

INDONESIA:

**WITH ELECTIONS LOOMING,
THE GARUDA KEEPS SOARING**



INDONESIA: WITH ELECTIONS LOOMING, THE GARUDA KEEPS SOARING

By Professor Jean-Pierre Lehmann and Agung Wicaksono – March 2014

IMD

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

It's official. Indonesia's main opposition PDI-P party has nominated the widely popular Jakarta Governor Joko Widodo – better and more affectionately known as Jokowi – as its candidate for the presidential election due on 9 July. This could be another significantly positive game-changer in Indonesia's recent quite uplifting narrative.

Before the presidential election come national parliamentary elections, which are due to be held on 9 April. As things stand, Indonesia's 187 million registered voters will choose between 12 parties fielding a total of 200,000 candidates.

These elections have so far attracted little attention in the West, underlining the fact that Indonesia is without doubt the world's biggest country about which the littlest is known. We would suggest two reasons for this. One is that despite Indonesia's size, it is overshadowed by India and China. The other is that "good news is no news".

These conditions will persist, so Indonesia is likely to remain in relative global obscurity despite its accomplishments. The forthcoming elections present a number of challenges, but on balance there is good reason to believe that stable democracy will prevail.

Indonesia's national symbol (and the name of its national airline) is the garuda, a large bird derived from both Hindu and Buddhist mythology. Although there will be headwinds, the garuda should continue to soar.

Then and now

Composed (depending on the tide) of 13,000 to 17,000 islands, Indonesia has a quarter of a billion people, making it the world's 4th largest country; it also has the world's largest Moslem population, with significant ethnic, linguistic and religious minorities. The country has a rich culture; throughout history Indonesia played a vital role in the global spice trade.

A Dutch colony for several centuries and occupied by the Japanese army during World War II, Indonesia declared independence in August 1945 with a population at the time of just 70 million. Between 1945 and 1998, Indonesia had two rulers: Sukarno (1945-1965) and Suharto (1966-1998). While Sukarno was quite politically flamboyant and featured frequently in the global limelight, Suharto adopted a low profile, concentrating on growing the economy.

He succeeded. Indonesia is one of what the World Bank termed the "[East Asian miracle economies](#)"; it is also one of only 13 economies in the world that, according to the Commission for Growth and Development's [2008 report](#), sustained an average annual growth rate of over 7% for a minimum of 25 consecutive years between 1950-2005. In fact in Indonesia's case it was 33 years: from 1965 to 1998.

Then came the 1997/98 East Asian financial crisis, resulting in the collapse of both the Indonesian economy and Suharto's rule, as student protests and social unrest spread throughout the country. Indonesia went through a somewhat turbulent political transition, with three different presidents from 1998 to 2004, and occasional fears that the country might implode. In 2014, the republic's sixth president, Susilo Bambang Yudhoyono (aka SBY), democratically elected in 2004 and 2009, will step down following two terms in office.

In the meantime the economy has recovered strongly. Today Indonesia is the world's 16th largest economy, having witnessed significant poverty reduction, urbanisation and the growth of a middle-income consuming class currently estimated at 45 million. While still very much a commodity exporter, it is increasingly present as a global hub of manufacturing, with some 55 million skilled workers. Indonesia is ranked 39th in IMD's 2013 World Competitiveness Yearbook, up 3 places since the previous year. Although quite far behind China (21st), it is ahead of other BRIC countries: India (40th), Russia (42nd) and Brazil (51st).

Connectivity is high in Indonesia. It has 212 million mobile phone subscribers and 135 million internet users. It is fifth worldwide in terms of numbers of twitter accounts (after the US, Brazil, Japan and the UK), while Jakarta is the world's most active city by number of "tweets", followed by Tokyo, São Paulo, London and New York, with Bandung coming in sixth.

Indonesia has also been increasingly visible and active on both the regional and global stages. As the biggest member state of ASEAN it has considerable influence on the policies and practices of

this important regional institution, including in extending its reach to other countries of the Asia Pacific; for example, in the proposal to form RCEP (Regional Comprehensive Economic Partnership), which includes the ten ASEAN member states along with Australia, China, India, Japan, South Korea, and New Zealand. It is active in APEC and hosted its summit in Bali in October 2013. Bali was also the venue for the 9th WTO ministerial conference, which, contrary to many expectations, was the first successful WTO ministerial meeting since the launch of the Doha Round in 2001. The Indonesian trade minister, Gita Wirjawan, is considered to have played a key role. Indonesia is also a member of the G20.

Still some way to go

Although the Garuda has been soaring since the political and economic crises of late last century, it has by no means reached cruising altitude yet. Despite poverty reduction and the emergence of a new urban middle class, 43% of the population earns less than \$2 a day. This is a high percentage, even if significantly lower than India's 69%. With an estimated \$4,900 GDP per capita, Indonesia is 125th, after Brazil (81st) and China (93rd), though ahead of India (133rd).

To combat poverty, the Indonesian economy needs to grow. The BKPM (the Indonesian Investment Coordinating Board) is making significant efforts – including through a striking advertising campaign – to attract inward foreign direct investments. But according to the World Bank 2013 Doing Business Index, Indonesia is a rather poor 120th, among the BRICS ahead only of India (134th) and behind Russia (92nd), China (96th) and Brazil (116th).

That low ranking partly reflects the fact that Indonesia has not yet succeeded in effectively combatting corruption. According to the 2013 Transparency International Index, Indonesia (114th) ranks ahead of Russia (127th), but behind other BRIC countries: Brazil (72nd), China (80th) and India (94th). Efforts to improve governance, including through innovations in e-government, need to be intensified. Indonesia also faces considerable environmental challenges and urgently needs to clean up its act. According to the Yale Environmental Perception Index, it ranks 112th out of 177 countries. Infrastructure is also weak.

But where the Garuda has really soared is in democracy. Indonesia stands proudly as the world's third biggest democracy. As we know from the Arab Spring and many other sad examples, the transition from dictatorship to democracy is rarely smooth, or indeed conclusive. That a big, diverse and still relatively poor country such as Indonesia should have succeeded as far as it has is a testimony to the Indonesian people.

The ultimate test will be July's presidential election, with Jokowi being the strongest contender. This likely shift of leadership from a former military general to a "man on the street" would mark a socio-political transformation unprecedented in any Asian democracy.

Jean-Pierre Lehmann is Emeritus Professor of International Political Economy at IMD, Founder of The Evian Group@IMD and Visiting Professor at the University of Hong Kong and NIIT University in India.

Agung Wicaksono is Assistant Professor at ITB School of Business and Management and Staff Expert at the Presidential Delivery Unit, Government of Indonesia.

Related Programs



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>

The global business program for individuals and teams

Program Directors: Michael Wade, Bettina Büchel, Dominique Turpin

- Get exposed to the latest management thinking and to practical and innovative solutions for your business
- Anticipate global business trends
- Boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you and your team
- Become a complete executive through activities that develop your mental, physical, and emotional health