



OUTLOOK INDONESIA

MONTHLY UPDATE- AUGUST 2019

FROM THE AMERICAN INDONESIAN CHAMBER OF COMMERCE

HIGHLIGHTS

Pertamina on Fortune 500

Jokowi's Budget Priorities

Government Could Take Over Water Business

Canadian Teacher Freed

Palm Oil Feud Continues



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\$ = 14,253

JSX = 6175 (last)

BI Rate: 5.75%

Inflation: 3.32%

Reserves: \$123.82 billion

(source: Bank Indonesia)

JSX = Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

1959

Foreign Minister Subandrio stated that "for now" Indonesia would not seek private capital, only foreign credits.

❖ ISSUE TO WATCH: HEALING POWER OF COMMODITIES

Commentary by Wayne Forrest

It's often thought that Indonesia's future resides in its ability to grow a stronger manufacturing sector, one that can compete with China, Vietnam, and other regional players for foreign investment. That's been the rationale behind its controversial natural resources and other "value added" policies as well as the strong push to build infrastructure, improve vocational education, and lower logistics costs.

At only 20% of GDP there's plenty of room for manufacturing to grow, but I would argue that Indonesia's future equally involves its commodities and the healing powers of its verdant soils and rainforests. Scientists have always told us that the biodiversity in a square kilometer of an Indonesian rain forest is many times that of one in the temperate zones. Some great things with strong medicinal and commercial value come from that cornucopia of plants and trees. I was thinking of this as AICC contemplates whether or not President Jokowi will attend this year's Global Climate Change Summit that's part of September's UN General Assembly gathering. (So far, no official word.)

One tree in the coffee family that grows wild along deltas and rivers throughout the country produces a leaf that has been used for centuries as a natural pain reliever. It turns out that millions of Americans trying to curtail their addiction to opioid prescription medications have found relief from it. It goes by many names, including *kratom*, and Indonesia has a 95% share of the US market. The American Kratom Association (AKA), a new AICC member, estimates Indonesian exports to the US are \$1 billion a year, mostly from West Kalimantan, where 65,000 small farmers are increasing their livelihoods in ways they did not consider possible.

Recently the food and drug authorities of both the US and Indonesia have become alarmed by drug overdoses where kratom was involved. Further analysis of the cases points away from kratom as a root cause. Like many things that come from places that have a different climate than our own we tend to ban them first and ask questions later. The AKA argues that FDA has not fully recognized the existing but limited science on kratom. Herbal remedies often don't have the research money behind them that they should, but people (ethnobotanists, anthropologists, etc.) discover them and they work. Kratom, much like marijuana, is an evolving product and US states are often ahead of the Federal government. 4 have already passed kratom consumer protection legislation while a few have banned it. A Utah State Senator, Curt Bramble, told me he held hearings in which he heard only one negative case from over 650 kratom consumers who entered testimony of the product's health benefits. The FDA has issued a warning on kratom but the DEA has not scheduled it. Indonesia health authorities have so far followed FDA's lead and are seeking a ban.

Last month the AKA brought scientists to meet with Indonesian officials and is encouraging research collaborations with local scientists. They argue persuasively that Indonesia should not follow the FDA lock step. Kratom, an eco-friendly sustainable resource, could very well be one of the best resources to fight America's opioid crisis while becoming a top export earner for Indonesia.

Other Indonesian products that have healing powers include: cinnamon (used to control diabetes), quinine derivatives (used in anti-malaria medications, health drinks and tonic water), galangal root (dyspepsia), and a whole variety of herbs used in aromatherapy and antiviral treatments. Research on kratom is evolving and it will probably eventually join this lineup. As Indonesia considers strategies and policy changes to revive manufacturing it should not neglect the power of its commodities and their important use in new and existing therapies.

(The above views are the writer's and may not reflect those of the American Indonesian Chamber of Commerce or its members.)

❖ ECONOMY AND BUSINESS:

• Pertamina On the Fortune 500

State-owned oil and gas company Pertamina is the only Indonesian company on the latest Fortune 500 list of the world's biggest corporations in terms of revenues. Pertamina was ranked 175th, a leap of 78 slots from 253rd the previous year. The state-owned oil and gas company was ranked above the Alibaba Group at 182nd and Facebook at 184th. State-Owned Enterprises Minister Rini Soemarno said the success of Pertamina of seven consecutive years on the Fortune 500 list was thanks to the company's hard work in serving the people. "I congratulate Pertamina for its success in joining the Fortune Global Top 500 list again," she was quoted as saying by kompas.com.

• Merrill Lynch Exits Stock Exchange

According to a Jakarta Post story foreign affiliated securities companies PT Merrill Lynch Sekuritas Indonesia and PT Deutsche Sekuritas will withdraw from the Indonesia Stock Exchange (IDX) following their decision to stop stock trading in the country. IDX president director Inarno Djajadi said the withdrawal of Merrill and Deutsche Sekuritas from stock trading in Indonesia might be part of their global business consolidation. In addition to Merrill Lynch and Deutsche Sekuritas, Japanese securities company Nomura Sekuritas Indonesia is also likely to follow suit. (**Editor's Note:** reduced fees, local competition, and less IPO's could be factors explaining the exits).

• Government Could Take Over Water Business

A proposed law would cede control of all water resources to state owned or local enterprises, causing widespread disruption in the distribution of bottled water. Speaking at a seminar on water sustainability and security, Public Works and Housing Minister Basuki Hadimuljono said the bill was essential to Indonesia's development agenda, especially with the country being susceptible to water-related disasters and climate change. Indonesian Employers Association (Apindo) chairman Hariyadi Sukamdani cited Article 51 of the bill, which stipulates that solely state, regional or village-owned enterprises were entitled to the permit for a drinking water supply system (SPAM) for consumption purposes. Apindo criticized the article for not being clear in distinguishing between SPAM water, which is delivered through pipes for household purposes, such as cooking, showering and washing, and bottled drinking water or AMDK, which is part of the private food and beverages industry. "If AMDK is equated to SPAM, AMDK businesses will not be allowed to use [unprocessed] water as their ingredient, thus shutting off hundreds of businesses and tens of thousands of jobs and stripping investors of business certainty in Indonesia," Hariyadi said in a separate press briefing on Tuesday. (**Editor's Note:** The bill appears to be based on an interpretation of Article 33 of Indonesia's Constitution regarding natural resources that mandates their nationalization rather than strict regulation with the private sector allowed a major role.)

• Confused Rubber Market

The Indonesian Rubber Companies Association, Gapkindo, said that the export volume of rubber declined in the first half of this year. As of June, the decline amounted to 200,000 tons. Gapkindo's Chairman said the supply shortage, is a serious problem highlighting the fact that prices of rubber had not increased despite decreasing supplies. "It is weird. What is wrong with the market?"

• Jokowi's 2020 Budget Priorities

President Joko "Jokowi" Widodo is set to swiftly implement his campaign promises as reflected in the 2020 draft state budget, which includes state funds for education, staple foods and skills training. "The draft of the 2020 state budget will prioritize

human resources, focusing on education, health care and skills training to suit the needs of the market and industries," Jokowi said.

Key Elements

- **Education Smart Card**- augments current state-sponsored scholarships for tertiary education increasing numbers from 360,000 to 780,000 students
- **Affordable Staples Food Card**-15.6 million families will be issued the card for rice assistance
- **Pre-employment Card**- Provides financial assistance to job seekers for training in skills needed for employment. 1 million cards will be for regular job training and 1 million for digital training.
- **Corporate tax reduction**- The government has hinted that although tax collection remains below budgeted levels it may reduce the corporate tax rate.

Finance Minister Sri Mulyani projects a slightly higher, but manageable budget deficit. "It [the deficit] will be slightly higher than targeted, although the deviation is not too large," "This was caused by a sluggish trend in state revenues amid pressures on the economy."

• BI Cuts Rate to 5.75%

On July 18 Bank Indonesia reduced its key interest rate in a move that signals an end to the tightening cycle that began last year. Following a two-day Board of Governors meeting, the central bank cut its benchmark rate, the seven-day reverse repo rate, by 25 basis points (bps) to 5.75 percent on Thursday. Lending and deposit facility rates were also slashed by 25 bps to 6.5 percent and 5 percent, respectively. According to BI Governor Perry Warjiyo, "The decision [to cut rates] was made in line with expected low inflation and the need to encourage the momentum for economic growth amid the easing of global financial uncertainties and manageable external stability," said Perry in Jakarta on Thursday.

• Indonesia books \$200 million trade surplus in June

Indonesia secured a monthly trade balance surplus of US\$200 million in June, the fourth surplus recorded after February, March and May, Statistics Indonesia (BPS) has reported amid a drop in both import and exports. Month-to-month (mtm) exports went down by a staggering 20.54 percent to \$11.78 billion because of a 19.4 percent mtm decrease in non-oil and gas exports to \$11.03 billion and a 34.36 percent mtm decrease in oil and gas exports to \$750 million. A sharper contraction of key commodity prices (coal, oil, palm oil) led to lower export earnings although volumes increased. Mtm imports were also down by 20.7 percent to \$11.58 billion, thanks to a 20.5 percent mtm decline in non-oil and gas imports to \$9.87 billion and 21.5 percent mtm decline in oil and gas imports to \$1.7 billion. BPS head Suharyanto told a press briefing on Monday that both exports and imports had declined because the first nine days of June had been part of the extended Idul Fitri holiday, triggering a decline in production and overall trade.

• Message of Interconnectivity

On June 30 President Joko "Jokowi" Widodo went to Bogor and pledged to continue his infrastructure programs in his second and final five-year term, with a focus on connecting the existing infrastructure to optimize their use. "We will accelerate [development] and connect the infrastructure projects, such as toll roads, railways, seaports and airports," Jokowi said on Sunday during the "Indonesian Vision" rally at the Sentul International Convention Center in Bogor, West Java .

❖ POLITICS/LAW/SECURITY:

• Canadian Teacher Freed



A Canadian teacher imprisoned in Indonesia since 2014 after being convicted on charges of sexually assaulting students at a school in Jakarta has returned home, CBC News has confirmed.

Neil Bantleman said in a media statement today that he has been granted clemency by the Indonesian government. He's been back home in Ontario since the end of June. His family has requested that media outlets respect his privacy. "Five years ago, I was wrongfully accused and convicted of crimes I did not commit and furthermore never occurred," Bantleman said in the statement. "I applied for clemency, which I am pleased was granted by Indonesia last month, upholding essential justice and human rights." (Editor's Note: *The post election timing of the clemency reinforces a notion that President Jokowi's second term may involve less political calculation.*)

• Rapprochement

Indonesia's political system is uniquely inclusive, few political parties want to remain outside the tent and most party leaders state publicly that the nation is a family, with disagreements. Thus, it's unsurprising that after a fractious campaign political rivals get together, and at least on the surface profess friendship, if not loyalty. On July 13 Prabowo finally met President Jokowi and a week later he also met with PDI-P Chairwoman Megawati. Gone, for the moment is discussion of whether or not Prabowo and his party, Gerindra, were behind the May 21-22 riots that killed 9 and injured 100's, as well as the long, but futile attempt to challenge Jokowi's election in the courts.

Gerindra appears interested to join the President's coalition, Megawati and other PDI-P leaders also seem positive about the idea. However, the move is resisted by 4 coalition

members and the President has not made a decision yet.



• Presidential Clemency

Indonesia's cyber law has often been used, combined with male chauvinism, to convict accusers of sexual abuse. But, things may be changing. A high school teacher, Baiq Nuril Maknun is not the first — and may not be the last — Indonesian to fall victim to the country's draconian cyber law, yet she is undoubtedly the first person convicted of defamation on course to being freed by the President. The West Nusa Tenggara woman will also become the first nonpolitical convict in the country's history to receive amnesty, which is expected to be handed down by President Joko "Jokowi" Widodo through a presidential decree now that Indonesia's Parliament unanimously concurrent with the President's decision. The House's approval followed a letter sent last week by Jokowi, in which the President asked the legislative body to consider the plan to grant Nuril amnesty as her punishment had elicited sympathy from the public. Article 14 of the 1945 Constitution states that the President must take into account the consideration of the House when granting amnesty, which removes all legal consequences for someone convicted of a crime.

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• EU/Indonesia Palm Oil Feud Continues

Indonesia is facing a fresh round of accusations over its management of its palm oil industry from one of its biggest importers, the European Union (EU), adding to the prolonged feud between the two trading partners over the commodity. On July 23, the European Commission (EC) proposed imposing temporary duties ranging from 8 to 18 percent on imports of biodiesel produced by Indonesian companies. The companies include PT Ciliandra Perkasa, which faces an 8 percent import

duty, PT Musim Mas, which faces a 16.3 percent duty, and PT Wilmar Bioenergi Indonesia, which faces an 18 percent duty. One type of biodiesel is made from palm oil.

❖ SOCIAL/CULTURE/EDUCATION:

• Jokowi's Health Drink: Recipe

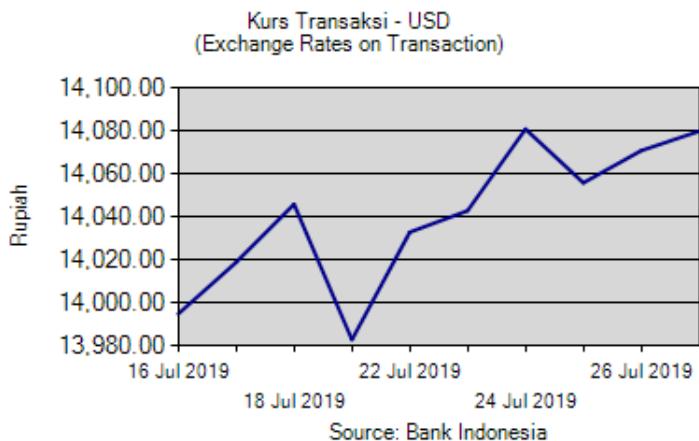
President Joko "Jokowi" Widodo shared the recipe of his daily drink for staying healthy through a one-minute video blog or vlog on his Twitter account today morning, July 23. "Do you want to know how I keep my body stay fit? No secret, no special [treatment], only a simple drink," the President tweeted at 08:00 a.m. On the video, the former Jakarta governor said he was still in Bogor Palace and would about to start his day. "Usually, I drink jamu (a traditional herbal drink) before starting my activity," said the President while holding a large green-white marble mug. He explained the herbal beverage was made from a mix of temulawak/curcuma or Javanese

ginger, and turmeric. The spices, he added, could be chopped or mashed then boil them with water until simmer. It is best to strain the debris before drinking.

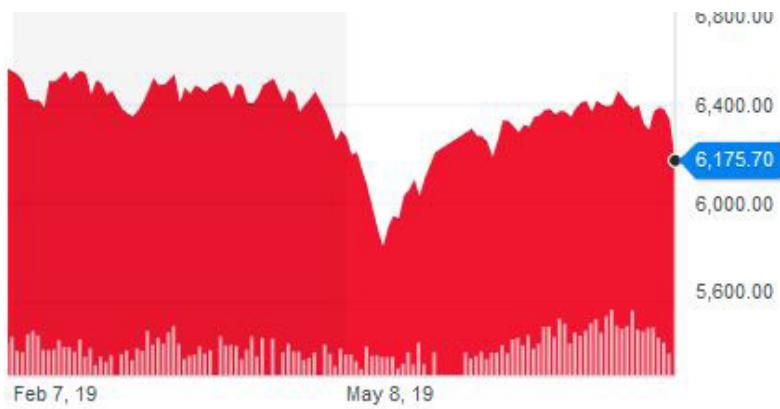


❖ CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

