



OUTLOOK INDONESIA

MONTHLY UPDATE- MARCH 2020

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

First COV-19 Cases in Indonesia
BI Anchors Shaky Rupiah
Indonesia Loses Developing Nation Status
Jokowi Cancels Visit to US
Indonesia Hails US-Taliban Peace Deal



UPCOMING/RECENT EVENTS

February 24

Infrastructure Financing Briefing

AICC met 5 Indonesian infrastructure leaders sponsored by the US State Department's Visitors Program

Representatives from the Ministry of Finance, Infrastructure Guaranty Fund, Cities of Makassar, Surabaya and Malang

Hosted by Duane Morris LLP



INDICATORS

US\$= 14,413
JSX= 5361 (last)
BI Rate: 4.75%
Inflation: 2.98%
Reserves: \$131.7 billion (as of Jan 30)

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

1975

Indonesia independence leader and first Ambassador to the US, Ali Sastromidjojo dies. Argued Indonesia's case at the UN in 1948.

❖ ISSUE TO WATCH: DISRUPTION

Commentary by Wayne Forrest

A popular Indonesian cartoon that has emerged since the onset of the coronavirus (COV-19) shows a series of boxes filled with various symptoms (severe cough, joint pain, runny nose, stomach ache, fever, headache, etc.) with lines all connecting to one containing the cause: *masuk angin*. Literally meaning the wind enters, *masuk angin*, and the diagnostic imprecision behind it, could be why Indonesia has only reported a handful of cases. Created by an Indonesian, the cartoon says many Indonesians will experience COV-19 as something they already know about and seek traditional remedies without interfacing with a clinic or hospital.

Indonesia has several hundred kits sent by the CDC (each can handle 700 samples) and has only tested approximately 200 people exhibiting strong symptoms. But since 80% of COV-19 cases appear to be mild, only a wide-ranging random testing regime can build the data necessary to fully understand the virus. Meanwhile, Indonesia has taken some measures to lessen the odds of an outbreak: curtailing travel, 14-day quarantines for those returning from infected countries such as China, temperature checking travelers at ports of entry, and increasing public awareness of helpful personal hygiene measures. It can be assumed that there are more than the 2 confirmed cases out there, hopefully with only mild symptoms.

However, as articles in this issue indicate, some major disruptions have already hit Indonesia along with the rest of the world. One was the March 14 US-ASEAN Leaders Summit in Las Vegas called by President Trump, canceled because of the coronavirus. President Jokowi would have attended. Widely viewed as an atonement for a retraction in the US diplomatic approach to southeast Asia (Trump did not attend the 2018 and 2019 ASEAN Summits), the meeting would have only marginally improved the current lack of US engagement. The US will have to do more than hold a summit or cry-out "predatory economics" to curtail the rise of China's military and economic influence in the huge SEA market, especially in the area of infrastructure. March 16 was supposed to be the first White House visit of President Jokowi and infrastructure was reportedly one of the main topics. Specifically, the two leaders were slated to discuss US investment in Indonesia's new Sovereign Wealth Fund, designed specifically to finance the building of Indonesia's \$34 billion new capital in East Kalimantan. Odds are that if the US makes an investment via the new Development Finance Corporation (successor to OPIC) it will only be symbolic. It's been a generation since the US "did" mixed credit financing (loans, grants, investment) for infrastructure in Indonesia. As Malaysia's Mahathir said in 2016 "We cannot afford to build these very expensive railway lines," "Whether we like it or not, we have to go to the Chinese." We will know that the US is "back" when we can finance a major infrastructure project. (On February 24, AICC hosted a briefing on infrastructure financing for 5 Indonesian visitors. Topics included: revenue-backed bonds as well as municipal bonds for schools, roads, bridges, and water systems.)

Our Indonesia friends have not panicked but they are concerned. Significant funds may have been withdrawn from their capital markets, but experience tells them that they will return if they focus on market fundamentals. They are doing the right things: looser monetary policies; fiscal stimulus, especially in the tourism sector; a new Omnibus law focused on job creation designed to attract more manufacturing foreign investment, especially from firms relocating from China. Even with all these measures GDP growth will most likely be curtailed by .5-1%. Resilience is in Indonesia's DNA. We need to trust her capacity earned from recovering from floods, volcanic eruptions, earthquakes, and previous financial meltdowns. Epigrammatic of the "anti-disruption" is the The Bali Spirit Festival (30 April - 5 April) and Ubud Food Festival (17-19 April) - both committed to "carry on". We all need to do the same.

❖ ECONOMY AND BUSINESS:

• BI Anchors Shaky Rupiah

Bank Indonesia (BI) announced Monday, March 2 five measures to stabilize the rupiah as foreign investors sold off Indonesian financial assets from stocks to bonds and after Indonesia officially reported its first coronavirus cases.

1. Starting March 16, the requirement for banks to store their dollar funds at BI, called the US\$ reserve requirement ratio (RRR), would be lowered to 4 percent from 8 percent at present.
2. The rupiah RRR is also being lowered by 50 basis points (bps), but only for banks with clients engaged in export and import activities, starting April 1.
3. BI was conducting "triple intervention in the financial market": stabilizing the rupiah in the domestic non-deliverable forward (DNDF) and spot markets, as well as buying government bonds (SBN) on the secondary market.
4. Fourth, the central bank now allows foreign investors who sell rupiah bonds but place their proceeds in Indonesian banks to turn them into underlying transactions in the domestic non-deliverable forward (DNDF) market. Therefore, foreign investors no longer need to hedge to offshore indexes.
5. Fifth, BI also encourages foreign investors to use domestic banks as custodians for investment activities.

"Lowering the foreign exchange RRR will boost banks' liquidity by \$3.2 billion while lowering the rupiah RRR will support export and import activities," BI Governor Perry Warjiyo told a news conference in Jakarta on Monday after President Joko "Jokowi" Widodo announced the first coronavirus cases in the country. The central bank has bought Rp 103 trillion (US\$7.24 billion) worth of SBNs, Rp 80 trillion of which followed its assessment that the novel coronavirus may pose risks to Indonesia's economy. "We've increased the volume [of intervention] so the market is assured and confident that BI is always in the market to guard the market," Perry said. "BI will intensify intervention in the financial market through triple intervention to stabilize the rupiah to follow its fundamental."

• IDX Stops Short Selling Stocks to Halt Market Decline

The Indonesia Stock Exchange, or IDX, stopped short selling at the local bourse on March 2 seeking to stave off a further decline in the stock market caused by panic selling as the novel coronavirus outbreak shows no sign of stopping and the Indonesian government announced the first two cases of the Covid-19 infections in the country. The Jakarta Composite Index has declined 7.3 percent in the past week, its largest decline since the 2008 financial bust.

• Indonesia Plans Taxes on Plastics, Sugar Drinks, and Gas Vehicles

Indonesia is planning to impose an excise tax on plastics, fossil-fuel vehicles and sweet drinks in a move aimed at reducing their adverse environmental and health effects, Finance Minister Sri Mulyani Indrawati has said. She said the planned tax would reduce plastic consumption by up to 50 percent, adding the government would likely receive an excise of Rp 1.6 trillion (US\$116.6 million) each year. "We are hoping that this will make plastic producers transform into producers of environmentally friendly goods," the minister told House Commission XI overseeing financial affairs. (*Jakarta Post*)

• Indonesia Loses Developing Country Designation

The US Trade Representative Office revoked the special preferences for Indonesia and other developing countries in the World Trade Organization, meaning that the US recognized Indonesia as a developed country. According to the policy issued on Feb. 10, Indonesia was excluded from the developing and least-developed countries list, making the country no longer eligible to receive Special Differential Treatment (SDT) from the WTO's Agreement on Subsidies and Countervailing Measures. The decision would open exported goods from Indonesia to be charged with higher tariffs compared to exported goods from developing countries. The new policy would lower the de minimis thresholds to less than 1 percent as opposed to less than 2 percent in the previous policy. The threshold refers to the value of imported goods below which no duty or tax is collected. Moreover, Indonesia would no longer be eligible for the negligible import volumes criteria.

Coordinating Economic Minister Airlangga Hartarto said the United States' decision to no longer recognize Indonesia as a developing country would not affect the country much, despite the potential effects the decision would bring. "We will receive fewer facilities and benefits as we're no longer recognized as a developing country. However, we're not worried about that," Airlangga said on Friday. "However, things are still up in the air; therefore, we're not worried," Airlangga said.

Separately, the Trade Ministry said the US' decision would affect its assessment of Indonesia's Generalized System of Preferences (GSP) status. "This is related to trade remedies rather than the GSP status," said the Trade Ministry's bilateral negotiations director, Ni Made Ayu Marthini.

• Coronavirus May Shave 0.6% GDP

Indonesia's economic growth may be adversely affected by the global coronavirus outbreak in China, with the government planning to provide incentives to the tourist industry to prevent steep drops. "A drop of 1 percentage point in China's economic growth will result in a drop of 0.3 to 0.6 percentage points in Indonesia's [growth]," Finance Minister Sri Mulyani said during a press briefing in Jakarta on Wednesday. Indonesia's economic growth rate, which hit a three-year low of 4.97% in the fourth quarter of 2019, was projected to grow 5.3% this year. Sri Mulyani's estimate means economic growth may slide to 4.7 percent. (*Jakarta Post*)

• Coronavirus Travel Disruptions

- Singapore Airlines/Silk Air has temporarily cut back the number of flights for the next 3 months from Singapore to Makassar, Surabaya, Bandung, Balikpapan, and Jakarta
- Garuda said it will spare 65,000 seats at discounted fares per month on domestic flights to Batam Island, Bali, Yogyakarta, Labuan Bajo in East Nusa Tenggara, Lombok in West Nusa Tenggara, Malang in East Java, Manado in North Sulawesi, Toba in north Sumatra, Tanjung Pandan in Bangka Belitung and Tanjung Pinang in Riau Islands. It is also offering half priced fares to Europe.
- Tens of Bali Travel Agents specializing in the Chinese market say they are now facing financial collapse.
- Saudi Arabia has stranded hundreds of Indonesian Umroh pilgrims in Indonesia and across the Arabian Gulf with the abrupt cancellation of visas for Indonesian nationals.
- The Bali Spirit Festival (30 April - 5 April) and Ubud Food Festival (17-19 April) - both committed to "carry on" .

❖ POLITICS AND SECURITY:

• First 2 COV-19 Cases Announced

President Joko "Jokowi" Widodo has announced that two Indonesians have tested positive for the novel coronavirus disease (COVID-19), the first two confirmed cases of the disease in the country. Jokowi said that the two people, a 64-year-old and her 31-year-old daughter, had been in contact with a Japanese citizen who tested positive in Malaysia on Feb. 27 after visiting Indonesia in early February. "When we received information [about the Japanese citizen] a team in Indonesia immediately traced who the Japanese citizen met with," Jokowi told reporters at the State Palace on Monday. "We checked [the two people] and this morning I received a report from the health minister that they tested positive for the coronavirus." He said the government was well-prepared to handle COVID-19 cases. "We have prepared over 100 hospitals with isolation rooms with good isolation standards. We also have equipment that meets international standards," he said.

• Batam Quarantines 15

The Batam administration in Riau Islands has quarantined 15 locals who were identified as having close contact with three Singaporean residents who tested positive for the novel coronavirus disease (COVID-19) after visiting the city.

On Sunday, Singapore's Health Ministry announced that three people, two Singaporean citizens and one Myanmar national, had tested positive for the disease after visiting Batam from Feb. 21 to Feb. 23.

Riau Islands Health Agency head Tjeptjep Yudiana said the agency had been notified by Singapore health authorities regarding the three cases, who have been identified only as Case 101, Case 103 and Case 104.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Indonesia Hails US-Taliban Peace Deal

Washington and the Taliban signed a landmark deal in Doha that had them agree to the withdrawal of thousands of US troops from Afghanistan in return for insurgent guarantees. Indonesia hailed the signing of a peace deal between the United States and the Afghan Taliban in Qatar over the weekend, calling it a "first step" forward in the ongoing peace process. (*Jakarta Post*)

• COV 19 Disrupts Chinese Investment Projects

The novel coronavirus outbreak will not only disrupt supplies of raw materials for the manufacturing industry in Indonesia but will also cause a delay in important infrastructure projects, which involve many Chinese companies, a senior minister has predicted. Coordinating Maritime Affairs and Investment Minister Luhut Panjaitan said in Jakarta on Tuesday that the infrastructure projects that were affected by the COVID-19 outbreak included the Jakarta-Bandung high-speed railway, as many Chinese workers that worked in the projects could not return to Indonesia. "They can't return to Indonesia and are currently still being held up in their country after the Lunar New Year holiday," he said during a press briefing in Jakarta. Earlier this month, the government imposed a temporary ban on all flights to and from China following the COVID-19 outbreak in an effort. (*Jakarta Post*)

• US-ASEAN Summit Canceled/Bilateral Off

The United States has decided to postpone a meeting with leaders of Southeast Asian countries it had planned to host on March 14 in Las Vegas due to worries about the coronavirus outbreak, two U.S. officials familiar with the matter said on Friday. U.S. President Donald Trump had invited leaders of the 10-member Association of Southeast Asian Nations (ASEAN) to meet in Las Vegas after he did not attend a summit with the group in Bangkok in November. "As the international community works together to defeat the novel coronavirus, the United States, in consultation with ASEAN partners, has made the difficult decision to postpone the ASEAN leaders meeting," one of the sources, a senior administration official, told Reuters. A long-sought White House meeting for President Jokowi scheduled after the summit was also postponed to a later date.



Workers arrange equipment in front of a large tunnel built for a high-speed railway in Tunnel 8, Padalarang, West Bandung regency

❖ SOCIAL/CULTURE/EDUCATION:

• Reviving a 100 Year-Old Relic

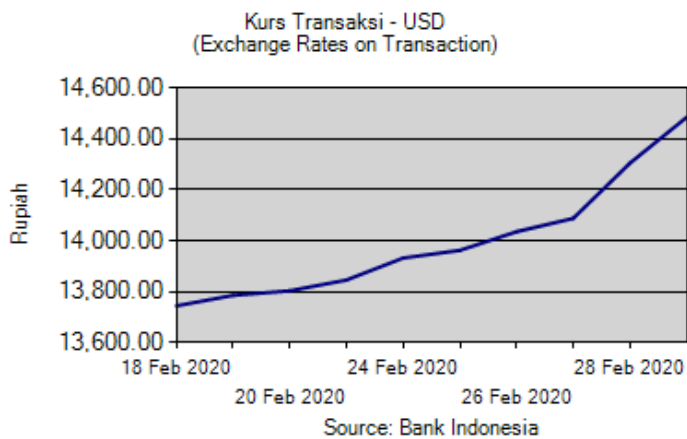
Surakarta City Administration in Central Java will operate a 99 year-old steam train as part of its cultural tourism attractions, after previously it has operated a steam train named Jaladara for tourists in the city. "We hope that the steam train made in 1921 could complement tourist attractions in Surakarta," Deputy Mayor of Surakarta Achmad Purnomo said after symbolically receiving the Djoko Kendil steam train granted by the state-run railway operator PT KAI here on Sunday. The steam train, Purnomo said, would use the old railway that passed the city center and would become a cultural tourism attraction.



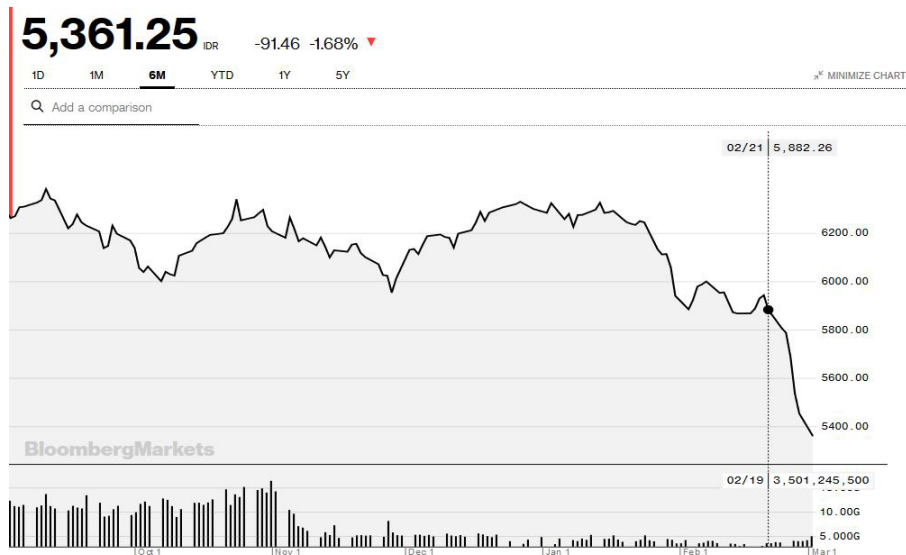
"This is the only (steam train in-city route) in Indonesia. Certainly it will pass the city, it can reach Sangkrah, Sukoharjo, Wonogiri, and other districts," he said. (*Tempo*)

❖ CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

