

# Reform and Challenges in Indonesia

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# Outline

- Introduction and context
- Trade and micro reform agenda
- The reform packages to date
- Assessment
- Concluding remarks

# RI faces a challenging economic environment

- Sluggish, volatile global economy
  - Weak OECD economies
  - China uncertainty
  - uneasy China-US relation
- Declining commodity prices: RI needs to find new growth engines
- Global trade policy disarray
  - Doha is dead
  - Beggar-thy-neighbour exchange rate depreciations
  - TPP unlikely to be a game-changer
- AEC's intensifying competitive pressure on RI

# RI's major advantages

- A history of successful reforms
- Economic growth holding up quite well
- Significant Rp depreciations since 2013 provide the basis for successful reform and structural adjustment
- Macro framework continues to perform well
- Govt strongly committed to major supply-side investment to boost competitiveness

# Trade and micro reform agenda

- Major challenge: protectionist measures, especially in food sectors
- There has been a sign of reversal

# Tariffs have gone down

Tariff Year	Simple Average (%)	Weighted Average (%)	Standard Deviation
1995	15.34	10.89	14.89
1996	12.35	7.73	16.70
1999	11.19	6.05	16.61
2000	8.43	5.16	11.91
2001	6.89	4.31	11.29
2002	6.90	5.79	11.14
2003	6.90	5.22	11.13
2004	6.95	6.09	15.41
2005	6.95	6.07	15.41
2006	6.95	6.07	15.41
2007	9.87	4.47	7.48
2008	9.58	4.07	7.39
2009	9.57	3.93	7.42
2010	9.61	4.09	7.44
2007	16.48	10.42	17.10
2008	12.26	6.29	16.07
2009	12.37	7.70	15.62
2007	6.91	5.01	12.62
2009	6.80	4.96	12.42
2010	6.70	5.19	7.00
2011	7.41	4.75	11.40
2013	7.23	4.67	11.40

Source: WITS Data.

# But non-tariff measures proliferate

Type	Indonesia	China	Malaysia	Thailand	India
Bail out / state aid measure	6	6	1	1	19
Competitive devaluation	0	0	0	0	0
Consumption subsidy	0	1	0	0	0
Export subsidy	3	11	2	1	25
Export taxes or restriction	18	10	1	2	14
Import ban	6	3	1	0	6
Import subsidy	0	0	1	1	2
Intellectual property protection	0	2	0	0	0
Investment measure	13	17	4	3	12
Local content requirement	15	9	4	0	107
Migration measure	2	1	2	1	2
Non tariff barrier (not otherwise specified)	25	9	3	1	12
Other service sector measure	4	3	0	0	1
Public procurement	9	7	0	0	13
Quota (including tariff rate quotas)	5	7	0	0	2
Sanitary and Phytosanitary Measure	4	0	0	0	0
State trading enterprise	0	0	0	0	0
State-controlled company	2	1	0	0	1
Sub-national government measure	0	2	0	0	1
Tariff measure	12	15	3	1	37
Technical Barrier to Trade	3	1	0	0	0
Trade defence measure (AD, CVD, safeguard)	17	45	7	14	135
Trade finance	1	1	2	0	95
Total	115	131	18	22	356

Source: GTA, accessed 13 May 2015

# Indonesia's competitiveness

		IDN	MAL	THA	CHN	IND
Ease of Doing Business	2010 (189)	129	24	12	86	132
	2016 (182)	114	16	49	90	130
Global Competitiveness Index	2011-2012 (1-7 best)	4.4	5.1	4.5	4.9	4.3
	2014-2015	4.6	5.2	4.7	4.9	4.2
Corruption Perception Index	2012 (1-100 cleanest)	32	49	37	39	36
	2014	34	52	38	36	38
Logistic Performance Index	2010 (1-5 highest)	2.76	3.44	3.29	3.49	3.12
	2014	3.08	3.59	3.43	3.53	3.08



# Reform Package I: 9/9/2015

Highlights	Comments
<p>Developing conducive macro economy</p> <ul style="list-style-type: none"> <li>• Stabilizing FP and MP</li> <li>• Accelerating govt exp. Disbursement</li> <li>• Strengthening BoP</li> </ul>	<ul style="list-style-type: none"> <li>• Good, but not really a reform</li> <li>• Do not really need a package</li> <li>• Not clear</li> </ul>
<p>Strengthening national economy</p> <ul style="list-style-type: none"> <li>• Stimulating national industries competitiveness</li> <li>• Accelerating national strategic projects</li> <li>• Increasing investment in the property sector</li> </ul>	<ul style="list-style-type: none"> <li>• Good, but devils in the detail</li> <li>• Not clear</li> <li>• Depends on detail</li> </ul>
<p>Protecting low-incomes/rural economy</p> <ul style="list-style-type: none"> <li>• Stabilizing food prices</li> <li>• Accelerating village funds transfer</li> <li>• Expanding <i>raskin</i></li> </ul>	<ul style="list-style-type: none"> <li>• Key issue: why rice prices well above international prices</li> <li>• Good, but needs clear criteria</li> <li>• Evidence on the effectiveness mixed</li> </ul>

# Reform Package II: 29/9/2015

Highlights	Comments
Streamlining procedure for permits and licenses	Hardly new
Lowered tax on interests for exporters depositing their revenues onshore	Not clear
3-hour fast service in Industrial Zones; firms with at least IDR 100B or 1,000 workers	Good, but why not all firms and regardless of location?

# Reform Package III: 7/10/2015

Highlights	Comments
Reducing fuel, electricity, and gas prices	Good, but best to (a) restore automatic link to current low global prices, (b) ensure efficient and competitive suppliers
Lowered interest on business credit for the people (KUR)	Subsidized credits? Need details.
Simplifying the procedure for obtaining IMB	Good in principle

# Reform Package IV: 15/10/2015

Highlights	Comments
Improving wage regulation	Not clear. All productivity gains to workers? May not undo the damage of recent years.
Providing concessional finance and expanded facilitation for micro enterprises	Access is important. Concessional programs have a sorry history. BI had successful models of non-subsidized SME credit programs

# Reform Package V: 22/10/2015

Highlights	Comments
Encouraging asset re-evaluation of firms so as to reflect inflation and Rp depreciation	Details?
Eliminating double tax arrangements for real estate and infrastructure	Why just these sectors?
Deregulating Syariah banking	Good as far as consistent with OJK

# Reform Package VI: 5/11/2015

Highlights	Comments
Developing peripheral zones around 8 SEZ's incl. tax, licensing, etc. agreements	Why just partial and not across the board?
Maintaining water supply sustainably	PDAM is in bad shape. Reform will work if there are major changes
Switching to paperless permit for drugs/medicine raw materials	Why not extending this to all?

# Reform Package VII: 7/10/2015

Highlights	Comments
Accelerating land certification especially for street vendors	What's new?
Providing tax incentives for labor-intensive industries (up to 50% income tax cut for employees earning < Rp 50M/year in companies employing > 5000 people and exporting > 50% of their outputs	Likely minimal impact, yet will entail a fiscal cost. Why not addressing the competitiveness of these industries via direct reforms? And why the criteria?

# Reform Package VIII: 21/12/2015

Highlights	Comments
Implementing a one map policy	Details?
Developing of oil refinery	Details? Is this an industrial policy?
Providing incentives for airplane maintenance services	idem



# Reform Package IX: 27/1/2016

Highlights	Comments
Accelerating electricity infrastructure development	Details? PLN reform also important
Stabilizing beef supply and price	Details?
Improving rural/urban logistics <ul style="list-style-type: none"> <li>• Deregulating commercial postal services</li> <li>• Implementing single billing for port services</li> <li>• Consolidating export products from SMEs via SOE synergy</li> <li>• Electronically integrating port service system</li> <li>• Encouraging the use of IDR for transport transaction</li> </ul>	<ul style="list-style-type: none"> <li>• Details?</li> <li>• Details?</li> <li>• Doubtful that SOEs can contribute much and may instead complicate things</li> <li>• Good</li> <li>• Is this a backdoor approach to supporting the Rp? If so, doubtful</li> </ul>

# Reform Package 10:

Highlights	Comments
<p>Adjusting the restricted investment list (DNI)</p> <ul style="list-style-type: none"><li>• 35 business fields dropped (crumb rubber, cold storage, film, etc)</li><li>• 20 business fields completely closed (previous list) plus 1: coral reefs industry</li><li>• Protection of MSMEs and cooperatives</li><li>• Relaxed investment permits/license procedures</li><li>• Relaxed foreign cap</li></ul>	<p>All good in principle. Implementation is the challenge.</p>

# Assessment

- Encouraging: a signal of serious intent
- But it has to be credible, e.g. 1980s packages. Current ones a bit like shopping list without a coherent message.
- Implementation and enforcement would be a challenge (e.g. MOT Regulations 70 and 87/2015)
- Some activities would be routinely expected of a govt; nothing really new

# Assessment (cont'd)

- Mixed signals on trade and industrial policy
  - Rice and beef stabilization: not the needed deregulation
  - Some initiatives only favor large firms; other only small ones
  - Looks like an intention to use fiscal incentives more. But these are costly and with ambiguous impact
- Big things not yet addressed
  - Legal/property rights insecurity
  - Tax administration
  - Labor market regulations