

Pincer Movement

Jokowi's reshuffle a solid boost to Indonesia's economic and political outlook

Jul 27, 2016

- **Phew, it's officially out now. We have been at the edge of our seats waiting for the confirmation of a cabinet reshuffle for Indonesia today. The thoughtfully choreographed reshuffle should further cheer the market. A Dream Team will not be too much of an exaggeration.**
- **Why the excitement? First off, Sri Mulyani is returning to Jakarta to be Finance Minister once more from her current World Bank post. Her previous market-friendly policy stance, now strengthened with a global aura, will be a big plus to Jokowi's economic reform agenda.**
- **On top of that, the reshuffle both showcases and further strengthens the president's political foundation. Enough seats were given to new political allies, without sacrificing too much professionalism in the cabinet. A tough balance gotten right.**

Treasury Advisory

Corporate FX &

Structured Products

Tel: 6349-1888 / 1881

Fixed Income &

Structured Products

Tel: 6349-1810

Interest Rate

Derivatives

Tel: 6349-1899

Investments &

Structured Products

Tel: 6349-1886

Welcome back!

Let's zoom in on the biggest news of all. That is the appointment of Sri Mulyani Indrawati as the Finance Minister, replacing Bambang Brodjonegoro who would now take up the post of National Planning Minister. Currently the Chief Operating Officer and Managing Director at the World Bank in Washington, D.C., Finance Ministry is a post that Sri Mulyani is obviously familiar with, having served in that role for nearly 5 years under the administration of President SBY.

During her previous tenure, she won plaudits for cleaning up internal bureaucracy at the ministry, particularly at the crucial Tax Directorate-General with the help of Darmin Nasution, who is staying on in the new cabinet as the Economics Minister. She also won over market players with her straight-talk style and was named Euromoney Finance Minister of the Year in 2006, and EM's Finance Minister for the Year in 2007-08, for instance. Most importantly, the University of Illinois Economics PhD holder is also credited with keeping the ship of Indonesian economy steady during the tempestuous period of 2008 Global Financial Crisis. A confident ability to preserve macroeconomic stability without resorting to outlandish unorthodox economic policies in a testing period of global shock has to be one of the factors which prompted Jokowi to ask her back, given the still-uncertain global economic outlook.

Her immediate task will be to ensure the stability of Indonesia's fiscal situation. While market has gotten rather excited about the recently launched Tax Amnesty program, there is still the uneasy question of what if – touch wood – the take-up proves to be less forthcoming. Officially, the government has talked about as much as USD150bn coming home, even if we are more persuaded by Bank Indonesia's more conservative estimate of USD42bn. How the Finance Ministry would navigate an unfortunate scenario whereby the take-up is slow on the uptick such that the 3%-of-GDP budget deficit limit looks ominous once more would require deft hands, especially if Jokowi does not want to sacrifice his infrastructure projects.

Wellian Wiranto

Economist

Treasury Research &
Strategy,
Global Treasury,
OCBC Bank

+65 6530-5949

wellianwiranto@ocbc.com

Even though her appointment in and of itself can be a net pull factor, these are still early days for the 9-month amnesty program, and there remains a lot of work to be done. It is a tad surprising, for instance, that for a program that has been in the brew for so long, that the government has been relatively slow in terms of coming out with detailed specifics about the kinds of instruments available for would-be participants, for instance.

On a more structural note, it will be interesting to see how her World Bank experience – holding a top post overseeing global initiatives such as financial inclusion while running its operations worldwide – would inject new global best practices and ideas into an often-insular domestic policymaking circle, as well. Working closely with Bank Indonesia, for instance, she could well be spearheading new projects to better utilize technology in improving banking access to Indonesia's far-flung regions. Just yesterday, she spoke excitedly to a crowd at University of Indonesia, where she spent her formative undergraduate years, beseeching Indonesia's youth to utilize its Twitter-craze – with Jakarta being known as the most active Twitter city in the world – to open up new creative business opportunities.

All in all, there will be enough things to keep her busy as she readjusts to the hustle and bustle of life back in Jakarta after half a decade of comfortable humdrum in Washington, D.C.

Other notable economic appointments include the shuffling of Thomas Lembong from the Trade Ministry to being the head of the Investment Coordinating Board (BKPM), an important post given Indonesia's drive to pull in more foreign direct investment. He had a hefty private sector experience, culminating in his founding of a private equity firm, before he first joined the cabinet last year. The worldly Harvard graduate can be counted upon now to serve as a better conduit for both communicating Indonesia's appeal to foreign investors and also to channel back their concerns and challenges in investing in Indonesia to the policymakers.

Meanwhile, Archandra Tahar will be a new face helming the Energy ministry, replacing Sudirman Said who will be leaving the cabinet. Having cleaned up the ministry, including the aspect of oil procurement, the onetime anti-corruption activist rightly claimed in his Twitter account today that "Thank God, his big task is now complete." In appointing Tahar, who holds a doctorate in Oceanic Engineering from Texas A&M University and ran an oil exploration company in Houston, Jokowi probably has in mind the next-step technical task of reversing Indonesia's declining oil output, especially from its potential offshore fields.

Political security

At the end of the day, the chances that Darmin Nasution, Sri Mulyani and others have in pushing forth a game-changing economic reform agenda would depend not only on their personal abilities, but also the durability of political backing by Jokowi. To that end, it is heartening to see that there are signs that the president's political base is on the right trajectory.

To begin with, it appears that he feels confident enough with his current political cards to essentially appoint the most promising candidates into the most important economic portfolios, rather than being so insecure as to kowtow to political calculations alone. The fact that the second-largest party of Golkar, together with a smaller PAN party, have swung over to his side is obviously a key factor. Even as Jokowi has indeed rewarded these new political allies with one cabinet seat each (in the portfolios of Industry and Administrative Reform), the move can be seen as more of a quid pro quo to incentivize these parties to stick with him, and not so much about being forced to do so by political constraints like before.

Elsewhere, the news that Luhut Panjaitan would remain a key player in Jokowi's administration would be noteworthy as well. Having come into the cabinet formally in last year's reshuffle as the Coordinating Minister of Politics and Security Affairs, the former Golkar powerbroker and Jokowi's ex-business

partner, is now entrusted with another heavyweight post of Coordinating Minister for Maritime Affairs, replacing Rizal Ramli whom we would now hear less from. Given the president's focus on cultivating Indonesia's great potential from its position as the world's largest archipelagic nation with untold marine resources between its thousands of islands, his new post is a crucial one. In the broader context of heightened tensions in the South China Sea, having a long-time confidante to oversee the maritime affairs takes on an important extra dimension too for Jokowi.

Meanwhile, Luhut's previous post will now be occupied by Wiranto. (Just in case you are curious, no, we are not related by blood). The former army chief during Suharto's last days controls Hanura, a party which has supported Jokowi from the get-go, and one way of seeing this is for the president to secure its continued support. More broadly, however, Wiranto's close links with the military and security services in general would come in handy in his new cabinet post, as Indonesia continues to be an unfortunate victim of terrorist attacks with pockets of fermenting fundamentalist hotbeds to contend with.

Another boost

Overall, by re-energizing his economic reform agenda with the appointment of Sri Mulyani Indrawati as the Finance Minister on one hand, while populating his political flank with important allies such as Luhut Panjaitan and Wiranto on the other, it is as if President Jokowi has pictured a pincer movement in his mind. The two sides have to now complement each other to defeat the phalanx of roadblocks that prevent Indonesia from achieving its true potential. This will not be a one-bout battle, but a protracted war that will take time and stamina to win. Today's cabinet appointment has not reduced the scale of challenges that still remain for the country, but it has unquestionably boosted the chances of victory.

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W