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Jokowi's Second-term Priorities and Challenges: An Interview with Luhut B. Pandjaitan

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EXECUTIVE SUMMARY

- Indonesia's Coordinating Minister for Maritime Affairs Gen (Ret) Luhut B. Pandjaitan is a veteran politician with vast experience in economic and security portfolios. In a recent interview with ISEAS researchers, he spoke about the priorities and challenges of President Joko Widodo's second term (2019-2024).
- The Indonesian economy faces worrisome uncertainties arising from the US-China trade war. The biggest challenge is to attract investments, and Indonesia is courting potential investors from Africa and the Middle East, beyond its traditional partners.
- In its investment drive, the new government prioritises infusion of the latest technology; boosting business to business relations; and maximising use of local labour.
- Refuting the perception that Indonesia is becoming more nationalistic, the Minister explained that the government wants investments that can value-add to Indonesia's traditional production of minerals and other primary commodities. The government is committed to greater transparency and will persist with its already considerable efforts to reduce bureaucratic red-tape.
- Other challenges facing Jokowi's second term are in the tackling of rising religious conservatism, and improving human capital, especially in the sectors of technology and digitization. Foreign universities are welcomed as partners to enhance the quality of education in Indonesia.

** This Special Edition Perspective is based on an interview with Coordinating Minister for Maritime Affairs, Luhut Binsar Pandjaitan. Norshahril Saat, and Siwage Dharma Negara are Fellow and Senior Fellow at ISEAS – Yusof Ishak Institute respectively. The authors would like to thank Bill Foo for facilitating the interview and Tan Juen for his research assistance.*

INTRODUCTION

General (Ret.) Luhut Binsar Pandjaitan (hereafter Luhut) is a former military man who is currently Indonesia's Coordinating Minister for Maritime Affairs. Previously, he was the Coordinating Minister for Political, Legal, and Security Affairs and Presidential Chief of Staff to President Joko "Jokowi" Widodo. During the Abdurrahman Wahid (Gus Dur) administration, he was Ambassador to Singapore from 1999 to 2000 and later served as Minister of Trade and Industry. Throughout his military career, he held important positions such as Commander of Army Special Forces Group (Kopassus), Commander of Infantry Weaponry (Pussenif), and Commander of Army Education and Training (Kodiklat). Within the military circle, Luhut is known as the founder and first commander of Detachment 81 (now Sat-81) of the red beret Kopassus. In 2004, he founded Toba Sejahtera Group, a business group with three core activities: natural resources (oil, gas and mining), electricity generation (coal, gas and geothermal) and agriculture.

Luhut has vast experience in the military, in diplomacy, in government, and in business. On 8 October 2019, we had the chance to conduct an exclusive interview with the veteran leader. He was in Singapore accompanying President Jokowi, who was attending the Singapore-Indonesia leaders retreat. The following excerpts from the interview touch on the following themes: Indonesia's economic outlook amidst global uncertainties, security and development concerns, managing religion and the Islamic world, and other priorities of the second Jokowi administration (2019-2024).

ECONOMIC OUTLOOK AMIDST GLOBAL UNCERTAINTIES

Can you tell us how the trade tension between US and China affects Indonesia's and ASEAN's economy?

Luhut: For the Indonesian economy, the impact will be big. Our exports to China will experience some difficulties. Fortunately, our domestic market is big: we have a population of 270 million, plus the rest of ASEAN, which has an additional 330 million people. Together, we are still able to mitigate the impact. But in the long term, there will be additional problems. If the US dollar fluctuates significantly, our economy may be adversely impacted. China is a big economy, and its exports to the US is huge, i.e. around 21% of total US import in 2018. The imposition of the 25% tariff rate could impact both economies greatly.

Do we see many foreign companies moving their manufacturing base to Indonesia? Which sectors are a priority for investment?

Luhut: When I met with Jared Kushner last week in the White House, he stated that America had made Indonesia as a top priority right now for their investment. They are going to send a team from the International Development Finance Corporation to do a market review. [Our priorities are] infrastructure projects, such as road, seaport, airport, electricity, and others. This morning, I had a breakfast meeting with a Hong Kong company's representatives, [and] they told me they are interested to move some of their business-arms to Indonesia. They wanted to see investment possibilities in the financial sector and also in other industries. We offered them several locations, like [the] Rempang Island near Batam,

as well as [areas in] Central Java. There are many areas to invest in. Particularly for tourist destinations, we have the five “New Bali”: Lake Toba, Borobudur, Mandalika, Labuanbajo, and North Sulawesi. We offer these areas to investors. We are happy to accommodate new investments. Indonesia is open and transparent. We have cut the bureaucracy quite a lot. By the end of this year, we will allow foreigners to own properties, like in Singapore.

What do you think is the biggest challenge for Indonesia in attracting more investment?

Luhut: I think many people don't know that Indonesia has been changing the last five years. That is the biggest problem. That is why right now, we need to approach our investors door-to-door (directly). I went to China ten days ago; we approached some companies to make them understand Indonesia. They are keen to invest in Indonesia, like in Morowali, Central Sulawesi. I went to Abu Dhabi to follow up with the crown prince Mohammed Bin Zayed three months ago. We agreed to establish a Sovereign Wealth Fund (SWF). Hopefully, by the end of this year, we can finalise it. They also offered to cooperate [with us] in education. We finalised a pilot project involving 100,000 Indonesian students, who will learn mathematics and entrepreneurship. We are going to insert this into the curriculum. The pilot project covers 50% of madrasah students [Islamic boarding schools] and 50% of regular school students. If this is successful, then we can expand it. Besides that, we also discuss cooperation between Pertamina on oil refinery and petrochemicals projects, with the Abu Dhabi [National Oil] company (ADNOC). So, at least we have seven ongoing projects with Abu Dhabi.

Does Indonesia try to diversify its export market? Is it focusing on other countries other than China or the US?

Luhut: Yes, we have an Indonesia-Africa forum. Last month, we had our second meeting in Bali. For us, Africa is a big untapped market. Its population is more than one billion. And we already have a free trade agreement with Mozambique. We are preparing another one with Kenya. These countries have a historical connection with Indonesia back to the Asian-African conference in 1955. So, there is a spirit of friendship and cooperation with Africa. Indonesia is not only focusing on export to Africa but also establishing our companies in Africa, like in Nigeria or in Mozambique. Now Kenya also invited us to invest. During a meeting in Bali, I talked to representatives from Mozambique, Kenya, Nigeria, and South Africa, and they wanted Indonesia to increase our presence in Africa. They feel Indonesia [to be] a big brother.

You mentioned about the ‘5 new Balis’. Can you tell us a bit more who the investors are, and in what area?

Luhut: I recommend you to visit Lake Toba on the 14th of this month.¹ There will be a ground-breaking – the first five-star hotel in Lake Toba. The preparation is moving very well. We have budgeted IDR 4.2 trillion for Lake Toba infrastructure development. This is the first time ever in our history that we have such a big budget for Lake Toba. The infrastructure projects are prepared by the government. Some luxurious hotels, such as Banyan Tree, Four Seasons, and Marriott will open their hotel-chain. We are also preparing around 35 tourist spots at Lake Toba alone. Now, we offer several options for tourists, such

as a one-day trip, a two-day trip, or even a four-day trip. They can choose which port to visit easily. The tour will cater to both high-end and mid-end tourists.

Will the benefits of this tourism project have spillovers and trickling down to the locals?

Luhut: There are many beautiful things in Lake Toba area. But it is not managed well. For example, there are many traditional houses in Lake Toba but people do not maintain them. Our President has asked for these traditional houses to be preserved. This will be sponsored by the government. Another example is Ullos Village (Ullos is North Sumatera's traditional garments). Before, people did not pay attention to this village tradition. But now, they are encouraged by the government to preserve their traditional garment. If you go to the village early next year, you will see the difference. The development is ongoing. The local traditional house, for instance, [is being made] comfortable for the tourists to spend overnight there, make it cool, clean and good.

Talking about regionalism, how optimistic are you about the completion of the Regional Comprehensive Economic Partnership (RCEP) negotiation by this year? Do you think that Indonesia will be able to push for the completion of the negotiation?

Luhut: We will see what happens. This is very complex, more so with the escalating trade war. There are growing uncertainties everywhere. But we hope it is going to move forward eventually. Again, once you are talking about international issues, there are too many uncertainties.

SECURITY AND DEVELOPMENT CONCERNS

There were reports that a new naval base has been built in the Natuna Islands about a year ago. What is your view on how Indonesia should deal with maritime disputes and what is the current threat level in the waters near the Natuna Islands?

Luhut: Maritime dispute with whom? The current situation is no issue. The Natuna Islands is [part of] our territory. The development of a seaport in this area was a long-overdue programme. We did not have enough budget in the past. But now, budget is available. There are two things that we want to build. First, a seaport to support our fishing industry; second, promote our coast guard capabilities in that area.

Are there still Chinese fishing vessels trying to approach Indonesian waters?

Luhut: Not only Chinese fishing vessels but also others. If you don't have personnel over there, anybody can come over. We need to be present there and we should be active in guarding our area. If our fishermen are active in that area, there will be fewer foreign vessels coming in.

Does Indonesia play a role in dealing with regional disputes, for instance between Vietnam and China, the Philippines and China?

Luhut: I think our position and our stance is clear, we support freedom of navigation. We do not want to see any power competition in the area. We want to make it clear that we have territorial integrity.

Can you share with us the plan about moving the capital from Jakarta to Kalimantan? What do you think will be the biggest challenge for moving the capital, and will this project be given to investment from China under the BRI project?

Luhut: The president would like to see the combination of consultants for the design of the capital, not only in Indonesian design. He plans to invite international planners to design the capital, as a futuristic capital. Now, we are preparing the law for parliament's approval. Hopefully, by the first quarter of next year, it is going to be in place.

Luhut: This is a big project and needs more [details before] implementation. But I believe with the latest technology, combined with a good system and transparent government, I think the move will run well. [On whether the project will be parked under the BRI project, the answer is] no. There are always rumours here and there. We know what is best for the country. We do not have any plans to give it to the BRI programme. We have enough budget for that.

What about technological developments? Does Indonesia plan to work with Huawei for instance to develop 5G infrastructure? Do you see Huawei as a security threat?

Luhut: We don't have any specific plans. Today, our fibre-optic infrastructure (Palapa Ring) is already in place. For us, anybody who can give more benefits to us is welcome. Of course, we have to protect our own interests. Every investment related to technology can bring some kind of threat, e.g. malware. We need to protect our interests. And we have the technology to do so. But can we protect 100%?

MANAGING RELIGION AND THE ISLAMIC WORLD**What is your perception of rising religious conservatism in Indonesia?**

Luhut: This is one issue that we have to be careful about. We do not want to see Indonesia become like Syria or Iraq. We want to see Indonesia as [the way] our founding fathers foresee, i.e. a diverse society. It is not easy, but I think people started to realise this after the last election. We understand the problem and we are determined to tackle this firmly.

Indonesia is one of the countries that has been affected by the Rohingya refugee crisis. Could you share your views on how the Myanmar government has behaved with regard to these people?

Luhut: This is quite a sensitive issue. It is a domestic issue for Myanmar. So, I do not want to give my comments on that. This is a complicated problem of ethnicity and religion. We regard it as the domestic issue of Myanmar. We provide them some support to avoid the

problem from escalating in the future. Silently, we are supporting the Myanmar government on this particular issue. We fully understand the humanitarian issue that we are also involved in.

How about relations with the Middle-East?

Luhut: For Middle-East, as I mentioned to you, we have a good relationship with Abu Dhabi. Joko Widodo and Mohammed Bin Zayed have a very good relation. When I met with the crown prince two or three weeks ago, he introduced me to the Majlis, which is the parliament of the country. He then invited President Jokowi to visit Abu Dhabi on 13 January [2020]. I passed his message to President Jokowi and arranged them to have a telephone call and then they talked. They are going to seal a deal by January.

President Jokowi respects the crown prince very much. During a bilateral meeting at the Bogor palace, they spent some time talking about various issues. So, I think Indonesia can play a bigger role in the future.

Being the largest Muslim country in the world, do you see Indonesia playing a bigger role in the Islamic world?

Luhut: Yes, this is our discussion point with Jared Kushner as well as with the crown prince. The crown prince regards President Joko Widodo as a very good leader of the biggest Muslim country in the world. He kept telling me that they have to work closely with President Joko Widodo.

To Jared Kushner, I raised a question of why the US doesn't invite Indonesia to be part of the peacekeeping programme in the Middle-East, like [in] Palestine, Israel, and Afghanistan. Indonesia is home to the biggest Muslim population on Earth. He discussed and said all these things he has to consider. He asked who is going to be a representative from Indonesia. I said the President already assigned Vice President Jusuf Kalla to represent Indonesia.

PRIORITIES OF THE SECOND JOKOWI ADMINISTRATION**Jokowi mentioned that in his second term, he wants to focus on human resources. Will the government invite foreign rectors to manage public universities?**

Luhut: We are thinking about that. Why not? We [can] consider that. We have proposed one island in Bali (Kura Kura Island), to be developed as a research centre. We have invited Singapore universities, MIT, and also the Singapore government. We have put it on the agenda to be discussed by the President and the Prime Minister of Singapore. So, anything related to human capital, the government is willing to deal with.

For the next five years, what would be the priority in education? Will there be flexibility for foreign universities?

Luhut: Well, for education we focus on technology. This is very important right now. We plan to develop a world-class research centre in Kura Kura Island in Bali. ITB will be involved in developing the centre in this Island. We would like to see this as one of the

models, to promote research and education in other parts of Indonesia. In the second term of President Joko Widodo, we will welcome foreign universities to raise our education quality. But we have to select good universities around the globe, which ones are allowed to have a branch in Indonesia. They must fulfill certain criteria.

How do you describe Jokowi personally and how does he respond to pressure and what were his lessons learned which he is bringing into his new term?

Luhut: I have known the President for eleven years. We know each other very well. In my view, I do not see any change in the personality of President Joko Widodo. He is still the same person as he was before becoming president years ago. He is a workaholic. He is very close to the people. He gives full authority to his ministers, but he also takes responsibility. His family has no business whatever within the government. I think this is very important. Basically, he gives a good example to the people. A role model for such a country with 270 million. However, it is not easy to change the attitude of the people within a short period. But you see it is changing now. I told the president the first time he entered his office; the biggest enemy or hurdle for him is the comfort zone. He asked me what do you mean by comfort zone? I said people do not like uncertainty. So, we have to make it certain but we make it very transparent. No business as usual anymore. Then we realise after four and a half years, during the election, many ministries had changed a lot of regulations, making them simple and transparent. But some people still do not like it. The president came from a small city, Surakarta. He was mayor over there. And then he became governor in Jakarta within two years, then suddenly he becomes the president of 270 million people. There are many four-star generals from elite politics but they could not beat President Joko Widodo. There is a kind of jealousy. Concerning the economy, there is a clear change, there is less and less red-tape in Indonesia today. We want to make [doing business] fast. Like the Hong Kong investor [we met] this morning, he was surprised when I said we take care of the licensing. We guarantee they are not going to pay a single penny to get licenses. We have a new regulation on a special economic zone, in which if you invest \$1 billion, you will get operational licenses automatically, through online single submission (OSS). So, the president wants to speed up licensing, because he understands this has been dragging investment down. After his inauguration on 20 October, and once he forms the cabinet, he says he wants to move very fast. So that is the thing about Joko Widodo. I think Indonesia is lucky to have him.

What could be the prospect of the Belt and Road initiative in Jokowi's second term?

Luhut: So far, I think we do not have many problems, we enjoy very much working with China. I think it is very fruitful for Indonesia. But they have to comply with our regulations. That I think is very important. Any foreign direct investment (FDI), not only from China, they have to bring first-class technology. We do not want second-class technology, because of the environmental issue. Then, the business model should be B2B (business to business). We do not want G2G (government to government). Because we would like to maintain our debt to GDP ratio still below 30%. Moreover, the FDI that we seek must as much as possible use local labour. If they do not have enough engineers, like in the eastern part of Indonesia, then they can bring foreign engineers for a while. But at the same time, they have to build polytechnics jointly with the local governments to replace foreign workers gradually. Like in Morowali, this year is the first time that the company hires graduates from their polytechnic to replace foreign workers. Finally, the FDI must bring added value. We do not

want FDI that only exploits and then exports raw materials. We would like to see more value-added from the FDI. Like in Morowali today, from nickel ore mining, they are now producing stainless steel, carbon steel, and soon will produce lithium batteries. They have also capabilities to extract Cobalt from low-grade nickel ore. We are developing an industry to recycle lithium batteries to minimise the waste. Indonesia is rich in nickel ore, tin, bauxite, alumina, copper, and so on, but we have no industries to add value to those minerals. We are not part of the global supply chain. By focusing on the added value of mineral processing, Indonesia wants to be a global player, like in the electric car industry. We have an open FDI policy. We don't want to be specific for China, or America or Europe, but for anybody. But once you invest in Indonesia, you have to comply with our regulations. This country is too big to lean towards one single power. Some friends ask me whether Indonesia is leaning towards China. I replied this country is too big to lean toward any country. Standard Chartered made a prediction that by 2030 our GDP will be about \$10.5 trillion, the fourth largest economy in the world. I asked the CEO, what the basis of their calculation is. He answered that they assumed a 5% GDP growth. I asked why. We are not talking about commodity prices anymore. We are now talking about the electric car industry. Why are the tires of the electric cars made in Indonesia? We are producing a lot of rubber but why is the price set by other countries? Similarly with tin, the prices are set in Singapore, while we have the largest tin reserves on Earth. So, I think we do not manage our resources well. Now with the leadership of Joko Widodo, we want to change our management style. We are friendly and transparent. Anybody can invest. I want to make it clear, as some people say with the banning of the nickel ore export it means that Indonesia is being nationalistic. No! Why should we export nickel ore when we can make an industry out of it in Indonesia? We want to bring added value to the people. I want to make it clear, as I do not want other people and other countries to think that Indonesia is nationalistic and that we do not want to see FDI. No, we love to have FDI. Without FDI, Indonesia is not going to move on. That is what I believe.

What is the current plan for Batam, Bintan, and Karimun?

Luhut: Well, from last week there is no more dualism on the leadership in Batam. Right now, officially, the mayor of Batam is the CEO or chairman of the Batam Authority. The government is preparing Rempang Island as a new area for industrial estates, with 8,000 hectares available. We would like to move fast to invite investors. As I said, we had a discussion this morning with a Hong Kong company. Tomorrow, they plan to visit Bintan and Rempang. We told them these areas can be developed as a financial hub in Asia.

Batam was once mentioned to be the digital bridge between Indonesia and Singapore. What is the progress so far?

Luhut: I think the progress is quite good. They have already built an IT centre in Nongsa. They are also going to establish a big data centre in the area. They still have some problems with the regulation, but I think the regulations will be changed.

How about the problems and challenges of human capital?

Luhut: Human capital is always a problem, especially in the area of technology. So, in Batam right now, they have built a school with support from Apple to train Indonesians. It has been in operation for two years.

¹ Referring to October 2019.

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