

Research Report January 2019

INDONESIA INVESTMENTS

“Starting the Big Political Year”



Indonesia Investments Research Report

Starting the Big Political Year

January 2019



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Preface

Indonesia Investments' monthly research report is written and published by Van Der Schaar Investments B.V. - located in Delft, the Netherlands. The report aims to inform the reader of the latest, most relevant political, economic and social developments in Indonesia as well as those key global developments that are impacting on the Indonesian economy or politics.

Our research reports are intended for a wide audience, including both individual and corporate investors, financial market participants, policy makers, journalists, academics, and analysts.

The website Indonesia Investments is the reference and access point for gaining knowledge about Indonesian markets, the economy and cultures. The website is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) which was established in 2009 but stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century. For information about Indonesia Investments, please visit: www.indonesia-investments.com.



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Lastly, we would like to emphasize that - although we strive to present accurate, up-to-date, and objective information to the reader - Indonesia Investments cannot guarantee the accuracy of all data that is included in this report.



Introduction

Starting a brand new year can be reason for excitement, enthusiasm and (ambitious) New Year resolutions. This may also be true for both presidential hopefuls - incumbent President Joko Widodo and Prabowo Subianto - who will have another face off for the country's highest political public office this year: the presidency.

With the first presidential debate having taken place on 17 January 2019, while local media are increasingly focusing on the race (which is also possible because - fortunately - there were no major natural disasters or other national tragedies in Indonesia in the month of January 2019), it now really feels like the presidential race has begun. And it should be, because elections day is not too far away. On Wednesday 17 April 2019 the Indonesian people will cast their votes to determine the country's president for the 2019-2024 period, and to vote for the political party of their choice. It is actually the first time in Indonesian history that the legislative and presidential elections are organized on the same day. From a logistics perspective, it therefore becomes an even more challenging feat.

One can imagine that it is a daunting task for the General Elections Commission (Indonesian: *Komisi Pemilihan Umum*, abbreviated as KPU). Indonesia is a huge Archipelago that consists of more than 17,000 islands (although not all of these islands are inhabited), and if we would superimpose Indonesia on a map of Europe, then the borders would stretch all the way from the United Kingdom in the west to Afghanistan in the east.

Moreover, Indonesia is a developing country that is characterized by a lack of - soft and hard - infrastructure development. So, to supply the nearly 388,000 polling stations across this huge nation with ballots, boxes, voting booths and ink (in Indonesia voters dip a finger into ink to sign their vote) is not an easy undertaking, and it isn't inexpensive too.

But for the business world these elections give rise to uncertainty. Indonesia is indeed a young democracy and various forces - including religious forces - are competing for political power. We suspect that these elections are one of the reasons why foreign direct investment (FDI) into Indonesia dropped for a third consecutive quarter in the last quarter of 2018. Of course, there also remain external factors at play. Although the USA and China are back on speaking terms, it remains a big question mark whether both nations can reach a deal before the deadline ends on 1 March 2019. If not, and the USA will again impose higher import tariffs on various Chinese goods (followed by looming retaliation), then it will certainly give rise to another round of global economic turmoil (and when it comes to capital outflows, Indonesia tends to be one of the more vulnerable emerging market countries due to its structural current account deficit).

What strengthens our assumption that foreign investors are particularly cautious ahead of the results of the upcoming 2019 elections in Indonesia, is that domestic direct investment (DDI) has continued to rise. In our analysis, this contrast between FDI and DDI realization over the past couple of quarters can be explained (at least partly) by the fact that domestic investors are not too concerned whether the incumbent government will continue its work beyond 2019. For domestic investors, the nation's investment climate is not expected to be (negatively) affected by the outcome of the elections (meanwhile, we also assume that part of the funds that were repatriated under Indonesia's tax amnesty program have found their way into DDI realization).

Foreign investors, on the other hand, may feel a bit nervous about whether or not there will be a change of guard at the presidency. While incumbent President Widodo not only rolled out the red carpet for foreign investors by revising the Negative Investment List, he has also been eager to simplify the licensing process for investment (through the Online Single Submission System; a system that is not without flaws), and he placed great priority on much-needed infrastructure development.

However, his opponent in the 2019 election - Prabowo Subianto - is not known for such reform-mindedness. In fact, in many ways, Subianto can be labelled a rather controversial candidate (based on his background as well as the content of his recent speeches). It is not exactly clear what Subianto's view on foreign investment is. On the one hand, he has repeatedly alleged that Indonesia's elite has been allowing foreigners to steal the nation's natural resources, while also warning domestic labourers about the dangers of allowing more foreign workers into Indonesia (hence inciting anti-foreign sentiment). On other occasions, however, he has emphasized that he is pro-foreign investment. Therefore, his views remain unclear overall (and we assume that Subianto adjusts his speech and views - to a high degree - to his audience).

Besides the upcoming elections in Indonesia, there are plenty of other topics that are discussed in this edition. For example, we zoom in on rice and explain the economic, political and social significance of this commodity for Indonesia. But there is also a focus on tax in this edition. While tax may not be everyone's most popular topic, it is a very important one, especially now Indonesia has revised - or is planning to revise - several tax regulations. For other topics that are discussed in this edition, please check the table of contents above.

Lastly, we would like to thank you for purchasing the January 2019 edition of our monthly report - entitled '**Starting the Big Political Year**'. We hope that this report contains valuable information for you!

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