



Between Reform and Recession: Economic Turbulence in KEPRI

Syed Huzaifah Bin Othman Alkaff and Najib Kailani



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SYNOPSIS

The Prabowo administration's economic reforms, external economic pressures, and religiously driven boycotts are straining the Riau Islands' economy. The province faces rising unemployment, weakened local industries, and growing vulnerability amid centralised policymaking.

COMMENTARY

The Riau Islands (Kepulauan Riau, or KEPRI) have long enjoyed a reputation as one of Indonesia's fastest-growing provinces, known for their robust industrial and service sectors and investment-friendly policies. The islands have historically benefited from cross-border trade, manufacturing, tourism, and labour mobility. In 2024, KEPRI's economy grew by [5.02% – slightly slower than the 5.16%](#) recorded in 2023, but still outpacing several other provinces.

However, in June 2025, the chair of Commission II in the Riau Islands provincial legislature (DPRD KEPRI), Suhadi, [urged](#) the provincial government to address a recent surge in layoffs across the region. He attributed much of the job losses to government-mandated cost-cutting measures, particularly affecting service industries like hotels. With fewer guests and steady operational costs, many businesses have been forced to reduce staff. Suhadi also noted that manufacturing firms in Batam have been hit hard, particularly because of decreased global demand tied to US–China trade tensions. He lamented that KEPRI's unemployment rate now hovers above 6%, affecting roughly 120,000 residents, based on a population estimate of 2 million.

At the [national level](#), Indonesia's first-quarter 2025 growth figures were the weakest since 2021. Consumer confidence has declined sharply since December 2024, and key indicators like [motor vehicle sales](#) and [Id al-Fitr travel](#) have dropped significantly.

Business confidence in Jakarta has deteriorated, and the ripple effects are reaching trade-oriented provinces like the Riau Islands.

Currently, there are three key factors shaping the business environment in the Riau Islands province: (1) the impact of the Prabowo administration's national economic reforms, which include bureaucratic restructuring, fiscal centralisation, and stricter budget allocations; (2) the decline of the private sector owing to global economic pressures and corporate restructuring efforts; and (3) the socio-economic effects of religiously driven consumer boycotts. These factors have led to economic uncertainty, weakened local enterprises, and constrained regional policy responses.

The Impact of Current Administration Reforms

At the national level, Indonesia has undergone an aggressive wave of cost-efficiency policies affecting both the public and private sectors, resulting in the [termination](#) of many workers. Initiated during the final phase of President Joko Widodo's second term (2019–2024) and continued under President Prabowo Subianto, these reforms include widespread bureaucratic restructuring and budget streamlining. In the Riau Islands, this shift has led to the termination of [many non-civil servant workers](#), including casual public school teachers and contractual government employees, targeting those with less than two years of service. The dismissal is part of a broader strategy to streamline the civil service, transitioning towards a workforce composed primarily of Civil Servants (*Aparatur Sipil Negara* or ASN) and Government Employees with Employment Agreements (*Pegawai Pemerintah dengan Perjanjian Kerja* or PPPK).

The Prabowo administration has launched a wide-ranging economic reform agenda focused on achieving fiscal discipline and enhancing infrastructure and industrial development. The administration prioritises defence, food security, and strategic autonomy. Although these goals may result in long-term benefits, they have led to immediate challenges, such as cuts in social service spending and stricter regional budgets.

In regions like the Riau Islands, where manufacturing, tourism, and migrant labour play crucial roles in the local economy, these budget reductions have increased job insecurity and decreased support for displaced workers. The centralisation of policymaking has made it difficult for local governments to respond to economic shocks, creating a gap between Jakarta's overarching goals and the actual needs of local communities. Stricter fiscal controls have led to lower transfers to regional budgets, while a top-down approach to planning has limited local decision-making power.

High structural unemployment in the Riau Islands is largely due to a persistent mismatch between the education system and industry needs. Many vocational and academic institutions are graduating students with skills misaligned with employer demands. This misalignment restricts job opportunities for youth, especially women, who are often overrepresented in sectors such as retail and hospitality. The result is a high unemployment rate of around 6.39%, affecting [approximately 60,000 to 70,000 individuals](#). Regional officials view this trend as particularly worrying given the strategic maritime and industrial role of KEPRI.

In addition, local governments struggle to reallocate resources and implement emergency employment programmes owing to limited budget autonomy. National investments in defence and food sovereignty, while important, have overshadowed local priorities such as creating employment in the tourism sector and supporting SMEs, which are vital to KEPRI's economy. To strengthen local economic resilience, it is crucial to focus on these neglected areas.

Private Sector Decline and Global Economic Slowdown

The private sector in the Riau Islands has struggled amid global economic restructuring. Budget cuts and shrinking profit margins have driven layoffs and bankruptcies. In early 2025, the Ministry of Manpower [reported](#) 10,677 layoffs in Central Java as the highest in the country, followed by 3,530 in the Riau Islands. By May 2025, layoffs in the province had escalated significantly, affecting [companies](#) in Batam, Bintan, and Tanjung Pinang. Major firms such as [PT Tirta Madu](#) (palm oil), [PT Bintan Djaya](#) (rubber), and well-known retail and hospitality companies such as [Matahari](#) and various hotels have either downsized or completely shut down.

Restructuring by multinational companies has worsened the situation. [Panasonic Holdings](#), for example, plans to lay off 10,000 employees across its factories in multiple countries, including Indonesia, where one of its factories is located in Batam. These events underscore the vulnerability of regional economies that depend heavily on global supply chains.

Boycott Effects and Religious Consumerism

The Israel-Palestine conflict has catalysed religiously motivated consumer boycotts in Indonesia, supported by the [Indonesian Ulama Council \(MUI\)](#) through Fatwa Number 83 of 2023, which calls on consumers to boycott global brands perceived to support Israeli interests. As a result, franchisees of companies like McDonald's and KFC in the Riau Islands have [reported significant revenue declines](#), with some facing potential bankruptcy. Supply chains – including local meat and vegetable producers, logistics providers, and packaging firms – [have suffered](#).

This situation illustrates the complex links between religion, political identity, and consumer behaviour. In Indonesia, where ethical consumption aligns closely with religious and political values, these dynamics can directly affect business outcomes. SMEs dependent on international franchises are particularly vulnerable to the impact of the boycotts, which have intensified economic fragility and weakened related industries.

Without diversification, local economies remain highly sensitive to fluctuations in global sentiment.

Conclusion

The Indonesian Ministry of Manpower has recognised the economic challenges stemming from recent events and has created [a special unit](#) to monitor employment terminations connected to the boycott and related to socio-political issues. While the full impact is still unfolding, there are growing concerns about the broader

consequences for social cohesion. High unemployment rates, particularly among youths and low-income groups, pose serious risks of social instability, including increased crime rates and potential recruitment into extremist or terrorist networks. These risks demand more than monitoring; they call for swift and targeted policy responses that are sensitive to local needs.



The Riau Islands province relies heavily on global trade, cross-border commerce, and foreign-linked industries, exposing it to international disruptions. *Image source: [Flickr](#).*

As Indonesia advances towards strategic autonomy and industrial self-reliance, the Riau Islands highlight a tension between national ambition and regional vulnerability. KEPRI's heavy reliance on global trade, cross-border commerce, and foreign-linked industries leaves it highly exposed to both domestic reforms and international disruptions. Ignoring KEPRI's unique position could jeopardise the province's importance as a critical maritime and economic hub. Strengthening regional resilience is not only an economic necessity but also a geopolitical requirement in a world that is becoming increasingly uncertain.

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