



# OUTLOOK INDONESIA

MONTHLY UPDATE- APRIL/MAY 2018

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

## HIGHLIGHTS

- Trade Surplus in March But Growth Slows
- Jokowi Pushes Oil/Gas Deregulation
- Indonesia May Join TPP
- Hijab Fashion Becomes Popular
- Youth Choir Wins World Title



## UPCOMING/RECENT EVENTS

## ❖ ISSUE TO WATCH: WHICH WAY IS THE WIND BLOWING

JUNE 6

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

with



Dr. Rizal Ramli, former Coordinating Minister for Maritime Affairs



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[Details and Registration](#)

*Commentary by Wayne Forrest*

Recently Moody's and Fitch curiously upgraded their Indonesia sovereign rating while the government fixed energy and electricity prices for two years, placing the large obligations of state-owned Pertamina and PLN at risk. Meanwhile the rupiah and stock market indexes are trending south but Bank Indonesia and the Finance Ministry are not that worried. The rupiah is flirting with 14,000, stocks are close to a 52 week low (rupiah closed at 14,007 and the JSE at 5885 on May 7) but many are saying its all about a rising Fed rate and Indonesia's fundamentals are strong. What about the effect of a possible trade war between the US and China? How will things shake out with Indonesia's largest foreign investor, Freeport? Can consumption pick up the slack? Sticking one's finger in Jakarta's air is clearly not very easy these days. I am, in principle, an optimist, always one to lend a sympathetic ear to the pro-reform policy statements of the government's frequent visitors to the US such as Finance Minister Sri Mulyani and Coordinating Maritime Minister Luhut Pandjaitan, both of whom made strong showings at gala dinners in Washington in April. If we discount the return of energy and electricity subsidies as political moves in advance of Ramadan and the 2018 and 2019 elections, there is much to like in the government's moves to advance tax reforms and offer holidays, alter new incentives for oil and gas producers, open new sectors to foreign investment, deliver on promised infrastructure, ease work permit processing for expat managers, and use sophisticated hedging techniques.

But as good as the technocrats and many of the reforms have been, sclerotic areas of Indonesia's system remain: legal and judicial malfeasance, unclear halal rules, uneconomic natural resource policies, under-educated labor force, high logistic costs, ingrained patronage habits, and, perhaps most important, a political system where parties differ little on policy or ideology and seek to maximum benefits for their oligarchic benefactors. When have we ever heard an Indonesian political party leader say anything positive about foreign investment, especially during a campaign. It doesn't happen. Maybe I am being too harsh, but it almost seems like we only hear pro investment statements when leaders visit foreign capitals or international conferences. I think most leaders know --but yet are fearful to tell the people-- that the economy cannot grow at 7% without foreign investment, local money is insufficient.

So, when the rupiah devalues and Indonesians reflexively blame a stronger dollar, or other external factor (slower Chinese growth) I find the comments disingenuous. Yes, of course, with 40% of capital markets owned by foreign investors, there will be outflows and many will be temporary. But with better policies, and a more efficient bureaucracy committed to implementing them fairly, I believe more funds would stick around. Bank Indonesia has it right, in my opinion, when its senior Deputy Governor, Mirza Adityaswara, said "During times like this, apart from BI doing stabilization efforts, the most important thing is for the government to clearly convey that it will continue its structural reforms, the real economy." I also applaud the recent remarks of former Finance Minister Chatib Basri who commented: "Foreign investors could be seeing this as no-hope for further reform. Looking at the [more favorable] United States, they would prefer to leave Indonesia. The market is very concerned about any price controls (i.e. gasoline), because they have bad experiences with Venezuela and Eastern Europe."

Indonesia, in the long run, needs more "sticky" foreign investment, and to be less reliant on foreign bond and equity holders. But to get there, it needs to create a climate more like ASEAN neighbors such as Vietnam, who, lacking many natural resources, have created a regime in which Intel, to cite one example, has built 5 factories since 2004. I can't think of one bellwether investment similar to this that Indonesia has attracted. Indonesians need to ask why. Only time and the will of Indonesia's leaders will determine whether the recent turn away from Indonesia's markets is temporary (and perhaps a "kick in the pants") or a real change in the wind. Let's hope its not the latter.

## INDICATORS

US\$= 14,007  
 JSX= 5774 (last)  
 BI Rate: 4.25 (7Day repo)  
 Inflation: 3.41%  
 Reserves: \$126 billion

(source: Bank Indonesia)  
 JSX= Jakarta Stock Exchange

## THIS WEEK IN INDOONESIAN HISTORY

1998

President Suharto leaves for Cairo under increasing unrest that included riots and shootings of student protestors.

## ❖ ECONOMY AND BUSINESS:

### • March Trade Surplus But Q1 Growth Slows

The Central Statistics Agency (BPS) announced on Monday that Indonesia booked a US\$1.09 billion trade surplus in March after posting a trade deficit for three consecutive months from December 2017 to February. BPS head Suhariyanto said the surplus was supported by a surge in exports that reached \$15.58 billion, a 6.14 percent year-on-year (yoy) increase, while the import value reached \$14.49 billion, a 9.07 percent yoy increase. "The export surge mostly occurred in non-oil and gas sectors such as agriculture commodities -- herbs, coffee and corn -- that grew 20 percent," he said, adding that exports in the industry and mining sectors also increased. China, the United States and Japan were the three top importing countries of Indonesia's non-oil and gas products, contributing 37.78 percent to the total Indonesian export value. *(Editor's Note: With tax revenues up in the first quarter and motorcycle sales up in the last quarter, Indonesia's economy seems to be expanding slightly although we won't know for sure until later in the year. The Nikkei Indonesia Manufacturing Purchasing Managers' Index, or PMI, rose to 51.6 in April from 50.7 in March, indicating strongest improvement in manufacturing conditions since June 2016. But the business confidence index tracked to its lowest level since 2012 and overall Q1 growth was 5.06 percent on an annual basis, weaker than the 5.19 percent Q4 2017 rate.) (JG and JP)*

### • Indonesia Offers Tax Holidays

Once thought of as a marginal incentive for investors, tax holidays are making a comeback in Indonesia. Under the new regulation, investors will receive a 100 percent income tax cut from the government, a change from the previous regulation in which tax cuts ranged from 10 percent, 70 percent to 100 percent. The investment threshold for investors to apply for a tax holiday is Rp 500 billion (US\$35.98 million). The government will also prepare incentives for SME investors below the threshold. Investment Coordinating Board Thomas Lembong said investors could begin submitting their tax holiday applications to the BKPM office. He added, however, that the Finance Ministry would decide the number of years a tax holiday would be granted for. "The new regulation also gives stronger legal certainty [for investors]."

### • FDI Up But President Not Complacent

Foreign direct investment in Indonesia grew at a slightly faster pace in the first quarter of 2018, but the investment board warned of possible slowdown as the government scales back its electricity program. In rupiah terms, first-quarter FDI grew 12.4 percent from a year ago, faster than the 10.6 percent growth in the fourth quarter of 2017. The investment board had estimated the total fourth-quarter inflow at \$8.36 billion. President Jokowi said Indonesia has lost out to neighboring countries such as Malaysia, Thailand and Vietnam on getting FDI. "They're running very fast. We have to be careful or else we could be losing out to Laos and Cambodia too if we are stuck in a routine," Jokowi told his economic ministers, mayors and governors. Singapore was the biggest source of investment, followed by Japan and South Korea. (JP)

### • Indonesian Stainless Steel Affects Worldwide Market

An abundance of stainless steel in China following the ramp up of new production in Indonesia is threatening stainless mills globally and the nickel producers that supply them. Marking a major structural shift, China, which makes and consumes around half of the world's stainless, became a marginal net importer of hot-rolled stainless coil in December for the first time in more than seven years, data from the International Steel

Statistics Bureau and from consultants CRU showed. This is after Chinese-owned stainless giant Tsingshan started production last August at a giant plant in Indonesia that should, by the end of 2018, have an annual capacity of 3 million metric tons. (Reuters)

### • Jokowi Pushes to Axe Complicated Regulations to Boost Oil & Gas Investment

"I told the [Energy Ministry] that our regulations are still not conducive. There are still [many regulations] that are complicated, and require a lot of procedure. The regulations should be axed and simplified. I want to discuss that at this forum, what kind of regulations that still give us a headache," Jokowi said at the 2018 Indonesian Petroleum Association (IPA) conference at the Jakarta Convention Center on Wednesday. "We expect to increase [oil and gas] production every year because it has been years that we have not been conducting large-scale oil exploration. Our production keeps declining, and we keep importing oil. That is the expectation," Jokowi said. Once a founding member of the Organization of the Petroleum Exporting Countries (OPEC), Indonesia is now only able to produce oil about 800,000 barrels per day (bpd), half of its daily need, and has since relinquished its place in OPEC. At its peak in 1995, the country was able to produce more than 1.6 million bpd, thanks to massive investments from foreign oil giants. However, an uncertain regulatory environment, changes in worldwide supply and demand, and a lack of new investments to find new reserves has turned Indonesia into a net oil importer. International firms such as ConocoPhillips and Chevron have reduced their holdings, and the nation's overall crude output now stands well below 1 million bpd. Starting last year Indonesia changed its mechanism for the calculation and reimbursement of production and exploration costs on oil and gas contracts, replacing a 50 year old scheme. The new 'gross split' method, while simpler from the government's viewpoint, was not well received by contractors. However, industry input may have improved conditions for new exploration. Referring to gross split contracts, Chevron Indonesia business unit director Chuck Taylor told reporters on the sidelines of the recent Indonesia Petroleum Association Convention that "It's very clear that the Energy and Mineral Resources Ministry has received industry input and strengthened provisions to improve the competitiveness of this scheme." (JG)

### • Bank Indonesia: Rupiah Fall Temporary

The Rupiah has continued to weaken to the level of almost 14,000 per dollar, but it would not crash as in 2013, Senior Deputy Governor of the Central Bank Mirza Adityaswara said here on Monday. Mirza said the main cause of the volatility of the currency is the policy of the US central bank, The Federal Reserve, which raised its benchmark interest rate (Fund Rate) last March and plans to further set it higher two more times later this year. "We are in the middle of a situation when the providers of foreign exchange in the world raised their interest rate and a number of central banks in the world already raised their interest rates. Certainly they cause volatility," Mirza said in a National Seminar on "Expansion and Financing of Export Oriented Labor Intensive Industry". "In 2018, there was a minor jolt, but we believe it would not long. It would not be as bad as in 2013 as we have succeeded in keeping the macro economic indicators well under control such as inflation and fiscal condition. At the same time the government has continued to launch deregulation measures," he said. Mirza said, actually the world condition is favorable with the US economic condition improving, so is the European, Japanese, Chinese and Indian economy. (ANTARA News)

Sources

JP (Jakarta Post)

JG (Jakarta Globe)

## ❖ POLITICS AND SECURITY:

### • Idul Fitri Holiday Period

The government has decided to maintain its Joint Ministerial Decree (SKB) to extend the collective Idul Fitri holiday, which will see offices closed for 10 days from June 11 to June 20. Coordinating Human Development and Culture Minister Puan Maharani said the decision to maintain the extended holiday was made after the government was informed of public concerns over social and economic disruptions, as well as public order and security issues.

### • Anti-Immigrant Sentiment Alive in Indonesia

Although it still remains to be whether former Indonesian general Prabowo Subianto will make another run at Indonesia's presidency in 2019, he has made appearances and statement foreshadowing his candidacy. According to recent news reports Prabowo officially received the support of the Indonesian Trade Union Confederation (KSPI) during International Workers' Day (May 1) where he said: "There are no people in the world that want to open their doors to foreigners like us... The United States wants to make a wall to keep them out. In Australia peo-

ple who try to enter are discharged to remote islands, in Malaysia, our own illegal migrant workers are whipped," he said. Prabowo was referring to a recent regulation introduced by President Jokowi to simplify work permits for foreign managerial workers and stimulate needed foreign investment. The former general-- in keeping with populist trends-- did not discuss the finer points of the regulation and other policies that reserve blue collar jobs for Indonesians. One commentator wrote: "Beyond being an important endorsement for the former general, who is still struggling to consolidate the political coalition needed to make his candidacy official, Prabowo's cautionary comments to the KSPI crowd about the dangers of allowing more foreign workers into Indonesia strongly signal something that many political analysts have predicted -- Prabowo is planning to adopt a similar strategy to that used by US President Donald Trump for his campaign, one that relies heavily on exploiting the economic insecurity of voters through xenophobic fear-mongering about foreigners coming to take their jobs." (*Coconuts Indonesia*).

## ❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

### • Indonesia Will Challenge US Duties on Biodiesel

The Indonesian government will appeal to the World Trade Organisation (WTO) on the US's high anti-dumping tariff on bio-diesel imports from Indonesia, a senior trade official said. On April 9, the US International Trade Commission (USITC) increased the already steep anti-dumping tariff and countervailing duty on biodiesel imports from Indonesia from 126.97 to 341.38 percent, essentially making it almost impossible for the Indonesian bio-diesel product to enter the US market. On March 16, Indonesia won a bio-diesel dispute against the European Union at the World Trade Organization, leading the EU's abolishment of its anti-dumping tariff on Indonesian biodiesel export to the bloc.

### • Indonesia May Join TPP

Indonesia is considering plans to join the Trans-Pacific Partnership (TPP) without the United States, known as TPP-11, Trade Minister Enggartiasto Lukita said.

He added that as Malaysia, Vietnam, Singapore and Brunei had entered the trade pact, the remaining countries, Indonesia, Thailand, Laos, Cambodia, Myanmar and the Philippines, could get input from them. "We are studying the new TPP because without the US, it will be different. ASEAN countries will sit together and those four countries that are already in the TPP will brief the remaining six countries," Enggar said on April 20. (*JP*)

## ❖ SOCIAL/CULTURE/EDUCATION:

### • Indonesian Choir Takes Top Honors



For the first time in the European Grand Prix for Choir Singing's 30-year history, an Indonesian choir has emerged victorious. Resonanz Children Choir won the grand final of the prestigious competition in Maribor, Slovenia, on April 21, beating stiff competition from all over the world. Founded in 2007

Resonanz has already tasted success before, winning the "Choir of the World" title at the 2013 Hong Kong International Youth and Children's Choir Competition.

### • Hijab Fest -Very Chic !

Visitors to Indonesia during the last two decades have remarked that they are seeing more women wearing Islamic head scarves. What many Indonesians say is that while many are doing this for religious reasons, many are also just following a fashion trend. This week Indonesia Hijabfest 2018 is being held Bandung, West Java, on May 2-5. "Indonesia Hijabfest is

an annual event that was started in Bandung in 2012," Sheena Krisnawati, founder of Indonesia Hijabfest, said during a press conference in Jakarta on Friday (27/04). "At that time, I had just started wearing hijabs, but I wanted to remain looking modern and fashionable," she said. "Then, I actively searched for stylish products to accommodate my needs. In my search, I discovered many creative products by local entrepreneurs that are actually very good and affordable."

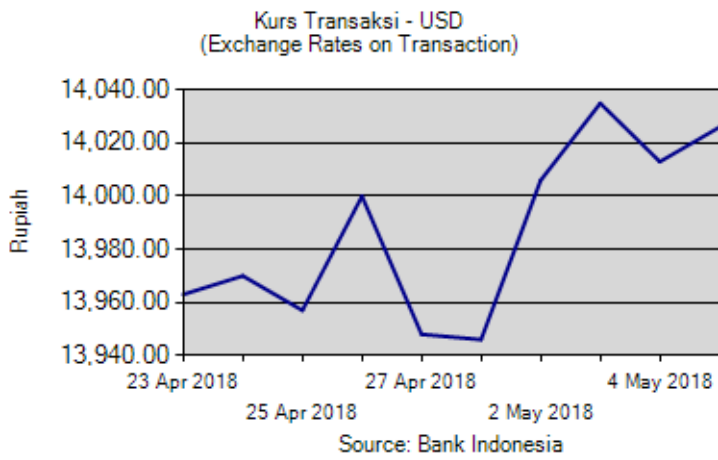
A brief visit to attend the Halal Expo in Istanbul, Turkey, in 2011 opened her eyes to the immense opportunities of the modern Muslim fashion industry.

"[Turkey] is a conservative country, but their hijab styles are very chic and forward, just like the Europeans," Sheena said. "I believe we, in Indonesia, can do much more. We have immense talents and resources to produce creative products in modest wear and Syar'i fashion, and thus, we can also boost the country's economy."



**CHARTS:**

Dollar in Rupiah



Jakarta Stock Exchange Index

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**Jakarta Stock Exchange Composite Index, Indonesia, Jakarta:JKSE, D**



Inflation

