

It's Economy, Stupid!

By: Muhamad Ikhsan

The title above is not the jargon of a political campaign. This title represents Suarakebebasan editorial's view that our economy is slowing down although not leaning towards a crisis, with various causes.

External factors such as changes in the China economic orientation from export-driven to consumption-driven economy through gradual devaluation of the Chinese Yuan, causing the global economy to weaken more than predicted by international institutions such as the [World Bank](#) and [IMF](#). Another external factor is the improvement in the US economy that capital is looking for sectors with attractive amount of profit with calculated risks, the end of the commodity boom, etc.

Local news also did not improve the slow growth, deficit on trade balance, stock price to drop, persistently declining bank credit, and finally reshuffle on the Working Cabinet (*Kabinet Kerja*). At last, President Joko Widodo made the switch on several ministerial positions, especially for three Coordinating Ministries.

Whether recognized so or not, the reshuffle in mid-2015 implied an important message on the weakness of the government in terms of coordination. Reshuffle has been already happening, in fact some of the ministers were removed from their posts, 1 minister was shifted to another position, 5 new ministers were sworn in before the President on 12 August 2015. Does reshuffle necessarily affect the economy? Obviously it does not, as it has not been a month since they started.

Working Cabinet cannot afford to merely be about work, work, and work but also to work smart. The cabinet as a top aide for the President sometimes issued policies that harm the society (consumers) as the silent majority, which might be due to unintended consequence of the policy options.

Let's discuss the statement above, for example, the impact of the Trade Minister Regulation No. 06/M-DAG/PER/1/2015, which prohibits any beverages with any level of alcohol to be sold in minimarkets and retailers throughout Indonesia. *Firstly*, this prohibition is not effective because it was obviously not followed by the [Governor of DKI Jakarta](#) who still allows alcohol type A to be sold in the minimarket. *Secondly*, this prohibition is a step back for the freedom to trade that actually gives more chance to the big players to offer alcoholic beverages "way" above the normal price.

In terms of trade, disruption to the free exchange or free market would lead to distortions. The above example is only about alcohol which is not highly consumed by the people, let alone disruptions on staple goods such as rice, beef, and other essential commodities. The weakening economy is making the purchasing power of middle and lower-class increasingly difficult to obtain basic goods, in case of price volatility as happened recently.

Bank Indonesia also made a regulation in line with the Minister of Trade [Bank Indonesia Regulation Number 17/3/PBI/2015](#) on the Use of Rupiah in the Territory of the Republic of Indonesia. But once the regulation is in force, the Ministry of Energy and Mineral Resources as the oil and gas industry regulator immediately demanded for an exception, immediately after the regulation became effective on 1 July 2015.

What is the meaning behind these two examples? Clearly there was an acute incoordination among the government agencies. The impact of such incoordination is dangerous to the markets. The government's credibility is weakened over time. So it is clear that Coordinating Minister reshuffle was expected to provide solutions for the incoordination during the first 10 months service of the current government. The market responded on reshuffling by "wait and see". There are some names that are expected by the markets, but they are also waiting for implemented policies from the new ministers.

On the other hand, replacing the person is not enough. We can learn from the experience of other countries. In addition, the contemporary economic problems are increasingly getting more complex, learned from the global economic crisis caused by the subprime crisis in the US in 2008-2009, then the solution to boost government spending from Keynesian does provide short-term stability. This solution was taken by the United States, which is not yet fully recovered from the crisis a few years ago.

Another solution comes from the European continent which put a greater emphasis on tightening budget through savings of public spending in order to control and manage it effectively. Germany became the pioneer of austerity policies in the face of the European crisis. However deficit of spending and tightening budget (austerity) did not answer the root of the economic problems in this new era.

Both put government intervention as the backbone of economic policy. However, the economic history of the world always involved a massive government failure from time to time.

On Wednesday, 9 September, the government issued the first phase of the economic policy package to drive the national economy. Economic pendulum slowly moves from protectionism and inward-looking to be more market-oriented and flexibility of the rules which distort the market.

We certainly warmly welcomed September I package. However, as happened before, issued a policy is one thing. On the other hand, consistency in the implementation and collaboration between the parties would be another problem.

There is no other way for the government to realize the old saying: back to market wisdom. That the economy is sustained not by the commodity, nor by the intervention of government and business rents. A sustainable economy is based on trade. Through trade, buyers, and sellers who may not know each other, doing voluntary exchange.

We hope this September I package did not stop at merely **10 short-term policy**. Deregulation, reform of the bureaucracy, ease of doing business and law enforcement (rule of law) needs to be guarded and encouraged. The most important requirement is none other than the coordination in the government. If the government continues to be **not**

compatible with each other, any policy it produces would be in vain.

Policy to simplify trading permits, protect low-income people and move the rural economy, and the strengthening of export financing (the facilitation of free trade) are a few examples of policy initiative in the context of the September I package. In addition to seven other policies, all of which lead to the improvement of national industrial competitiveness through deregulation, de-bureaucratization, as well as law enforcement and business certainty.

Indonesia requires a quality of economic growth with integration to the global market. To be eliminated (marginal) from international trade, while it depends on the domestic economy that continues to fragment is definitely not a firm policy option.

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