

Central Java manufacturing base

Central Java is poised to become a major production base for labor-intensive industries with the inauguration on Monday of the first stage of the development of a 2,700-hectare industrial estate at Kendal, near the provincial capital of Semarang and its largest seaport Tanjung Emas.

The development of almost 1,000 ha of the Kendal Industrial Park (KIP), a joint venture between Indonesia-based Jababeka and Singapore-based Sembcorp, is scheduled to be completed within the next four years with all the necessary infrastructure and other supporting facilities needed for the smooth operation of modern industrial estates such as those in China, Vietnam and Thailand.

The experiences of most major industrial estates already operating in major Indonesian cities like Jakarta, Bandung, Surabaya, Medan and Batam show how such well-planned industrial zones, supported by adequate infrastructure, such as easy access to airports and seaports, power, bonded warehouses, training facilities and residential and commercial areas, have contributed greatly to speeding up the growth of manufacturing industries.

The next advantage is that industrial estates also assist the government in regulating the growth of specific industries in one zone, so the industry grows in an orderly manner through the development of clusters and not sporadically.

The KIP is one of the largest industrial estates developed in the country over the last few years. Domestic investors and those from Malaysia and Singapore have entered the KIP, building 20 labor-intensive manufacturing plants to produce textiles and garments, furniture, food and steel with a US\$320 million investment and 4,000 employees.

There are several factors behind the smooth development of the KIP. The primary one is that both investors are the largest and most experienced developers of industrial parks in their respective home countries. In fact, Sembcorp has experience in developing industrial parks in Batam, Bintan, Vietnam and China.

Another important ingredient is the enthusiasm and determination of Central Java Governor Ganjar Pranowo to turn his province into a new base for labor-intensive manufacturing companies, a sector that has so far been dominated by Jakarta and Surabaya and their surrounding areas. He went the extra mile in the effort to expedite all the local permits and land appropriation procedures for the KIP.

Yet more crucial is the full support Ganjar has received from President Joko "Jokowi" Widodo. The Investment Coordinating Board (BKPM), on Jokowi's instruction, has pledged to complete most of the permits needed by investors to operate in industrial estates within three hours.

Certainly, investors should be attracted to the KIP because they need not bear the infrastructure costs. Land costs are also about a third of the cost of land in Jakarta and so too are the labor costs. Although Jakarta and the surrounding West Java industrial zones are better connected, their ports and roads have increasingly become congested and port facilities are severely stretched.

We hope the KIP development model can be replicated in other provinces to spread more growth centers outside Java.

OTHER OPINION

Preserving Indonesian pluralism

The nation seems to be facing setbacks on its journey. In line with the increasingly tense political atmosphere ahead of the Feb. 15, 2017 regional elections, racial, ethnic, religious and intergroup issues are emerging.

At a time when other nations are racing to build civilizations deep in the ocean or even in outer space, our cohesion as a nation is again being dragged into disintegration. The national motto of Unity in Diversity indicates that a pluralistic ethic has existed in this archipelago for centuries.

Therefore, the statehood consolidation presently being conducted by President Joko "Jokowi" Widodo, along with a number of political and religious figures, deserves appreciation. As head of state, the President has reminded his fellow countrymen that the pluralist traits of this nation should be regarded as a blessing rather than a source of division.

In order to preserve this central Indonesian characteristic, founding vice president Mohammad Hatta frequently reminded us that "we are descended from a great nation with a glorious history and today we should revive it". For political actors, the time has come now to reflect on the message of James Freeman Clarke (1810-1888). He once remarked that: "A politician thinks of the next election, a statesman of the next generation."

- KOMPAS, JAKARTA

A setback for democracy

Unless freedom of expression and media liberty are guaranteed in Myanmar, Aung San Suu Kyi and her ruling National League for Democracy (NLD) will never be able to realize the long-held dream of genuine democracy.

Press freedom, a foundation stone of democracy, has yet to be established in the country, a full year after the NLD won national elections, allowing it to form Myanmar's first civilian government in many decades. Last week's arrest of the chief executive and the chief editor of the Eleven Media Group on a charge of defamation only undermines democratic principles. It was a shocking turn of events, of the sort that was not supposed to happen under Suu Kyi's government.

While Myanmar's news media continue to labor against legal challenges, travel restrictions and even threats of physical abuse, the NLD has allowed the old power structure to function unreformed.

To not challenge the arrest of a journalist for "defaming" a minister who was not even identified by name is a severe setback for hopes of democratic rule. In failing to defend his right to comment, the NLD appears to condone such vile practices and endorse the suppression of democratic rights, rather than pursuing essential reforms.

- THE NATION, BANGKOK

Trump effect: How to dampen its impact

It is still two months away from the day US president-elect Donald Trump will be sworn in as the 45th president of the US, the world's largest economy.

He has not even planned what he is going to do to implement his campaign promises, but his victory in the presidential election has rattled markets around the globe as uncertainty cast its shadows over the horizon.

As panic and fear gripped investors around the world, Indonesia was not spared the rout in its capital market.

On Nov. 11, two days after Trump won the election, the Jakarta Stock Index (JCI) plunged by 4 percent, an extraordinary setback after a modest recovery in the past weeks. Some blue chip shares like Telkom, Bank Rakyat Indonesia and Bank Mandiri fell more than 5 percent.

Shares of Astra International, the producer of the Toyota car in Indonesia, plunged by 7 percent.

On the same day, at 9 a.m., the value of the rupiah plunged to 13,864 against the US dollar, a dramatic 5.7 percent fall, although it recovered to Rp 13,350 late in the afternoon after intervention from Bank Indonesia.

Is this the start of something big that would inflict pain on the Indonesian economy? It would depend on the interplay of various elements in Trump's economic agenda: whether he would be successful in boosting domestic aggregate demand, or whether he would continue to aggressively pursue trade protectionism.

Whatever policy mix Trump finally decides on between these two elements, the effect would be unpleasant for Indonesia.

Let's take trade protectionism. Trump has vowed to impose a punitive tariff against imports from China. As China is one of Indonesia's



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main trading partners, the Trump effect would filter indirectly to Indonesia through the performance of China's economy. China's economic growth, which is still weakening now, would be undermined by weaker exports.

If Trump cuts taxes and at the same time undertakes massive spending on infrastructure, the result would be a huge fiscal stimulus. With lower tax rates, the profit of US companies abroad, currently retained off shore, would be lured back to the US, boosting capital inflows.

Many US manufacturing industries still depend on imports from China for their raw materials, spare parts and a thousand other items. Slapping them with a punitive tariff would increase their cost to US industries.

The price of imported consumer goods for US consumers would also rise. Couple these with the US Federal Reserve's tilt in its stance toward higher interest rates on the back of solid economic growth and employment, no force could stop the march toward higher interest rates.

With interest rates higher the dollar would rise and it is the stronger dollar that probably would be the most important end-result of Trump's economic game.

Higher interest rates in the US and a stronger dollar would trigger the depreciation of the yuan. The yuan, which has been promoted by the International Monetary Fund (IMF) to be one of the currencies in the basket index to determine

the value of Special Drawing Rights (SDR), would suffer a blow in its credibility as an international reserve currency.

China's economy, which is experiencing a slowdown in its growth, would suffer a further slowdown.

A sustained dollar rally would give the Chinese authorities two unpleasant choices: Do nothing and let the yuan sink against the dollar, or keep making domestic monetary policy tighter to support it.

Both choices could have a dampening effect on China's economic growth. As China is one of the biggest destinations for Indonesian exports, this would not bode well for the Indonesian economy.

Trump's agenda on trade protectionism would redraw the map of world trade. He said he would renegotiate the North American Free Trade Agreement (NAFTA) with Mexico and Canada.

Trump said he would not be interested in continuing talks on free trade with the EU. Trump has said he would tear up the Trans-Pacific Partnership (TPP), a free trade agreement among 12 Asian-Pacific countries initiated by President Barack Obama, which Indonesia is expected to join.

Congress has just decided not to continue deliberating these trade proposals. The fate of the TPP has been sealed. The course of world trade would reverse and this could curb world growth.

These days the strength of the dollar tends to have a tightening effect on the global financial situation. The waxing and waning of the dollar is strongly linked to the ups and downs of the credit cycle.

When the dollar is weak and American interest rates are low, companies outside the US are keen to borrow dollars, but when the dollar goes up the cycle goes into re-

verse, as corporations outside the US scramble to pay down their dollar debts. That causes a more general tightening of credit.

The strengthening of the dollar means the slide of the rupiah. The immediate effect would be felt in the Indonesian foreign debt. The overseas debt of the Indonesian private sector soared dramatically from US\$83.8 billion in 2010 to \$167.7 billion in 2015, an increase of 100 percent in five years.

Its short-term debt (those with maturity terms of up to one year) rose from \$27 billion to \$46.1 billion over the same period.

This was a period when domestic interest rates were high and rupiah exchange rates were generally stable, but when turmoil hit the financial market in 2015, the private sector slowed down its appetite for offshore debt. In 2015, it increased to only 2.5 percent.

If the dollar gets stronger again when the future president Trump starts his economic agenda at full speed, the private sector would scramble again for dollars in order to pay their debt earlier. This would push up the dollar and push down the rupiah.

Under these adverse conditions it is important for the government to maintain the confidence of investors in the Indonesian economy.

This should be done by pursuing more economic reforms, to make the investment climate more attractive. The economy should be made more open. Unnecessary restrictions on investment and trade that still exist should be eliminated. The economy should be made more resilient if it is to dampen the impact of the Trump effect.

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Predicting Trump's security strategy and Indonesia's interests

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One way to predict the likely impacts of Donald Trump's US presidential election victory on a global level is by comprehending the philosophical and practical grounds of his probable national security strategy.

This is indeed the open manifestation of his national security motivation, premise and policy and president-elect Trump should have his own published by 2017.

National security strategy in the strictest sense pursues a broader definition of security — defense, diplomacy and development — while the modern-day national security strategy characterizing Trump's future administration is more complex than just the choice between the employment of soft and hard power that so far has typified the simple distinction of Republican and Democratic security policies.

There are at least three main determining factors affecting Trump's national security strategy: personality and preference, national security premises that typically characterize the Republican Party and domestic-international environment.

Like former president Ronald Reagan, by his nature Trump is an anomaly and anti-establishment, with which he has the tendency to confidently shape the surrounding structure instead of being shaped by the environment constraining him.

The historical record of Trump's upbringing that was heavily influenced by Vincent Peale (the author of *The Power of Positive Thinking*) indicates that he grew as an optimistic individual who strongly believes his presence will change the structure surrounding him.

Trump's ideology and background as a businessman reflect that he is likely to view the world's prospects more realistically through a Neo-Hobbesian (more chaotic) lens, rather than Neo-Kantian (more idealist). Trump will likely emphasize stressful security affairs as the main

driver for navigating global politics.

With this thinking, he believes that the US must be strong domestically, more focused on its domestic recovery, while focusing on the greater Middle East in order to achieve dual-side foreign policy goals: stable security affairs as well as democratic and economic growth.

He will likely prefer military power and economic instruments over democratic institutions as he has less faith in conventional treaties, alliances and international institutions' merit.

However, Trump's assumptions differ from former president George W. Bush's. Unlike Bush, Trump has a more optimistic attitude about the future and a belief that the US should not act unilaterally as a Leviathan in global affairs.

His background as a businessman will also influence his preference for combining economic, diplomatic and military power to make the US strong again and the world more stable. Trump's business experience will make him able to work with even the most difficult allies in challenging geopolitical times, although these allies' interests, strategies and tactics will not always neatly align with those of the US.

Every theater of possible security conflicts is home to significant US allies with vested interests, and Trumps knows that.

In terms of promoting democracy at the global level, Trump will refer to the assertive interventionists and the progressive multilateralists. In practice Trump will likely combine traditional conservatives (suppressing threats and promoting democratization by using hard military and economic power) and offshore balancers (using regional powers by diplomatic means).

The chaotic southern arc (i.e. the greater Middle East and some parts of Asia) and terrorism will be viewed as the major threats where the roles of alliances are still important with diplomacy, military and economic power as the preferred instruments of power.

As a mechanism for success, Trump will likely emphasize the combination between persuasion, coalition building, suppression of threats and the promotion of democratization. It is predictable that Trump will make the US leadership style a path-setting leader of ad-hoc coalitions.

However, Trump's realistic view will make him realize the over-stretched American military power, thus also making him a consensual leader of multilateral security alliances, to not overburden the limitations of US military power.

Given his commitment to being tough on Iran, the US will secure strong Israeli, Saudi Arabian, Egyptian and Jordanian support for his national security policies at the global level.

Russia and China will have different positions toward Trump's protectionist policy. China will be impacted more by this policy along with India and Mexico.

As for the EU, Trump will likely to use NATO as a preferred instrument of power to deal with contemporary security affairs while Judeo-Christian values backing up Trump's administration will become a strategic asset to maintain strong relationships with democratic European countries and the greater Middle East including President Recep Tayyip Erdogan's Turkey and other Islamist states.

However, we have not had any single record of Trump's political leadership style and how he makes decisions. Furthermore, there are questions about Trump's perception of the importance of Indonesia. If Trump considers Indonesia important then he will bring up the country as an issue for Congress to consider.

For president Bush and President Obama, the two regarded Indonesia as one of the most important partners in the struggle over global violent extremist movements as well as to balance the rising China.

Indonesia has been a good democratic partner for US defense, diplomacy and economic development

engagement at the global level.

Hopefully Trump will consider Indonesia an important partner and accommodate Indonesia's interests as much as Bush and Obama did, while some issues the two could not successfully address may be resolved during Trump's years in the Oval Office.

As for Indonesian-US security cooperation in the years ahead, the best-case scenario is for Trump to consider Indonesia an important partner and considers himself independent from Congressional leaders. In addition, Congress will not emphasize the Indonesian military's human rights record.

This best-case scenario means the Indonesian-US security cooperation could be leveraged and be more straightforward in addressing contemporary security challenges. We should be optimistic about the future as our optimism will overcome any pessimism that may arise from the outcome of this election, and the government of Indonesia should seize the momentum in a timely manner by creatively employing multiline efforts to engage and win support from the Trump administration and Republican-dominated Congress in order to advance Indonesia's national interests.

Trump's preference for supporting the state of Israel should also not become a source of emotional grievances for Indonesians. Above everything, Indonesia should do its best to advance its own fundamental national interests: to create a secure, stable and economically strong Indonesia.

When Indonesia is strong, it can do many important things in the global arena.

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