



# GO-INDONESIA

## ECONOMIC BULLETIN

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AUGUST 2016

### SPECIAL POINTS OF INTEREST:

- President Joko Widodo's Visit to South Korea
- Indonesia's Strong GDP Adds to the Sentiments

### INSIDE THIS ISSUE:

Executive Highlights	I
President Jokowi's Visit to South Korea	6
Indonesian Strong GDP	10
Indonesia SE Asia Digital Powerhouse	12
Embassy Forum	14
President Jokowi's Trade Policy	17
The South China Sea Doesn't Have to Hurt Business	19

## Message From The Ambassador

Dear Readers,



Amid continuing uncertainties on the global economic recovery, Indonesia is among a few G20 countries that still offer robust growth. In the second quarter of this year, Indonesia's real GDP grew by 5.2%. Indeed, after being hit by commodity slump for almost 3 years, there are now emerging signs of rising consumer confidence in the first half of the year. In its Quarterly Report issued last month, World Bank suggested that various policy reforms introduced by Jokowi's administration since September 2015 have strengthened Indonesia's economic resilience, and started to make an impact on reviving strong growth in the country.

The reappointment of Sri Mulyani as Finance Minister in the cabinet reshuffle toward the end of July has also boosted confidence in the ability of the Government of President Jokowi to transform Indonesia's economy and to propel stronger economic growth. Sri Mulyani is a prominent economist globally known for her fiscal discipline and reformist mindset.

During his Seoul visit, President Jokowi told the Korean Business Community that his policy deregulation packages will continue along with his vision to make Indonesia economy open and competitive. He also discussed a number of infrastructure development programs which have been successfully launched since he came to office in late October 2014. He hopes that Korean companies will take part on the infrastructure projects being offered to private sectors, also take advantage of the new investment opportunity in Indonesia as a number of industry are now open for international investors.

I am hoping this economic bulletin will provide Korean Business Executives with relevant clues on key developments and opportunities in Indonesia.

John A. Prasetyo  
Ambassador

## Executive Highlights

### World Bank 2016 Report: Reforms Strengthen Indonesia's Economic Resilience

In its quarterly report entitled "Reforms Strengthen Indonesia's Economic Resilience", the World Bank said that pro-active policies including prudent monetary policy, higher public infrastructure spending and deregulation measures to improve trade and investment, have helped Indonesia's economic resilience. While the World Bank recently downgraded the global growth by half a percentage point, it projected the Indonesia's GDP growth to remain strong at 5.1% in 2016.

## Executive Highlights (Cont.)

### Second Cabinet Reshuffle: Sri Mulyani is Back!

President Jokowi has announced his second cabinet reshuffle and brought in World Bank Managing Director Sri Mulyani Indrawati as Finance Minister replacing Bambang Brodjonegoro who has been moved to serve as Minister for National Development Planning.



Thomas Lembong who has earned the reputation of President Jokowi's leading spokesman for economic reform has been transferred to take the helm of the Investment Board, and former Chairman of Real Estate Association, a senior politician from National Democratic Party, Enggartiasto Lukito has now taken over as the Trade Minister.

The President of the Korean Chamber of Commerce and Industry in Indonesia said that the reshuffle would further boost confidence on the government's market friendly policy stance. He specifically pinned high hopes on the New Finance Minister, and said that Tom Lembong is the right person to chair the Investment Board.

### Economic Growth Accelerates: McKinsey bullish on Indonesia

Indonesia's GDP grew 5.18% in the second quarter of 2016 (y/y) supported by growth in nearly all sub sectors with mining extraction as the exception. Financial services and insurance sector posted the highest growth at 13.51% (y/y). Household consumption accelerated by 5.04% while government spending improved by 6.28%. However, Indonesia's exports and imports continued to contract in the second quarter albeit at a slower pace.

According to McKinsey, at a time where people all over the world are desperate for growth, Indonesia is a big pocket of growth because of the expanding consumer class, urbanization, technologically savvy young population, and obviously the strong focus of the current government to deliver reform and implement infrastructure development projects.

**POSCO Daewoo  
signs MOU with  
Indonesia's largest  
shipyard**

POSCO Daewoo and Indonesia's largest state-run shipyard PT. Penataran Angkatan Laut (PAL) inked a Memorandum of Understanding (MoU) on 4 August 2016 over providing equipment and materials for building 10 patrol ships and one logistics support ship worth US\$ 150 million. Both parties vowed to further cooperate in business as the Indonesian government is planning to reorganize its six shipyards starting from next year.



**Hanwha Life  
Insurance Plans to  
Expand**

Hanwha Life which set up operations in Indonesia in 2013 said it plans to expand the number of outlets of its local unit from 10 currently to 44 outlets. Hanwha said its expansion plan highlighted the long term prospects of Indonesia's life insurance market where low penetration, growing wealth, and rapidly expanding middle class is driving demand for coverage.

**Fitch Ratings  
Affirmed  
Indonesia's Default  
Ratings (IDRs) at  
'BBB-'.**

Fitch Ratings has affirmed Indonesia's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-'. The issue ratings on Indonesia's senior unsecured foreign- and local-currency bonds are also affirmed at 'BBB-'. The Outlooks on the Long-Term IDRs are Stable.

Fitch expects real GDP growth of 5.1% in 2016, 5.5% in 2017 and 5.7% in 2018, supported by a stepped-up structural reform effort and a pick-up in public capital expenditure that is starting to have an impact on growth. Fitch also suggests that the government's strong structural reform drive since September 2015 will significantly improve the ease of doing business and investment climate in Indonesia.

**13<sup>th</sup> Economic  
Policy Package :  
Property for Low  
Income Families**

Indonesian Coordinating Minister for the Economy Darmin Nasution said that the Government of Indonesia would soon unveil the 13<sup>th</sup> Economic Policy Package as part of the series of economic reforms introduced since September 2015. The new package will be on e-commerce and residential property for low income families. In April last year, President Jokowi launched a five year "One Million Houses Program" for low income residents.

**Presidential  
Regulation on  
Relaxing Negative  
Investment List  
Issued**

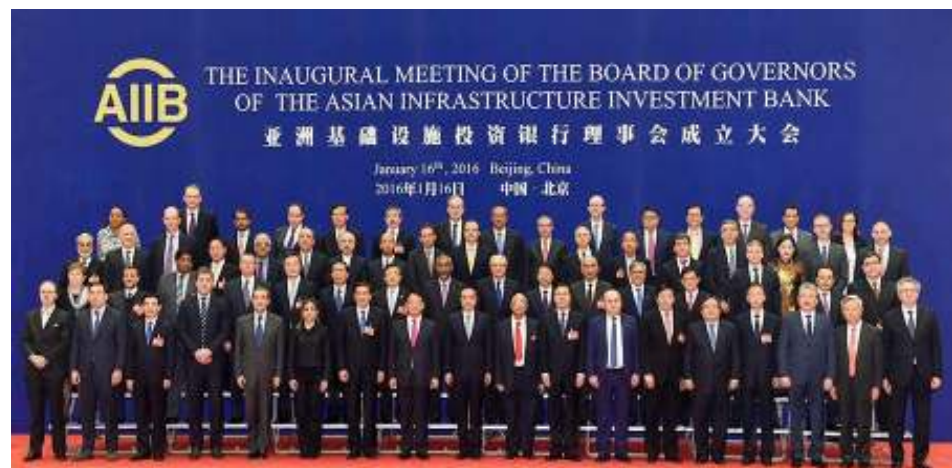
The government announced last May the changes to the Negative Investment List which includes the relaxation of rules for international companies in various sectors. Under the new rule, 30 business activities have now become open to 100% Foreign Investment, including biomass pellet industry for renewable energy, healthcare support services, cold storage, bars, cafes and restaurants, film studios, film production, cinema, etc.

## Executive Highlights (Cont.)

### Asia Infrastructure Investment Bank (AIIB) Approves US\$ 216 million Loan for Indonesia's National Slum Upgrading Project

The Board of the Asia Infrastructure Investment Bank (AIIB) has approved a USD\$ 216.5 million loan for Indonesia to improve access to urban infrastructure and services in slums in 154 cities in central and eastern Indonesia. Direct and indirect beneficiaries of the project are expected to include 9.7 million slum dwellers.

Indonesia is among the first recipients of AIIB loans. The loan is part of the development lender's first US\$ 509 million loan for four infrastructure projects in South and Central Asia, including power-grid upgrades in Bangladesh and highway construction in Pakistan and Tajikistan.



### New Jakarta Light Rail Transit system on track

The Jakarta Municipality Government on June 22 began construction of its ambitious Light Rail Transit (LRT) system as it races to complete the first phase of the project in time for the Asian Games in mid-2018. The first phase is slated for completion in December 2017.

The initial phase of the LRT, costing about US\$ 350 million, spans 6 kilometers from Kelapa Gading in North Jakarta to Velodrome in East Jakarta. The Jakarta administration expects to build 123.7 kilometers of intra-city LRT lines, which will be integrated with 142 kilometers of LRT lines to be built by the Transportation Ministry to connect the capital to other regions in West Java, like Karawang, Walini, and Tegalluar.

### Tax Amnesty Program Launched in Indonesia

President Joko Widodo launched a tax amnesty program aimed to enable tax payers to declare unreported assets and at the same time boost state finances by way of encouraging Indonesians to bring home their unreported offshore funds.

The tax amnesty program is designed to run for nine months (from July 2016 to March 2017) and could provide an additional flip to growth. The government has appointed nine banks to act as trustees for the repatriated funds, including the state-owned banks BNI, BRI, BTN and Mandiri, private banks BCA, BTPN, and Danamon as well as two Sharia banks. The Sharia banks are yet to be identified.



**Korean Company, DW Development, to invest in Tanjung Lesung, partnering with PT Jababeka**

Korean company DW Development recently signed a Memorandum of Understanding (MoU) with industrial estate developer PT. Jababeka to develop a resort in Tanjung Lesung including infrastructure, hotels, and airports.



The Special Economic Zones (SEZ) Tanjung Lesung in Banten is located 180 km east of Jakarta and promoting the tourism sector as the main engine of investment activity. The SEZ has a total area of 1,500 hectares.

**Korean Investment in Indonesia**

The Indonesian Investment Board (BKPM) reported that overall realised foreign direct investment for the first half of 2016 was US\$ 14 billion. South Korea ranked No. 8 among Foreign Direct Investors with realised investment of US\$ 472 million, while investment commitment from the South Korea for the first six months is US\$ 1,940 million. The Investment Board statistics exclude investment in the Financial Sector as well as Oil and Gas Sector. Labor intensive sectors such as footwear, textile, and garment continue to attract a substantial number of Korean investors.

**Bilateral Trade between Indonesia and Republic of Korea**

Bilateral Trade between Indonesia and South Korea in the first semester of 2016 reported a decline of 19.13% to US\$ 5.94 billion compared to last year bilateral trade of US\$ 7.3 billion for the same period. Indonesia's exports to South Korea in previous semester was US\$ 2.63 billion and its imports was US\$ 3.3 billion, hence, Indonesia has a trade deficit of US\$ 680.8 million during January to June 2016. Indonesia's exports, which mainly comprise of liquefied natural gas, bituminous coal, crude oil, natural rubber and copper ore, slumped over the period, while Indonesia's imports of industrial goods expanded more rapidly than its exports to South Korea.

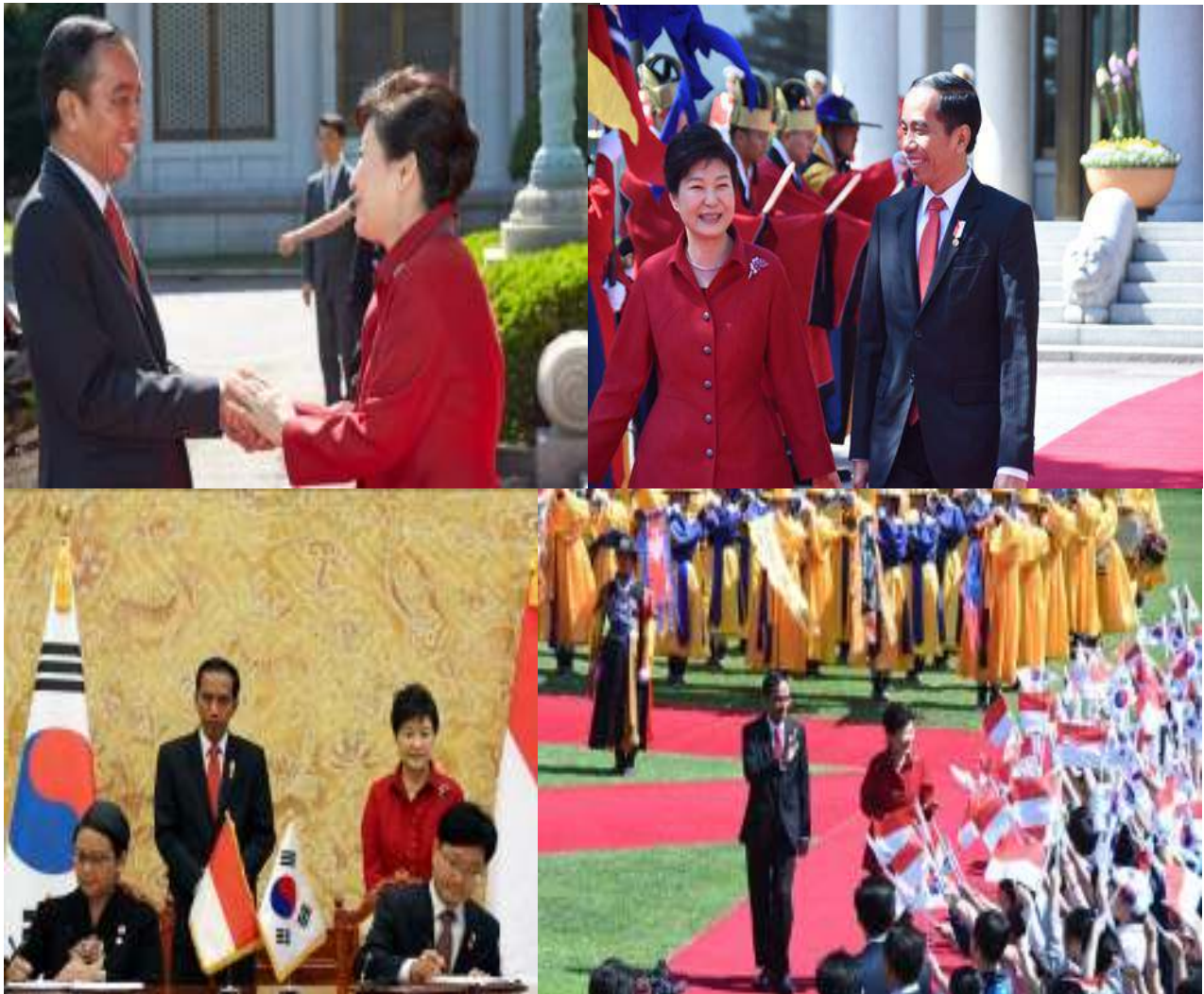
**K-Town to set up in Indonesia**

Small and Medium Business Administration (SMBA) announced its plan to create a Korean-culture themed café district named K-Town in the outskirts of Jakarta by late 2018 to be modelled after the Bojeong-dong Café Street with a target to develop it as a new attraction site in the Southeast Asian country. The SMBA will also set up the so-called antenna shop for small business owners next year. The antenna shop will conduct market research, tap demand, and measure marketing effects prior to the small entrepreneurs start a business in Indonesia.

## **President Joko Widodo's Visit to South Korea**

### **Meeting at the Blue House**

**May 16, 2016**



President Jokowi and President Park Geun-hye discussed steps to strengthen synergy for stronger bilateral cooperation and witnessed the signing of MoUs by relevant Ministers aimed to provide framework to implement a number of cooperation initiatives.

MoUs signed at the Blue House include cooperation in the areas of Special Economic Zones, Creative Industry, Sports, Maritime Cooperation, e-Government, etc.



## Meeting with Korean Business Community



President Jokowi discussed with Korean Business Community his strategy to open up Indonesia's economy further, a number of concrete steps to make it easier to do business in Indonesia for international Investors, and his plan to have more infrastructure development projects get off the ground. 8 (eight) MoUs worth US\$ 18 billion were signed following President Jokowi's Morning Forum with more than 500 Korean Business Executives in attendance. These MoUs include B2B collaborations in gas pipeline project, Jakarta Light Rail Construction Project, collaboration in creative industries, marine, and environmental sector.



## Other Activities of President Jokowi in Seoul



In his Seoul visit, President Jokowi was conferred the Honorary Citizenship of Seoul and the 2016 Asian Journalist Award. The awarding ceremony took place at Seoul Museum of History and AJOU University Suwon respectively.





President Jokowi also took the time to meet with Indonesian Migrant Workers as well as Indonesian Students in South Korea, receive Governor Kim Kwan-yong of Gyeongsangbuk-do, visit MBC and CJ Creative Center, and give keynote address at Asian leadership Conference hosted by Chosun Ilbo.



“ The ongoing economic reforms introduced by President Jokowi have restored confidence that Indonesia should indeed be among the top 5 most attractive countries for Korean Investors. ”

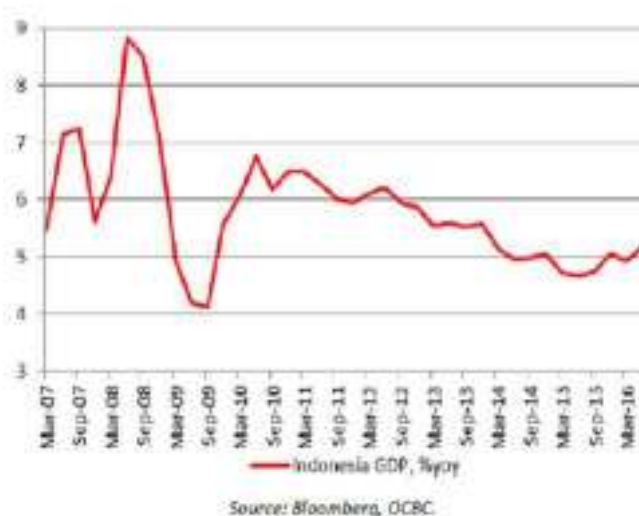
- Korea Herald -

## Indonesia's Strong GDP Data Adds Oomph to Positive Sentiment

By Wellian Wiranto | 5 Aug 2016

In this commentary, Wellian Wiranto of OCBC argues that stronger-than-expected Q2 GDP data is a further boost for the improving business sentiment in Indonesia.

SINGAPORE: Indonesia is on a roll. Having pushed through a potentially game-changing Tax Amnesty Law, President Jokowi offered market another pleasant surprise just last week. Instead of a humdrum sort of reshuffle, he managed to coax the well-respected Sri Mulyani away from the cushy, high-paying job at the World Bank to return home and re-helm the Finance portfolio.



And just this morning, the Q2 GDP data shows that the Indonesian economy has a lot more momentum going for it, than market had expected. At 5.18 percent year-on-year, the GDP data shows Indonesia's growth at its best since President Jokowi took over in Oct 2014. It has also more than made up for the disappointment in Q1 GDP data a few months ago. Looking more closely beyond the headline print, we also see some largely encouraging signs. First and foremost, the crucial private consumption regained some vitality, notching up a gain of 5.04 percent yoy in Q2, compared to 4.94 percent of the previous quarter. While some seasonal

factor may be at play – with more days of the Ramadan fasting month falling into Q2 this year compared to the last – there is likely to be some boost starting to be seen from the frontloaded monetary policy easing early this year by the central bank, as well.

Meanwhile, support from government spending has also come forth more readily in Q2. Public consumption portion of GDP grew by 6.28 percent yoy in Q2, markedly higher than the 2.93 percent yoy posted in Q1. With the government focusing on disbursement of planned expenditure, this should not come as a surprise. It's also reflected by a faster pace of spending of full-year budget in the first half of this year – at 41.55 percent as of end-June – compared to the same period last year.

Elsewhere, things look less rosy even if there is no cause for concern at this stage. Specifically, investment activities have yet to pick up all that encouragingly. Going by the GDP breakdown, gross fixed capital formation grew at 5.06 percent yoy. This is not too bad in and of its own, given the global uncertainties, but is still lower than the 5.57 percent printed in the previous quarter.

All in all, the GDP numbers can be characterized as a set of prints reflecting that things are going good for Indonesia, but not quite great yet.

To get Indonesia going from “Good to Great”, to shamelessly borrow a phrase from the management guru Jim Collins, the government still has work to do. And, an upside surprise it may have been, today’s GDP data should act as a spur for more momentum from the government, simply because it reflects what Indonesia can yet achieve.

Here, the near-term focus has to be still the success of the Tax Amnesty programme. In and of its own, the GDP data itself is helpful for this cause. If nothing else, it showcases the tremendous growth potential and investment opportunities that the country presents.

For savvy (and loaded) Indonesians, the fact that their very own country can still print a better-than-expected encouraging growth rate in such a testy global environment serves as reminder that they should take another look at their risk-reward calculations, which is more likely than not to tip in favour of putting more investment money to work in the motherland than elsewhere.

Still, as we mention in last week’s “Pincer Movement” note, the new Finance Minister has her work cut out in terms of better utilising such fortuitous backdrop. Apart from the necessary groundwork of preparing her staff to offer more compelling service and offering more helpful answers the queries of potential amnesty applicants, she has also started to prepare as well for the unfortunate case of less enthusiastic take-up rate of the programme.



To begin with, she has moved to adjust the targets for this year’s budget, estimating a revenue shortfall of IDR 219 trillion (US\$ 16,698,443,400) that would bring fiscal deficit from 2.35 percent of GDP to 2.5 percent. Her boss, the president, has also talked about instructing various ministries and agencies “to be disciplined in reducing expenditure”. In a tone that might sound familiar to those facing belt-tightening in the corporate world too, Jokowi reportedly said that he has demanded again and again, for them to “study each [expenditure] point, one by one, and in detail.”

Hence, as much as government spending did help to lift up growth in Q2, its help cannot be counted upon as readily in the coming quarters. With private consumption already playing its part and any forceful exports recovery being a pipe dream in this global environment, the onus thus falls on investment spending. That, in turn, is going to be a function of whether Jokowi and his team can continue to show enough reform momentum to convince investors – be it foreign or domestic – to pile in real money into the country.



## **Indonesia's SE Asia Digital Powerhouse**

**by Tony Keusgen, Country head, Google Indonesia**

**9 August 2016**

An exciting thing happened in Indonesia in May — we crossed 100 million internet users. That is four times the number of people in Australia, making Indonesia the fifth-largest internet population in the world.

A joint Google-Temasek report recently predicted that, at this rate, Indonesia will have 215 million internet users by 2020, making it the fourth-largest globally.

Every day thousands of people across the archipelago are coming online for the first time. And since their introduction to the internet is through a smartphone, they are not necessarily thinking about the internet in the same way as people in the US or Japan.

They are demanding and creating a new internet that works best with their own specific needs. India and Indonesia are projected to be only two countries over the next five years that will expand their share of the world's online population.

So Indonesia is not just “joining” the internet: The entire internet is in the process of becoming more Indonesian.

That new internet will work on Indonesians' terms, on their phones, for their budget, in their towns, in their languages. And with these powerful smartphones in their hands, they will communicate their unique needs more clearly than ever before in the history of the country. Meeting those demands will create completely new segments of the economy.

For example, Indonesia has already become one of the most important countries for e-commerce on the planet, with local companies not just serving Indonesians but also becoming a leader for the region.

A Google study with Temasek estimates that Indonesia will be a US\$ 46 billion e-commerce market by 2025, the largest in Southeast Asia.

The startup, [hijup.com](http://hijup.com), is now a global pioneer in Muslim fashion e-commerce, growing from two employees managing 14 women's fashion brands in 2011 to now having 150 employees and carrying over 200 brands.

Small businesses are doing amazing things, but global tech companies can also play a big part in supporting this movement and helping Indonesia create the internet that Indonesia wants.

An early step for us has been keeping up with consumer demands by making our own products more relevant for Indonesians. For example, Google just launched a partnership with TransJakarta to provide real-time update on bus arrival times in Google Maps. What is also critical, however, is making sure that Indonesian startups, entrepreneurs and small companies know how to use the most cutting-



edge platforms and tools so that they can expand their businesses and offer

*A joint Google-Temasek report recently predicted that, at this rate, Indonesia will have 215 million internet users by 2020, making it the fourth-largest globally.*

world-class services. We love what we see already: Companies popping up to sell traditional food *batagor* or *pempek* online and Go-Jek scooters skirting traffic to drop off packages.

The developer Own Games ID from Bandung turned the local dish *tahu bulat* into a game that that hit #1 in downloads on Google Play. To create more companies like that, we are currently engaged on a company-wide program to train 100,000 more Indonesians developers.

Meanwhile video creators, like Bayu Skak, are not just creating popular web videos but doing it their own native languages like Javanese.

Technology is also transforming more traditional industries. The website [kecipir.com](http://kecipir.com) uses the internet to help small-scale farmers bring organic produce to market in major urban centers like Jakarta, while [memeflorist.com](http://memeflorist.com), a small company in Central Java, is using the internet to help local florists around Indonesia sell flowers in their cities. Sahabat Aqiqah sells goat meat online for religious holidays and other occasions.

Hoping to work more closely with Indonesian companies, we are holding an event tomorrow called Google for Indonesia, where executives from our headquarters in California will announce new initiatives and features that will help Indonesia do even more with the internet.

So 100 million internet users in Indonesia is an exciting moment — but that was just the beginning. The country is on its way to becoming Southeast Asia's digital powerhouse, and we can't wait to see what the talented entrepreneurs of this nation come up with.

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## Embassy Forum



Last July former Korean President Lee Myung-bak hosted dinner in honour of former Indonesian President Yudhoyono. The two former leaders exchanged ideas on various dynamics affecting geopolitics and geo-economy in the region.

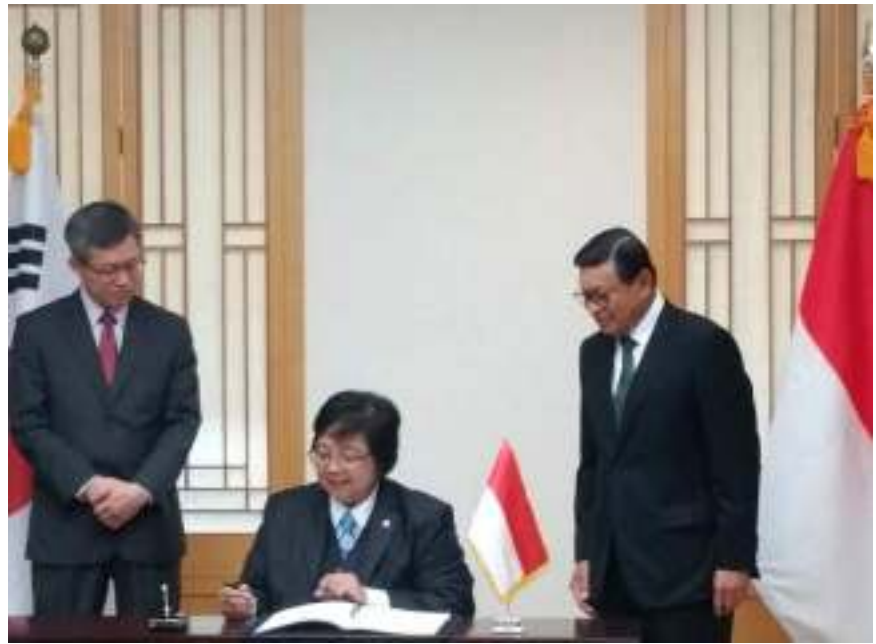
KR Motors President Sung Sang Yong was at the Embassy of Indonesia to meet with Mr. Erwin Aksa, Bosowa Group Chairman to discuss their plans to do business in Indonesia facilitated by Head of Investment Promotion Center in Seoul, Mr. Imam Soejoedi.



Minister for Unification, H.E. Hong Yong-pyo participated at a farewell dinner at Wisma Duta for Korea Foundation Chairman Yu Hyun-seok who would assume a new role as Korean Ambassador to Malaysia.



Indonesian Minister of Environment and Forestry H.E. Siti Nurbaya was in Seoul to sign the Agreement of the Establishment of the Asian Forest Cooperation Organization, AFoCo. At the signing, the Minister reaffirmed Indonesia's commitment in enhancing regional cooperation in promoting reforestation and climate change mitigation.



Indonesian Minister of Tourism, H.E. Arief Yahya had a meeting with his Korean counterpart, Minister Kim Jong Deok to discuss ways to promote tourism sector. Minister Yahya also met with potential Korean investors in Tourism Sector as well as Top 10 Travel Agents in Korea.

In the last week of May, the Grand Hilton Seoul organised an Indonesian Food Festival featuring two Indonesian Chefs from Conrad Bali.



## Embassy Forum (Cont.)



At Ganainsa Art Center, Insadong, Hansae Yes 24 Foundation hosted "Batik, the Soul of Indonesia" exhibition which included the work of well known Indonesian designers such as Harry Darsono, Iwan Tirta, Agus Ismoyo, Nia Filam, etc. The opening ceremony was attended by more than 150 guests.



Ambassador Prasetyo hosted dinner at Wisma Duta for outgoing Australian Ambassador. Guests at the dinner include CJ Group Chairman, LS Nikko Vice Chairman, Royal Shell Korea President, POSCO Terminal CEO, etc.

The Indonesian Embassy in Seoul in cooperation with the ASEAN-Korea Center sent buyer mission to Surabaya and Jakarta, Indonesia, with a focus on fashion and leather products.





## **President Jokowi's Trade Policy Onward and Upward**

**by Thomas Lembong, Chairman of the Investment Coordinating Board**

Having just handed off at the Trade Ministry and taken over at the Investment Coordinating Board (BKPM), now is a unique moment for me to comment on Indonesia's trade and investment, two issues that are actually closely interlinked.

I believe that we can expect a lot of continuity in our government's international trade policy, notwithstanding that a new trade minister was appointed in the recent Cabinet reshuffle. New Trade Minister Enggartiasto Lukita has moved swiftly to implement President Joko "Jokowi" Widodo's instructions during the first plenary Cabinet meeting postreshuffle: (1) that there is only the vision of the President and Vice President, and (2) the importance of "solidity" in the Cabinet, by which I believe he means "teamwork".

First, Minister Enggar has instructed the leadership of the Trade Ministry to continue all the programs on the international side, such as our pursuit of trade agreements with the European Union and with Australia. Second, with the big-hearted spirit and self-confidence that comes from being a highly successful person, Minister Enggar then invited me to continue to contribute to our international trade agenda. Obviously, I'm delighted to oblige. The first follows the vision of President Jokowi; the second is a welcome gesture toward Cabinet teamwork.

President Jokowi has now publicly stated many times that he has distilled his economic reform philosophy down to two fundamental principles: openness and competition.

President Jokowi and Vice President Jusuf Kalla understand very well the meanings of "trade diversion" and "investment diversion". In short: right now, a lot of factories are shutting down in Indonesia and the Philippines and moving to Vietnam.

Why? Because Vietnam has trade agreements with the EU and the US, while Indonesia and the Philippines do not. By the way, the EU and the US are two of the world's top export destinations, each being a roughly US\$ 17 trillion-per-year economy.

Under Vietnam's trade agreements with the EU (CEPA), and with the US (TPP), Vietnamese exports enjoy 0 percent tariffs when entering the EU and the US markets. Meanwhile, the EU and the US apply 10-17 percent tariffs on Indonesian and Philippine exports. Hence, Vietnamese exports are immediately 10-17 percent cheaper than Indonesian and Philippine exports, just on tariffs.

Indonesian and Philippine exports cannot compete under such tariff disadvantages. As a result, investment (in factories) and the exports that will be produced by those factories are being "diverted" from countries that have no trade agreements (Indonesia, the Philippines), to countries that have trade agreements (Vietnam).



That is why both the Philippines and Indonesia are now racing to complete CEPAs with the EU, and are likely to have little choice but to pursue the TPP with the US. This is one example of what President Jokowi means when he says that “we live in an era of competition”.

Indonesia is competing against Vietnam and the Philippines. Nobody will want to invest in factories in Indonesia if exports from Indonesia suffer a price disadvantage of 10-17 percent versus exports from Vietnam just on tariffs. Boosting Indonesia's exports requires investment (in factories, etc.), and to attract such investment requires trade agreements with important export destinations like the EU and the US. Hence the close interlinkage between investment and trade.

I feel that Pak Enggar is an excellent choice to replace me as trade minister. We need to remember that economic reforms not only need to be formulated technocratically, but also need to be disseminated to political parties and to governors, district chiefs and mayors. As a veteran of domestic politics, Pak Enggar will be much better than me at disseminating our trade sector reforms to political stakeholders. Through teamwork, my hope is that we can combine the best of both worlds: his clear strength in domestic politics, with my now-established strength in the international arena.

More broadly, the recent Cabinet reshuffle significantly enhances President Jokowi's political position. Not only have the Golkar Party and the National Mandate Party (PAN) joined the government, President Jokowi has also pulled in more closely both Minister Enggar's Nas-Dem Party and Coordinating Political, Legal and Security Affairs Minister Wiranto's Hanura Party.

In my view, the more ambitious the economic reforms that we want to pursue, the stronger our President needs to be politically to push those reforms through. For me, pulling these political parties in is a forceful way to make them take greater ownership of the President's economic reform agenda.

With President Jokowi's strengthened political coalition and teamwork between Minister Enggar and me (as well as Industry Minister Airlangga Hartarto and others), I'm extremely hopeful that Indonesia's pursuit of its international trade agenda will exhibit the Olympic ideals currently playing out in Rio de Janeiro: citius, altius, fortius — faster, higher, stronger.



*A general view shows under-construction buildings among the city skyline in Jakarta.  
(Photo: BAY ISMOYO/AFP)*

## **The South China Sea Doesn't Have to Hurt Business**

*by Simon Tay | 18 Aug 2016*

*The writer is chairman of the Singapore Institute of International Affairs (SIIA)*

Controversies over the South China Sea have dominated headlines, especially after the recent decision by the Permanent Court of Arbitration, brought by the Philippines and denounced by China. But many businesses may look on more quizzically.

What is the impact on the bottom line? Will prospects for ASEAN countries diminish if tensions with China escalate? Yes, political differences can spill over to economic engagement and bilateral development assistance can dry up when relations sour. Yes, an outright naval confrontation or incident at sea — especially between China and the USA or Japan — could be destabilizing. But negative outcomes are not inevitable.

Differences can be managed with win-win areas to keep the dispute in context. Both sides — and indeed all those interested in a prosperous and more interdependent Asia — have much to gain.

Beijing's grand future vision of a "One Belt One Road" will run through the region and beyond, by land and by sea. China's newly created Asian Infrastructure Investment Bank is expected to fund major parts of that vision and increase connectivity, both within the region and to major partners beyond. But while China is a key player, it is not inevitable that Beijing will dominate the region. Existing multilateral agencies like the World Bank and Asian Development Bank can step up.

So can other donors and partners, like Japan. The USA too can play a greater role through high quality trade agreements like the Trans Pacific Partnership (TPP), now pending ratification, and with support for the innovation-led sector.

ASEAN is not dependent on China but well balanced between Beijing and other partners. Consider the trade and investment figures. China is the region's top trading partner with total bilateral trade at 15.2 percent of total ASEAN trade, but this is followed by Japan, the EU and the USA, with each at about 10 percent.

Investment data shows the EU leading with 16.4 percent of the total inflows, followed by Japan at 14.5 percent, the US at 10.2 percent and China at just 6.8 percent. While the global economy is facing strong headwinds and China is slowing, ASEAN continues to outperform. It is not only ASEAN who needs China. As an immediate neighbor, China stands to benefit economically and strategically from cooperation the group is not doomed to be anyone's puppet and can instead be a worthy partner to key players.

But this will require ASEAN to be competitive and more closely integrated. The group's economic ministers met in Laos on Aug. 3 and nudged forward the ASEAN Economic Community, inaugurated at end 2015. A framework will monitor and evaluate progress on integration, for regular review from now and towards 2025.

Yet while this can help, some doubt whether the group can really push ahead. Protectionist sentiments and narrow nationalism seem to be on the rise and ASEAN is not a supra national organization that can command governments to obey. What remains more important is what is happening at the national level. Here, while less apparent, signs are emerging that key ASEAN economies show more ambition for reform than at any time in recent years.

Take Indonesia for example. President Joko “Jokowi” Widodo has rolled out 12 economic reform packages aimed at stimulating economic growth and attracting fresh investments into Indonesia. This was followed by an announcement of a “big bang” plan earlier this year to reduce restrictions on foreign investment in 49 sectors. This is the country’s largest opening to international investment in a decade.

While nationalist voices are loud, the Jokowi administration is signaling ambition to go beyond the export of natural resources, and move up the global value chain.

Reforms will be essential and must include efforts to increase government efficiencies and address corruption as well as balancing the budget. Indonesia is not alone in such efforts, moreover. Economic reforms are being planned across ASEAN, from Thailand with second largest GDP, to Myanmar, the frontier economy.

They are seeking the right kinds of investment that bring good paying jobs for more workers and more opportunities to local small and medium businesses. In today’s political climate, governments strive for inclusive growth — whether they are populist — like the Duterte presidency in the Philippines — or controlled, like Vietnam and Thailand.

Such reforms can spur the majority within the region to be more competitive and better integrated. In this regard, it is not so much the ASEAN at the regional level that is setting the pace to deepen economic integration. Rather, the efforts are coming from the national level, through these parallel reform initiatives.

Much remains to be done. Reform will not be easy and building infrastructure across the region will require long term effort. But these are necessary and indeed essential. National governments will otherwise struggle to grow their economies and jobs for their people.

ASEAN can only remain central by twinning its political centrality with economic dynamism and moving ahead with integration. This is the way to better manage bumps and controversies, even sensitive concerns like the South China Sea, and move ahead on an agenda for integration and reform that all — governments, businesses and ultimately ASEAN citizens — may partake and benefit.



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