

RI economy still sound

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Winnie Tang

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Investors need not panic about the recent massive sell-offs in global equity markets as Indonesia retains its strong economic fundamentals, experts and government officials have said.

Anxiety among investors rose when the Dow Jones Industrial Average suffered a big fall of more than 1,100 points on Monday — the worst decline since 2011 — prompting plunges in global markets, including in Asia and Europe.

Investors fretted that the United States Federal Reserve (Fed) would increase its interest rates quicker as a result of projections of higher inflationary pressure, given rising wages in the world's biggest economy after years of stagnation.

US President Donald Trump's tax cut policy has also affected market perceptions, as it is thought it will lead to higher

Global market panic only temporary, experts say

Govt continues working on fiscal incentives for industry

budget deficits, which will then prompt more bond issuances, triggering a rise in yields.

However, the Dow Jones, Europe and Asian markets rebounded again on Tuesday, followed by the Jakarta Composite Index (JCI) — the main gauge of the Indonesia Stock Exchange (IDX) — a day later, as it closed 0.87 percent higher than the previous day at 6,534.87.

Fear of massive capital outflows from emerging markets, including Indonesia, were unreasonable as investors would remain confident in the country's economic fundamentals, said Chatib Basri, advisory board chairman of the Mandiri Institute.

"All of the macroeconomic indicators are good, so the potential for capital outflows is not as bad as we might imagine. This also help explains the fast rebound of the JCI," he said on the sidelines of the 2018 Mandiri Investment Forum on Wednesday.

In fact, Indonesia's foreign exchange reserves have been seeing continuous increases with the figure reaching US\$131.98 billion as of January, higher than the \$130.2 billion seen a month earlier, showing that the country received even greater capital inflows.

IDX president director Tito Sulistio has urged investors to stay calm amid the global volatility, pointing out that more companies would soon release their full-year financial performances for 2017 and this would restore market confidence.

Even though volatility will always be a global issue, the recent panic among investors would only be temporary as corrections

were considered normal in stock markets, said Silvano Rumanthir, president director of Mandiri Sekuritas.

He remained confident in the company's JCI projection of 6,700 in 2018, with the optimistic case of 7,100 by the end of the year.

With economic growth of 5.07 percent in 2017, Indonesia is expected to be an attractive market for investment.

Indonesia has also gained investment-grade ratings from three global rating agencies, Moody's, Fitch and Standard & Poor's. Moreover, Fitch upgraded Indonesia's credit rating again last year to BBB.

As the country was hoping for more private investment, Chatib, who is also a former finance minister, said the only way for Indonesia to expand its economic growth above 6 percent would be through boosting the manufacturing sector, including by giving more incentives to the textile

industry, for instance, as it could employ many workers.

However, Indonesia's manufacturing industry recorded weaker growth at 4.27 percent in 2017, compared to 4.29 percent the previous year, a decline that has been consistent since 2011.

Only four industries have been able to record growth above 5 percent, namely food and beverages, pharmaceuticals, basic metal and machinery.

Finance Minister Sri Mulyani Indrawati said the government was assessing continuously whether to provide fiscal incentives for each industry, adding that automotive and steel manufacturers had good momentum as they showed an average of 4 percent growth.

Besides boosting opportunities in the textiles sector, Chatib said a further streamlining of government regulations could also help boost investment in the manufacturing sector.

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MACROECONOMY

IMF sees RI's medium-term growth rising to 5.6 percent

David Lawder

REUTERS/WASHINGTON

The International Monetary Fund (IMF) said Indonesia's annual economic growth will gradually rise to about 5.6 percent over the medium term, led by robust domestic demand.

But it cautioned against building up too much debt in the country's drive to boost infrastructure investment.

The IMF, in its annual review of Indonesia's economic policies, released in Washington on Tuesday, projected annual inflation to remain at around 3.5 percent, with well-anchored inflation expectations.

Indonesia's current account deficit is expected to remain at near 2 percent of gross domestic product (GDP) due to firm commodity prices and robust exports, the fund said.

The IMF report projected Indonesia's 2018 gross domestic product growth rate at 5.3 percent, compared with 5.1 percent in 2017.

"Risks to the outlook remain tilted to the downside, including spikes in global financial volatility, uncertainty around United States economic policies, lower growth in China and geopolitical tensions," the IMF said.

While global growth and commodity prices could surprise on the upside, aiding Indonesia's outlook, the IMF said domestic risks include tax revenue shortfalls and larger fiscal financing needs due to higher interest rates.

The IMF's executive board urged Indonesian authorities to stay vigilant against risks including from volatile capital flows and said fiscal adjustment in 2018 should be gradual to protect growth and rebuild fiscal buffers.

The IMF directors said they welcomed Indonesia's progress in boosting infrastructure investment.

However, it stressed that the pace should be aligned with available financing and the economy's ability to absorb new investment.

"Priority should be given to financing infrastructure with domestic revenue, as well as greater private sector participation, including foreign direct investment," the IMF board said in its assessment.

"This would limit the build-up of corporate external debt and contingent liabilities from state-owned enterprises."

The IMF board also called for authorities to reduce state control and the role of state-owned enterprises in some sectors of the economy and to improve the level and quality of education spending.

Indonesia told to respect LGBT

Agnes Anya and
Dian Septiari

THE JAKARTA POST/ JAKARTA

Indonesia must end discriminations against all its citizens, including members of the Lesbian, Gay, Bisexual and Transgender (LGBT) community, the United Nations human rights chief has warned.

UN High Commissioner for Human Rights Zein Ra'ad al Hussein wrapped up his three-day visit to Indonesia on Wednesday by lambasting the country for unresolved cases of human rights abuses and growing discriminatory acts against marginalized communities, particularly the LGBT.

"If we expect not to be discriminated against on the basis of our religious beliefs, color, race or gender — if Muslim societies expect others to fight against Islamophobia, we should be prepared to end discrimination at home too," said Al Hussein, a Muslim prince from Jordan.

"Islamophobia is wrong. Discrimination on the basis of religious beliefs and color is wrong. Discrimination on the basis of sexual orientation or any other status is wrong."

He added that LGBT Indonesians already faced increasing stigma, threats and intimidation.

Their suffering would probably be deepened and "unnecessary divisions" would be created with the deliberation of the bill to amend the Criminal Code, which he described as "the hateful rhetoric [...] that is being cultivated seemingly for cynical political purposes."

The bill is set to expand the definition of adultery and criminalize pre-marital sex, as well as same-sex relationships.

"The extremist views playing out in the political arena are deeply worrying, accompanied as they are by rising levels of incitement to discrimination, hatred or violence in various parts of the country, including Aceh," said Al Hussein.

In January, North Aceh Police caused global outrage by raiding beauty salons and holding 12 transgender women employees. The police then forced the employees to "act like men" by running and shouting.

"At a time when it is consolidating its democratic gains, we urge Indonesians to move forward — not backward — on human rights and resist attempts to introduce new forms of discrimination in law," Al Hussein said. "Because these proposed amendments will in effect criminalize large sections of the poor and marginalized, they are inherently discriminatory."

Al Hussein said that during the visit he had raised the LGBT topic not only with non-profit institutions, but also with President Joko "Jokowi" Widodo.

Apart from resolving discriminatory acts, Al Hussein also urged Indonesia — which he called "one of the most progressive states" in ASEAN on human rights — to also resolve gross human rights violations, particularly those relating to 1965, when at least 500,000 alleged communists were killed.

Separately, Aaron Connelly, a researcher on Southeast Asia at the Sydney-based think tank the Lowy Institute in Australia, said the proposed criminalization of sex outside marriage would impact foreign citizens who lived in Indonesia, to the point where travel warnings could be issued for foreigners coming to Indonesia.

"The criminalization will enforce the narrative that Indonesia is this dark and mysterious place [where] we could be put in jail for various reasons," he said in Jakarta on Wednesday, adding that the case of Neil Bantleman and Ferdinand Tjiong would reinforce this narrative.

Canadian Bantleman and Indonesian Tjiong are former teachers at the prestigious Jakarta Intercultural School, who were jailed in 2015 for sexually abusing kindergarten children, in a case that many believe to be a miscarriage of justice.

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RI strives for conclusion of RCEP talks

JAKARTA: Indonesia is committed to accelerating negotiations on the Regional Comprehensive Economic Partnership (RCEP), Trade Minister Enggartiasto Lukita said at the 21st round of RCEP negotiations, recently.

He said that once ratified, the RCEP would become the largest trade bloc in the world and could boost economic growth of its members.

The 21st round is taking place in Yogyakarta from Feb. 2 to 9. It is attended by RCEP's 16 negotiating member countries. This round discusses the trade of goods and services, investment, issues regarding legalities and institutions, as well as the rules of origin (ROO).

"The RCEP is our priority because it will greatly contribute to the growth of exports and investment in its member countries," Enggartiasto said in a press statement on Tuesday in Yogyakarta, adding that Indonesia aimed to complete the talks in 2018.

To accelerate the process, participants of the negotiations will also hold numerous bilateral meetings prior to or on the sidelines of the negotiations.

Enggartiasto had earlier met on Jan. 22 with the Indian Trade and Industry Ministry in New Delhi to push talks on the RCEP. President Joko "Jokowi" Widodo expressed a similar intention last year in November during the 31st ASEAN Summit in Manila, the Philippines.

The planned RCEP will represent 28.5 percent of global trade and 31.6 percent of gross world product (GWP). It will be a trade pact between 10 ASEAN countries and their six partners — Australia, China, India, Japan, South Korea and New Zealand. — *JP*

Put 'specific into the Indo-Pacific,' RI told

Dian Septiari

THE JAKARTA POST/JAKARTA

A former foreign minister is calling on Indonesia to "find a geopolitical underpinning" for the renewed discussions of an "Indo-Pacific strategy" to help the region deal with its numerous crises.

"We have crises all around our region and there's deafening silence [about them]," said Marty Natalegawa, who was foreign minister from 2009 to 2014, during a discussion held by the Foreign Policy Community of Indonesia (FPCI) on Wednesday. "Crises don't await summits. Things happen between January and November and that's why it's time to establish a peace and security council in the East Asia Summit."

The discussion on an "Indo-Pacific" strategy has been gaining ground since United States President Donald Trump used the term last year, but Marty said the notion was raised long before Trump used it, as it dates back to 2002 when the East Asia Summit was being discussed, during which Indonesia insisted more countries from outside of the east, southeast and south Asia regions should be invited.

"Thankfully the Indo-Pacific is not new for ASEAN. We have had this perspective since 2002," he said. "We need to put the specific into the Indo-Pacific."

Marty said currently the Indo-Pacific was discussed merely as a geographical description.

"We have begun to talk about mutual cooperation on this and

Former foreign minister urging ASEAN to use Indo-Pacific strategy to resolve crises

Marty Natalegawa tells Jakarta discussion forum, 'Crises don't await summits'

that organization, synergizing ASEAN and IORA [Indian-Ocean Rim Association] to be transparent and inclusive, but at the moment we're missing the geopolitical argument," he said.

Indonesia has the most interest in the Indo-Pacific discussion because it controls four vital sea lanes for international shipping, the Malacca, Sunda, Lombok and Makassar straits, three of which link the Indian and Pacific oceans.

After the ASEAN Ministerial Meeting (AMM) Retreat on Tuesday Foreign Minister Retno Marsudi said ASEAN should not sit in the back seat while developments were taking place. She said Indonesia had encouraged ASEAN countries to take steps to contribute to build "an open, transparent and inclusive Indo-Pacific regional architecture based on international law."

After the two-day retreat, the ASEAN foreign ministers had agreed on Indonesia's proposal to conduct a meeting to develop the concept of an Indo-Pacific regional framework. "In the midst of geopolitical and geo-economic changes and dynamics in the Indo-Pacific region, ASEAN must continue to contribute and inno-

vate and continue to interact with the world to keep [ASEAN] centrality," Retno said in a statement on Tuesday.

However, Marty said ASEAN countries should not only focus on procedural methods, such as holding summits and other ceremonies, but to actually "find the problem to the solution."

He said for a start, Indonesia should identify the challenges and opportunities. He said there were at least three problems in the region: "trust deficit, territorial disputes and managing changes."

The problems had caused the East Asia Summit to be in dire need of the ability to manage crises.

Another way to solve the trust and territorial problems, he said, was to start building confidence through the Treaty Amity Cooperation (TAC) mechanism between the countries in the region with countries outside ASEAN.

Dino Patti Djalal, a former Indonesian ambassador to the US and the founder of the FPCI, said Indonesia should take the strategic role of pushing an inclusive Indo-Pacific strategy.

"If one of the major powers like the US pushes it, China will shut it down, and vice versa. Indonesia is a non-threatening power and a key ASEAN member. So if we can find a way to develop what we mean and structure it into our own foreign policy, it will be an important development in Indonesia," he said.

He added that the concept should not stop at the rhetorical level and needed to be constantly pushed diplomatically.

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House wraps up inquiry into KPK

JAKARTA: After nearly 10 months of probing, the House of Representatives' special team has finally come up with recommendations over its inquiry into the Corruption Eradication Commission's (KPK) performance.

The inquiry team wrapped up a final meeting on Wednesday, during which they agreed to present the recommendations in a House plenary meeting scheduled for Feb. 14.

Team chairman Agun Gunandjar Sudarsa said the recommendations covered four aspects: the KPK's institutional management, its authority, human resources management and the budgetary system.

Still, Agun refused to go into details other than saying the recommendations aimed for better transparency of the KPK's work and better preventive measures against corruption.

"We want the KPK to be more transparent and to coordinate better with other law enforcement agencies also tasked with handling corruption cases, such as the National Police and the Attorney General's Office," Agun said.

The House's inquiry has drawn criticism from antigraft activists who suspected the move was only done to undermine the power of the antigraft body, which currently is investigating a massive e-ID graft case that implicates dozens of lawmakers.

Some members of the inquiry team once suggested an amendment to the prevailing KPK law, a plan the activists described as one of the attempts to weaken the KPK.

The House, however, started to soften its stance after Golkar Party politician Bambang Soesatyo was installed as the House speaker, replacing Setya Novanto, who is currently standing trial for his alleged involvement in the e-ID graft case.

Bambang was endorsed by newly inaugurated party chairman Airlangga Hartarto, who took over the Golkar leadership with a promise to rid the party of corruption under his famous tagline "*Golkar Bersih*" (Clean Golkar). — *JP*

Steel imports inevitable for Indonesia

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Viriya P. Singgih

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Like it or not, Indonesia may still have to rely on imports to meet its rapidly increasing domestic steel consumption needs in coming decades if the government is unable to boost the national production capacity and develop new steel clusters.

Indonesia imported 6.43 million tons of steel last year, equating to 48 percent of the national steel demand, according to the Indonesian Iron and Steel Industry Association (IISIA).

This figure was slightly lower compared to the steel imports of 6.85 million tons in 2016 and the 6.49 million tons imported in 2015. However, the figure still raises concerns as the country remains one of the world's top five steel importers each year.

"Ideally, the import portion should be no more than 30 percent of national demand. Given the current situation, we can see there is a supply-demand imbalance in the country's steel market," IISIA international relations director Purwono Widodo said at a discussion on Wednesday.

Meanwhile, IISIA has projected Indonesia's annual steel consumption to gradually increase from 13.4 million tons last year to 23 million tons in 2025 and 45 million tons in 2035.

To reduce the country's dependence on imports, the Industry Ministry has thrown its full support behind the development of three steel industry clusters with a total investment value of at least US\$14.89 billion. These clusters will be located in Cilegon, Banten; Batulicin in South Kalimantan and Morowali in Central Sulawesi.

Industry Minister Airlangga Hartarto previously said the three clusters would complement each other and be able to cater to domestic demand by supplying high quality steel products.

State-owned steel maker PT Krakatau Steel is teaming up with South Korean steel giant Posco to jointly develop the Cilegon steel complex, which is expected to see its production capacity increase from the current level of 4.5 million tons to 10 million tons of carbon steel a year by 2025.

Meanwhile, China's Shenwu

RI imported 6.43 million tons of steel in 2017

Import volume was almost half national steel demand

Technology Group and local firm PT Gunung Garuda will develop the Batulicin steel cluster that will have a production capacity of 3 million tons of carbon steel.

In addition, China's Shanghai Decent Investment Group and local firm PT Bintangdelapan Investama (BDI) will jointly develop the Indonesia Morowali Industrial Park (IMIP).

By 2019, IMIP expects to have an annual production capacity of 2.5 million tons of hot rolled coil (HRC), 500,000 tons of cold rolled coil (CRC) and 3.5 million tons of carbon steel.

Nonetheless, IISIA's Purwono said the development of these three clusters would still not be enough for Indonesia to achieve steel self-sufficiency.

He said Indonesia would need to develop new steel clusters in the 2030-2035 period.

One of the reasons behind this problem is the low utilization level of the national steel production capacity, which is partly triggered by the relatively high industrial gas prices in Indonesia compared to its regional peers.

The country's annual steel production capacity stood at 14.04 million tons as of 2017, but the utilization was only half of the figure.

IISIA says steel industry players still have to pay around US\$6 to \$7.3 per million British thermal units (mmbtu) for gas used in their operations, higher than the rates of around \$4.64 to \$5.68 in Malaysia and \$3.6 to \$5.36 in Vietnam.

This is despite the Energy and Mineral Resources Ministry's policy since early 2017 to lower the prices of gas used in the petrochemical, fertilizer and steel industries by a maximum of \$2 per 1 mmbtu if they reach more than \$6 per mmbtu.

Airlangga has also previously admitted that the price cut policy has yet to be implemented effectively in certain regions in the country, including in Medan, even though energy costs are crucial to determining the competitiveness of the country's industrial players.

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BUSINESS EXPANSION

Former 7-Eleven operator to sell assets, seek other ventures

The Jakarta Post

JAKARTA

Publicly-listed PT Modern Internasional, the franchisee of the 7-Eleven convenience store chain in Indonesia, will sell about half of its assets to pay debts following the closure of its local stores last June.

The company's shareholders approved the plan during an extraordinary shareholders' meeting on Wednesday.

"We will sell our property assets, such as buildings, storehouses and land," Modern Internasional's acting financial director, Johannis, told reporters.

He said the company would focus on selling its properties first because their prices tend to rise over time, adding that it would retain other assets, such as 7-Eleven

coffee machines, chairs, and other equipment, due to a high chance of price depreciation.

Johannis refused to disclose the estimated sales proceeds as the company was still evaluating the value of the assets it wanted to sell.

Modern International's latest financial report shows that in the third quarter of 2017, it held Rp 1.28 trillion (US\$94.67 million) in total liabilities, down slightly from Rp 1.33 trillion in 2016, as well as Rp 1.12 trillion worth of overall assets, down sharply from Rp 1.98 trillion.

Some of the assets have been taken over by its lenders.

According to an information disclosure statement dated Aug. 31, 2017, PT Bank CIMB Niaga Tbk. had acquired Modern Internasional's assets in the form

of land and buildings worth of Rp 124 billion as collateral for the past loans of its subsidiary, PT Modern Sevel Indonesia.

In 2008, Modern International, through Modern Sevel, inked a franchise agreement with the Texas-based retail chain to operate 7-Eleven stores in Indonesia.

The chain used to be quite popular in Indonesia's major cities as it combined mini markets with cafes serving meals and drinks.

The American-Japanese retail chain's business in Indonesia reached its peak in 2014, with annual total sales amounting to about \$73 million at the 187 outlets it operated.

However, the business gradually declined in the following years due to tighter competition from local mini markets, such as Indomaret and Alfamart.

Last April, PT Charoen Pokphand Indonesia, an affiliate of Thai conglomerate Charoen Pokphand Group, expressed its interest in acquiring the 7-Eleven business for Rp 1 trillion, but later withdrew.

After the deal failed, Modern Internasional shut down all of their outlets last June.

"Previously, we were too focused on 7-Eleven. Now we want to explore other business opportunities," Modern Internasional commissioner Donny Sutanto said.

The proceeds from the asset sales will be partly used to strengthen the capital structure of another subsidiary of the company, PT Modern Data Solusi, the distributor of the Japanese-made Ricoh photocopy machines, so that it can expand its business.

Carmakers pin hopes on lower sedan taxes

Stefani Ribka

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Car manufacturers believe a reduction on taxes on sedans could draw in more investors and increase car output.

Indonesian Automotive Manufacturers Association (Gaikindo) general chairman Yohannes Nangoi said the group expected a 1.8 percent sales increase to 1.1 million units this year from 1.08 million units sold last year.

Gaikindo said the expected increase would come mostly from improved sales of commercial vehicles, especially in mining, amid a commodity price recovery. The group did not expect much from passenger cars.

"Sales of passenger cars won't change drastically this year, except if there's a PPnBM [luxury tax] adjustment," he said Monday.

Currently, the luxury tax for sedans stands at 30 percent while that for MPVs (multi-purpose vehicles) is 10 percent.

The Industry Ministry has proposed the tax adjustment to the Finance Ministry to attract more investment in the automotive industry. The tax adjustment may be realized this year.

A lower PPnBM for sedans would attract investment into sedan production and help improve sedan sales, Nangoi said, adding that the sedan segment was a big market globally.

Industry players are keen to export sedans to Australia, which has sales of 1.2 million units of

Carmakers expect 1.8 percent sales increase to 1.1 million units

Increase mostly from sales of commercial vehicles

cars annually, however, because of the high PPnBM for sedans here, no company is prepared to invest heavily in sedan production.

Australian delegates have given positive signals about eliminating tariffs for Indonesian automotive products during negotiation of the Indonesia-Australia Comprehensive Economic Partnership Agreement, scheduled for conclusion this March, according to information from the Trade Ministry.

"But they [Australia] also require us to improve our safety and emission standards [to be able to export there]," said Gaikindo co-chairman Jongkie Sugiharto.

Jongkie said the adjustment would not mean lowering all car taxes but rather increasing taxes for some car types and lowering others in order to boost vehicle sales and increase government income.

The tax adjustment could boost car sales and increase state income from vehicle sales to between Rp 123.75 trillion (US\$9.1 billion) and Rp 131.62 trillion from the current Rp 112.5 trillion, according to a joint study by the University of Indonesia (UI) and Gaikindo.

Wholesale car sales hit 1.08 million units last year, or a 1.6 percent increase year on year (yoy).

However, the increase was

mostly in truck sales, surging by 45 percent to 89,370 units and double cabs, increasing by 46 percent to 13,667.

Sales of passenger cars like sedans, MPVs and low-cost green cars (LCGCs) declined by 34 percent, 2 percent and 0.3 percent, respectively, to 9,139, 596,893 and 234,554 units, Gaikindo preliminary data show. Car producer Mercedes-Benz is scheduled to submit sales figures later this week.

The tax adjustment will also apply to more environmentally friendly vehicles such as hybrid, plug-in hybrid and electric cars. Indonesia hopes to see 2.1 million electric motorcycles and 2,200 hybrid or electric cars hit the roads by 2025 as mandated by Presidential Regulation No. 22/2017 on national public energy plan.

To reach the 1.1 million units sales target and continue increasing commercial vehicle sales, Gaikindo is holding the first Gaikindo Indonesia International Commercial Vehicle Expo (GIICOMVEC) at the Jakarta Convention Center (JCC) on March 1 to 4, eyeing 3,000 business-to-business (B2B) buyers from the transportation, logistics, construction, infrastructure, oil and gas, plantation, cattle, forestry, retail, wholesale, hospitality and public service sectors.

The group plans to make the expo a biennial event.

The annual Gaikindo Indonesia International Auto Show (GI-IAS) will take place at the Indonesia Convention Exhibition in Banten on Aug. 2 to 12.