

Second Chance

A look at Indonesia's new cabinet

- After days of anticipation, President Jokowi finally announced his new cabinet today. For now, the key thing for the market is that the well-respected Sri Mulyani has been re-appointed as the Finance Minister.
- Attracting more investment and developing human resources are key tasks of the "Forward Indonesia" cabinet. The former is now under the purview of Jokowi's close confidante, Luhut Panjaitan, while the latter falls on the shoulders of Nadiem Makarim, a 35-year-old tech tycoon.
- While not immediately evident in terms of market impact, the appointment of erstwhile rival Prabowo Subianto as defence minister is a bold political bid for national unity. Whether it works out or not may well turn out to be more crucial to Indonesia than policies per se.

No time for sitting around

Seated on the front steps of the Merdeka Palace in Jakarta this morning against a majestic backdrop of late-19th century colonnade, the newly minted cabinet members patiently waited for their turn to be called out individually by their new boss.

Given the host of challenges and opportunities facing Indonesia, however, they might not have time to relax for long.

While the macroeconomic backdrop has been largely encouraging, with growth, inflation and currency at stable levels, it cannot be taken for granted especially given the unfavourable global economic backdrop. Hence, the re-appointment of Sri Mulyani has rightly assured investors of continuity of orthodox fiscal policies, including measures to broaden the country's narrow tax base.

The presence of downside macro risks is one thing, there is also a conspicuous absence of forceful pursuit of Indonesia's upside potential. Given the demographic advantage of its sizable and youthful population, the country is theoretically in a good position to win over FDIs that may be re-directed away from China because of trade war concerns.

Alas, it appears that the FDI re-shoring has thus far benefited the likes of Vietnam a lot more than Indonesia, especially in the manufacturing sector. While Indonesia's economy is 4 times larger and its population nearly 3 times the size of Vietnam's, the latter has managed to garner broadly the same dollar amount of manufacturing FDI inflows of late, for example. (See Figure 1 overleaf).

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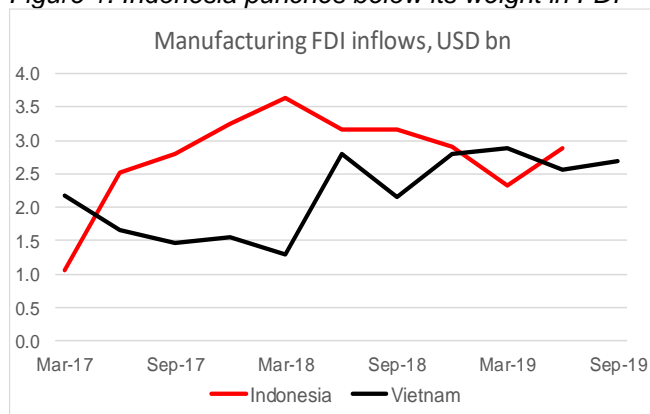
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It is no wonder then, that Jokowi would put winning over investment at the top of his administration's agenda. For one, he has anointed the head of BKPM, the statutory board in charge of coordinating investment inflows, with a ministerial rank. Into this newly elevated role, Jokowi has appointed Bahlil Lahadalia, an entrepreneur who headed the Young Entrepreneurs Association ("HIPMI") just before this. Crucially, the Investment Minister will be reporting to Luhut Panjaitan, a close ally of the president, who would now have an additional purview of FDI investment as the Coordinating Minister for Maritime Affairs and Investments.

In his first term in office, Jokowi has focused on tackling the infrastructure constraints by building more toll roads, seaports, and airports. While those have gradually started to ease some of the bottlenecks facing manufacturers, there remain the gnawing issue that Indonesia's labor force remains uncompetitive despite the obvious demographic advantage.

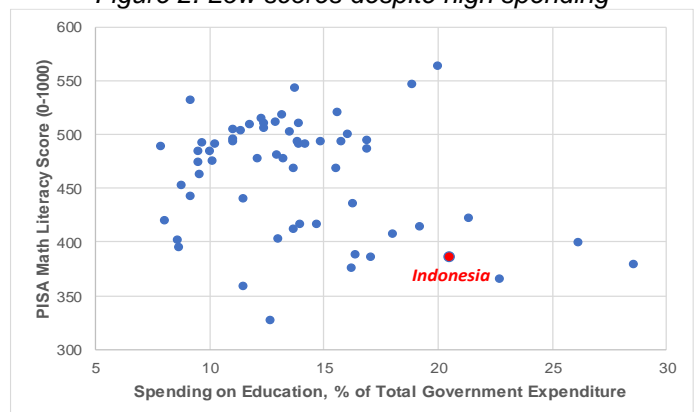
In his inaugural speech on 20 October, the president has highlighted the need to develop human resources as a key priority. Even though the government has been allocating one-fifth of the annual budgets on education spending, it appears that the results have yet to come through forcefully. Indeed, going by the PISA score of math literacy of 15-year-old students in about 70 countries, Indonesia ranks an abysmal 8th from the bottom. (Fig 2).

Figure 1. Indonesia punches below its weight in FDI



Source: OCBC, CEIC, Bloomberg

Figure 2. Low scores despite high spending



Source: OCBC, World Bank, NCES.

To help counter the obvious mismatch between spending input and actual outcomes, Jokowi has brought in the 35-year-old Nadiem Makarim, who founded Indonesia's first decacorn start-up, Gojek, after a career as a strategy consultant at McKinsey and an MBA from Harvard. In view of his tech background, domestic netizens have wasted no time in jesting about how the incoming Education Minister would soon be introducing a system for students to rate their teachers, on a scale of 1-to-5 stars.

Outside of these appointments, perhaps the most noteworthy one would be that of Prabowo Subianto, who lost the presidential elections to Jokowi twice over, as Defence Minister. In doing so, Jokowi might have the notion of "keeping your friends close, but your rivals closer" in mind. The president may also be calculating that, with Prabowo's Gerindra party – which controls about 14% of parliamentary seats – on his side of the fence, the chances of him pushing through legislations would go up.

In his speech after announcing the cabinet line-up, he reiterated the need for the ministers to discard monotonous routine approaches in solving issues. Perhaps appointing an arch-rival to his administration is meant to be a showcase of precisely that think-out-of-the-box mentality. With crucial initiative such as labor reforms in mind, market would hope that such calculations do indeed pan out. Otherwise, concerns about political infighting leading to a lack of government unity might dominate instead.

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