



OUTLOOK INDONESIA

MONTHLY UPDATE- SEPTEMBER 2020

FROM THE AMERICAN INDONESIA CHAMBER OF COMMERCE

HIGHLIGHTS

New Financial Sector Reforms

Lowest Inflation in Decades

Omnibus Jobs Creation Bill

Indonesia Rejects US Security Council Veto

Wild Papuan Singing Dog Rediscovered



UPCOMING/RECENT EVENTS

June 9

Conversation with Shinta Kamdani
CEO, Sintesa Group
Chair, API (Indonesian Employer's Association)

Indonesian Business Perspective on COVID-10

[Click Here](#) For Notes

INDICATORS

US\$= 14,979
JSX= 5061.71(last)
BI Rate: 4%
Inflation: 1.32%
Reserves: \$137.401 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

2001

The two leading political figures in East Timor -- José Alexandre Gusmão, left, and José Ramos Horta -- arrived in Jakarta, Indonesia, for a two-day visit in a gesture of reconciliation two years after the territory broke from Indonesian rule.

❖ Issue To Watch: LABOR DAY 2020

Commentary by Wayne Forrest

With unemployment at record levels in both the US and Indonesia amidst an ongoing pandemic I've been reflecting on Indonesia's struggle to find meaningful employment for her growing population of 270 million. Of course, our two nations do not share Labor Day: Indonesia observes International Labor Day on May 1. Readers of this column may not know much about the nature of employment in Indonesia. Simply put, there are not enough good paying jobs with benefits to go around even though the country has made remarkable gains lowering absolute poverty and raising income levels over the past several decades.

So, how do people earn? They do so by being entrepreneurial and engaging in all manner of service and unskilled work. There is an involution to labor, meaning jobs are divided to absorb the surplus. For example, distribution of basic goods to Indonesia's consumers move along large arteries down to tiny capillaries. The last few kilometers may involve several changes of hands and jerry cans on the side of a motorbike. It's estimated that 65% of Indonesia's workforce is in the informal sector. These domestic helpers, construction day laborers, food stall workers, delivery people, agricultural field hands, watchmen, etc. do not pay taxes; their income is not included in GDP; and they do not receive unemployment benefits. They are paid in cash at the end of the day. Extended families manage child and elder care. Decades of searching for higher wages in manufacturing has led many younger Indonesians to leave rural areas for cities. Many have found successful employment, often in the textile industry, but not always, and naturally unemployment is highest in urban areas. The gold star job for the majority of Indonesia's workforce (those with junior high school education and few skills) is in a factory, possibly one that employs union workers. But, only 3.6% of the workforce is unionized. In the decade after Tiananmen Square (1991-1997) Indonesia did well in manufacturing, a good example being Mattel's huge Barbie Doll factory, but after China joined the WTO in 2001 a lot of these jobs (and the potential for new ones) were sucked away. Indonesia and its youthful President is fighting to bring them back.

Formal sector jobs for high school and college graduates (especially office and digital) have increased as Indonesia's economy grew but there remains relatively high unemployment among the ranks of the college educated due to low curriculum quality and job mismatches. Indonesia only requires education until grade 9 and only approximately 26% complete high school. Indonesian students rank low on international PISA tests and a 2019 World Bank report, "The Promise of Education in Indonesia", revealed that 35 percent of Indonesian children are unable to read and understand a simple story by age 10. An analysis by the World Bank showed that 55 percent of Indonesians who complete school are functionally illiterate compared with only 14 percent in Vietnam and 20 percent of OECD member countries. This number is all the more startling when the national government reportedly spends 20% of its budget on education. A significant gender gap also remains even though increasingly numbers of women are joining the labor force even after marriage. Although all schools are under the government's authority, about 50% are private, often religious-focused schools, especially junior and senior high schools. A new Minister of Education, Harvard-educated tech mogul Nadiem Makarim, is already running into difficulty promoting more STEM in a system that years ago moved away from its secular basis to one that has accommodated political Islamic interests, inserting religious teaching in the national curriculum.

Given this scenario two recent government imperatives stand out: attract manufacturing investment to get more people out of the informal sector, and keep people working during the pandemic. Currently, only 23% of allocated social COVID assistance funds have been spent, in part, because many of the people who need it most are the informal sector

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❖ ECONOMY AND BUSINESS:

• Stocks Could End the Year Lower

The Indonesian stock market is likely to endure a selling spree by foreign investors until year-end as the global economic and political situations remain unfavorable for the country's assets amid the prolonged COVID-19 pandemic, analysts have said. Foreign investors at the Indonesia Stock Exchange (IDX) sold almost Rp 32 trillion (US\$2.16 billion) of stocks more than they bought as of Monday. In comparison, the local bourse managed to book foreign net buys of Rp 49.19 trillion last year and Rp 50.75 trillion in net selling in 2018, IDX data shows. Fears over the coronavirus outbreak's economic impact rattled global stock markets, including that of Indonesia, in March and April as investors dumped risky assets and turned to safe-haven assets, such as gold and the United States dollar. The capital outflows weakened the rupiah's value against the greenback. The Jakarta Composite Index (JCI), the IDX main gauge, has lost almost 17 percent of its value so far this year as it slipped 0.18 percent to 5,230 on Monday. It fell to its lowest point on March 24 to 3,937.63 due to the virus fear and since then, the index has gained around 32 percent, a rally analysts say was backed by domestic retail investors. (*Jakarta Post*)

• Chinese Brands Begin to Dominate Cell Phone Market

Although Samsung remains a popular cellphone in Indonesia, lower costs Chinese brands now dominate Indonesia's cellphone market. Chinese-made brands, according to a report by Counterpoint Research, have a 73% share. In the second quarter of 2020, Vivo led the market with 21.2% share. Below Vivo was Oppo with 20.6% of market share, followed by Samsung 19.6% Xiaomi 17.9% and Realme 13.6%. According to the report: "Online smartphone sales in Indonesia grew 70% YoY and 7% QoQ during Q2 2020. The total online smartphone market share reached an all-time high of 19% during Q2 2020, compared to 9% in Q2 2019. This spurt was mainly due to the COVID-19-triggered need for social distancing and innovative marketing strategies such as shopping through WhatsApp. E-commerce platform Lazada topped the chart with 50% share, leaving behind Shopee (24%) and Tokopedia (15%). Indonesia smartphone market sales declined 20% YoY and 9% QoQ in Q2 2020 mainly due to the adverse economic effect of the COVID-19 pandemic.

• Financial Sector Reforms

Indonesia's Parliament is about to begin deliberating revisions to the legislation that created the Financial Sector Authority (OJK) and Bank Indonesia (BI) as independent entities. The proposals would:

- Broaden BI's mandate beyond inflation to cover growth and jobs
- Move OJK's bank supervision role back under BI, where it was before 2011
- Impose a monetary board above BI chaired by the Finance Minister
- Mandate BI's future policy tool of debt monetization (buying government bonds at zero or low interest) if needed to address systemic risk and avoid a financial crisis

Indonesia's legislative rules require that the government explicitly approve legislation before it can be deliberated and that hasn't yet happened. The perception of increased financial risks may have led to a slippage in Indonesia's currency, stirring responses from ratings agencies, government securities firms and regional economists. Some pointed out that giving BI a mandate to include jobs and growth was similar to that of the Federal Reserve, others suggested the plan gave too much monetary authority back to the Finance Ministry where it had been prior to 1998 and could lead to future imprudent decisions. In response to the concerns Finance Minister, Sri Muly-

ani, reiterated on September 4 that BI's independence will be maintained, echoing similar comments made by President Joko Widodo. However, irrespective of these comments it appears that some key changes will be put forward to achieve better government control over the banking system. Absent from the bill and public commentary has been the role of insurance in Indonesia, surprising since the multi-billion "Ponzi scheme" scandal at Jiwasraya, a government-owned insurance company, dominated headlines earlier in the year.

• Lowest Inflation in Two Decades

Indonesia recorded the lowest inflation in two decades in August as consumer prices fell due to weakening purchasing power, Statistics Indonesia (BPS) announced on Tuesday. BPS said Indonesia's consumer price index (CPI) declined to 1.32 percent in August. The CPI fell further below Bank Indonesia's 2020 inflation target of 2 to 4 percent to reach the lowest level since May 2000, as the global health crisis continued to batter the country's economy and consumer spending. "Inflation in many countries slowed [and] even headed into deflation, as the COVID-19 pandemic delivered a severe blow to [both] the demand and supply sides," BPS head Suhariyanto told a virtual press briefing on Sept. 1. "The declining trend in core inflation showed that purchasing power has yet to recover." Indonesia recorded core inflation of 2.03 percent in August, while administered prices were up 1.03 percent. At the same time, food prices recorded an annual deflation of 1.09 percent. (*Jakarta Post*)

• Logistics, Labor and Electricity Costs Hamper Batam, Help on the Way

Often promoted as a free trade zone for export-oriented investors, Batam appears to be having difficulty. High costs for logistics and electricity in Batam are burdensome for business, hampering the government's effort to attract investors to the free trade zone (FTZ) in Riau Islands, business players have said. Abidin Hasibuan, the president director of publicly listed electronics manufacturer PT Sat Nusapersada, said on Thursday that container shipment costs from Batam remained uncompetitive given the poor infrastructure and inefficiency of the area's main seaport, Batu Ampar Port. "Shipping containers from Jakarta to Hong Kong is around 50 percent cheaper than from Batam. That doesn't make sense, as Batam is closer to Hong Kong than Jakarta," he said during an online discussion held by Media Indonesia. Furthermore, high electricity and labor costs on the islands also make Batam less competitive than other countries, and that is especially dire for industries relying on exports, according to Abidin. "We are lucky that the rupiah is still relatively weak compared to the US dollar. If the rupiah strengthens to Rp 12,000 per dollar, then we are done," he said.

The government has taken measures to woo investors with new regulations and tax deals for the Batam FTZ that it expects to aid the region and national economic rebound after the pandemic. Among the investment incentives are: 100 percent corporate tax holiday, value added tax (VAT) and luxury tax exemptions for imported goods and import duty deferment for raw materials. Susiwiwono Moegiarso, the secretary of the Office of the Coordinating Economic Minister, told the forum: "We will also allow 100 percent foreign ownership of companies within the enclave [KEK] and apply a zero-percent duty for products with at least 40 percent local content". (*Jakarta Post*)

• More Internet Business Charged VAT

Indonesia on Tuesday added 12 more companies, including social media firm Twitter and video-conferencing site Zoom, to a list of internet-based businesses that must pay a 10% value-added tax on sales. (*Reuters*)

❖ POLITICS AND SECURITY:

• Jakarta Issues Work From Home Order

Jakarta Governor Anies Baswedan announced on 9/9 that the administration was reimposing the large-scale social restrictions (PSBB) policy amid a rising number of confirmed COVID-19 cases in the capital. "We have no choice other than to pull the emergency brake, which is reimposing PSBB," Anies said during a press briefing. By reimposing the restrictions, the administration will not allow non-essential workplaces to operate and order its workers to work from home. The administration will also not allow public activities to be held. "People will be told to work, study and pray from home." Indonesia's National Chamber of Commerce and several ministers immediately questioned the decision, suggesting that industries that can enforce adequate health protocols should be allowed to remain open. (*Jakarta Post*)

• Omnibus Jobs Creation Law Muddles On

Straining since January to pass an important piece of legislation designed to boost manufacturing investment, the Indonesian government announced that it was creating the implementing regulations in advance of whatever final version of the law comes out of Parliament. The most controversial and impactful aspect of the law -- wages, layoffs and severance pay-- will be debated this month. The government is trying to revise 79 prevailing laws and more than 1,200 articles. The bill, which is more than 1,000 pages long and contains 174 articles in 15 chapters, has faced backlash from labor unions, observers and NGOs that argue it will jeopardize labor rights and weaken environmental protection, among other issues.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Indonesia Worried About US-China Rivalry

Amid a growing military rivalry between the US and China over access to the South China Sea, Indonesia's foreign minister Retno Marsudi cautioned the United States and China on 9/8 not to entangle her country in their regional struggle for influence, telling the two superpowers: "We don't want to get trapped by this rivalry." Retno, the chief diplomatic envoy for Southeast Asia's largest country, made the comment in an interview with Reuters ahead of a series of key meetings of regional foreign ministers this week, some of which will include their US and China counterparts. Retno told Reuters the escalating militarization of the South China Sea - and broader US-China animosity - was troubling. "One word: worrying," she said. "That is the political reality that we have to face." (*Jakarta Post*)

(Editor's Note: In a recent meeting between Indonesia's and China's Defense Ministers prior to an upcoming ASEAN Foreign Ministers Meeting, the two agreed that South China Seas issues

would be resolved through dialog.)

• Indonesia Rejects US Security Council Veto

Indonesia regrets the U.S. veto of a U.N. resolution that Jakarta sponsored calling for the prosecution, rehabilitation and reintegration of people engaged in terrorism-related activities, officials said on 9/9. Washington said it rejected the U.N. Security Council resolution on Monday, 9/7 because the document did not call for the repatriation from Syria and Iraq of foreign fighters for the extremist group known as Islamic State (IS). Febrian Ruddyard, director general of multilateral cooperation at the Indonesian Ministry of Foreign Affairs, said the reason for the omission was that not all countries were capable of bringing back militants. "We really regret that this veto was only based on the [issue of] repatriation of ex-militants and ignored things that are bigger and important than that," said Febrian. (*Benar News*)

❖ SOCIAL/CULTURE/EDUCATION:

• Singing Dog, Thought Extinct, Rediscovered Near Freeport Mine

The New Guinea singing dog, an extremely rare breed, is best known for its unique barks and howls -- it's able to make harmonic sounds that have been compared to the calls of a humpback whale. Only around 200 captive singing dogs live in conservation centers or zoos, the descendants of a few wild dogs captured in the 1970s. None had been seen in their natural habitat for half a century until 2016, when an expedition located and studied 15 wild dogs near the Grasberg copper and gold mine managed by Freeport Indonesia in the remote highlands of the western side of New Guinea, known as Papua, in Indonesia. The company's measures to protect the ecosystem around the mine had inadvertently created a sanctuary in which the highland wild dogs could thrive. A new expedition returned to the study site in 2018 to collect detailed biological samples to confirm whether these highland wild dogs truly are the prede-

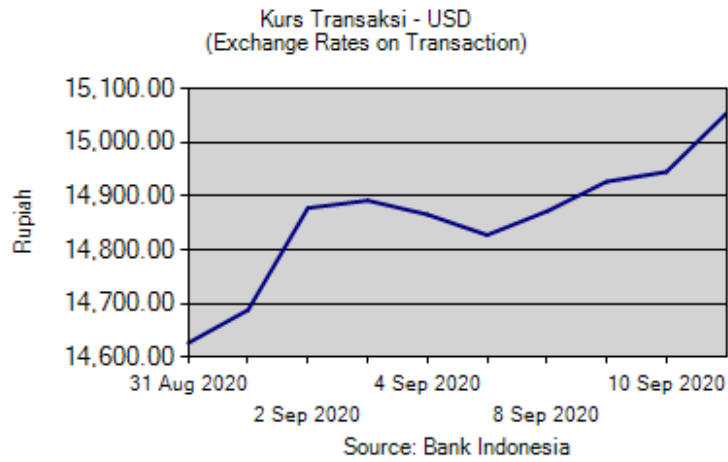
cessors of the singing dogs.

Read more of this remarkable story: <http://www.nghwdf.org/hwds>



❖ CHARTS:

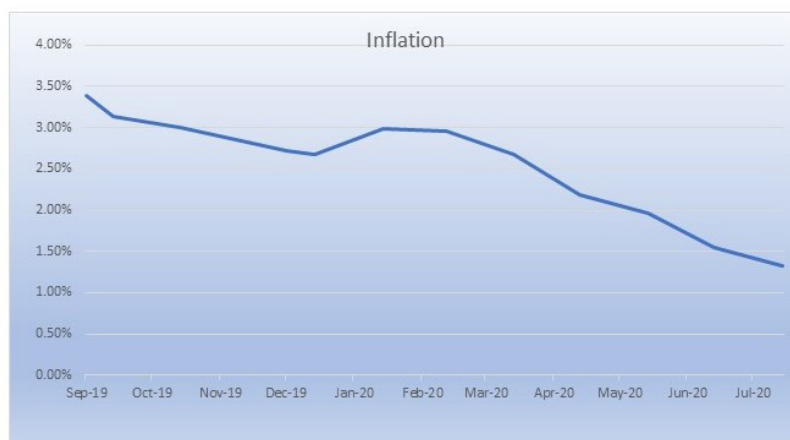
Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation



workers who are not registered in the national databases. Additionally, since the pandemic the Jokowi administration has been reluctant to impose lock-downs, knowing the huge impact they have on most of the workforce. The dilemma is tragic.

Indonesia's approach to attracting manufacturing investment has been patchy, at best. After several previous administrations failed to add significantly to the nation's road, rail, and ports, the Jokowi administration has made significant progress building them, forging a significant partnership with China who has acted as builder as well as financier. Still, logistics costs remain among the highest in the region because of many other costs that are not reduced even if travel time is. It remains cheaper to import fruit to Jakarta from China than Aceh (western tip of Sumatra). Subsidized fertilizers and floor price schemes are part of an effort to achieve food self sufficiency that would normally help keep agricultural workers employed, but inefficient distribution networks (often a needless series of middlemen) retard the incentives and wages: in Jakarta, the official minimum wage is \$10.71 per day, three times what farmers earn. The incentives keep prices up but that can also be dicey; Indonesian-grown rice and beef is more costly than imported Thai rice and Indian beef, and if there is a bad harvest prices can skyrocket.

The cornerstone of Indonesia's approach to manufacturing is to selectively ban exports of high value metals and create a network of new "turnkey" industrial estates, similar to what was established in the 1970's on the island of Batam. This has been successful in nickel, where an export ban has led to significant investment in downstream processing, especially stainless steel. The jewel in the making is an electric vehicle battery factory under construction at Morowali (Halmahera island). Indonesia expects to eventually produce its own e-vehicles. I suspect they may be able to do this but only with a lot of imported components that could lead to a high price tag. Whether or not this value-added strategy can be applied in a widespread fashion remains to be seen. Its been no secret that the smelter imperative is uneconomic for copper and other metals, yet it persists. A 1980's ban on sawn timber exports did not lead to enough downstream processing (furniture, plywood) to make up for the lost export revenue. Curiously, rubber, a product Indonesia has been able to export both in raw and manufactured form without import/export bans, does not serve as an example. Most of the industrial estates slated to absorb relocated production from China are still under construction. However, Batam, a free trade zone close to Singapore that took decades to develop, has now lost some of its competitive advantage as wages and electricity costs have increased. Some exporters there have said that the only thing keeping their operations viable is an undervalued currency.

After a series of deregulation packages during Jokowi's first term (2014-2019) did not bring the manufacturing foreign investment Indonesia had hoped for and a World Bank report indicated that Vietnam received most of the investment from multinational companies moving their production out of China (due to US-China tariff wars), the President launched what he called "structural reforms". Presented in the Omnibus Law on Job Creation, the legislation was supposed to have been passed last April. Besides harmonizing thousands of central and local government regulations, the bill's signature provision are changes to the 2004 Labor Law. Drafted at the height of Asian Financial Crisis of 1998, the bill gives "formal" workers significant job security and mandates severance payments of a year's wages, obviously a disincentive for manufacturing investment. In other fields, office workers for example, the law has been circumvented by artful use of contract workers supplied by outsourcing companies who can be more easily dismissed. The new law, if passed, will make it easier for employers to fire employees, removing an obstacle to manufacturing foreign investment. However, Indonesia's Parliament has yet to agree on the exact terms of the labor provisions in the Omnibus, with significant members of PDI-P, the political party that drafted the 2004 bill, not yet on board. The highly touted "Jokowi consensus" (over 60% of Parliament) may not be as solid as it would appear.

One wonders what is holding legislators back in this time of pandemic and a real chance to grab outbound investment from China. Its got to be more than the unions that employ a small fraction of the overall labor force. And what of the rarely mentioned and perhaps more consequential "structural reforms" such as judicial, civil service, education, and taxation reform. Or the transactional political system that allows oligarchs that back a political party to get sweetheart deals when the party controls a ministry. These are what existing investors talk about even more than infrastructure. These are the things holding Indonesia back from reaching its enormous potential. Years of problematic judicial decisions have led today's foreign investors to do deals with Indonesian partners in Singapore under a bullet-proof legal regime. Tens of thousands of good paying office jobs (accounting, financial, legal, and clerical) that put together these deals should be in Indonesia.

So, this Labor Day 2020 I celebrate the workers of Indonesia and hope for your future success. And may the government achieve a clarity of vision to create an economy less based on who you know, than what you know.

(These remarks are solely the author's and may not reflect the views of the American Indonesian Chamber of Commerce or its members)