



OUTLOOK INDONESIA

MONTHLY UPDATE- OCTOBER 2020

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Omnibus Bill Specifics
Indonesia's Farming Conundrum
Democracy in Regression
US Not Forcing ASEAN To Choose
Online Cross Cultural Training for Business



UPCOMING/RECENT EVENTS

June 9

Conversation with Shinta Kamdani
CEO, Sintesa Group
Chair, API (Indonesian Employer's Association)

Indonesian Business Perspective on COVID-10

[Click Here](#) For Notes

INDICATORS

US\$= 14,918
JSX= 4870 (last)
BI Rate: 4%
Inflation: 1.32%
Reserves: \$137.04 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

1957

A National Commission was formed to handle the growing problem of disunity within the Army which had led to regional rebellions among politicized officers.

❖ ISSUE TO WATCH: THE OMNIBUS BILL STRUGGLE

Commentary by Wayne Forrest

Its hard to focus on economic topics during a pandemic that continues to grow and spread. But, it should not go unnoticed that the World Bank now predicts that the Indonesian economy will contract more than they had predicted only a few months ago and it issued a strongly worded warning for Indonesia to get a handle on the pandemic: "It may be well into next year that Indonesia will come back to pre-pandemic levels of economic output, and it may take them even longer." In June the Bank predicted zero percent growth and is now revised that to a 1.6-2% contraction. As others have commented, now is a strategic time for Indonesia's reform-minded government to push through structural changes that could help accelerate the country's future recovery. Its no secret that 7 years of 5% GDP growth, while acceptable, is below the nation's potential. So, what has President Jokowi's administration and Parliament been doing? To answer that is also an exercise in understanding an equation that is embedded in Indonesia socio-cultural-political environment: reform is inversely proportional to stability. Indonesians, in my opinion, are basically conservative, and have a long memory of previous periods of instability. What seems like sensible reform legislation to us is more consequential and anxiety-producing for them. Also, frankly, the transactional nature of Indonesia's legislative politics is always an inhibiting factor.

Recognizing that the deregulation packages in Jokowi's first term (2014-2019) did not attract sufficient foreign investment, especially those companies relocating from China, upon his reelection in 2019, the President announced a much more comprehensive initiative to make what he called "structural reforms". Wrapped into one omnibus bill, sold as a jobs creation bill, thousands of local and national regulations would be eliminated or harmonized, suffocating severance rules would be altered, many areas would be opened for foreign investment, and the central government would reassert its power to overrule local regulations. Announced with fanfare the bill languished as COVID spread but has now resurfaced. Some of its main features are listed on page 2. Although its not yet law, and further changes could be made, it does appear that significant compromises on labor rules and other regulations have already occurred. If so, the bill may still have a positive effect on the business climate, but more at the edges rather than at the core. I worry Indonesia may have missed a significant opportunity to become dramatically more competitive for international direct investors, especially in manufacturing.

Looking at this within the context of Indonesia's narrative over the past decade (perhaps longer), this development reflects not only the equation I mentioned above, but a series of ambiguities and contradictions that have long been identified. Expressed as tensions between opposites they are: democracy- authoritarianism, Islam-pluralism, openness-protectionism, central-regional government. These were recently very well summarized in a perceptive article by seasoned journalist Ben Bland based, in part, on his interview with President Jokowi and discussions with his inner circle of advisors (Click here to read it) as well as in a commentary in the Jakarta Post by Emil Salim, a key minister during the New Order period of President Suharto in which he agrees with the theme of another recent publication: "Democracy in Indonesia: From Stagnation to Regression?" (see article on page 3). I do recommend a close reading of these pieces for any that want to broaden your understanding of contemporary Indonesia, but, permit me to give a quick summary, which unfortunately reduces a very nuanced analysis and may give an unintentional negative tone. Basically, President Jokowi is a political outsider who entered office with high-minded calls for a reformed bureaucracy, open and competitive economy, and social justice for all but has been hampered (some would argue defused) by not only an elite and oligarchic political party system with its heavy patronage underpinnings, but also by his own nationalist instincts and overriding concern with building infrastructure. He presides, not so much over a set of ministries and government agencies managed by a centralized

[continued on page 5](#)

❖ ECONOMY AND BUSINESS:

• Maritime Highway More A One-way Street

Cargo ships returning empty from destination ports is a core challenge for the government's so-called maritime highway five years after its initiation, officials and experts say. The maritime highway program subsidizes shipping on certain routes for the distribution of basic and important consumer goods as well as steel and cement to remote regions of the archipelago. The Transportation Ministry's sea transportation director general, Agus Purnomo, said Monday that the government should do more to boost local industries in the program's destination regions and increase the return cargo volume. "We need to establish a system to increase the return cargo volume. Return cargo is still the maritime highway's weakness, and we have to create new products in the destinations to be shipped to the ports of origin," he said during a virtual book launch held by Kompas.

• Shrinking Economy

Southeast Asia's largest economy would likely shrink within a range of 1.7% to 0.6% on an annual basis in 2020, Finance Minister Sri Mulyani Indrawati told a virtual news conference, down from her previous expectation of a range of 1.1% contraction to 0.2% growth. The forecast took into account a new third-quarter GDP outlook of a contraction of 2.9% to 1%, from the previous range of 2.1% to flat growth, and potential negative growth in October-December, the minister said. Indonesia's GDP shrank for the first time since 1999 in April-June, by 5.32%. "Although we saw improvement in the third quarter and we could see the economy recovering ... it was still very early, fragile and must be guarded," Sri Mulyani said, describing the recovery in some sectors as flattening based on August data. (*Reuters*)

• The New Omnibus Jobs Creation Bill

A Parliamentary committee that has for weeks worked on a flagship "Omnibus Bill" to improve the investment climate and streamline business rules may have finally ended with a compromise on key language on severance payments so the bill can be voted on in October. Reuters printed a summary of the law's key provisions as currently understood. Changes could still be made before a final version.

Labor Reform

- Lawmakers approved a cut in mandatory severance benefits paid by employers, to 23 times monthly wages from 32 times, with the government funding the shortfall. The original proposal was for a cut to 19 times, and for workers losing employment to receive state insurance and skills training.
- Minimum wage limits at city and district levels stay, with annual rises tied to economic growth and inflation, but some sectors will lose special treatment.
- The committee agreed to drop mandatory paid leave for family weddings, baptism, childbirth, bereavement and menstrual leave for women, so employers and workers could fix their own terms.
- MPs approved relaxing strict rules on outsourcing and scrapped a rule on a three-year maximum term for contractors.

Permits and Regulations

- Businesses considered low-risk now only need to register before they begin operations, while medium-risk ones have to follow a set of standards and only high-risk investments must obtain a permit. Environmental studies are only required for investments considered to be high-risk. The process for investment permits for provinces and local governments will be standardized, with the central government able to take it over in some cases. The central government will take over the procedure for investment permits to projects considered of national strategic importance.

Sovereign Wealth Fund:

- The bill lays the foundation for the formation of a Sovereign Wealth Fund.

Land Bank

- The government can set up a land bank and manage this to acquire land for public interest and redistribute the land.

Negative Investment List

- The bill paves the way for reforms of the so-called "negative investment list" of sectors in which foreign participation is restricted or limited.
- A separate government regulation will detail the sectors to be opened up. Ministers have said that after passage of the bill, only a handful of restricted sectors will remain, such as gambling, arms and narcotics.

• Online Cross-Cultural & Business Learning for Global Success: Atma Global



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business topics. Our Cultural Advisory Services option provides thought leadership and assists global institutions in achieving their business objectives.

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• BI Governor Meets Lawmakers

Appearing before Parliament's financial affairs commission recently Bank Indonesia (BI) Governor Perry Warjiyo said has bought Rp 234.65 trillion (US\$15.77 billion) worth of government bonds under the "burden sharing" scheme to fund the widening fiscal deficit, pledging continued support for the sluggish economy. "This is our commitment to support the economy through financing measures and bearing the debt burden so that the government can focus on spending the state budget," Perry told the lawmakers, stressing that the central bank would continue buying government bonds through the scheme. BI's

debt monetization limit is currently \$40 billion. The burden sharing scheme between the fiscal and monetary authorities would lower the government's debt burden going forward, the Finance Ministry's financing strategy and portfolio director Riko Amir said, adding that the debt-to-GDP ratio would be slightly lower than 40 percent of GDP, "which will be lower compared to other emerging

❖ POLITICS AND SECURITY:

• Democracy in Regression

This week, a former key minister during the New Order government of President Suharto, **Dr. Emil Salim**, raised eyebrows with a commentary in the Jakarta Post in which we agreed with the conclusions of a recent book by Indonesian and Australian academicians: "Democracy in Indonesia: From Stagnation to Regression". Salim, an economist educated at UC Berkley, said: "If initially after the fall of the New Order in 1998 Indonesia was transformed from a highly centralized regime into a vibrant democracy through a landmark election in 1999,

two decades later, most political analysts agree that its democracy is in decline, as indicated by populist mobilization, growing intolerance, deepening sectarianism, increasingly dysfunctional electoral and representative institutions, and the deterioration of civil liberties." Salim pointed to the corrupting influences of campaign contributors, rising income inequality, and the weakening influence of civil society groups. As an example, Salim wrote: "the license for international environmental group World Wildlife Fund, for example, was revoked even though it had worked in Indonesia for decades." The book is available via the ISEAS [Yusof Ishak Institute](#) in Singapore.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• US and Indonesia Differ Over UN Resolution

Indonesia regrets the U.S. veto of a U.N. resolution that Jakarta sponsored calling for the prosecution, rehabilitation and reintegration of people engaged in terrorism-related activities, officials said Wednesday. Washington said it rejected the U.N. Security Council resolution on Monday because the document did not call for the repatriation from Syria and Iraq of foreign fighters for the extremist group known as Islamic State (IS). Febrian Ruddyard, director general of multilateral cooperation at the Indonesian Ministry of Foreign Affairs, said the reason for the omission was that not all countries were capable of bringing back militants. "We really regret that this veto was only based on the [issue of] repatriation of ex-militants and ignored things that are bigger and important than that," Febrian told BenarNews on Wednesday.

• Indonesian Neutrality

In the face of a growing US-China rivalry, Indonesia wants to stay neutral according to Foreign Minister Retno Marsudi. "ASEAN, Indonesia, wants to show to all that we are ready to be a partner," said Retno. "We don't want to get trapped by this rivalry." China claims most of the South China Sea as sovereign territory. Vietnam, Malaysia, the Philippines and Brunei have rival claims to the resource-rich waters. The United States this year has escalated "freedom of navigation" operations in waters claimed by China, including bringing two aircraft carriers into the region for the first time since 2014 and lifting submarine deployments and surveillance flights. Retno told Reuters the escalating militarization of the South China Sea - and broader US-China animosity - was troubling. "One word: worrying," she said. "That is the political reality that we have to face." She said a joint statement last month by all 10 ASEAN foreign ministers showed that Southeast Asian states were united, dedicated to peace and not taking sides as China-US relations deteriorated. "[ASEAN has] a good culture, but we have to nurture it. We can't take it for granted that these values will live forever."

• US Not Forcing a Choice: Stillwell

David Stilwell, the US assistant secretary of state for East Asia and the Pacific, said that Washington wanted ASEAN countries to make choices that protected their own sovereign interests, not force them into picking sides. "We often hear from our ASEAN friends and others this desire to 'not make us choose' and the US - I don't think - has ever forced a choice," Stilwell told reporters in a telephonic briefing from Washington on Tuesday. He then called out China's track record of "bullying" behavior in the South China Sea and elsewhere, including in the Senkaku islands, a group of uninhabited islands claimed both by Japan and China. "The Chinese are forcing a choice," he said, noting in an anecdote that a Chinese official had tried to get a Singaporean friend to choose sides. (*Jakarta Post*)

• Secretary Pompeo at East Asia Foreign Minister's Summit

The below is attributable to Spokesperson Morgan Ortagus:

Secretary of State Michael R. Pompeo joined counterparts from 17 countries for the 10th East Asia Summit Foreign Ministers' Meeting September 9th. Secretary Pompeo highlighted U.S. support for principles of openness, inclusiveness, transparency, and respect for international law. These principles are shared across our Indo-Pacific vision, ASEAN's Outlook on the Indo Pacific, and the visions of many other EAS member states. The Secretary praised ASEAN unity and transparency in response to the COVID-19 pandemic and outlined U.S. efforts to leverage all available resources to develop safe, effective, affordable, and widely available vaccines and therapeutics to fight against the virus. He also underscored the U.S. commitment—both government and private sector—to partnering with ASEAN countries in economic recovery efforts. (*US Embassy, Jakarta*)

❖ SOCIAL/CULTURE/EDUCATION:

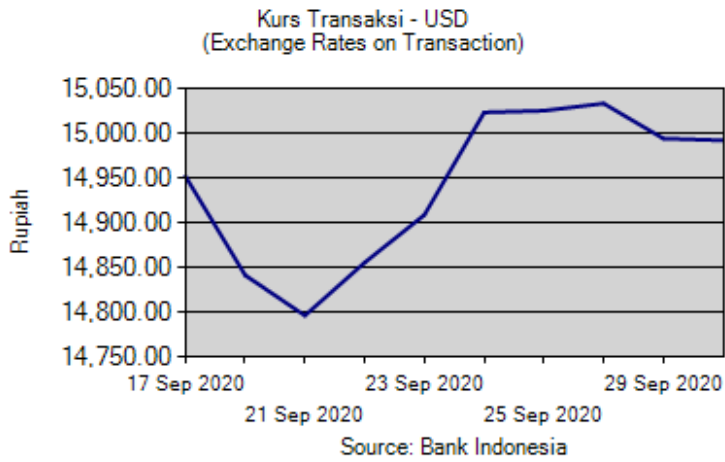
• Indonesia's Farming Conundrum

As the government of Indonesia continues to plan a large agricultural estate in the middle of Kalimantan (where a previous one planned during the 1980's under President Suharto failed), a steep drop in those engaged in farming is causing concern. The country lost 5.1 million farmers between 2003 and 2013, with their numbers falling to 26 million, according to Statistics Indonesia (BPS). The trend is expected to continue in the next few years. At this rate, Indonesia would lose all its farmers by 2063. "A large proportion of young people view agricultural work as low-wage, manual labor that is more suited to those

from poor backgrounds who have limited education," a 2016 SMERU Research Institute report reads. Only 23 percent of the country's 14.2 million people aged between 15 and 24 worked in the agriculture, forestry and fishery sectors in 2019, data from the National Labor Force Survey showed. Bucking these trends are startups focused on strategic lending and technology to increased yields. Furthermore, infrastructure investments in rural roads, electricity, cell phone towers, markets, cold chains and processing facilities are crucial element to the effort. (*Jakarta Post*)

CHARTS:

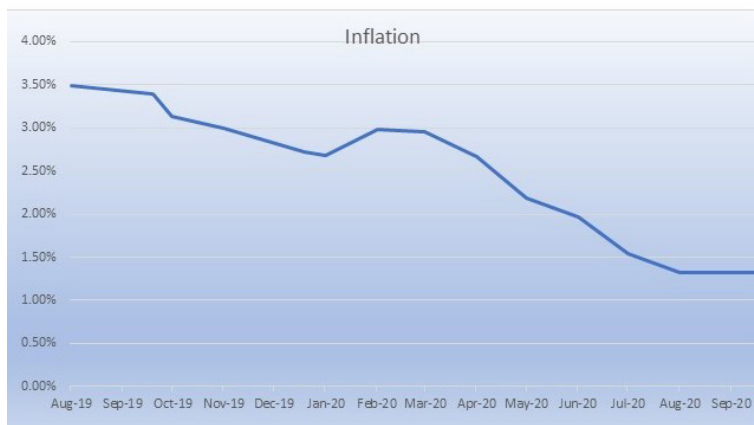
Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation



"West Wing" unit but an apparatus more akin to an imperial court with ministries in competition with each other for favor and attention, in part, because they are doled out to political parties as prizes for entering into a "coalition". The lack of a centralized policy delivery unit close to the President leads to weakness among the existing coordinating units and the reliance on trusted personalities to implement policy. Indonesians experience this firsthand any time there is an emergency such as the current pandemic; a response eventually comes but is often too little and too late. Well into the current pandemic, only a meager 32% of relief funds have been distributed. Business regulations and policies can be contradictory, especially at the local level, and judicial decisions in business cases can be so incoherent that even if there was no hint of corruption, attorneys are left shaking their heads in despair. The Omnibus addresses only some of this.

The rhetoric of the government regarding the role of international investment and trade reflects a long held duality: When speaking to foreigners, Indonesian leaders openly court and welcome foreign investment and trade, however, domestic players are told to wean off imports and that they can build and manage all types of enterprises without foreigners. Indeed, in recent years Indonesia has increasingly shown the door to long term foreign investors by either nationalizing parts of their enterprises or kicking them out by not renewing their long-term contracts. Commenting on this "stand on your own two feet" rhetoric, an echo of Indonesia's first President, Sukarno, Bland writes: "Protectionism runs deeper in Indonesia than many economists like to admit". State-owned enterprises (SOEs) have been given the yeoman's share of the new infrastructure projects and state-owned banks, energy, mining, insurance, telecommuting, and steel companies are given prime positions in many market segments as well as the pole position in the race to receive mostly Chinese infrastructure finance. *Sotto voce*, Indonesian private companies often complain about their lack of access and the SOE subsidies.

Its understandable that many Indonesians may see FDI through a neocolonialist lens as a tool of oppression, but very few Indonesians have ever resigned from a US bank, insurance, energy or mining company complaining about the work environment. Its usually the opposite, and when they do leave, Indonesians form their own companies, or manage one set up by a family member or classmate. Its these private companies that have brought innovation and entrepreneurship, delivering better products and services to Indonesia's people.

I do have a ray of hope that the Omnibus will be transformational, but I am doubtful. It would be wonderful if Indonesia could emerge from the pandemic and recession "cleansed" of many of the inhibiting mechanisms that retard business development. The senior ministers and business leaders I encounter want Indonesia to be as attractive to FDI as Vietnam; they want to become a location for production leaving China or as industrial as Taiwan or South Korea. But not having a one-party system, Indonesia, stuck with a coalition style of democratic government deformed as it is by its regressive tendency to older patronage norms, may not be able to get there.

Thus, I would advise managing expectations. If even in a horrific pandemic Indonesia cannot muster the collective will to fully open the economy and reform a sclerotic labor law, those wonderful predictions that Indonesia becomes a developed economy by 2030 or 2040 will likely be off by a few decades if not longer. Its distressing to imagine that Indonesia's current demographic dividend (50% of the population under 30) could become a demographic time bomb. But perhaps the wisdom and hope of 90-year-old Emil Salim for Indonesia's young people will win the day: "Indonesia's democracy (and reform process) is like the popular dance Poco-Poco, with two steps back and one step forward to the rhythm of cha-cha-cha music. Let's pray that Indonesian democracy will follow the dance of Poco-Poco, but instead with one step back, 10 steps forward to the rhythm of jazz music performed by millennials."

(These remarks are solely the author's and may not reflect the views of the American Indonesian Chamber of Commerce or its members)