



OUTLOOK INDONESIA

MONTHLY UPDATE- INSERT MONTH/YEAR

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Super Holding Company Plans Iced
Growth Down Deficit Up
GOI Reinstates Disabled Dentist
Indonesia May Switch to Boeing
National Health Insurance Failure



UPCOMING/RECENT EVENTS

September 6

Political and Economic Outlook

featuring

James Van Zorge

and

Dr. Rizal Ramli

12:00-2:00pm

Offices of Duane Morris
New York City

[Click Here for Details and Registration](#)

INDICATORS

US\$= 14,254
JSX= 6289 (last)
BI Rate: 5.5%
Inflation: 3.3 (yoy)
Reserves: \$125.9 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDOONESIAN HISTORY

1969

Secretary of State Rodgers concludes discussions with Foreign Minister Malik following up on recent visit of President Nixon to Indonesia

❖ ISSUE TO WATCH: INDONESIA'S MOON SHOT

Commentary by Wayne Forrest

In 1961, President John F. Kennedy announced US plans to land a man on the moon by the end of the decade. By the time the astronauts of Apollo 11 achieved this in 1969 technologies that were either in their infancy, or had not yet been born, were developed and spun off to widespread adoption as commercial products. Among them: structural analysis software, powdered lubricants, OpenStack, remotely controlled ovens, water purification, solar cells, freeze-dried foods, portable cordless vacuums, LEDs, artificial limbs, and cochlear implants. Indonesia's President Jokowi has just committed his country to a similar long term project of monumental importance, moving the capital from Jakarta to a region of East Kalimantan (Borneo) called Penjamen Paser, between the cities of Samarinda and Balikpapan. If all goes well construction of the new city begins in 2020 and people start moving in 2024.

The head of state planning (BAPPENAS), Bambang Brodjonegoro, announced the move in April and the President formerly discussed it during his August "state of the nation" address. At the time Jokowi said: "The [new] capital is not only a symbol of our nation's identity, but also represents our nation's development," "It's for the sake of realizing an equitable and just economy." Many may believe the reason to move the capital is environmental, as Jakarta is notorious for its traffic, pollution, and susceptibility to rising sea levels given how much of it is actually slowly sinking. However, the vision of the President and his planners is wider: its much more in tune with developing human capital, moving the country away from its current economic "capital": its dependence on natural resources.

Moving upwards of a million people to a brand new city has the potential to stimulate new critical thinking among Indonesia's engineers, architects, environmental planners, economists, bankers, software developers, many of whom are now in elementary school and will come of age when the project is well along. What kinds of power and modes of transportation will be employed and why. What kinds of schools and housing developments will be built. What about food and medical care? How will construction material be moved efficiently. Can an innovative funding model be created? Turning all the planning into reality will create lessons learned that will effect development everywhere in the country.

The world's eyes will be on Indonesia, measuring how the new city stacks up against past capital moves: Ankara, Brasilia, Islamabad, even our own Washington D.C. What kind of city and community will Indonesia fashion? Indonesia has little experience with a government planned community (think Batam). Most planned towns have been relatively small scale affairs accomplished by private real estate developers (think Ciputra, Lippo) or extraction companies (think Freeport, ExxonMobil, INCO and Chevron). Can it arrange the \$33 billion that the government projects it needs when it has so many other obligations? Can the plague of corruption be avoided?

If agreed to by Parliament and not challenged in court, 19% of the State budget will be dedicated to the move, far more than NASA's which typically is less than 1% of the US budget. Most ministries, all legislative, and the State palaces are slated to move. Embassies may have to move, leaving behind their existing spaces to become Jakarta consulates. The disruption will effect everyone.

When JFK made his man-on-the-moon speech, NASA had no idea how to do it. But, the race with the Soviet Union concentrated everyone's attention. Kennedy's words could benefit President Jokowi: "We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard, because that goal will serve to organize and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one which we intend to win, and the others, too." Indonesia should accept its youthful President's challenge, measure the best of its energies, move the capital to Kalimantan, and do the "other things".

❖ ECONOMY AND BUSINESS:

• EU Duties on Biodiesel

The European Commission on Tuesday imposed countervailing duties of 8 percent to 18 percent on imports of subsidized biodiesel from Indonesia, saying the move aimed to restore a level playing field for European Union producers. "The new import duties are imposed on a provisional basis and the investigation will continue with a possibility to impose definitive measures by mid-December 2019," the EU executive said in a statement. Last week Indonesia's trade minister said he would recommend to an inter-ministerial team a 20 percent-25 percent tariff on EU dairy products in response to the EU targeting the country's biodiesel, adding that he had asked dairy product importers to find sources of supply outside the 28-nation bloc. The EU duties are another blow to Indonesian biodiesel producers after the bloc said in March that palm oil should be phased out of renewable transportation fuels due to palm plantations' contribution to deforestation. (*Jakarta Post*)

• Jokowi Moves against Super Holding Company Plan

Once touted as a way for Indonesian state firms to go global, President Joko "Jokowi" Widodo has signaled he's backpedaling on a plan to set up a superholding company of state firms, the local version of Singapore's Temasek or Malaysia's Khazanah. Jokowi told a group of chief editors that the government was currently assessing the best business model for state firms to become more efficient and profitable, as some have struggled to keep afloat as they need to remain commercially viable and profitable while providing a public service at the same time. "A superholding may not be the best option. Look at the performance of Temasek and Khazanah. They're also having problems in the latest economic conditions. We will try to look out for a new mechanism and study the developments," Jokowi said on Wednesday. The President taking a backseat on superholding plans is expected to be a major blow for State-Owned Enterprises (SOEs) Minister Rini Soemarno, the main campaigner for and the brain behind the superholding idea, and who many have speculated will not be reappointed to Jokowi's new Cabinet. Ruling party and the President's main supporter the Indonesian Democratic Party of Struggle (PDI-P) also seemed to be skeptical about the superholding idea. "Those who are thinking of forming a superholding must learn from the economic crises in the United States and Western Europe," party secretary-general Hasto Kristiyanto wrote in a recent statement. (*Jakarta Post*)

• Pain of Low Rubber Prices

A plant disease has spread to a majority of Palembang's rubber plantations in South Sumatra, amid a plunge in the commodity's prices and the government's joint efforts with major rubber producing countries to limit supply. Riza, a farmer from Banyuasin regency in Palembang, did not understand why the leaves of his rubber trees kept wilting and why his plants' latex production continued to decline. This is the second time he has faced the problem this year. "I was certain that the leaves were falling because of the dry season, but then I realized that many leaves also had measles-like spots," Riza told *The Jakarta Post* recently. "I didn't know the spots were a symptom of a disease." On top of the epidemic, Riza has been struggling with the high cost of maintaining his family's 120-hectare rubber plantations, which requires an expensive urea compound fertilizer, while also receiving low buying prices from middlemen who offer between Rp 8,800 (61 US cents) and Rp 9,000 per kilogram of rubber. The range is far below the ideal price of \$1.40 per kg or more. "There is no balance between the selling price and production cost; we can't break even," he said, adding that he had to start another small business completely unrelated to rubber farming to make ends meet.

• 2nd Quarter Growth Down

Indonesia recorded lower economic growth in the second quarter of this year as it lost the momentum that had come from an increase in consumer spending, payroll bonuses and migrant worker remittances during Idul Fitri, according to the Institute for Development of Economics and Finance (Indef). "Indonesia missed the momentum to boost its economy when there were payroll bonuses and remittances from overseas workers during Idul Fitri and spending for general elections in April, an increase in consumer spending in the second quarter," Indef executive director Tauhid Ahmad said in Jakarta on Aug. 7. The growth of Indonesia's gross domestic product (GDP) slowed to 5.05 percent in the second quarter of this year, down from 5.07 percent in the previous year, despite high spending during the Idul Fitri holidays and on the general elections, Statistics Indonesia (BPS) reported on Aug. 5.

• July Trade Deficit

Indonesia has recorded a trade deficit of US\$63 million in July on the back of weak commodity prices that has affected its export value, according to Statistic Indonesia (BPS) data released on Thursday. The figure is a reversal from a June trade surplus of around \$300 million. The country's balance of trade has maintained a negative trend overall from January to July with a deficit of \$1.9 billion, which is still an improvement from the minus \$3.21 billion it recorded during the same period in 2018. Exports in July declined 5.12 percent year-on-year (yoy) to \$15.45 billion, while imports fell 15.21 percent yoy to \$15.51 billion. (*Jakarta Post*)

• Payments Monopoly Investigated

The Business Competition Supervisory Commission (KPPU) is investigating e-payment service OVO over a possible breach of anti-monopoly rules in relation to parking facilities at a number of shopping malls and hospitals. KPPU investigator Devi Matondang said in Jakarta on Monday that the commission suspected OVO of monopolizing parking fee payment systems at public facilities belonging to the Lippo Group, such as Siloam Hospitals. "There have been public complaints over parking payments at Lippo's public facilities, such as Lippo Malls and Siloam Hospitals, where visitors [are permitted] to use only the OVO app to pay parking fees," said Devi. She said that Lippo Malls had allowed visitors to pay parking fees using cash or the Flazz e-payment card issued by Bank Central Asia (BCA) prior to OVO's establishment in 2017. (*Jakarta Post*)

• Death of Globalization: BI Governor

BI Governor Perry Warjiyo stated that there are a number of changes in the global spectrum in the past few years such as the shifting trend of globalization to digitalization which forces policymakers to constantly respond to the rapid changes. "We are facing the death of globalization and the rise in digitalization," said Perry in his acceptance speech at the 13th Bulletin of Monetary Economics and Banking (BMEB) International Conference in Bali today. The BI Governor then compared the current situation to past events where global trade took the role as a way for a country to improve their economic growth. This he says is a stark contrast to what can be observed today where a number of countries rely heavily on their internal strength in facing the global trade. Perry then asked the conference's audience; "Is there still room available for global trade to return to the state of equilibrium?" As for digitalization, Perry mentioned its growing trend, especially in the financial sector where the services of banks and financial institutions are slowly being outperformed by financial technologies or fintech. "This is the rise of digitalization," the Bank Indonesia Governor said. (*Tempo*)

❖ POLITICS/LAW/SECURITY:

• Breaking the Natural Resources Curse

After decades of reliance on natural products, from spices, palm oil and raw ore to oil, President Joko "Jokowi" Widodo has reiterated his commitment to break Indonesia away from the "natural resources curse" and focus on human development. For that intention, the government has allocated tens of billions of dollars from the proposed 2020 state budget that carries the theme "state budget for competitiveness acceleration through innovation and empowerment of human resources quality", the President said in his state of the union address on Friday. The human capital budget will be disbursed through various channels including the Education and Culture Ministry, Manpower Ministry, Health Ministry and regional fund transfers. Programs include subsidies for students, endowment funds for education, research and culture funds, training for the unemployed as well as universal healthcare insurance and stunting reduction acceleration programs. "Armed with innovation, quality human resources and technological proficiency, we can break away from the natural resources curse," said Jokowi in front of policymakers and lawmakers at the House of Representatives on Friday, dressed in royal Sasak attire. (*Jakarta Post*)

• Government Reinstates Disabled Dentist

In a case that shows promise for the disabled the Presidential Staff Office announced on Monday the government has decided to reinstate Romi Syofpa Ismail, a wheelchair-bound dentist in South Solok, West Sumatra, as a civil servant candidate after the district government disqualified her for "not meeting the requirements" despite Romi passing the civil service exam with the highest score.

Romi's case has put Indonesia's disability policy in the spotlight by revealing that regional administrators often still discriminate against disabled people, even though the 2016 Law on People with Disabilities has already outlawed the practice.

"We've looked into the case and agreed that doctor Romi should remain as a civil servant candidate," Presidential Staff Office deputy Jaleswari Pramodhawardhani said in a press release on Monday.

• Papua Unrest

National Police Chief General Tito Karnavian has ordered the deployment of 300 personnel of mobile brigade to Papua to maintain the security in Deiyai, Paniai, and Jayapura. The three regions have been gripped by protest rallies that turned into riots, following a racial incident in Surabaya involving Papuan students who were called "monkeys". On August 29, the a protest in Jayapura turned violent caused damage to the Papua People's Assembly building and several office spaces. A day before in Deiyai, two civilians and one Indonesian Military (TNI) personnel died during the riot. Anti racism protests have occurred on several university campuses. In Papua these demonstrations also include a demand for an independence referendum. The Indonesian government, as well as most foreign governments (including the US) consider Papua and West Papua to be integral to Indonesia since the 1962 NY agreement and 1969 Act of Free Choice.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• Indonesia May Switch to Boeing

To counter EU curbs on importing Indonesian palm based biodiesel Indonesia is asking local airlines to buy American. According to Jakarta Post reporting Indonesia's Trade Minister Enggartiasto Lukita is asking carriers including PT Lion Airlines to consider switching their outstanding aircraft to Boeing Co. Lukita has spoken to Lion's co-founder Rusdi Kirana about dumping Airbus and the country's largest low-cost carrier supports the government move, the minister said in a text message on Thursday. The Indonesian threat to turn its back on Airbus is the fallout of European Union's decision earlier this year to place stricter limits on palm oil's use in biofuels on

concerns over deforestation. Indonesia, the world's largest producer of the tropical vegetable oil, last week also threatened to slap retaliatory tariffs on import of dairy products from EU after the bloc imposed anti-subsidy duties on its palm oil biodiesel. The escalation of trade feud may complicate Lion's plan to turn to the European manufacturer following a dispute with Boeing after the crash of its 737 Max 8 jet last year, which killed 189 people. Flag carrier PT Garuda Indonesia has also said that it may cancel its Boeing Max orders for other models, presumably including those from Airbus.

❖ SOCIAL/CULTURE/EDUCATION:

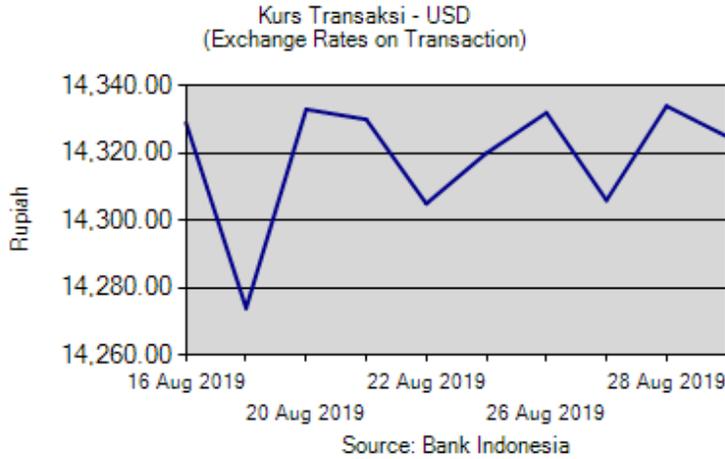
• National Health Insurance Failure

The government has finally admitted a fundamental problem with BPJS Kesehatan, its much-taunted social health insurance that was launched back in 2014: it has failed to collect enough premiums from its subscribers to keep it running smoothly. Many Indonesians often skip paying their BPJS Kesehatan premiums until they actually get sick. Those who pay their premiums regularly — including company employees and poor families subsidized by the governments — do so at a level far lower than required to sustain the system. This happened because the government was at first reluctant to put too much burden on ordinary Indonesians to keep the system alive. Conversely, it was also a strategy to rein in the amount of subsidy for the poor. But the insurance has proved to be popular among Indonesians and unpaid medical bills have been piling up over the years. To cut a long story short, BPJS Kesehatan has been in the red since its inception. The government has now agreed

that the insurance premium should be set at a more realistic level next year, which could be between 50 percent and 83 percent higher than the current premium. "[We] need to pay more attention to purchasing strategy for the payment system, the synergy between the insurance providers and on keeping the operational expenses under control. [We] also need to strengthen the contribution from regional governments," Sri Mulyani said. (*Jakarta Globe*)

CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

