

# FDI Feature Interview

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## Contemporary and Future Challenges in Indonesia: Ross Taylor

### Key Points

- The response of the Indonesian central government to the Covid-19 pandemic has been one of confusion, in contrast to some of the provincial governments.
- Indonesia's decentralised, three-tiered regional autonomy structure of governance exacerbates the difficulty of doing business in the country and has heightened those confused responses to Covid-19.
- While Australia and Indonesia are working very well together across a range of issues, awareness of it needs to be raised in both countries because any coverage of the relationship still tends to be dominated by the things that go wrong, rather than by all the things that are going right.
- The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) brings an opportunity for the business community to deepen the relationship. If IA-CEPA is to really bring true benefits, though, there needs to be more of a partnership approach to doing business together.
- The status of Papua is going to be an issue that will come to the fore in the future and, when it does, it will again test the relationship between Indonesia and Australia. Australians generally do not appreciate that, in the Indonesian perspective, the Papua question feeds into a deeper fear of the breakup of Indonesia.

### Introduction

FDI is delighted to discuss some of the main issues confronting Indonesia now and into the future with Mr Ross Taylor, the President and Founder of the Perth-based [Indonesia Institute](#).

### Commentary

**FDI:** *Thanks for meeting with us today, Ross. Would it be correct to say that the single biggest issue confronting Indonesia right now is the Covid-19 pandemic and its repercussions?*

**RT:** Yes, it is. As is the case for every country right now, Covid-19 presents both public health and economic challenges. In Indonesia, it is also having an impact on the political scene.

In looking at the numbers involved, Indonesia officially has just over 41,400 infections and 2,276 deaths. The common view among experts from around the world is that those figures are very much understated. It is still the case that fewer than 300,000 people out of a population of just under 270-million, have actually been tested, so the reality is probably that no-one really knows what the correct numbers are. Indonesia has, in some respects, been quite roundly criticised for its handling of the Covid-19 crisis.

**FDI:** *It didn't really get off to a good start, did it? Why was that the case and what are the consequences of Covid-19 on the political, economic and health levels?*

**RT:** It did get off to a bad start. Most famously, of course, right at the very beginning, the Health Minister said to the country, 'the one way that we can really stop this virus from spreading is for all of us to go to our mosques and churches and temples, and pray'. So, large numbers of people went off and did that, which horrified the rest of the world, because what is really needed when working out how to confront something like Covid-19 is to have a structure in which the central government can co-ordinate effectively with the state or provincial governments, and then down to the local council level, to implement an action plan.

In some respects though, to see what is happening in Indonesia with Covid-19 and the confused state of play in dealing with it, perhaps shouldn't come as a great surprise. I think that President Widodo – aka "Jokowi" – originally had probably three things on his mind in terms of dealing with Covid-19. The first was the public health aspect of it and the second was to not alarm the population about the need to go into isolation as Ramadan approached; he has already been accused of being anti-Muslim, so I think that would have been very much on his mind. The third aspect would have been the effect on the economy, because Indonesia has a history of social unrest breaking out when people start to perceive that they are beginning to really suffer without any end in sight.

Officially, there are about 25-million Indonesians already living in poverty but, considering that poverty in the Indonesian context is defined as living on about US\$1.60 per day – the international poverty line is defined as US\$1.90 per day – it's necessary to also think of the "near poor", who are living on about US\$5.00 per day. When they are factored in, that number rises to about 100-million people. So, in many small villages, in a situation of social isolation, people can actually starve.

One of the problems that I have with the focus shifting more and more towards the economy, though, is that the situation in Indonesia could end up being one in which those who contract Covid-19 just end up being "collateral damage", as already happens with a whole range of health issues. We may never know just how many people in Indonesia have died from Covid-19.

Another complication is the fact that the Indonesian health system is among the worst in South-East Asia. Not only was it hopelessly unprepared to treat patients with Covid-19, it was even less prepared to conduct testing for it. As has been seen from the official statistics, it was also hopelessly unprepared to collect the data detailing the number of infections, deaths and recoveries. If you put all of that together, and without being too negative, it paints the picture of where things are today as Indonesia deals with this very difficult situation.

I will just add though, that there are a number of provinces which, in line with the economic progress that they have made over the last twenty years, approached the Covid-19 situation by implementing policies

that were not too dissimilar to those taken by Australia. They have done very well, but it really is hit-and-miss and that is a consequence of a lack of co-ordination among the different levels of government.

**FDI:** *What sort of challenges are posed or exacerbated by Indonesia's internal governance structures?*

When I try to understand why the situation is so confused, I find that the easiest way is to go back to the concept of regional autonomy, which was introduced when B.J. Habibie became president. Prior to then, absolutely everything was run from Jakarta. Habibie introduced regional autonomy, with a three-tier system of government that is probably not all that different from how Australia operates. There was a need for power to be decentralised, with specific powers given to the provinces and the regencies, which are quite similar to local governments in Australia. In that process, there was concern that if too much power were given to the provincial governments, it might lead to the development of more separatist movements. So, many powers were actually devolved past the provincial level and down to the regencies, or local governments. While the principle of regional autonomy is excellent, the implementation of it in a country of 34 provinces, 400 to 500 local councils, and 300 to 400 different ethnic groups, was always going to be very complicated.

I think that what also made it even more complicated was the fact that the Indonesian legal framework is built upon 300-odd years of Dutch colonial influence and, it could be argued, Indonesia did not inherit the best of legal systems. Not only were they trying to decentralise their government, they were doing it with a legal framework that either did not address such issues or, if it did, it did so very inconsistently.

So, regional autonomy is a very confused process – and that's all pre-Covid-19, of course. It's a situation in which a business that wants to set itself up in Indonesia can go and get all the right permits from the central government, only to have the local council – the regency – and its *bupati*, or local mayor, stop everything. Or, it can happen exactly the other way around. Either way, the legal process to work out which level has the appropriate authority is very confused.

The result is that one of the main complaints that companies have about doing business in Indonesia is that it is so unclear and that there are such high levels of confusion to be navigated when operating there. That confusion goes beyond just doing business; it goes into the likes of healthcare, welfare, logistics and distribution, and taxation and revenue collection.

Regional autonomy is still very much a work in progress and we have seen dramatically different rates of progress among the regencies and the provinces as they have gained greater autonomy. East Java, for instance, has just progressed enormously, it's very business-orientated, but there are many other provinces and regencies where government is just seen as a honeypot to facilitate the accumulation of wealth. So, there are very different levels of progress among all the different regencies and provinces with, as I said, that confusion between the three different levels of government.

**FDI:** *Do you see the possibility of more of a centralised approach to governance starting to emerge as a result of the Covid-19 issue?*

**RT:** I think that there is no doubt that with Covid-19, there has been a pulling back to a more authoritarian approach; the number of military people who are now in key positions in the national government, for instance, is very high. Now, to what degree a return to centralisation might happen is, I think, still somewhat unknown, given the power base enjoyed by a number of the key provincial governments. I do think that there is no question that – and this is even before Covid-19 – we have seen Jokowi taking a more authoritarian approach to a whole range of issues, some of which was starting to worry people working in the human rights field.

I would be very surprised, though, if we were to see anything like an opportunity for the overthrow of Jokowi, for example, as a result of all this; I doubt that very much. He still has popularity among the public but I think that the worry for him, as president, would be the effect on people's lives of a deep economic downturn. As I said earlier, Indonesia can rise up very quickly and that could be very destabilising for Jokowi and his government. It could also create an environment in which the military people might be well placed – not to take over – but to gain more control over the machinery of government.

**FDI:** *As the Covid-19 situation evolves, are we likely to see some provinces opening up sooner than others? Is that something that, in terms of Bali and its tourism industry, could also involve Australia?*

**RT:** Australia had regained from China the title of biggest provider of tourists to Bali. In 2019, there were 1.24 million Australians who travelled to Bali – 400,000 of whom came from Western Australia – and the number of visitors from China had dropped from about 1.35 million to about 1.1 million. Together, Australia and China account for a massive proportion of the tourists visiting Bali, with a tourism industry that makes up about 70 per cent of the Balinese economy. An argument can be made that it's only 24 per cent of the economy, but I think that when talking about the tourism sector, it's important to include all the ancillary industries that also rely upon it: taxi drivers, restaurant chefs and waiters, and so on. It has a multiplier effect, which takes it back to that 70 per cent figure. Now, of course, all of that has gone.

There have been complications and the Governor of Bali has said that he would like to see Bali opened up again to international tourists sometime between June and October. Personally, however, I find it difficult to see how Australia can agree to a "travel bubble" with Bali, when Bali is inviting in flights and visitors from other countries, many of which are still having great problems with Covid-19. I can't see that working out at all and I would be surprised to see any Australians returning to Bali before 2021. Obviously, that is news that the Governor, Mr Wayan Koster, would probably prefer not to hear, but he will understand the reasons for it.

**FDI:** *Given the greater dependence on China that could result for Indonesia from a general absence of Australians across the board, what implications does China's increasingly assertive stance have for the Indonesia-Australia relationship?*

**RT:** There are those who have said that not only should we embrace the relationship in terms of naval patrols in the South China Sea and the Natuna Islands, but that it would be good to see the Australian and Indonesian navies continue to increase their co-operation and work even more closely together, because the indications are that China may become even more belligerent. That then makes the relationship between Australia and Indonesia even more important.

In terms of building public support for that, however, Australia has to somehow raise the awareness of the relationship with Indonesia beyond the very small number of people who know a lot about it and have it filter out into the broader community. Australia and Indonesia are doing some great work together in terms of policing and security, intelligence-sharing, education and health, for instance, but it's just not widely known in either country and I think that we need to work out how to market that a lot better in both Indonesia and Australia. We've actually got a very, very good neighbourly relationship with – in the words of Professor Tim Lindsey – "the strangers next door" and we do work well together. Unfortunately, there is also an incredible ignorance about Indonesia which means that, while the bilateral relationship is very broad, in terms of depth, it's very shallow.

In terms of the future of our region, I think that both countries are going to need each other more than ever and that with the entering into force very shortly of the Indonesia-Australia Comprehensive Economic

Partnership Agreement (IA-CEPA), I think that there is now the opportunity for business to step up and start to deepen that relationship. I will say, however, that that for IA-CEPA to really bring true benefits, there needs to be more of a partnership approach to doing business together. It's a cliché, but it's true.

**FDI:** *What industries would lend themselves to that approach?*

**RT:** One area in which it could really work is the beef industry. As it stands, we sell and they buy. But, there's been an opportunity for over fifteen years now for our industry and the Indonesian industry to get together and move beyond just supplying Australian beef to the Indonesian wet markets for lower- and middle-income customers. There is a wonderful opportunity to actually form partnerships that add value to quality Australian products in Indonesia, and then, subject to government reforms and approval – it is illegal to do this at the moment – to package Australian beef products in Indonesia to be sold to north-east Asia or as halal products to the Middle East. I think that's a great opportunity for the future, because both countries are equally invested and it moves us to a situation in which we've become strategic partners. That's just one example, but it's a big industry and, with the right regulatory changes, it could actually work.

**FDI:** *In looking at matters from an Indonesian perspective, a frequent concern is the possibility of Indonesia collapsing into a series of semi-autonomous states or the like. Is it fair to characterise such "Balkanisation", as it has been termed, as an existential threat to Indonesia as a state?*

**RT:** Well, I think that is exactly why Indonesia is so concerned by any coverage to do with Papua, for example. I believe that Papua is going to be an issue that will come to the fore in the future and, when it does, it will once again really test the relationship between Indonesia and Australia. At the moment, other than the small group who are passionate it, Papua is just not something that is on the radar of everyday Australians. Whether or not it should be may be a totally different matter. But, in the meantime, I think from the Indonesian perspective, Jakarta would prefer that it stayed that way.

Also, I think, a lot of Australians don't appreciate that, for Indonesia, it's not just about Papua; it's exactly that existential fear of Balkanisation. The concern among Indonesians is that if it happens in Papua, where next? What about Aceh? What about Riau? And it goes from there. At the expense of the Papuan people, who want to have their independence, the regional geopolitical implications of some future Balkanisation or breakup of Indonesia would be immense. Now, I don't think that will happen, but if it did, the implications for Australia would be enormous.

**FDI:** *Let's conclude by coming back to Australia. What would be the ideal relationship for Australia to have with Indonesia? What would Australia need to do to have that relationship?*

**RT:** Well, I do think that all that is happening right now is coming on the back of, generally speaking, really quite good relations between Indonesia and Australia. As I said, at all levels, and given the fact that we're very different people, we work well together across a whole range of issues. Unfortunately, of course, the relationship still tends to be dominated by the things that go wrong rather than by the things that are going right.

I've been associated with business in Indonesia for twenty-five years and I've just about seen it all, I think. I've got to say that, whether it be East Timor, or the executions of Andrew Chan and Myuran Sukumaran, or any other issue, the impact on business has been fairly minimal, overall.

Now, there are certainly some issues there and one thing that I do think Australia needs is a change of mindset whereby we can deepen that relationship by sharing our considerable scientific, technological,

healthcare, educational and agricultural expertise, for example, to make a mutually-beneficial, financially-rewarding contribution to the enormous future growth of Indonesia. So, it needs to be a change from that mindset of ‘what can we flog off to them?’ to finding partnerships that enable us to work together for the benefit of both countries.

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**About the Interviewee:** Ross Taylor is the President and Founder of the Perth-based Indonesia Institute. He is a former WA Government Regional Director to Indonesia and has held numerous senior industry positions, including National Vice-President and WA State Chair of the Australia-Indonesia Business Council, and with Wesfarmers Ltd and Phosphate Resources Limited. He also operated his own business in Medan, Sumatra for three years.

Ross is involved in philanthropy and cancer-charity work throughout the region and is one of Australia’s leading commentators on Indonesia-Australia relations, writing opinion articles for *The Australian*, *The West Australian* and *Jakarta Post* newspapers on a regular basis and commenting on Sky News and ABC Radio programmes. Ross is also the author of three published books.

In 2013, Ross was appointed by the Governor-General of Australia as a Member of the Order of Australia (AM) for significant services to Australia-Indonesia relations and to the philanthropic community. Ross was also selected, in July 2013, by the Indonesian Government as Australia’s “Presidential Friend of Indonesia 2013.”

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