ASIAN-PACIFIC ECONOMIC LITERATURE

Crawford School of Public Policy
The Australian National University, Canberra

doi: 10.1111/apel.12276

BOOK REVIEW

The Indonesian Economy in Transition: Policy Challenges in the Jokowi Era and Beyond
Hal Hill and Siwage Dharma Negara (eds), Institute of Southeast Asian Studies, Singapore, 2019
Pp. 451+xvii, ISBN: 978 9 814 84306 5

A volume written by an array of different authors, each focusing on different topics, always represents a challenge. Hal Hill and Siwage Negara have taken up that challenge and do a good job in providing introductory and summary background of the various chapters in *The Indonesian Economy in Transition: Policy Challenges In The Jokowi's Era And Beyond* without drawing the implications of that summary. In this review, I emphasise the latter by highlighting counterfactuals and the role of institutions, using the case of infrastructure and finance as an example.

The general impression I got from reading the book is that, under the Jokowi era, Indonesia's progress and policy trends during the transition reflect more of a *continuity rather than a change*. From the perspective of the book title, this is an important take-away as it implies that Indonesia continues to produce moderate economic growth and inflation, both at decelerating rates, with only small reductions in poverty and inequality. The implications of a 'more of the same', however, are too important to ignore if policy challenges beyond the Jokowi era are of interest (as implied by the book's subtitle); not simply to learn about the recent policy and economic transition.

After outlining the policy trends and the gap between actual and intended outcome, many chapters find the impacts of various policies are mixed, although in some cases, as in the war against illegal fishing, it is too early to judge. As the gap between actual and intended outcome is observed, the authors make suggested adjustments and corrections. Most, however, refrain from questioning the appropriateness of the policy itself, let alone submitting policy alternatives. The offered explanation is either the policy is not incorrect but insufficient, or the implementation is poor, or the needed complementary strategy is not in place. In some cases, they point to any combination of those three. Few become involved in discussions about the role of institutions that often thwart the intended outcome.

Chapter 2 on New Developmentalism is a good start; it should have inspired all chapters to take up the role of institution in their analysis. That chapter essentially confirms that undermining institutions will prevent a country like Indonesia from achieving a desirable and faster-paced growth. It would have been useful if the nature and intensity of the prevailing institutions were highlighted in each chapter. They are key in the policy challenge, including during the Jokowi era and beyond.

Examples abound where the absence of good institutions makes the effectiveness of any policy more limited. The solution of injecting more money and resources failed to close the gap between actual and intended outcomes. Increased budget allocations to the education sector (ch. 10), and greater intergovernmental transfers under fiscal decentralisation (ch. 4), are notable examples. For a lower middle-income country like Indonesia, it is indeed the quality of institutions that often makes it extremely difficult to escape a middle-income trap.

Another implication of 'continuity but not a change' is the incentives—or lack thereof—to make changes, including taking measures suggested by various authors. It is unclear how one could realistically expect policymakers to take those measures given the past track-record about their inability (or unwillingness) to do so. Institutional constraints offer the most likely explanation. Suggestions have been proposed by numerous authors before, but it is still useful to evaluate them in context. Readers will gain from looking at these recommended policy adjustments in the context of Indonesia's transition period.

The recommended measures range from removing rent seeking activities and resisting protectionism in trade of goods and services (chs 6 and 8), improving accountability in education by using learning-based performance indicators (ch. 10), adapting to local conditions, concepts and practices in social protection (ch. 13), supporting the existing policies such as cards for the poor and village funds with a complementary strategy (ch. 12), and bringing domestic food prices closer to international prices as well as providing greater access to credit, knowledge and networks for food producers (ch. 14). These are all important, but not new. Discussions about forces behind their absence would have been useful, and they may enrich the 'continuity but not a change' conjecture with a political economy dimension that should, after all, proliferate in any discussions about development policy in Indonesia.

The case of infrastructure, a prominent trademark of Jokowi's presidency, provides a clear example. The impacts so far are mixed, and a number of execution problems have emerged. The root causes of the struggle to execute the projects—often over permits and land—are largely political, not technical, involving many actors with diverse interests. The process is also plagued with rent-seeking networks and conflicts, both between the government and a newly empowered society and between the national and local governments.

The intensity of the conflicts may have changed, but the political economy question 'who gets what' continues to be relevant. While during the New Order many projects were accorded to the pribumi business cronies as a reaction to criticism over Suharto's favouritism towards his children and the Chinese-Indonesian business community, the post-Suharto's era gives more voice and clout to civil society. Subsequently, the 2001 decentralisation policy confers more power to local authorities. Meanwhile, the institutional setting has shifted towards a greater reliance on the PPP (public private partnership) approach. Yet, the resulting government-business relations continue to produce rent-seeking practices, only with different variations. They involve not just members of the executive but also legislative branches to influence the rulemaking. And the implementation of the PPP so far has been disappointing. The point is, the institutional and political economy dimension should be indispensable in any discussions about infrastructure development.

Government's domain powers in infrastructure remain intact, if not more so, during the Jokowi era. The expropriation of private property for public use with unilaterally imposed compensation endures. Lucrative projects are granted to state-owned companies, effectively taking the financial burden away from the government budget. The difference with the previous regimes is perhaps in the size of foreign players' contributions, notably that of China, Japan, and multilateral agencies, which, during Jokowi's era, play a bigger role in construction and financing.

The discussions in Chapter 9 rightly point to the inconsistency of Jokowi's infrastructure projects with the stated long-term goal and the country's spatial plan including prioritising the periphery. To the extent the policy challenge is more about political processes, governance, and civil society's growing assertiveness, and less about technical matters, the author's call for a reassessment of infrastructure projects would be enriched if supplemented with discussions on its political economy.

On the financial sector, the absence of institutional settings in the discussions may have led to the standard story emerging, as in Chapter 5, which essentially concludes that Indonesia's financial sector grows steadily despite its inefficiency and lack of innovation, and that the sector's stability looks secure. Thus, the author's answer to the title of the chapter 'How Well is Indonesia's Financial System Working?' is basically, 'quite well'.

It is no secret that finance is different from the real sector. The value of financial products is heavily influenced by agents' perceptions and expectations, and given their uncertainty, they can be highly volatile. Consequently, standard indicators and criteria of vulnerability (measured risks) can easily deviate from what agents actually perceive (real risks). Even when financial infrastructure, regulations and legal certainty are of good quality, the risks associated with information asymmetry can still be very high, triggering a gap between measured risks and real risks.

By citing the 2008 episode of the Global Financial Crisis, the author correctly argues that even with greater innovation and efficiency, countries such as the USA and the UK failed to avoid the crisis. Applied to the Indonesian case, the analogy and implication cannot be clearer: some inefficiency in the financial sector can be an acceptable price for stability.

However, it is odd that the indicators and criteria used to assess the stability of Indonesia's financial sector are precisely those that reflect measured risks, such as bank capitalisation, non-performing loans, and the less-quantifiable risk management system. Banks' highly segmented markets, asset concentration (half of Indonesian banks' total assets belongs to the top five banks), weak regulatory system, high rate of bankruptcy among rural banks (BPR or *bank perkreditan rakyat*), and the far from optimal functioning of interbank and money markets, all do not seem to matter. Not to mention the political interference, direct and indirect, in the banking sector that continues to ensue during the Jokowi era.

The author also does not find it concerning that foreign ownership in Indonesia's small capital market is large, that three-quarters of capital market capitalisation is owned by less than 10 per cent of all listed companies, that the regulatory structure and framework are fragmented, not all in line with international best practices, and that banks being the largest holder of government bonds could complicate the link between banking and the capital market and between monetary policy and financial stability. Against such a backdrop, Indonesia's formal procedures and protocols for crisis resolution remain unclear. Moreover, even with the newly promulgated financial safety nets law, a new set of legal and institutional adjustments still needs to be made. It makes us wonder whether the author's answer to the chapter's title would remain the same had these factors been taken into account.

The chapters on macro and trade describe sufficiently well what has happened before and in the Jokowi era. The suggested policy direction, however, could be debatable. Given the rapid changes in the internal and external environment and Indonesia's limited room for fiscal and monetary expansion, prioritisation matters. Putting manufacturing exports as a priority in a country with persistent current account deficits and premature de-industrialisation seemingly makes sense (chs 3, 6, and 7). But the logic and effectiveness of relying on external demand are doubtful when protectionism is on the rise and global growth is slowing. Focusing on domestic demand is perhaps more effective in boosting growth and strengthening domestic purchasing power under the current circumstances. It could also be more relevant for dealing with the problem of growing inequality.

The Indonesian Economy in Transition is a treat for those interested in Indonesia's recent policy and progress. The selection and coverage of the topics make it particularly useful and, therefore, it is recommended to both academics and policymakers interested in policy trends and transition of the Indonesian economy in the Jokowi era and beyond.

Iwan Jaya Azis
Cornell University and University of Indonesia