

Comment on “Making Economic Policy in a Democratic Indonesia: The First Two Decades”

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Basri and Hill (2020) examine the effects of the current phenomenon of authoritarian populism on Indonesia. Within a climate of authoritarian populism, one can observe a retreat from economic liberalism and the increasing appeal of the anti-globalization movement. Basri and Hill analyze and elaborate on the effects of the present situation alongside Indonesia’s responses to it using data derived from exit polls after the election, Statistics Indonesia (BPS), and the World Bank. Their work reflects on the 2019 Indonesian elections, as well as economic and changes in governance since the Asian Financial Crisis.

Basri and Hill conclude that Indonesia has navigated the transition from authoritarian to democratic rule quite successfully. Thus far, Indonesia is not traveling down the path of populism and economic illiberalism. In addition to the personal appeal of the candidates, their party machines, and a variety of local factors, a mix of economic and religious/identity factors are at work in the electoral outcomes. Generally, I agree with these conclusions.

Basri and Hill explain that it might have been expected that Indonesia would be a more likely candidate to join the ranks of authoritarian populism. While the country has indeed become more openly Islamic, in 2019 the incumbent secular/moderate candidate was reelected as president. Basri and Hill explain the factors that brought about this electoral result. The factors and strategies that led to Jokowi-Ma’ruf Amin’s (JKW-MA) camp’s success in winning the election can be easily understood with hindsight. The opposition leader, Prabowo Subianto, demonstrated stronger populist, authoritarian and Islamist tendencies. Alongside his vice-presidential running mate, Sandiaga Uno, Subianto received about 45% of the votes in the 2019 election. Indonesia was certainly faced with challenges to the status quo by the brewing sentiments of populism, authoritarianism and Islamism. To counter these challenges, the Jokowi camp undertook many effective strategies. One of them was to choose Ma’ruf Amin, a prominent conservative ulama, as their candidate for vice president. This led to JKW-MA’s

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success in securing strong support from Nafdatul Ulama (NU). Basri and Hill emphasize the significance of this appeal in securing JKW-MA's victory.

The second important factor which I wish to point out is the economic conditions and policy implemented by the administration around October 2018. At that time, the Rupiah had depreciated to 15,300RP to the US dollar. During the election in 2014, Jokowi was criticized for staging gimmicky campaigns that highlighted single identity groups, having separately spread pro-Christian and pro-Chinese messages. The Jokowi camp's 2019 election campaign strategy managed to overcome these past criticisms by appointing Ma'ruf Amin as the vice president candidate. Meanwhile, Prabowo-Sandiaga Uno declared that this time the election debate should focus on economic matters. Sandiaga Uno, who is a businessman himself, particularly criticized the administration for their failure to remedy the rupiah's depreciation, referring to the grievances of the manufacturers and traders who rely on imported goods. If the rupiah's depreciation continued, and especially if there was a sharp drop in its value, the Prabowo-Sandiaga Uno camp would have ammunition to intensify their attack on the Jokowi-Ma'ruf Amin camp. At that time, the supporters of Prabowo-Sandiaga Uno were generally more enthusiastic than those of the Jokowi-Ma'ruf Amin camp.

In fact, an appreciation of the rupiah started in November 2018. The rupiah to US dollar ratio reached Rp. 14,339 in November 2018. These conditions that were favorable to the Jokowi-Ma'ruf Amin camp were brought about by two factors. First the US Federal Reserve cut the federal funds rate from 2% to 1.75% on 30 October, 2018. This measure caused the currencies in Southeast Asian countries to appreciate. Secondly, the administration also took measures to encourage the rupiah's appreciation by issuing foreign currency bonds in excess of \$US 2 billion, as well as raising the Bank of Indonesia's rate from 5.75% to 6.0%. For the fourth quarter of 2018, the current-account deficit/gross domestic product ratio was 3.59% – a rather significant figure at the time. In order to fill this large deficit, a financial account surplus was created, which particularly helped to secure portfolio funds. The government also curbed imports to reduce the current-account deficit. These policies encouraged the Rupiah's appreciation and the curbing of imports resulted in a decrease in exports.

Basri and Hill discuss the issue of the current-account deficit, especially the constant current-account deficit since 2012, in light of the policy debate focusing on whether the government should, and could, target this deficit. The declining competitiveness of manufacturing and agriculture (except crude palm oil [CPO], rubber and cacao), the reliance on international primary commodities – such as CPO and coal – which experienced price fluctuations and an overall decline in price since 2012, brought about the constant current-account deficit which is the source of the problem that occurred in October 2018.

Reference

Basri M.C. & Hill H. (2020). Making economic policy in a democratic Indonesia: The first two decades. *Asian Economic Policy Review*, 15 (2), 214–234.