

Highlights of the week

Who's in charge of the 2019 elections?

Electoral system's credibility and election result might be jeopardized when two election key agencies, General Elections Commission (KPU) and the Elections Supervisory Agency (Bawaslu), are disputing each other's decisions.

Ma'ruf Amin, radicalism and '#2019GantiPresiden'

Ma'ruf Amin political stance and religious strong background have been speculated to drive the upcoming electoral battle to different directions. His solo appearance earlier this week finally disclosed his true political objectives.

RI-Australia CEPA breath of fresh air for bilateral relations

Indonesian and Australian authorities have agreed to move on from their former diplomatic row, where on Aug. 31 President Joko "Jokowi" Widodo and Prime Minister Scott Morrison signed two agreements to complete Indonesia-Australia Comprehensive Agreement (IA-CEPA), an agreement which is expected to boost the Indonesia-Australia bilateral relationship and the Indonesian economy.

External debt, current account deficit dampen rupiah

The Argentina-Turkey economic woes are just the trigger for the recent rupiah depreciation. The fundamental economic problems lie in Indonesia's external debt position and current account deficit.



POLITICS

Who's in charge of the 2019 elections?

A row has erupted between the General Elections Commission (KPU) and the Elections Supervisory Agency (Bawaslu) over whether or not former graft convicts can run for seats in the national and regional legislatures in next year's general elections. When two key agencies managing the national elections are fighting it out in the open, the credibility of the electoral system and its results will be put in doubt. The long struggle to clean up politics from practices of corruption has suffered a setback.

Background: Various local branches of Bawaslu, the agency that settles electoral disputes, in the past week have given the green light to at least 16 people to run in the April general elections. Their names had earlier been deleted from the list of candidates by the KPU because they had in the past been convicted of corruption. The KPU is now refusing to abide by the decisions of Bawaslu, which hierarchically is the higher body of the two. The case now awaits a ruling from the Supreme Court.

Insight: In July, the KPU issued Regulation No. 20/2018 that bars people who have been convicted of drug trafficking, sexual crimes against children and corruption, from running in the legislative elections. When it was first mooted in May, the plan received surprising resistance from the government, most political parties and the House of Representatives. They all insisted that as the 2017 electoral law does not stipulate such a ban, the regulation is illegal. For good measure, they even said it violated the human and political rights of convicts.

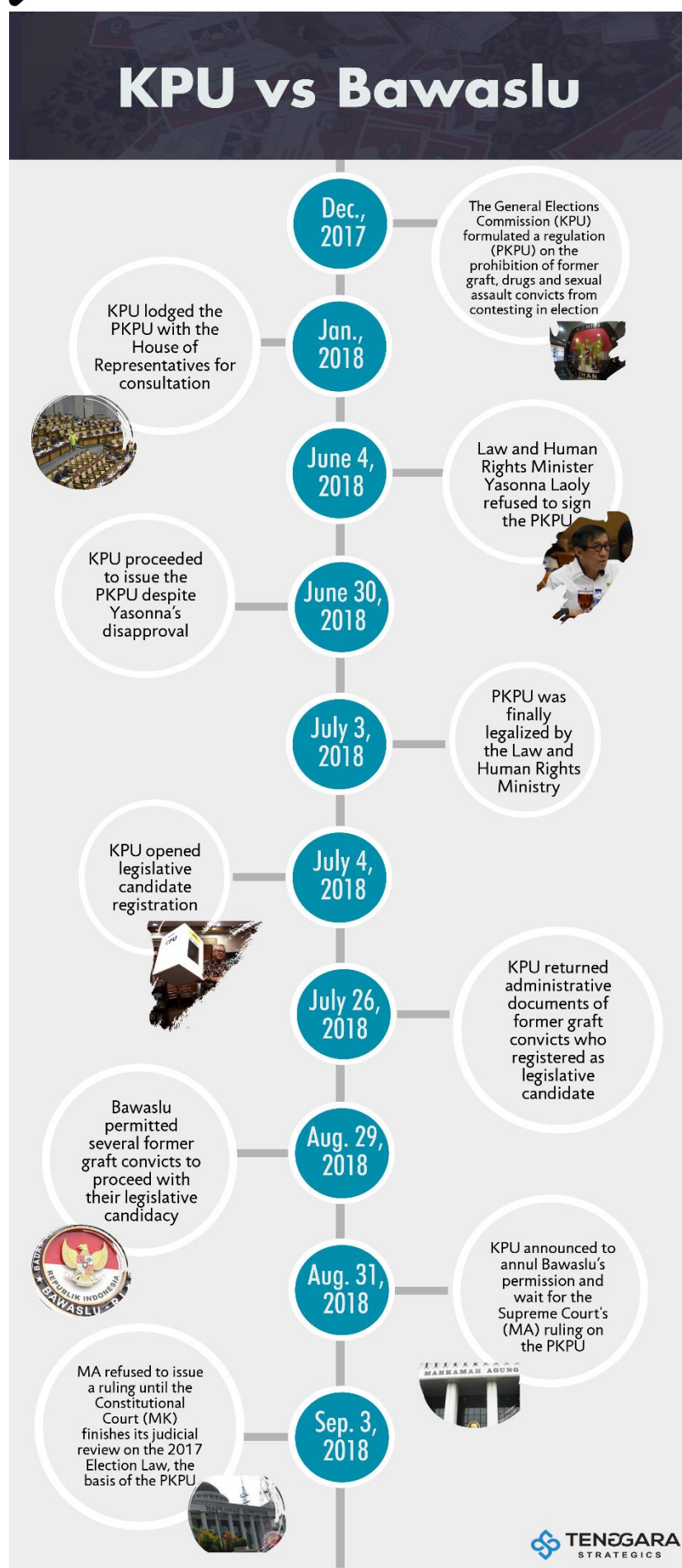
Political parties argue that they have all signed an "integrity pact" in which they pledged not to field candidates with past records of corruption. This essentially meant that the decision to screen out candidates was in their hands. The pact, also a feature in the 2014 elections, had obviously been violated, leading to the KPU coming out with the new regulation for 2019.

President Joko "Jokowi" Widodo has refused to reign in the dispute between the KPU and Bawaslu, saying that he would not interfere in the work of the two independent agencies.

In all there are more than 20,000 seats up for grabs next April in the House of Representatives (DPR), the Regional Representatives Council (DPD), the provincial level Legislative Council (DPRD) and the regency/city level Legislative Councils (DPRD1)

The reason behind the strong rejection came to light after 16 political parties submitted their list of candidates contesting legislature seats in July. The Corruption Eradication Commission (KPK) notified the KPU that at least 199 names from 15 of the 16 political parties contesting the race have previously been convicted of corruption. The Indonesian Solidarity Party (PSI), the party of millennials, is the lone exception.

Many parties have since voluntarily withdrawn the names, but some individuals affected took their case to Bawaslu and the Supreme Court. It is not clear how many petitioned, but by Monday, regional chapters of Bawaslu had cleared 16 names to run. The main opposition party, the Gerindra Party, leads with four names and Hanura, one of the parties in the Jokowi coalition, has three. None come from the Indonesian Democratic Party of Struggle (PDI-P), the main party supporting Jokowi's candidacy, but one came from the Golkar Party, the second largest member of the coalition.



One name that stands out is Mohamad Taufik of Gerindra, a member of the Jakarta Legislative Council. In 2004, he was sentenced to 18 months in prison for corruption while he was the head of the Jakarta chapter of the KPU. His name is included in Gerindra's list for the Jakarta legislative council for 2019-2024. He is also vying for the vacant chair of the council.

Another prominent name is Abdullah Puteh, who was convicted of corruption in 2004 when he was the governor of Aceh. Puteh is contesting one of four Aceh seats in the Regional Representatives Council.

Law and Human Rights Minister Yasonna Laoly had reluctantly signed Regulation No. 20/2018 into law in July having earlier opposed it. But he encouraged those who felt treated unjustly to take their case to Bawaslu or court. Some took up his advice and won their case.

The national and local legislatures have a poor track record when it comes to corruption. KPK figures cited by Katadata show 132 of those elected to the legislatures in 2014 were convicted of corruption by May this year. This week, the KPK arrested 41 members of the Malang City Council in East Java on charges of embezzling the city budget. This virtually paralyzed the city's legislature, and hence the administration's work, with

only four council members remaining. Of the 41 nabbed, 20 have been nominated to run in the 2019 election.

It is an open secret that candidates for the legislatures have to contribute large sums of money to a party to get nominated, on top of having to raise their own funding for an election campaign. But once elected, their power gives them access to lucrative funds that would not only provide a return on their initial investment, but also make a hefty profit.

More than 20,000 seats up for grabs

House of Representatives (DPR)	575
Regional Representatives Council (DPD)	136
Provincial-level Legislative Councils (DPRD)	2,207
Regency/City level Legislative Councils (DPRD1)	17,610
Total	20,528

Source: Tenggara Research Team

Breaking the cycle of corruption looks like an impossible task. The large number of politicians going to jail or prison for corruption since 2014 has obviously not deterred them.

But the KPU said pending the Supreme Court ruling, it will stand by its ruling and stick to its schedule in finalizing the list of candidates on September 14 to 20. This means that unless the Supreme Court decision comes before then, the KPU will delete the 16 names.

Candidates with graft convictions approved to run by the Elections Supervisory Agency

No.	Name	Party	Seat/Region
1	Syahrial Kui Domapolii	Independent	DPD/North Sulawesi
2	Abdullah Puten	Independent	DPD/Aceh
3	Joni Kornelius Tondok	PKPI	DPRD1/Toraja Utara
4	Nur Hasan	Hanura	DPRD1/Rembang
5	Ramadhan Umasangaji	Perindo	DPRD1/Kota Pare-Pare
6	Andi Muttamar Mattotorang	Berkarya	DPRD1/Bulukumba
7	M. Taufik	Gerindra	DPRD/Jakarta
8	Ferizal	Gerindra	DPRD1/Belitung Timur
9	Mirhammuddin	Gerindra	DPRD1/Belitung Timur
10	Maksum Dg Mannassa	PKS	DPRD1/Mamuju
11	Saiful Talub Kami	Golkar	DPRD1/Tojo-Una-Una
12	Mudatsir	Hanura	DPRD/Central Java
13	Jhony Hasibuan	Democratic Party	DPRD1/Cilegon
14	Darmawati Dareho	Democratic Party	DPRD1/Manado
15	HM Warsit	Hanura	DPRD1/Blora
16	Ai Hajar Syahyan	Gerindra	DPRD1/Tanggamas

Source: Tenggara Research Team

Ma'ruf Amin, radicalism and '#2019GantiPresiden'

Following the announcement of his vice-presidential candidacy, Indonesian Ulema Council (MUI) chairman Ma'ruf Amin's political stance has been a subject of public speculation. This is because despite his strong religious background, Ma'ruf's political role had been relatively minor prior to the announcement. In his first solo appearance two days ago, Ma'ruf finally disclosed his political objectives.

Takeaway: The #2019GantiPresiden campaign has transformed from a mere hashtag into an effective movement to undermine Jokowi. The response from the Jokowi camp, including from Ma'ruf, of linking the #2019GantiPresiden with radicalism may be counterproductive because first, it is hard to prove that it has direct links with Islamic radicalism and second, it could be viewed as an infringement of free speech, and thus against democratic principles.

Background: Since President Jokowi first announced his decision to pick Ma'ruf Amin as his running mate, speculation about the President's ulterior motive for choosing Ma'ruf has been rampant. The decision was certainly surprising for few had considered Ma'ruf a strong contender for the vice-presidential seat.

Nevertheless, after the announcement, Ma'ruf remained for the most part tightlipped about his political future. Previously, Ma'ruf's unquestionable religious stature had been expected to be a major factor behind the political objectives that the cleric would pursue throughout his candidacy. Yet, besides the snippets of his *ekonomi umat* (people's economy) program, in regard to politics, the cleric appeared reluctant to reveal the direction of his future policies.

His silence ended, however, as Ma'ruf made a rare solo appearance earlier this month. Ma'ruf, in front of journalists, affirmed his commitment to counter radicalism and preserve Pancasila as the sole ideological foundation of the country. How will Ma'ruf's commitment affect the trajectory of Jokowi – Ma'ruf's presidential campaign?

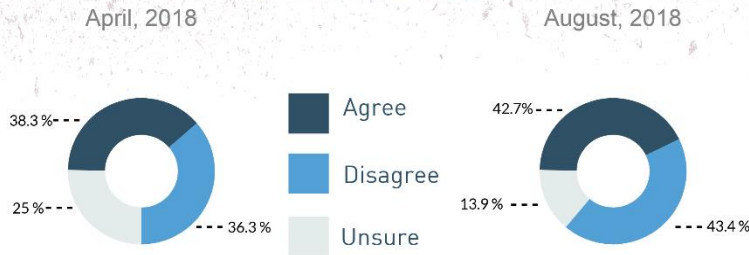
Insight Shortly after his arrival in Indonesia following his pilgrimage to Mecca, vice-presidential candidate Ma'ruf Amin attended a NasDem Party training session for its legislative candidates, during which he disclosed his commitment to combatting the spread of radicalism in the country, including the emergence of the religious mania for the establishment of a caliphate in Indonesia. Ma'ruf further explained his commitment as part of his support for President Jokowi to safeguard Pancasila and the 1945 Constitution as the sole ideological bedrock of the country.

Ma'ruf, who previously remained in the shadow of Jokowi, caught the public off guard with his announcement. Although similar emphasis upon economic issues in Jokowi – Ma'ruf's and challenger Prabowo Subianto – Sandiaga Uno's campaign strategies implies a shift of both camps' focus toward the domestic economy, Ma'ruf's stance against radicalism indicates that religious matters may prevail throughout the upcoming presidential campaign period.



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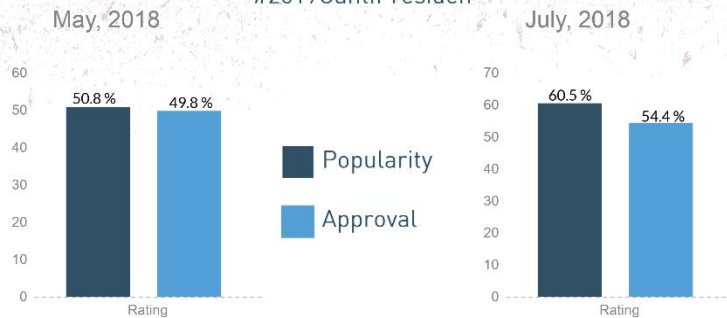
RODA TIGA KONSULTAN Public Recognition on #2019GantiPresiden



Survey was conducted from July 23 to Aug. 1, 2018

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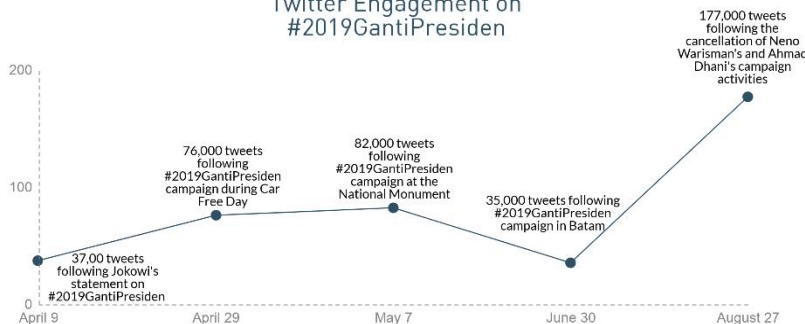
LINGKARAN SURVEI INDONESIA Popularity and Approval Rating of #2019GantiPresiden



Survey was conducted from June 28 to July 5, 2018

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DRONE EMPRIT Twitter Engagement on #2019GantiPresiden



Ma'ruf's pursuit of de-radicalization may be, to a certain extent, precipitated by the opposition's #2019GantiPresiden hashtag campaign. First introduced by Prosperous Justice Party (PKS) politician Mardani Ali Sera, the hashtag campaign has been frequently employed by the opponents of Jokowi – Ma'ruf in a bid to impede President Jokowi's reelection bid and promoting a change of leadership ahead of the presidential election next year. Nonetheless, much to Jokowi's and Ma'ruf's chagrin, the #2019GantiPresiden campaign's political significance is reportedly increasing. This might be what prompted Ma'ruf to finally chip in.

The #2019GantiPresiden campaign's increasing popularity has met with a lot of opposition. For instance, campaign figures such as Neno Warisman and Ahmad Dhani have been prevented from campaigning in Riau Islands and Surabaya, East Java, by the police and the State Intelligence Agency (BIN). Such opposition has been justified by allegations that the presence of these anti-Jokowi activists could generate unrest. Furthermore, according to BIN spokesperson Wawan Hari Purwanto, the agency previously broke up several



#2019GantiPresiden campaign activities as its initiators did not have permits to convene the events.

Regardless, what is particularly striking is the course of correlating the hashtag campaign with radicalism. As purported by a few executives of GP Ansor, the youth wing of Nahdlatul Ulama (NU), and even some NU clerics, the *#2019GantiPresiden* hashtag campaign is allegedly spearheaded by the Muslim hardline group Hizbut Tahrir Indonesia (HTI), an allegation which has been made by BIN as well. In light of these assertions, Ma'ruf's sudden fervor for countering radicalism may be another attempt to stonewall the pervasiveness of the hashtag campaign.

Ma'ruf's decision to particularly raise the issue of radicalism in countering the hashtag campaign is not a coincidence. Veering the discussion of the *#2019GantiPresiden* campaign toward the issue of radicalism may benefit Jokowi – Ma'ruf in two ways. First, by framing the hashtag campaign as a breeding ground of radicalism, it transforms the phenomenon from a political to a security matter, enabling the pair to take extra measures to stifle the campaign. Thus, the rumors of the HTI's role in the hashtag campaign justify the involvement of state agencies such as the police and BIN in breaking up the campaign activities. After all, it is justified in the name of security.

Second, by encompassing the preservation of Pancasila and the 1945 Constitution in his fight against radicalism, Ma'ruf implicitly labels the *#2019GantiPresiden* campaign not only as a radical movement but also anti-Pancasila and unconstitutional. Such a correlation could be established as a result of the HTI's notorious aspiration to establish a caliphate in Indonesia, which Ma'ruf has pointedly rejected, since such an idea would contravene the undisputable ideological standing of Pancasila and the 1945 Constitution. Hence, by linking the *#2019GantiPresiden* campaign, radicalism and anti-Pancasila sentiment together, Ma'ruf's statement groups these components in the same category. Following this logic, the legitimacy and constitutionality of the hashtag campaign and its supporters might be questioned.

Nevertheless, the abovementioned attempts to impede the hashtag campaign could backfire against Jokowi – Ma'ruf. The *#2019GantiPresiden* campaign activists have condemned the prohibition of campaign activities as blatant violations of free speech. Furthermore, the involvement of the police and BIN in the prohibition also leads the public to scrutinize the state agencies' supposed neutrality.

However, the police and BIN's involvement in disrupting the hashtag campaign's activities may have the effect of consolidating Jokowi – Ma'ruf's critics. Social media monitoring conducted by Drone Emprit found that the hashtag campaign's popularity increased dramatically as it received rapt attention from the public after Neno and Dhani were prevented from campaigning in several regions. It appears that such obstruction has provided Jokowi – Ma'ruf's opposition with a rationale to frame the pair as despots who inhibit free speech.

BUSINESS & ECONOMIC POLICY

RI-Australia CEPA progress breath of fresh air for bilateral economic relations

On Aug. 31, President Joko “Jokowi” Widodo and the new Australian Prime Minister Scott Morrison signed two agreements to complete the Indonesia-Australia Comprehensive Agreement (IA-CEPA) in October and November 2018 during Morrison’s first international tour.

Background: Having originally commenced in 2010, IA-CEPA negotiations were postponed after Indonesia and Australia engaged in several diplomatic standoffs between 2011 and 2015. The signing is expected to boost the Indonesia-Australia bilateral relationship and the Indonesian economy.

The agreement will cover not only trade liberalization, but also Australian investment – the value of which nearly doubled from A\$5.35 billion in 2010 to A\$10 billion in 2017 (see table below) – in various economic sectors such as tourism, construction, financial services, education, health services, public utilities, as well as worker and trainee exchange programs.¹

Indonesia-Australia Investments (billion AU\$)

Year	2010	2011	2012	2013	2014	2015	2016	2017
Total Investment								
Australian Investment in Indonesia	5.35	5.41	6.94	9.76	8.09	8.40	9.20	10.00
Indonesian Investment in Australia	0.41	0.44	0.49	1.12	1.32	1.40	1.20	1.04
Foreign Direct Investment								
Australian FDI in Indonesia	3.31	3.64	5.07	7.50	5.30	5.50	6.20	7.50
Indonesian FDI in Australia	N.A.	N.A.	0.01	0.01	0.01	0.01	N.A.	N.A.
Portfolio Investment								
Australian Investment in Indonesia	0.90	0.80	1.00	0.90	1.30	1.30	1.40	N.A.
Indonesian Investment in Australia	0.01	N.A.	0.02	0.02	0.02	0.01	0.04	0.12

Source: Australian Bureau of Statistics, data processed by Tenggara Strategics

Insight: Despite their close geographical proximity, Indonesia and Australia have lukewarm economic relations, as reflected in their bilateral trade. From 2001 to 2017, the share of imported goods from Indonesia to Australia declined from 3.4 to 1.4 percent. The share of Australian goods to Indonesia had also been declining, but the downward trend was reversed in 2013. The share of Australian goods increased from 2.7 percent in 2013 to 3.8 percent in 2017 (see figure below).

¹ Australia Department of Foreign Affairs and Trade (DFAT.gov.au), “Indonesia-Australia Comprehensive Economic Partnership Agreement: Outcomes” <https://tinyurl.com/y7ezsc3p>



In this context, finalizing the IA-CEPA before the end of this year is important for Australians. For Indonesians, the question is whether the partnership could reinvigorate Indonesian exports to Australia.

Australian Tariff Reduction Planning from Australia under AANZFTA Framework

Tariff Rate	Post Tariff	% of Tariff Posts	Import from Indonesia (million US\$ 2015)	% Import
0%	5,997	96.9	4,031.5	98.02
0% < X ≤ 5%	53	0.9	35.2	0.86
5% < X ≤ 7.5%	1	0	-	-
7.3% < X ≤ 10%	136	2.2	45.9	1.12
X > 10%	-	-	-	-
MFN	-	-	-	-
Total	6,187	100	4,112.72	100

Source: Trade Ministry's International Trade Negotiation Directorate General

In aggregate, the IA-CEPA is more likely to encourage Australian exports than Indonesian exports. Under the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) that was signed in 2009, 98 percent of Indonesian exports to Australia received the 0 percent tariff (see table above). On the other hand, 30.8 percent of Australian exports to Indonesia were given a 5 to 7.5 percent tariff (see table below).

Indonesian Tariff Reduction Planning from Australia under AANZFTA Framework

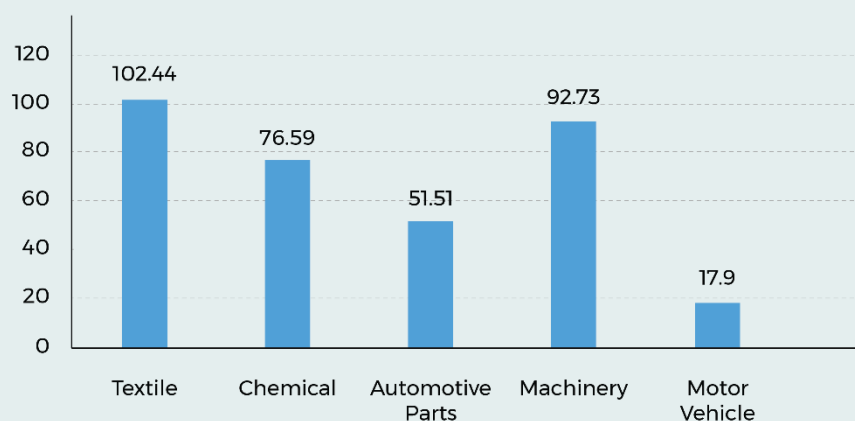
Tariff Rate	Number of Tariff Posts	% of Tariff Posts	Import from Australia (million US\$ 2015)	% Import
0%	9,157	91.5	1,848	67.2
0% < X ≤ 5%	470	4.7	23.9	0.9
5% < X ≤ 7.5%	40	0.4	848.6	30.8
7.5% < X ≤ 10%	0	-	0.3	0
X > 10%	239	2.4	10.7	0.4
MFN	106	1.1	19.7	0.7
Total	10,012	100	2,751	100

Source: Trade Ministry's International Trade Negotiation Directorate General

Although in aggregate the IA-CEPA might be more advantageous for Australia, at the sectoral level this partnership would benefit Indonesian labor-intensive manufacturing as well as high value-added manufacturing sectors. Using the Global Trade Analysis Project (GTAP) simulation,² we found that Indonesia's labor-intensive textile manufacturing would result in an additional US\$102.4 million in export value. Likewise, high value-added machinery, chemical and automotive manufacturing would create an additional export value of \$92.7 million, \$76.6 million and \$51.5 million respectively.

In contrast, the IA-CEPA would only create limited benefits for Australia's agricultural sector (see figure below).

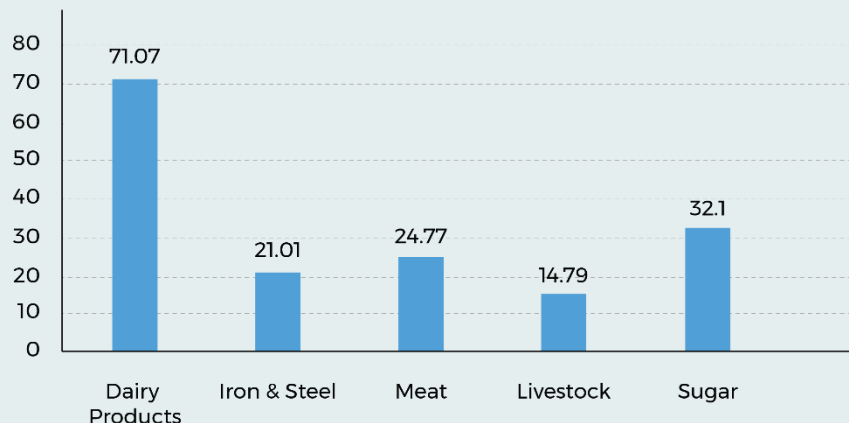
Additional Indonesian export to Australia (in million US\$)



Source: Tenggara Research Team's calculation using GTAP

² Purdue Agricultural Economics, "GTAP Models" <https://tinyurl.com/yax7mx6u>

Additional Indonesian import from Australia (in million US\$)



Source: Tenggara Research Team's calculation using GTAP

Takeaway: Considering the potential trade-offs, the government needs to implement the IA-CEPA with caution to maximize the benefits it would bring to Indonesia's labor-intensive and high value-added manufacturing sectors, and minimize the risk that this agreement would not reinvigorate Indonesian exports to Australia.

Tariff trade-off highlights: Indonesia

Live male cattle	Duty free (from 5 percent tariff) access for 575,000 cattle in year one	4 percent annual growth in volume reaching 700,000 by year 6. A review for subsequent increases
Frozen beef	Tariff cut to 2.5 percent (from 5 percent) and access for unlimited volume	Elimination of tariff after 5 years
Sheep meat	Tariff cut to 2.5 percent (from 5 percent) and guaranteed access for unlimited volume	Elimination of tariff after 5 years
Feed grains	Duty free access for 500,000 tonnes in year one	5 percent annual growth in volume thereafter
Refined sugar	Locked in 2017 "early outcome" of reduction of tariff to 5 percent	Ongoing
Dairy products	Elimination or reduction of tariffs across a number of dairy lines	Removal of all remaining tariffs on dairy lines
Potatoes	Tariff cut to 10 percent (from 25 percent) for 10,000 tonnes per year for five years	After five years, 5 percent tariff for 12,500 tonnes per year 2.5 percent annual growth in volume thereafter
Carrots	Tariff cut to 10 percent (from 25 percent) for 5,000 tonnes per year	Tariff progressively reduced to 0 percent over 15 years. Unlimited volume permitted at 0 tariff after that

There are non-agriculture products that are also subject to tariff elimination. Australia will also obtain improved market access outcomes on services and investment, including guaranteed levels of Australian ownership in exchange of increased investment in Indonesia.



INDONESIA-AUSTRALIA COMPREHENSIVE PARTNERSHIP

Prospect for Indonesia

Raises Indonesian total export by US\$164 million



Increases Indonesian GDP by 0.23 percent



Fulfills Indonesian demand for skillful workers and industrial technology transfer



Prospect for Australia

Improves horticulture and agriculture market access



Reduces tariff on 99 percent Australian goods export by value (compared to only 85 percent in ASEAN-Australia New Zealand Free Trade Agreement)

Guaranteed import permits for key Australian products



Further agreements



Indonesia and Australia will establish Indonesian Food Innovation Center, where Australia would assist Indonesian producers or potential exporters to increase their competitiveness



The Center will become a platform for the Australian government to socialize Australian food safety and health standards, which are known to be very restrictive



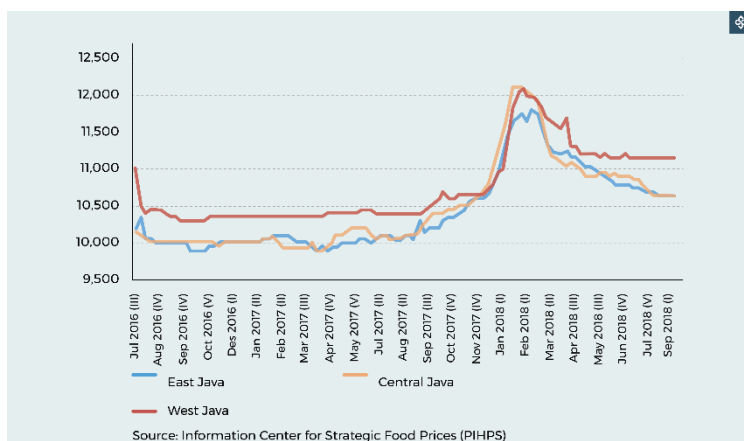
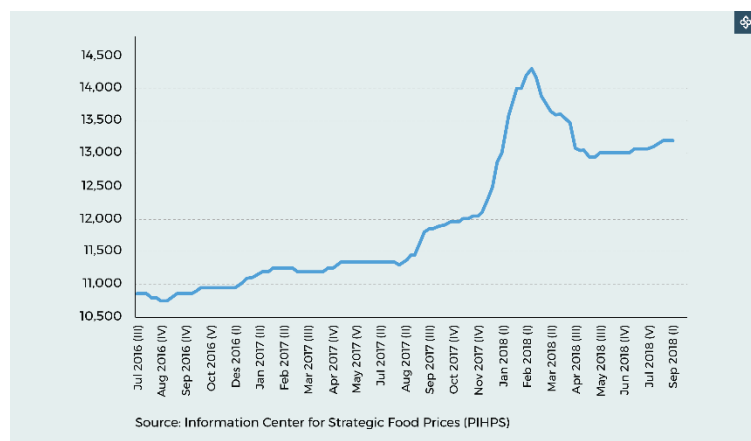
The establishment aims to ease entry of Indonesian goods to Australia by accelerating Australian customs and quarantine inspection process in the future

Two million-ton rice import a blow to Amran's credibility

On Sept. 4, National Logistics Agency (Bulog) president director Budi Waseso announced that his agency would run 10,000 to 15,000 tons per day rice market operations for an unspecified time, backed by a license to import 2 million tons of rice this year from the Trade Ministry.

Takeaway: Bulog's rice market operations backed by a license to import 2 million tons of rice from the Trade Ministry is a blow to Amran's credibility, but this blow is unlikely to affect his status as the "super minister" in Jokowi's administration.

Background: The decision to run rice market operations was made at a meeting organized by the Office of the Coordinating Economic Ministry on Aug. 27, after policymakers saw an upward tick in the price of rice at Jakarta's markets in July



In rice-producing regions such as West, Central and East Java, the Central Statistics Agency (BPS) also saw a sign of price increases for paddy grain³, albeit there being a positive sign of recovery from the rice price shock seen earlier this year. Unwilling to take any unnecessary risks, the government took these signs seriously by announcing the importation of 2 million tons of rice this year to stabilize rice prices across the country.

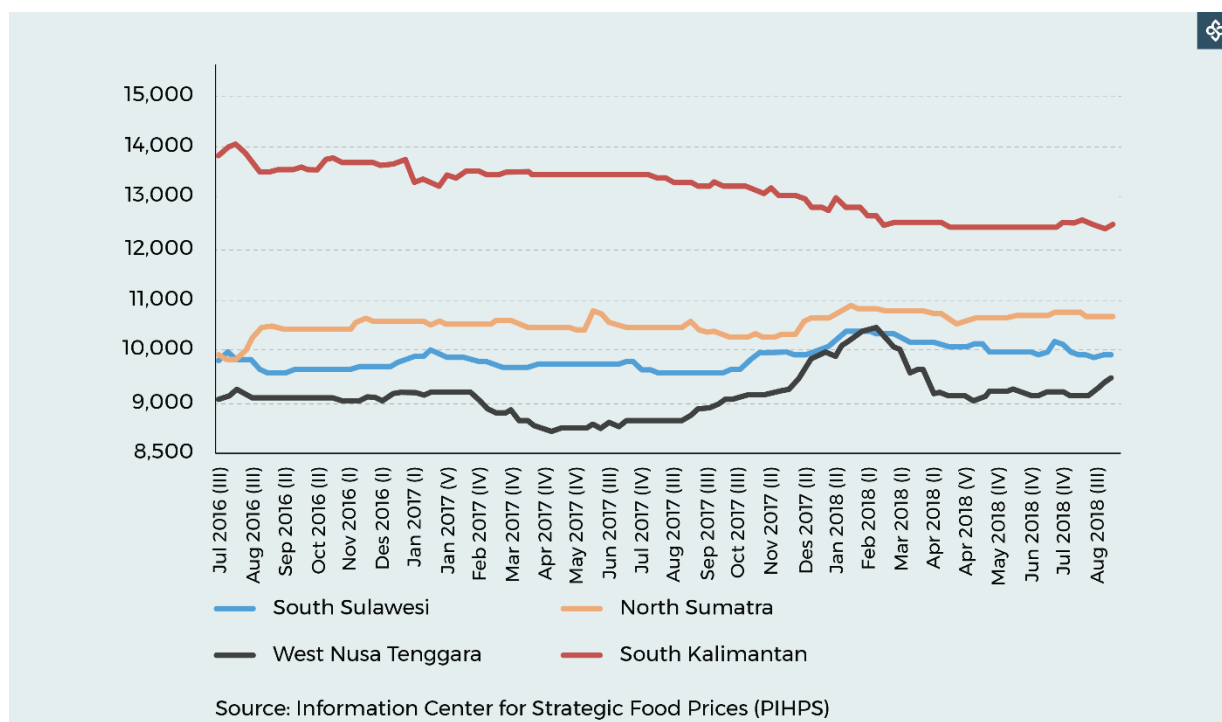
Insight: Bulog's rice market operation is the latest blow to Agriculture Minister Amran Sulaiman's credibility. Earlier this year, Amran was involved in a fiasco over the accuracy of his ministry's rice production data that resulted in a rice price shock in Java and some other provinces like West Nusa Tenggara. There were a few exceptions such as in South Sulawesi, North Sumatra and South Kalimantan

Despite the evidence of a rice price shock, Amran insisted that under his ministry's guidance Indonesia had a rice surplus in 2017⁴; a claim that was immediately shot down by the Ombudsman.⁵

³ [Antaranews.com](https://antaranews.com), "BPS catat harga gabah naik 3.05 persen" 3 September 2018 <https://tinyurl.com/y9yychr8>

⁴ [Republika.co.id](https://republika.co.id), "Kementan: produksi beras nasional selama 2017 surplus" 13 January 2018 <https://tinyurl.com/y972djz7>

⁵ [Kompas.com](https://kompas.com), "Ombudsman: Kementan jangan bilang beras surplus" 15 January 2018 <https://tinyurl.com/yahqoaaa>



More interestingly, President Joko “Jokowi” Widodo said nothing about his agriculture minister’s performance. Strangely, the Golkar Party endorsed Amran to be one of Jokowi vice-presidential candidates back in July⁶. Even, this time, the House of Representatives echoed Amran’s claim of a rice surplus in 2018.⁷

Amran was said to be one of the key financiers of a pro-Jokowi volunteer movement in Sulawesi and the eastern parts of Indonesia back in 2014⁸. He is likely to play an important role in promoting Jokowi in Sulawesi and eastern Indonesia for the 2019 presidential election. Already last July, Sahabat Rakyat Indonesia⁹ (Friends of Indonesian People or SRI), founded by Amran, managed to gather around 1 million people in Makassar, South Sulawesi, to join an event to promote the Asian Games, which was attended by Jokowi.

⁶ RMOL.co, “Golkar: Amran dan Airlangga layak jadi cawapres Jokowi” 24 July 2018 <https://tinyurl.com/y77mjkp7>

⁷ Liputan6.com, “DPR: RI surplus beras hingga 12 juta ton” 5 September 2018 <https://tinyurl.com/y78o2j2d>

⁸ Newmandala.org, “Cashing in” 8 August 2016 <https://tinyurl.com/y954hxeg>

⁹ Sulsesleksespres, “Relawan Sahabat Rakyat Jokowi Binaan Amran Sulaiman Solidkan Kekuatan,” 18 August 2018 <https://tinyurl.com/ya58z85l>

MACROECONOMIC UPDATE

External debt, current account deficit dampen rupiah

On Sept. 6, the rupiah fell to Rp 15,000 per United States dollar, close to the 1998 monetary crisis' record low of Rp 15250 per dollar (June 17, 1998), as a result of the Argentina-Turkey's economic woes.

Takeaway: The Argentina-Turkey economic woes are just the trigger for the recent rupiah depreciation. The fundamental economic problems lie in Indonesia's external debt position and current account deficit. The government will face difficulties in balancing its external debt position, because the global financial market is shying away from emerging economies. On the other hand, the government's insistence on keeping fuel subsidies high will exacerbate Indonesia's current account and trade account deficits.

Background: Policymakers and economic pundits are in a state of panic after the rupiah fell to a post-crisis record low of Rp 15,000 per dollar. For example, Bhima Yudhistira, an economist from the Institute for Development of Economics and Finance (INDEF), recommends that Bank Indonesia (BI) hike its benchmark seven-day reverse repo rate by 50 basis points (bps) to prevent further rupiah depreciation.¹⁰

Meanwhile, President Joko "Jokowi" Widodo has pleaded for more private investment and increased exports to solve the current account deficit problem that has plagued the economy in 2018 and is suspected of being the main cause of the recent rupiah depreciation.¹¹

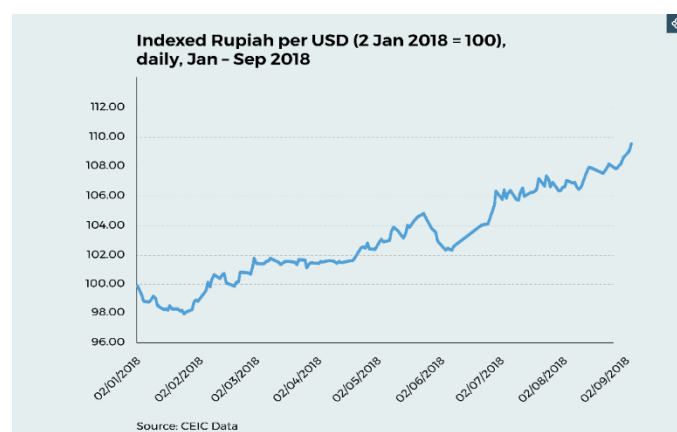
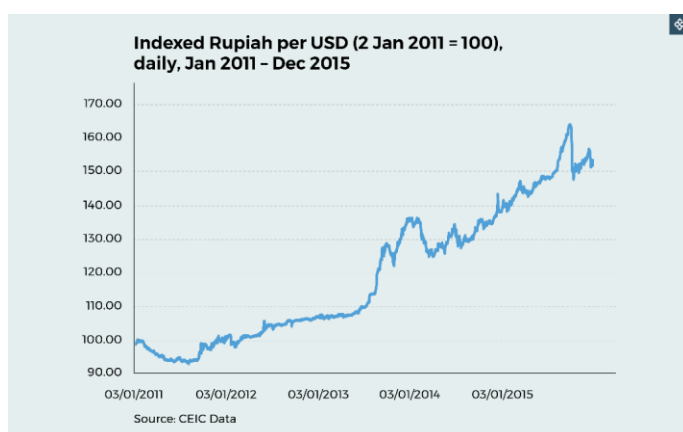
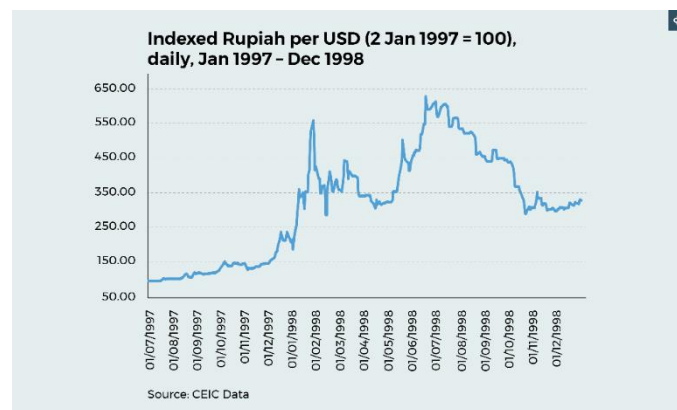
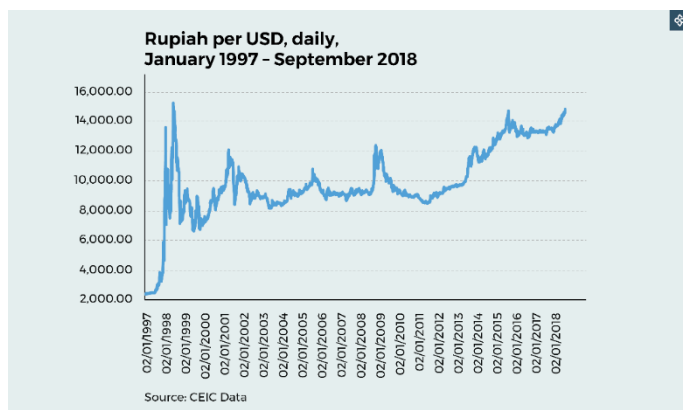
Coordinating Economic Minister Darmin Nasution has tried to calm the jittery markets by reminding everyone that the rupiah depreciation during the 1998 monetary crisis was more severe than the current one.¹²

In fact, the recent rupiah depreciation is still less severe than the depreciation in the 2011-2015 period, when the global commodity prices boom ended in 2011, and the global oil price collapsed in 2014.

¹⁰ Sindonews.com, "BI dinilai harus kembali kerek suku bunga acuan demi Rupiah" 1 September 2018
<https://tinyurl.com/y997cpzr>

¹¹ CNBCIndonesia.com, "Penjelasan lengkap Jokowi soal Rupiah yang anjlok" 5 September 2018
<https://tinyurl.com/ybnqgq5w>

¹² CNNIndonesia.com, "Menko Darmin: jangan bandingkan Rupiah dengan krisis 1998" 4 September 2018
<https://tinyurl.com/ybmaxarr>



Insight: The recent rupiah depreciation is driven by two factors. First, foreign investors are worried by Indonesia's external debt position –the main driver of the Argentina-Turkey economic woes.¹³ Since the end of the global commodity prices boom in 2011, Indonesia has borrowed extensively in the global financial market to keep the economy growing.

Under former president Susilo Bambang Yudhoyono's administration, the total external debt grew by 30.2 percent to US\$293.3 billion. The borrowing has continued under President Jokowi's administration, though at a slower pace. From 2014 to the second quarter of 2018, Indonesia's external debt grew by 21.3 percent to \$355.7 billion.

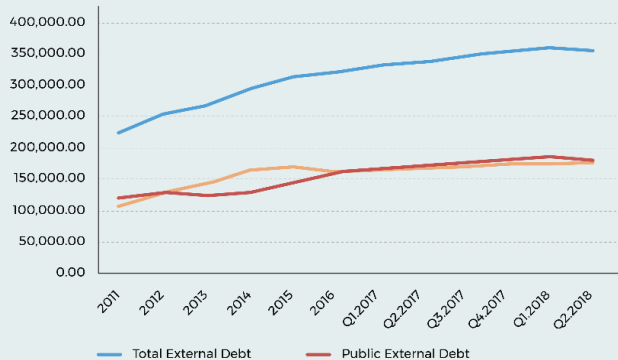
Foreign investors are worried whether Indonesia can service its external debt, especially when the foreign reserves are depleting because of capital outflows in the financial market, followed by the drying up of direct foreign investment in the past year.

Another factor is the rapid deterioration in Indonesia's current account position. Indonesia's current account has been deteriorating since the first quarter of 2017, and reached its nadir in the second quarter of 2017, as it recorded an \$8 billion current account deficit.

The main cause has been the rapid deterioration in the goods' trade balance, during which the trade surplus in goods fell sharply from \$5.6 billion in the first quarter of 2017 to only \$288 million in the second quarter of 2018.

¹³ Reuters.com, "Why Turkey and Argentina are the main emerging market weak links" 18 May 2018
<https://tinyurl.com/ya8xplet>

Indonesia's External Debt Position, 2011 – Q2.2018



Source: Bank Indonesia

Indonesia's Foreign Reserve Position, Jan 2016 – Jul 2018



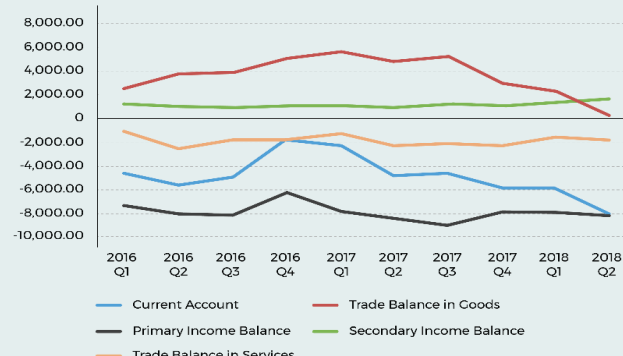
Source: Bank Indonesia

Indonesia's Direct and Portfolio Investment Position, Q1.2016 – Q2.2018



Source: Bank Indonesia

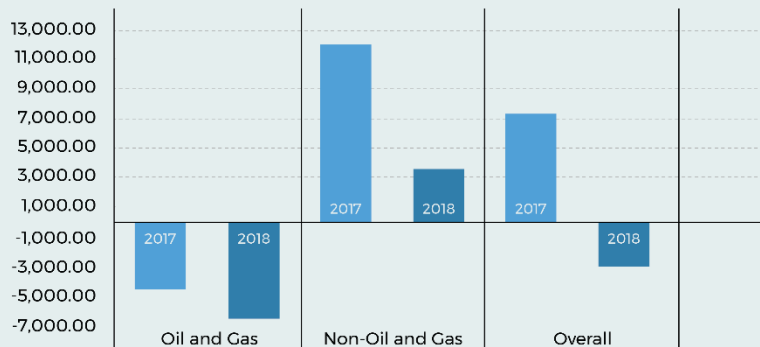
Indonesia's Current Account and Its Components, Q1.2016 – Q2.2018



Source: Bank Indonesia

To solve the current account deficit problem, the government needs to remedy the trade account deficit. However, it is unlikely that the government will redress the trade account deficit any time soon, because the main source of Indonesia's trade account deficit problem is the growing oil and gas trade deficit, amid a sharp decline in the non-oil and gas trade surplus. Indonesia's oil and gas trade deficit will keep growing as long as the government subsidizes fuel prices at the current level.¹⁴

Indonesia's Trade Balance Position in Jan – Jul, 2017 and 2018



Source: The Central Statistics Agency (BPS)

¹⁴ Tirto.id, "Rupiah melemah, pemerintah pastikan tak naikan harga BBM subsidi" 5 September 2018

<https://tinyurl.com/y7cbadtp>

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