



OUTLOOK INDONESIA

MONTHLY UPDATE- OCTOBER 2021

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Equation for Coal Altered
ADB Downgrades Growth Forecast
AUSKUS Causes Concern
A Helpful Orangutan
Bank Indonesia Watches China's Evergrande



UPCOMING/RECENT EVENTS

July 9 in NY Investment Minister



(l-r) Wayne Forrester, Bahlil Lahadalia (BKPM Chairman) and

Dr. Arifi Saimon (Consul General in NY).

JUNE 16

Indonesia Financial Services Update

Dr. Wimboh Santoso
Chairman, Financial Services Authority of Indonesia

VIEW EVENT ON REWIND

INDICATORS

US\$= 14,276
JSX= 6342 (last)
BI Rate: 3.5%
Inflation: 1.60%
Reserves: \$144.784 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDOONESIAN HISTORY

1951

Indonesian political parties split on the issue of ratifying the Treaty with Japan ending World War II.

❖ ISSUE TO WATCH: NICKEL, COAL, AND VACCINES

Commentary by Wayne Forrester

As COVID retreats in Indonesia, hopefully permanently, Indonesia has signaled that it intends to "build back better" but with more leverage in global vaccine debates and more control of its own marketplace. Indonesia's and other SEA leaders believe they have economic and not just moral leverage in debates over vaccine distribution. One way to express this is: factories in SEA that supply LL Bean, closed because workers haven't been vaccinated, will disappoint Xmas shoppers with high prices or unavailability of product. I worry that this leverage will lead to more protection rather than cooperation.

President Jokowi expressed his opinion about vaccines artfully but bluntly at the UN General Assembly: "Politicization and discrimination towards vaccines continue to take place. We must solve these issues with concrete steps". Among his steps is more localization of production: "Indonesia is committed and has the ability to be part of the global supply chain".

I saw this up close in early August when I spoke with several US pharmaceutical companies about supplying Indonesia with more therapeutics such as remdesivir. I had been asked to arrange conversations for senior officials who traveled to the US looking for help to contain the Delta variant that was then raging across the country. One company told me that they had already offered very low prices for one of its products but Indonesia demanded they license a state-owned company to make it instead. The company already had several licensees in India and also said it would take several months to work out the arrangements given the complexity of the manufacturing process and sourcing the necessary component substances. They were met with resistance until the head of one of Indonesia's state-owned pharmaceutical companies admitted that they could not produce the product at a price below what the company had offered out of India.

Import substitution remains that important component of leverage that lurks behind the debate over the future of vaccine distribution. Beyond that is intellectual property. Through much of its history Indonesia, like many developing countries, concentrated on generics and frankly looked the other way when local companies copied expensive patented drugs. With this track record does Indonesia expect patented formulas to be just turned over. Is that what is meant by ending vaccine discrimination?

I trust President Jokowi's heart is in the right place when he calls for cooperative, global solutions but I still remember when Indonesia backed out of a global network of medical laboratories (NAMRU) in 2010 sponsored by the US Navy to share bird flu samples. At the time of the lab's closing US Health and Human Services Secretary Michael Leavitt said: "Experts fear the H5N1 virus will mutate enough to pass easily from one human being to another. If it did, it could cause a pandemic that could kill tens of millions of people globally." Indonesia closed NAMRU because the Health Minister suspected US drug companies were profiting from the samples. This discrepancy over capitalism's "profit motive" continues and Indonesia's goal of vaccine security will only be as successful as its ability to understand market forces, intellectual property, and the risk/reward ratio of pharmaceutical research. Indonesia could send a strong signal by asking the US to reopen the NAMRU lab.

Its very possible that Indonesia's effort to be part of the global supply chain for vaccines and other drugs stems from strategic thinking that has been applied to other products such as natural resources, in particular nickel. Here Indonesia has forced local manufacturing by banning exports of raw nickel. Now, according to recent news, it may be moving to banning processed nickel as well (see story on page 2), placing a big bet on electric batteries. Planners expect electric vehicles will spark a resurgence of industrial manufacturing in Indonesia that has steadily ebbed since the Asian Financial Crisis of 1998. The government has calculated that its strong market in nickel (#1 in reserves) justifies its protective poli-

cy, notwithstanding its commitment to international conventions such as the WTO where the EU filed a protest in 2020.

What if some other type of battery comes along that doesn't need nickel? Something similar just happened with coal. Xi Jinping surprised the world at this year's UNGA by saying that China would no longer support coal-fired power plants. Confidence in low cost solar and wind energy no doubt drove his decision, not just concern over climate change. The shock waves will hit Indonesia hard. Some of the nation's largest and most politically-connected businesses are dependent on supplying China's appetite for thermal coal. These same groups have coal-fired power plants in the works in Indonesia backed by Chinese finance that are now suddenly in jeopardy. Downstream manufacturing of some of the products using nickel could end up being a more expensive proposition than importing due to logistics costs and other issues. If so, Indonesia could end up with a lot of surplus nickel with no market. The Indonesian government may be taking a big risk with a policy of "if we ban its export they will come".

Indonesia would be better off applying the model of its rubber industry. Since the 1920's Indonesia's rubber (exported in semi-processed form) has supplied thousands of tire and other manufacturers all over the world. But a local rubber manufacturing industry (including tires) has also taken hold. None of this occurred with export bans or local content regulations. It occurred organically.

I hope Indonesia applies this lesson to its new ambition in vaccines. Complete self-sufficiency in vaccines is unnecessary. Indonesia can achieve a much higher level of vaccine and pharmaceutical security through a combination of incentives, investment in biomedical research, better protection of intellectual property, and strategic trade policy.

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

❖ ECONOMY AND BUSINESS:

• BI/MOF Watching China's Evergrande

Indonesia's economic chiefs are nervously watching for fallout from the \$340 billion default of China's Evergrande Real Estate Group. Bank Indonesia Governor Perry Warjiyo said on Tuesday that the Evergrande crisis could affect Indonesia's capital market, but he added that it had gradually subsided. He said Indonesia's economy remained the dominant factor in the market. "We assume that the Indonesian market reflects Indonesia's fundamental conditions more than the technical conditions or global financial conditions," Perry told reporters during an on-line press conference. Finance Minister Sri Mulyani Indrawati said Evergrande had become a source of risk to China's financial sector stability. A default, she added, would impact more than just China's domestic economy, but also the world. "So, we have to be wary of Evergrande's default phenomenon," Sri Mulyani said during an on-line press conference on Thursday.

• Further Curbs to Nickel Exports

The Investment Ministry is mulling over plans to ban or restrict the export of processed nickel products with less than 70 percent nickel content. Speaking at a virtual conference on Sept. 17, Investment Minister Bahil Lahadalia said the government was planning to ban exports of processed products containing 30 to 40 percent nickel to preserve Indonesia's nickel reserves and develop the downstream mining industry. Local players, such as the Indonesian Nickel Mining Association, responded that the ban is premature. The association's Meidy Katrin Lengkey said: "The government must ensure the domestic market is ready to absorb the products."

• ADB Revises Growth Forecast

The Asian Development Bank (ADB) has slashed its economic growth outlook for Indonesia following the mid-year resurgence in COVID-19 cases and deaths. For this year, the ADB now expects Indonesia's economy to grow by 3.5 percent, which is 1 percentage point less than forecast in April. For next year, the development bank has reduced its forecast by 0.2 percentage points to 4.8 percent, signifying a delay in getting back to the typical pre-pandemic growth rate of around 5%.

• Electricity Upgrade in Central Kalimantan

State-owned electricity monopoly PLN says it has built infrastructure to power the nationally strategic food estate program in Central Kalimantan. PLN reported on Monday that it had built a 55.7-kilometer circuit of a mid-voltage network (JTM), a 59.7-kilometer circuit of a low-voltage network (JTR) and 29 substations in Pulang Pisau and in Kuala Kapuas. The newly built infrastructure is slated to power 20,000 hectares of food

estate, out of a total 164,600 ha earmarked in Central Kalimantan for the program, which is included in the 2020-2024 National Strategic Projects list. The region is an important source of exports of the herbal product *kratom*, a leaf brewed as a tea for medicinal purposes.

• Key Association Objects to Mandatory Health Certifications for Hotels

The Indonesian Hotel and Restaurant Association (PHRI), a major tourism business lobby, has objected to plans to make Cleanliness, Health, Safety and Environment (CHSE) certifications mandatory for tourism players – a central part of the government's strategy for reviving tourism in the country. Introduced in 2020, the Tourism and Creative Economy Ministry's CHSE certifications seek to standardize and enforce best COVID-19-related practices for businesses in the restaurant, hospitality and tourism sector. The ministry hinted earlier this month that it planned to make the certification compulsory. PHRI chairman Hariyadi Sukamdani said businesses would be "burdened" if they had to pay for CHSE certifications, which would be made part of the country's recently revamped online single submission (OSS) business permit system. (*Jakarta Post*)

• Equation for Coal Altered

China's recent, seemingly sudden, decision to end its support for coal-fired power, communicated in Xi Jinping's recent address at the UN, will challenge many in Indonesia's business community. Feeding China's voracious appetite made Indonesia a world leader in exports of thermal coal. For decades Indonesia's mining laws and policy catered to the needs of conglomerate owners, many of whom served in the government as well. China's recent pledge throws a spanner in Indonesia's coal energy development. Local stakeholders said the Chinese decision would disrupt plans to build new coal power plants in Indonesia. Meanwhile, projects included in the electricity procurement plan (RUPTL) and those that had reached power purchase agreements (PPAs) or financial closure would continue. According to the Institute for Energy Economics and Financial Analysis (IEEFA), power plants accounting for 54 percent of a total 18 GW of new coal capacity in Indonesia have Chinese backing. "Xi Jinping's statement will reduce Chinese investors' interest in coal plant projects in Indonesia," Adhityani Putri, executive director of renewables pressure group Yayasan Indonesia CeraH, told the *Jakarta Post* this week. Indonesia's ministry of Mines and Energy had recently made statements that longterm coal would be eliminated as a primary fuel source for power plants. Now, that future may be a lot closer. (*Jakarta Post*)

❖ POLITICS, LAW AND SECURITY:

• Moeldoko and PAN

Presidential Chief-of-Staff Moeldoko, a former Armed Forces Commander, has retained Yusril Mahendra, a former Minister of Law, in his bid to become chairman of *Partai Demokrat* (PD), a political party founded by former President Susilo Bambang Yudhoyono (SBY). PD's leadership has now been transferred to SBY's son Agus Harimurti. Moeldoko believes that the extraordinary PD Congress that elected him Chairman in May 2021 should not have been invalidated by the current Law Minister. Presumably, Moeldoko's motivation to oust Harimurti and take over as PD's Chairman is to broker influence in the 2024 Presidential race. (*Reformasi Weekly*)

• Corruption Cases

Former South Sumatra Governor Alex Noerdin, now a Golkar parliamentarian, entered custody with the Attorney General's Office (AGO) as a corruption suspect in two separate cases dating back to when he was Governor. Golkar Vice Speaker of Parliament Azis Syamsuddin has reportedly become a suspect in graft cases, currently prosecuted by the Anti-Corruption Commission (KPK), involving Stefanus Robin, a police investigator seconded to the KPK. In as many as three instances, Robin allegedly halted KPK investigations in exchange for bribe from probe targets. (*Reformasi Weekly and Koran Tempo*)

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Jokowi Criticizes Structure of Vaccine Distribution at UNGA

"Politicization and discrimination towards vaccines continue to take place. We must solve these issues with concrete steps," said the President as broadcast for the UN General Assembly on the Presidential Secretariat's YouTube channel on Thursday, September 23. According to him, the world must reorganize the architecture of global health security in order to achieve health equity because no country is safe until all countries are safe from COVID-19. "New mechanisms are necessary to mobilize global health resources, including financing, vaccines, medicines, medical devices, and health workers worldwide, quickly and fairly," he remarked. He also said global health protocol standards must be established immediately. "We need to set global health protocol standards in cross-border activities, such as vaccine criteria, test results, and other medical conditions." President Jokowi further called for empowering developing countries as part of the solution. Local manufacturing capacity must be built to meet global needs for vaccines, medicines, and medical devices. "Indonesia is committed and has the ability to be part of the global supply chain". (*Tempo*)

• US Response to COVID

US response in Indonesia Since the onset of the pandemic, the U.S. Government has committed more than \$77 million to support Indonesia's COVID-19 response. The United States works closely with Indonesia to accelerate COVID-19 case detection

and tracking, improve laboratories, disease surveillance, and rapid-response capacity, and ensure that more people know what to do to protect themselves and each other. Since March 2020, our support has reached 165 million people in Indonesia— 60 percent of the country's population. The United States has helped approximately 43,000 front-line healthcare workers and strengthened more than 1,300 hospitals and clinics around the country. (*US Embassy website*) (*Editor's Note: under COVAX the US has contributed over 12 million Pfizer and Moderna doses to Indonesia.*)

• AUKUS Causes Concern

US-Australia-UK Defense Pact: Indonesia's Foreign Minister reacted with concern to the recent announcement that Australia will acquire nuclear powered submarines and cruise missiles from the US. In a statement published on its website on Friday, the Foreign Ministry said Indonesia had cautiously taken note of Australia's decision to acquire the submarines and stressed the importance of the country's commitment to continue meeting its nuclear nonproliferation obligations. "Indonesia is deeply concerned over the continuing arms race and power projection in the region," the ministry said. The move by Australia may have come without much foreshadowing with ASEAN, underlining the perception that Canberra may take the regional compact for granted. The pact seeks to achieve a greater strategic balance in the Indo-Pacific region.

❖ SOCIAL/CULTURE/EDUCATION:

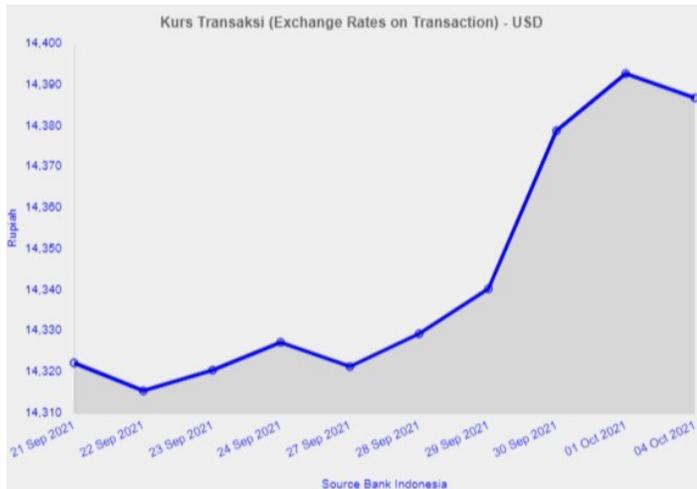
• A Picture Worth A Thousand Words

This photo, taken in Samboja, East Kalimantan, at an orangutan rehabilitation facility managed by the Borneo Orangutan Survival Foundation (BOSF), seemingly shows an orangutan offering help to an employee out of a mud hole. Or is he just asking for food ?

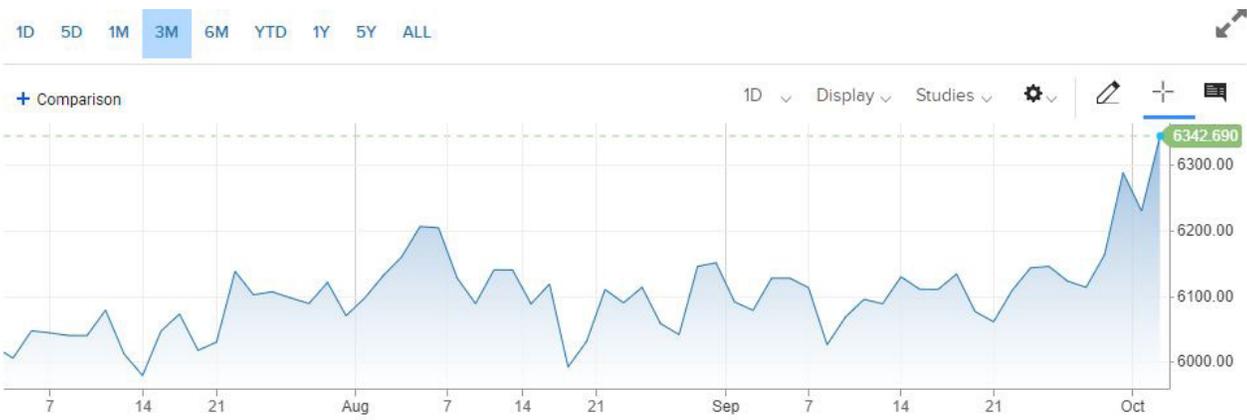


CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

