Global Counsel

Jokowi: the second hundred days

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Summary

The inauguration of Joko Widodo as President of Indonesia in October 2014 was a landmark event in Indonesian politics. The subsequent hundred days have fulfilled some of the huge expectations of Jokowi and frustrated others. The reasonable prediction that Jokowi would quickly find himself dealing with the messy compromises and obstacles of minority government have so far proven correct, although not in the way they were often made. Jokowi's administration has set a number of big targets that as yet seem at odds with some fairly conservative instincts on trade and the economy. Jokowi's first hundred days have defined some fairly fundamental challenges for his second.

The inauguration of Joko Widodo as President of Indonesia in October 2014 was a landmark event in Indonesian politics. Predictions on the first hundred days spanned a broad spectrum, with optimists on the one end anticipating decisive policy and personnel changes that would set the ground for a transformation of Indonesian politics and governance, as well as the economy, and pessimists on the other hinting that in the face of insuperable opposition in Parliament the President would likely be impeached before the hundred days were out.

In the end, the verdict falls somewhere in the middle. As anticipated, most of the President's difficulties have stemmed from the messy compromises and obstacles of minority government, though perhaps not in the way that many at first expected. An early coup on successfully reforming Indonesia's debilitating fuel subsidy programme was balanced by a political storm of proportions not even critics of Jokowi could have foreseen, which pitted the President not only against his party but the police, anti-corruption institutions and the public at large. On the economy, cutting fuel subsidies have freed up some much needed fiscal space, but there are serious questions around both the approach of delivering infrastructure investment through the inefficient and notoriously corrupt state-owned sector as well as the hugely ambitious targets on increasing revenue from tax receipts. Finally, lofty statements on boosting exports and stimulating foreign investment are at odds with what appear to be some fairly conservative instincts on trade and the economy. Jokowi's first hundred days have defined some fairly fundamental challenges for his second.

Governing from the margins

Jokowi's status as a minority President is the most important structural feature of his Presidency. However, it is notable that his first hundred days have been defined more by a within his own PDI-P party than with the opposition Red & White coalition. Early patronage concessions to the PDI-P - including a number of key cabinet posts – strained his pre-election pledge to install a technocratic administration. But it was the appointment of Budi Gunawan, a close ally and former adjutant of PDI-P Chair Megawati Sukarnoputri, to the post of Chief of Police that was by far the most politically damaging move the President has made to date. Days after the nomination, Gunawan was formally named as a suspect by the widely respected Corruption Eradication Commission (KPK). Jokowi found himself caught between public outrage at the idea of a corruption suspect leading Indonesia's police force, and the very Javanese sense of obligation to publicly demonstrate deference and gratitude to Megawati, the party elder who made his election possible. After weeks of indecision, Jokowi withdrew the nomination, but the damage had been done. In the intervening period, the President's approval ratings had fallen some thirty percentage points to 42% by the end of January.

Meanwhile, after almost successfully bringing government to a halt late in 2014, the opposition Red & White coalition found they had little to do but to sit back and watch as the President hemorrhaged approval points from the internal strife within his own party. A temporary truce has been in place since earlier this year, following a meeting between Jokowi and opposition leader Prabowo Subianto. The opposition raised no objections in the debate over the passing of the budget and speculation on impeachment has died down to a murmur. Meanwhile, the struggle for power in the Golkar party continues, with rival factions having formed behind Aburizal Bakrie, an ally of Prabowo, and Agung Laksono, who has pledged to lead the party to join the ruling coalition. The government may have bought some goodwill from Bakrie and his party by agreeing to offer a loan of $60 million to pay compensation to victims of the Sidoarjo mudflow disaster in East Java, for which Bakrie's mining operations continue to be blamed.

This uneasy legislative truce – along with a sharp fall in the global oil price - also enabled the biggest success of Jokowi's first hundred days. In the months before the election, the reform of Indonesia's expensive and inefficient fuel subsidy programme was predicted to be the most difficult item on the new President's agenda. But the risks associated with the move were largely eliminated by the fall in the price of oil, which at one point meant that the price of unsubsidised petrol fell below that of its subsidised alternative and Jokowi moved quickly. The almost $17 billion of savings from eliminating the fuel subsidy for petrol and reducing it to 1,000 rupiah or 5p per litre for diesel, has been reallocated as part of the 2015 Budget to infrastructure, health and education spending as well as contributing to reducing Indonesia's budget deficit from 2.2% in 2014 to 1.9% in 2015.

The first hundred days

So what kind of picture emerges from this first hundred days? At a political level, despite or perhaps more acutely because of his outsider status, Jokowi's ability to transcend the messy and compromising realities of Indonesian party politics is clearly limited. His debts to Megawati and the PDI-P remain hard to quantify, but will continue to be called in. On policy, Jokowi has demonstrated a clear pragmatic streak but the transformative goals he has set out for Indonesian politics and the economy are at odds with some of the conservative instincts he has demonstrated, as well as with wider structural constraints he faces.

One obvious example are the spending commitments in his first budget. As part of the 2015 Budget, approved by Parliament on 13 February, direct infrastructure spending is set to almost double to 2.2% of GDP, and some of the $17 billion of savings in fuel subsidy will be redirected towards a $5 billion injection of capital into state firms and a $1.7 billion transfer of funds to villages. Also for the first time, the budget includes a wider set of economic targets, including on unemployment, poverty and Gini coefficient. However, achieving all of these targets is predicated on growth rates of above 6% and expenditure and growth on oil and other imports on an exchange rate that is still potentially under pressure from investor sentiment as Indonesia's current account deficit hovers around 3%.

Perhaps more worryingly, they are based on a 30% increase in domestic tax receipts, to be secured through improved enforcement rather than policy or rate changes and a tax amnesty for offshore capital. Indonesia's tax base remains notably narrow and while Jokowi has showed some willingness to take on his base on subsidy reform (albeit with significant help from the oil price), tax reform is a big political ask.

Whilst the Budget envisages a pivotal role for FDI, the administration's plans to remove barriers to investment and to offer more assurances to investors have not yet been fully set out. The Coordinating Ministry for Economic Affairs has been tasked with reviewing PPP frameworks, but with no movement on reform of the state-owned sector, this can only deliver very limited improvement. Ultimately, much of the finance will likely come from China, which has already redoubled commercial diplomacy efforts following Jokowi's win. Jokowi has also shown little instinct for pushing back the role of the state. Plans in the budget to push capital expenditure through SOEs should be taken as a sign that the dominance of the corrupt and inefficient state owned sector in the Indonesian economy is not set to change in the near future.

Another incongruity are the now widely touted trade targets. The Jokowi administration has placed a rhetorical emphasis on the role of trade in meeting its ambitious growth targets. Jokowi has set out a series of pledges, including a headline target to triple Indonesia's overall exports by 2020. This is a difficult ambition to meet, given Jakarta's continued defensive position on liberalisation. The government may also have to accept that tripling exports without accepting any growth in imports is not a realistic proposition in today's globalised trade system, where two thirds of trade is in intermediate goods.

That said, there has been some welcome focus on trade facilitation and cutting red tape for business. As a former furniture trader, the President understands the direct and indirect costs of doing business in Indonesia – securing permits, access to capital and logistics costs. The government has repeatedly promised to cut red tape, including by setting up a one stop shop for securing a business license, and to resolve other barriers to trade and investment, including land acquisition, particularly for infrastructure projects. This sounds incredibly helpful on paper, but anecdotal evidence a few months into the implementation of this new policy suggests that change on the ground has been limited.

Where Jokowi has shown little if any interest in breaking from conventional practice in Jakarta is on the thread of economic nationalism that has been a perennial plank of Jakarta's growth model. For successive governments, the view of growth has always been shaped by confidence in Indonesia's dominant position in ASEAN and its own large internal market; Indonesia accounts for over 40% of ASEAN GDP and domestic consumption has consistently contributed over 50% of GDP growth. Since taking office Jokowi has spoken frequently about the idea of 'sovereignty' and self-sufficiency in energy and in limiting foreign control of Indonesia's strategic industries. There is a widely held belief that Indonesia's banking sector is too liberal, and wide expectations that the new draft of the banking bill will impose a 40% cap on foreign ownership. The debate on limiting the role of foreign interests is likely to spread to other industries including insurance, telecoms and technology – although obstacles to inward investment in these areas may be informal rather than formal. The climate for inward investors is likely to remain solicitous, but with an expectation that Jakarta will continue to set political (and not always clearly defined) limits.

The next hundred days

Looking ahead, the coming months will continue to test Jokowi's ability to appease and to compromise, as well as to respond quickly to changing global realities. The rumblings of discontent within the PDI-P are set to continue, and the public will be watching closely for any indication the President may be willing to compromise too much to retain their support. The Red & White coalition may be content to watch from the sidelines for now, but will be ready to take advantage of any misstep on the part of the President - that is, if the PDI-P don't beat them to the mark. On the economy, Indonesia is in for a turbulent year ahead, with a continued slowdown in China draining the demand for Indonesia's commodities and the promise of rate rises by the US Federal Reserve threatening to cause a repeat of the 'taper tantrum' that started in May 2013, during which the rupiah of all emerging economy currencies took the biggest hit.

Even accounting for demanding political pressures at home, it is clear that Jokowi is deliberately positioning himself as much more inwardly focused than his predecessor Susilo Bambang Yudhoyono. Sinking Vietnamese fishing boats and executing Australian prisoners may have helped him show some political muscle at home, but has soured the already tepid relations with some of his Asian Pacific neighbours. On top of this, Jokowi has shown little appetite for commercial diplomacy of ASEAN and no impulse at this stage for reversing Jakarta's detachment from the US-led Trans-Pacific Partnership which is likely to accelerate over the months ahead if the US and Japan reach the widely-expected agreement. There is fresh talk of an EU-Indonesia FTA but a lot of scepticism in Brussels about Jakarta's willingness to deliver and in Jakarta over the value of the kind of concessions Brussels will inevitably be seeking in areas such as banking and services. Both of these positions could evolve, but these are unlikely to be Jokowi priorities.

The area where the international contrast with SBY may be most marked in 2015 is in climate change. International climate diplomacy occupies a much lower rank on the list of priorities than in previous years. Action on tackling climate change is likely to be limited to domestic measures focused on tackling forest fires and reviewing the practices of domestic industries such as palm oil. Pressure from international actors active in Indonesia's forestry sector for the President to make a strong statement ahead of the Paris climate talks have fallen on deaf ears.

None of this is to diminish Jokowi's exceptional achievement in rising so far in Indonesia governance without the support – and obligations - of the traditional party structures. His first hundred days has suggested a streak of pragmatism and opportunism and a clear sense of priorities on key issues like the fuel subsidy, which was ruinously expensive out of all proportion to its political value. He also seems to have a genuine interest in delivering policies that have an impact on poverty reduction and on the lives of ordinary Indonesians, although his ability to do this will be constrained by what appear to be essentially conservative instincts in terms of tackling vested interests, particularly in the state-owned sector, and liberalising the economy. If he is inclined to challenge set patterns in Jakarta's view of development policy, regional integration and international engagement – and given his background as a small businessman and regional governor, there is no real reason to expect a radical break - those instincts have so far taken a back seat. His extraordinary independent political trajectory has inevitably been heavily compromised by the need to strike a deal with the PDI-P and this may yet be his undoing. The second hundred days promise to be as interesting as the first.

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