Editorial

State of the nation is strong

It is not easy being optimistic today.

With the COVID-19 pandemic far from being over, coupled with the threat of a looming recession in the midst of ongoing disruption to the global supply chain, for the majority of people things do look bleak. And with the war now raging in the eastern part of Europe, involving some of the world's major powers, there is definitely a sense of foreboding.

If the role of a politician is to uplift the masses during times of trial and tribulation, on Wednesday President Joko "Jokowi" Widodo did exactly that.

It was not exactly an inspiring speech and since President Jokowi is not known for his oratorical skills, the one he delivered to the legislative branch of the government ahead of the celebration of the country's independence on Aug. 17, felt a little perfunctory.

But the laundry list of achievements that the President presented in his speech did feel reassuring for a nation already wearied by COVID-19, geopolitical tensions and as of late a scandal involving a police general, which has rocked society.

And President Jokowi had every reason to feel good about the state of the nation, all things considered.

On the frontline in the fight against COVID-19, Indonesia is now one of the five countries in the world with the highest vaccination rates, with 432 million vaccine doses injected.

On the economic front, there is no denying that the Indonesian economy is humming along nicely despite the global uncertainty. In the second quarter of 2022, the country recorded growth of 5.44 percent with the trade balance recording a surplus for 27 consecutive months.

In the speech, President Jokowi also made the claim that in the past three years Indonesia no longer had to import rice, a feat that he attributed to the success of his signature infrastructure project of building more dams and irrigation channels.

On the political front, things also look good for President Jokowi.

Midway through his speech, Jokowi made a claim which only a few could reject that Indonesia now has a prominent place in international politics, thanks to his mission to Kyiv and Moscow in June, when he attempted to play the role of a broker between Ukraine and Russia.

"Russia and Ukraine have welcomed Indonesia as a bridge for peace. We are acknowledged by major countries amid rising geopolitical heat," Jokowi said in his speech. With him not being relegated into sitting in front of President Vladimir Putin's long table, there is an element of truth to this claim.

And as the President prepares himself for the Group of 20 summit in Bali in September and the leadership of ASEAN next year, we can only expect that Indonesia's stature will grow significantly.

The only tough decision he will have to make is what he will do about the ballooning subsidies for fuel.

But other than that, the state of the nation is strong, and as we celebrate the country's 77 years of independence, we should give ourselves a break and celebrate this moment.

Hidden risks in upcoming global recession and their implications

AFP/Ed Jones

On the low: A general view shows a residential building under construction in Brooklyn, New York, the United States, on Tuesday. Recent weak housing data, which showed new US home construction projects in July tumbled 9.6 percent, has given rise to more fears about the economy as the real estate market drives a lot of other spending.

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The global battle against inflation has finally reached a bright spot. Inflation finally decreased in the United States and underperformed in China. US inflation for July dropped to 8.5 percent, lower than June's 9.1 percent, due to decreasing gas and airfare prices. Core inflation, as an indicator of consumer demand, remained steady at 5.9 percent. Meanwhile in China, consumer inflation reached 2.7 percent, much lower than expected due to weakening economic growth.

The decrease in the inflation rate in the world's two largest economies comes after aggressive rate hikes by the Federal Reserve and the decrease in price of essential commodities.

Fed rate hikes curb consumer inflationary expectations. The New York Fed's July consumer survey shows one-year-ahead expectations decline to 6.2 percent from 6.8 percent and longer three-year-horizon inflation expectations decline to 3.2 percent from 3.6 percent.

Meanwhile prices of essential commodities fell due to heightened supply and effort by governments to alleviate supply chain pressure. Furthermore, China's zero-COVID policy and ongoing crackdown on Chinese property developers may also contribute to lower global commodity prices.

This brought a sigh of relief for central bankers as it seems they still have some credibility among consumers and markets after a failed insistence that inflationary expectations were "transitory" last year.

It also emboldens central bankers on their quest to continue their aggressive interest-rate hikes to reduce historically high core inflation and initiate demand destruction amid supply-side problems.

The Fed's Neel Kashkari even stated that the Fed needs to hike rates by 1.5 percent by end of the year to reduce inflation back to 2 percent levels.

Many believe that the Fed's tightening will bring on only a modest, "shallow" recession for two reasons.

First of all, job markets seem solid. In July, the US economy added 528,000 jobs, more than 398,000 in June.

Unemployment rates remain low at 3.5 percent in the US, 5.9 percent in China and 6.6 percent in the Eurozone.

Second, corporate and banking-balance sheets are in good shape, partly due to post-GFC regulatory requirements, digitalization and diversification of revenue streams.

However, this belief underestimates and ignores the current geopolitical shift, global-debt levels and climate change and its impact on the upcoming global recession. China and Russia's further disengaging from the US-led economic order can lead to a more divided world and an end to the current globalized economy.

This can potentially cause an asymmetrical global market for goods. For example, Russia's aggression on Ukraine has led to a ban on its exports in Western economies causing shortages in European countries.

However, Russian goods are still available to India and China. This can lead to permanently higher inflation in the West until a viable substitute is found. On the other side, reluctance to transact in Russian rubles or Chinese renminbi due to sanctions will lead to reduced exports and weaker economic growth for both the exporter and importer countries.

The other big worry is global debt levels, which have exceeded those of the global financial crisis in 2008-2009 in both developing and developed economies.

Aggressive monetary tightening by the Fed can exacerbate or trigger a debt crisis if it reduces US dollar liquidity in global markets, especially for developing economies. While the Fed has a swap line—which can provide immediate access to US dollars—it is only available to a very select group of countries.

A sudden debt crisis in developing economies can cause a domino effect on financial institutions and effect the stability of the financial system.

Furthermore, climate change is exacerbating the current supply chain problems on a massive scale. Just this week, the critical Rhine River is close to drying up and large parts of Romania and Italy are facing major crop failures.

The river is an essential route of transport for Germany's industrial heartlands, and Italy and Romania are considered Europe's breadbaskets. Escalating climate change and disruptions to production and distribution are only going to worsen supply-side constraints and incite political instability, making global coordination difficult.

All in all, these three important factors risk turning the modest global recession into a stagflation scenario. In such a scenario, global growth would continue to be depressed as countries sought to de-leverage and lack of fiscal space would hamper recovery.

Higher inflation would result, driven by expectations, and governments would seek to inflate away debt. Accompanied by increasing geopolitical change, this could lead to a breakdown of the current US-dollar-dominated system into a multi-polar order with the US and China dominating their separate economic ecosystems.

Fortunately for Indonesia, it is poised to perform well in the "shallow" upcoming global recession. In a shallow-recession scenario, Indonesia should continue to grow at a moderate pace, as its consumption-reliant economy would benefit from increased revenues from commodity sales and ongoing structural-reform efforts.

In the nightmarish-stagflation scenario, the outlook is much more obscure. For the moment, all is well. Indonesia's debt situation—low debt levels, dominated by local currency and long-term debt—will largely protect the economy from a global-debt crisis. The country's production of agriculture and energy materials would give some leverage power in a multipolar world.

However, like other emerging economies, Indonesia will most likely face a global-liquidity crunch and suffer greatly from climate change. This could result in much slower economic growth.

The country should not be complacent about improving itself. It must wean itself away from exporting commodities and raw materials, participate in the value chain and innovative to keep itself relevant in an ever-changing world.

The recipe is clear: attract foreign capital, establish a comprehensive social-security net, improve ease-of-business, reduce corruption, embrace green energy and improve human capital. What is lacking is the political will of the government and people to move toward a brighter future.

Quo vadis, FIR above Riau and Natuna islands?

By Yaries Mahardika Putro and Ridha Aditya Nugraha

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The Flight Information Region (FIR) above Natuna Island was granted to Singapore under a decision of the Regional Air Navigation (RAN) meeting of the International Civil Aviation Organization (ICAO) held in 1946 in Dublin, Ireland.

The determination of an FIR must be based on flight safety considerations. Due to the lack of facilities, infrastructure and human resource capabilities, the FIR above the Natuna Islands was delegated to Singapore, which was then under the British government. De facto speaking, there are three sectors, A, B and C.

FIR is the airspace on which flight information service and alerting services are provided. All aircraft intending to land at Hang Nadim International Airport in Batam, Raja Hj. Fisabilillah Airport in Tanjung Pinang, Ranai-Natuna Airport, Matak Airport or Raja Haji Abdullah Airport in Tanjung Balai Karimun, must receive approval and permission from Singapore air traffic control.

Clearly, this has encouraged the Indonesian government to take over control of the FIR from Singapore.

Since 1993, when the Indonesian government raised the issue of FIR management at the Third RAN meeting in Bangkok, efforts to take control of the FIR have been underway.

This meeting decided that Indonesia and Singapore must resolve the issue bilaterally and then report back to the next RAN meeting. As a follow-up to the 1993 RAN meeting, Indonesia sent a delegation to Singapore and vice versa.

However, the attempt was unsuccessful, because the two countries did not reach an agreement.

In 1995, both governments reached a bilateral agreement on redrawing the boundary between the Singapore FIR and the Indonesia FIR.

According to this agreement, Indonesia delegates control and management of its airspace over the islands of Riau and Natuna to an altitude of 37,500 feet to Singapore.

More effort is needed, considering that Indonesia will most likely not participate in the election for the 2022-2025 ICAO Council.

Additionally, this agreement stipulates that flights to and from Batam, Tanjung Pinang and Changi airports are provided on a first come, first served basis.

In accordance with this agreement, Singapore collects air navigation charges on civil flights in some of the airspace Indonesia delegated to Singapore on behalf of and for Indonesia.

The government then enacted Law No. 1/2009 on Aviation in order to provide a legal framework for the process for Indonesia to take over control of the Singapore FIR.

Article 458 of the law limits the time to take over navigational control of Indonesian airspace delegated to a foreign nation to 15 years after the effective date of the law.

In other words, the government only has until 2024 to take control over the airspace it delegated to Singapore.

In 2015, under the leadership of President Joko "Jokowi" Widodo, the government reaffirmed its intention to take control of the Singapore FIR over the Riau and Natuna islands.

In a limited Cabinet meeting, the President issued an order for Indonesia to take control of the Singapore FIR within three years. However, the effort failed in 2018.

The issue of Indonesia taking control of the Singapore FIR had not been raised in the four years since. But on 25 Jan. 2022, President Joko Widodo and Singaporean Prime Minister Lee Hsien Long met in Bintan to discuss the plan for Indonesia to take control of the FIR over the two island chains.

Singapore intends to return control of the FIR to Indonesia in light of Indonesia's readiness as regards facilities, infrastructure and human resources.

The two countries have formed an agreement, which contains a provision pertaining to the FIR's management.

Obviously, the FIR case is closely related to flight safety. However, it is impossible to separate the FIR from the issues of sovereignty, safety and commerce (state revenue).

Although the FIR's control does not in any way compromise Indonesia's sovereignty, by delegating it to another nation, the government cannot move freely within its own territory.

In an emergency situation, when time is of the essence, the first come, first served policy as outlined in the 1995 FIR agreement could impede law enforcement efforts against blacklisted flights.

Additionally, state revenue from the aviation services industry is not insignificant. The airspace above the islands of Riau and Natuna is traversed daily by thousands of aircraft requiring information services.

Considering the establishment of Air Navigation Indonesia (AirNav), which has the capacity to manage Indonesian airspace, it is evident that the government is committed to improving its system of facilities, infrastructure and personnel in the process of taking control of the Singapore FIR above Riau and Natuna.

Last, but not least, it is often forgotten that law is a result of politics. Negotiation is alive, and this means neither country can win 100 percent.

Frankly speaking, the 25 Jan. 2022 result is not perfect for Indonesia, but is better than the status quo.

Additionally, incorporating the Bill on Airspace Management into the 2022 National Legislation Program (Prolegnas) will affect the takeover of FIR control to some degree.

Importantly, starting this year, the government has only two years left to carry out the mandate of Article 458 of Law No. 1/2009 pertaining to the period for taking over flight navigation services that has been delegated to other countries.

Therefore, the government must be serious about realizing and implementing its takeover of the Singapore FIR over Riau and Natua this year by drafting a detailed framework.

More effort is needed, considering that Indonesia will most likely not participate in the election for the 2022-2025 ICAO Council.

The country's absence could weaken its aviation diplomacy, including encouraging stakeholder approval for new Indonesia FIR boundaries. Indeed, a smart solution is needed to avoid the ongoing deadlock.

The 77th anniversary of Indonesian independence delivers one message: carpe diem!

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