INDONESIA’S ECONOMIC PROSPECTS AND CHALLENGES AMIDST GLOBAL ECONOMIC GROWTH SLOWDOWN

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Abstract

The World Bank projects that a slowdown of economic growth would happen to Indonesia. External risks is the dominant factor that obstructs the growth of Indonesian economy. This article will investigate the challenges and prospects of Indonesian economy, amidst global economic growth slowdown. Those external risk factors are slowdown of global economic growth, which results in slowing of trade, increase of The Fed’s interest rate, and volatility of oil price. This condition requires a strategy and policy to mitigate the risks of global economic uncertainty. According to the writer, the strategies that can be taken by the government are, among others, improvement of business climate, change in national economic structure, diversification of export market, and increase of local stake in oil fuel. Besides that, the Bank of Indonesia needs to take anticipative actions towards The Fed’s interest rate increase by raising the 7-day Repo Rate. DPR RI needs to perform their supervision function to the government, to ensure that this policy is taken, so that the risks of global economic uncertainty does not affect the target of Indonesian economic government in 2019.

Introduction

Indonesia’s economic growth is projected to face more challenge in 2019, as global economic uncertainty is still present. The World Bank revises the projection of Indonesian economic growth in 2019, to only 5.2% from the previous projection of 5.3%. The pressure faced by Indonesia comes from foreign capital flowing out, weakening of exchange rates, capital market correction, and decrease of foreign reserves. This projection was delivered by the World Bank in Global Economic Prospects report, released on Tuesday, 8 January 2019 in Washington DC (Republika, 14 January 2019).

The Ministry of Finance, Sri Mulyani asserts that global economic uncertainty this year can potentially corrects some macro assumption in the National Income
The global economic pressure becomes a dominant factor that can trigger domestic economic volatility, which can impact the economic growth. In APBN 2019, an economic growth of 5.3% is assumed (Picture 1).

In a Work Meeting with Committé XI DPR RI on 16 January 2019, the Minister of Finance, Sri Mulyani explains that the potential risk of global economic uncertainty increases along with the intensifying trade tensions and decreasing liquidity. This is alongside the revision of global economic growth target from 3.7% to 3.6%. However, the Minister of Finance is optimistic that the Indonesian economic growth target can still be maintained with mitigation policies that have been prepared by the government (Ministry of Finance, 2019). Various risks of global economic uncertainty that happen have a big effect on Indonesian economy, so it is very important to analyze them further. Thus, this article will investigate what are the challenges faced by Indonesia and how are Indonesia’s economic prospects facing the risk of global economic uncertainty in 2019.

Challenges to Indonesian Economy in 2019

Assistant Director of Communication Department of Bank of Indonesia (BI), Irwan reveals that there are 3 challenges faced by Indonesian economy in 2019. First, the weakening global economy results in a weakening of Indonesian exports. Second, the deficit of ongoing transactions have reached 3% of Gross Domestic Product (GDP). Third, the problem of downstreaming of industry that must be done soon (Bisnis Indonesia, 14 January 2019). Furthermore, Vice President Jusuf Kala mentioned that Indonesian economic in 2019 is still threatened by the trade war between US and China,
Middle East conflicts, and weakening of Chinese economy, which results in a decrease of export and economic growth (Kompas, 12 January 2019).

Meanwhile, the Coordinating Minister of Economic Affairs, Darmin Nasution mentions that there are 3 main risk factors stemming from weakening global economic that can affect Indonesian economy in 2019. Those 3 factors are trade war and protectionism between US and China, normalization of The Fed’s interest rate, and volatility of commodity prices. These 3 risks of global economic uncertainty can impacts Indonesian economic risks by transmission through trade and financial routes, that will lead to an increase in ongoing transaction deficit (Picture 2), decrease of export, and fluctuation of Rupiah exchange rate (Ministry of Finance, 2019). In the end, the global economic uncertainty will result in difficulty in achieving the target of Indonesian economic growth.

The same thing is said by Agustinus Prasetyantoko, an economist from Unika Atmajaya University, who said that the global economic condition affects Indonesian economic condition through trade and investment routes. Those global challenges are, among others, a slowdown of trade, an increase of The Fed’s interest rate, and the threat of oil price fluctuations. From these 3 problems, according to Prasetyantoko 2 of them have a high risk to affect Indonesian economy: The Fed’s increasing interest rate and the threat of oil price fluctuations in the global market (Kompas, 15 January 2019).

Concerning the threat of global oil price fluctuation, the Head of Industry and Regional Research Department Office of Chief Economist of PT. Bank Mandiri (Persero) Tbk, Dendi Ramdani views that the increase of oil and gas import in 2018 that reaches
29.81 billions USD has contributed 17.4% of the trade deficit. One of the factors that cause this is the high global price of crude oil (Kompas, 16 January 2019). Every increase of global crude oil price affects the economy, due to the real condition of increasing oil import needed to cover the domestic consumption needs of oil fuel.

Indonesia’s Economic Prospects in 2019

Based on the above explanation, the problem looming over Indonesian economic in 2019 is the threats resulting from global economic uncertainty of the year. The Coordinating Ministry of Economic Affairs have released a policy strategy to foster Indonesia’s economic competitiveness, both through short-term and long term plans. The short-term strategy is an improvement of business climate, facilitation and incentivization of tax-collecting, reducing export costs and selection of top export commodities. Meanwhile, the long-term strategy is continuous infrastructure and human resource development (Coordinating Ministry of Economic Affairs, 2019).

Prasetyantoko (2019) states that there are 4 concrete steps that must be done by the government to mitigate the risks from global economic uncertainty in 2019. First, improving the current transactions by fostering export of manufactured products. Second, reducing oil import by adding 20 – 30% domestic component. Third, reducing dependency on foreign capital quickly and massively. Fourth, increasing foreign investments to spur domestic industry. If all these steps are done by the government, Indonesia would be able to survive the risk of global economic uncertainty and maintain economic growth rate above 5% in 2019.

The writer thinks that the steps that must be taken by the government to face the risk of global economic uncertainty and reach the economic growth target can be broken down into 3 strategic steps. First, identifying and analyzing the main cause of trade deficit. In 2018, the main reason of deficit is oil import (Kompas, 16 January 2019), so the short-term solution is to increase the local component in oil fuel. Besides that, from the export perspective, the writer thinks that a diversification of non-oil export market needs to be done, to countries other than main export destinations of Indonesia.

Second, anticipating the risk of increase of The Fed’s interest rate by Bank of Indonesia, by raising the interest rate of 7-day Repo Rate measuredly and according to macroecomical condition. Third, as stated by Prof. Anwar Nasution (Kompas, 10 January 2019), a structural change in national economy, including an improvement in investment climate is needed, so that investors are not vulnerable to domestic and global economic crises. According to the writer, the role of DPR RI as supervisors of the policies undertaken by the government to mitigate the risks of global economic uncertainty in 2019 is needed.

Conclusion

The troubled global economic condition impacts the Indonesian economy. Some of the risk factors of global economic uncertainty, such
as the increase of The Fed’s interest rate, slowdown of international trade, and volatility of global oil prices are predicted to be able to hinder Indonesia’s economic growth. The government needs a policy strategy to mitigate these risks.

There are some steps that can be done by the government to solve this problem, such as adding the local component in oil fuel, diversifying Indonesia’s export market, changing the economic structure and improving the investment climate in Indonesia, and anticipative actions from Bank of Indonesia to deal with the increase of The Fed’s interest rate by increasing the 7-day Repo Rate. DPR RI in performing their supervision function towards the government must be able to ensure that these steps are done to reduce the external pressure to Indonesian economy, so that Indonesian economic growth target as set in APBN 2019 can be achieved.

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