. President Jokowi recently announced that mining companies should not export raw materials and should be subject to requirements that intermediate and other downstream products be made locally. In Shastry's opinion Jokowi's statement hearkens back to President SBY's mining export bans, noting that the investment cycle to go from upstream to downstream can be quite long but that the political cycle behind the impulse is short. An area where the State should interfere more is education. Although 20% of the budget is supposedly for education, outcomes are not what they could be. India, in Shastry's opinion, spends less per capita with much greater results.
- Regional competition- Samsung reportedly employs more qualified electronic engineers in its factories in Vietnam than currently exist in Indonesia. (Indonesia's engineering strength has traditionally been in oil/gas and mining).
- Over-regulation- Although e-commerce has received a lot of attention and investment from foreign companies, Shastry believes they worry that Indonesia will subject the sector to a lot of unnecessary regulation (covering servers, and payments) as it has done in the banking sector, noting that 2 years ago banks such as Standard Chartered were pressured to onshore all of their data and the government was seriously considering all foreign banks to have majority local ownership. *(Had this been implemented \$billions in infrastructure funds would have become unavailable).*
- Regulatory uncertainty- continuous state regulatory intervention undermines investor confidence that conditions will remain reasonably constant through the term of investment.

Although not formally underway, the April 2019 election -pitting former rivals President Jokowi and former general Prabowo Subianto- already has been affected by the 2017 Jakarta governor's race where religion played a major role. Shastry believes Jokowi chose the right leaning cleric Ma'ruf Amin as his running mate as "insurance" to protect his flank from those mistrustful of his "faith". He noted that Prabowo sounded very much like the Jokowi of 2014 at a recent Economist forum in Singapore where he took care in front of an investor audience to say he would be a moderate, centrist leader, open to foreign investment. Shastry predicts Jokowi will be reelected.

Shastry's conclusion is that the only way for Indonesia to achieve the level of growth to which it aspires is for the government to create an economic pathway where it does not interfere in the economy. He admits this is probably "asking too much". Whether Jokowi or Prabowo becomes Indonesia's next President the "animal spirits" exist for 7-8% growth but are being held back by government policies and their uncertain implementation.

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Corporate Host:





John Prasetio, Mimi Hyman (host), and Wayne Forrest