

Protectionist push defines Indonesia's final presidential debate
Angus Grigg

In their final pitch to voters before Wednesday's poll, Indonesia's presidential candidates outbid each other on economic nationalism during a debate in which each sought to demonise imports and restrict foreign investment.

Buoyed by a giant rally at the National Stadium earlier on Saturday, President Joko Widodo used his opening arguments in the televised debate to claim credit for nationalising the Freeport copper mine and oil fields across the country.

"Natural resources that were previously owned by foreigners are now controlled by the state," he said.

His opponent, the former General Prabowo Subianto, went even further, criticising the president for "allowing imports" and his predecessors for moving to open up the economy. "He [the President] has concentrated on infrastructure, but maybe all the infrastructure does is make it easier for goods to come in from overseas," Prabowo said.

Against this protectionist backdrop, Australia is seeking to have its free trade agreement with Jakarta ratified by the Indonesian parliament, after the long-awaited deal was concluded in March. Indonesia's former Foreign Minister, Marty Natalegawa, flagged the possibility that ratification may be held up in parliament.

"We have precedents where treaties have languished in parliament," he said in an interview with The Australian Financial Review.

"The private sector say their biggest concern is certainty and, as you know, investors now have lots of choices," he said. Indonesia's highly protectionist rhetoric has been building over the last decade, but has been a feature of the administration of the President, known as Jokowi, who is expected to be returned to office comfortably on Wednesday. In his second and final five-year term, investors hope Mr Jokowi will use his presidential powers to reform labour laws and reduce red tape for foreign investment.

This remains a possibility for the struggling manufacturing sector, but his debate performance showed the focus is still on reducing the current account deficit, which has left the Indonesian rupiah near a 20-year low to the Australian dollar

But rather than laying out a plan for the export side of the country's ledger, the President is seeking to crimp imports. "For too long, our commodities have depended on the foreign market," he said.

"In the future, we will try to develop more downstream industries in fisheries, forestry and agriculture. We have to minimise our raw material exports and push for more downstream products."

The discouragement of foreign capital has helped cut oil exports by almost half since the 1990s, to around 800,000 barrels per day, according to industry data. Government revenue from the sector has fallen even more steeply, dropping 66 per cent between 2010 and 2017. Since 2015, when production-sharing agreements with foreign oil and gas companies expired, the government has often not renewed them and increased the participation of the state-owned Pertamina. Kevin Evans, a director of the Australia Indonesia Centre, said the administration was not just against the private sector but also in favour of a greater role for the state.

"This will continue to constrict growth," he said.

But while resources nationalism and protectionism dominate the economic narrative, he believes Australia's free trade agreement with Jakarta will pass the parliament.

“It’s more an economic partnership agreement, rather than a straight mercantilist trade agreement,” he said.

Mr Evans said the accord was focused on making the two economies more complementary by opening up sectors where Australian companies could process resources and help develop the economy in areas like education.

He said it would also enable more young Indonesians to travel to Australia and improve their skills, a focus of the President who has put human capital at the centre of his campaign.

Despite the protectionist push, consumption continues to grow in line with economic growth at an annual rate of 5 per cent, partly reflecting the emergence of a vibrant middle class numbering as many 52 million, according to World Bank figures.

In the fifth and final debate, over a seven month Presidential campaign, both sides were light on policy detail and heavy on building the economy according to Muslim principles on financing and food preparation.

In a departure from this theme, Mr Prabowo held up China as a model for Indonesia to follow, despite being critical of the Jokowi administration’s use of Beijing’s capital to fund infrastructure. “We should be like the People’s Republic of China; in 40 years they were able to eradicate poverty,” he said.

Mr Evans pointed out this had largely been achieved by opening up the Chinese economy to foreign manufacturing and investment.

The debate on Saturday night in central Jakarta marked the official close of the campaign, before a blackout period ahead of Wednesday’s ballot. The President is the favourite to win and leads in 26 out of 28 published polls.

A poll released on Friday by SMRC showed Mr Jokowi on track to win nearly 57 per cent of the vote, after taking 53 per cent in 2014 when Mr Prabowo also challenged. The poll, where 192 million people are eligible to vote, is the sixth free election since the fall of President Soeharto in 1998.

This year’s election has been marred by allegations of vote-rigging and an emphasis on identity politics, which many analysts fear is undermining Indonesia’s secular traditions.