



Indonesia's fate are whether the country can get its service industry and financial sector to adapt fast enough to keep it on an even keel. AFP pic

By Farish Noor

RE-LOOK: *Its future prosperity depends on a pragmatic attitude towards foreign capital investment, and the workings of a global economic system*

As Indonesia's ties with its Asean neighbours change to adapt to the new political-economic realities of the region and beyond, it has to be remembered that the country's challenges are fundamentally and primarily domestic.

The posture that has been adopted by the Jokowi-Kalla government may give the impression of an increasingly assertive and confident Indonesia on the rise, but when one takes a closer look at the internal structures and institutions of the Indonesian state, and consider its complex political-economy, one sees that domestic economic concerns will probably be the real driver as far as Indonesian policy-making goes for the years to come.

Such a view was articulated most succinctly by the former minister for trade Mari Pangestu, who had served in the Ministry of Trade for seven then as minister for tourism for three, during the two successive periods of leadership under former president Susilo Bambang Yudhoyono. Speaking at the LKY School of Policy Studies in Singapore recently, she outlined the major economic and developmental challenges that Indonesia will face for the rest of the decade.

For starters, she noted that outside observers should focus mainly on the structural-institutional aspects of the Indonesian economy more than to dominate the headline reports about the country.

Though Indonesia experienced a wave of religio-political radicalism in the first half of the 2000s, it was noted that the structure of the state has remained intact. The real issues that will determine the country's fate have less to do with culture, religion or domestic political rivalries, but whether Indonesia can get its service industry and financial sector to adapt fast enough to make necessary reform moves made to keep the country on an even keel.

As she noted, "Indonesia must grow at a rate of six per cent every year for the coming years, for this is a matter of real-life political necessity. Six per cent growth is the only way that the population of the country can be employed and be given the basic level of social security."

The same challenge would be faced by any other country for that matter, but with Indonesia's population now hovering at around a quarter of a billion, unemployment on a large scale and for a

prolonged period can lead to serious political repercussions as well. Hence, the need to create more fiscal space in order to open up other sectors of the economy to keep the country's economic expanding.

The decision to cut fuel and gas subsidies - which may seem unpopular at the start - was part of this long-term goal of freeing up reserves that can and will be redirected to areas such as logistics and infrastructural development. (Logistical costs make up 26 per cent of the country's gross domestic product at present).

With this view in mind, Indonesia's neighbours need to understand the needs and wants of the country at present. Though there has been much talk of economic nationalism and "protecting Indonesia's key assets", the country will be on the lookout for foreign investment - as long as it helps boost and build its logistical network and other sectors that are crucial for long-term growth.

China's Asian Infrastructural Investment Bank (AIIB) has already signalled its willingness to come in as Indonesia's development partner, and China has expressed its wish to help the country renovate and expand more than 20 port facilities and port cities across the country.

With these factors in mind, the observations made by Mari Pangestu seem both realistic and pragmatic, demonstrating a real awareness that in the long run rhetorical speeches only have a feel-good effect but that real growth comes from real money and real investment.

Her speech is also a timely reminder that the Indonesia of the past is long gone, and that analysts and observers need to re-look at the country again.

There has been a disproportionate amount of reporting on Indonesia that has focused on issues such as terrorism, sectarian conflict, its convoluted personality-driven domestic politics, and the like.

But none of these issues present a serious existential threat to the country, which is not likely to fall apart even if there is a terrorist attack or natural disaster in the near future.

Rather, Indonesia's existence and future prosperity depends wholly on a pragmatic attitude towards foreign capital investment, and a considered approach to the workings of a global economic system. In the final analysis, it is the country's economic approach and its developmental programme that will decide its future, and determine the legacy left behind by the current Jokowi leadership in the country.

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