



OUTLOOK INDONESIA

MONTHLY UPDATE- MARCH 2021

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Finance Minister Speaks Reform

Regional Governments Can Issue Bonds

Draconian Electronic Transactions Law Under Review

Prabowo Tops Presidential Straw Poll

Rare Extinct Bird Rediscovered



UPCOMING/RECENT EVENTS

March 12

Discussion With

Rosan Roeslani

Ambassador-Designate to
the United States



REGISTRATION

INDICATORS

US\$= 14,299

JSX= 6290 (last)

BI Rate: 3.5%

Inflation: 1.38% (yoy)

Reserves: \$138,005 billion

(source: Bank Indonesia)

JSX= Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

1998

The Indonesian crisis deepened as the rupiah plummeted 10 percent on concern that the International Monetary Fund would suspend a \$3 billion loan due on March 15 unless President Suharto stopped backtracking on promised economic reforms.

❖ ISSUE TO WATCH: CLOSING THE GAPS

Commentary by Wayne Forrest

"The thinking within the government is to use this Covid crisis as an opportunity to do much deeper and more accelerated reforming in Indonesia". (Feb. 26, 2021 Sri Mulyani, Minister of Finance)

The last 30 days have witnessed a flurry of reform activity in Indonesia. President Jokowi and his Cabinet have demonstrated an impatience with the status quo that feels unprecedented. An Indonesian friend commented to me: "This isn't *jam karet* (rubber time) anymore". The actions, which are to be celebrated, have one overarching purpose: closing several yawning gaps in financing and advancing Indonesia's development. One exists between what needs to be spent on infrastructure and the financing currently available. Another is between the pool of unemployed and underemployed workers (upwards of 60% of the workforce) and available formal sector "jobs with benefits". A third, I would maintain, is the confidence gap that often prevents foreign investors from choosing Indonesia. One final one I would highlight is the gap between the nation's founding ideals (*Pancasila*) that recognize freedom of speech and religion and their actual practice.

Among the actions:

- Launching of a sovereign wealth fund: the Indonesia Investment Authority
- Release of the implementing regulations for the Omnibus Law on Job Creation (signed in October 2020). Especially those governing allocation of labor, severance and business permits.
- Redesign of the Negative Investment List (DNI) as a "Priority List" focused on the opening of dozens of sectors for 100% foreign ownership, many with incentives.
- Ending religious attire requirements in public schools, curtailing abuses in enforcing the Electronic Transactions Act
- Erecting SEA's first drive through vaccination site in Bali

Sovereign Wealth Fund (Indonesia Investment Authority of INA): Created under provisions of the 2020 OmniBus Job Creation Law, the INA is designed to be a trusted partner for medium to long term infrastructure investments. INA is staffed and supervised primarily by private sector professionals. It is empowered by its own legal framework that allows it to operate according to international fiduciary standards rather than those governing Indonesian government enterprises. It is designed to bring confidence to foreign partners whose capital will be deployed to build infrastructure initially (toll roads, ports, and airports) and relieve the burden of the heavily indebted state construction companies. Funds at the master level will be from the Indonesian government as well as other governments but private sector finance will be recruited at the project level. The fund aims to tackle projects as a minority partner. One calculation I read is that between 2020-2024 Indonesia needs \$451 billion but has only about 30% locally. The INA is a new and creative path to get there.

Labor Regulations: The 2003 Labor law, which imposed steep severance requirements on companies forced to downsize and impeded investment in labor intensive industries, is now history, replaced with a much more economic set of calculations governing not just how much is paid to a worker that is let go but also wage increases.

Negative Investment List: Probably the most significant "front end" reform to Indonesia's investment climate is Presidential Regulation #10, 2021. The regulation significantly re-frames how local and foreign investment is viewed. 245 sectors are given priority and offered tax and regulatory incentives for investment. Foreign investment caps are lifted (i.e. power production and distribution) or eliminated in many of them. The government clearly states which areas are off limits in the 2019 Omnibus Law and indicates that the

rest are open to foreign investment. The posture change is significant. It makes the list a priority or "positive list". Other laws and regulations of course, can affect investment, so the reforms referred to in Regulation #10 will not have as much bearing on fields such as oil/gas, mining, construction, and capital markets which have their own governing laws. Among the sectors that have moved from 0 to 100% foreign ownership are: hospitals, real estate brokerage, motorcycle and car dealerships, exploiting forest products, onshore oil/gas services, equipment leasing, advertising, human resources (job placement).

Reaffirming Secularism/School attire: Founded as a secular, pluralist republic, Indonesia has nevertheless allowed local authorities to impose religious mandates that contradict the Constitution and its the body of laws. In some districts public schools were allowed to impose a requirement that all female students (Muslim or otherwise) wear a head covering. These policies (or in some cases statutes) have largely gone unchallenged until now, mostly due to politics. After a case involving 46 non-Muslim girls at a middle school in West Sumatra drew national attention three ministers (Education, Home Affairs, Religion) issued a joint decree that states that students may wish to wear religious clothing in school if they or their parents so choose, rather than the school or the government. The decree applies to public schools nationwide, except Aceh, which applies syariah law.

Electronic Speech: Both the new police chief and the President called for new guidelines and restraint in handling issues of on-line speech. Over-prosecution of defamation claims led to a toxic tit-for-tat on-line environment. The 2008 Electronic

Transactions Law was designed to safeguard digital transactions but became an unwitting weapon of repression. If implemented properly the revisions will lead to better professional conduct by law enforcement and judicial officials strengthening legal certainty, part of the "back end" of reform.

Drive Through Vaccination

Site: Indonesia's vaccine drive roll out is underway, ahead of other countries in the region. It won't be perfect, but Indonesia did make early contracts to purchase vaccines directly from countries as well as through the COVAX facility. It may eventually have its own. It has a decent public health infrastructure that can be mobilized to administer the inoculations but its archipelagic character and many off grid hamlets present challenges. Targeting the tourists it desperately needs to return, Bali has opened Southeast Asia's first mass drive-through vaccination site. Bali's taxi drivers were among the first to roll though.



The sum of these measures is not "business as usual" and I hope and pray that they are implemented with the same spirit of professionalism in which they were promulgated. This is never a given in Indonesia, but maybe, just maybe, this time the gaps will be closed.

(The opinions expressed here are the writer's and do not necessarily represent those of AICC or its members.)

❖ ECONOMY AND BUSINESS:

• Regional Governments Can Issue Bonds

Editor Note's Note: AICC has held several discussion over the years with the Ministry of Finance and regional government officials on municipal finance. When these first occurred in 2012, all of them indicated that Indonesia's regions could not be trusted to issue debt to finance infrastructure. Those discussions, and their follow-up have now born fruit.

Deputy Minister of Finance Suahasil Nazara provincial government (Pemprov) would be given the right to issue bonds as a source of regional funding to contribute to economic recovery. "There will be one or two provinces that will use bonds to build better," said Suahasil in a virtual MNC Group Investor Forum 2021 event, Tuesday (2/3/2021). According to Suahasil, many provinces have the potential to issue municipal bonds, especially for regions that are able to manage their territories well. Suahasil said that the central government has also provided funding for local governments, one of which is through the transfer budget to the regions. In addition, there are also regional loan facilities that are included in the national economic recovery program (PEN). (Detik Finance, translation by AICC)

• New Data Center

Multinational technology company Microsoft announced that it would establish the company's first data center region in Indonesia and continue to roll out its training initiatives. The Indonesian data center region will be the company's second data center in Southeast Asia after Singapore and will be among Microsoft's 60 data centers globally. All partnering businesses will have access to the Azure cloud service upon the launch "This announcement is our most significant investment in the country in the 26 years we have been established here. With a local data center region, businesses will have faster access to cloud services and the ability for data to be stored in the country," said Microsoft global sales, marketing and operations executive vice president and president Jean-Philippe Courtois in a statement on Thursday. (Editor's Note: Amazon also has a data center in Indonesia)

• BI Cuts Rates To Spur Spending

Weak demand in the teeth of a pandemic has prompted Bank Indonesia to intervene. BI, the country's central bank, has cut its benchmark interest rate by 25 basis points (Feb. 22) to a record low of 3.5 percent and drop the down payment requirement for new vehicle loans and mortgages in the latest attempt to spur growth in Southeast Asia's largest economy.

"The decision is consistent with projected low inflation and maintained exchange rate stability as well as follow-up efforts to support national economic recovery momentum," Bank Indonesia Governor Perry Warjiyo said on Thursday. Indonesia's annual inflation rate slowed down in January to 1.55 percent from 1.68 in December, well below the Bank Indonesia's targets of between 2 and 4 percent.

To spur household consumption, which accounts for more than half of the country's economy, Bank Indonesia also relaxed the down payment requirement for car and motorcycle loans and mortgages. Starting next month, one could buy a new motorcycle, car, or house without having to put down any downpayment. (Jakarta Post)

• Finance Minister Speaks Reform

In wide ranging remarks at the Foreign Correspondents Club in Jakarta Feb. 11, Sri Mulyani, set the government's reform in bold strokes. Below are key sections, translated by Reformasi Weekly.

Global Contraction: "Basically, the world economy has not suffered this much since the global financial crisis (2008, if even then....For Indonesia, this has affected our financial performance more severely than anything the 1997-98 crisis...We were still able to manage economic performance with a 2020 contraction that was relatively shallow, at around 2%, while other countries suffered more deeply."

Recovery: "Some early indications of recovery include consumption of cement and electricity. The financial sector, after

heavy turbulence in April and May last year, has been relatively stable or even in recovery... Commodity prices declined very sharply during 2020, but have since recovered somewhat, creating space for Indonesia.. The vaccine will help realize pent-up demand, especially for the middle-upper and upper classes..”

Debt Rating: “Indonesia’s sovereign credit rating has remained at a ‘stable outlook’ during this time, so our policy response has been measured, calculated, and careful... these types of reform are not going to break our good sound discipline on the macroeconomic policy and fiscal policy discipline”.

Reform: “The thinking within the government is to use this Covid crisis as an opportunity to do much deeper and more accelerated reforming in Indonesia... We are going to use this COVID crisis to reform the health sector and accelerate human

capital development, especially for education and the social safety net.”

Sovereign Wealth Fund: “One of the new institutions established through the Omnibus Law on Job Creation is the SWF, which is going.. to be able to attract more capital through equity financing., SWF is a breakthrough to maximize capital inflows to complement reforms we are doing... Indonesia has been overly focused on financing development using leverage, or borrowing, which is not going to be sustainable...”

❖ POLITICS, LAW AND SECURITY:

• Draconian Law to be Reviewed

Indonesia’s top security minister, Mahfud MD, announced the formation of an inter-ministerial team to review the country’s Electronic Information and Transaction (ITE) Law to follow up on President Joko Widodo’s request to revise the law. The law imposes jail time for speech found to be defamatory. Over the years the law, originally intended to protect digital transactions, has been used to unfairly criminalize normal speech, spurring a slew of defamation cases that in the eyes of many, were unjustified. “Reviewing or revising the ITE Law, whose articles, according to several elements in the society at large, can lead to multiple interpretations is necessary,” he emphasized, adding that the joint team comprises a steering team and organizing team.

• Presidential Poll

Minister of Defense and chair of the Gerindra party, Prabowo Subianto, topped a recent poll by the Survey Institute with 26% support. The governor of Central Java, Ganjar Pranowo was second at 15%. Other possible candidates garnering double digit percentages were: Jakarta’s governor Anies Baswedan 15.4%, Tourism Minister Sandiago Uno, and West Java governor Ridwan Kamil 7.5%. Offspring of former Presidents did not fare as well: Agus Yudhoyono (6.2%) and Puan Maharani (1.1%)

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Battle of Sunda Strait Commemoration

On March 1, 2021, the U.S. Embassy was honored to host distinguished guests from the Indonesian, Australian, and U.S. Navies, Armed Forces, and Governments for a day of remembrance of shared history in commemoration of the Battle of Sunda Strait. After playing the national anthems of Indonesia, Australia, and the United States, remarks were given by the U.S. Naval Attaché, the Australian Naval Attaché, a representative from the Indonesian Ministry of Defense, and the Chargé d’Affaires of the U.S. Mission to Indonesia. The ceremony, held on the grounds of the U.S. Embassy, concluded with all representatives laying their respective wreaths in the water, a

time-honored naval tradition. This annual event commemorates the sinking of the HMAS Perth I and USS Houston (CA-30) on March 1, 1942. 696 American men and 353 Australian sailors and marines were lost in the waters of Banten Bay just after midnight on March 1st, 1942 — many of them fighting until the very end. Chargé d’Affaires of the U.S. Embassy Heather Variava expressed gratitude to Indonesian National Government and Banten Government officials “We are especially grateful for your continued support and cooperation in designating the site of the USS Houston a Maritime Conservation Zone, and are committed to working with you towards that goal,” Variava said. (US Embassy website press release)

❖ SOCIAL/CULTURE/EDUCATION:

• More In Poverty

The pandemic has pushed 2.76 million more Indonesians into poverty, bringing the country’s poverty rate to the highest level since March 2017. Amid soaring job losses and business closures last year, the number of citizens living below the poverty line reached 27.55 million in September 2020, up significantly from 24.79 million a year earlier, according to data from Statistics Indonesia (BPS). As a result, the poverty rate climbed to 10.19 percent from 9.22 percent over the same period.

“Although there was an increase in the number of poor people because of COVID-19, the increase in Indonesia was not as severe as predicted, thanks to various social protection programs,” according to BPS head Suharyanto.

• Rare Bird Thought Extinct Discovered

There’s one known specimen of the black-browed babbler bird

in scientific archives. It was collected and described way back in the 1840s and has largely remained a mystery ever since. It has now been rediscovered by an Indonesian research team.

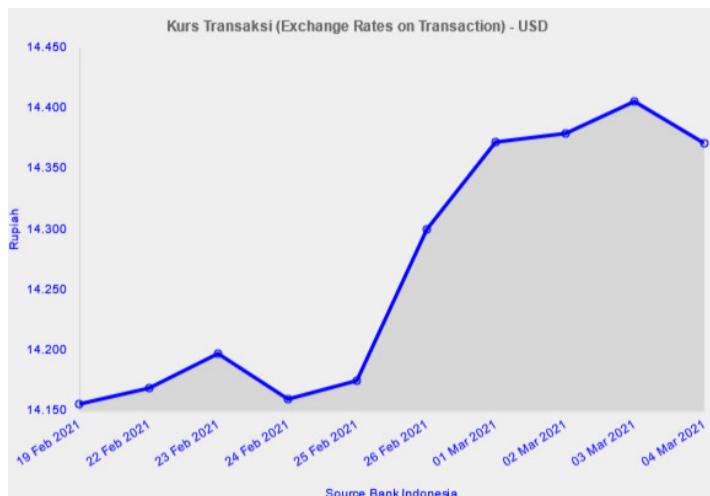
A team led by ornithologist Panji Gusti Akbar with Indonesian birding group Birdpacker published a paper on the bird in the journal BirdingAsia recently.



“This bird is often called ‘the biggest enigma in Indonesian ornithology,’ said Gusti Akbar in a Global Wildlife Conservation statement. “It’s mind-blowing to think that it’s not extinct and it’s still living in these lowland forests, but it’s also a little scary because we don’t know if the birds are safe or how much longer they may survive.”

❖ CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

