



# OUTLOOK INDONESIA

MONTHLY UPDATE- JUNE 2018

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

## HIGHLIGHTS

- Indonesia Lobbies for Security Council Seat
- Surabaya Bombings
- BI Boosts Rates Twice
- Trade War Over Palm Oil
- Boeing Apaches Arrive



## UPCOMING/RECENT EVENTS

### JUNE 6

#### Indonesia Economic and Political Update: Looking Ahead to 2019



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[Details and Registration](#)

## INDICATORS

**US\$ = 13,951**  
**JSX = 5983 (last)**  
**BI Rate: 4.75% (7 day repo)**  
**Inflation: 3.41%**  
**Reserves: \$124.8 billion**

(source: Bank Indonesia)  
JSX = Jakarta Stock Exchange

## THIS WEEK IN INDONESIAN HISTORY

### 1998

The IMF said Indonesia's economy could shrink by at least 10 percent double the I.M.F.'s estimate earlier this year -- as soaring inflation and unemployment take their toll.

## ❖ ISSUE TO WATCH: GRADUATIONS

*Commentary by Wayne Forrest*

May begins the annual cycle of school graduations, first colleges, and then in June, elementary and secondary schools. I have been thinking of this while reflecting on the May 1998 financial crisis that led to President Suharto's resignation and Indonesia's graduation from his rule. A glance at Indonesia's education statistics shows that although per pupil expenditures are still very low and the percentage of junior high school graduates in the population is only 18%, this figure is much higher for 25-34 year olds and will only rise as the years pass. A large part of the education gains began in 2008 after a decade of stabilizing reforms and graduation from IMF oversight. It was then that the Indonesian government committed to spending 20% of its budget on education. Today's growing middle class reflects this investment.

2018's May is probably a month many Indonesians would rather forget. A horrible series of suicide attacks on churches and police stations beginning in Surabaya led to over 40 deaths, some were children. Their distinguishing feature was that for the first time the perpetrators included a husband, wife and their children. You see their shining faces in photographs, read their stories and wonder what they would have become at graduation.

America is still a destination for a tiny fraction of Indonesia's college students, themselves less than 10% of the nation's population. US colleges enrolled over 14,000 prior to the Asian Financial Crisis and a massive rupiah devaluation (2400 to 15,000). Today's figures are closer to 8,000: market share has been lost to nearby Australia, Singapore, New Zealand, Korea, Japan, and the EU where degrees are less expensive. Regulations are changing but not yet attractive enough to persuade US campuses to open in the country.

America does send some foreign students to Indonesia. This week I met a group of returning high schoolers who were part of the Kennedy Lugar Youth Exchange and Study (YES) Abroad Program administered by AFS-USA, (formerly American Field Service). The government of Indonesia has its Dharmasiswa scholarship designed to help foreign students learn about Indonesian society and culture but not earn a degree. Far too few US universities place Indonesia in the curriculum. Only a handful--such as USC's Marshall School of Business--require field experiences there.

May was tough for many financial "foreign students" who exited Indonesia in big numbers putting dramatic pressure on the rupiah. Perhaps they caught a case of "Bali belly" or divined some measure of risk. More likely they took a trading gain. In any case these bond holders (40% of the government bond market) returned home prior to graduation. Indonesia clearly needs more resident students (direct investments).

Indonesia was a wonderful place to be a student when I was in college. The difficulty understanding a very different culture was immensely compensated by the warmth and friendliness of the Indonesian people, the beauty of the landscapes, and the vibrancy of its diverse traditions. Also, the US dollar went far. And in many ways this is still the case. I predict the fickle bond holders will be back; they probably went home to see their families. Evidence is beginning to point in that direction after Bank Indonesia raised rates twice in the last two weeks and the Finance Ministry revised its budget. The rupiah is back below 14,000.

In March I met personally in Jakarta with BI Governor Perry Warjiyo and Finance Minister Sri Mulyani. I learned they are willing to sacrifice a little growth for stability. They know reserves are ample, the nation's debt is mostly long-term, and an ambitious infrastructure program will be a significant growth engine into the future, mitigating currency flight. Many internal and external risks remain but these policymakers have studied 1998 and the US Fed very closely, graduating magna cum laude.

## ❖ ECONOMY AND BUSINESS:

### • Lower Growth Projection

Finance Minister Sri Mulyani Indrawati says the ministry is lowering its economic projection, which is in a range of 5.17 to 5.4 percent, compared to the 5.4 percent economic growth projected in the 2018 state budget. This Finance Ministry's projection is lower than that of Bank Indonesia's (BI), which is 5.2 percent. "If BI sees that minimal growth is at 5.2 percent, we internally project growth of between 5.17 and 5.4 percent. We still want to see the dynamics in the second quarter," Sri Mulyani said on Monday as reported by kontan.co.id. She added that the Indonesian economy was facing changing global conditions, which were affecting all factors of economic growth. For investment, Sri Mulyani was optimistic that growth in the first quarter would continue in the second quarter. She expected that investments would pick up in the second and third quarters. ] Indonesian Finance Minister Sri Mulyani Indrawati said the government is willing to accept slower economic growth as a trade-off for stability. She also said the government is willing to accept slower economic growth as a trade-off for stability: "All of us are ready to implement any policies needed to protect Indonesia's economy (even if) we have to make adjustments in the short run that will result in slightly lower growth, that's a consequence that we will take."

### • Trade War Over Palm Oil

A trade war is looming between the European Union and the world's biggest producers of palm oil, Indonesia and Malaysia, over proposals to strip biofuel off the menu of renewable energy sources member states may use to reduce their greenhouse gas emissions. At issue is the US\$39 billion palm oil industry. Indonesia and Malaysia are the world's two biggest producers of the crop, used in everything from fuel to cosmetics to cookies. Last month Luhut Pandjaitan, coordinating minister for maritime affairs and a close lieutenant of President Joko Widodo, warned of retaliation if the government sensed the EU, the second-largest importer of palm oil, was cracking down on the commodity in favor of its own crops.

The stand-off pits environmentalists against big emerging economies who argue worries over deforestation and carbon emissions are exaggerated and are a fig leaf for protectionism that deny small scale farmers reliable income. Environmentalists say cultivating palm oil contributes to deforestation and carbon emissions.

Palm oil has long been a bête noir for activists, prompting a consumer backlash against the product in Europe. In April, the British grocery chain Iceland pledged to remove palm oil from its own brand of foods. Bringing matters to a head is a vote in January at the European Parliament, which if adopted by all member states and the European Commission, would stop biofuels from being considered renewable energy. That's a massive blow to palm oil producers. Less than half of the palm oil the EU imports is used in fuel. EU Ambassador to Indonesia, Vincent Guerend, says the vote did not amount to a ban – as has been widely reported in Indonesian media. "There is a high probability that the text of the proposed amendment will not end up as it is now," Guerend said. "Palm oil won't disappear from fuel but it won't grow either. It will plateau."

Even so, Pandjaitan has warned the government may swear off Airbus aircraft for its military and for the state-controlled carrier, Garuda, if they think palm oil has been given a raw deal. Pandjaitan's colleague, Trade Minister Enggartiasto Lukita, has already put Norway on notice by threatening to ban fish imports after its parliament voted to exclude biofuels from government procurements. (from reporting by Jeffery Hutton in South China Morning Post)

### • Insurance Capped at 80% Foreign Ownership

The government has issued Government Regulation No. 14/2018 on foreign ownership of insurance companies, setting a maximum foreign ownership of 80 percent. "This regulation is valid for both new and old companies," said the Finance Ministry's fiscal policy head Suahasil Nazara in Jakarta on Tuesday as reported by kompas.com. Suahasil explained that foreign insurance companies with ownership above 80 percent were still allowed to continue to operate, but they could not upgrade their business level. "If the companies want to expand, we limit their ownership to 80 percent," he said.

### • BI Boosts Rate on May 17 and May 30

In response to rising global financial uncertainty amid tighter US dollar liquidity, Indonesia boosted its interest rate 25 basis points to 4.50 (7 day repo rate) on May 17 and then another 25 points 2 weeks later. "BI will continue to monitor economic developments and is ready to take firmer actions to ensure macroeconomic stability," outgoing Governor Agus Martowardojo said after making the first hike. The second was done by new Governor Perry Warjiyo, who said: The central bank "will continue to calibrate global and domestic market developments to utilize room for further rate hikes in a measured way." In the month since BI last met on April 19 and said it would be an "overkill or counterproductive" to be raising rates, consensus expectations swiftly turned to see a rate rise as needed to put a floor under the falling rupiah. Southeast Asia's largest economy is one of the region's worst affected by the combination of rising US yields and higher oil prices, and has seen about \$4 billion leave its markets over the past month as foreign investors review their exposure to higher-yielding emerging markets. The rupiah has fallen more than 5 percent to past 14,000 per dollar in four months as Indonesian 10-year bond yields jumped more than a percentage point over that period, and the stock market is down 8 percent this year. (The Jakarta Post)

### • Trade Deficit Widens in April

Indonesia posted its biggest trade deficit in four years in April as imports surged, wrong-footing analysts who expected a surplus for the month. The statistics bureau said the April deficit reflected "seasonal factors" including this week's start of Ramadan, the Muslim fasting month. Southeast Asia's largest economy had a deficit of \$1.62 billion, the biggest since April 2014 while the Reuters poll forecast was for a \$700 million surplus. Imports in April soared 35 percent from a year earlier to \$16.09 billion, compared with the poll forecast of 19 percent. For the first four months of this year, there was a deficit of \$1.3 billion, compared with a \$5.4 billion surplus a year earlier. Tuesday's surprise trade deficit came at time the rupiah has been under pressure due to rising US yields and oil prices and worries about capital outflows. "Imports usually rise before the start of the fasting month although I agree that [the April increase] is significant," bureau head Suharyanto told reporters. Suharyanto said imports of raw materials and machinery also increased, which could mean Indonesia's manufacturing industry was boosting production.

## ❖ POLITICS AND SECURITY:

### • Surabaya Bombings

On May 13 3 churches in Indonesia's second largest city, Surabaya, were bombed by a family of 6 (parents and children age 9 to 18) in a suicide attack that appears to have been timed with the beginning of Islam's fasting month, Ramadan. On May 14, a second family attacked a Surabaya police station but although 4 members died, their 8 year old girl survived. A fifth bomb killed three at an apartment complex in a region near Surabaya. Bomb making materials were discovered at the site. In all the attacks killed 18 people, including the bombers, and injured more than 40. They were the deadliest bombings in Indonesia in more than a decade. The Embassies of the US, Australia, Hong Kong, United Kingdom, and Singapore issued similar statements of extreme caution for travelers who are already in Indonesia or planning to travel there. None changed the threat level to a travel ban.

### • Blocked Websites

JAKARTA, May 21 (Xinhua) -- Indonesian government has blocked thousands of websites containing radicalism and will continue to check the internet as one of the efforts to secure the cyberspace from contents related to radicalism and terrorism. The action came as the country had been hit by a series of suicide assaults and terrorist attacks for the last two weeks that killed over 32 people in East Java and Riau provinces. Nearly 3,000 websites disseminating radicalism have been blocked and about 9,500 other sites are being inspected, Rudi Antara, Communication and Information Minister, said on Monday. "We shut down the websites which engaged in encouraging people to stage on acts of radicalism, extremism and terrorism," he said in Yogyakarta province. He admitted that there is a lot of radicalism and terrorism content circulated in social media such as Facebook, Instagram and YouTube.

## ❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

### • Boeing Apaches Arrive

On May 16, Indonesia officially accepted eight AH-64E Boeing Apache helicopters from the United States. The helicopters were accepted at a ceremony attended by a range of Indonesian and U.S. officials, including Indonesian Defense Minister Ryamizard Ryacudu and U.S. Deputy Ambassador to Indonesia Erin Elizabeth McKee. During a ceremony that occurred at the Army Aviation Center at the Ahmad Yani Airport in Semarang, Ryacudu symbolically handed over the helicopters to TNI Commander Logistics Assistant Rear Admiral Bambang Nariyono, who was representing Air Chief Marshal Hadi Tjahjanto. In accepting the helicopters, Ryacudu said the helicopters were important as part of the wider effort by Indonesia to strengthen its defense and modernize its military to counter various threats, and urged personnel to ensure their proper operation and maintenance. Both sides also cast the development as an example of bilateral defense cooperation occurring under the wider U.S.-Indonesia strategic partnership, which was reached back in 2015.



### • Indonesia Lobbies For Security Council Seat

Foreign Minister Retno Marsudi is set to lobby more countries to vote for Indonesia in its campaign for a non-permanent seat on the United Nations Security Council ahead of the vote that will take place next week. Retno said she would head for New

York again on Sunday, a few days before voting day on June 8. In the last two weeks, Retno has visited New York, Guyana, Argentina and Peru and attended forums, where she also talked about Indonesia's campaign for the seat. Retno expressed her optimism, counting on Indonesia's track record and contributions to world's peace. "Hopefully with all the contributions well-documented, it will become the reason why the countries vote for Indonesia," she said.

### • Pence Meets Major Indonesian Muslim Leader

On May 21, Less than a week after the first family of suicide bombers killed or injured dozens of worshipers at Sunday services in Indonesia, the country's top Muslim leader met with Vice President Mike Pence to discuss religious freedom in the face of mounting extremism. "Honored to welcome the Nahdlatul Ulama Secretary General to the White House today," Pence tweeted after his meeting Thursday with Yahya Cholil Staquf, who leads Nahdlatul Ulama (NU), the largest Muslim organization in the world. "Their efforts opposing radical Islam are critical in Indonesia—where we saw despicable attacks on Christians. Trump's admin stands with NU in its fight for religious freedom & against jihad." One of the victims of Sunday's attacks was a Christian trained by NU as a church guard; he died blocking a suicide bomber on a motorcycle. "The VP conveyed deeply personal condolences on behalf of the United States for the events of last weekend, reiterated the administration's commitment to helping Indonesia and the NU in its efforts to combat extremism, and offered Ramadan greetings to the NU community," said Johnnie Moore, an evangelical adviser to the Trump administration who also attended.

## ❖ SOCIAL/CULTURE/EDUCATION:

### • Indonesian Folk Tale: "Shallot and Garlic"

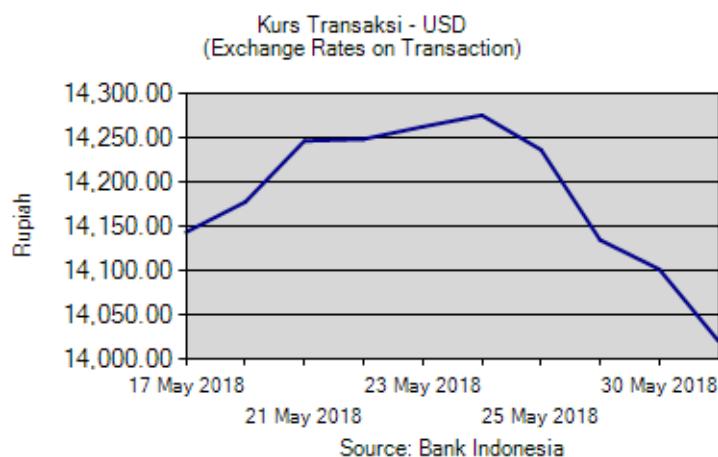
Bawang Merah(shallot onion) and Bawang Putih (garlic) are half-sisters who are polar opposites of each other. Bawang Merah is a lazy, greedy girl spoiled by their mother while Bawang Putih is obedient, diligent and does all the chores without complaint. One laundry day in the river, Bawang Putih loses a scarf, which is picked up by an old woman. The old woman says she will return the scarf if Bawang Putih cooks and cleans for her. Bawang Putih does as she's told, gets the scarf back and the old woman as a gift tells her to bring home one of her two pumpkins, a small or a large one.

Bawang Putih chooses the smaller pumpkin. When she breaks open the pumpkin at home, she discovers the fruit is filled with jewelry. Bawang Merah and their mother get jealous and want their own pumpkin filled with jewelery, so they go to the river and deliberately lose their scarves. Then they visit the old woman's house and ask for a pumpkin. They bring home the big one (of course), but instead of jewelry, their large pumpkin is filled with snakes. (courtesy of the Jakarta Globe)



## ❖ CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

