

Inconsistency hinders European firms

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA POST

Despite its push to improve ease of doing business in recent years, Indonesia continues to face complaints over an unfavorable regulatory environment, which hinders European investment in the country.

Ulf Eric Backlund, the executive board chairman of the European Chamber of Commerce in Indonesia, said inconsistent regulatory enforcement, as well as regulatory uncertainty, were the greatest concerns for European companies operating in Indonesia. He cited the 2014 Halal Law as an example of such inconsistency.

"We are not judging the law. It is mainly intended for food and beverages, but the way it reads, it could be applied to any kind of product [...] and the implementation guidelines are not clear. So this is putting investment on hold because of the lack of clarity," Backlund told *The Jakarta Post* on the sidelines of an investment forum on Thursday.

"Any investor hates inconsistency. They want long term certainty," he added.

Other issues raised by Backlund were the difficulties faced by foreign workers in obtaining work permits as well as the differences between local and international standards, which hampers trade in goods and services.

"If you want to really have efficient imports and exports, you should adhere more to international standards. They [inconsistent standards] also makes

Investors complain of regulatory uncertainty, difficulty in obtaining foreign worker permits

RI told to rely on private sector to grow faster

it difficult for companies to sell [goods] abroad because they have to adjust to international standards," Backlund said.

However, he noted that the government has made good progress in creating a conducive environment for foreign investors.

European Union Ambassador to Indonesia Vincent Guerend expressed similar concerns, saying that legal uncertainties were among major concerns for European firms.

"European Union industry has repeatedly expressed general concern over legal uncertainties because of changing regulations and investment rules. It's very challenging to plan and realize investment in Indonesia given the often very large scale and long time frame of projects," Guerend said at the same event.

Market access is another issue that Indonesia needs to address if the country wants to remain attractive for productive investment, he added.

Guerend also viewed that Indonesia needs to rely more on its private entities, both domestic and foreign, if it wants to raise growth to 7 percent, from around 5 percent at present, as envisioned by President Joko "Jokowi" Widodo in his presidential campaign a few

years ago.

Furthermore, he underlined that the country must have a more positive outlook toward imports to jack up exports of both goods and services, while also citing the importance of the conclusion of the Indonesia-European Union Comprehensive Economic Partnership Agreement to strengthen trade.

Realized investment in Indonesia rose 13.9 percent year-on-year (yoy) to Rp 692.8 trillion (US\$ 50.93 billion) last year, according to data from the Investment Coordinating Board.

Foreign direct investment, which accounted for 62.1 percent of the overall investment materialized in 2017, surged by 8.5 percent yoy to Rp 430.5 trillion.

The EU, meanwhile, invested \$3.8 billion last year, making it the third-largest foreign investor after Singapore and Japan.

Investment Coordinating Board chairman Thomas Lembong concurred that addressing regulatory uncertainty remained a key task for the government, while acknowledging that it "will take time".

"To some extent, the issue is deeply rooted, so we cannot fix it until we thoroughly reform the entire bureaucracy, including the law enforcement agency," he said.

Meanwhile, World Bank senior economist Massimiliano Cali advised Indonesia to release more business sectors from its Negative Investment List (DNI).

"DNI is one area where Indonesia can relax some of its restrictions, particularly in services," he said.

End of investigation signals boost in RI exports to India

Stefani Ribka

THE JAKARTA POST JAKARTA

The Indian government's decision to end its investigation into alleged Indonesian polyester staple fiber and coated paper dumping has given Indonesia the opportunity to better penetrate the world's second-most populated country, state officials and industry players have said.

India's Directorate General of Anti-Dumping and Allied Duties (DGAD) recently announced it ended the investigation, which began on Feb. 7, 2017, into two cases of alleged polyester staple fiber dumping as it found that Indonesian products posed no harm.

In a similar case, the DGAD investigated allegations of coated paper dumping by local players in 2002, but it stopped the investigation in 2003.

The recent decision might translate to bigger shipments of those goods to India as demand from the South Asian country has continued to increase in the past few years, according to government data.

"Fiber exports to India increased significantly last year," said Pradnyawati, the Trade Min-

Fiber exports to India continue to increase

Synthetic fiber producers expect more incentives to push exports

istry's trade security director.

Exports of polyester staple fiber increased by 38.4 percent year-on-year (yoy) to US\$7.8 million as of November 2017, Trade Ministry data shows.

In 2013, the export value of the fiber was \$26,500. However, it reached a peak of \$10.1 million in 2015 before declining to \$6.1 million a year later.

Polyester staple fiber is a synthetic material used in textiles and the automotive and furniture industries.

Indonesian Association of Synthetic Fiber Producers (APSyFI) executive member Prama Yudha Amdan said India's decision could result in an increase of Indonesian shipments to the country.

However, Yudha said the government was likely to provide more incentives to boost the value-added figure for exports as current sales were dominated by

low value-added products, despite an increase in the figure.

He cited data from the Indonesian Textile Association, which show that the country's total garment and textile exports increased by 4.4 percent to \$12.4 billion last year.

However, APSyFI data shows the textile export to import ratio (import value divided by export value) standing at 52 percent, while China, India and Bangladesh stand at 9 percent, 13 percent and 26 percent, respectively.

"Therefore, incentives like tax rebates are necessary to trigger investors to export higher value-added products," Yudha told *The Jakarta Post* recently.

Local coated paper producers approved of India's decision to end its investigation into alleged local paper dumping. Products in the paper industry include magazines, catalogues, books, brochures and calendars.

Paper industry expert Rusli Tan denied allegations that local paper producers dumped their products to India, saying that, instead, production costs were lowered due to an integrated manufacturing system for wood, pulp

and paper.

Rusli, the former vice chairman of the Indonesia Paper Producers Association, said the closed investigation could result in an increase in paper exports to India as Indonesia produced paper more efficiently and used a premium quality material from a single type of wood.

"Aside from India, producers from Japan, South Korea and China have struggled to compete with our paper quality," he said.

Indonesia is the fourth-biggest exporter of coated paper to India after China, the United States and South Korea, according to Trademap. Its export value rose to \$53.6 million in 2016 from \$19.6 million in 2012.

"We see that Indian authorities are now more transparent in the investigation process. So it's easy for us interested parties to consult with them and clarify any allegations," said Pradnyawati.

With the recent developments, Indonesian producers are set to increase their market share in India as the latter imported \$356.7 billion in products worldwide last year, yet only 3.3 percent came from Indonesia, Trademap data shows.

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Japan rating agency upgrades RI

JAKARTA: The Japan Credit Rating Agency, Ltd. has raised Indonesia's sovereign credit rating (SCR) to BBB (stable outlook) from BBB- (positive outlook) on Thursday.

The agency stated in its press release that the supporting factor for the rating upgrade was the government's effort in performing structural reforms to achieve sustainable economic growth.

The rating upgrade could also have a positive effect on Indonesia's investment sector, the agency said.

According to the agency, Indonesia's achievement in private investment sector could be attributed to the government's 15 economic policy packages, as well as Bank Indonesia's (BI) regulations to reduce the interest rate.

BI Governor Agus D.W Martowardjo said in a statement that the rating upgrade reflected confidence among international institutions in Indonesia's economic power.

"This achievement is the result of our [BI and the government] efforts to maintain a stable financial system that provides a conducive environment for sustainable economic growth," he said on Thursday. — *JP*

TRANSPORTATION

Doubts remain over lack of guidance in new shipping rule

Viriya P. Singgih

THE JAKARTA POST/JAKARTA

A controversial new policy requiring coal and crude palm oil (CPO) exporters to use domestic shipping firms and insurers lacks technical guidance from the government despite the looming deadline for its implementation.

The new policy is stipulated in Trade Ministerial Regulation No. 82/2017, which will take effect by the end of April.

The Trade Ministry expects that the policy will boost the competitiveness of Indonesia's shipping and insurance industries, an aim supported by the Indonesian National Shipowners Association (INSA).

However, as of today, the ministry has yet to set the policy's technical guidance, which is expected to answer questions on whether it will be imposed on new contracts only, or whether certain players will be exempt from the rule.

Togar Sitanggang, secretary-general of the Indonesian Palm Oil Producers Association (Gapki), said domestic players might face delays in exporting their CPO in May if the ministry did not immediately issue the guidance.

He hoped there would be detailed stipulations on leeway for coal and CPO businesses, allowing exporters to use foreign vessels if there were no or few domestic vessels available.

"At present, it's still not clear

what is defined as 'no vessels available'. We need to discuss it soon with all stakeholders," he said.

Indonesia's CPO exports stood at 25.1 million tons in 2016, with India, China and Pakistan being the biggest export markets.

Oke Nurwan, the Trade Ministry's international trade director general, told *The Jakarta Post* that his party had invited coal and CPO business associations to help formulate the technical guidance.

When asked about the readiness of the country's shipping industry, Oke said it would need further discussions with relevant stakeholders, but acknowledged that local players might not be fully ready to dominate overseas shipments of coal and CPO.

However, he said the government had no choice but to take the needed steps to boost economic growth.

Data from the Trade Ministry show there were a total of 25,352 vessels in Indonesia as of 2016, only 1.8 percent of which were available to be used to export coal.

Almost 43 percent of the country's fleet has been used for around 16 to 25 years, while some countries are known to apply age restrictions for foreign-flagged vessels sailing into their ports.

The transportation sector has long contributed a big portion to the country's current account deficit (CAD) as exporters and importers have preferred to use foreign vessels to ship their com-

modities.

In 2016, foreign vessels accounted for 93.7 percent of the country's export-import activities.

INSA chairwoman Carmelita Hartoto said the new policy would certainly help Indonesia's trade services balance as the country had large coal exports that foreign shipping companies benefited from.

She said the local shipping industry could contribute roughly US\$2.4 billion per year to Indonesia's trade services balance based on assumptions of average coal exports at \$300 million per year and sea transportation costs of \$8 metric ton.

"There is a principle called 'ships follow the trade' in the shipping industry. That means shipping companies will provide the services if cargoes are available," she told the *Post*.

Nonetheless, Indonesian Coal Mining Association (APBI) executive director Hendra Sinadia said the new policy would inevitably affect coal exports. He said some prospective foreign buyers had been reluctant to buy coal from the country, as they wanted to see first the impact of the new policy's implementation.

Indonesia produced 461 million tons of coal in 2017, 78.9 percent of which was exported.

Indonesian coal had a market share of 47.6 percent in India, 40.7 percent in China and 35.18 percent in Taiwan last year.

RI relieved despite UN's slam of record

Agnes Anya

THE JAKARTA POST/ JAKARTA

Despite being slammed over increasing discriminatory acts and unresolved past abuses, Indonesia has chosen to see the recent visit of United Nations High Commissioner for Human Rights as a way to convince the world of the country's good record.

At a press gathering in Jakarta on Thursday, Hasan Kleib, Indo-

Not all bad news coming from UN human rights chief's visit to Indonesia: Geneva envoy

Al Hussein invited by Indonesian government to see country's rights situation first-hand

nesia Ambassador to the UN in Geneva, said Zeid Ra'ad al Hussein's visit was in answer an invitation from the Indonesian government and "succeeded in providing the commissioner [a view of] how human rights protection in Indonesia is conducted."

"In Geneva, he had been receiving a lot of letters telling him about negative cases on human rights in Indonesia. He many times asked me why they kept happening," said Hassan. "I then took the initiative to invite him to Indonesia so that he could also see the positive sides. He had not seen the country by himself. He only heard the negative things."

The invitation, he said, was not a mistake because Al Hussein had extensive and constructive discussions with the government during his three-day visit, including with President Joko "Jokowi" Widodo and various human rights organizations. Hassan said that as a result, Al Hussein was impressed by the fact that Indonesian non-profit organizations could express their concerns freely without any supervision from the government and the press was also at liberty to report on issues in the country.

"I do not want to let him only hear bad things about Indonesia until the rest of his tenure in office," Hasan said, adding Al Hussein will end his term in September.

Nevertheless, Hassan admitted that there were "challenges" faced by the government in protecting and promoting human rights.

The obstacles were also recognized by Al Hussein, he added.

"But he acknowledged that there is commitment in the government to deal with the challenges," Hasan said, adding that the government would consider Al Hussein's opinion to address any weaknesses.

Al Hussein ended his visit on Wednesday with a statement praising Indonesia for being "one of the most progressive states" in ASEAN on human rights.

"The government has embraced [the UN's] Sustainable Development Goals, incorporating them into its National Human Rights Action Plan," he said. "Indonesia also has made considerable progress on the realization of the right to health, expanding universal health coverage."

Al Hussein added that Indonesia had provided the space and resources for the National Commission on Human Rights (Komnas HAM) and the National Commission on Violence Against Women (Komnas Perempuan) to be strong, independent institutions.

Nevertheless, he added, gaps remained in the protection of the economic and social rights of Indonesians. He highlighted, among other things, growing pressures and violence against lesbian, gay, bisexual and transgender (LGBT) people.

He also criticized the draft criminal code bill, which would criminalize, among other things, pre-marital sex and same-sex sexual relations.

In addition, he also raised past human rights abuses — like those in 1965 when at least 500,000 people accused of being communists were killed.

"Of course, all states are fragile and all of them are works in progress. This country is no exception," Al Hussein said. "There are some dark clouds on the horizon but I am encouraged by the positive momentum and hope the common sense and strong tradition of tolerance of the Indonesian people will prevail over populism and political opportunism."

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INFRASTRUCTURE

Govt to acquire land for railway project

Rachmadea Aisyah
THE JAKARTA POST/JAKARTA

The government has pledged to lend its support in land acquisition in a bid to advance the US\$5.9 billion China-backed high-speed railway project between Jakarta and Bandung, West Java.

PT Kereta Cepat Indonesia China (KCIC), a consortium of Indonesian state-owned enterprises grouped under PT Pilar Sinergi BUMN Indonesia and Chinese companies, has so far secured slightly above half of the 600 hectares of land needed to build the railway.

The slow pace of land procurement has also led to a delay in loan disbursements by the Chinese lender China Development Bank (CDB), which has committed to cover 75 percent of the funding needs.

While the State-

Owned Enterprises Ministry claimed that part of the loan would be accessible by last November, nothing has been disbursed up to the present.

Nevertheless, the situation may soon change as the Finance Ministry offered on Thursday its assistance in acquiring land for the project through several schemes, such as purchasing, renting or swapping land plots.

"The ministry's Directorate General of State Assets will help us conclude the whole process and conduct the [land] appraisals," Deputy Finance Minister Mardiasmo said after a meeting at the Office of the Coordinating Maritime Affairs Minister.

Meanwhile, Transportation Minister Budi Karya Sumadi said the loan could be disbursed as soon as the land ac-

quisition was complete.

"Because we hope to conclude the land-acquisition process by this April, that is also when the loan should be disbursed for us," said Budi after the meeting.

The physical construction of the project has yet to show any significant progress, estimated at less than 10 percent of the overall development, he added.

The groundbreaking for the project, which will help cut the travel time between the two cities from three hours to only half an hour, took place in January 2016 and work is slated to finish in May 2019. However, land procurement has been the biggest hurdle to overcome.

The meeting revealed that land acquisition only amounted to 54 percent of the total land required to build the train tracks.

This figure has improved little from the 53 percent recorded by the end of last year, with yet to be acquired land plots located mostly in Jakarta, as well as in Karawang and Cimahi in West Java.

Of the cleared land plots, 55 kilometers have been handed over to the project's contractors, PT KCIC and China's High Speed Railway Contractor Consortium (HSRCC), said KCIC main commissioner Sa-

hala Lumban Gaol.

"Some 22 km is being prepared for construction, while the other 33 km has not yet been cleared," he said.

With the current state of development, the government expects the project's completion will miss the deadline.

Coordinating Maritime Affairs Minister Luhut Pandjaitan said the project might only be finished in early 2020.

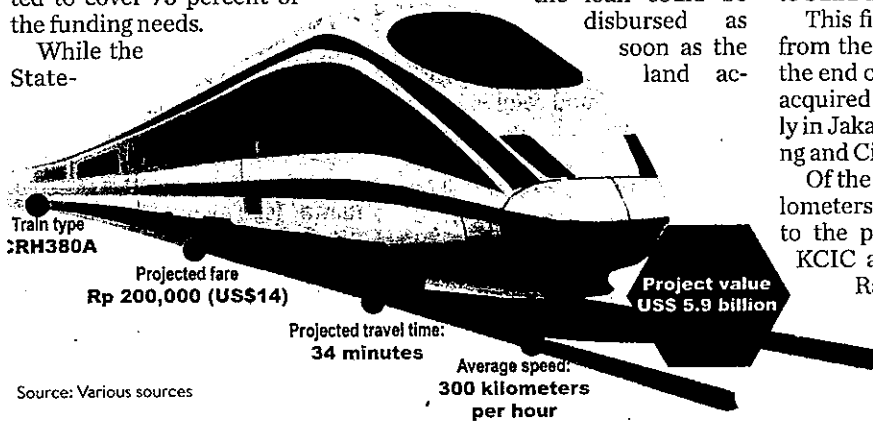
"It's okay as long as the project is ongoing [...] we have made firm steps so there will be no problem," he said after the meeting.

Luhut further said the government was likely to reevaluate how far the Chinese funding should go and whether it would be feasible to cover the whole 142-km track.

"Our team is sitting down together in my office to examine the financial model," he said.

Meanwhile, even with the possible delay, the government remains adamant in its plan to extend the high-speed railway network.

The extension was necessary because the current distance of the Jakarta-Bandung high speed line was considered too short for such a project, whereas if expanded, the project could span as far as 300 km — an optimal distance in order for the project to receive proper financial support from China, he added.



Source: Various sources

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Houses cleared for railway project

SURAKARTA: As many as 594 houses constructed along a railway line in Surakarta, Central Java, will be torn down to make a way for the construction of a railway from Solo Balapan Station to Adi Soemarmo International Airport.

Central Java Railway Affairs Agency head Yuwono Wiharjo said the government would not compensate the owners of the houses because they occupied state land.

"We will only give them an amount of money based on our appraisal of their property," he added on Thursday.

Yuwono said the agency was currently in the process of verifying the occupants of houses built along the railway line in three subdistricts affected by the project. They are Gilingan, Kadapiro and Nusukan.

The result of the verification process will be included in a decree that will determine by name and address those who are declared residents affected by the Surakarta railway construction project.

"For land clearing, state-owned railway operator KAI is still carrying out an inventory and verification process. It is targeted that the land clearing process will be finished in the next two months because the construction of the 44.6-kilometer long double-track railway project will commence then," said Yuwono.

He added that financial aid would be given to residents occupying KAI land for 10 successive years, as stipulated in Presidential Regulation No.56/2017 on the handling of social impacts of land clearing processes for national strategic projects. — *JP*

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PHE discovers new gas reserves

JAKARTA: State-owned energy giant Pertamina, through its upstream subsidiary Pertamina Hulu Energi (PHE), has discovered new gas reserves amounting to 84 billion standard cubic feet (bscf) in the Abar block in West Java.

PHE has operated the Abar block since May 22, 2015, with a commitment to conduct a geological and geophysical study and an offshore 2D seismic survey, as well as drill one exploration well within the first three years of its operations there.

"At the end of the fourth quarter of 2017, PHE Abar had drilled the Karunia 1-X exploration well and successfully discovered gas reserves totaling 84 bscf in the sandstone reservoirs of the Cisubuh and Parigi formations, at a depth of 2,600 feet," PHE Abar general manager Theodorus Duma said in a statement.

PHE says it has been able to reduce spending by 30 percent to drill the Karunia 1-X exploration well, compared to its original target stated in its Authorization for Expenditure approved by the Upstream Oil and Gas Regulatory Special Task Force.

In 2016, PHE drilled a total of 17 exploration wells and discovered contingent resources amounting to 137.91 million barrels of oil equivalent.

In the same year, PHE produced 63,000 barrels of oil per day and 722 million standard cubic feet per day of gas. — *JP*

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LEGISLATIVE BODY

House, MPR to get more speakers

Nurul Fitri Ramadhani

THE JAKARTA POST/JAKARTA

Amid growing concerns about poor legislative performance, the House of Representatives has taken bold action it hopes will lead to a more balanced distribution of power to improve its performance.

Through the revision of the 2014 Legislative Institutions (MD3) Law, the House and the government have agreed to add one more House deputy speaker position, giving the slot to the Indonesian Democratic Party of Struggle (PDI-P).

Through this move the House will have six factions sitting on its speakership board, with the Golkar Party holding the House speaker position.

Article 84 of the draft revision of the 2014 MD3 Law stipulates that the House speakership board consists of one House speaker and five deputy speakers.

In the current law, however, there should be one House speaker, which is currently filled by Golkar, and four deputy speakers, whose seats are now filled by the Gerindra Party, the Democratic Party, the Prosperous Justice Party (PKS) and the National Mandate Party (PAN).

Meanwhile, Article 427A of the MD3 draft revision explains that the additional seat mentioned in Article 84 is only for House deputy speaker seats. This means the PDI-P cannot take over Golkar's slot in the legislative body's top position although the former won the 2014 legislative election.

"The presence of the PDI-P in the House speakership structure will make it easier for the legislative body to coordinate with other government institutions and the President [Joko 'Jokowi' Widodo]," said PDI-P executive Andreas Hugo Pareira.

Also on Thursday, the House's Legislative Body (Baleg) and the government have agreed to add three more seats to the People's Consultative Assembly (MPR) speakership board, as mandated in Article 15 on the draft revision. The slots are given to the PDI-P, the Gerindra Party and the National Awakening Party (PKB).

Previously, the winner of legislative elections always received the House speaker's post. This was the case until 2014, when the House later deliberated the MD3 Law after the pro-government Great Indonesian Coalition (KIH) and the opposition Red-and-White Coalition (KMP) became embroiled in a clash following the 2014 legislative election.

At that time, Golkar and PAN were aligned with the KMP before they jumped ship to support President Jokowi's coalition led by the PDI-P.

Since then, the PDI-P has been struggling to get a post on the speakership board, but the deliberation always met deadlock as other major factions, such as the PKB, always claimed that they deserved the same position.

The agreement to add more seats on the MPR speakership board, which was made after a tough deliberation process that ran for hours until late evening on Wednesday, was also the result of insistence by Gerindra and PKB.

"We really deserve a seat [at the MPR]. That is the spirit of proportionality," House Deputy Speaker Fadli Zon said, adding that the decision about additional seats was made based on political negotiation.

Holding high office in the MPR benefits lawmakers, particularly ahead of the 2019 legislative and presidential elections.

MK upholds House's inquiry rights

Marguerite Afra Sapiie
and Nurul Fitri Ramadhani

THE JAKARTA POST/JAKARTA

The Constitutional Court (MK) has again dashed the hopes of those attempting to end the House of Representatives' controversial inquiry that aims to undermine the power of the Corruption Eradication Commission (KPK).

The court rejected on Thursday petitions filed by KPK employees, some law students and academics, and upheld the House's inquiry rights, in a close-call decision that saw four out of nine justices dissenting.

The bench concluded that the KPK was part of the executive branch on the grounds that it shared similar tasks with the National Police and the Attorney General's Office (AGO) in eradicating corruption, and therefore its performance was subject to the House's inquiry.

"Checks and balances should not let any power be exempted from supervision, therefore, the provisions in question [which are laid out in the 2014 Legislative Institutions Law, or MD3 law] are not a constitutionality problem," Justice Manahan Sitompul said while reading out the ruling on Thursday.

The dissenting justices, I Dewa Gede Palguna, Saldi Isra, Maria Farida Indrati and Suhartoyo, concurred with the petitioners, saying the KPK was an independent body.

Three out of four dissenting justices in Thursday's ruling were the same justices who also raised dissenting opinions last Septem-

ber, when the court decided to reject petitioners' request for a provisional ruling aimed at suspending the inquiry team from carrying out activities until the court decided on a final ruling.

Four out of nine justices
dissented

House inquiry
team to present
recommendations next
week

ber, when the court decided to reject petitioners' request for a provisional ruling aimed at suspending the inquiry team from carrying out activities until the court decided on a final ruling.

Thursday's ruling is in fact a U-turn on the court's previous stance that recognized the KPK as an independent institution.

Justice Suhartoyo said, in his dissenting opinion, that at least four of the court's rulings in various judicial review petitions in the past had recognized the KPK as an independent institution and not as part of the executive branch.

The House's inquiry into the KPK's performance has drawn criticism from activists, who suspect the move only intended to undermine the power of the anti-graft body, which is currently investigating a high-profile 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 — also from Setya — with a promise to rid the party of corruption under his famous tagline "Golkar Bersih" (Clean Golkar).

KPK commissioner Laode M. Syarif, who attended Thursday's hearing at the court, said the KPK leaders were disappointed with the ruling since it showed the inconsistency of the court, which previously had always positioned the KPK as an independent body.

However, he asserted that the ruling would not affect the KPK's work in eradicating corruption, saying that their investigations were not subject to the House's inquiry.

Arteria Dahlan, a politician of the ruling Indonesian Democratic Party of Struggle (PDI-P) and member of the House's inquiry team, welcomed the court's decision.

"[The House] cannot intervene when the KPK carries out its law enforcement tasks, but we are allowed to criticize, supervise and suggest corrections regarding their performance," said Arteria.

Thursday's ruling also came after the House's inquiry team recently wrapped up its investigation and will present its recommendations in a plenary House meeting set for next week.

Inquiry team chairman Agun Gunandjar Sudarsa said the recommendations were not binding and that the team would first invite the KPK to hear their input before bringing the recommendations to the plenary meeting.

Jokowi should buck tradition at BI

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Time for Indonesian President Joko "Jokowi" Widodo to smash precedent.

Central bank Governor Agus Martowardojo's term is up next month, and it's been a successful five years for Southeast Asia's largest economy. Growth is humming along at about 5 percent, the inflation rate is low, and Martowardojo has cut interest rates without much impact on the currency. The last point is critical, given that the Federal Reserve is raising them.

Jokowi hasn't tipped his hand on who he wants to run Bank Indonesia (BI). No incumbent has gotten a second term in four decades. Granted, the nature of Indonesia's economy — not to mention its political system — has changed dramatically in that time.

Daniel Moss
BLOOMBERG VIEW



If anyone has earned a second chance, it's Martowardojo. Jokowi himself made history in 2014, becoming the first president from outside the military and political elite. This is no time for him to fall back on convention.

Political leaders typically like their own people in key roles, and Martowardojo was appointed by Jokowi's predecessor. But why risk a rookie when Jokowi is gearing up to run for reelection next year? He offered some insight into his thinking about the post last week.

"It should be someone who can

gain the market's confidence on economic issues, including monetary policy and inflation," the president said. "I believe the trust of the public and the market is very necessary for a governor of the central bank."

Those qualities would seem to count in favor of Martowardojo. And for reasons neither man can control, they might be more important than the governor's record to date.

That's because for all the talk about the rise of Asia and decline of the West, the reality is that most emerging markets' fate is tied to developments in the United States — specifically, what the Fed does with interest rates under its incoming chairman, Jerome Powell, and how transparently it signals the direction of policy.

Let's back up a bit. Outgoing Fed Chair Janet Yellen executed three steps that had potential to upend economics and financial markets around the globe: ending quantitative easing, raising interest rates, and beginning to reduce the massive bond holdings the Fed had accumulated during the crisis era.

She was aided by a steady expansion, low inflation, and the Fed's relatively recent innovation of releasing dollops of information about its intentions — known in the trade as forward guidance — which sucked a lot of volatility out of markets.

That steady, predictable, utterly transparent approach enabled officials around the world to predict what the Fed was going to do almost before the Fed did. That meant they could respond to soft

inflation and juice growth — that is, cut rates — without worrying that they would fall behind the Fed and, as a result, suffer from dramatically weakening currencies. That's a huge and welcome shift from historical practice. It has surely contributed to the synchronized global upswing.

Martowardojo didn't just trim Indonesian rates; he slashed them. Eight reductions since 2016, including surprises in August and September. Inflation hasn't surged; it's at a one-year low. And Martowardojo has been able to do this without any significant capital outflows: After falling 11.3 percent against the dollar in 2015, the rupiah rose 2.3 percent in 2016 and was little changed last year.

What's critical is not just how much higher US rates will go, but whether Powell can be as clear

about his intentions as Yellen was. His first meeting atop the Federal Open Market Committee is six weeks away. Given the angst uncorked by last week's jobs report, he'll likely look for some way to convey the Fed's intentions well beforehand.

Martowardojo and Jokowi have a huge stake in Powell's success, as do emerging markets generally. For his part, Jokowi should deploy that trust he spoke about. Bank Indonesia's governor has earned it.

The author writes and edits articles on economics for Bloomberg View. Previously he was executive editor of Bloomberg News for global economics, and has led teams in Asia, Europe and North America.
