

PERSPECTIVE

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The Impact of Saudi King's Visit to Indonesia

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EXECUTIVE SUMMARY

- Saudi Arabia and Indonesia signed 11 MoUs during the King's recent visit to Jakarta, but despite high expectations, no major investment deal was sealed.
- The historical visit is however important for maintaining bilateral ties amidst increased global uncertainties, and in providing impetus to the relatively sparse economic ties between the two countries.
- One pertinent issue that was not discussed was the moratorium on migrant workers. It will apparently continue until the two countries come to an agreement on safety and welfare protection for Indonesian workers in Saudi Arabia.
- The two countries have also agreed to cooperate in dealing with the spread of radicalism, terrorism and extremism.
- While the economic benefits may have been small, political gains appear quite significant since the King's visit may have increased Jokowi's Islamic credentials and propped up his domestic public reputation, particularly among Indonesian Muslims.

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INTRODUCTION

On 1 March 2017, King Salman bin Abdulaziz al-Saud of Saudi Arabia arrived in Indonesia with a large entourage of 1,500 people for a three-day official visit. The trip was, by far, one of the most highly publicised visit by a foreign leader to Indonesia under the Jokowi administration.

Furthermore, the last time a reigning Saudi monarch (King Faisal) visited Indonesia officially was 47 years ago, on June 1970. Aside from this long lapse of time, King Salman's visit to the country is regarded by many Indonesian Muslims as significant because he is the official custodian of Islam's holiest mosques in Mecca and Medina. Whilst there have been much emphasis placed on issues related to this in the media, the economic impact of, and potential opportunities brought about by the visit have not been properly studied.

This Perspective examines the nature of the economic deals and argues in general that there is a mismatch between expectations and reality. More importantly, there is a need now for Indonesia to accelerate the present momentum in order to broaden the economic benefits.

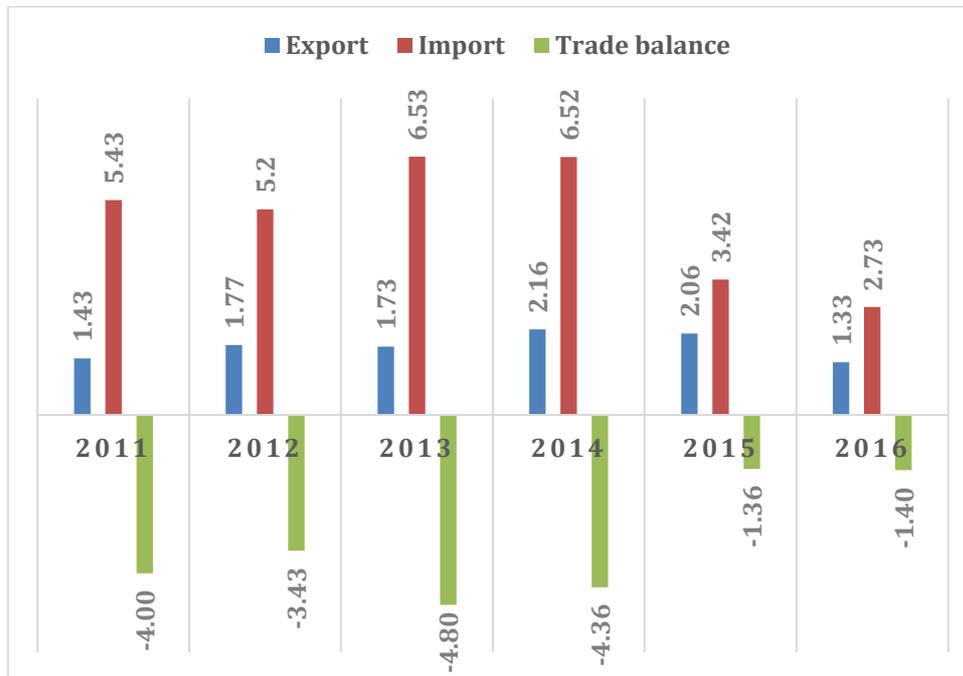
BACKGROUND OF THE VISIT

Indonesia and Saudi Arabia have a strong traditional and religious connection. Indonesia has the world's largest (Sunni) Muslim population in the world, and accounts for the largest share of pilgrims to Mecca and Medina. Although Saudi Arabia was among the first countries to acknowledge Indonesia's independence in 1947, the relationship between the two countries have not always been warm. There have been times when bilateral relations had been tense mainly due to issues related to conflict resolution in the Middle East and to the welfare of Indonesian migrant workers.

Prior to the visit, there was hope that the trip would be accompanied by massive investments, perhaps amounting to at least US\$25 billion. This was mentioned by the Head of Investment Coordinating Board (BKPM)¹. Based on historical data, this expectation was clearly too optimistic. After all, trade and investment ties between the two countries have always been relatively small. With the recent fall in oil prices, the trade value between the two countries declined from about US\$8.7 billion in 2014 to only about US\$4 billion in 2016, an effective drop of up to 63 percent within two years (Figure 1). Likewise, direct foreign investments from Saudi Arabia to Indonesia dropped significantly from \$30 million in 2015 to only about \$900,000 in 2016 (Figure 2).

¹ Kompas, 'RI ingin tarik investasi Arab Saudi' (RI wants to attract Saudi Arabia's investment), 24 February 2017, <https://kompas.id/baca/utama/2017/02/24/ri-ingin-tarik-investasi-arab-saudi/>. Accessed 3 March 2017.

Figure 1: Indonesia's Export, Import, & Trade Balance with Saudi Arabia (US\$ billion)



Source: Ministry of Trade

Figure 2: Foreign Direct Investments from the Gulf States to Indonesia (US\$ billion)

	2010	2011	2012	2013	2014	2015	2016	Total (2010-2016)
AFGHANISTAN	-	-	0.6	0.3	42.3	9.6	12.3	65.0
SAUDI ARABIA	-	0.1	-	0.4	2.9	30.4	0.9	34.6
BAHRAIN	-	-	-	-	-	-	0.8	0.8
IRAQ	-	-	0.4	0.6	0.4	0.7	2.7	4.8
IRAN	0.0	0.5	1.5	3.3	0.7	-	14.3	20.3
KUWAIT	-	-	-	-	-	-	3.6	3.6
LEBANON	-	0.1	0.0	0.2	0.9	0.6	0.7	2.4
OMAN	0.1	0.1	-	-	-	-	-	0.2
QATAR	-	0.0	-	-	-	0.0	-	0.0
SYRIA	-	-	-	-	-	-	0.3	0.3
UNI ARAB EMIRATE	6.2	6.8	32.4	23.0	25.4	19.3	55.0	168.0
YEMEN	-	-	0.1	0.0	-	7.1	0.8	8.1
JORDAN	-	1.1	19.9	211.9	3.1	0.2	1.6	237.8
Total	6.3	8.8	54.8	239.6	75.6	67.8	93.0	545.9

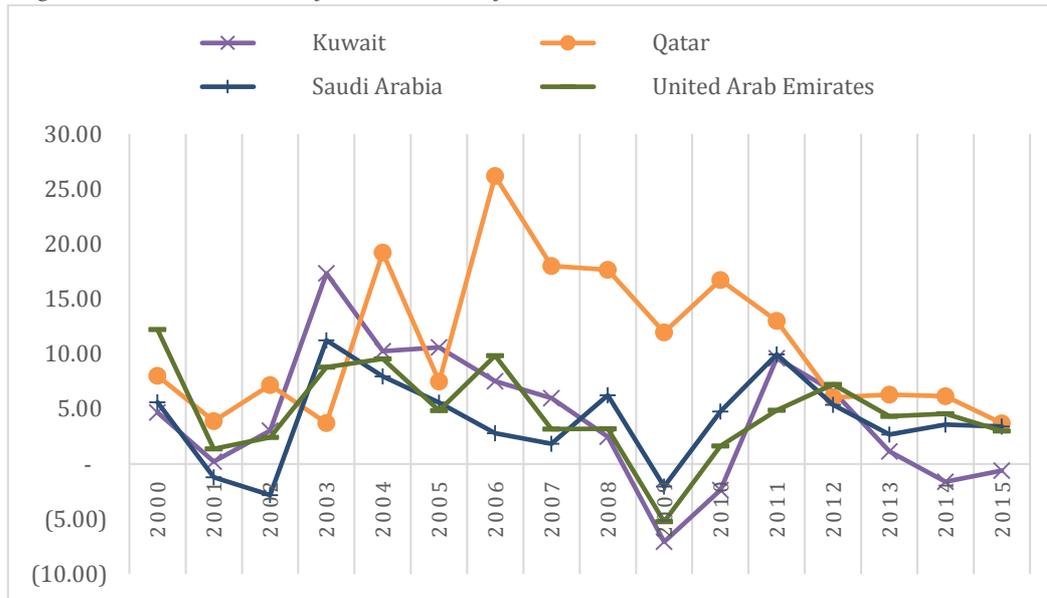
Source: Investment Coordinating Board (BKPM)

Figure 2 also shows that Saudi Arabia investments in Indonesia has been relatively low compared with those from other Middle Eastern countries, such as Jordan, UAE and even Afghanistan. The biggest bulk of Saudi's investment went to the real estate sector, which currently experiences stagnation due to an oversupply. Based on these data, expectations

that the King Salman’s visit would bring massive investments into the country were clearly optimistic.

Furthermore, the economic indicators of Saudi Arabia show that the country is currently facing a difficult time. Figure 3 shows declining economic growth in most of the Gulf States including Saudi Arabia. Particularly, Saudi Arabia’s economic growth has declined from around 10 percent in 2011 to around three percent in 2015.

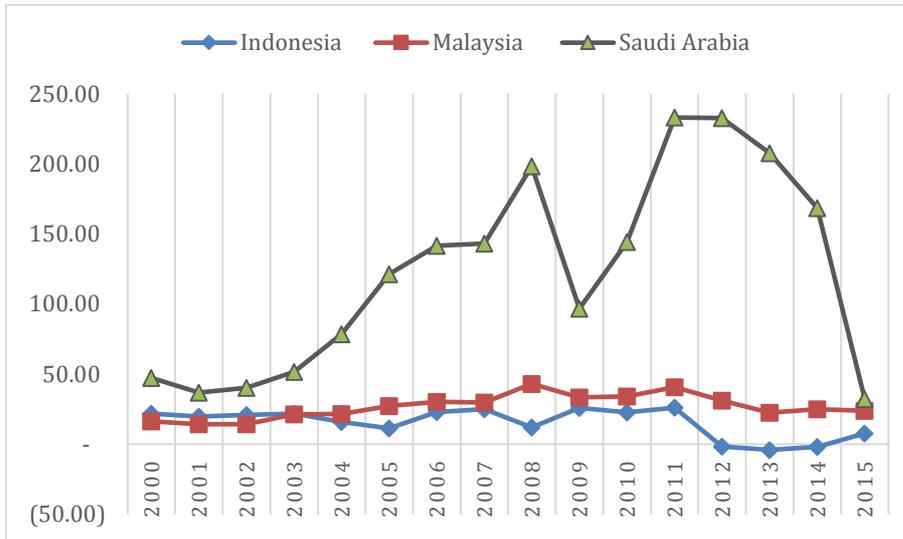
Figure 3: GDP Growth for Select Gulf Countries



Source: UNCTAD

Most worrying is the indication that Saudi Arabia has a high dependency on oil exports. Figure 4 shows how the kingdom’s trade surplus has declined dramatically from around US\$230 billion in 2011 to only around US\$32 billion by 2015. The plunge in oil prices has had a big impact on Saudi Arabia’s economy , given how oil sales account for almost 80 percent of its revenue. This has reduced the kingdom’s foreign reserves from US\$737 billion in 2014 to around US\$587 billion by 2016. For comparison, Indonesia’s foreign exchange reserves in the same period are around US\$116 billion and Malaysia’s around US\$95 billion.

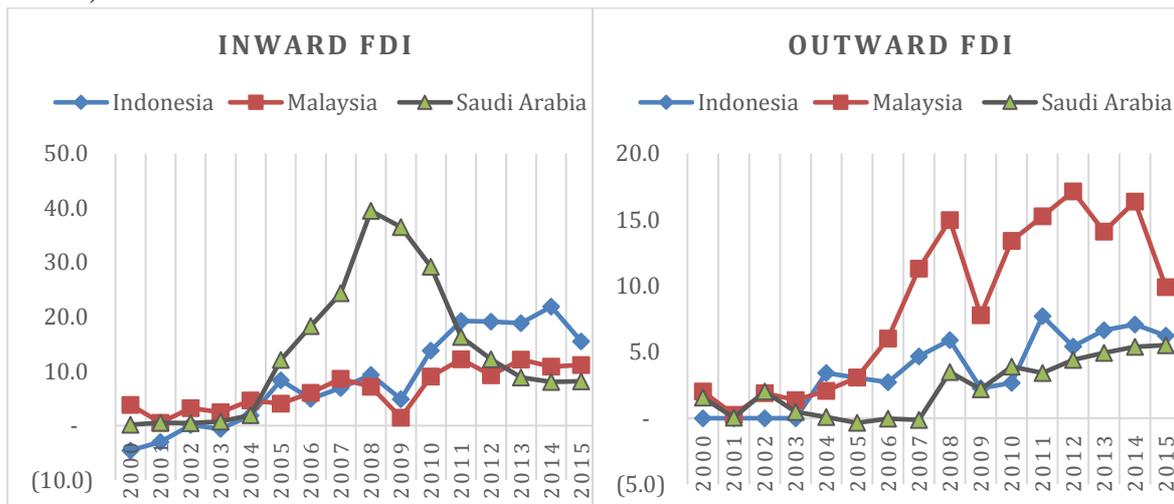
Figure 4: Annual Trade Balance of Indonesia, Malaysia and Saudi Arabia (US\$ billions)



Source: UNCTAD

As oil prices tumble, investment flow into Saudi Arabia has also dropped. The inward FDI to Saudi Arabia declined from its peak of US\$39 billion in 2008 to only around US\$8 billion in 2015. This figure is lower than the inward FDI going to Malaysia and Indonesia, which is US\$ 11 billion and 15 billion respectively. Since 2011 particularly, the trend has been of increasing outward FDI from Saudi Arabia. However the figure is relatively low when compared to those for Malaysia or Indonesia.

Figure 5: Foreign Direct Investments in Indonesia, Malaysia and Saudi Arabia (US\$ billions)



Source: UNCTAD

According to the International Monetary Fund (IMF), Saudi Arabia's fiscal deficit has widened significantly, from 3.4 percent of GDP in 2014 to 15.9 percent of GDP in 2015². The Kingdom is facing a budget deficit of around US\$87 billion for 2016.

In an effort to balance its budget, Saudi Arabia's government has already cut spending, sold bonds and tapped its foreign reserves to compensate for the negative effects of the oil crisis on the economy. The country's construction sector in particular has been hit hard by the government's spending cuts.

Low oil prices have forced the Saudi government to look for ways to reduce its high dependency on oil. In June 2016, Saudi Arabia launched the ambitious National Transformation Plan (NTP) to diversify the economy away from oil, to create jobs, to promote FDI, to accelerate privatization and to cut government spending on wage bill by 2020.

MISMATCHED EXPECTATIONS

Saudi Arabia's economic performance and reforms plans should clearly be taken into account in assessing what type and level of economic cooperation between the country and Indonesia is feasible. For Saudi Arabia, the visit to several Asian countries, including Malaysia, Indonesia, Japan, and China, is arguably a way for the kingdom to seek economic partners and investors to support its national transformation plan. However, there seems a mismatched between Saudi Arabia's intention and the Indonesian public's expectations, i.e. for the rich kingdom to pour massive investments into Indonesia.³ As reported in the media prior to the visit, some Indonesian lawmakers and officials expected that the Saudi King's visit would bring in at least US\$25 billion worth of investment, covering the oil and gas, tourism, aeronautics, and property sectors among others.

This number is clearly too optimistic even if the current poor performance of the Saudi economy is discounted. Historically, Saudi Arabia's investments in Indonesia have been relatively small. Based on Investment Coordinating Board (BKPM) data, Saudi Arabia's investments in Indonesia were only around US\$ 900,000 in 2016⁴. This is very small when compared to Singapore's investment which reached US\$9.2 billion in the same period.

²IMF Country Report No. 16/326, <file:///C:/Users/ressdn/Downloads/cr16326.pdf>. Accessed 3 March 2017.

³ Kompas, 'Raja Salman Kunjungi Indonesia, Ini Harapan Pimpinan Komisi I DPR', 26 February 2017, <http://nasional.kompas.com/read/2017/02/26/10391121/raja.salman.kunjungi.indonesia.ini.harapan.pimpinan.komisi.i.dpr>. Accessed 3 March 2017.

⁴Note that BKPM data does not capture the investment in oil and gas sector. In December 2016, Saudi oil company, Aramco, signed a US\$6 billion joint-venture with Pertamina for an oil refinery upgrading and expansion project in Cilacap, Central Java.

In 2016, Saudi Arabia ranked 57 for investments into Indonesia, below those from other Middle Eastern countries such as UAE (25), Iran (33), Afghanistan (35), Kuwait (42), Iraq (44) and Jordan (47).

The Indonesian government also expects Saudi Arabia to invest in certain infrastructure projects. Jokowi offered a number of projects for Saudi Arabia to finance, including oil refineries in Dumai, Riau; Balongan in West Java; and Bontang in East Kalimantan. However, Saudi Arabia appears uninterested.

In terms of trade, the government of Indonesia expects the visit to boost bilateral trade. According to National Statistical Agency (BPS) data, Saudi Arabia is not a key trading partner for Indonesia. Indonesia's export to the kingdom was only worth around US\$1.3 billion in 2016, which was only ten percent of Indonesia's exports to the United States. Likewise, Indonesia's import from the kingdom was only worth around US\$2.7 billion in 2016, which was around ten percent of Indonesia's imports from China.

Also, the Indonesian government expects the visit to draw more tourists from Saudi Arabia. The extended holiday that the King and his entourage spent in Bali may be the only boost to the tourism in Bali since no deals were signed concerning investments in the tourism sector during the official meeting in Jakarta.

Despite high expectations from the Indonesian side, the only investment deal the oil-rich kingdom agreed to sign was one that was for a \$1-billion fund be allocated to government projects, including infrastructure and housing development programmes, and others that can support Saudi's non-oil and gas exports to Indonesia.⁵

KEY ISSUES FOR FUTURE COOPERATION

One of the 11 agreements reached is related to trade, in which Indonesia and Saudi Arabia decided to cooperate in the development of trade strategy, marketing research, joint trade activities and information sharing. Moreover, Indonesia also requested of Saudi Arabia to support the joint feasibility study for economic cooperation between Indonesia and the Gulf Cooperation Council (GCC) of which Saudi Arabia is a member.

During the meeting, President Jokowi made a request to the Saudi government to remove its trade barriers so that Indonesia could export its halal products, fishery products, medicines, textiles and garments to Saudi Arabia. Jokowi hopes it can increase the exports of non-oil and gas to Saudi Arabia. Based on BPS data, Indonesia has a trade surplus in terms of non-oil and gas export. On average, non-oil and gas exports to Saudi Arabia

⁵ Kompas, 'Ini Penjelasan Sri Mulyani Soal Komitmen Investasi Rp 13,3 Triliun dari Raja Salman', 2 March 2017, <http://bisniskeuangan.kompas.com/read/2017/03/02/230754826/ini.penjelasan.sri.mulyani.soal.komitmen.investasi.rp.13.3.triliun.dari.raja.salman>. Accessed 3 March 2017

reached US\$1.8 billion per annum during 2011-2015, while non-oil and gas imports from Saudi Arabia reached US\$920 million per annum for the same period. Key exports from Indonesia to Saudi Arabia included motor vehicle, palm oil, tuna, rubber and rubber products, plywood, paper and paper products, textile and garments.

The two countries signed an agreement related to small-medium enterprises development, including sharing information on SMEs programmes, expert exchange programmes, quality improvement facility, vocational and managerial training, and market access. They also agreed to cooperate in fishery and maritime research and development, food security, quarantine, promotion and marketing of fisheries products.

For Indonesia, trade and investment are arguably less important than business concerning the Haj and Umrah. Indonesia is the sender of the biggest number of Haj pilgrims to the Saudi kingdom, approximating 200,000 per year. In fact, Saudi Arabia has benefitted from thousands of Indonesians traveling to the kingdom for Haj and Umrah (minor pilgrimage). A rough calculation indicates that Indonesian spent US\$ 2 billion annually to go for Haj and Umrah. In view of the current long waiting list for Indonesians to go for Haj, Indonesia is naturally seeking to have its quota raised by Saudi Arabia⁶. This, the Saudis did, raising it from 211,000 this year to 221,000 next year.

One pertinent issue missing from the discussion was the fate of Indonesian migrant workers in Saudi Arabia. Prior to the visit, some lawmakers and officials thought a bilateral agreement on migrant workers issues would be reached.⁷ According to Ministry of Manpower data, there are around one million migrant workers in Saudi Arabia, mostly employed as housemaids. There are many reports about the mistreatment and abuse suffered by them. The Indonesian government placed a moratorium on migrant workers to Middle Eastern countries in August 2011 following a failure to reach an agreement with these countries on the safety and welfare of these workers⁸.

Lastly, there had been expectations that Indonesia, having the world's largest Muslim population, could play a greater role in seeking conflict resolution in the Middle East and in tackling the spread of extremist teachings.⁹ Indonesia and Saudi Arabia have agreed to enhance dialogue on strategies to combat terrorism and stop the spread of radicalism.

⁶ Kompas, 'Lawatan Raja Salman Diharapkan Tingkatkan Kuota Haji', 27 February 2017, <http://nasional.kompas.com/read/2017/02/27/10151741/lawatan.raja.salman.diharapkan.tingkatkan.kuota.haji>. Accessed 3 March 2017

⁷ Kompas, 'Perlindungan TKI Dinilai Penting untuk Dibahas dengan Raja Salman', 1 March 2017, <http://nasional.kompas.com/read/2017/03/01/10222121/perlindungan.tki.dinilai.penting.untuk.dibahas.dengan.raja.salman>. Accessed 3 March 2017.

⁸ Kompas, 'Moratorium TKI ke Timur Tengah Masih Tetap Berlaku', 24 January 2017, <http://nasional.kompas.com/read/2017/01/24/08133631/moratorium.tki.ke.timur.tengah.masih.tetap.berlaku>. Accessed 3 March 2017

⁹ Kompas, 'RI Diminta Aktif Sikapi Ajakan Raja Salman dalam Jaga Perdamaian', 3 March 2017, <http://nasional.kompas.com/read/2017/03/03/14045921/ri.diminta.aktif.sikapi.ajakan.raja.salman.dalam.jaga.perdamaian>. Accessed 3 March 2017.

This should be seen as an important agreement given the increased threat of radicalism, terrorism and extremism in the region and around the world¹⁰. However, it remains to be seen how the two parties follow up on this agreement to make it a concrete action plan.

CONCLUDING REMARKS

Despite all the hype surrounding King Salman's visit to Indonesia, the size of economic deals signed between the two countries is relatively small. The Saudi King pledged US\$1 billion in investment commitments, which is much lower than the US\$7 billion investment pledged to neighbouring Malaysia.

There has clearly been a mismatch between Saudi's intentions and Indonesia's expectations of gains from the visit. The Saudi King's visit to Malaysia and Indonesia has compelling geopolitical objectives. Given the current 'unfriendly' development towards Islam and the Middle East in the US and EU, the visit can be seen as a strategy to maintain good relations with Saudi's Islamic allies. Moreover, the discrimination policy against Islam and Middle Eastern investors may shift Saudi's interest from the US and EU to Asia.

For Indonesia, the key outcome of the King's visit may not be in terms of economic benefits. Recently, Jokowi has been suffering massive pressure from some conservative Muslim groups and political opponents. His political opponents have repeatedly attacked his Islamic credentials. Jokowi stood up for Basuki Tjahaja Purnama, a Christian of Chinese descent, who succeeded him as governor of Jakarta and who is currently on trial on a charge of blaspheming Islam. To some extent the king's visit may have improved Jokowi's domestic public perception, particularly among Indonesian Muslims.

Finally, for Indonesia to build further economic cooperation with the Middle Eastern countries in general and Saudi Arabia in particular, it needs to intensify its investment and trade promotion programmes. This can be most easily done through enhancing existing regional economic cooperation between ASEAN and the Gulf Cooperation Council (GCC). Indonesia and Saudi Arabia, being key players in ASEAN and the GCC respectively, need to step up their efforts to gain potential benefits through closer cooperation between these two regional organizations.

¹⁰ Kompas, 'Hadirkan Wajah Islam Moderat', 3 March 2017, <https://kompas.id/baca/utama/2017/03/03/hadirkan-wajah-islam-moderat/>. Accessed 3 March 2017.

Appendix 1: List of Memorandum of Understanding (MoU) between Indonesia and Saudi Arabia

	Description of MoU	Ministry(s) in charge
1	Improvement of the position of joint commission chairperson	Ministry of Foreign Affairs of both countries
2	Saudi funding to development projects	Ministry of Finance, Saudi Fund Development
3	Memorandum on cultural cooperation	Ministry of Education and Culture of RI, Ministry of Culture and Information of Saudi
4	Programmes on the development of small and medium enterprises	Ministry of Cooperatives and SMEs of RI, the Small and Medium Enterprises Authority of Saudi
5	Memorandum of health cooperation	Ministry of Health of both countries
6	Memorandum of aeronautical development	Ministry of transport RI, Saudi authority
7	Programme for cooperation in the field of scientific cooperation and higher education	Ministry of Research Technology and Higher Education RI, Ministry of Education of Saudi Arabia
8	Memorandum of Da'wah and Guidance from Kingdom of Saudi Arabia	Ministry of Religious Affairs RI, Ministry of Islamic Affairs of Saudi Arabia
9	Memorandum in the field of marine and fisheries cooperation	Ministry of maritime affairs RI, Saudi authority
10	Trade cooperation programme	Ministry of Trade of both countries
11	Cooperation in handling interstate crime (transnational crime)	Police Department of both countries

 Source: Republika,
<http://nasional.republika.co.id/berita/nasional/umum/17/03/01/om4w3t361-ini-11-mou-yang-ditandatangani-pemerintah-indonesia-dan-arab-saudi>. Accessed 3 March 2017.

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