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FISCAL POLICY

Govt on alert to monitor external challenges in 2019

Marchio Irfan Gorbiano
THE JAKARTA POST/NUSA DUA, BALI

The government has said it will continue to monitor the latest global developments to ensure that its fiscal policy next year remains capable of boosting Indonesia's economy amid a challenging outlook in the global economic environment.

Finance Minister Sri Mulyani Indrawati said the global environment next year was still challenging amid uncertainties such as the ongoing trade tensions between the United States and China — despite a slight détente between the world's two biggest economies following the recent G20 meeting in Buenos Aires, Argentina.

She added that the government would direct its fiscal policy, particularly the 2019 state budget, toward maintaining the stability of the domestic economy.

"We will safeguard the state budget in 2019 so that it will still be able to act as an anchor of stability," said Sri Mulyani in Nusa Dua, Bali, on Thursday, adding that the government would retain a degree of flexibility in its fiscal policy to respond to external dynamics despite its desire to seek stability.

Sri Mulyani said the government would closely monitor how developments in the global economy impact Indonesia's domestic demand, the main engine of growth in the country, while projecting that household spending would grow 5.1 percent next year, slightly above its traditional 5 percent growth.

The changing external environment could also have a significant impact on the country's trade balance, Sri Mulyani said, outlining that challenges would come from the declining price of crude palm oil (CPO), while the expected slowdown in China's growth amid its trade spat with the US could result in reduced coal demand from the country.

"The pressure on exports would likely be quite tangible and we need to be aware of it," said Sri Mulyani.

The commitment to stability can be reflected in the lower fiscal deficit target outlined in the 2019 state budget at 1.84 percent of GDP, equal to Rp 296 trillion (US$20.2 billion).

While the figure was lower than the 2.19 percent deficit aimed for in this year's budget, Sri Mulyani said, based on the realization of the state budget as of November, the Finance Ministry projected that this year's deficit could be realized near to the 2019 target at between 1.86 and 1.87 percent of GDP.

Despite a lower fiscal deficit target next year, Sri Mulyani emphasized that the government would still be able to boost the economy through an array of fiscal incentives.

Mark Billington, Southeast Asia regional director at the Institute of Chartered Accountants in England and Wales (ICAEW), said the hawkish monetary policy stance by Bank Indonesia (BI) would dampen the domestic demand for next year.

BI has raised its policy rate six times this year, hiking its seven-day reverse repo rate by a total of 175 basis points (bps) to bring the rate to the current 6 percent level in an aggressive move to stabilize the rupiah as well as maintain the attractiveness of domestic financial assets to invite inflows of foreign capital.

Billington also echoed Sri Mulyani's view that Indonesia would face a greater challenge in its export as a result of easing demand in China.

"Overall, we see Indonesia's growth continuing to slow slightly over the next few quarters with the outlook for exports set to be more challenging amid easing Chinese import demand and increased trade tensions," he said in a recent statement.

The ICAEW estimated that Indonesia's GDP would grow 5.1 percent next year, below the government's target of 5.3 percent growth in 2019 as stated in the 2019 state budget.

Despite potentially facing a slower economic expansion rate next year, the ICAEW noted in its recently released report that Indonesia, along with the Philippines, would come out relatively unscathed from the ongoing trade tensions as the countries have weaker links to China than Singapore and Malaysia. **(das)**

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EFTA trade deal 10 days to go

Rachmadea Aisyah
THE JAKARTA POST/JAKARTA

Trade deal with EFTA to open broader access to European market

Govt envisions Indonesia as regional trade hub

Deals with Australia, Mozambique next in line

Indonesia is expected to sign the comprehensive economic partnership agreement with European Free Trade Association (EFTA) countries as part of the efforts to improve access to nontraditional markets.

The agreement with EFTA countries is one of the three trade deals the government is expected to conclude this year. The two others are a Comprehensive Economic Partnership Agreement (CEPA) with Australia and a preferential trade agreement (PTA) with Mozambique.

"Regarding the Indonesia-EFTA CEPA, we have scheduled the signing for next weekend at the Trade Ministry office," the Trade Ministry's director general for international trade negotiations, Iman Pambagyo, said referring to Dec. 16 as the date of the signing, at a recent press briefing.

The EFTA's members are four European countries that are not part of the European Union, namely Iceland, Liechtenstein, Norway and Switzerland.

Through the trade deal with EFTA countries, Indonesia will get broader market access to sell products such as fish products, textiles, furniture, electronics, tires as well as coffee and palm oil.

The trade deal will also allow Indonesians to access more training.

EFTA countries will also increase investment in energy and mining, machinery, agriculture, infrastructure, forestry and chemical industries in Indonesia.

Meanwhile, the Trade Ministry's director for bilateral trade negotiations, Ni Made Ayu Marthini, said the government should set out extra measures when entering nontraditional markets, especially in smaller countries such as those in Africa.

"Many of our nontraditional destinations have high tariffs [...] but smaller market capacity, so they usually prefer us to invest there first," Made said. "That is why we tend to aim at PTAs first so they would have a preference for us before moving to higher levels of partnership."

For instance, she said, both Indonesian private and state companies had entered Nigeria and Tunisia and established investments there in many fields, such as food and construction.

"After we have established our presence, it would be easier for us to build trust between the two sides. We will have more intense communication [...] so we can promote our commodities there with less competition," said Made.

The government has envisioned that through its efforts, Indonesia will become the regional trade hub for Southeast Asia by 2020.

"We have also been building Jakarta as the commercial and diplomatic capital of ASEAN," Iman said. "We hope that by becoming more active in international trade, we can place ourselves as the center of trade in the region."

Meanwhile, responding to uncertainties from the trade feud between the world's two largest economies, the United States and China, the government is committed to continue expanding trade and strive for completion of more trade deals.

Indonesia, which sees the two behemoths as its main trade partners, has remained wary over the feud even though US President Donald Trump and China's President Xi Jinping agreed to de-escalate the trade war last weekend at the G20 summit in Buenos Aires.

Iman emphasized that despite the turmoil, the Indonesian government would keep focus on its trade goals.

"We have been monitoring the development [of the trade war], but for Indonesia, we will focus on our own agenda," Iman told reporters at a recent press briefing. "We will keep on improving trade with both traditional and nontraditional partners, as well as go on trade missions and intensify bilateral trade talks."

Dec 7, 2018
J. Post

BILATERAL TRADE

S. Korea-Indonesia CEPA 'back on table'

The Jakarta Post
JAKARTA

South Korea announced on Wednesday that the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) is "back on the table" after talks collapsed in 2014 as the two countries failed to reach an agreement.

The announcement came earlier this week from South Korean Ambassador to Indonesia Kim Chang-beom, who said the two governments were in discussion.

"The trade ministers have just discussed the idea. We hope to have an initial consultation on how and when to restart IK-CEPA negotiations," Kim told *The Jakarta Post* during a discussion on bilateral economic relations in Jakarta on Wednesday.

The ambassador did not detail the potential topics up for negotiation but noted that negotiations might progress slowly because the Indonesian government was preoccupied with other bilateral agreements, such as with the European Free Trade Association.

"Next year, we are also expecting some concrete projects on infrastructure, the digital economy and more investment in the lifestyle sector, such as health care and cosmetics," he said during the discussion, hosted by the Korea Institute for International Economic Policy (KIEP) and the Centre for Strategic and International Studies (CSIS).

He noted that the amount and rate of next year's investment disbursement would depend upon political developments around the legislative and presidential elections.

The idea to reopen negotiations followed strengthening bilateral diplomatic ties after President Moon Jae-in visited Jakarta in late 2017 and President Joko "Jokowi" Widodo returned the favor with a visit to Seoul in September.

During Jokowi's visit, the two heads of state committed to increase bilateral trade to US$30 million by 2020.

Korea International Trade Association data show that, in 2017, South Korean exports to Indonesia amounted to US$8.4 billion, compared to Indonesia's $8.2 billion exports to Korea in the same year.

JP/Dhoni Setiawan

Resuming talks: Centre for Strategic and International Studies deputy executive director Medelina K. Hendytio (*center*) exchanges tokens of appreciation with Institute for International Economic Policy president Jae-Young Lee (*right*), while South Korean Ambassador to Indonesia Kim Chang-beom claps after a discussion forum in Jakarta on Wednesday. Kim said South Korean and Indonesian trade ministers had agreed to continue the Indonesia-Korea Comprehensive Economic Partnership Agreement negotiations after the two countries failed to reach an agreement in 2014.

Nevertheless, the commitment spurred Trade Minister Enggartiasto Lukita to call upon his South Korean counterpart to reopen IK-CEPA negotiations when they met on the sidelines of last month's 33rd ASEAN Summit in Singapore.

Negotiations on the IK-CEPA, which began in 2011, collapsed in 2014 over disagreements related to foreign direct investment (FDI).

Specifically, Indonesia had demanded the South Korean government guarantee FDI into Indonesia, which would otherwise lose out in the IK-CEPA because its industry could not compete with South Korea's.

"But of course South Korea could not give such a guarantee because the investment would come from the private sector. The government has no power to dictate the investment choices of private companies," said CSIS economics researcher Deni Friawan.

He added that Indonesia should, instead, improve its business climate to naturally attract South Korean investors, including by further opening its market to FDI. Such improvements, however, are difficult to achieve because of a combination of nationalist politics, which favors protectionism, and sluggish bureaucratic reform.

Just last week, the government backtracked on a market-liberalization policy related to the negative investment list (DNI) following outcry from the business community, which feared that the policy would lead to a foreign takeover of domestic industry.

Korea University macroeconomics and finance professor Park Bun-sook concurred with Deni, saying that Vietnam was a more attractive investment option for South Koreans.

ASEAN data shows that South Korean investment in Vietnam last year amounted to $3.4 billion, the highest in the region. In comparison, Indonesia ranked fifth, with only $157.6 million.

"Vietnam's manufacturing industry is more efficient than Indonesia's and the country is more culturally similar to South Korea, so many South Korean investors prefer Vietnam," he said.

He added that Indonesia's failure to improve its business climate and absorb existing Korean technology, such as in shoe manufacturing, had resulted in dwindling investor confidence with investment dropping sixfold in the past five years from $980 million in 2013.

"The 2017 ease of doing business index ranks South Korea the fourth-best in the world, yet businessmen and investors still complain about complications. Meanwhile, Indonesia ranks 72nd, so imagine how challenging it would be to build business relations," he said. **(nor)**

Dec 7, 2018
J. Post

INFRASTRUCTURE

RI woos Chinese investors with $60b worth of BRI projects

Tabita Diela and Gayatri Suroyo
REUTERS/JAKARTA

Indonesia is offering new projects worth up to US$60 billion to Chinese investors in a bid to capitalize on Beijing's Belt and Road Initiative (BRI), a senior official said, despite growing concern about the strings tied to some of the loans worldwide.

Despite Indonesia's strategic location, Southeast Asia's largest economy has not been among the biggest beneficiaries of China's trillion-dollar push to create a modern day Silk Road.

Its best-known BRI is a $6 billion railway linking the capital, Jakarta, to the textile hub of Bandung, which has faced land procurement problems.

However, Jakarta has been in "structural communication" with Beijing since last year on possible infrastructure projects worth a combined $50 billion to $60 billion, said Ridwan Djamaluddin, its deputy minister of maritime affairs.

Indonesia has proposed potential projects across the archipelago, while Chinese officials and experts have toured regional governments in search of projects to fund, he told Reuters in an interview.

"We are fully aware that we must not let this cooperation end badly," Djamaluddin said. "Other countries have been forced to pay back loans and some have let go of their assets. We don't want that."

Getting agreement has taken longer than expected because Indonesia insisted on a business-to-business (B2B) structure for all its deals, refusing to take any government-to-government loans, he added.

"I understand we're not as quick as other countries to tap into the fund because the fund owner will think longer on our offers," Djamaluddin said.

He expected agreements in the next round of talks in April, after China responded to Indonesia's most recent proposal last month, he added.

The B2B model would help shield Indonesia from any risk of China wielding leverage because of the country's financial dependence, Djamaluddin said.

Any Chinese investment must also employ Indonesian workers and have the most advanced, environmentally friendly technology and allow for transfer of technology, he added.

Projects on offer include four hydropower plants with a combined value of $35 billion in Indonesia's province of North Kalimantan on the island of Borneo, he said.

In October, Power Construction Corp of China (PowerChina) and Indonesia's Kayan Hydro Energy signed a contract for engineering, procurement and construction on the first stage of one plant, the Chinese firm said in a statement. Media have said the project is valued at $17.8 billion.

Indonesia's proposal also offers China the opportunity to build mine-mouth power plants, industrial complexes, ports and other infrastructure in its provinces of Central Kalimantan, North Sumatra, North Sulawesi and on the resort island of Bali.

Dec 7. 2018
J.Post

Smallholders demand benefits from government's B20 policy

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

Amid the government's focus on implementing the 20 percent blended biodiesel (B20) policy, palm oil smallholders have complained of a lack of attention from the government, who the farmers say has thus far concentrated its efforts on the downstream sector.

Palm Oil Smallholders Union (SPKS) chairman Mansuetus Darto said smallholders, who are responsible for 43 percent of Indonesia's oil palm plantations at 14.3 million hectares, received unfair treatment despite the industry gaining the government's support through the B20 policy.

"We always talk about the subsidy [for biodiesel] in the downstream sector when actually the upstream sector [smallholders] also needs the subsidy," Mansuetus said, referring to the incentive scheme for biodiesel taken from the palm oil export levy collected by the Indonesian Oil Palm Estate Fund (BPDP-KS).

Mansuetus explained that the presence of middlemen meant smallholders received a lower price for their output, with an average difference of up to Rp 600 (4 US cents) per kilogram of palm fruit bunches (TBS) compared to the normal price.

He claimed that the situation is currently much worse because of decreasing global crude palm oil (CPO) prices, which has sat at around $400 per ton since last month, compared to better days when the price could reach $700 per ton in 2016 and 2017. Based on a survey by the SPKS, the price of TBS from independent smallholders stands at around Rp 600 per kg, while for plasma smallholders it stands at Rp 900 to Rp 1,000 per kg.

"The normal price should be around Rp 1,300 per kg of TBS, so right now [smallholders] are having difficulties to even get food on the table. Some of them have even halted production because of a lack of finance," he said.

The union made its statement during a recent event held by local think tank for sustainable development Coaction Indonesia, which publicly released the results of its study on sustainable biodiesel.

Mansueto went on to urge the government to reevaluate the CPO export levy collected by the BPDP-KS, which he proposed to be lowered to $15 per ton, or 70 percent lower than the previous rate at $50 per ton of CPO.

"Other than that, we hope that the government could help smallholders sell palm fruit directly to the industry [as opposed to using middlemen]. I think that could be realized if the BPDP-KS can be divided into two units, one of which will work under the Agriculture Ministry," he said.

The BPDP-KS is a special unit that pools palm oil export levies that works under the Finance Ministry. The fund has been used for replanting as well as to incentivize the B20 program.

On the same occasion, Coaction Indonesia announced that its study found a lack of government attention on emissions from palm oil production.

"The study found that the emissions from the opening of oil palm plantations in Kalimantan during 1990 to 2010 [without combustion] was estimated to be equivalent of emissions from 322,205,567 cars a year," Coaction concluded in its study.

Therefore, Coaction Indonesia recommended the government select dedicated plantation areas to calculate productivity improvement and estimate clearly total emissions from the plantation.

Andi Novianto, deputy for energy and environmental affairs at the Office of the Coordinating Economic Minister, told *The Jakarta Post* that the input of both the SPKS and Coaction will be taken to the ministry.

He, however, acknowledged that the ministry was currently focusing on the downstream sector, especially on the absorption of B20 supply to all sectors, because the successful implementation of the policy would significantly reduce oil imports.

The B20 policy has been in place since 2016, but President Joko "Jokowi" Widodo on Sept. 1 ordered it to be expanded to almost all sectors, including those outside the public service obligation.

The policy is among the government's efforts to reduce oil imports as the country's current account deficit has continued to swell after the rupiah slid to 15,000 per US dollar in September.

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Lion Air may scrap Boeing jet order

Riza Roidila Mufti
THE JAKARTA POST/JAKARTA

Co-founder disappointed with Boeing about summary on JT610 crash

Garuda Indonesia maintains order for 737 MAX aircraft

Rusdi Kirana, co-founder of low-cost carrier Lion Air Group, is said to be considering a cancelation of the US$22 billion order of Boeing 737 MAX aircraft following the recent crash of its flight JT610, which used the MAX-8 type, as he expressed his disappointment over how the jet manufacturer responded to the fatal accident.

"I feel betrayed," Rusdi said by phone Wednesday, as quoted by Bloomberg. "Everything is still under consideration for now."

Rusdi is said to be disappointed with Boeing, especially after the jet maker's official statement summarizing details on the final flight and maintenance issues of the ill-fated JT610. The summary was Boeing's response to a preliminary report on the crash released by the National Transportation Safety Committee (KNKT).

"For ethical reasons, nobody should state their opinion on the preliminary report," Rusdi told Bloomberg. "I'm one of their biggest buyers. Right now, we are in a difficult situation. As a partner, they should have helped, not create a negative impression about us."

Rusdi and Lion Air president director Edward Sirait could not be reached by *The Jakarta Post* on Thursday.

The airline mogul was reportedly preparing documents to propose a cancelation of the order, saying he was ready to deal with the consequences later, Bloomberg reported.

When the *Post* asked for details, Lion Air spokesman Danang Prihantoro declined to comment, explaining that the company was still seeking "clarification on the news source regarding the validity of the information".

United States-based Boeing Co. stated on Thursday that it was unable to provide specific comments on customer discussions but stressed it was "taking every measure to fully understand all aspects of the accident".

"[We] are working closely with the investigating team and all regulatory authorities involved. We are also supporting our valued customer through this very tough time," said Boeing in a statement.

According to data from Boeing's official website, the 737 MAX is the fastest-selling airplane in Boeing's history, accumulating orders for nearly 4,700 aircraft from more than 100 customers.

Lion Air, officially called PT Lion Mentari Airlines, is the third-biggest purchaser of the updated Boeing 737 MAX aircraft, after Southwest Airlines and FlyDubai.

The Lion Air Group in 2011 announced its commitment to ordering aircraft of the 737 MAX family. Company data show that it has so far ordered 218 MAX-8, four MAX-9 and 50 MAX-10 aircraft.

The airline has so far received 11 MAX-8 and two MAX-9 planes.

Lion Air is not the only Indonesian airline having ordered aircraft of the 737 MAX family from Boeing, as national flag carrier Garuda Indonesia also operates the MAX 8. When contacted by the *Post* on Thursday, Garuda Indonesia president director I Gusti Ngurah Askhara Danadiputra, popularly known as Ari Askhara, said the airline would keep its orders for the MAX 8.

"As of today, there is no plan to cancel the order [...] So far, the plane has caused no problem at Garuda Indonesia," he said, adding that Garuda had 50 orders for the aircraft until 2030.

Ari said Garuda had received one of the ordered aircraft, and three more were scheduled for delivery in 2020, while the rest would be delivered gradually until 2030.

Aviation expert Gerry Soejatman told the *Post* that aircraft order cancellations by airlines were "normal" and might happen for various reasons.

"Ordering aircraft means an airline has made a commitment to purchasing planes in the production line, but it has yet to make a payment; the buyer may cancel at this stage," he said.

"I think from hundreds of aircraft that Lion Air Group ordered from Boeing, only few have been put in place [for payment]," Gerry said, adding that a 'firm order' was a process in which a deposit has been transferred.

He acknowledged that Lion Air might be disappointed with Boeing, due to the lack of information regarding the newly modified antistall system on 737 MAX aircraft known as MCAS.

This MCAS system is in the spotlight as it is believed to be the problem the pilot of Lion Air flight JT610 was battling before the eventual crash on Oct. 29. Reuters reported that the MCAS had repeatedly forced the airplane's nose downward while being fed incorrect data from a faulty sensor.