

RI posts record-high trade surplus

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

A US\$1.76 billion surplus was recorded in September, the biggest since November 2011, up from \$1.72 billion in August, the Central Statistics Agency (BPS) announced on Monday.

The country booked \$14.54 billion in exports in September, a 15.6 percent year-on-year (yoy) increase from \$12.57 in the same period last year. It also posted a 13.13 percent yoy increase in imports to \$12.78 billion in the same month.

Non-oil and gas exports, which accounted for 90.1 percent of exports in September, reached \$13.1 billion, an increase of 13.76 percent yoy, while oil and gas exports reached \$1.44 billion.

However, on a month-to-month (mom) basis, Indonesia's exports and imports decreased 4.51 percent and 5.39 percent, respectively. Exports stood at \$15.23 billion last month, while imports reached \$13.51 billion in the same month.

Suhariyanto said the monthly decrease was also recorded in August-September period last year. "I believe it [the monthly decrease] was a seasonal pattern. We are hoping that exports will increase in next month and reach their peak in December," he told reporters on Monday.

Vegetable and animal oils, jewelry, garments and knitted crafts were among non-oil and gas export commodities that decreased significantly in the mom period, while export increases were seen in mineral, pulp and ore.

Coal, categorized as a non-oil and gas commodity, reached \$182.8 million in exports, the highest increase on a mom basis. The global trend of coal price recovery could be seen in the 10.6

Indonesia's export in January-September period (in US\$ billion)

Description	2017	
	Jan.-Sept.	Δ% Jan.-Sept.
Total exports	123.36	17.36
Oil and gas	11.47	18.27
Non-oil and gas	111.89	17.27

Indonesia's import in January-September period (in US\$ billion)

Description	2017	
	Jan.-Sept.	Δ% Jan.-Sept.
Total import	112.49	13.97
Oil and gas	17.34	25.95
Non-oil and gas	95.14	12.03

RI sees trade increase on yoy basis

Coal gets 10.6% price hike, 3.84% volume increase

percent price hike and the 3.84 percent volume increase, said BPS head Suhariyanto.

Meanwhile, non-oil and gas imports stood at \$10.85 billion in September, while oil and gas imports reached \$1.93 billion. Among the import commodities that increased significantly on a mom basis were fruits, sugar, cereals and cacao.

Import commodities that decreased in terms of value were machinery and airplanes, vehicles and spare parts and organic chemicals, among others.

In the January to September period, the country booked \$123.35 billion in exports, while imports reached \$112.48 billion in the corresponding period. The accumulated trade surplus in the first nine months of 2017 touched \$10.87 billion, a 61 percent increase from \$6.41 billion recorded last year.

Indonesian Institute of Science (LIPI) economic researcher Latif Adam said it was unlikely the surplus trend would increase in the last quarter of 2017.

"Raw material and capital good imports usually increase during

the last quarter, aided by the increase in domestic production capacity. If exports grow slightly then the trade balance would shrink," he said on Monday, adding that the increase could be attributed to the industry's effort to meet increasing demand during the holiday season.

He also highlighted that the country's reliance on coal and crude palm oil (CPO) as its main export commodities would not change in the near future. Latif, however, cautioned that the current export structure would be vulnerable to oil prices.

"Coal and CPO are substitutes for oil. If oil prices decrease, then its substitute's price would also decrease. It would bring disadvantages to our exports as CPO and coal still dominate our exports," he said, adding that the government must shift reliance to other export commodities.

Center for Reform on Economics (CORE Indonesia) director Mohammad Faisal concurred with Latif in projecting the decreasing trade surplus by the end of the year as commodity prices were decreasing while imports tended to rise.

"We predict exports will slow in terms of value. Several commodity prices such as CPO and coal will slightly decrease from the first quarter," he said, adding that he expected foodstuff imports to increase in the same period.

Asia's newest trillion-dollar economy faces bittersweet win

Karlis Salna

BLOOMBERG

Indonesia is on track to become a trillion-dollar economy and should be the envy of Southeast Asia. Yet on some key measures, the region's biggest economy is falling behind.

The nation lags neighbors on infrastructure development, faces a fiscal shortfall that is heaping pressure on the state budget and still has 28 million people living in poverty. That is even after reforms saw the economy's value more than double over the past decade to US\$932 billion, with President Joko Widodo's government forecasting growth this year of about 5 percent.

Size is not everything. Even after eight rate cuts since the beginning of last year, the economy is struggling to fire up: loan growth

remains muted, while the central bank expects low inflation to linger for some time. The picture is made more complex by a wide divergence in growth across the archipelago of more than 17,000 islands, with rates ranging from negative to more than 7 percent.

"This is a pretty large economy that has a lot of potential but the trick really is how to get to that place where growth becomes more sustainable at relatively elevated levels. That's more important than the overall size of the economy," said Euben Paracuelles, an economist at Nomura Holdings Inc. in Singapore. "From that perspective, their work is cut out for them."

Sustaining growth is crucial to luring overseas investors, who are returning to Indonesia 20 years after the Asian financial crisis. Foreign reserves are at a record high

of \$129 billion while bond market inflows are near record levels.

S&P Global Ratings in May joined the other two main rating companies in awarding Indonesia investment grade status, citing a more prudent approach to budgets. The currency is stable this year after gaining 2.3 percent against the dollar in 2016.

Graduation into the trillion dollar club "signifies how Indonesia now is ladder up in the middle-income group," said Perry Warjiyo, deputy governor at Bank Indonesia. "Under the leadership of President Joko Widodo, moving in that direction also signifies the fundamentals of the economy are quite strong and resilient."

The following three charts show the challenges President Joko "Jokowi" Widodo and his government now face in matching quantity with quality. ✓

Jokowi is ramping up spending on roads, rail and seaports as he targets economic growth of 5.4 percent in 2018, the fastest rate in five years. But a massive infrastructure deficit — estimated by the World Bank at \$1.5 trillion — is frustrating his efforts. The global lender says another \$500 billion in infrastructure spending is needed over the next five years.

After years of under-investment, the rate of growth in government spending per capita in Indonesia has fallen behind Vietnam, China, India and Malaysia, the World Bank says. Public investments grew at half the pace of the economy from 2005 to 2015 and the quality of infrastructure lags the region and other emerging markets.

Indonesia's tax revenue as a portion of GDP remains one of the lowest in the region with the OECD estimating it at around 12 percent

two years ago. It has since fallen to 10.3 percent, which Finance Minister Sri Mulyani Indrawati in July described as "low and unacceptable." She's aiming to boost that ratio to 16 percent by 2019.

The shortfall is putting a strain on the budget deficit, which the government is mandated to keep under 3 percent of GDP. The president flagged spending cuts in July when this year's deficit was revised to 2.9 percent of GDP from 2.4 percent.

The government collected more than \$11 billion in penalty payments in a tax amnesty that ended this year, giving citizens a chance to declare assets previously undisclosed to tax authorities. Since then, it's stepped up efforts to enforce tax rules, which may be also partly responsible for recent weak consumer spending.

While steady progress has been

made in reducing poverty, almost 28 million Indonesians are still considered poor. The official poverty rate was 10.6 percent in March, just 0.2 percentage points lower than a year earlier.

A large number of the population remains vulnerable to shocks, with more than 60 million people last year at risk of falling back into poverty, the World Bank said earlier this month. While average monthly wages gained 24 percent in the year through February, higher income earners have been experiencing faster wage growth than lower income groups.

"The environment globally and nationally has been challenging," said the central bank's Warjiyo. "Since mid-2015, our economic recovery has been moving up and there had been some improvements in inclusive growth, but more needs to be done."

PUBLIC COMMUNICATION

Jokowi moves to burnish govt image

Ina Parlina

THE JAKARTA POST/JAKARTA

President Joko "Jokowi" Widodo appears to have become more aggressive in highlighting his government's performance over its three years in office, prompting speculation about his reelection bid ahead of the 2019 race.

Led by the office of the presidential chief of staff (KSP), Jokowi's ministers overseeing various sectors ranging from law and security to economic and social affairs, are set to hold a series of press conferences on their respective performances this week, starting on Tuesday.

Just like last year, the KSP, which is tasked with monitoring the ministries and coordination among them, has gathered and analyzed data from various ministries, state institutions and other stakeholders regarding the government's performance.

On Monday, the KSP also invited editors of national media outlets to attend separate closed-door discussions, on topics such

as politics and security, as well as social and legal affairs, where the media were provided with "background" information.

In the third year of his presidency, Jokowi has been focusing on ensuring and consolidating his programs at all levels of administration. In the first two years, he focused on laying the groundwork for his programs and trying to speed up the work, including by, among other actions, scrapping numerous policies deemed ineffective and cutting red tape.

However, problems relating to communications have continued to plague his Cabinet at a time when various social media platforms have become a crucial tool in altering the political landscape ahead of the election.

Some of his ministers are regarded as having failed to establish effective public communication and instead have caused controversy, prompting Jokowi to once again remind his ministers not to issue sensitive policies without consulting all stakeholders. One recent example is

the plan to implement a five-day school week, which Jokowi eventually canceled in the face of strong opposition from Islamic groups.

Jokowi, who is seeking reelection in two years time, reshuffled his Cabinet in July 2016 following bickering and public disagreements among ministers that confused the public and investors. At that time, he instructed his new and existing Cabinet members to work in synergy and to better communicate to avoid conflicting statements regarding policies and the government's development agenda.

A number of national pollsters have released studies showing that Jokowi's approval rating after three years in office remains higher than 60 percent. Among the pollsters are Indikator Politik Indonesia, Saiful Mujadi Research and Consulting (SMRC) and the Centre for Strategic and International Studies (CSIS). The surveys conclude

that Jokowi's macro economic performance is perceived as positive, although inequality remains a problem.

In terms of anticorruption efforts, however, Jokowi has been criticized for his reluctance to take a firm stance in opposition to the ongoing politically driven efforts to undermine the Corruption Eradication Commission (KPK).

Political observer Yunarto Wijaya suggested that the government should provide better access for the public to allow them to assess the progress of the government's programs. Such a move could raise satisfaction levels among the people, which could eventually help Jokowi secure votes in 2019.

"The public has a significant role in disseminating information particularly through social media. The more the people know about what the government is doing, the higher their satisfaction is likely to be," he said.

SEA TRANSPORTATION

Indonesia seeks private shippers to carry livestock

Farida Susanty

THE JAKARTA POST/JAKARTA

The government plans to team up with private shipping companies to expand the coverage of its livestock sea transportation program aimed at cutting meat prices in the local market.

Run since 2015, the program is focused on transporting cattle from major cattle-producing areas, namely East Nusa Tenggara (NTT) and West Nusa Tenggara (NTB), to Jakarta and West Java, where demand for beef is high, using a ship operated by state-owned enterprise PT Pelayaran Nasional Indonesia (Pelni), which serves the routes twice a month.

Transportation Minister Budi Karya Sumadi said the private sector might be interested in becoming involved in the program, given that the government was considering to provide subsidies per head of cattle to ensure its economic feasibility.

"This way, we won't be overly dependent on one particular vessel," he said on Monday in a discussion about the program.

The ministry plans to add five more ships until December, as it hopes to bring extra cattle stock to other areas with high demand, such as the provinces of Bengkulu and Lampung in Sumatra. It has earmarked around Rp 270 billion (US\$20 million) to finance the expansion.

Budi added that the government might pick private firms with the capability of building their own ships and that it would give them five-year contracts to serve the program.

However, he acknowledged the current lack of economic feasibility of the program because of the discrepancy in loads carried by the ship from and to Nusa Tenggara.

The Transportation Ministry seeks to jack up loads on the trips from Jakarta to Nusa Tenggara in order to reduce the transportation costs. It will also evaluate the

program to determine its continuity.

The program, from the outset, has not run as smoothly as expected.

At the end of 2015, for instance, the livestock vessel reportedly returned to Jakarta empty after breeders and cattle owners in NTT had refused to sell cattle to state-owned logistics firm PT Bulog, because the latter had set a price that was much lower than that of private companies.

Subsequently, the government guaranteed that the cattle could be sold directly to buyers in Jakarta.

Last year, the vessel carried 11,735 heads of cattle from NTT, of the 63,429 animals raised there, to Greater Jakarta and West Java in 24 voyages, according to local administration's data. It fell short of its target of delivering 12,000 heads of cattle.

As of Oct. 10, Pelni has transported 7,500 heads of cattle from NTT to Jakarta in a total of 15 trips.

However, the only livestock vessel was currently docked for maintenance and therefore unable to transport cattle, said Pelni president director Insan Purwarisya L. Tobing.

The head of the NTT Stockbreeding Agency, Dani Suhadi, said the province was currently able to produce up to 5,000 heads of cattle per month to be sent to other areas, either through the livestock vessel or cargo ships leased by businesses.

"So we hope there can be at least three [ships going to, and from] NTT," he said.

In response to the government's invitation, Indonesian National Shipowners' Association (INSA) chairwoman Carmelita Hartoto said the government had to calculate exactly how many ships were needed for the program.

"If there are enough ships and if it is [economically] feasible, then why not?" she said.

Jakarta greets the new boss

Oct. 17, 2016

J.P. 51

Fedina S. Sundaryani
and Ivany Atina Arbi

THE JAKARTA POST/JAKARTA

Facing a friend-turned-foe in politics was never going to be easy, but President Joko "Jokowi" Widodo grinned and bore it as he inaugurated on Monday one of his former ministers, Anies Baswedan, as the capital's new governor for the next five years.

Prior to the ceremony, former culture and education minister Anies confidently strode into the State Palace, dressed head-to-toe in white, accompanied by his wife and his deputy Sandiaga Uno.

The two men lapped up the attention as they stood in the hall of the palace, waving at supporters all around them.

Jokowi seemed relaxed during the ceremony and grinned broadly for the cameras as he posed with Anies briefly before turning to shake hands with Sandiaga.

Anies played down any tensions between the two men, noting that they had chatted for a while following the ceremony as they had known each other for many years. However, Jokowi had not offered Anies any special advice for his new role.

"The President said that he would invite us to meet him in a couple of days. We'll be ready, God willing," Anies said.

Anies' rise back onto the political stage came less than two years after Jokowi dismissed him from the Cabinet, a position he had gained after being one of Jokowi's strongest supporters in the 2014 election.

The former Paramadina University rector, who had been regarded as a moderate Muslim, joined the government's opposition coalition and made allies with conservative Muslim groups to earn his ticket in the Jakarta gubernatorial election.

Supported by the Prosperous Justice Party (PKS) and the Gerindra Party, Anies won 58 percent of the vote in April's election, defeating incumbent Basuki "Ahok" Tjahaja Purnama, an ally of Jokowi.

Ahok was accused of blasphemy and became the target of conservative groups that supported Anies, including the Islam Defenders Front (FPI), which led to the former's defeat and a rise in sectarian tensions in the capital.

During his campaign Anies, and partner Sandiaga, made 23 pledges as part of their priority

Jokowi inaugurates Anies,
Sandiaga at State Palace

Pair urged to stick by their
campaign promises in
leading city

programs. The pledges included creating 200,000 jobs and entrepreneurs, stopping the Jakarta Bay reclamation project, offering paternity leave and increasing home ownership among the poor.

For Anies and Sandiaga fulfilling these promises will be no walk in the park.

The pledge to stop the Jakarta Bay reclamation will pit the new leaders against Jokowi's administration, which has supported the multimillion dollar project.

Coordinating Minister of Maritime Affairs Luhut Pandjaitan has insisted that the new governor and deputy governor must resume the construction of 19 artificial islets despite environmental violations.

Before the inauguration, both men gathered with their supporters at Sunda Kelapa Grand Mosque in Central Jakarta before starting their trip to the palace.

The chairman of the mosque council, Aksa Mahmud, in his speech, said the place was chosen for Anies and Sandiaga to meet their supporters before the inauguration because it was where it all started.

"In this mosque, on Sept. 2, we decided to nominate Pak Anies and Pak Sandiaga to be Jakarta's new [leaders]," he said.

Aksa, a Golkar Party politician and brother-in-law of Vice President Jusuf Kalla, had reportedly pitched Anies to become a governor candidate last year and lobbied Gerindra chairman Prabowo Subianto to nominate him alongside businessman Sandiaga.

"We also want to thank all Jakarta citizens who supported our new governor, and we hope he can make our city peaceful," he said, which met with cheers from

Anies and Sandiaga supporters.

Anies and Sandiaga did not make speeches at the mosque, opting only for brief prayers before leaving for the State Palace.

Prabowo, who attended the inauguration ceremony, said that while he supported the pair's determination to stick to their pledges, Prabowo also emphasized that they would need to be more flexible to accommodate all stakeholders.

"Promises are debts, so of course [Anies and Sandiaga] will work hard to uphold the people's interests. However, I told them to be more accommodative and to pay attention to all sectors, and the interests of businesspeople," he said.

In his first speech as governor at City Hall, Anies said he and Sandiaga would adhere to the principles of the national ideology of Pancasila in leading the city.

The principles include the belief in one God, humanity, unity, consensus and social justice.

"Indonesia is not a country based on one religion, but it's also not a country which is anti-religion. Belief in God should be the basis of the state, in adherence to the first principle [of Pancasila]," he said.

"We, the *pribumi* [indigenous people], have been conquered before. Now it's time for us to be the hosts in our own land. We worked hard to get rid of colonialism and we must enjoy our freedom," he added.

Anies said eventually all of the principles should be applied in order to achieve Pancasila's fifth principle of social justice.

"We can't develop Jakarta for one person, for one group. But for all. The management of land, water, islands and bays should not be based on the interests of an individual or a group. We will make all efforts to defend those who cannot defend themselves," he said. (dis)

Anies Rasyid Baswedan

- Born in Kuningan, West Java, May 7, 1969
- Previous positions**
 - Culture and Education Minister (2014-2016)
 - Rector of Jakarta-based Paramadina University (2007-2014)
- Education**
 - 2005: PhD in Political Science from Northern Illinois University
 - 1998: Master of Public Policy at School of Public Policy, College Park, University of Maryland
 - 1995: Bachelor of Business Management from Gadjah Mada University, Yogyakarta
- Achievements**
 - 2008: Top 100 world's public intellectuals by US magazine Foreign Policy
 - 2009: Young Global Leaders by the World Economic Forum
 - 2010: "20 Persons 20 Years" by a Tokyo-based international affairs magazine Foresight
 - 2010: Top 500 Most Influential Muslims in the world by the Royal Islamic Strategic Studies Centre in Jordan
 - 2010: An awardee of PASIAN Education Award for his roles in rural areas of Indonesia from PASIAD of Turkey

Sandiaga Salahudin Uno

- Born in Pekanbaru, Riau, June 28, 1969
- Previous positions**
 - President director at PT Saratoga Investama Se-daya (1998-Present)
 - Vice President for Small and Medium Enterprises of the Indonesian Chamber of Commerce and Industry (KADIN) (2009-2010)
 - Chairman of Indonesian Young Entrepreneurs Association (HIPMI) (2005-2008)
 - Financial Analyst at Seapower Asia Investment Ltd. (1993-1994)
 - Chief financial officer and executive vice president at NTI Resources Ltd. (1995-1998)
- Education**
 - 1992: Master of Business Administration from George Washington University, Washington, US
 - 1990: Bachelor of Business Administration from Wichita State University, Wichita, Kansas, US
- Achievements**
 - 2011: *Forbes Magazine* listed Sandiaga as the 37th richest man in Indonesia in 2011, but switched it to 47th in 2013.
 - 2008: Indonesian Entrepreneur of the Year Award from Enterprise Asia

Source: The Jakarta Post

House invites hard-liners to discuss controversial Perppu

Nurul Fitri Ramadhani

THE JAKARTA POST/JAKARTA

The House of Representatives is set to invite 22 mass organizations to upcoming hearings on the regulation in lieu of law (Perppu) on mass organizations, which has been criticized for granting the government the power to disband organizations without a court order.

Two of the organizations expected to attend hearings with the House's Commission II, which oversees home affairs, are the hard-line Islam Defenders Front (FPI) and the National Movement to Safeguard the Indonesian Ulema Council's Fatwa (GNPF-MUI). The commission will send invitation letters to FPI chairman Ahmad Shabri Lubis and GNPF-MUI leader Bachtiar Nasir.

"We will invite [organization] leaders representing all six [officially recognized] religions," Commission II chairman Zainudin Amali of the Golkar Party said

Lawmakers seek input from mass organizations

PKS, PAN soften stance, Gerindra remains strongly opposed

on Monday.

The FPI and the GNPF-MUI are among Muslim organizations that have strongly protested the Perppu, which they claim could violate the freedom of association and expression. The Perppu has also been challenged through a judicial review at the Constitutional Court.

Others religious groups to be invited are Nahdlatul Ulama (NU), the country's largest Muslim organization, and the second-largest, Muhammadiyah, as well as the Council of Buddhist Communities (Walubi) and the Indonesian Communion of Churches (PGI).

The House kicked off hearings on the Perppu two weeks ago.

Issued by President Joko

"Jokowi" Widodo in July, the regulation has faced objections from rights activists, as it authorizes the Law and Human Rights Ministry to ban organizations without judicial process.

Many believe the Perppu is the government's tool to quickly disband hard-line group Hizbut Tahrir Indonesia (HTI), which aspires to establish an Indonesian caliphate, which contravenes the state ideology of Pancasila. HTI is the first and so far only mass organization to have felt the impact of the Perppu.

While issuing a Perppu is a presidential prerogative, later approval by the House is required. The ongoing hearings at Commission II should result in a proposal to be put to a House plenary vote for approval or rejection.

Amali said the commission would also invite former HTI spokesman Ismail Yusanto as an individual, "because the HTI no longer exists."

The House will also hear views from National Police chief Gen.

Tito Karnavian as well as Indonesian Military (TNI) commander Gen. Gatot Nurmantyo.

Lawmakers from the Gerindra Party, the Muslim-based Prosperous Justice Party (PKS) and the National Mandate Party (PAN) strongly criticized the Perppu when it was issued. "The Perppu can lead to repressive action," PAN faction secretary Yandri Susanto said.

But the PKS and PAN have recently softened their stance on the matter, leaving Gerindra to fight a lonely battle to push for the House to reject the Perppu.

Home Minister Tjahjo Kumolo said the freedom of association was still guaranteed but people should adhere to certain restrictions so as not to violate the rights of others.

"The government appreciates all input and views, but the Perppu is really needed. [Several] organizations have shown blatant rejection of Pancasila," the Indonesian Democratic Party of Struggle (PDI-P) politician said.

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J. Post

Dems politician 'accepted e-ID money'

JAKARTA: Former Democratic Party lawmaker Mohammad Jafar Hafsah admitted during a hearing at the Jakarta Corruption Court on Monday that he had accepted Rp 970 million (US\$71,942) from then-Dems treasurer Nazaruddin in connection to the e-ID procurement project.

Jafar described the money as "operational funds" for the party's faction at the House, but admitted to having used some of the money to buy a car. "Around Rp 300 million, if I recall correctly."

In the indictment for former Home Ministry executives who have been convicted in the e-ID case, Irman and Sugiharto, Corruption Eradication Commission (KPK) prosecutors accused Jafar of accepting \$100,000 embezzled from the state budget allocation earmarked for the project.

Jafar said he had returned the money to the Dems faction and KPK investigators when he was questioned as a witness in the case.

The former made the testimony as a witness in the trial of defendant Andi Agustinus, a businessman who allegedly planned a scheme to swindle Rp 574 billion funds earmarked for the project. — JP

STATE VISIT

RI, Niger's presidents talk defense, tolerance

Indra Budiari and
Fedina S. Sundaryani
THE JAKARTA POST/JAKARTA

Six years after Niger and Indonesia established diplomatic ties, the former's President Mahamadou Issoufou made a historic first state visit to Jakarta on Monday to discuss religious tolerance and the threat of terrorism with President Joko "Jokowi" Widodo.

Niger is a landlocked country in Western Africa, bordered by Libya, Chad, Nigeria and Benin.

Niger, reportedly a hotbed of extreme religious groups like the Islamic State (IS) movement and al-Qaeda, recently gained global attention when four United States soldiers, who were there to train Niger's security forces, were killed in an ambush by some 50 IS fighters earlier this month.

The US government said the attack had taken place in an area "where the enemy has not operated before" and the US troops had been "hit hard."

During the meeting with Jokowi, Issoufou said the main threat his military forces were currently fighting in the West African country was the Boko Haram terrorist group. He said he hoped that with stronger relations Niger would learn how Indonesia, with the world's largest Muslim population, maintains religious tolerance.

"You have the experience and we hope that we can share it as fellow Muslim and democratic countries," he said to reporters at the Merdeka Palace in Central Jakarta alongside Jokowi.

Issoufou, who was reelected for a second term in February, also expressed his support for Indonesia's bid for a seat on the United Nations Security Council, saying the country "has an important role in the



Antara/Wahyu Putro A

Same path: President Joko "Jokowi" Widodo (left) and Nigerian President Issoufou Mahamadou inspect an honor guard at the State Palace in Jakarta on Monday. The leaders discussed cooperation in various sectors.

world issue related to terrorism."

Jokowi underlined the importance for Muslim countries to work together based on the values of tolerance and cooperation. He said that during the meeting with Issoufou, he had expressed how African countries are among Indonesia's political priorities.

"We just started our diplomatic relations six years ago, but President Mahamadou Issoufou has already visited Indonesia. This suggests his strong commitment to enhance our countries' relations," Jokowi said.

"Indonesia and Niger have three ties that bind: first, our Islamic ties; second, democracy and religious freedom; third, as two countries that are still developing," he said.

Jokowi was accompanied by Cabinet Secretary Pramono Anung, State Secretary Pratikno, Foreign Minister Retno Marsudi, Public Works and Public Housing Minister Basuki Hadimuljono, Deputy Finance Minister Mardiasmo and

Deputy Energy and Mineral Resources Minister Arcandra Tahar.

Jokowi and Issoufou also talked about potential economic cooperation in infrastructure projects, strategic industries and human resources.

"Indonesia has experience that could be shared with Niger. Hence, Indonesia will happily offer to cooperate in farming, the fisheries, education and medicine," Jokowi said.

Data from the Trade Ministry shows that trade between the two countries was worth US\$9.75 million last year, up 34 percent from 2015.

In his speech, Jokowi also said that he was inviting Niger businessmen to sign agreements with Indonesians and for them to attend the Indonesia-Africa Forum in Bali in April 2018.

"I hope that with those ties in hand, our two countries can continue to strengthen our relations and work together in a concrete manner in various sectors."

Mixed reactions to eased textile imports

Stefani Ribka

THE JAKARTA POST | JAKARTA

Textile and garment businesspeople had mixed reactions on the latest simplification of import procedures for textile and textile products (TPT), including fibers, yarns and fabrics with some opposing it for its potential to disrupt local textile suppliers.

Indonesian Textile Association (API) chairman Ade Sudrajat said the simpler import procedure allows garment or clothing manufacturers to have more varieties of raw materials aside from those supplied by local textile suppliers.

The Indonesian Association of Synthetic Fiber Producers (APSyFI) opposed the policy, warning that it would lead to unfair competition between foreign and local textile suppliers, as the latter still suffers from high production costs such as high gas prices and wages.

The Trade Ministry has recently issued Regulation No. 64/2017 on textile import, allowing Common Importers Identification Numbers (API-U) holders, who are usually traders, to import textiles and textile products and have the goods inspect-

New rules lift restrictions on imports of textiles, textile products

Fiber producers demand better law enforcement against illegal bulk imports, reject new rules

ed by the government's appointed surveyor in the bonded logistics centers (PLB).

Previously, only Producers' Importers Identification Numbers (API-P) holders were allowed to import textiles and textile products.

This led to bulk imports, where customs officials let traders mix various materials into one container and register the cargo as one textile product that is subject to the low import tax.

The policy is part of the government's efforts to cut dwell time at the port and provide small and medium manufacturing (IKM) with raw materials supplies by simplifying inspection procedures, as committed in the 15th economic policy package.

Ade said the new policy would stop bulk import practices and

let imported textile be taxed appropriately. This way, "local and foreign textile can compete fairly because they are both taxed properly," he said recently.

"Now that API-U holders or traders are allowed to import, there would be less bulk import practices. Traders can now import textiles and textile products and be transparent to the government about it. They would keep the goods in PLB," Ade said.

PLB, he further said, was where importers and customs facilities integrate, "so whoever the importers are, their goods must have been taxed."

Responding to this, APSyFI executive member Prama Yudha Amdan said that from the trade point, the new policy indeed provided a clearer chain in terms of the tax payment.

Bul from industrial point of view, it led to unfair competition as local textile is burdened with higher production costs compared to other countries like India, China and Bangladesh.

"The impact is [garment] producers who usually used local textile could shift to import materials," he said. Any decline in local textile use consequently leads to

decline in factories' utility rate.

APSyFI data shows local industry utility rate plunged last year due to high production costs.

National fibers producing plants utility rate dropped to 81 percent from 83.8 percent (2015), yarn plants to 76.7 percent from 79 percent and fabrics to 52.6 percent from 54.5 percent.

Only the utility rate of garment plants increased to 80 percent from 75.7 percent.

The textile producers demanded that the government continue the Finance Ministry's strict monitoring on high-risk bulk import practice (PIBT) that has shown positive results in the form of declining imports.

Textile upstream industry utility rate has increased by 10 to 15 percent during PIBT's implementation, APSyFI recorded.

Yudha said the intention to simplify import procedure was meant to help small and medium manufacturers [IKMs] in getting raw materials.

"But now why does the government allow traders to also import? This raises a question: does the government want to make Indonesia a country of importers or an industrial country?" he said.

MANUFACTURING

Pupuk Indonesia to diversify business

Winnie Tang

THE JAKARTA POST | JAKARTA

Faced by increasingly tough challenges, state fertilizer holding company PT Pupuk Indonesia has urged the government to slash gas prices, while at the same time it announced its strategic plan to diversify business to petrochemicals.

In the past few years, the fertilizer market in Indonesia has been suffering from a slowdown, especially for urea fertilizer, because the gas price, which accounts for 70 percent of production costs, has been relatively high at US\$6 per million British thermal units (mmbtu).

"The gas price for fertilizer production is really high in Indonesia. In other countries, it only costs between \$1.30 and \$3 per mmbtu," Pupuk Indonesia president director Aas Asikin told reporters on Monday, adding that the ideal gas price should be \$3 per mmbtu.

He explained that currently the supply of urea fertilizer amounted to 240 million tons annually, while the demand was only about 180 million tons. This situation has led to a plunge in global prices, from around \$350 to \$400 per ton to only \$200 per ton.

"Usually when the global price of fertilizer drops in other countries, it will be followed by a decline in gas prices, so they [fertilizer companies] won't be losing money. But in Indonesia, when global fertilizer prices weaken, the gas price remains the same," Aas said.

Wahyu Kuncoro, deputy for agro and pharmaceutical industry at the State Owned Enterprises (SOE) Ministry highlighted another problem for the fertilizer

industry, namely the take-or-pay contract for gas sales.

Under such a contract, Pupuk Indonesia has no choice but to keep paying gas suppliers at a fixed price, even though it needs less because of efficiencies. "Whether they use the gas or not, they have to pay for it," he stated.

Pupuk Indonesia expects that its net profits will dwindle below last year's realization of Rp 3.5 trillion as a result of these mounting challenges. However, it is still upbeat about reaching its 2017 target of Rp 2.04 trillion.

In order to overcome these challenges, the company has been working to improve cost efficiency, by revitalizing its old factories and shifting from its core business in fertilizer production to the petrochemical business.

"In the future, we will shift to other businesses. We will stay in petrochemicals, including derived products from fertilizers. We will build ammonium nitrate factories and NPK [nitrogen, phosphate and potassium] factories," Aas said.

As part of its five-year plan, it will build several NPK factories in Kujang, West Java, with a capacity of 100,000 tons, in North Aceh with a capacity of 500,000 tons, and in East Kalimantan with a capacity of 500,000 tons, among others.

Pupuk Indonesia had distributed 6.2 million tons of subsidized fertilizer by the end of the third quarter of 2017, equivalent to 65.3 percent of the 2017 target, which is set at 9.5 million tons. Urea fertilizers accounted for 2.7 million tons, followed by NPK fertilizer at 1.8 million tons, SP36 fertilizer at 618,030 tons, ZA fertilizer at 705,074 tons and organic fertilizers at 456,353 tons.

Facts should drive tax reform debate

The first bill in a series of tax laws due for revision has been submitted to the House of Representative for approval, and the long-awaited deliberation might start as soon as November.

Following the general provision bill, the income tax and value-added tax bills are next in line for a comprehensive reform of the tax code. It is important, however, that before the debate on tax reform begins in earnest to clear up some confusion so the actual debate on the law can really revolve around the most important issues.

The number-one issue to be clear about is the reason for tax reform. To go with full reform, there should be no doubts that the current system is broken.

For 11 years from 2001 to 2011, revenue collection on average reached 99 percent of the government's estimate. From 2012 to 2016, however, revenue collected by the central government had fallen to an average of 90 percent with the biggest shortfalls occurring in the last two years, which saw revenue fall to about 83 percent of the government's estimate.

This partly reflects the aggressive posture by the current administration, but this big gap in



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collection also exposes a more fundamental truth: the capacity of the current tax system is unacceptably low. The abysmal performance of Indonesia's tax system is made even more apparent when one compares Indonesia's tax ratio (defined as tax revenue as percentage of gross domestic product (GDP)) to that of other countries.

Unfortunately some people, including some members of the House's Finance Commission and even top tax officials, who will decide on the tax reform bills, appear to underestimate the severity of the problem by insisting that such comparisons are unfair.

This is a serious issue because if the magnitude and gravity of the problem are underestimated, lawmakers might unwittingly promote a partial reform plan that does not go deep enough to address the fundamental problems of the current tax system.

The critics of international

tax ratio comparisons claim that the calculation of the commonly reported tax ratios is flawed because some countries include all tax revenues including those collected by regional and local governments, while Indonesia includes only the revenue collected by the central government. Or they say that other countries include social security contributions data while Indonesia does not count BPJS contributions toward state revenue.

This is a legitimate concern but with the right data, international comparison of tax ratios should stand valid. One comparable database is the International Monetary Fund (IMF) World Revenue Longitudinal Dataset (WoRLD), which indeed shows that the problem of severe underperformance of the tax system is definitely real.

Using the IMF dataset for tax revenue collected by all levels of government including regional and local governments between 2001-2014, and excluding non-taxation revenue such as grants and receipts from social security programs, Indonesia's tax ratio consistently ranks near the bottom among its ASEAN peers (excluding Myanmar for which available data is not complete).

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Compared to other G20 countries, the situation is worse: for all years between 2001-2014 Indonesia ranks right at the bottom of the ladder (excluding Saudi Arabia whose oil revenue made tax almost irrelevant — at least until the recent crash in oil prices).

The capacity of the current tax system is unacceptably low.

There really should not be any more debate on this. The performance of Indonesia's tax system is unjustifiably low and therefore it is rightly due for an overhaul.

Once the scale and gravity of the problem is made clear then it is time to look for possible remedies.

An interesting solution was proposed by a former economic minister: scrap the value-added tax, and replace it with a "general sales tax." He confidently pronounced that "not many countries have VAT [...] If even the United States does not have VAT, why should Indonesia be so overconfident [and apply VAT]?"

The minister even stated, without any supporting evidence or rationale, that with a sales tax, revenue would increase by "two

or threefold" (presumably compared to VAT collection).

A change from VAT to sales tax would be a radical change, but it would also be a backward change. As noted in Tax Notes International, VAT was introduced relatively recently in France in 1954. By the 1960s, only 10 countries had adopted VAT. In 2010 VAT had spread to more than 140 countries. In 2016 the Organisation of Economic Cooperation and Development (OECD) reported that around 166 countries had implemented VAT. In fact, the US is the only OECD country that still clings to the sales tax.

Further, a survey of the literature seems to point that the revenue potential of VAT is greater than that of its alternatives including a sales tax. Thus the minister seemed wrong on both counts concerning VAT. The bigger point, however, is this: a major policy decision must not be so easily pronounced without careful and thorough understanding, study and analysis. Although the situation is urgent, the tax reform effort must not be driven by assertions without evidence, or opinion without facts, or be derailed by outdated assumptions.

For tax reform to achieve meaningful results, President

Joko "Jokowi" Widodo's administration and the House must stop the kind of half-hearted, piecemeal, snail-paced and ad-hoc reforms implemented to date, and start to seriously work to transform Indonesia's tax system in a focused, systematic fashion, based on facts, sound economic reasoning and strong Pancasila principles.

To be clear, tax reform is only a part of the bigger solution needed to help the country move forward to the next stage of development rather than be bogged down as a permanently developing country. There are other equally pressing problems such as establishing the rule of law and creating a strong and reliable justice system, as well as the elimination of corruption.

But certainly one of the requirements to be a modern, developed country is a well-functioning and fair tax system, which promotes sustainable economic growth. It would be wise to remember this in preparing for the coming debate in the House.

The writer is a staff member of the Directorate General of Taxation at the Finance Ministry. The views expressed are his own.