



OUTLOOK INDONESIA

MONTHLY UPDATE- JUNE 2019

FROM THE AMERICAN INDONESIA CHAMBER OF COMMERCE

HIGHLIGHTS

S & P Upgrades Indonesia's Rating
New Halal Regulations
US May Resume Special Forces Training
Indonesia Sprinter Qualifies For Olympics
Cabinet Positions For the Young



UPCOMING/RECENT EVENTS

May 2

Post Election Panel Discussion

featuring:

Hon. Cameron Hume
Anne Marie Murphy
Robert Hefner
Mari Pangestu

in conjunction with Asia Society

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❖ ISSUE TO WATCH: ELECTION IDUL FITRI

Commentary by Wayne Forrest

Indonesians have begun the mass movement (*mudik*) that occurs annually at the conclusion of *Ramadhan*, the holy fasting month. *Idul Fitri/Lebaran* is a back-to-one's-roots moment relocating millions out cities to be with their families. Jakarta suddenly becomes a quiet, small town.

The holiday's message of peace, inclusiveness, and forgiveness could not have come at a better time given the level of divisiveness that accompanied April's Presidential election. The country has been on edge following the riots of May 21-23 that killed 6. Amidst the legitimate protesters were paid thugs and provocateurs and although the police have said they know who financed the violence, they have yet to make any arrests. However, several former generals were arrested on charges of treason for allegedly supporting the protests. Prabowo's supporters have submitted evidence of election irregularities to the Constitutional Court without success.

Although the results of the election (won by Jokowi 56-44%) are still being analyzed, they clearly represent a hardening of religious cleavage around the country. Compared to 2014, religion seems to have been the most important factor in 2019 predicting whether a region voted for Prabowo or Jokowi. A secondary factor was ethnicity (Javanese vs non Javanese). Wrapped together it means the President increased his support in regions that were majority non-Muslim (Bali, North Sulawesi) and ethnic Javanese (Central and East Java). The reverse also occurred: Prabowo gained votes in Aceh, West Java (Sundanese ethnic group), and West Sumatra.

The streets are now quiet and the country is also mourning the loss of former First Lady Ani Yudhoyono after a long bout with cancer. Next week the flow of people will reverse and the country will be back at work. President Jokowi has yet to make any overt moves regarding changes to his Cabinet but seems to be considering younger figures including Ibu Ani's son Agus. (see page 3)

Many analysts, including those that spoke at our May 1 event, (see left column) believe the election was, in part, a referendum on enlarging the role of religion as a basis for the State. For example, whether or not to make sharia law part of national law. If so, it failed. Indonesians showed again that they want to maintain a secular, pluralist Republic.

However, the role of Islam in the life of the country is increasing inexorably. Witness the President's first major policy statement following his re-election: a "master plan" to create a sharia economy. As noted by Planning Minister Bambang Brodjonegoro, Indonesia realizes it is behind the curve as the country with the largest Muslim population when it comes to producing halal products. (Imports far outstrip exports) A few days later, the long awaited regulation on halal certifications was released. (see page 2 for details) Covering mostly consumer products, the regulation, if widely enforced, could hurt small businesses who will not be financially able to abide by its strict separation of halal and non-halal products across production, storage, shipment and display.

At first glance, sharia economy and the halal regulations may be no more than a modest wish list for a re-orientation of the economy, rather than a mandate. Clearly, some consumers are attracted to halal products and many local and foreign companies voluntarily obtain halal certifications. A similar imperative by Bank Indonesia empowered sharia finance but did not force it. We hope the harmony and flexibility represented by Idul Fitri extends to the President's new plan. We would not want to see Indonesia's economic growth impaled on a new sharia/halal certification bureaucratic debacle.

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

INDICATORS

US\$= 14,385
JSX= 6209 (last)
BI Rate: 6%
Inflation: 2.83%
Reserves: \$124.294 billion

(source: Bank Indonesia)
JSX= Jakarta Stock Exchange

THIS WEEK IN INDONESIAN HISTORY

1996

Ford and GM suspend future investments in Indonesia pending a review of the "national car" project of President Suharto's son.

❖ ECONOMY AND BUSINESS:

• Competitiveness Ranking Improves

The government pledges to push forward with its structural reforms after Indonesia showed an improvement in the International Institute for Management Development (IMD) World Competitiveness Ranking. Indonesia ranked 32nd out of 63 economies ranked in the 2019 edition of the IMD World Competitiveness Ranking, improving 11 places from last year's 43rd position thanks to increased efficiency in government, as well as improvements in infrastructure and business conditions. Despite the increase, Indonesia was still below its ASEAN peers Thailand (25th) and Malaysia (22nd). Coordinating Economic Minister Darmin Nasution said in Jakarta on Friday that future reforms would also be intended to "reduce imbalances" in Indonesia's economic activities with other countries.

• S & P Ratings Upgrade

Indonesia won a sovereign rating upgrade from S&P Global Ratings for its "strong economic growth prospects" and prudent fiscal policy, brightened by the re-election of President Joko Widodo. The rating was increased to BBB from BBB- and put on a stable outlook, S&P said in a statement on Friday. The long-term rating may be raised again if Indonesia's external settings improve materially from their current levels, or if its fiscal settings improve over the next two years, it said. "We raised the ratings to reflect Indonesia's strong economic growth prospects and supportive policy dynamics, which we expect to remain following the re-election of President Joko Widodo recently," S&P said. "The sovereign ratings on Indonesia continue to be supported by the government's relatively low debt and its moderate fiscal performance." *The new rating puts Indonesia at the same level as Hungary and Uruguay, but a notch below the Philippines, which won an upgrade from S&P last month.*

• Jokowi Launches Master Plan for Sharia Economy

President Joko "Jokowi" Widodo recently launched the country's first master plan for a sharia economy for implementation from 2019 to 2024. The master plan sets out four main strategies aimed at transforming the country into a net producer instead of simply a market for halal goods and services. The strategies are to empower Indonesia's halal value chain by focusing on the country's most competitive sectors, such as food and beverages and fashion, and strengthen the presence of the sharia financial sector as a capital provider to halal businesses. "One of the main keys to achieving our goal lies in our identity as [the country with] the world's largest Muslim population, in this sharia economy," Jokowi said during the launch at the National Development Planning Agency (Bappenas). Despite being a Muslim-majority country, Indonesia is only the 10th largest exporter to Organization of Islamic Cooperation (OIC) countries at US\$7.6 billion in 2017, lagging behind non-Muslim majority countries like Brazil, the United States and India. On the other hand, 36 percent of domestic consumption in 2017 was halal goods, Bappenas head Bambang Brodjonegoro said, pointing out that a large proportion of those goods were imported. "Our final goal from this master plan is to transform halal consumption into investments [in the halal industry] and to change our imports of halal goods into exports," Bambang said at the launch. *(Indonesia has already implemented sharia-compliant banking as a means of bringing in more citizens into the formal banking sector. It also hopes to promote halal tourism.)*

• Halal Certification Regulation Issued

Pursuant to Law #33/2014 on Halal Products, Indonesia has issued an implementing regulation (PP #31) that sets out certi-

fication requirements on food, drinks, clothing, pharmaceuticals and cosmetics – as well as related chemicals and biological products. PP #31 imposes detailed and extensive requirements for separating the production and handling of halal versus non-halal products.

PP #31 requires complete separation between processes for producing, storing, transporting and distributing the respective products. Producers must use separate sets of facilities, tools, equipment and transportation vehicles –and the maintenance and care of these items must be separate from that of items used for non-halal products. In retail locations, retailers must use different equipment for halal and non-halal products, different tools, different cleaning equipment and different maintenance equipment. The same applies for the serving of halal versus non-halal products: servers must separate the serving equipment, cleaning equipment, maintenance equipment and storage equipment.

The measure also confers vast powers on the religion minister, who will control a substantial new government agency, the Halal Product Assurance Implementing Agency (BPJPH). The regulation allows for halal recognition for imports, provided the imports have received halal certification from foreign countries – which have their own halal-certification agencies that have established cooperation agreements with BPJPH.

PP #31 does not specify a period of validity for a halal certificate. Current rules provide for a four-year tenure, renewable one time for two years. The price for obtaining a halal certification is set by the finance minister, in accordance with regulations on non-tax state income. Business operators claim that, since the 2014 passage of the Halal Products Law, the price for certifying a product has averaged approximately Rp10 million.

For products that received halal certification based on rules in effect prior to the issuance of PP #31, their certification remains valid until its date of expiry. For pharmaceuticals, biological products and healthcare equipment that do not fulfill halal standards, Article 74.2 permits these products to continue circulating – provided that labeling discloses their non-halal status – until such time as they can come into compliance.

Its too soon to know what economic effect PP #31 will have on the economy as some companies already have had their products certified. Certainly, SME's will need financial support to be compliant, and perhaps the authorities will selectively enforce the regulation. In general, it would add significant costs to the state bureaucracy (i.e. creation of a new agency) as well as many players in the consumer products supply chain. Some business associations have criticized the policies burdens and announced they will appeal to the Supreme Court. *(AICC recognizes Reformasi Weekly for its reporting on this issue.)*

• Apple To Move Production to Indonesia From China

According to a report by Indonesia's Detikinet, Apple is already preparing to move out of China. Its iPad and MacBook manufacturing will reportedly move to Indonesia, and changes could start next month. To that end, it reportedly engaged its long-time contract manufacturer Pegatron, which initially planned the project for Vietnam but couldn't find enough workers in the country. Pegatron is instead subcontracting assembly work to PT Sat Nusapersada in Batam, which says it will ship laptops and tablets to the United States for an unnamed brand. *AICC has received several inquiries from companies looking to relocate production from China to Indonesia.*

❖ POLITICS/LAW/SECURITY:

• Ibu Ani Passes Away



Former Indonesian first lady Kristiani Herawati Yudhoyono passed away on Saturday at the National University Hospital in Singapore, where she had been receiving treatment for late-stage blood cancer

in the past four months. She was 66 years old. Affectionately known as Ibu Ani (Mother Ani), she is survived by her husband, Indonesia's sixth president Susilo Bambang Yudhoyono, her two children, Agus Harimurti Yudhoyono and Edhie Baskoro Yudhoyono, and four grandchildren. Ani is the eldest daughter of Sarwo Edhie Wibowo, a former special forces commander who led the communist purge in 1965-1966 that paved the way for Suharto New Order regime. After Indonesia's Reformasi, Ani became a formidable companion for Yudhoyono throughout his rapid political ascendancy, which saw him become the first directly elected Indonesian president in 2004. Ani's love of photography had made her an unlikely social media star. She had 6.4 million Instagram followers at the time of her death. At her funeral President Jokowi said: "I hereby give back to the motherland the soul, body and services of Hajjah Kristiani Her-

awati Yudhoyono," mentioning Ani's full name with the appellation hajjah, the title for a Muslim woman who has completed the hajj pilgrimage to Mecca. "Hopefully her soul will ascend to its rightful place in the afterlife," Jokowi said. *(AICC sent condolences to the family.) (Jakarta Globe)*

• Jokowi Signals Cabinet Posts for the Young

Widodo recently addressed a gathering of the Young Entrepreneurs Association (Hipmi) and discussed the possibility of a cabinet appointment for its leader, Bahlil Lahadalia. The 42-year-old business figure from FakFak, West Papua had been a staunch supporter of Widodo throughout the presidential campaign. Widodo made clear at the event that Lahadalia would be suitable for a cabinet role. The president said, "He is not only deserves it – he richly deserves it." *Jokowi met with former President SBY's son, Agus Yudhoyono on May 3.*

• Lippo Bribes District Chief

Judges convicted former Bekasi District Chief Neneng Hassanah to six years in prison for taking Rp12 billion in bribes from the Lippo Group in exchange for permits for the giant Meikarta property project. Officials from the Anti-Corruption Commission (KPK) have said that, having secured Hassanah's conviction, they will now pursue other figures in the case. *But it remains unclear whether or not the KPK will prosecute any senior officials of the Lippo Group. The KPK has been reluctant to pursue major conglomerate owners in the past. (Reformasi Weekly)*

❖ FOREIGN AFFAIRS/US INDONESIA RELATIONS:

• US May Resume Special Forces Training

The United States and Indonesia have agreed to improve their defense cooperation, especially in medical rehabilitation and ways to resume ties with the Army's Special Forces Command (Kopassus). "It is my personal request so that Kopassus can resume training with American soldiers," Defense Minister Ryamard Ryacudu told a joint press conference with acting US Defense Secretary Patrick Michael Shanahan on Thursday. The US cut all ties with Kopassus in the 1990s following alleged human rights abuses such as in the then Indonesian province of East Timor and during the 1998 reform movement. Shanahan said he hoped that training with Kopassus' anti-terror unit could

be carried out in 2020.

• US Statement on Passing of Ani Yudhoyono

On behalf of the Government of the United States, I want to convey my condolences to former First Lady Ani Yudhoyono's family and the people of Indonesia on her passing. Mrs. Yudhoyono served her country and people admirably, and dedicated her life to the betterment of Indonesia through her advocacy for the health and education of Indonesians. In this time of mourning, please accept our deepest sympathy and reassurances that the United States will long remember Mrs. Yudhoyono's friendship and dedication to her country.

❖ SOCIAL/CULTURE/EDUCATION:

• Indonesian Sprinter Qualifies for Olympics

Lalu Zohri, Indonesia's world class sprinter broke personal, national and Southeast Asian records while finishing third in the 100-meter sprint at the Seiko Golden Osaka Grand Prix on Sunday, also earning himself a place in the 2020 Summer Olympics in Tokyo. Zohri ran the Grand Prix final in a time of 10.03 seconds, benefiting from a tailwind of 1.7 meters per second at Osaka's Yanmar Stadium. The 2020 Olympics qualification time is 10.05 seconds, with an allowance for a tailwind no faster than 2 meters per second – the same requirement for official record in track athletics. Zohri, already the fastest man in Southeast Asia, slashed his previous record of 10.13 seconds made in the 2019 Asian Athletics Championship in Doha, Qatar, last month. In Osaka, the 18-year-old showed he was up to the challenge of the world stage, running neck-and-neck behind American sprinter Justin Gatlin, 37, the reigning world champion and an Olympic gold medalist, who won the Grand Prix's gold with a time of 10.00 seconds.



Lalu Zohri

CHARTS:

Dollar in Rupiah



Jakarta Stock Exchange Index



Inflation

