EDITORIAL

Extortion kills investment

Reports of rampant extortion of companies in the country will shock nobody on the ground, and yet it is very timely to talk about the issue as the government vows to push gross domestic product (GDP) growth through increased investment.

A study from Transparency International Indonesia found that illegal levies can eat up as much as 30 percent of a company's total production costs. While that figure represents extreme cases, even 5 percent can make or break an investment decision.

Also, the issue extends far beyond the numerical damage as it taints the overall image of Indonesia as a place for doing business.

An extra 2 or 3 percentage points in production costs due to input prices for wages or materials is far less problematic than unpredictable levies and bribes paid to an undefined set of illegal actors. One can be calculated by investors and booked as an unfortunate but official expense, the other is the stuff of sleepless nights for executives.

According to the Indonesian Industrial Estates Association (HKI), industrial estates like those in Karawang, West Java, and Batam, Riau Islands, are prime hunting grounds for extortion. That is particularly troubling because those zones promise legal clarity and cost predictability as key selling points for companies to set up shop there.

Not that that makes such corrupt practices any less wrong in, say, a remote mining operation, but the damage is likely greater in estates that aim to lure export-focused, labor-intensive industries that could easily opt for another country should they find Indonesia inhospitable.

The HKI says illicit payments extracted from investors have cost Indonesia hundreds of trillions of rupiah as projects are canceled and companies pull out. Failure to comply with the payment demands can see factories blocked by demonstrations or property vandalized.

The association identifies *organisasi kemasyarakatan* as the key bad actor. While that term translates to "community organization" or "social organization", its acronym *ormas* is often translated somewhat misleadingly as "mass organization".

The perpetrators are typically local advocacy groups built around a social cause, but in practice, they often serve much narrower interests, with little to no transparency on where the collected funds end up.

The government must get a grip on this thuggery issue, and fast, if it hopes to seize the moment of global trade wars to pitch unaligned Indonesia as a safe place for international investors.

The issue here is not just straight-up criminal activity, such as protection fee shakedowns. It extends to coercion for firms to employ local staff or use certain subcontractors for accommodation or catering services and the like.

It is fair enough to expect investors to contribute to the local economy, or more generally to the surrounding community, but this expectation must be clearly defined, and its scope limited.

Businesses need certainty up front regarding what is expected from them in terms of corporate social responsibility, and what is not. They need to know that, once all the requirements regarding a project have been set out, they can get on with business, working within the agreed-on parameters, and not have any additional demands piled on.

Solving social issues is, first and foremost, the responsibility of the government. Similarly, a company's environmental responsibility must be clearly delineated. The issue is not so much how strict, but how clear, the rules are. As long as they are clear, expectations may be high.

The government must also communicate to the local community that all requirements have been met and protect an investor against any attempts to extract more.

The Industry Ministry has admitted that extortion and racketeering have deterred foreign investment, but the issue has been going on for far too long. Telling the affected companies to report extortion attempts to the local authorities will not cut it, because often those authorities are slow or reluctant to respond.

There is a reason why many investors prefer to take up such cases directly with the central government, and that very fact should give Jakarta pause for thought.

Prabowo's economic strategy: Grand promises, familiar pitfalls

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Yogyakarta

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We have just passed the first 100 days of the Prabowo Subianto administration, a crucial period that often sets the tone for a government's economic trajectory. There is no better time than now to critically assess its early performance and whether policies are grounded in sound economics or are merely political grandstanding.

Has Prabowo charted a clear, pragmatic course for Indonesia's economic future, or are we witnessing a continuation of costly missteps and missed opportunities?

I will analyze Prabowo's economic direction through the lens of six key themes from Max Steuer's *Dangerous Guesswork in Economic Policy*, a framework that highlights the risks of flawed decision-making, the role of expertise, and the broader implications of economic governance.

First, Indonesia's economic policymaking has often suffered from a disconnect between rigorous academic research and government decision-making. Apparently, Prabowo's administration inherits an economy where pragmatic policies are often sidelined in favor of populist measures.

The emphasis on food security through large-scale state intervention, such as the proposal to establish food estates involving the army, raises concerns about inefficient resource allocation and environmental degradation.

Instead of addressing structural inefficiencies, Prabowo continues to favor short-term, politically attractive policies over well-researched economic solutions. This misalignment fosters a cycle of inefficiency, where policies fail to address fundamental economic problems such as weak productivity growth, very low investment levels, reliance on commodities and persistent inequality.

Second, blessed with abundant natural resources, Indonesia has long depended on its vast reserves to fuel economic growth. Yet under Prabowo's leadership, the pattern of unchecked resource exploitation continues, with little to no reinvestment in sustainability.

Palm oil expansion, nickel mining and coal exports remain at the core of his economic strategy, while deforestation and environmental degradation accelerate at alarming rates.

The fundamental question remains: Who truly benefits from Indonesia's natural wealth? The economic gains from resource extraction are disproportionately captured by political elites and corporate conglomerates, while rural and indigenous communities bear the brunt of displacement and ecological collapse.

Without a decisive shift toward sustainable policies and equitable wealth distribution, Indonesia risks squandering its natural endowments, leaving behind environmental ruin rather than long-term prosperity.

Third, despite Indonesia's economic growth, income and wealth disparities remain deeply entrenched. Prabowo's administration has yet to introduce meaningful reforms to address inequality, and the country's tax system continues to disproportionately favor the wealthy.

With a tax-to-GDP ratio still within 10 percent in 2024, Indonesia lags behind regional peers, reflecting a persistent failure to implement effective progressive taxation.

While there has been rhetoric about improving tax compliance and expanding digital taxation, political will remains weak when it comes to introducing wealth taxes or higher inheritance taxes, which are measures that could help curb extreme inequality.

Instead, the ongoing turmoil surrounding the Coretax system has further complicated tax collection efforts, directly impacting revenue targets. Bureaucratic inefficiencies, technical failures and resistance from entrenched interests have undermined efforts to modernize tax administration, making fiscal reforms even more challenging while meaningful tax reform remains an uphill battle.

Fourth, Prabowo has set ambitious economic growth targets, yet his administration's strategy remains unchanged. Deregulation efforts, particularly the omnibus law on job creation, have been touted as "game changers" for improving the investment climate. However, the law has failed to fully address investment bottlenecks and has instead weakened workers' rights and eroded purchasing power.

Concomitantly, fiscal constraints are mounting. A recently issued Presidential Instruction (Inpres) on budget savings underscores growing concerns over state finances, even as the government aggressively pushes the free nutritious meals program, a costly initiative that appears politically driven rather than fiscally prudent. With limited fiscal space, prioritizing spending on high-impact, sustainable programs is more critical than ever.

A more nuanced approach to economic growth is urgently needed; one that balances infrastructure expansion with human capital development, research and innovation and institutional reforms. Without these, Indonesia risks pursuing growth that is neither inclusive nor resilient to global economic shocks.

As we all know, economic policymaking should not only prioritize efficiency, but also foster virtues such as courage, curiosity and compassion. Prabowo's current economic strategy, however, tends to prioritize political expediency over principled decision-making. The government's reluctance to challenge entrenched business interests or adopt more progressive economic policies reflects a lack of political courage.

A bolder approach should involve policies that genuinely benefit the majority, even at the expense of short-term political risks.

For example, investing heavily in public education and social safety nets would demonstrate a long-term commitment to economic justice.

Similarly, policies that encourage technological innovation and entrepreneurship would reflect curiosity and adaptability in economic planning.

Finally, and most importantly, Indonesia's economic discourse is often framed as a battle between state-led development and market-driven growth. Prabowo's administration appears to lean toward a more interventionist model, emphasizing state-owned enterprises (e.g., Danantara) and nationalistic economic policies. While state involvement is sometimes necessary, excessive reliance on state-owned enterprises can lead to inefficiencies and rent-seeking behavior.

A more productive debate should focus on the role of institutions and governance in economic policymaking. Rather than choosing between "big government" and "free market", Indonesia needs a pragmatic approach that prioritizes clean governance, institutional strength, regulatory clarity and fair competition.

While there are efforts to boost economic growth, Prabowo's administration must go beyond superficial solutions and engage in deeper structural reforms. The economic misalignment with expert knowledge, overreliance on natural resources, growing inequality and the absence of virtuous policymaking remain key concerns.

John Maynard Keynes once remarked: "Economics is not important. It is like the plumbing in a house; it should be quiet, there should be no leaks and it should be efficient. But what matters is the life that is lived in the house."

Like plumbing, economic policies are meant to facilitate a prosperous and equitable society, but they cannot be ends in themselves. Policies must be continuously evaluated based on their real-world impact on people's lives.

If economic growth does not translate into better healthcare, education and living standards, then it remains an abstract statistic. If wealth is concentrated among a small elite while millions struggle with stagnant wages, then economic policy has failed in its most fundamental purpose.

Beyond streamlining and narrowing down his administration, Prabowo must take bold steps to build a more resilient and equitable economy. This includes strengthening the taxation system to ensure fairer wealth distribution, investing in human capital and technology rather than relying on short-term programs like free meals, prioritizing sustainability over extractive, short-term growth and fostering open, informed policy debates instead of resorting to populist rhetoric.

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As US threatens tariffs and builds walls, China opens up

By Shaun Narine
The Conversation

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The United States is threatening to impose tariffs on its major trading partners. In the meantime, China is consolidating its position as the world's manufacturing and technological innovation hub by increasing trade with the Global South.

If the US role in globalization has been to consume the world's products and resources by building on a foundation of ever-increasing debt, China's has been to make tangible goods for the international market.

China is opening up its economy, especially to the nations of the Global South.

Effective December 2024, China eliminated all tariffs on goods from the least developed countries. Chinese Premier Li Quang has also described China as an economic opportunity for global investment.

China's trade surplus with the rest of the world is almost US$1 trillion. Its share of global exports was 14 percent in 2023, compared with 8.5 percent for the US.

China is working with regional states to make itself the center of Asian trade. China's Belt and Road Initiative is funding infrastructure in about 150 countries as Chinese companies invest internationally, both to avoid US tariffs and diversify their markets.

At the moment, China accounts for 35 percent of the world's manufacturing. By 2030, the United Nations projects this will rise to 45 percent.

China has achieved this status by building efficient, high-quality infrastructure.

It has also fostered highly competitive and innovative technological and commercial ecosystems. The recent emergence of DeepSeek, a Chinese artificial intelligence start-up that is dramatically disrupting the sector, illustrates this reality.

China also controls global industrial supply chains in a host of critical areas.

Despite its ongoing economic slowdown, China's economy grew by almost 5 percent in 2024 and has potential to grow further as it transitions to a high-tech economy.

By 2030, the country will have what is known as a consuming class of 1.1 billion people, making it the world's largest consumer market.

Only 7.8 percent of the population has the equivalent of a bachelor's degree, but China produces about 65 percent of science, technology, engineering and mathematics (STEM) graduates globally on an annual basis.

China is also leading the world in most new technologies and industries, but there is room for infrastructure investment in smaller cities and rural areas. Because China is a global leader in using automation and AI, it will also need to lead in managing these technologies' social and economic effects.

China has economies of scale that no other country, except India, can match. Its manufacturing dominance is the logical outcome of introducing an increasingly technologically sophisticated country with a vast population to the modern global system.

The first Donald Trump administration used tariffs to try to draw investment into the US and stimulate domestic industry. He believed tariffs would create more manufacturing jobs, shrink the federal deficit and lower food prices.

The second Trump administration has returned to tariffs, again with the goal of pulling jobs and investment from other countries into the US.

Trump has threatened to slap tariffs on Canada, Mexico and the European Union.

He has already put 25 percent tariffs on all steel and aluminum imports into the US and imposed additional 10 percent tariffs on all Chinese goods. He is also threatening tariffs on Taiwan, attempting to strip it of its semiconductor industry.

Trump is basically demanding that other countries address trade imbalances by buying more expensive American exports in exchange for unimpeded access to the US market.

He is trying to recreate a US industrial dominance that existed only under unique circumstances after World War II. Similarly, the historical circumstances that led to China's decline in the 19th and 20th centuries are long past.

To compete with China's advantages, the US needs a competent and effective government capable of long-term planning. Under Trump, the US is losing this already-weak capacity every day.

The US is the world's largest consumer economy because both the government and Americans go into extraordinary debt to finance their consumption.

Currently, the US national debt is more than $36 trillion while consumer debt was $17.5 trillion in 2024.

The US can accumulate enormous debt because of the US dollar's status as the world reserve currency. But the US has weaponized the dollar by freezing the dollar assets of sovereign states and using the dollar's reserve status to apply US laws and sanctions beyond its borders.

This has created a major push, led by the BRICS countries of Brazil, China, Egypt, Ethiopia, India, Indonesia, Iran, Russia, South Africa and the United Arab Emirates, to replace the US dollar with other financial instruments.

In response, Trump has threatened 100 percent tariffs on any countries that try to drop the US dollar.

The US economy has grown through pumping up asset bubbles, but there has been a decline in most measures of social well-being in the US. This aligns with increasing US social, political and economic instability.

China's exports to the Global South exceed its exports to the western world. Chinese companies and products are dominant in Asia, Africa and Latin America.

To the Global South, there are clear benefits to accessing affordable, high-quality technology and industrial products from China. The industrialized world can also benefit significantly from Chinese manufacturers, but possibly at the cost of its own established industrial capacity.

While some states may block Chinese imports to protect their industries, China's increasing manufacturing dominance means that every country will need at least some Chinese products to develop or to sustain industry. It would be next to impossible for most countries to definitively cut all trade with China.

The world is entering a new era of globalization. For many states, that means trying to keep from being economically undermined by the US while deciding how to manage the economic and political costs and benefits of engaging with China's massive industrial capabilities.

To the Global South, there are clear benefits to accessing affordable, high-quality technology and industrial products from China. The industrialized world can also benefit significantly from Chinese manufacturers, but possibly at the cost of its own established industrial capacity.