



OUTLOOK INDONESIA

MONTHLY UPDATE- JULY 2021

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Indonesia's Fiscal Dilemma
Less Reliance on US Dollar
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US Will Try Bali Bomber Hambali
Third Term for Jokowi ?



UPCOMING/RECENT EVENTS

❖ ISSUE TO WATCH: THE DELTA VARIANT



JUNE 16

Indonesia Financial Services Update

Dr. Wimboh Santoso

Chairman, Financial Services Authority of Indonesia

[VIEW EVENT ON REWIND](#)

INDICATORS

US\$= 14,542
JSX= 5985(last)
BI Rate: 3.5%
Inflation: 1.68%
Reserves: \$136.398 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDOONESIAN HISTORY

1965

Indonesia suspended the program of sending scholars and medical personnel to the United States for postgraduate training. The program was one of the last remaining American aid projects here.

Commentary by Wayne Forrest

It pains me to pen another COVID commentary 18 months since the first. Its not something I expected to do even after cases were predicted to rise after the May *mudik*, the annual return of Indonesians in cities to their families in more rural communities. But here we are, Indonesia just set a world record for the number of new COVID-19 cases in a single day (over 20,000) since the pandemic began in 2020. Hospitals across the country are at 100% capacity, tents have been erected to handle the overflow and volunteers are being asked to donate ancillary goods and services. President Jokowi, after an initial reticence, has been forced to prepare stricter measures that will have a side effect he has struggled to avoid: closing parts of the economy. This all comes in stark contrast to the US where many of us are traveling again and returning to our offices.

The new rules, deemed "emergency public restrictions", released today begin July 3, apply to areas of high transmission ("red zones") in Java and Bali, and will last until July 20. These would include many but not all major cities and large towns. Not yet finalized, there could be further modifications in the days ahead.

- 100% work from home except essential and critical sectors
- For essential sectors: 50% maximum in office with health protocols (distancing/masks)
- For critical sectors: 100% can be in office with health protocols.
- Essential sectors: finance/banking, capital markets and payment systems, information and communications technology, non-quarantine hotels, and export-oriented industries
- Critical sectors: energy, health, security, logistics/transportation, food/staples and beverage, petrochemicals, cement, disaster management, constructions, national strategic projects, electricity, and water transmission
- Supermarkets and traditional markets cannot remain open past 8:00 pm and are limited to 50% capacity.
- All educational activities must be carried out only online.
- Public transport (taxi, train, bus, rental) limited to 70% with strict health protocols.
- Passengers on domestic flights must show a vaccine card (at least one dose) and evidence of a PCR test.
- The Tourism Minister has delayed Bali's July re-opening until later in August but will be watching COVID levels carefully.

Facilities temporarily closed are:

- Shopping malls, trade centers, movie theaters
- Art/cultural, performances/concerts, sports and social activities
- Public areas, parks and tourist attractions
- Places of worship (mosques, churches, prayer rooms)
- Restaurants: open only for take away or delivery

The highly transmissible Delta variant is thought to be behind the recent outbreak, but other factors have surely been at play. One is vaccine resistance, a problem not unique to Indonesia. "Its God plan not the government's that is important" is a phrase commonly heard. Another is the long-standing policy of the government to minimize the impact of the pandemic on the livelihoods of the 60% of Indonesians who are not employed formally. Their only option to pay for daily needs is labor for end-of-the-day wages or other remuneration. To keep this segment of society locked down is nigh impossible. Testing and tracing have never reached the intended level and vaccine supplies, especially Astra Zeneca made in India, have also been slower to arrive. (50 million Pfizer doses will begin arriving in August).

Indonesia officials report that only 8% of the 183 million people in the target pool (based

on age and health status) have been vaccinated. President Jokowi has set an ambitious 70% rate in priority cities (such as Jakarta) and regions (such as Bali) for no later than August 2021.

Indonesia stands in July 2021 much like it did in May 2020 as the first COVID wave washed over the country. This second wave will have its consequences on travel and the economy, no doubt, but at least we have vaccines and therapies. What's uncertain is how long it will be before high levels of immunity are achieved as well as where they occur. It may be possible

to reach the President's goal in Jakarta and tourist zones in Bali this year and other well-governed regions such as Yogyakarta. But I fear that many of the elements that repeat the transmission cycle, reluctance to impose full lockdowns, vaccine resistance, and lack of adequate testing and tracing, will remain for some time, maybe even years. We all need to adjust our expectations and maintain our businesses within this "new normal". We have no other choice.

(The opinions expressed here are the writer's and do not necessarily represent those of AICC or its members.)

❖ ECONOMY AND BUSINESS:

• Indonesia's Fiscal Dilemma

by Wayne Forrest

After gaining a three year increase of the national budget deficit from 3% to 6% in 2020 and offering many tax incentives to boost employment (reduced corporate taxes) the Indonesian government is facing a fiscal shortage of dramatic importance. In legendary fashion, given Indonesia's long history of fiscal rectitude, Finance Minister Sri Mulyani hopes to avoid any debt rescheduling, currency controls or a drop in the sovereign rating. She recently defended the need for a new tax bill before Parliament and is clearly preparing the way for an increase in individual tax rates, changes to the value-added tax (VAT) and the adoption of the recently proposed global minimum corporate tax. It's not clear how Indonesia can gain the necessary tax revenues by 2023 to eliminate the gap in the budget deficit caused by the pandemic unless Parliament agrees to a new bill on general taxation. "This is how we continuously reform tax policies and bureaucracy to reflect the principles of justice, inter-sectoral justice between income groups, and to create legal certainty," Sri Mulyani told lawmakers during a hearing with the House of Representatives on Monday. The only alternative would be reduced government spending, a tough option. Expect the highly competent and politically-neutral Finance Minister to prevail.

These fiscal problems at the national level are mirrored in the banking system where banks, empowered by OJK pandemic rules, have been allowed to restructure loans. But these loans could become a ticking time bomb in the future, echoing the 1998 credit crunch that brought Indonesia to its knees.

• Cigarette Factories Grow in Central Java Despite 'Pandemic Economy'

The pandemic may have increased smoking in Indonesia. Citing Antara News, the Jepara regency's licensing department has handled many permits for new cigarette factories. As of the number, there were initially roughly 80 cigarette factories and has now grown to 114 factories," said the Kudus Customs and Excise Supervision and Service Office Head, Gatot Sugeng Wibowo on June 28. According to him, the number of new factories went up to 111 in February this year and increased again to 114 in June in both Kudus and Jepara regions. He claimed this number could rise as there were more permits being submitted currently. Wibowo believed the rise in the cigarette business was also due to the shift in behavior of smokers during the pandemic where consumers of Class I cigarettes switched to Class II and III cigarettes that were sold under more affordable prices. This is backed by the data where Group II and III cigarette brands have increased production whereas Group I brands slumped in sales. *(Antara News, Tempo)*

• Indonesian homeownership slides as affordability issues arise

Homeownership in Indonesia has been dropping since 1999 as house prices have risen. Now, the affordability of homes is under further threat as a number of people face declines in real income as a result of the pandemic. The national share of

households with a home of their own fell to just over 80 percent last year from nearly 85 percent in 1999, according to data from Statistics Indonesia (BPS). Jakarta recorded the lowest share last year. The fall in Jakarta homeownership is in line with the share of households renting a home in the city, at 37.71 percent last year, higher than any other province, as workers flock to the capital to find jobs. *(Jakarta Post)*

• Less Reliance on US Dollar

Bank Indonesia announced that Indonesia and China were closer to a reducing their reliance on the US dollar. The switch to local currency settlement (LCS) is expected to take place in the third quarter of this year. Bank Indonesia's head of financial market development, Donny Hutabarat, said the move was part of Indonesia's effort to diversify currencies used in trade and investment with bilateral partners. So far, Indonesia has agreed on LCS with Malaysia, Thailand and Japan. "So, we do not depend 100 percent on the US dollar anymore," Donny told reporters during an online media briefing on Friday. "[LCS with China] will be implemented around July or [later in] the third quarter," Donny said.

• Bankrupt Garuda Weighing Options as New Airline Emerges

The beleaguered Indonesian national airline is trying to avoid a cash injection from the government, strapped as it is with funding COVID relief efforts. Its President Director announced the airline is considering several workout options including: relief from creditors via loan rescheduling, forming a new carrier while Garuda is being restructured or a conversion of debt to equity.

Meanwhile Indonesia is welcoming Super Air Jet (SAJ), a new low-cost carrier reportedly backed by Lion Air Group, to the market at a time when the aviation industry is working its way out of a slump caused by the COVID-19 pandemic. If the new player passes all regulatory hurdles it comes into the market unencumbered by foreign currency loans as its capital is reported to be only from local investors. Debtwire also reported that, according to Law and Human Rights Ministry records it had acquired, SAJ was owned by Davin and Farian Kirana, the sons of brothers Rusdi and Kusnan Kirana, respectively, the founders of Lion Air Group.

• Indonesian Importers Hesitant: KADIN

Indonesia's imports may fall back to levels not seen since last summer as manufacturers face renewed risks following the recent surge in COVID-19 cases and deaths, the Indonesian Chamber of Commerce and Industry (Kadin) has said. Kadin deputy chairwoman Shinta Kamdani said she was expecting import growth to slow down again in the next one to three months as manufacturers remained under pressure and had no room for speculative imports, such as hoarding raw materials. "Instead, companies limit imports and production [and decide on these] depending on placed orders or [current] demand, so that their overhead costs do not swell up and make cash flow vulnerable at a time when uncertainty about domestic demand remains high," Shinta told The Jakarta Post in a text message on Monday. *(Jakarta Post)*

❖ POLITICS AND SECURITY:

• Third Term for Jokowi ?

Its far fetched given the two term constitutional term limits but some supporters of President Jokowi are pushing for changes that would enable him to run a third time. Many volunteers who helped Jokowi win his second election in 2019 have formed the National Secretariat for Jokowi-Prabowo, not only supporting the idea of Jokowi running for a third term in office but even going so far as to pair him with his Defense Minister Prabowo Subianto, whom he defeated in both the 2014 and 2019 races, as a running mate. The President has distanced himself from this group but has not exactly opposed it either. To achieve this result would require amending the Constitution during a special

session of the MPR (People's Consultative Assembly) and then gaining the support of one or more parties to put his name on the ballot. Even if the MPR would take up the amendment the ensuing battle would last so long that it would be highly unlikely any changes could be implemented in 2024, the date of the next national elections. (*Jakarta Post*)

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• US Will Try Indonesian Terrorist Hambali

The world will soon get a new look at the man accused of plotting the October 2002 bombing in Kuta, Bali, that killed 202 people, and the 2003 attack at the JW Marriott hotel in Jakarta that killed 11. Riduan Isamuddin, also known as Hambali, and his two associates will face a formal arraignment in front of a United States military commission in Guantanamo Bay on Aug 30. It has been some 18 years coming. Hambali, now about 57, was captured in Ayutthaya, Thailand, on Aug 14, 2003 in a joint US-Thai operation and transferred to Guantanamo in September 2006. He is believed by investigators to have masterminded the strategy of the Jemaah Islamiyah (JI) terror organisation of striking at soft targets. JI has previously been linked to Al-Qaeda and later to the Islamic State in Iraq and Syria. Hambali was not formally charged in the US with any crime until January this year and remains wanted in Malaysia, Singapore and the Philippines in connection with terrorist plots. In Dec 2001, 15 JI operatives were arrested in Singapore for planning attacks on government buildings, embassies and US servicemen in the Republic. In 2002 came the Bali bombing - the worst terrorist attack ever on Indonesian soil. Then in 2003, the group carried out the bombing at the JW Marriott in Jakarta (*excerpt from Straits Times*)

• US-Indonesia Collaborate on Maritime Center

Indonesia and the United States have broken ground on a new \$3.5 million maritime training center in the strategic area of Batam, in the Riau Islands, Indonesia's maritime security agency said. Attending the ceremony virtually on Friday, the US ambassador to Indonesia, Sung Kim, said the maritime center would be part of ongoing efforts between the two countries to bolster

security in the region. "As a friend and partner to Indonesia, the United States remains committed to supporting Indonesia's important role in maintaining regional peace and security by fighting domestic and trans-national crimes," he said, according to a statement from Bakamla, Indonesia's maritime security agency. The training centre, located at the strategic meeting point of the Malacca Strait and the South China Sea, will be run by Bakamla and houses classrooms, barracks and a launch pad, the agency said.

• US Sends Papuan Students to Rhode Island

U.S. Deputy Chief of Mission to Indonesia Heather Variava on June 17 sent off 24 students from Papua province who received special autonomy scholarships from the Papua provincial government to study in the United States.

The event, which was attended by the Head of Human Resources Development Agency (BPSDM) of Papua Province Mr. Aryoko

A.F. Rumaropen on behalf of Papua Governor Lukas Enembe, marked the continuation of the long-term collaboration between the University of Rhode Island (URI) and the Papua provincial government to provide opportunities for Papuan youth to pursue academic degrees at universities in the United States.



❖ SOCIAL/CULTURE/EDUCATION:

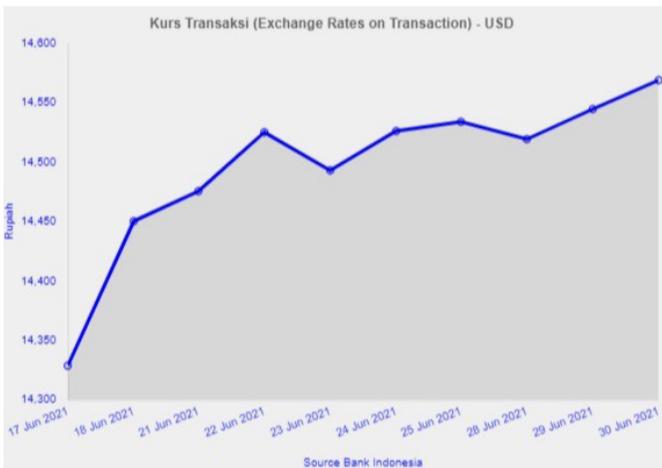
• AICEF Awards 15 Travel Research Grants

Since 2019, the American Indonesian Chamber of Commerce has been administering the AICEF (American Indonesian Cultural and Educational Foundation). A separate entity, AICEF has been supporting Indonesian students studying at US universities for PhD degrees since 1975. Many are mid career instructors at Indonesian state universities and have tuition funding from Fulbright or the Indonesian government (LPDP). AICEF Travel Research grants do something Fulbright does not do: fund dissertation research. For 2021, 15 Indonesian students from the University of Washington, University of Pittsburgh,

Columbia University, Northwestern University, Oregon State University, and the Georgia State University, Northern Illinois University, University of Rochester, University of Maine, and SUNY Binghamton will be doing field research in Indonesia in fields such as wildlife ecology, political science, medical curriculum, nursing, film, architecture history, musicology, sociology, anthropology, and international studies. For more information contact info@alicef.org. AICEF's website is www.alicef.org

CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

