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Rising Economic Nationalism in Indonesia

Arianto A. Patunru

This paper discusses rising economic nationalism in Indonesia. The findings suggest that protectionism has started to make its way back into the country since the early 2000s. Despite some reform initiatives, economic nationalism has amplified under the current administration, and might continue to do so in the near future. The political-economic factors that explain the re-emergence of protectionist measures under Joko Widodo's presidency form the body of this study. Using the case studies of fuel and rice, it shows that while economic nationalism might prove to be politically rewarding, its detrimental impact on the poor cannot be ignored. It is therefore in Indonesia's best interest to resist the continuing push for protectionist policies.

Keywords: Protectionism, nationalism, openness, Indonesia.

> *"It would be wrong to see nationalism as either an unmitigated evil or a universal virtue. It can be both, a boon and a curse."*
>
> Amartya Sen (2008)

> *"Protectionism breeds monopoly, crony capitalism and sloth. It does not achieve a happy and serene egalitarian society."*
>
> Paul A. Samuelson (2005)

1. Background

The world is gradually recovering from the 2008–09 Global Financial Crisis. In 2017, for example, economic growth climbed back to 3 per cent. During this transition phase, however, the role of trade has been much smaller — thanks to the maturation of global value chains, the shift to robotization and the services economy, fluctuation in commodity prices, as well as rising protectionism around the world.

At the same time, more than 3 billion people still have to struggle to live with US$2.50 or less per day. The richest 10 per cent of the global population owns more than 85 per cent of the global wealth. Even in countries where poverty has gone down, inequality is on the rise — prompting social tensions. These factors are often seen as the main cause of the re-emergence of anti-globalization sentiments and seem to have encouraged world leaders to adopt populist, inward-looking policies. Examples of

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consequent surprises coming from the voting booths include Duterte, Brexit, and Trump among others. Moreover, often by riding on the back of this disdain for globalization, those in power display increasingly authoritarian inclinations — such as Erdogan in Turkey, Putin in Russia, and Xi in China, to name a few.

Indonesia is no exception. In this country, dissatisfaction with globalization has manifested itself in rising protectionism, rejection of foreign interference, and expressions of distrust of democracy — sometimes with a New Order flavour. The disappointment, nevertheless, is not totally unfounded. As in the case elsewhere, globalization — and nationalism — can bring both good and bad results, "boon and curse", as Amartya Sen put it. Trade creates winners and losers, and in the absence of (1) well-functioning compensation mechanisms and (2) free movement of labour across sectors, the gains may remain concentrated in the hands of a few. And corruption only worsens this situation.

Nationalism in the economic sphere takes the form of protectionism — protecting domestic industries from foreign competition. It usually reveals itself in policies aimed at self-sufficiency in a number of commodities, including those of which Indonesia is a natural net importer. Like several other countries, Indonesia's approach to trade has, in general, been mercantilist, i.e., promoting exports while limiting imports. As most of the protection measures in Indonesia are imposed only on the import side, this paper focuses mainly on import protection.

The article is structured as follows. The next section summarizes the current state of trade and openness in Indonesia. The third section discusses the major tariff and non-tariff measures of protection used by the country's policymakers. The fourth section is a historical take on trade policy in Indonesia — a brief chronology of approaches from the ultra-nationalist era of President Sukarno to the reform era of President Yudhoyono. The subsequent section zooms in on President Joko "Jokowi" Widodo's era, and the final section offers further points for discussion.

2. Indonesia's Trade and Openness

The role of trade in the Indonesian economy had been increasing in the lead up to the Asian Financial Crisis (AFC), with the share of merchandise trade in the national income fluctuating around 40 per cent since the late 1970s before reaching more than 80 per cent just before the crisis (Figure 1). The spike in openness between 1997 and 1998 also reflects the collapsing rupiah around the time (the denominator effect, as the measure is percentage of national income). After the Crisis, the figure has been continuously declining and now stands at around 35 per cent.

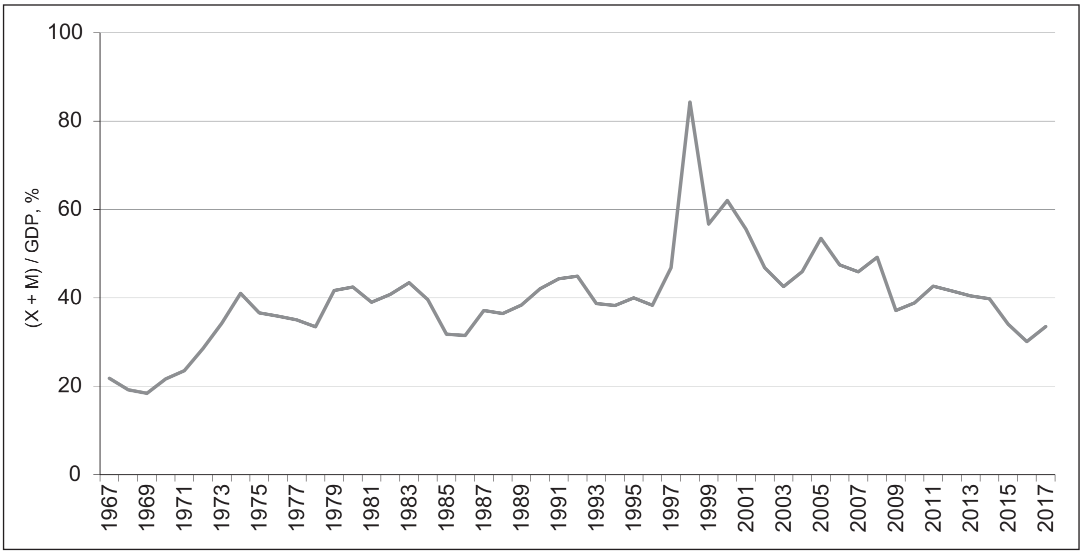
Figure 2 compares Indonesia's openness to that of China, India and Vietnam. Indonesia, in the past, was much more open to trade than any of these countries. By the early 1990s, however, Vietnam had taken the lead.[1] Indonesia, on the other hand, has become less open since the early 2000s, overtaken by China.[2]

Despite the differences in openness, the terms of trade between these countries have actually converged in recent years (Figure 3). During the 1960s, Indonesia was far behind India and China, but then its terms of trade improved dramatically from mid-1975 until mid-1985. This might reflect the effect of the two oil booms in 1973–74 and 1979–80. Since then, the trend of Indonesia's terms of trade has been similar to the other countries.

During the AFC, the Indonesian currency depreciated dramatically and continued to stay weak for almost three years (Figure 4). As the economy began to recover, along with increasing export revenues, the rupiah too started to strengthen in 2001, and by 2003 it was catching up with regional currencies (Pangestu, Rahardja and Ing 2015). In more recent times, the trend of Indonesia's real exchange rate has been closer to that of India than that of China. It also appears that the rupiah is a bit weaker in Jokowi's era as compared to the figures observed during President Yudhoyono's second term.

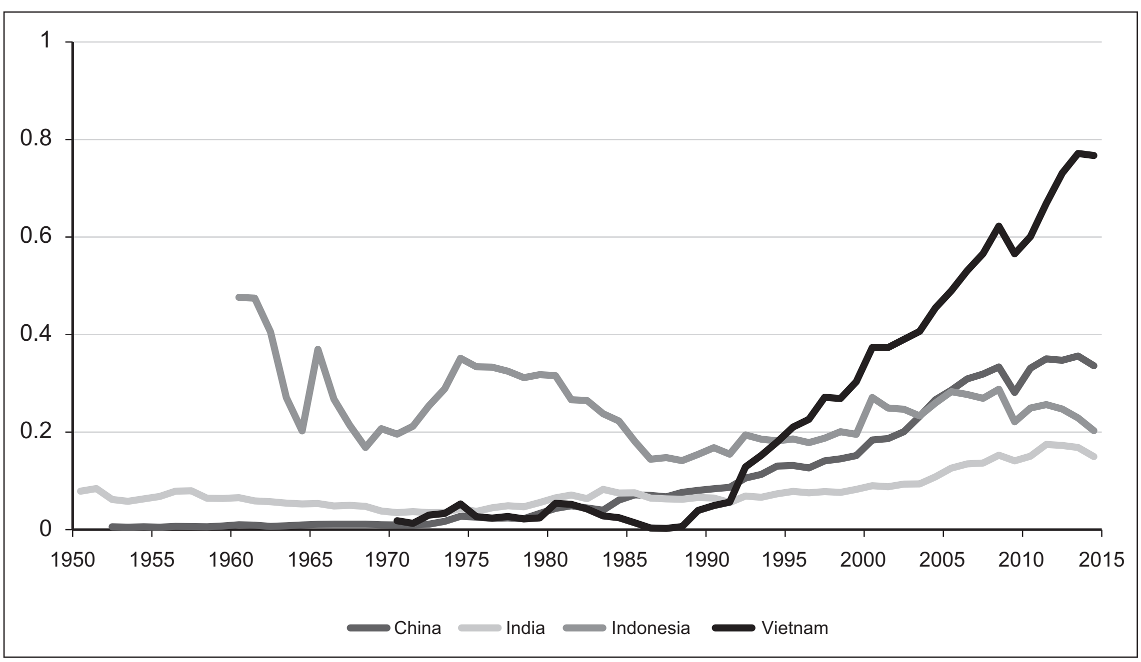
Several scholars argue that a weak rupiah is a result of the country's current account deficit. This view often results in a mercantilist approach towards trade — increasing exports and limiting imports. Figure 5, however, shows that the relationship between the currency and current account deficit might be more

FIGURE 1
Openness



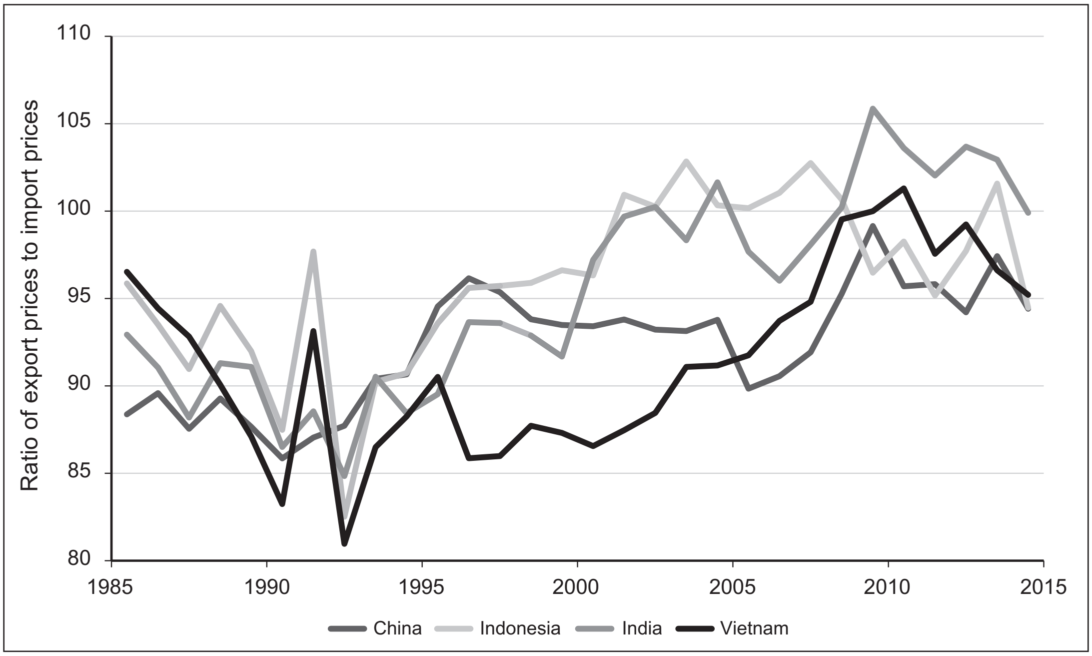
NOTE: Proxy for openness here is the share of merchandise trade in GDP.
SOURCE: World Development Indicators and BPS (via CEIC Data).

FIGURE 2
Real Openness, Compared



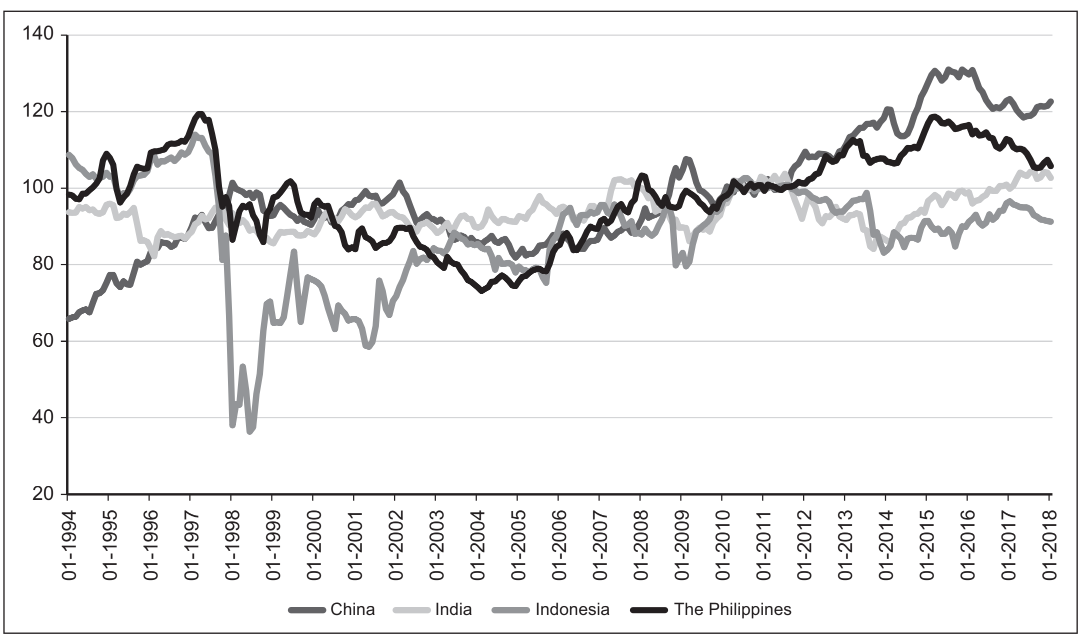
NOTES: Real openness is total shares of merchandise exports and imports in the GDP at current PPPs.
SOURCE: Penn World Table 9.0 (see Feenstra, Inklaar and Timmer 2015).

FIGURE 3
Real Terms of Trade



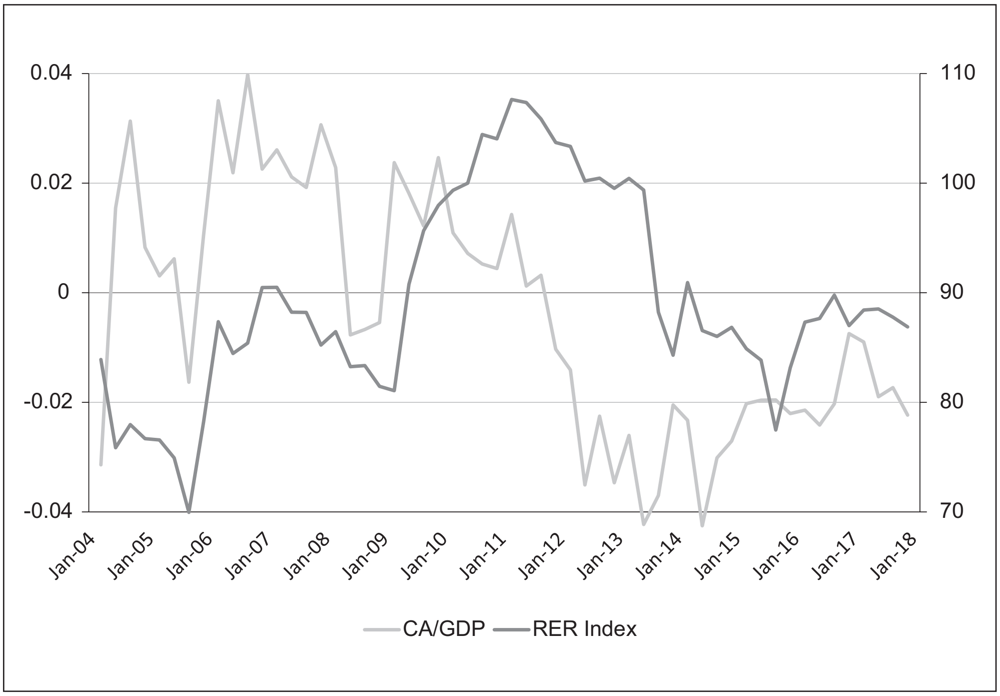
SOURCE: Penn World Table 9.0 (see Feenstra, Inklaar and Timmer 2015).

FIGURE 4
Real Effective Exchange Rates (2010 = 100)



NOTE: The indices are such that the movement to higher (lower) figures indicates appreciation (depreciation) of the respective country's currency.
SOURCE: BIS.

FIGURE 5
Current Account Deficits and Rupiah Depreciation



SOURCES: Current account series are from Bank Indonesia (via CEIC Data), GDP series are from BPS (via CEIC Data), RER Index uses Indonesia's CPI and US CPI series from the IMF, both at 2010=100 (via CEIC Data). The RER index is such that the movement to a higher (lower) level indicates appreciation (depreciation) of the rupiah against the U.S. dollar.

complicated. Although in some periods depreciation seems to follow the changes in the current account deficit, the pattern breaks down elsewhere.

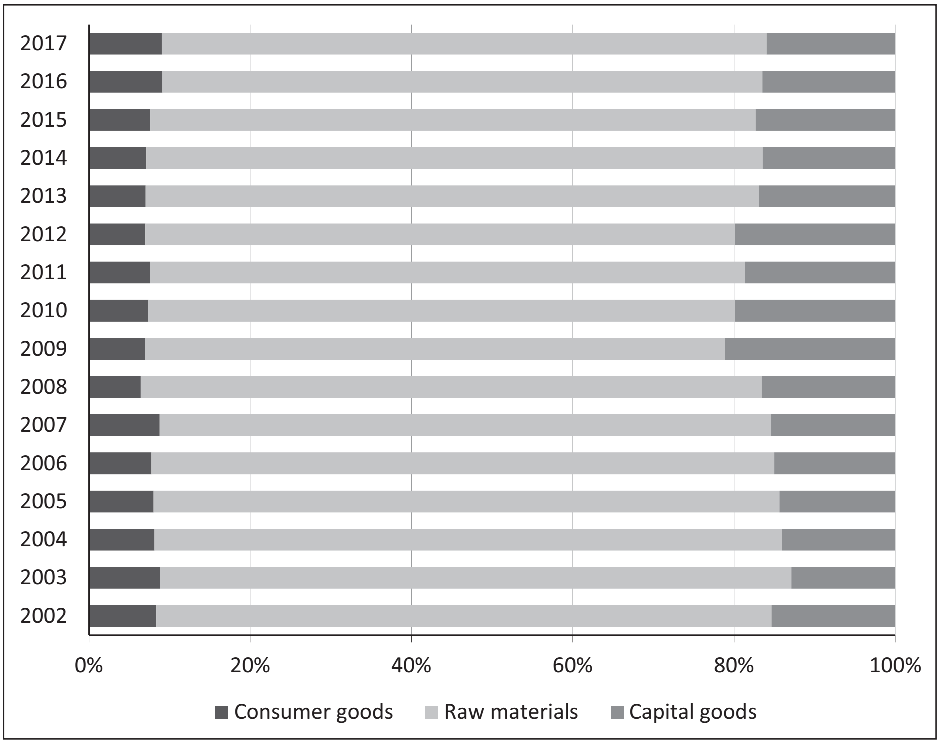
The mercantilist approach also runs counter to the structure of Indonesia's imports. As shown in Figure 6, the vast majority of Indonesian imports, around 75 per cent, is made up of raw materials, followed by 15 per cent capital goods. Consumer goods constitute only 10 per cent. This suggests that Indonesia does need imports in order to be able to produce. Figure 7 emphasizes that it is exactly the raw materials for industry that Indonesia imports the most.

3. Measures of Protection

In general, Indonesia has been "precariously open" since the late 1960s (Hill and Pane 2018). Two influential studies on effective protection in Indonesia (Fane and Condon 1996; Marks and Rahardja 2012) show how the country has been relatively open, despite a handful of episodes of high protectionism.

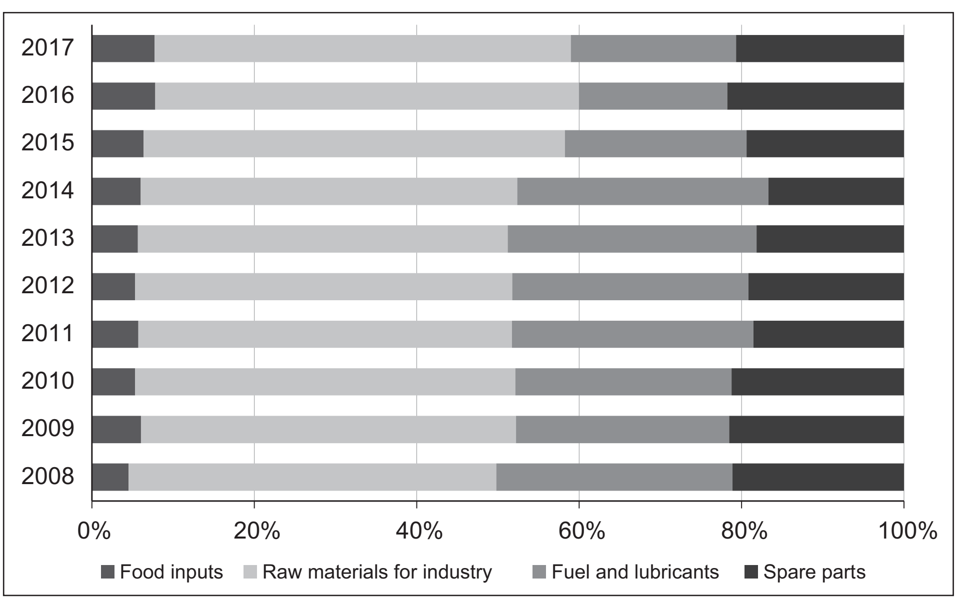
As depicted in Figure 8, protection in Indonesia in terms of tariff has decreased over time, consistent with the trend elsewhere. The decline was relatively sharp between the 1980s and 2000s, before it fell to very low rates of 3–4 per cent (weighted mean). Under the Jokowi administration, tariffs have increased slightly.

FIGURE 6
Proportion of Imports by Categories (%)



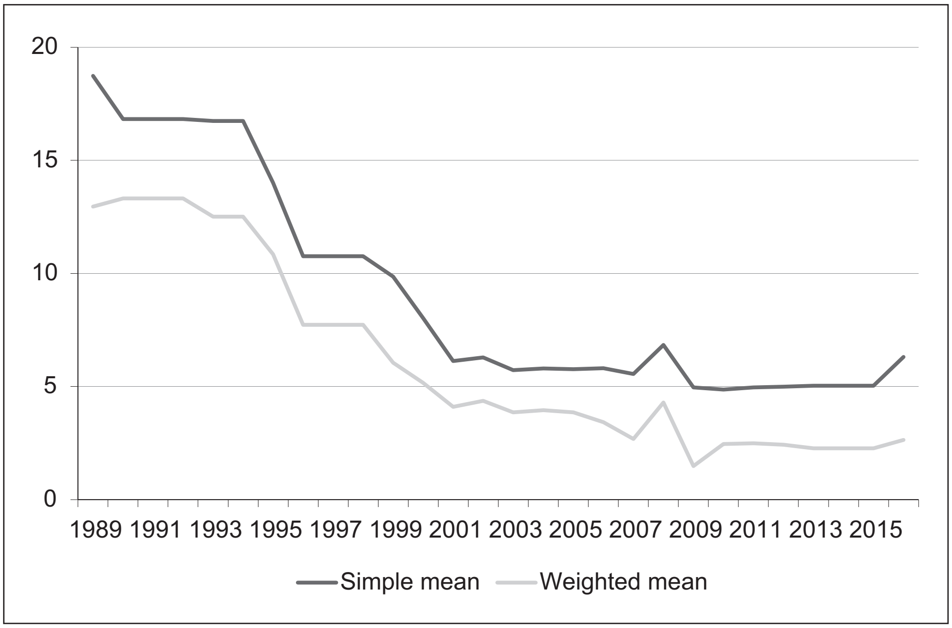
SOURCE: BPS (via CEIC Data).

FIGURE 7
Imported Raw Materials by Groups (%)



SOURCE: BPS (via CEIC Data).

FIGURE 8
Applied Tariff Rates, All Products (%)



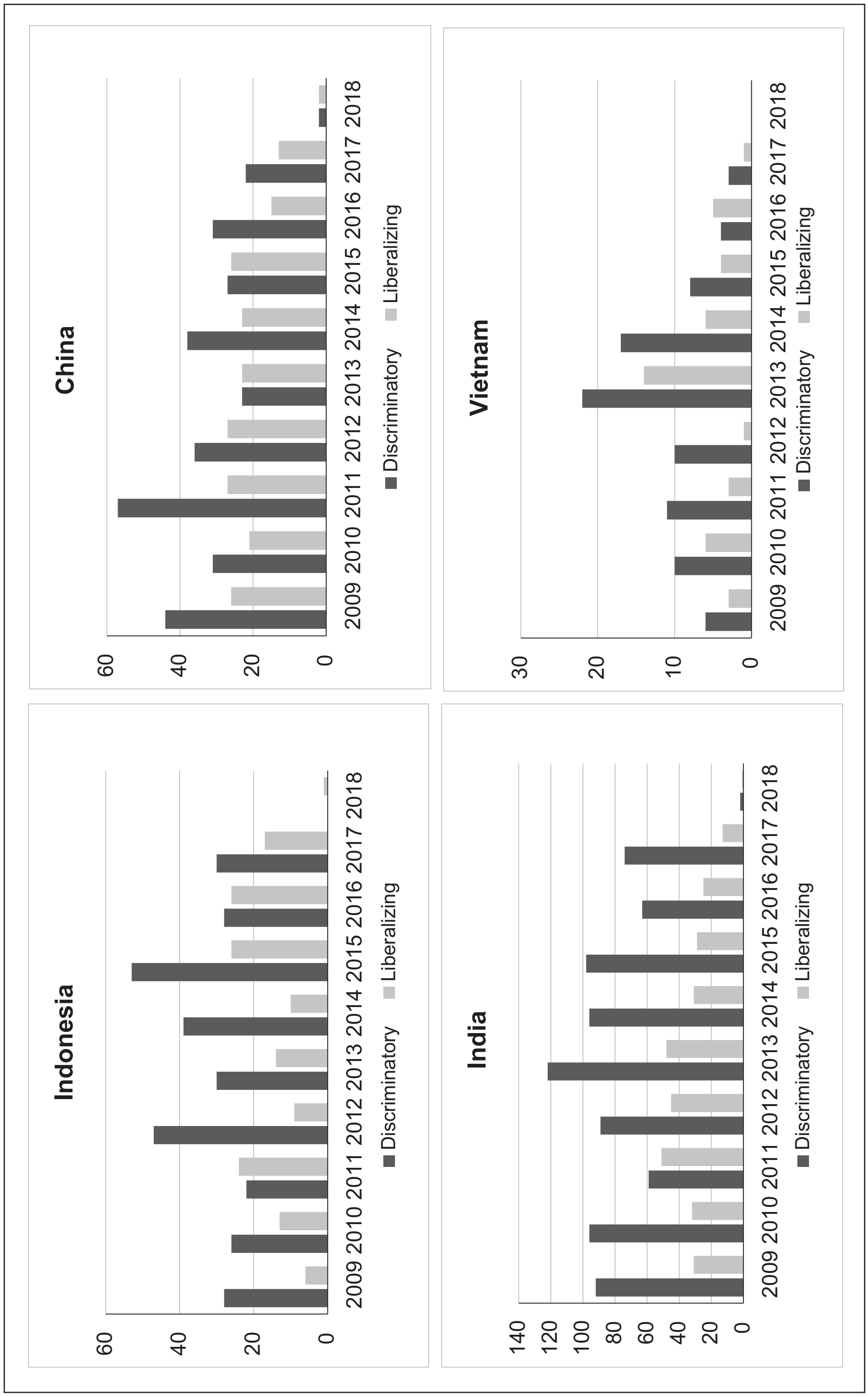
SOURCE: WTO

Similar to the case in other countries, whenever tariffs have gone down in Indonesia, non-tariff barriers have rapidly increased. Figure 9 compares the number of trade interventions imposed by Indonesia, China, Vietnam and India. The information has been sourced from the Global Trade Alert (GTA) database that tracked the trade interventions among countries since 2009. The database classifies trade measures as colour-coded green, amber, and red to indicate the level of their "harmfulness", with red being the most harmful and green liberalizing. According to the GTA, in most countries, the number of harmful measures exceeds that of liberalizing measures. This might indicate that following the Global Financial Crisis, countries became more protectionist — but the fact that GTA does not have data before 2009 makes it hard to confirm the argument.

Figure 9 shows that the number of harmful measures in Indonesia fluctuated more than that in China, Vietnam and India — with the highest being in 2015, or a year into Jokowi's presidency. Recently, in 2017, the number is higher in Indonesia than that in China and Vietnam. India, like the United States (not shown) on the other hand, has traditionally shown more protectionist tendencies than other countries.[3] Interestingly, the number of liberalizing measures is also high in Indonesia relative to that in China and Vietnam. Again, it is not very clear in the aggregate whether Indonesia is more protectionist than these other countries.[4]

Table 1 provides a breakdown of the "harmful" trade interventions implemented in the four countries since 2009. The number of such measures in Indonesia is 173, comparable to that in China, but higher than that in Vietnam. In fact, Indonesia's protectionism in this regard is higher than many other ASEAN countries.[5] This is particularly true for measures like anti-dumping, FDI restrictions, local sourcing, tax relief and incentives, and import tariff.

FIGURE 9
Trade Interventions



SOURCE: Global Trade Alert <www.globaltradealert.org>.

TABLE 1
Trade Measures: Harmful

	Indonesia	*Vietnam*	*China*	*India*
Anti-dumping	15	2	42	155
Anti-subsidy	0	0	7	2
Bailout (capital injection or equity)	1	1	2	3
Competitive devaluation	0	2	0	0
Consumption subsidy	0	0	0	1
Control on personal transactions	2	0	0	0
Controls on commercial transactions	2	0	0	0
Controls on credit operations	1	1	0	0
Export ban	1	0	2	2
Export licensing requirement	4	0	0	2
Export quota	3	0	2	0
Export subsidy	0	0	0	3
Export tax	8	6	3	7
Export-related non-tariff measure, nes	3	0	0	1
FDI: Entry and ownership rule	13	2	8	10
FDI: Financial incentive	0	0	1	0
FDI: Treatment and operations, nes	7	0	5	1
Financial assistance in foreign market	0	0	4	0
Financial grant	1	0	5	2
Import ban	8	2	4	5
Import licensing requirement	7	0	8	4
Import monitoring	0	0	0	0
Import quota	3	1	0	4
Import related non-tariff measure, nes	0	1	0	0
Import tariff	10	25	12	46
Import tariff quota	0	0	2	1
Import-related non-tariff measure, nes	12	0	4	11
In-kind grant	0	0	0	0
Instrument unclear	1	0	2	1
Interest payment subsidy	1	1	1	0
Internal taxation of imports	4	0	7	1
Labour market access	7	2	1	1
Loan guarantee	0	0	0	1
Local labour	0	0	0	0
Local operations	4	1	11	1
Local sourcing	10	0	1	4
Localisation incentive	1	0	0	0
Other export incentive	0	0	1	1
Post-migration treatment	1	1	0	0
Price stabilization	0	0	1	0

continued on next page

TABLE 1 — *cont'd*

	Indonesia	*Vietnam*	*China*	*India*
Production subsidy	6	0	1	5
Public procurement access	2	0	0	2
Public procurement localisation	6	1	2	13
Public procurement preference margin	1	0	1	1
Public procurement, nes	0	0	0	0
Safeguard	5	5	1	4
Sanitary and phytosanitary measure	2	0	0	0
State aid, nes	1	0	0	3
State loan	2	1	4	3
Tax or social insurance relief	10	3	10	3
Tax-based export incentive	4	0	28	23
Technical barrier to trade	1	0	1	0
Trade finance	2	1	4	126
Trade payment measure	1	1	0	0
	173	60	188	453

SOURCE: Global Trade Alert <www.globaltradealert.org> (accessed 10 March 2018).

TABLE 2
Sectors Affected Most Often

Sector	*Interventions*
Liberalizing	
Other general-purpose machinery and parts thereof	26
Plastics in primary forms	24
Chemical products n.e.c.	22
Products of iron or steel	21
Domestic appliances and parts thereof	19
Harmful	
Products of iron or steel	20
Meat and meat products	20
Food products n.e.c.	20
Chemical products n.e.c.	19
Computing machinery and parts and accessories thereof	18

SOURCE: Global Trade Alert.

Table 2 shows the sectors and goods that are affected most often by the trade measures (both in liberalizing and harmful ways) in Indonesia. Food and meat are among the most protected sectors in Indonesia, whereas machinery is the least protected. This is consistent with the fact that Indonesia has been pushing for food self-sufficiency, and that it has little resources for producing parts and machinery needed for industries.

4. Protectionism in Indonesia before the Jokowi Presidency

Under President Sukarno, Indonesia was a newly independent economy, struggling to define itself away from colonial influence. In his nation-building efforts, Sukarno relied more on politics than economics. He nationalized hundreds of Dutch companies such as De Javasche Bank into Bank Indonesia, Koninklijke Paketvaart Maatschappij into Pelayaran Nasional Indonesia (Pelni), and Koninklijk Luchvaart Maatschappij into Garuda Indonesia Airways. More than 250 plantation companies were nationalized into PT Perkebunan Nusantara (PTPN), almost 200 companies in the mining and basic industries into Badan Penguasaan Industri dan Tambang (BAPPIT) and 40 trading companies were consolidated into PT Negara. The command economy era ended in 1966 with a very bleak picture. The inflation rate surpassed 500 per cent, half of the government expenditure went into covering the budget deficit, and per capita income was less than that in 1938.

The incoming New Order regime of President Soeharto was accompanied by a series of measures aimed at rehabilitating the economy. The government introduced market-friendly reforms, recommended by able technocrats under the leadership of Widjojo Nitisastro. These included opening up the capital market, welcoming foreign investment, and relaxing trade policies. But the prosperity period did not last long. The commodity boom in the early 1970s and the two oil booms in 1973–74 and 1979–80 brought windfall gains to Indonesia, encouraging the government to move forward with the idea of protectionism — in the form of import substitution, local content requirements, import licensing, and an export ban. Fuel was subsidized from 1976 onwards and attaining food self-sufficiency, especially for rice, became a priority. Then the oil price plunged in the 1980s. The strained budget, coupled with the global recession, forced the government to make a sweeping adjustment. From the mid-1980s to the mid-1990s, Indonesia witnessed strict deregulation, export promotion, and devaluation. However, business groups who had grown strong in the previous, protectionist era still had their way, and were now joined by emerging new cronies. Import monopolies and other facilities offered to these groups, especially those closest to President Soeharto, persisted. Then the AFC struck in 1997, throwing the Indonesian economy into a tailspin, far worse than its neighbours — including the epicentre Thailand. The economy shrank, inflation soared, and unemployment crept up. Once again, the government was forced to adopt more liberal policies. Import restrictions were removed, tariffs were cut, and Indonesia's involvement in international trade agreements increased. Most of these reforms to recover the economy were taken under the short terms of President Jusuf Habibie (1998–99), President Abdurrahman Wahid (1999–2001), and the early period of President Megawati Soekarnoputri (2001–04).

But the interest in free trade was, once again, short-lived. Protectionism started to creep back again in the early 2000s, beginning with restrictive measures for food crops, and followed by trade regulations and licensing requirements on textiles, steel, sugar and cloves. This continued until the second term of President Susilo Bambang Yudhoyono. Subsequently, the government passed new laws on mineral and coal mining (Law 4/2009), horticulture (Law 13/2010), food (Law 18/2012), farmers' protection and empowerment (Law 19/2013), industry (Law 3/2014), trade (Law 7/2014), and standardization (Law 20/2014), all with a serious impact on the openness to trade and investment.[6] Furthermore, import licensing was reinstated, the distribution of imported goods tightened, and the export of raw minerals banned. The Cabinet shake-up of 2011 turned out to side-line the trade reformists and, instead, opened the door for protectionist operatives. Very soon the Ministry of Agriculture and the Ministry of Industry added new products to the list of those requiring permits. It should be noted that the Yudhoyono presidency coincided with the 2008–09 Global Financial Crisis. The fact that "bad times" now came with "bad policies" seemed to have broken what had been known as the "Sadli's Law" — bad times make for good policies and good times make for bad policies, at least on the trade front (see Patunru and Rahardja 2015).[7]

5. Jokowi's Style of Protectionism

In contrast to President Yudhoyono who frequented international events and forums, Jokowi seems to be less excited about trade and foreign affairs. Early in his presidency, for example, he surprised observers by skipping the APEC Leaders Forum in Manila in 2015. In the same year, he shortened his visit to the United States and returned home less than half-way through his trip.

The trend towards greater nationalism is on the rise under the current administration. However, Jokowi's stance appears to be a mix between pragmatism and ambivalence. Addressing the Indian Ocean Rim Association Leaders' Summit in March 2017, Jokowi embraced both nationalism and internationalism. Quoting President Sukarno, he reiterated "internationalism cannot live without nationalism" and vice versa — rhetoric that sounds good but the exact meaning of which is unclear.

In other events, Jokowi is always eager to extend his invitation to foreign investors to visit Indonesia, such as the APEC CEO Summit (November 2014 in Beijing), the ASEAN Summit (April 2017 in Manila) and the G-20 Summit (July 2017 in Hamburg). But he is also critical of the existing international order. At the Asian-African Summit (April 2015 in Jakarta), for instance, he mentioned that the current system dominated by the World Bank, the IMF and the ADB is obsolete, and that building a new international economic order is imperative. During another visit to the United States, he said he wanted to join the Trans-Pacific Partnership. He also supports the China-led Asian Infrastructure Investment Bank (AIIB), but openly criticizes China in the South China Sea dispute — despite Indonesia not being a formal party to the dispute. In response to a statement from Beijing in June 2017 that implicitly put Natuna in the territories subject to "overlapping claims", the president demonstratively held a cabinet meeting on board a warship near the Natuna Islands.

In relation to economic policies, Jokowi's stance leans more towards protectionism. Recalling the presidential campaign days, Jokowi's promises included a lower dose of nationalism relative to his rival General Prabowo. However, he started his presidency with a heavy use of protectionist measures, mostly via the Ministry of Trade, the Ministry of Agriculture, and the Ministry of Industry. Although tariffs levied under the Jokowi administration are lower than before, protectionism continues in the form of non-tariff barriers. Data from the Ministry of Trade shows that the use of non-tariff barriers, mostly import restrictions, have increased from 9 per cent of tariff lines in 2011 to 35 per cent in 2016. Critics have pointed out that non-tariff barriers such as quotas, import licences, or export bans are prone to corruption.[8] Moreover, in democratic polities like Indonesia, they may lead to the "protection for sale" phenomenon, whereby protection is given to the highest bidders — or cronies.

Perhaps in response to criticisms, Jokowi reshuffled his Cabinet. Within three years into his presidency, he already had three trade ministers: Rachmat Gobel, Thomas Lembong, and Enggartiasto Lukita. The closest analogy is that of a pendulum oscillating from protectionist to market-friendly back to protectionist again — but it might as well be a reflection of the absence of a clear vision. He also replaced the Minister of Industry Saleh Husin with Airlangga Hartarto, but kept the Minister of Agriculture Amran Sulaiman in the Cabinet despite the two reshuffles. This is an interesting development, considering that the Ministry of Agriculture is arguably the most populist ministry in Jokowi's Cabinet.

How can the rising economic populism and protectionism under Jokowi be explained? In the beginning of Jokowi's presidency, the rupiah appreciated, making exports more expensive. Around the same time, Indonesia's competitiveness dropped as the commodity boom ended. Both these factors increased the demand for protection. Then there is the bandwagon effect. Many countries use an active industrial policy — perhaps in response to the weak global demand. The blame partly goes to the failure of the Doha Round of the WTO, which damaged confidence in the international architecture. Some countries resort to "beggar-thy-neighbour" exchange rate policies while others continue erecting non-tariff barriers. To sum up, despite protectionist measures often leading to negative consequences, they seem to be taking the stage again almost everywhere, including in Jokowi's Indonesia.

The first 100 days of Jokowi were marked by a series of protectionist measures by his ministers, as surveyed by Damuri and Day (2015). For example, Fisheries Minister Susi Pudjiastuti introduced a ban on catching young crustaceans and prohibited the transfer of fish from smaller to larger vessels at sea, to curb illegal fishing. Transportation Minister Ignasius Jonan set minimum prices for airline tickets and discounted airfares, while Trade Minister Rachmat Gobel banned the sale of light alcoholic beverages in convenience stores throughout Indonesia.

In 2015, Jokowi replaced Rachmat Gobel with Thomas Lembong. The latter is known to be a pro-trade reformer. In an interview after his inauguration, Lembong made a remark that protectionist policies always backfire.[9] But just like Gobel, he only had the post for a year. Jokowi's third (and current) trade minister is Enggartiasto Lukita, appointed in 2016, who seems to be less protectionist than Gobel, but not as open as Lembong. Lukita, with Agriculture Minister Sulaiman, has recently been dealing with the controversies around rice and other food commodities.[10]

Protectionism is not just noticeable in policies from the Trade or Agriculture Ministries alone. In January 2017, the government issued a controversial decision to relax an export ban on unprocessed minerals. The ban itself was put into effect in 2014 as a follow up to the 2009 Law on Mineral and Coal Mining. It required mining companies to establish processing capacity in Indonesia — a policy that falls into a broader agenda of domestic value addition. As a result of this earlier policy, several companies invested, albeit reluctantly, on building smelters in Indonesia. By the end of 2016, over US$18 billion in downstream investment had been channelled into thirty-two smelting facilities (Warburton 2018). Jokowi's decision to relax the ban in January 2017 therefore came as a shock and jeopardized three years of investment and development. Warburton (2018) argues that this decision was not related to budgetary pressures, but rather it was a move to protect PT Aneka Tambang, a state-owned mining company, whose profit had suffered during the export ban period.

As it turns out, this mining saga has another controversial aspect that involves an escalated tension between the Indonesian government and Freeport Indonesia, a subsidiary of the American mining giant Freeport-McMoRan Inc., which has long been operating in Indonesia (Dong and Manning 2017). Initially, when the export ban was imposed in 2014, Freeport and another big mining company, Newmont, were given an extension of rights to export ore until 2017. In return, they were required to pay additional taxes and start to build their processing capacity by 2017. Neither of them met the latter condition. While relaxing the import ban, the Indonesian government introduced stricter rules that prevented Freeport from exporting copper concentrate until it adopted a new permit. The company was also required to make a 51 per cent divestment after ten years. This Indonesia–Freeport tension increased business uncertainty in the country.

Prior to the Freeport episode, investment uncertainty was also reflected in a plan to develop Indonesia's first high-speed railway. China and Japan were competing to win the multi-billion dollar contract in 2015. At the last minute, however, Jokowi announced the cancellation of the plan, citing (rightly) that a high-speed railway between Jakarta and Bandung was not economically feasible owing to the short distance. Instead, the government now wanted a slower train and asked both countries to resubmit their proposals.[11] Even before this cancellation, the project had been mired with controversies around the bidding process (Ray and Ing 2016). It finally kicked off in January 2016 with a target of completion by 2019. But the Minister of SOE, Rini Soemarno has expressed her doubts on meeting the target, given the slow progress in land acquisition (see Salim and Negara 2018).

In addition to the series of protectionist policies stated above, the Jokowi administration is also dealing with two commodities that have long been the subject of discourse on protectionism in the country — rice and fuel. It is safe to say that both goods have been political and politicized. In the case of rice, the government policy (import ban) has continuously resulted in very high domestic prices compared to international prices, whereas in the case fuel, the policy (fuel subsidy) has led to the domestic price being too low when compared to the international market price. The distortion in the rice market primarily hurts the poor, while that in the fuel market is not only regressive, but also inefficient and environmentally unfriendly.

5.1 Rice

Indonesia is one of the largest rice importers in the world. But imports have been banned since 2004, and only allowed occasionally under the government's (and in some cases, the Parliament's) approval. This has led to relative increase in domestic prices compared to the international price (Figure 10). While the price distortion benefits the largest farmers and traders, including absentee landowners, it harms the poorest consumers, including landless farm workers or peasants (Patunru 2018). More than 80 per cent of the Indonesian population, including most of the poor, are net consumers of rice. For them, lower rice prices are preferable. As Figure 10 shows, by the end of 2012, Indonesia's rice price was 65 per cent above the international price, pushing millions of people into poverty.[12]

Nevertheless, Indonesia's food self-sufficiency ambition remains strong and, in fact, is proliferating again under the Jokowi administration — most notably championed by the Ministry of Agriculture. The strength of this ambition often makes the government pass reform opportunities. For example, during the world food price crisis in 2007–08, domestic prices in Indonesia remained relatively stable, which would have been a good time to introduce a reform like a price band policy automatically linked to the world price. But no such reform took place and, just when the world price had calmed down, the domestic price jumped dramatically again.

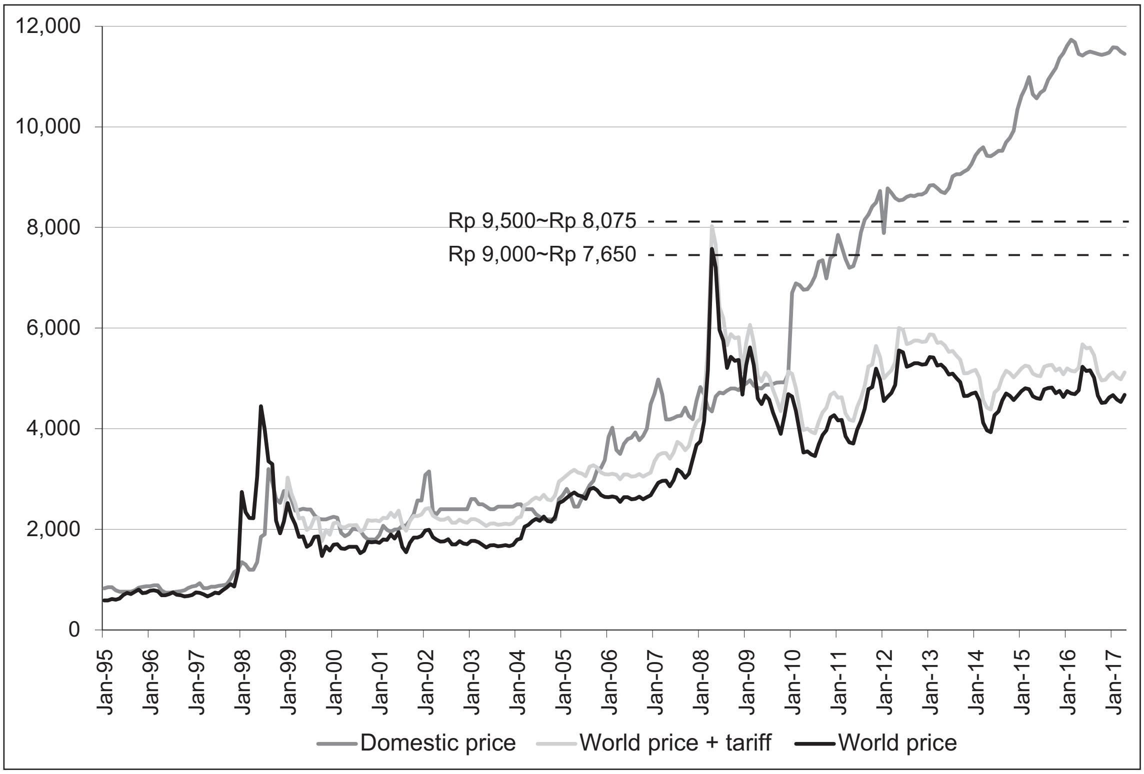
There are a number of factors that explain why rice protectionism persists in Indonesia. First, it is simply the result of a bandwagon effect. Many countries are embracing protectionism again, especially when the WTO is not working efficiently. Rice protectionism, in other words, is part of the general protectionism and populism that are trending again.

Second, it is due to the power of lobbying, whereby trade restrictions tend to favour those who are better organized, who, in turn, usually stand to lose from increased trade (Krugman, Obstfeld and Melitz 2015; Olson 1965). In the case of Indonesia's rice market, the call for protection is often voiced by organizations like the Indonesian Farmers Association (HKTI) and the Indonesian Farmers Union Federation (FSPI). Interestingly, the key members of these associations are rich farmers and traders and not the poorest peasants (Patunru and Basri 2011).

The third explanation relates to the view that in Indonesia, self-sufficiency as part of the food sovereignty narrative is necessary rhetoric to strengthen the role and function of the state (Neilson 2018). This is consistent with the view that populism pays politically (Rodrik 2017). These views, however, implicitly assume naïveté or even ignorance on the part of the public. Yet, it is also probably true that people believe that self-sufficiency in rice (and other commodities) is important, despite the argument being built on false premises that: self-sufficiency is the way to ensure food security (food security can actually be obtained without self-sufficiency (Heufers and Patunru 2018)); Indonesia is rice-abundant and should therefore be a natural exporter not importer (only in 7 out of 145 years since 1870, did Indonesia export more than it imported rice[13]); and it is important to be self-sufficient as the world market is thin (the world rice market today is much larger and more stable than in the 1970s (Dawe 2008)). As noted, this level of ignorance may be linked with the proliferation of these false beliefs. But judgement may also involve romanticism. This quote from two top Indonesian agricultural economists supporting rice protection in the country illustrates this: "Since long time ago painters have been drawing yellowing paddy trees or harvesting in the paddy fields with a background of mountains, clear water irrigations or green dykes…" (Amang and Sawit 2001).

But why is the rice self-sufficiency ambition again rising in Jokowi's administration? Ever since the campaign days, Jokowi had promised to achieve self-sufficiency in rice. After taking office in late 2014,

FIGURE 10
Domestic vs. World Rice Prices, 1995–2017 (Rp/kg)



Sources: The domestic prices are of the wholesale prices of IR 64 rice variety, as quoted in Cipinang, the biggest wholesale market in Jakarta, collected from McCulloch (private communication) for series from January 1995 until May 2009 and from BPS afterward. Prices from June 2009 until December 2009 were estimated using the prices of Medium rice variety, adjusted with the average margin between the retail and wholesale prices since November 2006 until May 2009. The world price series is represented by the wholesale prices of Thai 25 per cent brokens rice variety, collected from Bank of Thailand database (via CEIC Data), converted to Indonesian rupiah, added with \$20/ton shipping and handling cost and \$5/ton import profit. The "world price + tariff" series is the same as the world price but with the addition of 20 per cent tariff in 1999, and specific tariffs of Rp430/kg from January 2000 until December 2006, Rp550/kg from January 2007 until November 2007, and Rp450/kg from December 2007 onward. The two dashed lines (Rp9,500/kg and Rp9,000/kg) correspond to the existing and proposed retail price ceilings, respectively, set by the government (Rp8,075/kg and Rp7,650/kg are my estimated corresponding wholesale prices to match with the vertical axes).

he reiterated this promise, claiming that rice imports would stop within two years.[14] It should also be noted that Jokowi belongs to the Indonesian Democratic Party of Struggle (PDI-P), whose chairperson, Megawati Soekarnoputri, is the daughter of the late President Sukarno — an ultra-nationalist. With respect to issues related to food, Neilson (2018) argues that it was President Sukarno who first set the foundational terms of the national-scale self-sufficiency in food, by questioning "why bother talking about political freedom if we don't have freedom to manage our rice?" and by insisting "food is a matter of life and death". Interestingly, Jokowi, too, has often quoted these remarks.

In reality, however, it is hard for Indonesia to be self-sufficient in rice. As a matter of fact, one year after his promise, Jokowi decided that the country needed to import 200,000 to 300,000 tons of rice.[15] Later in October 2017 the Agriculture Minister, Amran Sulaiman proudly announced self-sufficiency in rice (as well as in chilli, corn and onions). But in January 2018, the government imported 500,000 tons of rice, creating a furore in the media.[16] As noted, Jokowi has reshuffled his Cabinet three times — and has already had three different ministers for trade. But Amran Sulaiman has always retained his position, despite limited achievements. This might be, as Power (2016) observed after the second reshuffle, due to his loyalty to the president and his ability to mobilize cash and support — Sulaiman was a key financier during Jokowi's campaign days.

5.2 Fuel

Fuel subsidies have been a key feature of the Indonesian economy for decades. It was meant to be a way of channelling the rent from oil revenues to the people, as Indonesia was once an oil-abundant country. But it has been very hard to undo this policy even though the country is no longer rich in oil resources (in fact, Indonesia had to quit OPEC in 2008 after it became a net importer of oil). In the 1970s, oil and gas constituted half of Indonesia's exports, now they account for less than 10 per cent, whereas on the import side the share of oil and gas is around 14 per cent. Indonesia's proven oil reserves now stand at only a fourth of their volume in the 1970s. The oil production capacity is only 800,000 barrels per day (as assumed in the 2018 State Budget), about half the capacity in the 1970s, while consumption is more than 1.5 million barrels per day.

There are at least three problems with the fuel subsidy regime. First, it is regressive in nature. Almost half of the subsidy is actually enjoyed by those in higher income groups and less than 2 per cent reaches the bottom decile (Patunru and Basri 2011; Agustina et al. 2008). A study conducted by the University of Indonesia showed that among the top 30 per cent of the income distribution, 80 per cent own vehicles and thus use fuel, whereas only a third of the households in the bottom 30 per cent do (LPEM-FEUI 2006).

Second, it is unproductive, as it takes resources away from more important sectors such as basic education and health. In 2013, the spending on energy subsidies, around two-thirds of which was on fuel, constituted a quarter of the central government expenditure. This was around one and half times of that spent on education, and around fifteen times of that spent on health (Allford and Soejachmoen 2013). This is in stark contrast with Thailand, for example, which spends about 14 per cent and 30 per cent of government expenditure on health and education, respectively. It is therefore not surprising that malnourishment and illiteracy rates are lower in Thailand than in Indonesia.

The third problem is related to environmental concerns. The subsidy on fuel consumption results in a price higher than the market, thus suppressing the incentive to develop renewable and clean energy sources. The Indonesian government has, on many occasions, stated its intention to transition into low carbon economy (Patunru and Rakhmah 2017). In the National Energy Policy (Government Regulation 79/2014), the government targeted to have at least 23 per cent renewable energy in total energy consumption by 2025. Such ambition is also noted in Indonesia's Intended Nationally Determined Contributions (INDCs) submission to the Paris Agreement in 2015. Nevertheless, the country is heavily dependent on fossil fuels, particularly oil. In 2010, the share of fossil fuels in the total energy consumption was 95 per cent. Therefore, without a significant reform to the existing fuel subsidy regime, it is unlikely for the country to realize these intentions.

Despite these challenges, the fuel subsidy was an important component of the state budget for a long time. Jokowi's decision to remove it in January 2015 was therefore widely applauded (Damuri and Day 2015). It was seen as a bold move, long overdue and useful for creating a fiscal space for more productive needs such as social assistance and infrastructure development.

The Jokowi government increased the price of subsidized fuel from Rp6,500 to Rp8,500 per litre on 18 November 2014 (Figure 11). Then, on 1 January 2015, the subsidies for premium gasoline were removed, with the price now lowered to Rp7,600 per litre. To reflect the changes in the world oil price, the domestic price was adjusted again three times before it ended up at Rp7,300 per litre on 28 March 2015. It stayed there for almost a year. In 2016, the government adjusted the price to Rp7,050 per litre on 5 January, and Rp6,550 per litre on 1 April. Since then, there has been no further adjustment.

The choice of timing for the premium fuel subsidy removal was appropriate as it coincided with the global oil price sliding down from around US$60 per barrel to US$50 per barrel, and so public resistance was low. But the prior price increase from Rp6,500 to Rp8,500 per litre took place when the world oil price fell from around US$100 per barrel in mid-2014 to around US$75 per barrel in November 2014.[17] This move was seen as a sign that Jokowi was determined to stay committed to the reform, as it would save him around US$10 billion in the incoming 2015 State Budget. When the subsidy was removed in January 2015,[18] the government was able to reallocate almost US$20 billion from fuel subsidy spending to other, more important posts.[19]

Despite the acclaim received on the decision to scrap the fuel subsidy, it now appears that Jokowi might have lost the golden opportunity to reform the fuel pricing once and for all. The world oil price is now back on the rising trend at more than US$60 per barrel, far above the assumed price of US$45 and US$48 per barrel in the 2017 and 2018 state budgets, respectively.[20] With the fuel price left unadjusted since April 2016, this has again created a heavy burden on the budget. But instead of raising the price, the government asked Pertamina, the state-owned oil and mining company, to cover for the price differences. When the subsidy was scrapped in January 2015, the government explained that the fuel price would be adjusted periodically in response to changes in oil prices and the exchange rate.

But, as noted, this was not the case. In fact, the government seems hesitant to increase the price again, even as the oil price is increasing since June 2016. In hindsight, the government should have tied the fuel price automatically to the oil price in January 2015 (without the need to adjust it periodically). Just like the case of rice in 2007–08, this too was a missed opportunity.

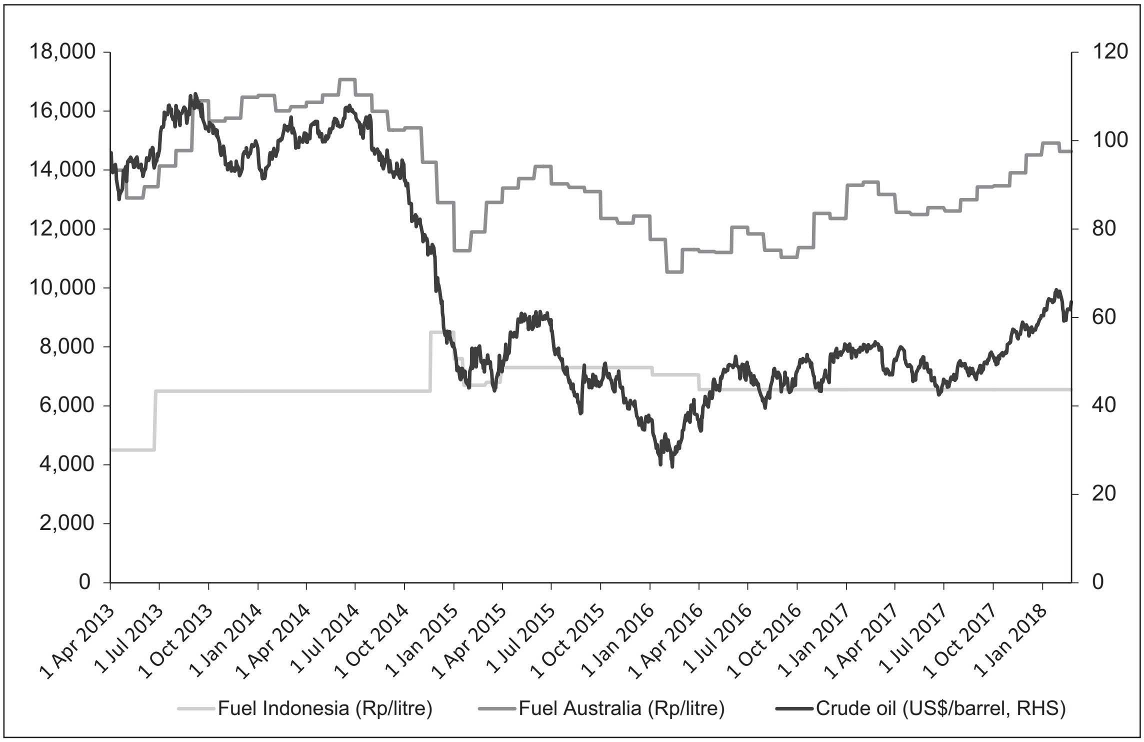
Figure 11 also shows a fuel price series that automatically follows the changes in oil price. Due to data availability, it uses the average retail fuel prices around metro areas in Western Australia. It is clear that this series moves very closely with the oil price. But the gap between the Australian and Indonesian fuel prices has been widening, implying an increasing opportunity cost of keeping the fuel price low in Indonesia. As of now, the government has Pertamina to shoulder the burden, but there is a limit. A collapse could bring the old subsidy regime back again, negating Jokowi's legacy of eliminating it in January 2015.

6. Discussion

Jokowi's approach to trade is, in general, populist-protectionist. Consequently, it is not very different from his predecessors. Many recent laws and regulations that are very protectionist in nature were actually introduced under the Yudhoyono's administration. Rice- and fuel-protectionism go even further back to the Sukarno and Soeharto eras. But Jokowi seems to have amplified the intensity of such protectionist measures. As the 2019 election approaches, populism is expected to intensify even further.

Globalization can have both positive and negative results, but Indonesia has to continue its reform in order to make the most out of its engagement with the rest of the world. In this regard, improving compensation mechanisms and increasing labour market flexibility are key to reducing the risks and costs of globalization (Patunru, Pangestu and Basri 2018). At the same time, it is important to increase Indonesia's engagement with the international economic architecture as it would help to reduce trade barriers, provide policy discipline to withstand rent-seeking activities, and frame policy reforms (Anas

FIGURE 11
Fuel and Crude Oil Prices (Rp/litre)



SOURCES: Indonesia's fuel prices are of gasoline premium as published by Pertamina. Australia's fuel prices are of standard unleaded petrol (ULP) 91 in monthly average from metro areas in Western Australia as reported by Department of Mines, Industry Regulation and Safety (taken from CEIC Data). Crude oil prices are of the West Texas Intermediate (taken from FRED).

and Narjoko 2018). Despite the multilateral WTO agreement not functioning effectively, Indonesia should not get carried away by the proliferation of costly bilateral agreements. Instead, it should keep resisting the push for protectionist policies while upholding non-discriminatory principles in regional agreements.

NOTES

1. Size effect might have a role too; smaller countries usually rely more on trade as compared to bigger countries.
2. In the same period, Malaysia and Singapore were more open than Vietnam.
3. Note that the vertical axes of the panels for Vietnam and India were not aligned.
4. Note, however, that GTA information is mostly based on complaints from trade partners. Therefore, the number of harmful measures might be overstated while liberalizing measures understated.
5. The total number of harmful measures in the same period is twenty-seven in Malaysia, thirty-three in Thailand, twenty in Singapore, and ten in the Philippines.

6. Some of the implementing regulations based on these laws are listed in Patunru and Rahardja (2015). This does not imply that there were no good policies under President Yudhoyono. In fact, some laws issued within his period were considered very useful such as Law 21/2011 on Financial Service Authority, Law 21/2012 on Land Acquisition, Law 5/2014 on Civil Administration, and Law 6/2014 on Villages. Most of these laws, however, deal with domestic issues.
7. An interesting periodization of Indonesia's trade policy over time is studied by Pangestu, Rahardja and Ing (2015) who divide the period into five sub-periods, namely 1965–71: from chaos to rehabilitation; 1971–85: import substitution; 1985–89: devaluation, bold deregulation, export diversification; 1989–2004: recovery and soul-searching; and 2004–15: more reform, more Dutch disease, and the Global Financial Crisis. (Note, however, that the 1989–2004 period has a lot of sub-trends, including the Asian Financial Crisis).
8. In 2016, the Indonesia's Corruption Eradication Commission (KPK) had recommended that the Ministry of Trade should no longer use quantitative restrictions. Presumably, this recommendation was prompted by two high-profile corruption cases that sent a former chairman of the Justice and Prosperity Party and a Constitutional Court Chief Justice to jail for taking bribes related to beef import quotas. This KPK recommendation was then included by the government as part of Presidential Regulation 10/2016.
9. See <https://www.bloomberg.com/news/videos/2015-08-14/indonesia-s-lembong-signals-less-protectionist-policies>.
10. See, for example, <http://www.thejakartapost.com/news/2018/09/21/rice-import-debate-is-old-paradigm-agriculture-minister-says.html>.
11. See <https://www.reuters.com/article/indonesia-railway/scrapping-indonesias-bullet-train-leaves-top-investors-confused-idUSL4N11A14X20150904>.
12. In July 2017, the domestic prices were already very high, prompting the Trade Minister to lower the ceiling price (see the dashed lines in Figure 10). The news immediately met resistance from farmers' associations and the proposed regulation was annulled. In practice, retail ceiling prices are rarely obeyed. But even if it is effective, the figure shows that the resulting domestic prices would still be far above the international price.
13. I thank Pierre van der Eng for data for this point.
14. See <http://www.thejakartapost.com/news/2014/11/06/jokowi-stop-rice-imports-within-two-years.html>.
15. See <http://www.thejakartapost.com/news/2015/10/22/jokowi-finally-agrees-import-rice-thailand-vietnam.html>.
16. See <http://jakartaglobe.id/business/lullaby-gets-govt-import-rice-at-most-unfortunate-time/>.
17. See <https://theconversation.com/indonesias-fuel-subsidy-cut-a-bitter-pill-that-had-to-be-swallowed-34357>.
18. A fixed subsidy of Rp1,000 per litre was still given to diesel and kerosene; but since it is not a fixed price, it was expected that the government would no longer pay the additional bill when the oil price rises. Some subsidy was also still applied to a type of fuel gasoline, namely RON 88, but with an expectation to decrease its supply gradually until it is phased out completely and all consumers have switched to non-subsidized, RON 92 fuel. The remaining subsidy accounted for 1 per cent of the national budget, dropped from 13.5 per cent in the previous year.
19. There was a noticeable increase in infrastructure spending in the state budget from 8.4 per cent in 2014 to 12.6 per cent in 2015, and 15 per cent in 2016.
20. There are slight differences in the crude oil prices as quoted by West Texas Intermediates, Brent Price, Platts, and Indonesia Crude Price (ICP), but in general, these differences are very small.

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