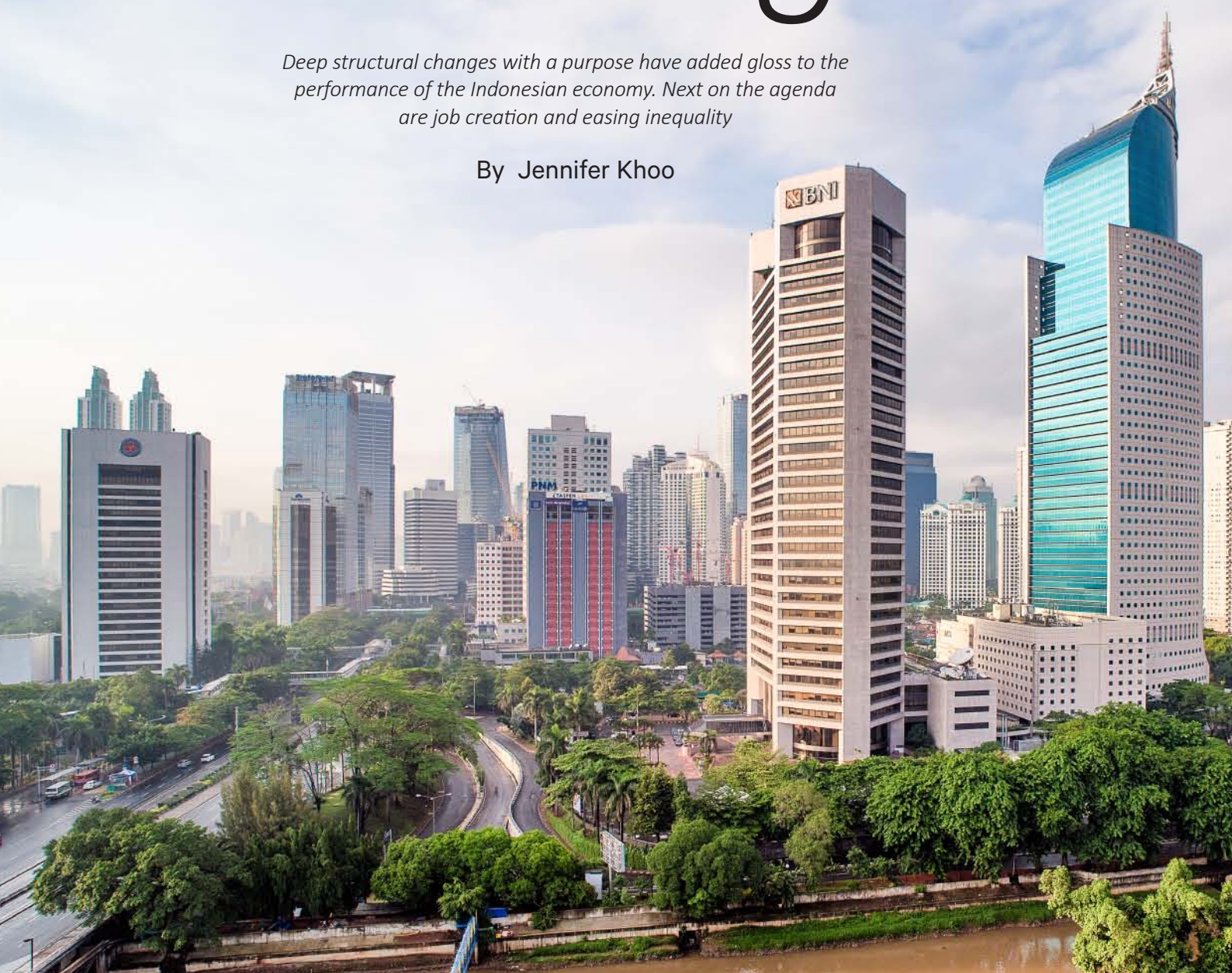


Reformed Thinking

Deep structural changes with a purpose have added gloss to the performance of the Indonesian economy. Next on the agenda are job creation and easing inequality

By Jennifer Khoo





“Asia’s next giant,” “emerging market standout” and “unlikely star”; the platitudes showered on the Indonesian economy by the business media are glowing. The analysis typically revolves around Indonesia being the biggest economy in Southeast Asia or its youthful – and growing – demographic pyramid of 263 million people. You might also read about tech-smart, social media-minded consumers, thirsting for a better life. It can be superficial stuff but the descriptions are often apt.

Indonesian gross domestic product has ballooned over the past several years. Growth rates overtook the pace of expansion in Malaysia and Thailand midway through last year, topping out at just over 5 percent. It’s the type of performance that places Indonesia among the fastest-growing emerging-market economies, alongside mainland China and India.

Reform in stages

The government has played its part in driving growth by making reforms and introducing policies intended specifically to help economic and social development across the country.

The changes are manifestations of RPJMN 2005-2025, a long-term development plan outlining Indonesia’s ambition to become an advanced, self-reliant economic and diplomatic power of global importance, while ensuring social justice.

The plan will be rolled out across the 20-year period in 5-year segments, each with a different focus area. The current 5-year RPJMN, from 2015 to 2019, has prioritized investment into Indonesia’s green economy. It outlines specified targets that include: the reduction of greenhouse gas emissions in five priority sectors, namely, forestry and peatlands, agriculture, energy and transportation and industrial and waste; and increasing community resilience to the impacts of climate change in 15 vulnerable areas of the country.

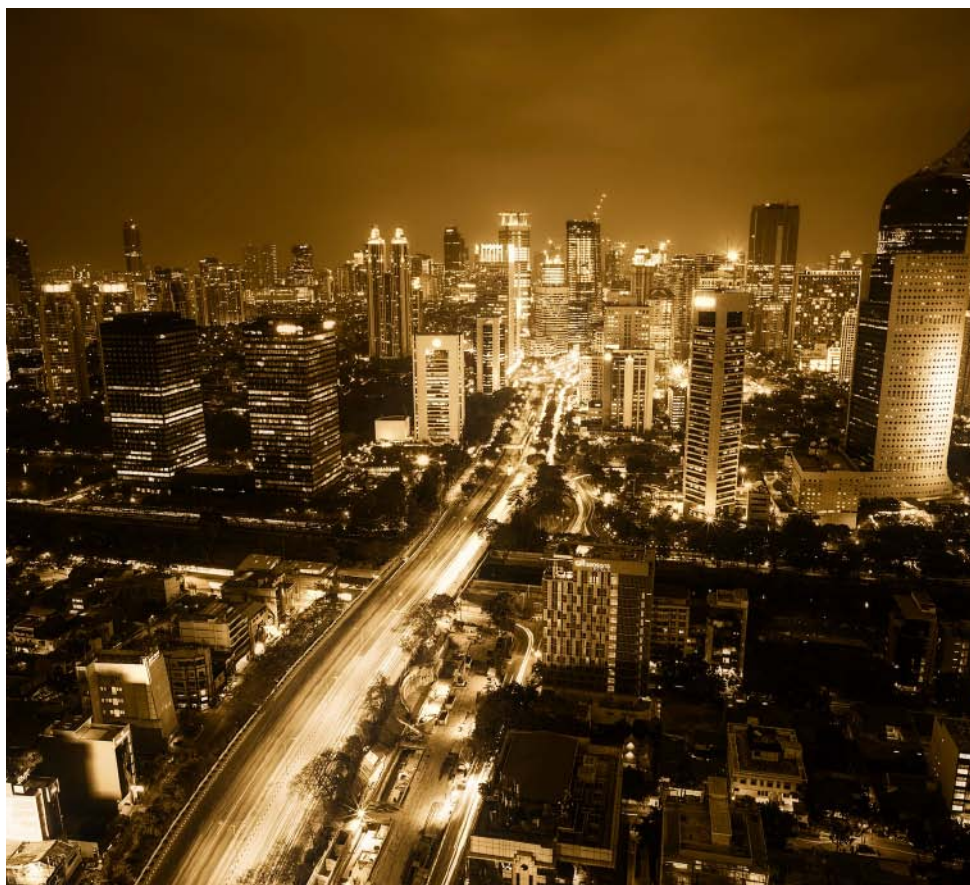
The preceding phase, from 2010 to 2014, concentrated on improving tax policy and making government spending more effective. Measures were taken to improve administration of the budget and disbursement of funds, to make these processes swifter and the officials that undertake them more accountable. Measures were also taken to improve the transparency of tax revenue calculation and determination.

Private consumption has been another key driver of economic growth in Indonesia. The IMF reports that private consumption has grown because consumer purchasing power has increased as inflation weakens and the rupiah strengthens.

Youth's curse

Greater private consumption may imply greater general prosperity and expansion of the middle class. But prosperity and upward social mobility have eluded the millions of Indonesians that live below the poverty line or only just above it.

World Bank statistics indicate that one-quarter of the population are in this category. Moreover, the gap between the haves and have-nots has widened, not least because young Indonesians are joining the labor force at an estimated rate of 1.7 million a year – faster than jobs are being created for them.





An economist at the Institute for Development of Economics and Finance, Dzulfian Syafrian, told Indonesian news media in May that the youthful Indonesian labor force had the potential to become the nation's greatest economic resource – if it was managed well. But Syafrian also said too few jobs could turn this resource into a burden, leading to more crime and radicalism, and so harming society. He described the situation as a “double-edged sword.”

Awkward timing

The IMF says the near-term outlook is favorable for the Indonesian economy but staying on track means persisting with reforms and policies intended to ease

the difficulties while facilitating growth.

The fund calls for investment in public infrastructure to be boosted, for red tape to be slashed and for more areas of the economy to be opened up to private investment. The main thrust of new reforms should be matching the skills workers can supply with the skills that employers demand, the IMF says – for example, by offering more vocational training and apprenticeships.

The Indonesian government faces challenges, but it appears to have a winning formula and a concise roadmap to achieve its ambitions. Now is the time for more far-sighted reform and not quitting while it is ahead.



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