



OUTLOOK INDONESIA

MONTHLY UPDATE- JUNE 2021

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

May Inflation Is Low
New Tax Law Proposed
5G Comes to Indonesia
Is KPK Doomed?
Sherman Visits Indonesia



UPCOMING/RECENT EVENTS

Financial Services Update

featuring

Wimboh Santoso
Chairman, OJK (Financial
Services Authority of Indo-
nesia)



June 16, 2021

Details Forthcoming

INDICATORS

US\$= 14,297
JSX= 6091 (last)
BI Rate: 3.5%
Inflation: 1.68%
Reserves: \$138.99 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDOONESIAN HISTORY

1982

The foreign ministers of five non-Communist Southeast Asian countries (including Indonesia) are scheduled to meet to seek a way to break an impasse in their diplomatic efforts to get Vietnamese forces out of Cambodia.

❖ ISSUE TO WATCH: INDONESIA STEPS FORWARD

Commentary by Cameron Hume, Chairman, AICC

Two unicorn companies in Indonesia with a combined valuation of \$19 billion have announced their merger in preparation for a public listing in Jakarta and New York. How did this come about?

Indonesia has changed.

At independence in 1949 Indonesia was one of the poorest countries in the world. Dutch colonial policy was not to prepare the population, spread over hundreds of islands in three time zones, to be one nation. The new leaders selected one dialect to be the new national language, and they opted for a secular state although most Indonesians are Muslims. Under Presidents Sukarno and Suharto Indonesia maintained a facade of periodic elections while the state remained autocratic and the economy state-controlled.

That model collapsed during the 1998 Asian financial crisis. After 35 years in power President Suharto resigned, replaced during the next six years by four successors all chosen by constitutional means. These Presidents recognized the independence of Timor Leste, ended the conflict in Aceh, removed the military from its role in domestic politics, and returned the economy to a pathway of stable growth, averaging 5% per year.

What difference has the consolidation of the nation state and a shift from autocracy to democracy made? In 1998 Indonesia had the 32nd largest economy in the world, with per capita income of \$465 (in 2010 constant dollars, World Bank figures). Lower income, despite considerable progress since independence.

Today, just one generation later, Indonesia has become the world's 16th largest economy. It is a middle-income country, with per capita income of \$4,135 (purchasing power parity at \$11,000 due to low cost of living). Alongside the state-owned companies and entrenched conglomerates that still dominate the economy, new privately held entrants are forging their way forward.

Who are the two unicorns about to merge? Why are they successful?

One is Tokopedia, an on-line shopping service that links many small family-owned stores to a flourishing internet market. The second is Gojek, a payment platform and mobility company that created an on-line market for motorcycle rides through urban traffic. Mirroring our own tech giants, both are innovators, using internet access to link customers to the market in new ways, disrupting the profits of less efficient incumbents.

Indonesians are now both middle class and tech savvy. 200 million Indonesians access the internet regularly; they constitute the 4th largest market globally for cell phones, of which 63% are smartphones. The educational system is improving, albeit gradually, with the Asian Development Bank estimating that expected years of schooling per student has reached 13.6 years.

What comes next?

Indonesia should sustain its commitment to building one nation by constitutional and democratic means. Marketplaces must be open for innovation, with restrictions on rent-seeking by public companies and incumbent monopolies. Fundamental restructuring of the country's legal system should accompany recent positive, front-end changes to the investment regime. Public investments in education and social services can help citizens still shifting from village to city life. More women should be welcomed into the workforce. And open-

ness to trade, now at 37% of the national economy, should be sustained. Tokopedia and Gojek, (the merged company will be called Go To) have taught a lesson about success in the new Indonesia.

Who will learn it?

(The writer, a former ambassador to Indonesia, is chairman of the American Indonesian Chamber of Commerce. He is writing in his personal capacity.)

❖ ECONOMY AND BUSINESS:

• May Inflation Is Low

Jakarta (ANTARA) - Indonesia recorded a 0.32-percent increase in inflation in May this year, fueled by a rise in the price of food-stuffs, transportation fares, and gold jewelry, according to the Central Statistics Agency (BPS). The commodities and services that contributed to inflation included purebred chicken meat, air transport tariffs, beef, oranges, cooking oil, gold jewelry, and inter-city transport fares, according to BPS deputy for distribution and service statistic Setianto. They also included rice with dishes, parking fees, live chicken, train fares, coconut, and potato, he added. Analysts had predicted higher inflation levels because of the annual end-of-fast purchases.

• World's Largest Green Industrial Estate

President Jokowi continues to announce big plans for his country. Following early announcements, such as moving the nation's capitol to East Kalimantan and becoming the world's leading manufacturer of electric vehicle batteries, Jokowi showed off the ambitious plan at the Partnering for Green Growth and Global Goals 2030 (P4G) summit on May 31. Located in North Kalimantan, the industrial estate will provide an impetus for green growth. "Indonesia is currently developing the world's largest green industrial area in North Kalimantan. It will have a huge potential in renewable energy," Jokowi said in a recorded address. "Indonesia also has the vision to build a carbon market and will have the world's largest carbon stock." On a separate occasion, Coordinating Minister for Maritime Affairs and Investment Luhut Binsar Pandjaitan revealed the green industrial area would span 12,500 hectares. It would also run on hydro-power with a capacity of 11,000 megawatts. According to Luhut, the green industrial area also aligns with Indonesia's target to reach net-zero carbon emission by 2060. *(Jakarta Globe and other sources)*

• Indonesia Backs Away From Coal

Top thermal coal exporter Indonesia is planning to retire its coal-fired power plants gradually, in a phased move towards becoming carbon neutral, an official from the country's state utility, Perusahaan Listrik Negara (PLN), said on Thursday. This is part of PLN's ambition to achieve carbon neutrality by 2060, its deputy president director, Darmawan Prasodjo told a televised hearing in parliament. Indonesia's government aims to have 23% of energy coming from renewable sources by 2025, up from around 11% as of last year, but progress on renewable projects has been slow. "We are building a coal-fired power plant retirement timeline," Darmawan said. In 2035, PLN aims to retire its conventional power plants which have a total capacity of 9 gigawatts, Darmawan said. By 2040, "supercritical" coal-based power plants, or those using less polluting technology, with a total capacity of 10 gigawatts, will be shut.

The final phase of coal retirement will see its "ultra supercritical" coal power plants shut by 2056. "Then, we'll reach carbon neutrality in 2060," Darmawan said. *(Reuters)*

• Morgan Stanley Exits Indonesia

Morgan Stanley (MS.N) plans to close its Indonesian onshore institutional equities trading business, the investment bank said

on Thursday in response to Reuters queries. Morgan Stanley said in a statement that it "intends to cease its onshore broker-dealer activities in Indonesia. The firm remains committed to Indonesia and will continue to provide our global clients access to the equity market working with qualified local brokerage partners."

Sources familiar with the decision told Reuters that the move will result in about 10 job losses.

• New Tax Law

Indonesia is moving closer to a new tax law, adding a general goods and services tax (GST). Coordinating Economic Minister Airlangga Hartarto said Wednesday, May 19 that the President had sent the request letter to the House of Representatives to begin discussing a draft of the fifth revision of the 1983 General Taxation Law. Airlangga said the revision would cover changes to value-added tax, personal income tax, luxury sales tax and excise, lowering corporate income tax and introducing a carbon tax and a second tax amnesty. "There will be a couple of things we will discuss, the result awaits deliberation with the House," Airlangga said in an on-line press briefing on Thursday. "We hope the deliberation will take place as soon as possible." The revisions are clearly intended to raise more revenues, but they could allow the government more flexibility to apply tax revisions in a more efficient, and targeted fashion. Some of the items in the Minister's statements, such as the carbon tax, are quite new and could provoke resistance. On the other hand such a tax would stimulate investment in renewables. It will take time before details are forthcoming.

• 2nd Tax Amnesty

With plans of a new tax amnesty resembling that of 2016, the government seeks to increase state revenue as a quick fix for a huge budget deficit caused by the coronavirus pandemic, but critics warn that a second program may encourage tax evasion. Coordinating Economic Minister Airlangga Hartarto said on May 19 that the plan was included in a proposed amendment to Law No. 6 of 1983 on general provisions and tax procedures, along with a plan to increase value-added tax (VAT), high-net-worth individual (HNWI) tax and many other changes.

• 5G Comes to Indonesia

State-owned telecommunication operator Telkomsel launched on May 27 the first commercial 5G service in Indonesia, thereby testing the market for such a premium data service. Telkomsel president director Setyanto Hantoro said that, in the initial stage, 5G services would be made available in residential areas of Jakarta and South Tangerang given potentially high consumer demand for data services in those areas.

• OSS Licensing System Delayed

Indonesia is postponing the launch of an online platform that aims to make it easier for investors to submit documents and secure licenses. Investment Minister Bahlil Lahadalia said Friday that the government was planning to delay the launch of the on-line single submission (OSS) platform, initially scheduled to go live on June 2, into July.

❖ POLITICS, LAW AND SECURITY:

• President Jokowi Highlights Threats to Pancasila

President Jokowi marked Pancasila Day, a relatively new national holiday that celebrates Indonesia's founding principles, by highlighting the threats to them caused by rapid technological advances as well as the pandemic. Rapid interaction among members of the global community in the era of globalization has not spontaneously promoted common views and strengthened unity, he noted. Instead, it has given rise to several challenges, for which the nation must remain vigilant, he added. "What makes us remain vigilant is the increasing rivalries and competition, including those related to inter-views, inter-values, and inter-ideologies," he said. The development of science and technology has also had an impact on the technological constellation, he pointed out. The fourth industrial revolution (Industry 4.0) has made it easier for the international community to hold dialogs, interact, and engage in organizations, he said. With 5G connectivity reaching a global scale, international interactions have increasingly become easier and faster, he pointed out. "International radical ideologies have capitalized on the facilities to penetrate all areas, all classes, and all age groups in Indonesia, regardless of place and time," the President said. Hence, there is a need to spread knowledge of the values of the Pancasila through extraordinary ways, he added. Enshrined in Indonesia's Constitution the Pancasila ("Five Principles") are: belief in one God, a just and civilized humanity, Indonesian unity, democracy under the wise guidance of representative consultations, and social justice for all the people of Indonesia.

• Is KPK Doomed ?

After speaking out in support of Anti-Corruption Commission (KPK) employees who failed a required civil service test, saying they should undergo further education, President Jokowi has

remained silent after the KPK announced that of the 75 employees, only 24 would take part in a specialized training program. Among the 51 who will be dismissed are some of KPK's best and most experienced corruption investigators. One of them, Novel Baswedan, said "As part of the ongoing weakening of the KPK," Novel told Reuters via Zoom, "I'm worried this will be the final phase." "We had integrity and we were unwilling to be influenced," he said. "That was considered wrong." KPK investigators had been digging into legal and tax "mafias" and the corruption of coronavirus aid across the archipelago, he said.

• High COVID Rates Under Reported

A University of Indonesia study of the prevalence of COVID antibodies points to a massive underreporting of the incidence of the disease due to a lack of adequate laboratory and contact tracing "Our official surveillance system cannot detect COVID-19 cases. It is weak," said the principal investigator for the University of Indonesia study, Tri Yunis Miko Wahyono, who commented on it but was not authorized to confirm the figures. One nationwide study between December and January suggested 15% of Indonesians had already contracted COVID-19 - when official figures at the end of January had recorded infections among only around 0.4% of people. Even now, Indonesia's total positive infections are only around 0.7% of the population. Siti Nadia Tarmizi, a senior health ministry official, said it was possible the study was preliminary, but there might be more cases than officially reported because many cases were asymptomatic. Just 6% of Indonesia's targeted population of 181 million have been fully vaccinated with two doses so far, while 9.4% have had one shot, according to government data.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Deputy US Secretary of State Visits Indonesia



Deputy Foreign Minister Mahendra Siregar hosted on Monday his American counterpart Deputy Secretary of State Wendy R. Sherman, who is on a diplomatic tour in the region this week, visiting Indonesia, Thailand and Cambodia. In a

joint statement after the meeting, Sherman said Indonesia was a leader within ASEAN and "an anchor of the rules-based order in the Indo-Pacific". "Indonesia and the US also share a vision of a free and open Indo-Pacific region, including a commitment to freedom of navigation and overflight and other lawful usages of the sea," she said.

• Indonesia's Trade Minister to Visit Russia

Jakarta (ANTARA) - Indonesian Trade Minister Muhammad Lufi will visit Russia "Indonesia is keen to enhance bilateral ties and cooperation, particularly with Russia and other (Eurasian Economic Union /EAEU) member states. The cooperation is expected to create opportunities to increase exports (to Russia) and the Russian investment in Indonesia," Lufi noted in a written statement released on Wednesday.

❖ SOCIAL/CULTURE/EDUCATION:

• No Haj Yet For Indonesians

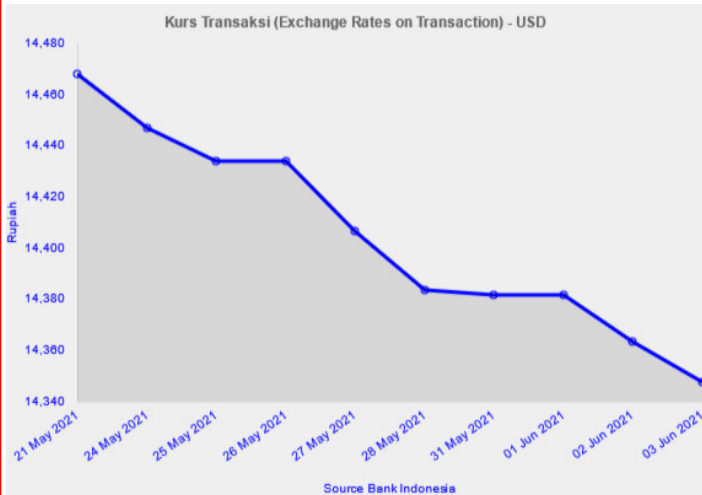
Religious Affairs Minister Yaqu Cholil Qoumas claimed he did not understand why the Saudi Arabian government had not yet granted entry permits for Indonesia ahead of the 2021 hajj pilgrimage. Saudi's aviation authorities have reportedly allowed the entry of hajj pilgrims from 11 countries, namely the United Arab Emirates, the United States, Italy, Britain, Ireland, Japan, Germany, France, Portugal, Sweden, and Switzerland. "I think the Covid-19 handling is an important issue. The Covid-19 handling in Indonesia is relatively good. I don't know why Indonesian citizens are still not allowed to enter Saudi Arabia," said

Yaqu in a statement on Tuesday, June 1.

According to him, the number of Covid-19 cases in Indonesia was still lower than those of countries that were allowed for hajj. The United States even has the highest number of cases in the world. "In order, the U.S. has the highest number of Covid-19 cases in the world. France ranks 8, Italy ranks 9, Germany ranks 17, while Indonesia's position is at 19," Yaqu explained.

CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

