



# OUTLOOK INDONESIA

MONTHLY UPDATE- NOVEMBER 2018

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

## HIGHLIGHTS

Indonesia Underinsured

Slip in Ease of Doing Business

FDI Down in Q3

Kerry Praises Indonesia At Ocean's Event

Indonesia is World's Most Generous Nation



## UPCOMING/RECENT EVENTS

### November 8

### Trade, Tourism and Investment Forum

featuring sessions on:

creative economy, infrastructure, tourism, manufacturing

Keynote remarks by:

- **Tom Lembong, Chairman, BKPM**
- **Hon. Budi Bowoleksono, Ambassador of Indonesia to the US**
- **Govenor/Sultan of Yogyakarta**

### REGISTRATION DETAILS

9:00-5:00 pm

Intercontinental Times Square Hotel  
New York City

### INDICATORS

US\$= 15,089 rupiah

JSX= 5906.26(last)

BI Rate: 5.75% (7 day repo)

Inflation: 3.16%

Reserves: \$114.847 billion

(source: Bank Indonesia)

JSX= Jakarta Stock Exchange

### THIS WEEK IN INDONESIAN HISTORY

1967

Vice President Humphrey visits Indonesia, the highest ranking Amerian to visit since the fall of the Sukarno regime.

## ❖ ISSUE TO WATCH: WHERE IS THE TRANSFORMATION ?

Commentary by Wayne Forrest

It keeps happening over successive Indonesian presidencies: a transformational figure is elected (Susilo Bambang Yudhoyono, Joko Widodo) who appoints transformational ministers, who propose reforms. But, then things bog down. Frustration sets in, or the person leaves the Cabinet. Growth atrophies and the language of discourse remains in the pluperfect tense. "We expect to, we hope to, we are planning to" are often the phrases that accompany proposed reforms. Susilo Bambang Yudhoyono (SBY) was elected in 2004 as the first directly elected President with popular support far in excess of that for his political party; it gained only 7% of Parliamentary seats. He seemed to signal a desire for fundamental reform by appointing the world class economists Mari Pangestu as Trade Minister and Sri Mulyani as Finance Minister. Also, with his appointment of influential tycoon Aburizal Bakrie, a Chamber of Commerce Chairman, many thought Indonesia would implement the kinds of structural reforms (legal, judicial, and bureaucratic) businesses would need to boost GDP above 7%. However, within a few years Pangestu and Sri Mulyani were replaced and whatever reforms they began atrophied. The second term of SBY was characterized by multiple corruption scandals, and legal decisions that stood commercial law on its head. Some remain under litigation. Many trade and investment policies rewarded insiders, allowing their "rice bowls" a measure of protection under a misplaced sense of nationalism. We in the international business community voiced our concerns, occasionally they were acted upon, more often they were ignored. 5% GDP growth became the norm.

Joko Widodo was elected 4 years ago to much acclaim by a local and foreign community eager for a fresh approach. He appeared somewhat immune to transactional politics, possessing a practical business-like approach to pressing needs such as infrastructure and healthcare. Again, Cabinet appointments were hailed: Bambang Brodjonegoro as Finance Minister, Thomas Lembong as Trade Minister, Sudirman Said as Mining and Energy Minister. All came in touting open trade, structural reforms, and a major push for foreign investment. Within a few years Lembong was sidelined to the Investment Coordinating Board (BKPM), Brodjonegoro was replaced with Sri Mulyani and Said, who told many of his desire to recast the investment snuffing 2009 Mining Law, was out altogether, his replacement doubling down on resource nationalism. Sri Mulyani has revived reform in the Finance Ministry, and Lembong continues the good efforts of his predecessors. But as stories in this issue indicate, the sustainability of current policies is in doubt: Indonesia remains woefully uninsured, the healthcare scheme is bankrupt, and the widely touted scheme to cut red tape has not led to an easier doing business rating.

Throughout their presidencies SBY and Jokowi, in their speeches and meetings, welcomed foreign investors and praised the benefits of trade. Jokowi, in particular, has admonished Indonesian businessmen to be more competitive. But, the positive rhetoric meets a harsher reality for many foreign businessmen who continue to experience a regulatory and legal environment that remains mired in red tape and patronage even with several years of deregulation packages. This month Indonesia moved backwards in the World Bank's Ease of Doing Business rankings after leaping forward early in Jokowi's tenure. In addition, foreign direct investment contracted in Q3 prompting BKPM Chairman Tom Lembong to plainly say "However, I have to admit that in 2017, we lost our focus. Our spirit was not as high as in 2014 to 2016." Behind his remarks I hear a man frustrated that his recommendations for opening the Indonesia to more foreign investment via changes to or abolition of the negative investment list have not come to fruition.

I asked many on my visit to Indonesia in October about the reform atrophy in these two Presidencies. Some said, "par for the course, business as usual"; others pointed to "entrenched interests"; some discoursed on "patronage norms"; others mentioned a culture with many "personal rules of behavior" but not much of a history with "public ones"; some

officials pointed to Indonesia's need to set its own course now that its economy has grown up. I believe all these answers are in part correct.

I worry that Indonesia remains stuck with a larger than necessary bureaucracy and state-owned enterprise sector that has created its own gravity irrespective of who is in power. More than that I am afraid that Indonesia has lived with this system for so long it cannot see its inefficiency, vulnerability to patronage, and how it can ultimately stifle new directions such as the digital economy and private investment in infrastructure. In

fact, even though they are saddled with oceans of debt institutions such as Pertamina, PLN, and state mining companies, are all celebrated. As several former US ambassadors to Indonesia have pointed out, China's system looks much the same way and may already be the model for future economic development.

It increasingly looks like we did get a transformation, it just wasn't what we expected.

*(The views represented are the author's and may not reflect those of AICC or its members)*

## ❖ ECONOMY AND BUSINESS:

### • 2019 Budget

The House of Representatives passed on 10/31 the 2019 state budget bill. In 2019, the government is projected to spend Rp 2.46 quadrillion (US\$161.84 billion) – comprising Rp 1.63 quadrillion by the central government and Rp 826.8 trillion by regional administrations -- with the deficit projected at Rp 296 trillion, or 1.84% of gross domestic product.

The macroeconomic assumptions in the 2019 state budget:

- 5.3% economic growth
- 3.5% inflation
- Rp 15,000 per US dollar
- 5.3% three-month treasury bill rate
- US\$70 per barrel of oil
- 4.8 to 5.2% unemployment
- 8.5 to 9% poverty rate.
- Oil lifting and gas lifting is projected at 775,000 barrels oil per day and 1,250,000 barrels of oil equivalent per day respectively

### • FDI Down in Q3

The Investment Coordinating Board (BKPM) has recorded Rp 173.8 trillion (US\$11.4 billion) in investment in the third quarter, 1.4 percent lower than investment in the second quarter. Investment has continued to decline, as the figures represented a 4.9 percent quarter-to-quarter decline in the second quarter, which was recorded at Rp 176.3 trillion. BKPM head Thomas Lembong attributed the decline to the dull investment policies introduced by relevant government organizations since 2017. "I think it has become really urgent to issue [investment friendly] policies and breakthroughs," Lembong told a press conference on Tuesday. (*Jakarta Post*)

### • More Debt in Healthcare Scheme

The Ministry of Finance is conducting its second review this year of state health insurer BPJS Kesehatan's finances after the company requested additional cash to meet its liabilities, a ministry official said on Tuesday. The world's fourth most populous country introduced universal health coverage in 2014, but BPJS Kesehatan has consistently operated in the red, with claims paid out far exceeding premiums collected. BPJS Kesehatan, which provides cover for nearly 200 million Indonesians, must repay a total of Rp 7.2 trillion (\$473 million) of debts that have matured or will mature this week and on Monday had only Rp 154 billion, the head of the company, Fahmi Idris, was quoted as saying in media reports. (*Reuters*)

### • Foreign Workers: No Big Deal Says President

President Joko 'Jokowi' Widodo said today, Oct. 30, the number of foreign workers (TKA) was less than one percent of workers in Indonesia. Jokowi marked the statement during his speech in the opening of the Republic of Indonesia Catholic Women's Congress XX (WKRI) at the Grand Mercure Jakarta, Kemayoran. The number of foreign workers in other countries, he added, was higher than that of in Indonesia. In United Emirates Arab, for example, foreign workers amounted to 80 percent, Saudi Arabia 33 percent, Brunei 32 percent, Singapore 24 percent, Malaysia 5 percent, and Indonesia 0.03 percent.

"It is less than one percent, how come you make a fuss about it? Rumor said the number reaches millions; when it was calculated? You can check to at the immigration," Jokowi noted.

### • Indonesia Is Underinsured: Lloyd's

Indonesia has a \$14.6 billion gap between existing insurance coverage and the actual amount it would cost the government and businesses to rebuild and recover from major disasters, according to the latest report by global insurance firm Lloyd's and the Center for Economics and Business Research. The gap, which accounts for 1.4 percent of the country's gross domestic product, puts Indonesia among the most vulnerable countries in the world. In relative terms, Indonesia is the second most underinsured country after Bangladesh, which has a gap of 2.1 percent of GDP. In absolute terms, Indonesia's insurance gap is smaller than those of China (\$76.4 billion) and India (\$27 billion). The 2018 Lloyd's Underinsurance Report estimates a global insurance gap of \$163 billion, which is 3 percent smaller than in 2012. But Lloyd's noted that Indonesia's relatively low per-capita income of around \$3,500 prevents it from investing more in insurance. Only 1.7 percent of the country's population currently owns insurance of some kind, according to the Insurance Council of Indonesia (DAI). (*Jakarta Globe*)

### • PLN Books Major Loss

State-owned electricity company PLN has booked Rp 18.50 trillion (US\$1.22 billion) in losses as of the end of the third quarter of 2018, compared to Rp 3.04 trillion in profit in the corresponding period last year, PLN's financial report published on the Indonesia Stock Exchange (IDX) on Tuesday announced. The report said that the losses were a result of the increase of operating expenses to Rp 224 trillion, an 11.82 percent increase over the operating expenses recorded in the corresponding period last year of Rp 200.31 trillion. Expenses for fuels and lubricants increased by 19.45 percent year-on-year (yoY) to 101.7 trillion from Rp 85.28 trillion last year, while electricity purchase expenses increased by 13.50 percent yoY to Rp 60.61 trillion from Rp 53.40 trillion in the previous year. (*Jakarta Post*)

### • Slip in EODB

Indonesia has moved down one place to 73rd in the World Bank's Ease of Doing Business Index for 2019. The 2019 index placing had gone against President Joko "Jokowi" Widodo's expectation that Indonesia would improve to 40th place next year. According to the report, released by the Washington-based lender on Wednesday, Indonesia scored 67.96 out of 100, an increase of 1.42 points. However, the increase was lower than last year, when the country's score increased 2.25 points to 66.54. Two years earlier jumped 15 places to 91st from 106th.

### • Palm Oil Levy Could Be Reduced

The government is considering reducing its levy on palm oil exports, Coordinating Economic Affairs Minister Darmin Nasution said on Thursday, as the country pushes to maintain its position in international markets for the commodity. Speaking at an industry conference in Bali, the minister said an "adjustment" to the levy was among steps to be taken by the govern-

ment, although he later told reporters that this was still being discussed. "We don't have final position yet," Darmin said on the sidelines of the event. "We have to calculate that carefully. We don't want lowering it only to result in lower prices." In-

donesia, the world's top producer of the commodity, currently imposes a levy of up to \$50 per metric ton on various palm oil products.

## ❖ POLITICS AND SECURITY:

### • Another House Speaker Indicted

The national anti-graft agency has named House of Representatives deputy speaker Taufik Kurniawan a suspect in a bribery case involving a scheme to secure the transfer of funds from the state budget to a district government in Central Java. Taufik is the second House speaker to be implicated in corruption in the past 12 months, further cementing the national legislature's reputation as Indonesia's most corrupt state institution. The National Mandate Party (PAN) politician allegedly received Rp 3.65 billion (\$240,000) in kickbacks from Kebumen

district head Yahya Fuad for helping the latter secure a Rp 73 billion regional transfer from the 2016 state budget, Corruption Eradication Commission (KPK) deputy chairwoman Basaria Panjaitan said at a press conference in Jakarta on Tuesday. "The bribe was allegedly part of a 5 percent cut, out of the total budget allocated to Kebumen district," Basaria said. Kebumen is part of Taufik's constituency, which twice elected him to the national legislature – in 2009 and 2014. The annual state budget allocates about a third of its spending for direct transfers to provinces and districts to spend on infrastructure or other development projects.

## ❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

### • Kerry Commends Indonesia on Oceans



Former United States secretary of state, John Kerry, has commended Indonesia for its efforts on tackling illegal, unreported and unregulated fishing, and emphasized that issues relating to the ocean are a global security challenge. "Indonesia has been one of the most important countries in the world to hold other nations accountable for the abuse of entering exclusive economic zones and fishing illegally," Kerry told reporters after a meeting with Maritime Affairs and Fisheries Minister Susi Pudjiastuti on the sidelines of the recent 2018 Our Ocean Conference in Bali.

"This is a security challenge for the planet and we need to treat it with much greater effect," he added. Kerry, who is now a "visiting distinguished statesman" at the Carnegie Endowment for International Peace, initiated the Our Ocean Conference in 2014, while serving as secretary of state.

### • Chief of Naval Operation in Indonesia

Admiral John Richardson gave a relationship-building address in Jakarta October 31 underlining the growing importance of the US-Indonesia Strategic Partnership. In an address arranged by USINDO, Richardson discussed the critical importance of a "rules-based international order that underpins the global maritime economy". Other highlights from his remarks:



- Amount of sea traffic over past 6,000 years has seen a quadrupling in just the last 25.
- Sea cables carry 99% of data globally. Only 3% of this can be reconstituted via satellite and radios.
- US-Indonesia naval exercise successfully build the partnership critical for disaster relief, economic security, and protection from high-end security threats
- protein and carbohydrate consumption from sea products has increased 20% in last 5 years.
- Most of the world's mega cities are close to the sea.

## ❖ SOCIAL/CULTURE/EDUCATION:

### • Most Generous Nation

Indonesia has been named the world's most generous nation



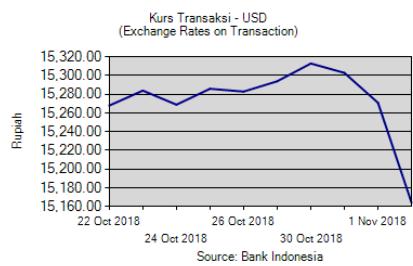
in the 2018 World Giving Index, replacing Myanmar, which dropped to ninth place after holding the top spot since 2014. The annual index, which has been compiled by the Charities Aid Foundation (CAF) since 2010, measures the generosity of 146 countries, with a combined population of around 5.2 billion people, by evaluating Gallup World Poll data based on surveys

of different aspects of life, including giving behavior. The index allocates scores for various actions, such as helping strangers, donating money and volunteering, with Indonesia having scored 46 percent, 78 percent and 53 percent, respectively.

"Indonesia tops the CAF World Giving Index for the first time. While its three individual giving scores are largely unchanged from last year, it has moved into the top spot," the foundation said in a statement on Tuesday. The foundation said it used data from polling carried out last year, so this year's index did not include any actions following the recent natural disasters in Lombok, West Nusa Tenggara, and Palu and Donggala in Central Sulawesi. Indonesia is also leads in volunteering, followed by Liberia and Kenya, at 47 percent and 45 percent, respectively. (Jakarta Globe)

## CHARTS:

## Dollar in Rupiah



## Jakarta Stock Exchange Index



## Inflation

