## Indonesia Turns to Manufacturing to Counter Commodities Slump

*May 31, 2016 (reprinted from Jakarta Globe)*

**Cilegon.** At a factory surrounded by towering steel mills on the west side of Indonesia's Java island, German engineering giant Siemens is ramping up production of steam condensers, turbines and other specialist parts to fit out power stations across the world.

The plant, a small repair shop 30 years ago but now covering the area of six soccer pitches, is a rare manufacturing success that Indonesian President Joko Widodo needs more of, as he tries to spur economic growth in the resource-rich archipelago amid tumbling commodity prices.

In pursuit of that goal, Joko last week liberalised dozens of sectors of the economy in what one minister called the biggest opening to foreign investors for 10 years.

It was the latest policy move to improve competitiveness and stimulate growth in Southeast Asia's largest economy, which last year expanded by 4.8 percent, the slowest since 2009 and well below a 7 percent target.

So far, Joko, a former furniture exporter, has little to show for his push towards manufacturing.

Growth in the sector has lagged the overall economy since he took office in late 2014, and last year there were declines in output of major products including clothing, textiles and electrical equipment.

Thomas Lembong, once a Wall Street banker and now Joko's trade minister, said turning things around would not be easy.

“We realise we've fallen very far behind,” he told Reuters, pointing to creaky infrastructure, patchy power supplies and slow progress on free-trade pacts to prise open Western markets.

“We're changing direction after 10 years of drift towards narrow nationalism and protectionism.”

### World Trade Stalls

The government has accelerated reforms, including cutting bureaucracy, promoting special economic zones and boosting spending on infrastructure projects like ports and roads.

It has also signalled greater openness to foreign trade by stating its intention to sign the Trans-Pacific Partnership, a U.S.-led trade pact, in what some see as a sign liberals are winning the argument over Indonesia's economic future.

Trade tariffs, local-content requirements and other restrictions are still common, but Thomas said the benefits of free trade were now recognised more widely.

“Imports are an important part of the journey towards investment and exports,” he said, citing Chinese electronics firm Lenovo, which opened a plant in Indonesia in November after years of selling the country smartphones made entirely abroad.

Yet Indonesia faces daunting challenges to a manufacturing drive that mirrors a similar initiative, albeit on a larger scale, underway in India.

Across Asia, exporters are struggling as global trade stalls. In January, the International Monetary Fund (IMF) estimated the volume of world trade grew just 2.6 percent in 2015, the slowest in six years.

Japanese electronics firms Toshiba and Panasonic have shut factories in Indonesia as part of global restructurings, while a strike by workers at the Batam free-trade zone in January disrupted operations at an Apple subcontractor, prompting the firm to threaten a move to Vietnam.

Benedict Bingham, the IMF’s head in Jakarta, said Joko’s recent reforms had succeeded in shifting the debate away from protectionism towards competitiveness.

But foreign investors needed to be convinced the government was serious on reform, while domestic firms must cease practices centred on “extracting maximum rents” from Indonesia’s resources or markets and start competing internationally, Bingham said.

“That is quite a big shift we’re asking for.”

Local executive I Made Dana Tangkas, of the Indonesian Automotive Industry Association, says Indonesia needs to develop supporting industries to compete.

“The policy packages are positive for industry ... but they need to be improved,” he said, adding it is difficult to obtain car components locally even though raw materials are abundant.

**Commodity Collapse Hits Indonesia**

The collapse in prices for oil, gas and other commodities has caused economic distress across a country that depended heavily on natural resources as China boomed.

Industries like plantations and mining account for around one fifth of Indonesia’s gross domestic product and half its export earnings.

Coal, Indonesia’s largest export by far, sold for nearly $200 per tonne in world markets in mid-2008. Today it sells for around a quarter of that.

“It is hard to see ... how this economy is going to create higher productivity without a revival of the manufacturing sector,” said Rodrigo Chaves, the World Bank’s Jakarta head.

At the Siemens factory, General Manager Christof Cichon is positive about Indonesia’s manufacturing prospects, pointing to improved services from customs and investment officials.

He also says there are plans to expand the facility to meet growing demand.

Yet Cichon cannot conceal his frustrations.

Scrap metal is piling up on site because of regulations that mean it takes six weeks to process paperwork to sell to small traders outside the estate. The factory could use the space to increase its productive area by 1,000 square feet. It is another example of the irritants Joko must address to wrest market share from Asia’s larger, longer-established manufacturing centres.

*Additional reporting by Fransiska Nongoy*