

Indonesia Investments

An Act of Mediation

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- Indonesia Drops in the Competitiveness Ranking; What Explains This Decline?
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CV Indonesia Investments

Indonesia Investments

Monthly Report – June 2022

An Act of Mediation



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Preface

The monthly report of Indonesia Investments 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 crucial international developments that impact on the economy of Indonesia or on its politics.

Our reports are intended for a diverse audience, including individual and corporate investors, financial market participants, diplomats, policymakers, decision-makers, academics, journalists, and analysts.



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stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century.

We offer two types of subscriptions (or individual purchases):

(1) **Weekly updates + monthly reports;** on average we send one or two analyses of relevant subjects per week (“weekly updates”) to make sure that our audience gets the latest and most relevant news quickly (and complete with an analysis). These updates also form the basis of the forthcoming monthly report (in which the topics are usually discussed in more depth as we have more time to make an analysis).

(2) **Monthly reports only;** usually between the 2nd and 5th of the month, we release our monthly report. As mentioned above, this report discusses the most relevant economic, political, and social developments that took place in Indonesia (or global developments that impact on Indonesia) in the preceding month.

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Lastly, we would like to emphasize that – although we strive to present accurate, up-to-date, and objective information in our reports – Indonesia Investments cannot guarantee the accuracy of all data and information that is included. We also do not intend to provide legal, investment, tax, or accounting advice through the contents of this report, and therefore the reader should not perceive this report as such. In short: Indonesia Investments cannot be held responsible for decisions based on the content of this report.

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Introduction – June 2022 Report

Just before writing this introduction, Indonesian President Joko Widodo completed a journey to Eastern Europe (after attending the 48th G7 summit in Germany on 26-28 June 2022 where Widodo spoke about climate change and food security). And, it was quite a remarkable trip as Widodo not only met Ukrainian President Volodymyr Zelenskyy in Kiev (Ukraine) on 29 June 2022, but also visited the Kremlin in Moscow (Russia) to meet Russian President Vladimir Putin one day later. Amid the ongoing Russo-Ukrainian war, very few people have the opportunity to meet Zelenskyy and Putin on consecutive days.



And based on President Widodo's statements, he was a man on a mission, namely to mediate between both leaders. By keeping a neutral stance in the conflict, Widodo is in the position to communicate with both sides, thereby (hopefully) being able to lay

a foundation for Zelenskyy and Putin to become on speaking terms again and seek a peaceful solution to the ongoing war.

Considering both Russia and the West (United States and the European Union) seem eager to let the conflict escalate (as both sides want to assert control over Ukraine for security and/or ideological reasons), an impartial peacemaker can be found in the form of Indonesia, particularly as this Southeast Asian country currently serves as chairman of the G20 (a group that includes Russia and several Western nations).

While Putin is 'automatically' invited as Russia is a G20 member, Widodo personally invited Zelenskyy to join the G20 summit that is scheduled to take place on 15 - 16 November 2022 on Bali (although Ukraine is not a G20 member) in order to restart communication between all sides involved. While the Russo-Ukrainian conflict is not a topic that is on the agenda during the summit (since the focus will be on economic recovery after the COVID-19 crisis - even though it seems quite hard to ignore this war), having all key world leaders attending the event - possibly being in one room together - could help to restart communication.

However, it remains a tricky situation. No-one has (so far) announced to cancel the trip to Bali in case Putin shows up, but there have been various world leaders who expressed their objection if Putin is present. Considering the Russo-Ukrainian war is far from over, while Putin reportedly expressed his intention to join the summit,

it remains to be seen whether all invited guests will travel to Bali coming November. In April 2022, at the 2nd Finance Ministers and Central Bank Governor Meeting, we already saw various Western finance officials walk out when the Russian delegate began to speak at the event. Therefore, Indonesia needs to show its finest diplomatic skills to turn the summit into a success.

Unfortunately, from our viewpoint, Widodo's mediating efforts will not be a success as both sides –Ukraine (supported by the US and EU) and Russia– are miles apart in terms of their desires. While Russia does not want the US-led North Atlantic Treaty Organization (NATO) close to its borders for security reasons, the US and EU want Ukraine within their spheres of influence (in the form of NATO and EU membership). Both sides seem unwilling to cave in the foreseeable future.

And so, it is highly uncertain how and when this can be resolved. Did we just witness the restart of the Cold War? Will there be a wall in Kiev (perhaps extended to cover the central north-south axis of the country) that physically and ideologically divides the area like we saw in Berlin in the (not so distant) past? Or, does it require a Third World War to solve this issue? Well, anything seems possible.

Returning to Widodo's meeting with Zelenskyy, what was discussed at this occasion? Firstly, Widodo expressed his concern – on behalf of the Indonesian people – over the situation for the Ukrainian people, adding that nations' sovereignty and borders

need to be respected. Secondly, he emphasized on the importance for Ukraine to be able to restart exporting food products (such as sunflower oil, cereals and wheat) as this would improve global food stability. Third, Widodo expressed his commitment to strengthen bilateral relations between both countries (this year, in fact, being the 30th anniversary of diplomatic relations between Indonesia and Ukraine). And lastly, as mentioned above, Zelenskyy was invited to attend the G20 summit on Bali (but it remains unknown whether he will indeed visit Bali).

Meanwhile, Zelenskyy expressed his gratitude to Widodo (who apparently was the first Asian leader to visit Zelenskyy since the beginning of the Russo-Ukrainian war), and invited Indonesian business people and investors to help rebuild Ukraine once the war has ended.



Source: Twitter Account Joko Widodo

The next day Widodo had a working breakfast with Putin in the Kremlin (Moscow). At this occasion too Widodo emphasized that reconciliation is important in relations

between Ukraine and Russia, adding that Widodo can act as bridge between both in terms of communication. Secondly, Widodo emphasized the importance of having stable food, fertilizer and energy supplies as billions of lives around the world rely on these items. Putin reportedly confirmed to Widodo that Russia will not block food or fertilizer exports from Russia or Ukraine (meanwhile, energy-related trouble in the EU is actually caused by the sanctions the bloc imposed on Russia in combination with the push for renewables). Lastly Widodo and Putin discussed the strengthening of cooperation between Russia and Indonesia in terms of investment, tourism, and trade.

Putin said Indonesia is an important partner in the Southeast Asian region for Russia and hopes to see a free trade zone between Indonesia and Eurasian Economic Union (with negotiations possibly starting before the end of 2022).

And so, we see that – contrary to the US, EU and Japan – Indonesia is not interested in imposing sanctions on Russia but instead seeks to strengthen diplomatic relations with Russia (as well as with Ukraine). As we had seen before, value-wise, Indonesian exports to Russia have actually grown so far in 2022 (compared to the same period last year when there was no war). And we have discussed in recent editions that we consider it a wise decision to remain neutral in this war (which might actually be more of a conflict between Russia and US/EU than it is between Russia and Ukraine, which would make it a particularly sad and unjust affair for the Ukrainian people).

Reshuffle in Widodo's Cabinet

Speaking of politics, we saw the first cabinet reshuffle in Widodo's second cabinet on 15 June 2022 (not coincidentally on *Rabu Pahing*, a day that has significance in Javanese tradition). After various policy flip-flops related to palm oil, cooking oil and coal exports, Trade Minister Muhammad Lutfi was removed from his post.

He was replaced with Zulkifli Hasan, a well-known political figure in Indonesia who is the Chairman of the National Mandate Party (PAN) and the former minister of Forestry Affairs (2009-2014). Some may remember that he had an encounter with an angry Harrison Ford (an American actor) in 2013 when both discussed the issue of deforestation for a documentary.

It is likely that Lutfi is simply a scapegoat as we are under the impression that the coal and palm oil policy flip-flops actually originate from Widodo himself. Moreover, as the PAN party only recently decided to join Widodo's coalition (in late-2021), it had not secured a ministerial post yet. And so, this reshuffle was a good opportunity to reward PAN (and Hasan) for their support. This could be seen as a strategy ahead of the 2024 legislative and presidential elections.

Meanwhile, Sofyan Djalil (who has held several ministerial positions over the past two decades) was sacked as Minister of Agrarian Affairs and Spatial Planning/Head

of the National Land Agency (BPN), and replaced with former military commander Hadi Tjahjanto. Some argue that Djalil failed to carry out necessary agrarian reform, while others argue that Djalil's presence became somewhat irrelevant in the cabinet after former Vice President Jusuf Kalla had completed his term in 2019 (Djalil being known as a 'Kalla-loyalist').

Lastly, a sad message reached us while writing this introduction. Administrative and Bureaucratic Reform Minister Tjahjo Kumolo passed away at the age of only 64 on 1 July 2022 after a short period of (multiple) illnesses. Kumolo had also been Home Affairs Minister during Widodo's first term in office thus being one of the people who were present in both the first and second cabinet of Widodo. Considering Kumolo was a senior figure in Megawati Soekarnoputri's Indonesian Democratic Party of Struggle (PDI-P), which is also Widodo's party, it is assumed that this was influential in the selection process. However, it is also fair to add that we never heard any real complaints about (or criticism on) Kumolo's performance as minister. Therefore, we assume that he managed his ministries properly.

In the remainder of this June 2022 edition we are going to zoom in on the Indonesian economy, which is still showing a sound recovery from the COVID-19 crisis although – like in other parts of the world – there exists growing concern over inflation with Indonesia's June 2022 headline inflation now finally having exceeded the central bank's target range of 2.0–4.0 percent year-on-year (while Indonesia's central bank

still refuses to raise its benchmark interest rate, allowing the rupiah exchange rate to approach the sensitive IDR 15,000 per US dollar threshold).

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2 July 2022



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Coronavirus Tips: How to Protect Yourself & Others

Immunization programs are ongoing but in case you have fragile health or a medical condition it's important to remain careful to avoid becoming infected with COVID-19 or infect others who have fragile health.

You can protect yourself and help prevent spreading the virus to others if you:



- **Cover your nose and mouth** with a (disposable) tissue or flexed elbow **when you cough or sneeze**. Wear a face mask when going outside (this won't stop aerosols unfortunately but should prevent the larger droplets from spraying).

- **Strengthen your immune system**; people who are healthy (which are usually young people) may not even notice that they are infected with COVID-19. The trick here is that their immune system is stronger (generally). Therefore, now is the time to take some efforts to strengthen your immune system by eating healthy (fruits and vegetables each day), and get some sunshine in the morning for your vitamin D. Also do not forget to exercise! Taking enough time to sleep and avoiding stress are also crucial to improve the immune system. Lastly, it is highly recommended to quit bad habits, most notably: smoking!



- **Ventilation**; make sure that rooms inside houses, apartments, and buildings are properly ventilated as a COVID-19 infected person can spread aerosols so small that a facemask cannot prevent them from going into the air or from going into the lungs of someone who wears a facemask. Ventilation systems need to get a good supply of fresh air from outside and/or use a good filter. It is also advised to open windows or doors in closed spaces so there is a good supply of fresh air.

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