



Research Report September 2019

INDONESIA INVESTMENTS

“Growing Number of Hot Spots”

Indonesia Investments Research Report

Growing Number of Hot Spots

September 2019



SAVE THE DATE

15 OCTOBER 2019

The Indonesia Trade & Investment Summit 2019 is the pre-eminent platform for investment and trade development. It brings together leading trade practitioners and eminent scholars, high-level government officials, and representatives of international and non-governmental organizations, executives of global companies and stock exchanges, head of investment promotion agencies, heads of international organizations, and international media from 100 countries.

The Summit devises strategies and solutions for investment and trade development challenges in Indonesia. It offers a unique opportunity to influence investment-related policymaking, shape the foreign investment environment, and to network with global leaders in business.

INDONESIA
TRADE &
INVESTMENT
SUMMIT 2019



Jakarta
15 Oct 19

Table of Contents

Preface	6
Introduction	8
Contact	11

In Memoriam: Bacharuddin Jusuf Habibie (25 June 1936 – 11 September 2019), Third President of Indonesia	14
--	----

Contextualizing Indonesia – the International Environment

• What Were the International Developments in September 2019 that Impact on Indonesia?	25
---	----

Analyses & Interviews – Economy, Politics & Social Issues

• Student Demonstrations across Indonesia over Revision of the Criminal Code and “Destruction” of Anti-Corruption Watchdog	34
• Economy of Indonesia; Latest World Bank Report Makes Indonesians Fear a Looming Recession	55
• Is the Cigarette Manufacturing Industry Indonesia’s Biggest Sunset Industry? Rising Pressures after the Government Plans to Raise Cigarette Prices Again ...	68
• Reducing Indonesia’s Java-Centric Development by Moving the Capital Away from Jakarta, But Where Will All the Demonstrations Go?	81

- Surveying Prospects for Labour-Market Improvement in Indonesia; Accounting for Complexity and the ‘Informal Sector’ Challenge 92

Updates Indonesia – Economy & Financial Markets

- State Budget 2020 Approved by Indonesia’s House of Representatives (DPR); Where Does the Focus Lie? 102
 - Rupiah Update: Modest Appreciation against US Dollar, but Volatile Performance 110
 - Monetary Easing Cycle Continues: Bank Indonesia Cuts Benchmark Interest Rate to 5.25 Percent 113
 - Consumer Price Index Update: Deflation Due to a Drop in Prices of Foodstuff Commodities 117
 - Manufacturing Activity in Indonesia Ends Third Quarter on a Weak Note 120
 - Trade Balance Swings Back into a Surplus in August; Exports Down But Imports Fell Deeper 123
- Corporate Earnings Reports Indonesia’s Listed Companies: H1-2019 128
- Events Calendar Indonesia 136
- Public Holidays Indonesia 139
- Forecast Macroeconomic Indicators 140
- Back Issues Research Report 141

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.

The website of Indonesia Investments is the key 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 more information about Indonesia Investments, please visit: www.indonesia-investments.com.



To purchase our research report (or to subscribe), you can request for further (payment and subscription) details by sending an email to info@indonesia-investments.com or by contacting the following phone number **+62.8788.410.6944** (incl. WhatsApp messages).

For questions, comments, and other feedback we can also be contacted through these two channels.

Price Overview Research Reports – Individual Subscriptions:

1 edition (one month)	IDR 150,000	USD \$10	EUR €10
3 editions (three months)	IDR 450,000	USD \$30	EUR €30
6 editions (six months)	IDR 900,000	USD \$60	EUR €60
12 editions (one year)	IDR 1,800,000	USD \$120	EUR €120

Back issues can also be purchased by contacting us at info@indonesia-investments.com or +62.(0)8788.410.6944. Reports that were released more than a year ago are available at attractive discounts.

Both content and photography in this report is copyright of Van Der Schaar Investments B.V. (all rights reserved) except when indicated otherwise. Our permission is required by those who want to publish or distribute (part of) the content or photography in our reports (Dutch law applies to this research report). It also implies that our research reports cannot be distributed or shared among the workers or management within a company or other organization (*electronic rights*). We therefore offer corporate subscriptions to companies/institutions that want to distribute our reports among their staff-members and/or boards:

Price Overview Research Reports – Corporate Subscriptions:

1 edition (one month)	IDR 1,500,000	USD \$100	EUR €100
3 editions (three months)	IDR 3,600,000	USD \$240	EUR €240
6 editions (six months)	IDR 5,400,000	USD \$360	EUR €360
12 editions (one year)	IDR 7,200,000	USD \$480	EUR €480

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

September 2019 was another month filled with challenges. Not only external conditions have remained subdued and uncertain (and some matters have actually deteriorated since the previous month), but also domestic conditions have turned more chaotic in September 2019 due to a series of demonstrations in the last week of the month. In these protests students expressed their anger against the government over a number of controversial bills and laws. But these events also seem to reflect a sort of public discomfort over the central government's performance as economic growth remains, stubbornly, around the 5 percent mark. And we should also not forget that while reform-minded Indonesian President Joko Widodo won the 2019 presidential election, around 45 percent of the electorate voted for his political opponent. Therefore, there is a substantial amount of people in Indonesia who were disappointed – and may still be frustrated – by the outcome of this election.

One of the key problems that has been faced by Widodo's administration is that reforms are very difficult to materialize due to thick layers of bureaucracy and the decentralized structure of Indonesia (where interests of regional governments are often in conflict with the interests of the central government, thus leading to weak cooperation and coordination between central and regional authorities). Moreover, some structural reforms where we do detect significant positive developments (such as infrastructure development) cannot be done overnight but require many years to bear fruit through the multiplier effect. Those who are impatient fail to see such positive developments.

Such feelings of disappointment could be one of the additional reasons behind the series of demonstrations that started on 23 September 2019. And these demonstrations were not confined to the capital city of Jakarta alone. Also in various other cities across Indonesia, students protested in front of regional legislative council (DPRD) buildings.

Unfortunately, in Jakarta the demonstrations led to clashes between police and a number of protesters, giving rise to speculation that provocateurs were among the crowds (and if there were indeed provocateurs active, then it immediately leads to the assumption that certain sides with political interests are 'sponsoring' the violent clashes). On Monday 30 September 2019 clashes turned most violent (so far), causing hundreds of injured people

as well as hundreds of arrests in Jakarta. This was also the day on which the 2014-2019 parliament ended its five-year term.

We devote one article in this month's report to discuss these demonstrations, in particular the (controversial) content of the (revised) laws or bills that are protested against, and give our view on the whole matter.

What we do not discuss in a separate article, and therefore deserves some attention in this introduction, are the continuing forest fires and haze on parts of Kalimantan and Sumatra. Since July 2019 thousands of hot spots have been detected that damage huge quantities of ecologically rich land, while triggering a thick toxic haze. Back in early August 2019 the Indonesian government had already declared an emergency in the provinces of Riau, West Kalimantan, South Sumatra, Jambi, South Kalimantan, and Central Kalimantan. However, by the end of September forest fires are still spewing toxic haze, jeopardizing the health of millions of people, especially those who have undeveloped immune systems (namely young children) or those who have weak immune systems (mostly elderly or sick people).

Forest fires are an annually recurring problem in Indonesia's dry season. However, this year is the worst since 2015 as the dry season is longer than usual. So far, some 200 people have been arrested in connection to the forest fires as most of these fires are believed to be human made. Despite being an illegal act, traditional slash-and-burn techniques are still being used to clear forest and make room for plantations, usually palm oil or pulp and paper plantations.

It is a sad state of affairs that (local) authorities continue to fail to control this situation each year. Apparently, it remains too attractive for farmers or companies to break local laws, risk people's health (due to the haze), structurally damage the environment, disturb children's education (as schools in affected areas need to close temporarily), and cause diplomatic rifts with foreign governments. Moreover, forest fires, haze, and pollution also put Indonesia in a very negative spotlight in foreign media. This is something that could easily make foreigners unwilling to visit Indonesia for a holiday, and thus undermining the number of foreign visitor arrivals into the country (implying there are plenty of missed foreign exchange earnings).

Those found guilty of illegal slash-and-burn strategies can be fined up to IDR 10 billion (approx. USD \$700,000), while managers of companies doing the burning can face up to ten years in prison. But despite these harsh sanctions (which should make people afraid of committing such acts), man-made forest fires flare up each year. This is something that does not make sense, unless if it involves weak monitoring, weak law enforcement, and corrupt local officials.

News organization Al Jazeera in fact published an interesting article on 15 September 2019 titled ‘Indonesia Land-Burning Fines Unpaid Years after Disastrous Fires’, in which the first two paragraphs are as follows:

“Indonesian plantation companies which have been fined for burning huge areas of land since 2009 have failed to pay hundreds of millions of dollars in penalties meant to hold them accountable for actions that took a devastating environmental and human toll.

The palm oil and pulp wood companies involved in fires owe more than USD \$220 million in fines and the figure for unpaid penalties for environmental destruction swells to USD \$1.3 billion when an illegal logging case from 2013 is included, according to separate summaries of the cases compiled by Greenpeace and the Ministry of Environment and Forestry.”

It leads to the assumptions that (1) relatively few companies and individuals are convicted for these forest fires (and are handed prison sentences and/or fines), and (2) those who are handed fines simply fail to pay. This then leads to a situation where remains attractive for people and companies to break the law by using slash-and-burn techniques.

But it also reminds us of a research report that was released in 2015, written by Dr. Herry Purnomo, scientist at the Bogor-based Center for International Forestry Research. In the report Purnomo points to a link between local elections and spikes in local forest fires. He states that over the past decade (2005-2015) forest fires tend to spike prior to, and just after, local elections as candidates (cooperating with local businessmen) give land (or the right to use that land) to local voters (possibly to the village heads who then turn to local residents) in exchange for support in the elections.

This situation reminds us of a recent academic book titled ‘Democracy for Sale: Elections, Clientelism and the State in Indonesia’, written by Australian Professor Edward Aspinall and Dutch scholar Ward Berenschot. They argue that Indonesian politics are saturated by *clientelism*, a term that refers to the exchange of material benefits for political support. Candidates in elections, both national and regional, win power by distributing small-scale projects, cash or other goods to voters or community groups. They gain the funds they need to campaign by trading contracts, licenses and other favors with businesspeople; and they engage in constant battles with each other and with bureaucrats to wrest control over state resources.

Why are the two above paragraphs relevant? Well, we are approaching the 2020 regional elections of Indonesia (and we have just had the 2019 presidential and legislative elections several months ago). So, it may not only be the prolonged dry season that has made the 2019 forest fires the worst since 2015.

Lastly, we would like to take this opportunity to thank you for purchasing this September 2019 edition of our monthly report, titled ‘*Growing Number of Hot Spots*’. This month’s title not only refers to the ongoing forest fires, but to all of Indonesia’s present hot spots, which includes the ongoing violence in Papua (which we discussed in our August 2019 edition), and the student demonstrations across the country.

We hope that this report contains valuable information for you!

Indonesia Investments

Research Department

Delft (the Netherlands) & Jakarta (Indonesia)

3 October 2019

Contact

Office Delft, the Netherlands

Vaandelstraat 42
2611 DB Delft
The Netherlands
M +31 (0)6 27 05 85 32
E info@vanderschaar-investments.com

Representative Jakarta, Indonesia

Ms Lori Siregar
Jl. Tanjung Duren Raya No.Kav 5-9, RT.3/RW.5
West Jakarta - 11470, Indonesia
M +62 (0)8 788 410 6944 (incl. WhatsApp texts)
E info@indonesia-investments.com



**BUILDING
FAÇADE &
FIXTURES
INDONESIA**



**9-12
OCTOBER
2019**

**JIEXPO
KEMAYORAN
JAKARTA
INDONESIA**

www.buildingfacadefixtures.com

Facebook: @buildingfacadefixturesindonesia Instagram: @buildingfacadefixturesindonesia

THE TRADE FAIR FOR
| **DOOR | WINDOW | GLASS | FAÇADE | LIGHTING |**
| **ARCH & ENTRANCE STRUCTURE |**



Pre-register Your Visit Now!

in conjunction with:



**KITCHEN +
BATHROOM**

organizer by:

