

Research Report October 2019

# INDONESIA INVESTMENTS

“A New Cabinet Arrives”



# Indonesia Investments Research Report

## *A New Cabinet Arrives*

October 2019



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## Preface

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

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



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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

A new start for Indonesia! In October 2019 Indonesian President Joko Widodo introduced his new cabinet. This team, which includes a couple of familiar faces, has the important task to guide the country forward in the next five years (particularly in terms of economic and social development) amid a very challenging international environment.

This new cabinet is discussed in great detail in a separate chapter in this month's report. Here in this introduction we only want to mention that we have mixed feelings about the new faces (and several old faces). Yes, it is very positive that Indonesia's political stability is now secure as defeated presidential candidate Prabowo Subianto – and his Gerindra party – decided to join Widodo's coalition and cabinet.



Widodo can now rely on a massive majority in parliament, something that should speed up the passing of legislation. This is an advantage in terms of governance as economic and social development programs can be sped up. But there is also the risk that parliament easily passes bills that are not popular among the Indonesian population. Whether the huge majority government will be used – or misused – is something that will show in the coming years. However, there are no signs that Widodo has lost his 'pro-people attitude'



and therefore we assume that the government will not change its course too much from Widodo's first term.

But what is certain is that the huge majority – brought on by the biggest opposition party, Gerindra, having switched sides – brings a high degree of political stability to Indonesia (which is something we had not seen in a while). This certainly impacts positively on the investment climate of Indonesia, and thus should manage to attract foreign and domestic direct investment realization in the quarters ahead.

However, this latest turn of events also illustrates how Indonesian people's emotions have been exploited in the context of the 2019 elections. These elections had divided the nation as Widodo's political opponents deliberately spread half-truths, full-lies and hoaxes in an attempt to incite outrage among the Indonesian people thereby undermining support for the incumbent. These half-truths, full-lies and hoaxes particularly aimed at topics related to the economy (and Widodo's handling of the economy) as there was too narrow room for Widodo's opponents to incite religious tensions. To prevent a recurrence of religious tensions (as had happened surrounding Jakarta's 2017 gubernatorial election), Widodo selected a conservative Islamic cleric, Ma'ruf Amin, as his vice-presidential candidate. It proved to be a successful strategy. However, the rising influence of conservative Islam on Indonesian politics, and on society at large, does give rise to some concern (especially about the position of the nation's minority communities).

Seeing Subianto having joined Widodo's cabinet and coalition it basically means that all those tensions in society, the disunity and hostilities were all in vain. In fact, eight people were killed in riots in Jakarta (in late May) as protesters showed their support for Subianto who, initially, refused to accept his defeat in the 2019 presidential election, claiming that massive fraud had handed Widodo the victory (but failing to deliver credible evidence).

The lesson that needs to be learned here is that the people should not let their emotions be exploited for the self-interest (and political interest) of certain politicians, particularly in

case the politician already has a very questionable reputation, such as Subianto. But it is easier said than done. Politics – and people’s different views about how society should be structured – often ignite heated emotions. We also see this in the European Union (EU) where resistance to centralist EU policies is on the rise in the member nations (specifically related to immigration and monetary policies) and in the United States where the presence of US President Donald Trump has made many democrats bitter. But while in the West these ongoing struggles are a battle between ‘left’ and ‘right’, in Indonesia politics have remained the playing field of oligarchs who are in a battle for political power as well as for access to the state budget.

While enhanced political stability should be a positive matter for Indonesia in the coming years, we are disappointed seeing few technocrats or ‘professionals’ (namely those who are not affiliated to a political party) at economy-related ministries. Considering external conditions are not expected to improve anytime soon (hence major economic challenges are to persist), one could imagine that it is better to have ministers with ample economic expertise at these ministries (rather than the so-called ‘career politicians’ who may first prioritize the interest of the political party rather than the interest of the nation or people).



Examples are Agus Gumiwang Kartasamita (Golkar) who has become Industry Minister in the new cabinet and Agus Suparmanto (PKB) who has now become Indonesia’s Trade Minister. Both men seem to have few to none credentials to head these ministries. But

problematically, these two ministries have a lot of homework to do in the next couple of years as growth in the manufacturing industry has been subdued (with the contribution of the manufacturing industry to Indonesia's gross domestic product sliding rapidly in recent years), while imports and exports have also declined significantly over the past years amid tariff tensions between the United States and China.

Indonesia's manufacturing industry and trade (particularly its export performance) are in need of huge breakthroughs. But we doubt that ministers without credentials can deliver these much-needed breakthroughs.

### **Economic Growth of Indonesia in Q3-2019**

While writing this introduction, Statistics Indonesia (BPS) announced – on 5 November 2019 – that Indonesia's economic growth reached 5.02 percent year-on-year (y/y) in the third quarter of 2019, which is the lowest growth pace in more than two years. Although the growth rate is in line with forecasts, the news does again confirm that the Indonesian government needs to be on its toes to push for accelerating economic growth.

In next month's edition we will zoom in on Indonesia's economic expansion in Q3-2019. Here, we only briefly mention that weak direct investment, declining exports (with low commodity prices and weak international demand amid subdued economic growth), and low government spending seemed to have dragged down growth in the third quarter.

Lastly, we would like to take this opportunity to thank you for purchasing this October 2019 edition of our monthly report, entitled '*A New Cabinet Arrives*'. We hope that this report contains valuable information for you!

Indonesia Investments

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