



OUTLOOK INDONESIA

MONTHLY UPDATE- FEBRUARY 2021

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

New Christian Police Chief
Shadow Play Honors US Inauguration
Manufacturing Upswing
BI Issues New Payments Regulations
US Charges Indonesian Terrorist "Hambali"



UPCOMING/RECENT EVENTS

December 17

"New Directions in USG Financing of Trade and Investment with Indonesia"

8:30-9:30 am EST

Featuring

Cameron Dorsey, US Ex-Im Bank

Josh Cartin, Managing Director, Indo-Pacific, International Development Finance Corporation (DFC)

Erin Murphy, Director, Indo-Pacific, DFC

[View a Recording](#)

INDICATORS

US\$= 14,062
JSX= 6151 (last)
BI Rate: 3.75%
Inflation: 1.55%
Reserves: \$138,005 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDOONESIAN HISTORY

1973

US grants Indonesia a 40 year credit worth \$76 million for concessional purchases of surplus US wheat, cotton, and bulgur.

❖ ISSUE TO WATCH: BRIDGES NOT BARRIERS

Commentary by Wayne Forrest

I often hear the idea that during the past 4 years the US government, apart from its Navy, has not been as engaged with Indonesia or Southeast Asia as many would like. The message: China's influence grows in the vacuum of a lack of US engagement. While there may be some truth to this notion, in my opinion the US never "went away". Although President Trump did not pay much attention to SEA and Indonesia, some in his Cabinet did. Indonesia received Vice President Trump, Secretary of State Pompeo, Commerce Secretary Ross, as well as the heads of US Ex-Im Bank and the Development Finance Corporation, to name a few. Indonesia Defense Minister, Coordinating Minister for Investment and Maritime Affairs, Minister of Industry, Minister of Finance, and others visited Washington as well. Many Indonesians welcomed President's Trump's policies, especially the hike in Chinese tariffs which made their products more competitive. They also raised the opportunity that Indonesia could capture significant investment from US companies relocating their production. Some Indonesians found the more transactional, bilateral nature of the Trump Administration appealing.

However, for those who may think our influence has diminished I submit that all is not lost. An American citizen was recently elected as a *bupati* (district head) in Sabu Raijua, a region in one of Indonesia's poorest regions, East Nusa Tenggara. Who knows, if his US passport hadn't been discovered we might have had a "Manchurian Candidate" working the inside. Of course, I'm just kidding. Our "American" is merely an Indonesian who emigrated to the US and obtained a US passport and never revealed it to his home country upon his return. Like Americans, Indonesians cannot hold two passports simultaneously.

But signs are positive that once the US overcomes the COVID crisis, we may see an uptick in US engagement with Indonesia. Much will not occur until the vaccines are widely distributed but the groundwork for more diplomacy and multilateral cooperation is being set. Just this week, President Biden highlighted the important role ASEAN can play in responding to the coup in Myanmar. I would expect that Biden himself will make an annual visit to one of the southeast Asia leadership forums beginning in 2022. Meanwhile some of the benefits of Trump's approach to trade and investment such as the revamping Ex-Im Bank and Development Finance Corporation, will begin to roll out. In January Ex-Im Bank announced it would support US exports by matching Chinese financing offers. The DFC expects to have a Managing Director in Indonesia by mid-February.

Although Indonesia's has deals with Sinovac (from China) and access to worldwide vaccines at reasonable prices through its membership in the Covax facility, I do expect bumps in the road such as logistics and cold storage capacity. We also can't predict vaccine acceptance even though they will be declared halal. But I am optimistic Indonesia will overcome these challenges to achieve herd immunity. Notwithstanding the blessings of on-line meeting technologies and their boost to the digital economy, the physical return of tourists and traveling business people (who may account for 10% of GDP) is going to be crucial.

I am concerned that Indonesia's priority on investment promotion and front-end reform, as valid and helpful as that has been, takes emphasis away from the trade window and their own health sector and pharma policies. The US has an opioid epidemic that is being assisted by an herbal product substitute (kratom) worth \$billions in revenue that Indonesia officially wants to ban in 2022. 95% of US imports of the product come from Indonesia. Meanwhile other countries such as Thailand may eventually come on-stream as a supplier. The government should put a greater effort into researching and regulating kratom as well as other natural products from its rainforests. Hopefully it will back away from banning a product that is legally sold in the US.

[continued on page 5](#)

❖ ECONOMY AND BUSINESS:

• Digital Banks Come to Indonesia

Spurred on by COVID restrictions the growth of banks without “bricks and mortar” has begun in Indonesia. Eager players to tap into this new form of banking span from traditional banks, including the country’s biggest private lender Bank Central Asia (BCA), as well as decacorn Gojek, which plans to collaborate with an upcoming digital bank. BCA spokesperson Hera F. Haryn said the lender’s digital bank, called BCA Digital, will be launched in the first quarter of this year as the company finishes the new bank’s trial period. “For the initial launch phase, BCA Digital will focus on funding services by facilitating digital transactions through our smartphone application. We also aim to expand our consumer base,” Hera told The Jakarta Post on Monday. Although digital banking has existed in Indonesia for several years, full service digital banking, including retail and commercial loans is new. The impulse to form these banks may be competition from newer fintech startups. Ride sharing and delivery e-giant Gojek, plans to partner with publicly-listed publicly listed Bank Jago to offer financial services to its growing database. Financial inclusion is the goal. (*Jakarta Post*)

• Indonesia Tuna Achieves Sustainable Standard

Jakarta (ANTARA) - The Ministry of Marine Affairs and Fisheries (KKP) announced that fisheries products of Indonesia’s yellowfin tuna and skipjack tuna had been certified as meeting the Marine Stewardship Council’s (MSC’s) global standard for sustainable fisheries. “Some 11 thousand tons of yellowfin and skipjack tuna have been certified through the collaboration between the Indonesian government and MSC for the US and European markets,” Acting Director General of Capture Fisheries M. Zaini noted in a statement in Jakarta, Friday. Zaini attributed this achievement of Indonesia to the efforts of the KKP and the Indonesian Pole and Line and Handline Fisheries Association (AP2HI) supported by the International Pole and Line Foundation (IPNLF).

• Manufacturing Activity On An Upswing

Indonesia’s manufacturing activity rose to its highest level since July 2014, as the sector continued its gradual recovery from the pandemic-induced downturn for four consecutive months, although domestic demand is expected to remain slow and extended restrictions still pose risks going forward. The country’s manufacturing Purchasing Managers’ Index (PMI) further rose to 52.2 in January from 51.3 in December last year, according to business information provider IHS Markit on Monday. A reading above 50 reflects an expansion from the previous month. “The Indonesian manufacturing sector remained on the path to recovery at the start of 2021, with growth of output and new orders among the best in the decade-long survey so far,” IHS Markit economist director Andrew Harker was quoted in the press release as saying. “These trends have given a further boost to confidence, which was at the highest in four years at the start of the year.” The manufacturing sector, which contributes almost 20 percent of the gross domestic product (GDP), has taken a hard hit from the COVID-19 pandemic and shrunk 4.31 percent year-on-year (yoy) in the July–September period last year.

• BI Issues New Payment System Regulations

Indonesia’s central bank on Friday announced new regulations on payment systems to try to consolidate existing rules, with new requirements on share ownership and capital that could impact firms providing payment services and infrastructure. Filianingsih Hendarta, the head of Bank Indonesia’s payment systems department, said the new regulation, which takes ef-

fect on July 1, reflects advancements in payments and technology and aims to mitigate potential risks in the financial system. Non-bank payment services will now need to have at least 15% Indonesian owners, while at least 51% of shares with voting rights must be owned by Indonesians, individuals or entities. Non-bank payment infrastructure companies must be at least 80% Indonesian-owned, it said. Payment service and infrastructure providers will be classified based on transaction size, interconnectivity, complexity, and whether it is replaceable, according to the regulation. The classification will determine a provider’s capital and risk management requirements. (*Reuters*)

• Work From Bali

Tourism and Creative Economy Minister Sandiaga Uno has asked business people to consider working from Bali to help revive the resort island’s economy, which has been hammered by the pandemic. “I invite businesspeople and professionals to consider working from Bali for two reasons, first is because we can work efficiently while enjoying Bali’s natural beauty and second, we can also help Bali’s tourism and creative industry,” he said in a statement on Friday. The minister, who is currently working from Bali to inspect the tourism industry, said he also invited expatriates in the country to join the campaign while maintaining strict health protocols. Uno also indicated that the government is keen to establish new travel protocols based on evidence of a COVID vaccination.

• Indonesia’s EV Industry

Indonesia is reviewing seven global companies as prospective partners in developing the EV battery industry, including big names such as Tesla and Panasonic. Selected partners will join the SOE consortium, Indonesia Battery Holding. Agus Tjahjana Wirakusumah, head of the EV Battery Project Acceleration Team, said that from the first stage of evaluation, seven companies are seen as having the qualifications to become potential partners. The companies are Contemporary Amperex Technology Co. Ltd. (CATL), BYD Auto Co. Ltd., and Farasis Energy Inc. from China; LG Chem Ltd. and Samsung SDI from South Korea; Tesla Inc. from the United States; and Japan’s Panasonic. The SOE consortium of Indonesia Battery Holding is set to develop integrated EV battery projects, from upstream to downstream, for an estimated investment value between US\$13.4 billion and US\$17.4 billion. The consortium signatories are: MIND ID, Pertamina, and Aneka Tambang (Antam), as well as foreign partners. To date, negotiations with potential key partners, namely CATL and LG Chem, are still being held. Agus said the team was finalizing negotiations on the formation of a joint venture with the prospective partners. “This year, we hope to complete the joint-venture agreement all the way to the investment decision,” Agus said in a hearing with the House of Representatives’ Commission VII on Monday, February 1. (*Tempo*)

• Sovereign Wealth Fund Offers SOE’s

After establishing a new Sovereign Wealth Fund in January 2021, Indonesia has begun clarifying how foreign investors will join it. (The fund, due to its heavy reliance on foreign funds, is more of a government run equity fund rather than a traditional SWF which doesn’t use outside money.) Indonesia plans to use the SWF, known as the Indonesian Investment authority or INA, to channel funds into state-owned enterprises. Some of the assets are PT Dayamitra Telekomunikasi (Mitratel), a unit of telco operator, PT Telkom Indonesia Tbk and PT Bank Syariah Indonesia Tbk. The other assets recently mentioned by Deputy Minister for State Owned Enterprises (SOEs) Kartika Wirjoatmodjo include PT MDI Ventures, PT BRI Ventures, PT Mandiri Capital, also LinkAja and startup companies managed by the SOEs.

❖ POLITICS AND SECURITY:

• US Charges “Hambali”

US military prosecutors have filed formal charges against an Indonesian Islamic extremist and two others in the 2002 Bali bombings and 2003 Jakarta attack, the Pentagon said Thursday. The charges were filed nearly 18 years after the three were captured in Thailand and after each has spent more than 14 years in the US military prison in Guantanamo Bay, Cuba. The first charged was Indonesian militant Riduan Isamuddin, better known by his nom de guerre Hambali, the leader of the Indonesian jihadist group Jemaah Islamiyah and believed to have been Al-Qaeda's top representative in the region. The group, with support from Al-Qaeda, carried out bombings of tourist nightclubs on Bali on October 12, 2002 that killed 202, and the August 5, 2003 attack on the JW Marriott hotel in Jakarta that left 12 dead and scores injured. (*Jakarta Post*)

• New Christian Police Chief

President Joko Widodo's nomination of a Christian to serve as the first head of the Indonesia National Police in 46 years signals further pushback against the Islamic conservatives and radicals who have given him his biggest political headaches during his six years in power. Jokowi's pick is Listyo Sigit, 51, currently chief of the powerful Criminal Investigation Agency, often the stepping stone to the top job. Although he is opposed to the MUI (council of clerics) he is supported by Indonesia's largest Islamic social organizations NU and Muhammadiyah. Indonesia has had only one other Christian police chiefs in the past. Sigit, was police chief in Solo, when Jokowi was mayor there. (*Asia Times*)

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Indonesian Navy Thwarts Iran-China Oil Transfer

Indonesia's increasingly capable Navy/Coast Guard prevented a transfer of oil from an Iran tanker to a Chinese vessel in violation of US sanctions on January 24th. Indonesia escorted the tanker and the crew to Batam Island following the incident in waters off the coast of West Kalimantan. It's not clear what Indonesia may do. In the past it has had an either an ambivalent view of sanctions or a policy in opposition to the US. Last year it joined 13 other countries on the 15-member UN Security Council, which decided not to take any further action on a US bid to trigger a return of UN sanctions against Iran. According to reporting by *Asia Times*, several Indonesian businessmen have been charged in US courts for exporting US aircraft parts to an Iranian airline.

• Indonesia Against Vaccine Nationalism

Indonesia has urged the world to not resort to “vaccine nationalism”, which it says could limit the global availability of COVID-19 vaccines, after a recent procurement row broke out in Europe. Foreign Minister Retno Marsudi said during an online panel organized by the World Economic Forum (WEF) on Friday that equitable and fair access to vaccines was important not just for developing and least developed countries, but also for developed countries. She said the world would not truly recover from COVID-19 unless all countries recovered. “So please stop the politicization of vaccines; please stop vaccine nationalism. And we must remind ourselves that vaccines are a humanitarian issue; vaccines are not a political issue,” Retno said. (*Jakarta Post*)

• US Citizen Elected District Head in Eastern

Indonesia

A United States citizen has run for district head in Sabu Raijua, a region in one of Indonesia's poorest provinces East Nusa Tenggara, and managed to win the election with a wide margin in the strangest election mishap the country might ever see. When registering for his candidacy, Orient used an ID issued in Kupang last year. Previously, he had held an ID card issued in Jakarta in 2019. Then came the bombshell. Sabu Raijua's Election Supervisory Agency (Bawaslu) announced on Tuesday that it had received confirmation from the United States Embassy that the elected district head Orient P. Riwo Kore was still a US citizen. In 2016 In 2016, Arcandra Tahar, a US citizen was appointed Deputy Energy Minister. After 20 days he resigned but eventually was reinstated when Indonesia's President reinstated his Indonesian citizenship. Indonesian law does not allow dual citizenship. Those born overseas must choose at age 18. (*Jakarta Globe*)

• Blinken Rejects China South China Sea Claims

Secretary of State Antony Blinken told his counterparts in the Indo-Pacific that the United States rejects Beijing's excessive maritime claims in the South China Sea and highlighted evolving multilateral mechanisms such as the “Quad” in tackling global challenges. According to the State Department, Blinken and Philippine Foreign Secretary Teodoro Locsin affirmed during their phone talks that a strong bilateral alliance is vital to a “free and open” Indo-Pacific amid China's growing assertiveness in the region. On the disputed South China Sea, Blinken said the United States rejects China's claims in the waters “to the extent they exceed the maritime zones that China is permitted to claim under international law.” (*Jakarta Post*)

❖ SOCIAL/CULTURE/EDUCATION:

• Shadow Play Honors US Inauguration

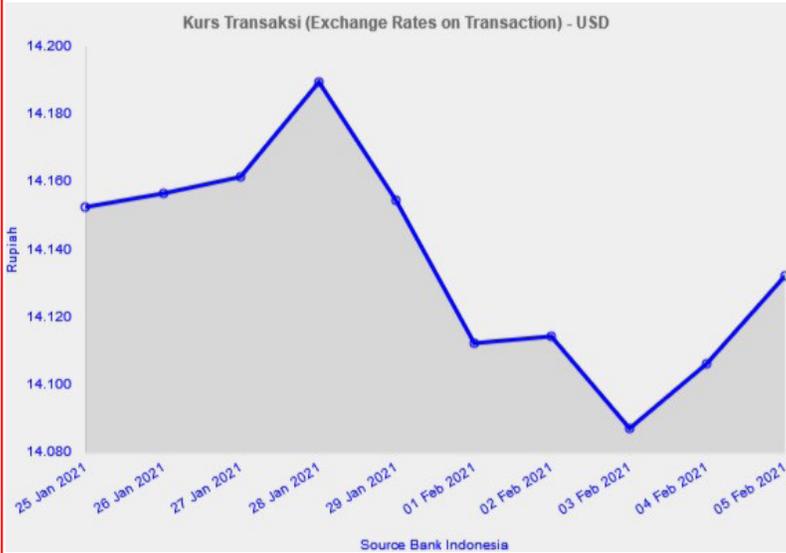
On January 31, Ki Purbo Asmoro, Indonesia's “international” shadow theater artist, gave an at-home performance to celebrate the January 20 inauguration of President Biden and Vice President Harris. Asmoro chose a story from the epic Ramayana about an evil King who loses his kingdom and son over his obsession with a princess whom he abducts from a rival kingdom. With simultaneous translation from Javanese to English by Kitsie Emerson, the performance featured specially made likenesses of Biden and Harris who were given an “oath”

by the popular clown-servant character Petruk: to take care of the environment; allow people of all religions and skin color to live together in peace; respect other nations; forge productivity and happiness in the US. *The performance was sponsored, in part, by the American Indonesian Cultural and Educational Foundation, currently administered by the American Indonesian Chamber of Commerce.*

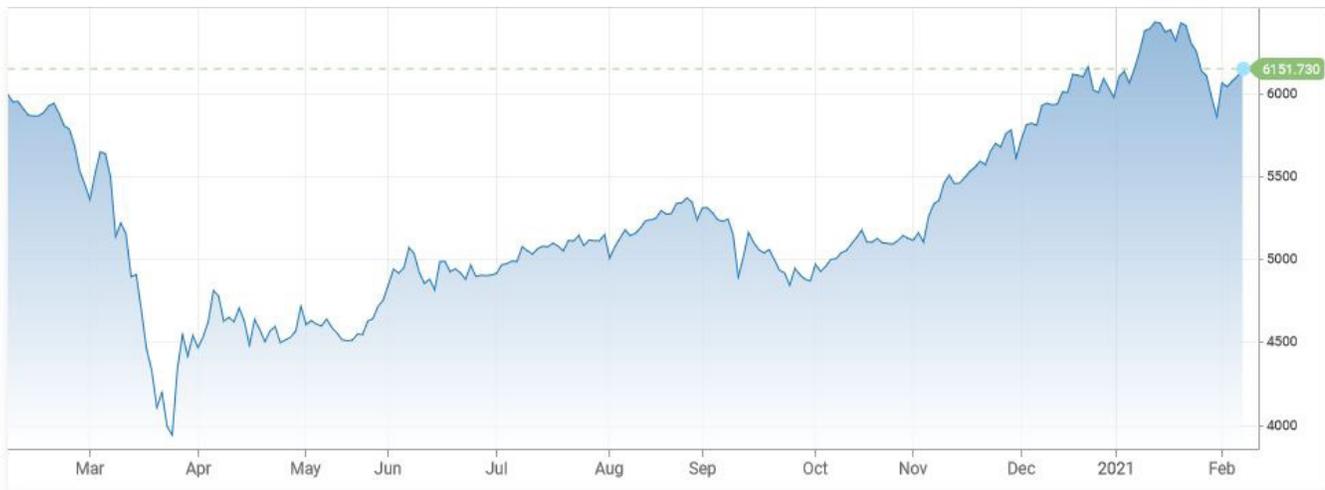


CHARTS:

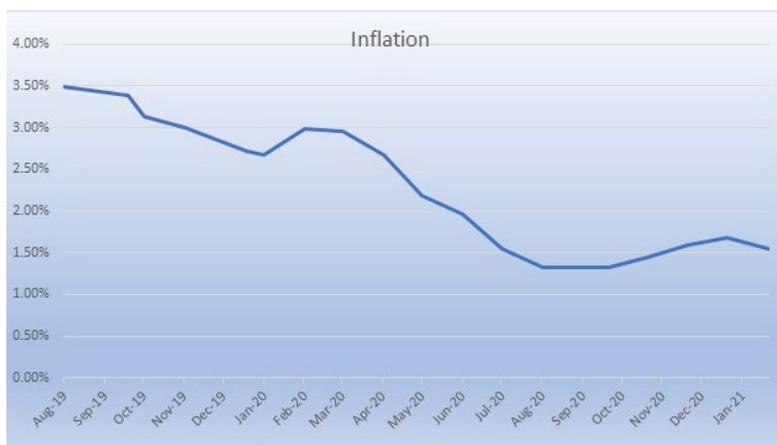
Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation



from page 1

Similarly, local content regulations for imported drugs, high tariffs on medical devices, opposition to licensing foreign educated medical professionals, and other roadblocks to hospital investment, should be seriously re-evaluated. Twelve years ago, this uncooperative spirit led Indonesia to close the US Navy Research Lab in Jakarta, a tremendous early warning system for flus such as COVID. Although COVID transmission rates are well below those in the US, mortality rates in Indonesia are much higher due to lower per thousand rates of doctors, hospital beds, and equipment. Notwithstanding the mistakes our government has made during the pandemic, I do hope the Biden administration's diplomacy with Indonesia prioritizes a greater openness for healthcare. Similarly Indonesia can seek a similar openness in the US for its own healthcare products. The future health of our planet requires more not less cooperation, bridges not barriers.

(These views are the author's and may not reflect those of AICC or its members.)