



# OUTLOOK INDONESIA

MONTHLY UPDATE- FEBRUARY 2019

FROM THE AMERICAN INDOONESIAN CHAMBER OF COMMERCE

## HIGHLIGHTS

New Banking and Insurance SOE Holding Companies  
Single Digit Poverty  
Mahendra Siregar Returns as Ambassador  
Indonesia Considers Book Ban  
Rigged Bankruptcy



## UPCOMING/RECENT EVENTS

January 17

Business Networking at Consulate of Indonesia

featuring  
H.E. Enggartiasto Lukita,  
Minister of Trade



## ❖ ISSUE TO WATCH:

Commentary by Wayne Forrest

Since January 1 the rupiah has strengthened from 15,000 to 14,000, mostly on the heels of announcements from the Fed that it would not be raising the prime rate imminently. With a yawning current account deficit this development was met with a sigh of relief from Indonesia's economic brain trust. They could certainly use it as 2018 had little to cheer about (exports and investments were down) even though 5.1% GDP growth was slightly better than 2017. Indeed, most analysts are predicting 2019 will bring more good news: economic stimulus from the Presidential and Parliamentary elections, recovery in some of Indonesia's overseas markets. The US- Indonesia official diplomatic partnership turns 70 later this year and it will be AICC's as well. Some readers may not know that a small group of rubber traders, coffee and spice importers, mixed with a handful of banks and oil companies and some intrepid attorneys supported the nascent Indonesian Republic's struggle for sovereignty in the half decade after declaring independence at the end of World War II. At the end of it they formed AICC.

But for the news to be truly positive we would wish to see Indonesia shed some of the ballast that still weighs down its potential. Likewise, the US could do more to be on an equal and honest footing with the country that ranks just behind it in population size. But, let's be clear, as of 2019 our two nations and peoples are on some of the strongest ground we have been on since 1949. So what's in the way ?

Americans remain anxious and uncertain over the narratives Indonesians create over things such as: religion (blasphemy), role of foreign capital, internal security, public vs private enterprise, role of the State, and the rule of law. Americans seek legal and policy consistency, becoming frustrated when they find ambiguity, or worse perfidy. Indonesians rightfully ask how committed the US is to the region when it withdraws from a regional economic agreement after leading the initiative and takes other steps that are perceived as indirect threats to its currency (possible repeal of GSP, Fed interest rate hikes, or palm oil restrictions).

Foreign creditors take pause when they see decisions in Indonesian courts that "stand the law on its head". In a recent example, the Lippo Group seems to have engineered a much better bankruptcy settlement for one of its subsidiaries by having two of its affiliate companies file the initial petition and then settle on much better terms, leaving an Austrian creditor with very little. This page has commented on a West Jakarta court decision that declared a Singapore contract between a US firm and the Singapore subsidiary of a large Indonesian conglomerate void because it wasn't written in the Indonesian language.

In a country that is proud of its heritage of religious pluralism and freedom of speech, a woman was jailed in 2018 for blasphemy for complaining about the loudness of a mosque speaker next to her house. This was not an isolated case. Recently, the wife of a Christian was forced by community cemetery officials in central Java to allow the removal of a cross from her husband's grave, apparently now only Muslims can be buried there. Cases like these harden people and can degrade the business climate.

Many heard an echo from the Suharto era this week when Attorney General Prasetyo claimed, "We might have to conduct raids for books containing things related to the PKI [Communist Party of Indonesia] and we must confiscate those books wherever they may be". Prasetyo seems to have ignored a Constitutional Decree from 2010 banning such raids without legal process. Double speak about the threat of Communism is also a metaphor for other restrictions on "outside influences". A current draft law in Parliament would ban all music that had negative foreign influences and other "blasphemous" content. In today's hyper-connected world I doubt you would find any young person or even the President

## INDICATORS

US\$= 13976  
JSX= 6547 (last)  
BI Rate: 6%  
Inflation: 2.82%  
Reserves: \$120.65 billion

(source: Bank Indonesia)  
JSX= Jakarta Stock Exchange

## THIS WEEK IN INDONESIAN HISTORY

1950

A guerilla army led by a defecting Dutch soldier, Capt. Westerling, takes over Bandung and heads to Jakarta

himself- a heavy metal fan- concerned about "outside influences". Most of us are about sharing our culture: food, music, dance, products.

Although Indonesia and the US have taken some strides to reconceptualize their shared anti-communist Cold War legacy, both governments (especially Indonesia's) continue to hold back documents about the tragic events of 1965 after a half century. Are not the people of both countries entitled to the full truth?

The labor law, with its uneconomic severance benefits, remains in place even as the nation's chief investment officer, BKPM Chair Tom Lembong, decries its negative effect on manufactur-

ing investment. Foreign oil and mining contractors – willing to spend their billions – are being shown the door replaced by inefficient state-owned companies spending precious public funds. The Indonesian people don't hear an honest economic analysis and US companies—who have great respect for senior Indonesian leaders—wonder why the Ministers sound so welcoming of foreign investment but yet support policies that prevent more of it.

Maybe in this, our 70th year, a little more straight talk and honesty will shine through.

*(The writer's opinions do not necessarily reflect those of the American Indonesian Chamber of Commerce or its members)*

## ❖ ECONOMY AND BUSINESS:

### • New SOE's in Banking and Insurance

Indonesia under President Jokowi has expanded the State's footprint in economic matters through empowering more and more activity through state owned enterprises. The State-Owned Enterprises (SOE) Ministry plans to establish a state-owned insurance holding company and state-owned banking holding company in March and April, respectively, in trying to improve efficiency of government businesses in the two sectors. "I hope the state-owned insurance holding company is established next month and will be followed by the establishment of a state-owned banking holding company in April," said SOE Minister Rini Soemarno in Jakarta over the weekend as reported by kontan.co.id. In addition to improving efficiency, she added, the establishment of the holding companies was expected to improve foreign investors' confidence to the country's economy. The government had assigned state-owned insurance company PT Jasa Raharja as a leading company for the holding establishment with the three other state-owned insurance companies – PT Asuransi Kredit Indonesia (Askrindo), PT Jaminan Kredit Indonesia (Jamkrindo) and PT Asuransi Jasa Indonesia (Jasindo) – as the members. *(from Jakarta Post reporting)*

### • Consumer Confidence Climbs

The consumer confidence index (CCI) climbed 1.5 percent month-on-month (mom) to 102.3 from 100.7 in December, reflecting an increase over three consecutive months, according to a survey conducted by the Danareksa Research Institute (DRI). The present situation index (PSI) and the expectation index (EI) were also up by 1.3 percent mom and 1.7 percent mom, respectively, to 86.7 and 114.0. "In our survey, consumers gave more positive assessments on the current state of the economy and the job market. In addition, they were also more upbeat over the prospects for the national and local economies over the next six months," DRI said in a press statement released on Friday. *(Jakarta Post)*

### • Single Digit Poverty

Indonesia has maintained a single-digit poverty rate as it posted a 9.66 percent rate as of September 2018, Statistics Indonesia (BPS) reported on Tuesday, with the number of poor people standing at 25.67 million. The figure decreased from 9.82 percent in March, meaning 280,000 people had been lifted out of poverty. The figure has inched closer to the government's target of between 8.5 to 9.5 percent during 2019. BPS head Suhariyanto said the improvement was thanks to the overall increase in farmers' wages as well as stable inflation of 0.94 percent between March and September. "However, the challenge remains for the government to balance out the rate as urban poverty was recorded at 6.89 percent, whereas rural poverty was 13.1 percent," Suhariyanto told reporters on Tuesday.

### • Trade Gap Widens in December

Indonesia posted a wider than expected trade deficit in December, bringing the gap for 2018 to the largest ever, the Central Statistics Agency, or BPS, said on Tuesday. December's trade deficit was \$1.10 billion, in a third consecutive month where the gap was wider than market expectations. A Reuters poll had expected a deficit of \$930 million. Southeast Asia's largest economy had a deficit of \$8.57 billion in 2018, the widest ever, a stark contrast to its \$11.84 billion surplus in 2017, BPS chief Suhariyanto said. Last year was challenging because exports had slowed at a time when imports surged due to a recovering domestic economy, said Josua Pardede, an economist at Bank Permata in Jakarta. This year would probably be equally challenging, he said. *(Jakarta Globe)*

### • Tempeh Exports

Indonesia processes thousands of tons of soybeans from growers in the US and other countries into protein rich cake known as *tempeh*. Now, Indonesia wants to export it. Trade Minister Enggartiasto Lukita said Indonesia will export more tempeh to Hong Kong, South Korea and a number of Middle Eastern countries in which many Indonesians live. "We are seeking technology to extend the shelf life," added the Minister.

### • Biofuel JV: ENI and Pertamina

Indonesian state energy company PT Pertamina said on Thursday it has signed agreements with Italian oil company Eni SpA to develop a so-called green refinery in Indonesia and to process a palm-based fuel mixture in Italy. Pertamina said in a statement, it has signed a head joint venture agreement for the planned refinery in Indonesia that would produce fuel completely derived from crude palm oil (CPO) and a term sheet for CPO processing in Italy. *(Reuters)*

### • Frank Remarks on FDI From BKPM Chair

Data from the Investment Coordinating Board (BKPM) showed that total investment for 2019 in rupiah terms rose by four percent year-on-year, but a nine percent drop occurred in the foreign component (foreign direct investment or 'FDI'). Domestic investment rose by 25 percent. BKPM Chair Tom Lembong affirmed that "the level of FDI in 2018 was the lowest in three years" – but this reflects the prevailing rupiah value; FDI fell to its lowest level in US dollar terms since 2012. Lembong cited the role of domestic policymaking in the slow investment growth: "As I have said before, the realization in 2018 reflects efforts made in prior years. The lack of execution on policy implementation in the past has resulted in the investment slowdown this year, along with impediments from external factors." He also noted Indonesia's static ranking in the World Bank's Ease of Doing Business (EoDB): "The action plan for increasing the EoDB, in my personal opinion, is becoming somewhat stuck (*agak mentok*). Improving it requires more fundamental reform."

## • Consumption Remains Growth Engine: Sri Mulyani

"Slowing down [in China] does not necessarily mean that their domestic demand will decrease. It is their exports to the US and to slower economies elsewhere that are diminishing, and their investment is declining because of excess capacity. But they are going to safeguard their domestic demand, so if they slow it does not necessarily mean that their demand for our

goods will decline." Indrawati reiterated vigilance regarding the current account deficit and highlighted Indonesia's fiscal prudence and diverse financing options. A press report paraphrased her concluding that: "The success in maintaining people's purchasing power and consumption, which accounts for more than 55 percent of Indonesia's gross domestic product, will determine if [it] can withstand a weak external situation." (*Reformasi Weekly, Bloomberg*)

## ❖ POLITICS/LAW/SECURITY:

### • Indonesia Considers Book Ban

A plan by the Attorney General's Office to launch a massive crackdown on books about communism and other banned ideologies has prompted concerns that this may erode freedom of expression and access to information in Indonesia. "We might have to conduct raids for books containing things related to the PKI [Communist Party of Indonesia] and we must confiscate those books wherever they may be," Attorney General Prasetyo reportedly said during a meeting at the House of Representatives in Jakarta on Wednesday. The plan came after several similar actions – which ironically also included material opposed to communism – performed without court orders by the Indonesian Military (TNI) in various parts of the country. Prasetyo did not comment on the arbitrary confiscations but said his office was conducting a study to better identify such books. However, the Constitutional Court ruled in 2010 that the decree was unconstitutional and determined that the banning or confiscation of books without legal process was therefore illegal. (*Jakarta Globe*)

January after nearly two years in prison for blasphemy. The former Jakarta governor, was the first Indonesian politician to be defeated because of his ethnic and religious identity. (Chinese Christian). The widely respected government administrator may yet make a comeback. Many are aware that he was a victim of an ancient draconian law and his conviction was challenged not only by human rights activists, but also a number of Muslim scholars who believed he had done nothing wrong.

### • Ahok Freed

Basuki "Ahok" Tjahaja Purnama became a free man in mid

### • Rigged Bankruptcy ?

Press revelations spurred criticism of the Lippo Group's handling of a November 2018 bankruptcy settlement for a subsidiary, PT Internux (a provider of a wireless internet product, 'Bolt'). Reporting by the [Financial Times](#) raises questions about the independence of two companies that originally filed a bankruptcy suit against Internux, which is a subsidiary of First Media Tbk. The suit swiftly led to an amicable settlement, but whether the majority of creditors who approved are genuine creditors is in dispute. The settlement defied objections from Lippo's main foreign creditor, Raiffeisen Bank of Austria – as well as from an Indonesian government ministry. (*Reformasi Weekly*)

## ❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

### • Trade Minister Visits US

AICC hosted Indonesia's Trade Minister, Enggariasto Lukita and a business delegation led by National Agency for Export Development Director General Arlinda in NY on January 17. The major purpose of the visit was to promote palm oil and bio-diesel and discuss reducing the US-Indonesia trade deficit with USTR officials in DC. Lukita stressed that crude palm oil (CPO) is a very important commodity for Indonesia, as important as Boeing is for the United States.

Investment Coordinating Board. Ambassador Siregar is slated to take up his post in March.

### • Return of Mahendra

Mahendra Siregar has been appointed by President Jokowi to become Ambassador to the United States, replacing Amb. Budi Bowoleksono, who has held the position since 2014. Mahendra served as economic counselor in DC in 1990's and went on to become one of Indonesia's ranking civil servants holding a variety of posts including: Vice Minister of Trade, Deputy Coordinating Minister of Economic Affairs, and Chairman of the



## ❖ SOCIAL/CULTURE/EDUCATION:

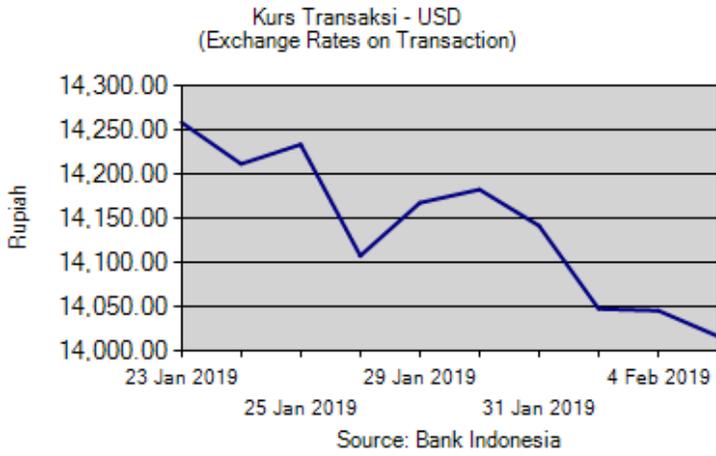
### • Indonesia Soccer Scandalized Again

It's been an ongoing saga in Indonesia's soccer world: games are often decided due to payoffs. Such behavior has hurt the country's reputation and banned it from some international competitions. Edy Rahmayadi resigned as chairman of the Indonesian Football Association, or PSSI, over the weekend amid fresh allegations of match-fixing in the national league, which have reignited the sport's long-running struggle against corruption. The PSSI and police announced a crackdown on

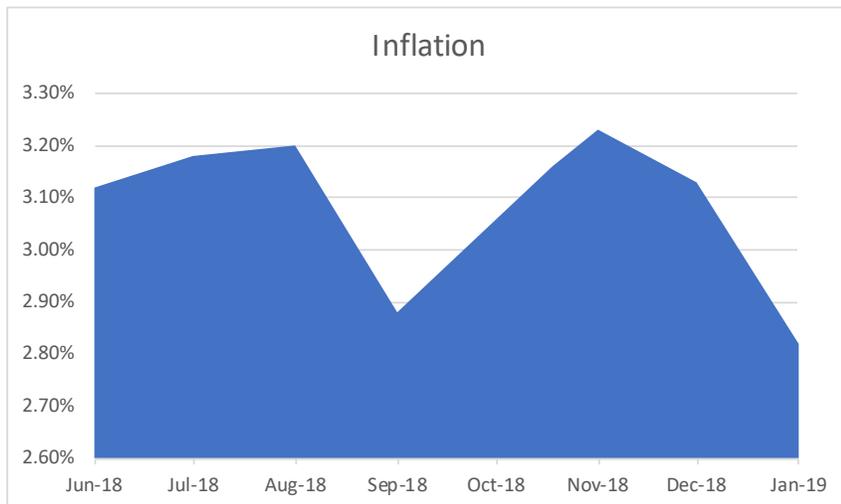
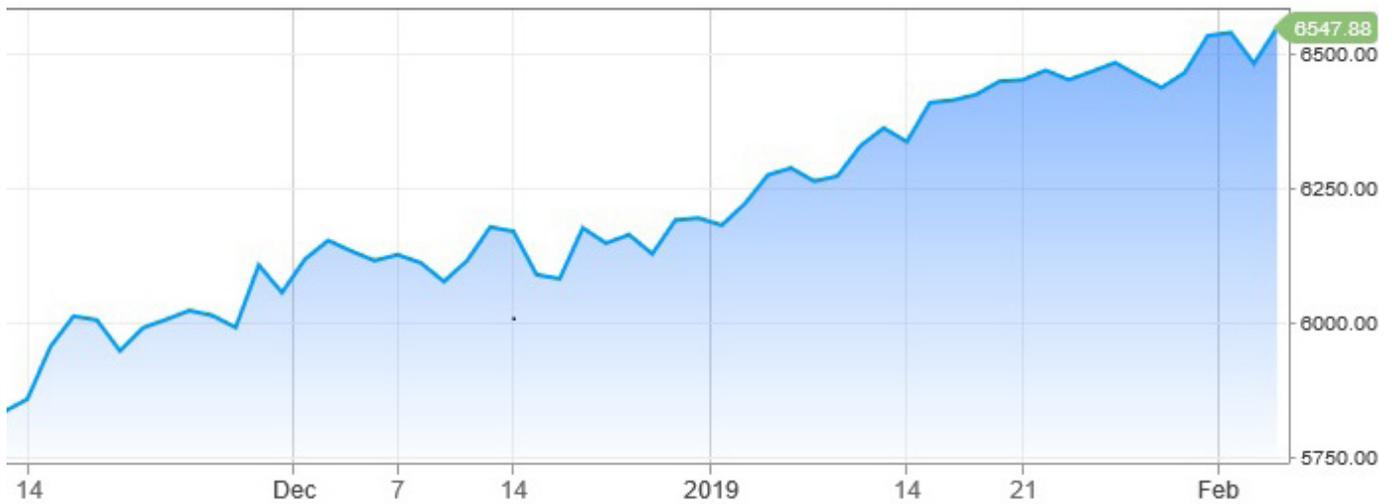
match-fixing in December after an executive member of the association was caught on tape trying to bribe a coach with approximately \$10,000 to throw a second-division match. Edy, who is the governor of North Sumatra, said his decision to resign as PSSI chairman was made in the nation's best interest. "Nothing pressured me to step down. This is the best decision for the nation," Edy said after his resignation speech during the opening of the PSSI annual congress in Nusa Dua, Bali, on Sunday.

**CHARTS:**

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation