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Weak spending curbs Q3 growth

Indonesia's GDP growth and its components (in percent)

	2017			2016			
	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Overall GDP growth	5.01	5.01	5.06	4.92	5.18	5.01	4.94
Components	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Consumption	4.94	4.95	4.93	4.97	5.02	5.01	4.99
Govt spending	2.67	-1.93	3.46	3.43	6.23	-2.95	-4.05
Investment	4.78	5.35	7.11	4.67	4.18	4.24	4.80
Export	8.21	3.36	17.27	8.04	-2.73	-6.00	4.24
Import	5.12	0.55	15.09	5.02	-3.01	-3.87	2.82

Source: Central Statistics Agency (BPS)

Prima Wirayani and Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

Indonesia's economy grew at a slower-than-expected pace in the third quarter as household consumption cooled, raising doubts about whether the full year expansion target can be achieved.

Gross domestic product (GDP) expanded 5.06 percent over the July-September period after expanding by 5.01 percent in both the first and second quarters, the Central Statistics Agency (BPS) on Monday.

As a consequence, the country's growth after the first nine months of this year sat at 5.03 percent, a far cry from the targeted 5.2 percent in the revised 2017 state budget and the 5.17 percent projected by Finance Minister Sri Mulyani Indrawati.

Household consumption, which accounts for more than half of the GDP, expanded at its lowest rate this year, 4.93 percent year-on-year (yoy), in the third quarter.

Instead, quarterly growth relied on investment, exports and imports, which soared by 7.11 percent, 17.27 percent and 15.09 percent, respectively, while government spending expanded by 3.46 percent.

The growth in both private and government spending was below expectations, said Bank Central Asia (BCA) chief economist David Sumual, who had projected household consumption and government expenditure to surge by 5.03 percent and 4 percent, respectively, in the third quarter.

"There's a need to convince consumers to spend again, as it seems that presently they just wait and see," he said.

Indonesia's weak household consumption has been one of the hottest economic topics of late, as it has been linked to the closure of a number of retail stores, particularly in Jakarta.

Businesses, especially those in the retail sector, have already felt the pinch of diminished consumption with several retail outlets having been shut down in recent months, Indonesia Chamber of Commerce and Industry (Kadin) chairman Rosan P. Roeslani said.

"Businesspeople see the demand is quite flat at the moment, so they are holding off on their business expansions," he told reporters.

The government has been advised to implement out-of-the-box measures, such as a waiver on value added tax for purchases of daily necessities in certain weeks, to stimulate a shopping spree.

The tepid consumption rate has occurred amid a low inflation period, with the inflation rate hovering at only 3.58 percent yoy as of October.

The Consumers Tendency Index, which reflects consumer confidence, fell to 109.42 in the third quarter from 115.92 in the previous quarter.

Consumers also maintained a more pessimistic view of the economy in the fourth quarter as the index is projected to decrease to 105.49, BPS data shows.

Economy grew by 5.06% in Q3, slower than expected

Economists offer measures to boost consumption next quarter

Some segments of the population, such as farmers and construction workers, were yet to see an increase in their real income, putting pressure on their purchasing power, University of Indonesia (UI) economist Faisal Basri suggested previously.

The real income of agricultural and construction workers has stagnated so far this year despite rises in their nominal incomes, BPS data confirms.

"This is an indication that we need to pay extra attention to those in the bottom 40 percent of the income level," BPS head Suhariyanto said.

Economists, meanwhile, recommended that the government transfer social aid on time to help maintain the purchasing power of low-income citizens, while hoping for the seasonal effect of Christmas and New Year's celebrations to boost consumption.

Bank Tabungan Negara (BTN) economist Winang Budoyo, however, viewed the weak consumption, as opposed to the strong investment and exports, in a more positive light.

"Although the economic growth has yet to see significant gains overall, I think it is more sustainable," he said.

Nevertheless, senior Asia economist at London-based Capital Economics, Gareth Leather, is of the view that the gentle acceleration in Indonesia's GDP growth in the third quarter is unlikely to mark the start of a sustained recovery in the economy.

"Given the mounting headwinds facing the economy, we expect growth to come in at around 5 percent over the next couple of years. [...] In contrast, the consensus is expecting a steady acceleration in growth over the coming years," he wrote in a research note.

Nov 7, 2017
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Govt to act on EODB in regions

Stefani Ribka
THE JAKARTA POST/JAKARTA

Govt to introduce punishment mechanism for regions not reforming their business climates

Benchmarking, data collection key to measuring performance

The government is rolling up its sleeves to improve its ease of doing business (EODB) ranking through the introduction of a reward-and-punishment system for regional administrations.

Investment Coordinating Board (BKPM) head Thomas Lembong said the main goal was to familiarize regions with the World Bank's concept of EODB in a bid to improve investment across the archipelago.

"We're going to use a task force to create awareness of the EODB among regional administrations," he told reporters following a BKPM-held public dialogue on investment climate reform on Monday.

Last week, the World Bank announced its 2018 EODB ranking for 190 countries. While Indonesia climbed 19 places to 72 from 91 in the previous year, its biggest jump since the survey started, it still lags behind many of its Southeast Asian peers. Thailand scored the highest leap of 20 spots to 26th place, while Vietnam jumped 14 spots to 68th place.

Moreover, Indonesia's ranking is far below President Joko "Jokowi" Widodo's initial target of entering the World Bank's top 40 in the 2018 ranking.

One of the Indonesia's biggest hurdles is its notorious red tape with businesspeople still needing days to register their businesses with a multiplicity of institutions for many operational permits.

Even so, the country has made considerable improvements in reducing fees and providing online access in setting up a company and registering property, among other reforms.

So far, the World Bank only bases its Indonesian ranking on surveys in Jakarta and Surabaya, East Java, which between them contribute 30 percent of the country's gross domestic product (GDP). Therefore, the government plans to improve the EODB in its remaining 500 provinces, regencies and cities to maximize economic growth through investment.

The task force will be formed by the Coordinating Economic Ministry, which is also designing a punishment mechanism for nonperforming regions.

Thomas explained that the taskforce would primarily focus on regions associated with heavy industry, trade and tourism — such as Banten and West Java — because of the large investments poured into those sectors.

World Bank director Yongmei Zhou has outlined several ways a central government could stimulate local administrations to create better business climates while maintaining the latter's autonomy.

First, the state must conduct benchmarking and collect data on how each region is performing based on the EODB's variables.

"[An] example would be in Mexico, there is a city where we can register our property in nine days, but in another city, it could take up to 78 days. How do we shrink the variation? One, benchmarking is very important. We just need to be transparent [...] and that's about data collection. Once you have the data [...] you can put pressure on the local government," she said.

Once benchmarking is clear, the government can then reward high performers through fiscal grants or personnel promotions.

Alternatively, the central government could also create comprehensive, user-friendly licensing forms that local administrations can opt to use. While these are non-binding, those who opt not to use the licensing forms can be branded as "deliberately trying to create more burdensome processes."

Separately, Regional Autonomy Watch (KPPOD) executive director Robert Na Endy Jaweng said that Law No. 23/2014 on regional government stipulated 16 types of sanctions for non-performing regional officials, including salary cuts. However, it is rarely enforced.

Nov. 7, 2017
J. Post

JOKOWI'S CABINET

Stability sought ahead of 2018 elections

Nurul Fitri Ramadhani and Margareth S. Aritonang
THE JAKARTA POST/JAKARTA

As the nation's political spectrum is shaking up ahead of the simultaneous regional elections next year, pressure is on President Joko "Jokowi" Widodo to ensure that stability remains conducive to fulfill his ambitious programs, less than two years before his tenure ends.

In the near future, the President will likely make a change to his Cabinet following Social Affairs Minister Khofifah Indar Parawansa's announcement that she will run for East Java governor.

Under the 2016 Regional Election Law, it is not mandatory for a minister, who is running to be a regional leader, to give up his or her Cabinet post.

Vice President Jusuf Kalla, however, recently warned that such a Cabinet member must resign to allow him or her to focus on campaigning to maintain the neutrality of the administration.

Khofifah's presence in the Cabinet is widely seen to represent Indonesia's largest Muslim organization, Nahdlatul Ulama (NU). She is the head of NU's women wing, the Muslimat NU.

Siti Zuhro, a political expert from the Indonesia Institute of Science, said Jokowi would retain a NU representative in the Cabinet to help secure votes for his 2019 re-election bid.

"Jokowi will likely choose a figure that can bring him huge support [for 2019]. A [NU] figure is a possibility for that [the position]," she said on Monday.

Speculations about a Cabinet reshuffle were rife over the past months, prompting analysts to predict that Jokowi would replace more than one minister.

The position of Asman Abnur of the National Mandate Party (PAN), as the Administrative and Bureaucratic Reform minister, could be in limbo given the series of political moves by the party at the House of Representatives.

Recently, PAN sided with the opposition — the Gerindra Party and the Prosperous Justice Party (PKS) — to reject the Jokowi-proposed Law on Mass Organization.

"We're not afraid [of a reshuffle], because our minister [Asman] is performing well," PAN executive Yandri Susanto said.

The party joined the government coalition in July 2016.

In an apparent attempt to prevent political intrigue, Jokowi signed a presidential instruction (Inpres) on policy making at ministerial level on Nov. 1.

The Cabinet Secretariat, according to its official website, emphasizes that the Inpres instructs all ministries and heads of government institutions to avoid making public comments if they have different views over policy.

Last year, some of Jokowi's ministers, who had made controversial and contradictory statements about their peers, ended up being dismissed from the Cabinet, including former Coordinating Maritime Affairs minister Rizal Ramli and former Energy and Mineral Resources minister Sudirman Said.

Several names have been touted to be new Cabinet members.

Agus Harimurti, the son of former president and Democratic Party chief patron Susilo Bambang Yudhoyono, is said to be currently on Jokowi's radar.

Jokowi and Dems, which claims to be neither part of the ruling party nor in the opposition, have recently seen a shift in their relationship after a meeting between Jokowi and his predecessor Yudhoyono at the State Palace two weeks ago.

The head of Dems faction in the House who is also Agus's brother, Edhie Baskoro "Ibas" Yudhoyono, signaled their willingness to join the government.

"We'll fully support the government as long as the policy can benefit the public," Ibas said.

PDI-P faction secretary Bambang Wuryanto said the party would allow Jokowi to decide on a Cabinet shake-up.

"That's the president's prerogative. But if he wants to bring another party into the coalition, it will be better for him to discuss it first with the chairpersons of the coalition parties," Bambang said.

Siti said it would not be beneficial for Jokowi if Dems joined the coalition. "They have the reputation of swinging stances in the House and it could degrade the credibility of the administration."

Nov. 7. 2017
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DEVELOPMENT

Bappenas opposes SEZs in West Java industrial zones

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

The National Development Planning Agency (Bappenas) has opposed a proposal to transform industrial zones in Bekasi, Karawang and Purwakarta in West Java into special economic zones (SEZ).

Bappenas head Bambang S. Brodjonegoro said that not every region needed to be transformed into an SEZ.

"SEZs are regions that have potential to grow but have yet to do so because of a lack of infrastructure, regulatory support and incentives. It is clear that the Purwakarta-Bekasi-Karawang [SEZ] proposal does not meet all three [requirements]," he said in Jakarta on Monday, adding that the three regions were already growing without such incentives.

Last week, Coordinating Maritime Affairs Minister Luhut Pandjaitan said that his office would conduct a two-week preliminary study of the proposal — made by the Indonesian Chamber of Commerce and Industry (Kadin) — while adding that the study would be extended if a conclusion was not found during this period.

The establishment of SEZs is regulated under the government's sixth economic policy package, issued two years ago. The regions that have SEZ status allow for investors to receive certain incentives, such as tax holidays between five to 25 years for a minimum investment of Rp 500 billion (US$36 million), and exemptions from import duties, value-added tax and luxury tax.

Permits would also be easier to obtain in an SEZ because of one-stop services, which process permits for land, immigration and labor, among others.

Moreover, foreign entities and nationals that hold permanent resident permits can own properties such as homes and apartments located in SEZs.

The government has given SEZ status to 12 different regions, consisting of eight focused on manufacturing and four on tourism.

Four out of a total of 12 SEZs are already in operation — comprising the Tanjung Lesung SEZ in Banten, Mangkei SEZ in North Sumatra, Palu SEZ in Central Sulawesi and the recently-inaugurated Mandalika SEZ in Lombok, West Nusa Tenggara (NTB).

According to Coordinating Economic Minister Darmin Nasution, the government will likely announce two more SEZs that will start operating by the end of the year, namely the Lhoksemauwe SEZ in Aceh and Galang Batang SEZ in Bintan, Riau Islands.

Moreover, he said the 12 SEZs had already attracted investment commitments amounting to Rp 221 trillion as of July, and that the government hoped to draw a total investment of Rp 726 trillion by 2030.

Meanwhile, Bappenas will concentrate on the concept of metropolitan area development, which Bambang argued would be more suitable for the Purwakarta-Karawang-Bekasi region.

An emphasis on metropolitan area development is necessary as areas such as Jakarta and Bandung, West Java, are expected to grow and eventually intersect in 2045.

The two metropolitan areas were forecasted to be inhabited by 80 million people, Bambang added.

"We need to anticipate such kinds of development from now, [especially] for infrastructure and spatial planning, and how to separate residential areas from industrial and agricultural areas," said Bambang.

Furthermore, he said that his office was drafting a regulation to define and manage metropolitan development areas.

"We want to build a national metropolitan system, because in practice Surabaya is already a metropolis," said Bambang, referring to the provincial capital of East Java.

He also cited other examples such as Medan, North Sumatra and Makassar, South Sulawesi, among others.

Nov-7, 2017
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TAXATION

Tax office to probe Prabowo, Soehartos over Paradise Papers

Bloomberg
JAKARTA

Indonesian authorities are investigating if former presidential candidate Prabowo Subianto and the children of ex-dictator Soeharto, named in documents leaked from a Bermuda law firm, are in breach of the country's tax laws.

The tax office will scrutinize financial disclosures made by Prabowo in the past to check against information contained in the massive leak of confidential information from offshore law firm Appleby Global Group Services Ltd., Hestu Yoga Saksama, a spokesman for the Directorate General of Taxes, said on Monday.

The leaked documents dubbed the "Paradise Papers" were published by the International Consortium of Investigative Journalists (ICIJ) over the weekend. Prabowo, who was once married to former president Soeharto's daughter, Titiek, was named as a director and deputy chairman of Bermuda-registered Nusantara Energy Resources. The former general was a runner-up to Joko "Jokowi" Widodo in Indonesia's 2014 presidential election and is touted by political analysts as a possible candidate in the 2019 race.

"All the information gathered from various sources will be taken into consideration," Hestu said in response to questions on whether tax authorities were looking into the Paradise Papers. "We need and will seek more detail about such information, so we can check their compliance on their tax report."

The tax office will assess Prabowo's assets included in tax returns and declarations made under Indonesia's tax amnesty program which ended in March this year, Hestu said.

Irawan Ronodipuro, a spokesman for Prabowo's Gerindra party, said he could not immedi comment on the leak. Fadli Zon, the deputy chairman of Gerindra, said the former general has "no connection" to Nusantara Energy, according to ICIJ. He denied that the company was established to avoid taxes and said it has not been active since it was founded, according to the report.

Tobias Basuki, an analyst at the Centre for Strategic and International Studies (CSIS) in Jakarta, said the report would do little damage to Prabowo's political future. "I doubt this finding will hurt his electability," Basuki said. A September survey by the Jakarta-based Saiful Mujani Research Institute showed Jokowi, in the lead with 39 percent support of voters, compared with Prabowo's 12 percent.

The ICIJ report said Tommy Soeharto was the director and chairman of the board of Asia Market Investments Ltd., a company registered in Bermuda in 1997 and closed in 2000. Tommy Soeharto could not immediately be reached for comment. The report said Mamiek Soeharto was the vice president of Golden Spike Pasiriaman Ltd. and the beneficial owner and chairman of Golden Spike South Sumatra Ltd. which were registered in Bermuda in the 1990s and are now closed.

Meanwhile, United States Commerce Secretary Wilbur Ross faces questions about his financial disclosures to Congress and the government after a report that he did not disclose business ties to the son-in-law of Russian President Vladimir Putin and an oligarch under US sanctions. The Appleby documents included details of Ross's stake in a shipping company, Navigator Holdings, according to the *New York Times*.

House Republicans should slow down their consideration of a tax overhaul bill after the investigative reports alleged offshore tax-avoidance by US multinational companies including Apple Inc. and Nike Inc., congressional Democrats and tax-advocacy groups said.

Canadian tax authorities are reviewing reports linking a key fundraiser for Prime Minister Justin Trudeau to offshore trusts in the Caribbean. Montreal-based businessman Stephen Bronfman, son of billionaire Charles Bronfman, was among the individuals cited by news organizations including the Canadian Broadcasting Corp., Radio-Canada and the *Toronto Star* in Sunday's leak of bank documents.

Commodities trader Glencore Plc was one of the top clients of Appleby, which even had a "Glencore Room" at its Bermuda office that kept information on the trader's 107 offshore companies, according to the ICIJ investigation.

Nov- 17. 2017
J. Post

Medco seeks debt refinancing prior to mine expansion

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

Publicly listed energy firm PT Medco Energi Internasional aims to increase operational efficiency as it seeks to refinance its debt before entering the last stage of its plan to expand its gold and copper mine in Sumbawa, West Nusa Tenggara (NTB).

Medco sealed a deal worth US$2.6 billion in November 2016 to acquire 50 percent stake of PT Amman Mineral Investama (AMI), which owns 82.2 percent of shares of PT Amman Mineral Nusa Tenggara (AMNT) as the operator of the Batu Hijau mine in Sumbawa.

The company secured loans totaling $750 million from state-owned lenders Bank Mandiri, Bank Negara Indonesia (BNI) and Bank Rakyat Indonesia (BRI) to help finance the acquisition.

The loans contributed to a 0.15 percent year-on-year (yoy) increase in Medco's liabilities to $2.71 billion in June.

Moreover, the company is set to refinance its debt as $198.6 million of $1.08 billion of its long-term bank loans will mature within a year.

"We are now focusing on reducing costs at AMNT, yet make them more efficient," Medco chief planning and financial officer Anthony R. Mathias said in a public expose on Monday.

"Over the next few months, the company will also work very hard on refinancing its assets in order to carry out phase seven [in the development of the mine expansion]."

In phase seven, AMNT will expand the area in which rocks of high-metal content are searched for at Batu Hijau's open mining pit because of difficulties in finding such ores at the end of phase six.

The difficulties prompted the firm to cut down its year-end gold and copper production by 46.3 percent and 33 percent, respectively, to 430,000 ounces and 320 million pounds from last year.

The start of phase seven will help AMNT to unlock the potential of the Elang block, which contains 19.7 million ounces of gold resources and 12.9 billion pounds of copper resources.

However, Medco has been selling AMNT's stockpiled low-grade rocks during the transition period toward phase seven to keep the business running.

"When you're moving to the new phase, production will drop and you will begin selling all that you have stockpiled. So even though the production will drop, the sales will continue," Mathias said.

As part of its debt refinancing effort, Medco announced on Nov. 3 its plan to issue 4.45 billion in new shares to collect a maximum of Rp 2.67 trillion ($197.47 million) in fresh funds.

Maintaining a healthy financial performance is important for Medco as it planned to build its own copper smelter worth about $500 million near the Batu Hijau mine by early 2018 at the latest.

"In the last two years we've been very active in terms of acquisitions and portfolio rationalization. Now, our immediate focus is to extracting efficiencies and possible synergies from our business portfolio," Medco CEO Roberto Lorato said.

As for its oil and gas business, Medco produced an average of 82,000 barrels of oil equivalent per day (boepd) during the first half this year, a cash cost of $8.2 for each barrel.

The production increased from 66,000 boepd last year, with an average cash cost of $8.8 per barrel.

Medco booked a 54.3 percent annual increase in revenue to $403.5 million in the first half of this year, mainly supported by $138.5 million in oil and gas sales to energy firm Petro-Diamond Singapore, a subsidiary of Japan's Mitsubishi Corporation.

The firm recorded a 61.7 percent increase in earnings before interest, taxes, depreciation and amortization (EBITDA) to $200.3 million, while its net profit jumped seven-fold to $80.67 million from $11.29 million.

Nov. 7. 2017
J. Post

Indonesian firms seek incentives to enter bourse

Winny Tang
THE JAKARTA POST/JAKARTA

Companies remain reluctant to share information to public

Lack of incentives contribute to companies' reluctance to enter capital market

The Indonesian capital market may need to work harder to attract companies to participate in the domestic bourse as they remain conservative about pursuing external sources of funds to support their business expansions.

With incentives rare, many companies continued to avoid floating their shares to the public via the stock market as they were often reluctant to disclose their information, a business group said on Monday.

Many companies yet to be listed on the bourse were family-owned businesses, which were unwilling to provide detailed information to the public, said Indonesian Employers Association (Apindo) chairman Hariyadi Sukamdani.

In addition, he said businesspeople always compared the costs and benefits of seeking external funds through the capital market compared with obtaining funds from traditional bank loans.

"Often times, investors request big discounts. Eventually, these companies have to recalculate," he said during a discussion at the Indonesia Stock Exchange (IDX) building.

"Rather than losing a few percent of their shares if they conduct a rights issue, they prefer to go with bank loans."

Partly owing to a lack of incentives, only 560 firms have been listed on the IDX since its launch in 1977, with a market capitalization of Rp 6,683 trillion (US$494.2 billion) as of Nov. 1.

Experts consider the progress to be slow, although recently the bourse has become more aggressive.

So far in 2017, 28 companies from various sectors, such as infrastructure, technology and property, have been listed on the IDX. The total target by years-end is 35.

Apindo's Hariyadi suggested an incentive mechanism in which the Financial Services Authority (OJK) — the country's supervisor of the capital market — would allow companies' shares to be considered as bank collateral when they wished to be publicly listed on the domestic bourse.

The incentive was necessary because, at present, banks only accepted savings accounts, bonds, insurance policies, jewelry and property as collateral when a company applied for a loan.

"Many other bourses in developed countries allow stocks as collateral for [bank] loans. However, the OJK is yet to let companies do that," he said.

Moreover, the Indonesian Listed Companies Association (AEI) has called on the government to set up a special ministry to regulate, supervise and foster companies that have been listed on the bourse and to facilitate policy coordination between businesspeople and state officials.

AEI chairman Franciscus Welirang pointed out that the government was doing very little to support companies, and that such support had previously been essential for decades of growth in the domestic capital market.

The Jakarta Composite Index — the IDX's main gauge — recorded a gain of 232.63 percent from 2006 to 2017, the highest gain compared to other bourses in the world.

Within 10 years, 70.5 percent of the 559 listed companies posted an increase in share price, while the remaining 29.6 percent saw a decrease.

"Since the Capital Market and Financial Institutions Supervisory Agency [Bapepam-LK] was removed and the OJK took over its authority, it seems like we lost our 'parent'," he said.

Bapepam-LK was a now-defunct institution under the Finance Ministry in charge of fostering, managing and supervising the day-to-day activities of the capital market before it was dissolved in 2012 when the OJK Law granted its authority to the new agency.

Responding to the queries of businesspeople, Industry Minister Airlangga Hartarto said the government had always supported the development of companies, including in their decisions to go public, pointing out its close relationship with Bapepam-LK.

He expected that the OJK would work together with the IDX to attract more companies to the capital market, with great potential particularly for the manufacturing sector, in addition to the chemical, electronics and consumer goods sectors that had also seen saw high growth rates in the bourse.

Nov. 7, 2017
J. Post

PETROCHEMICALS

Chandra Asri allocates $932m for 2-year expansion

Rachmadea Aisyah
THE JAKARTA POST/JAKARTA

Indonesia's top petrochemical producer, PT Chandra Asri Petrochemical (CAP), plans capital expenditure (capex) of US$932 million over the next two years to support a massive expansion in a bid to cement its market leadership.

$398 million of that figure will be disbursed in 2018 and the remaining $534 million will be spent in 2019.

The funds would derive from internal cash and proceeds of a recent rights issue and global bond sale in addition to loans and equity financing, CAP director and corporate secretary Suryandi said Monday.

The company, owned by tycoon Prayogo Pangestu, collected Rp 5.03 trillion (US$378 million) through a rights issue in September and sold bonds worth $300 million on the Singapore Stock Exchange in October.

One of the planned projects was to build a second integrated petrochemical complex estimated to cost at least $4 billion, he added.

CAP already runs an integrated petrochemical complex in Cilegon, Banten.

"The plant will be constructed by our new company, PT Chandra Asri Perkasa," Suyandi said, adding that shareholders had yet to decide the structure of the new company.

CAP wants to build the new plant in Java for logistical reasons and because of the proximity to its customers, but it is struggling to acquire the 100 hectares it needs.

Suyandi added that the company would also use its capex to expand the capacity of five petrochemical plants, which would require $564 million, $214 million of which is expected to come from loans and internal cash.

All capacity upgrade projects were underway and were expected to complete between 2018 and 2020, Suyandi said.

Earlier, CAP announced plans to build a new polyethylene plant with an annual production capacity of 400,000 tons to add to its existing plant that produces 336,000 tons a year. It also aims to increase the capacity of its polypropylene and butadiene plants.

Suyandi said the expansion plans were in line with CAP's intention to focus on the domestic market, which still presented enormous business opportunities thanks to a gap between supply and demand.

At present, the company holds a 35 percent share of the country's petrochemical market.

CAP data show it produces 3,301 kilotons of chemical products per year out of the nationwide production capacity of 9,449 kilotons.

"[Indonesia is] dependent on imports to this day, because petrochemical companies here have limited production capabilities," Suyandi said. "That means Indonesia will give us a huge opportunity to develop our business in the future [...] it makes sense for us to factor Indonesia more heavily into our business plans."

CAP booked $174.2 million in net profit in the first half of the year, up 32 percent from last year.

The company was optimistic about achieving satisfactory growth by the end of the year, said Suryandi, refrained to specify the company's targets.

Nov. 7, 2017
J.Post

Japan's Patimban certainty

Both the Indonesian and Japanese governments need to explain to the public the true reasons behind the apparent delay of the Patimban Port construction project in Subang, West Java. The project is not only strategic in terms of the economy, but also crucial for the continuation of bilateral relations between the two long-time friends.

It is simply hard to accept the four-month postponement, from the original schedule of January 2018, as stemming from technical matters, knowing Japan's strict management discipline. As reported by this newspaper on Monday's front page, Indonesian officials insisted that the new port would commence operations as scheduled in March 2019 despite a delay in the start of the construction.

President Joko "Jokowi" Widodo and Japanese Prime Minister Shinzo Abe are committed to completion of the project as planned. Jokowi knows very well that Patimban has a very special meaning for PM Abe after Japan's defeat to China in the tender for the Jakarta-Surabaya high-speed railway project in September 2015.

The port, as well as an offer to revitalize the 725-kilometer railway between Jakarta and Surabaya, is widely regarded as a consolation prize for Japan. Japanese investors, especially automotive business, urgently need a new port as an alternative to the congested Tanjung Priok port in Jakarta.

On the sidelines of the upcoming Asia-Pacific Economic Cooperation (APEC) summit in Vietnam and the East Asia Summit in the Philippines, Abe will naturally demand Jokowi's clarification on what is really hampering the project and how to clear the hurdles together. As a businessman, Jokowi must understand Japan's eagerness to remain a leading partner for Indonesian development in the wake of China's amazing rise. Although Japan is ready to accept whatever Indonesia decides concerning the seaport project, such patience should have a limit.

According to the original plan, the port was to be built in Cilamaya in Karawang, about 80 km east of Jakarta. However, the government cancelled the project in April 2015 despite completion of its feasibility study. Vice President Jusuf Kalla then demanded Japan find a new location in West Java. Japan agreed to move farther to the east to Subang, perhaps because PM Abe kept hoping that Japan would win the Jakarta-Surabaya high-speed railway project.

Japan has been playing a pivotal role in the country's development for decades, especially by pouring in loans and investments. Japan's role is declining as investment from China and South Korea steadily grows.

Japan has become and will continue to be a strategic partner for Indonesia in a mutually beneficial relationship. Indonesia should not have to be dependent on China, and therefore it needs to maintain a strong and stable relation with Japan, the world's third-largest economy.

For Tokyo, Jakarta is geopolitically important because of its traditionally extra-cautious stance against China. Likewise, Indonesia needs a strong Japan.

When meeting PM Abe this weekend, President Jokowi needs to brief the Japanese leader honestly about the port issue. Jokowi cannot repeat the same tactic he adopted when offering the high-speed train project two years ago.