

RI braces for Fed's fund rate raises

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THE JAKARTA POST/JAKARTA

As the United States Federal Reserve signals a more hawkish stance, Indonesia is bracing for tougher pressure in the latter's monetary system, preparing to intervene in the currency market and keep its benchmark rate.

Despite the rupiah's stability against the greenback, traded at Rp 13,760 per US dollar on Thursday, the former has already depreciated by 2.45 percent within a one-month period.

The domestic currency dropped more steeply than its peers in Asia, such as the Thai baht (0.8 percent), the Singapore dollar (1.37 percent) and the Korean won (1.28 percent).

Bank Indonesia (BI) executive director for monetary management Doddy Zulverdi said the central bank would immediately intervene in the currency market if the rupiah touched Rp 13,800 per US dollar.

"When it touches Rp 13,800 per US dollar, BI will carry out stabilization. We are committed to slowing down volatility," he said during a press briefing on Thursday.

On Tuesday, Washington time, new Fed chief Jerome Powell hinted in his first public statement that the central bank would be more aggressive in responding to potential higher inflation amid a corporate tax rate cut to 25 percent from 31 percent previously.

US bond yields spiked as investors speculated over four rate increases this year, rather than three, which Fed policymakers projected in late December.

Since early February, the world's largest economy has begun to show signs of economic recovery with its wage level rising by 2.9 percent year-on-year (yoy), the highest since 2009, a proxy for greater inflationary pressures this year.

Doddy further said while global investors reacted by moving

RI to face tougher task managing rupiah due to Fed's stance

BI prepared to stabilize currency market, keep rate under low inflation

Considers pressure temporary in nature

their investments from all over the world to the US, foreign companies operating in Indonesia anticipated a bigger US dollar exchange rate by collecting the greenback to pay dividends and interest.

"Companies need to repatriate dividends to their home countries in order to pay dividends and interest so they begin to buy US dollars," he said.

A significant number of companies that do their business in Indonesia are owned by foreign entities. According to BI data, in 2017 foreign debt surged by 10.1 percent yoy to US\$352.2 billion, of which 76.9 percent was private debt.

Despite the development, Doddy believed the pressure would be temporary and, Indonesia could rebound quickly as its economic fundamentals remained strong.

Inflation, for instance, could be kept at around 3 percent, added to by a positive balance of payment and surging foreign exchange (forex) reserve.

Annual inflation was 3.18 percent in February, lower than during the same month in 2017 and 2016, when it stood at 3.83 percent and 4.42 percent, respectively.

"The fundamentals are good, and if the pressure vanishes, we will rebound quickly," he said.

Doddy added that modest inflation also provided enough room for BI to maintain its seven-day reverse repo rate, which currently settled at 4.25 percent.

Financial Services Authority (OJK) head of financial system sta-

bility, Rendra Idris, said the present pressure would not much affect the Indonesian banking system.

"We have carried out a stress test, which reveals that even if the Fed raises its rate four times this year, the effect on the Indonesian banking system will be mild," he said.

The average capital adequacy ratio (CAR) of the domestic banking industry, which stood at 23 percent last year, was far beyond the dangerous level of 14 percent, Rendra added.

Another indicator, non-performing loans (NPL), was healthy, staying at 2.86 percent last year, better than in 2016 when it was above 3 percent.

In terms of the potential interest rate hike, Rendra said the central bank would likely hold its benchmark rate as long as domestic inflation remained stable.

"Practically, we have been in a low inflation regime. If the government can control inflation, such as by providing a sufficient food supply, we can keep the rate competitive," he said.

Rendra also said if the external pressure continued, BI would still have adequate ammunition to stabilize the situation, such as forex reserves, which in January reached US\$131.98 billion.

Institute for Development of Economics and Finance (Indef) economist Bhima Yudhistira Adhinegara said that in the short term, BI had to keep the rupiah below its psychological level of Rp 13,800 per US dollar. At the same time, the government needed to boost exports and tourism to generate more foreign currency amid the risk of a reduced forex reserve caused by stabilization policy.

"If the rupiah continues to depreciate, Indonesia will face new risks, such as more expensive materials for manufacturing, higher interest payments and higher fuel costs," he told *The Jakarta Post*.

Mar. 2, 2008

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Inflation recorded at 0.17% in February

JAKARTA: The Central Statistics Agency (BPS) recorded 0.17 percent month-on-month inflation in February, compared to 0.62 percent inflation in the previous month.

Cumulative inflation in January and February was recorded at 0.79 percent, while year-on-year inflation was recorded at 3.18 percent in February.

"Inflation was sparked by price increases in all spending components from processed foods, to tobacco, to clothing," said BPS head Suhariyanto during a press conference on Thursday, adding that the inflation rate was based on the monitoring of 82 cities across the country.

He explained that processed foods, beverages, cigarettes and tobacco contributed 0.07 percent to the inflation rate, while housing, water, electricity, gas and fuels contributed 0.05 percent to inflation. Meanwhile, clothes and raw foods contributed 0.02 percent and 0.01 percent, respectively, to inflation.

He said the BPS had recorded inflation in 55 cities and deflation in 27 other cities, with the highest inflation recorded in Jayapura (1.05 percent) and the lowest in Palangkaraya (0.04 percent). — *JP*

Taiwan hopes for easier business scene in RI

Rachmadea Aisyah

THE JAKARTA POST: TAIPEI, TAIWAN

The Taiwanese government is hoping that the Indonesian government can give better access to Taiwanese business players in Southeast Asia's largest economy, as Taiwan's investment has continued to increase over the past few years.

According to data from the Trade Ministry, Indonesia is currently Taiwan's 10th-largest trading destination with exports totaling US\$4.4 billion in 2017, while Indonesia's exports to Taiwan amounted to \$7.47 billion in the same period.

Taiwan's exports to Indonesia are dominated by machinery and mechanical appliances, whereas Indonesia's exports are mostly raw materials such as coal, natural gas and crude oil.

The trade negotiator from Taiwan's Economic Affairs Ministry, Tu Chun-yi, said Taiwan expected more fairness in trade activities to Indonesia, citing that some of Taiwan's exports were still subject to certain duties, among other things.

"Most of the exports from China, India, Korea and Japan, [they] don't pay any import tariffs. But

investment from Taiwan continually increasing

Taiwan expects fairness in trade activities

Easing trade tariff would encourage more businesses: Taiwan official

for Taiwan, we have to pay on average 6 to 8 percent for the import tariff," Tu told *The Jakarta Post* recently during a media visit to Taiwan.

Tu claimed Taiwan has \$17 billion worth of investments it has planted in Indonesia over the years, and an easing in trade tariffs would encourage Taiwanese businesses to be more active in Indonesia.

"We hope we can build on some kind of framework between the countries," he said, adding that both governments had actually discussed the matter several times. "If we can reach a better agreement with your government, we can offer a very fair environment for our businesspeople in Indonesia."

Indonesia is Taiwan's second-biggest investment destination after Singapore in the Southeast Asian region. In 2017, Taiwan

ranked 14th in the list of largest country investors in Indonesia with \$397 million invested in 585 projects across the country, data from the Investment Coordinating (BKPM) shows. The figure almost tripled from \$149 million in 2016, when Taiwan ranked 19th on the same list.

Taiwan's focus over Indonesia, Southeast Asia's largest economy, is based on its New Southbound Policy (NSP) that was introduced in 2016 by Taiwan's president, Tsai Ing-wen, in order to balance Taiwan's economic focus over mainland China and 18 countries in Southeast Asia, South Asia and Australasia regions.

This year, Taiwan has aimed for double-digit growth in its overall investments throughout 2017 at \$3.68 billion for the 18 countries, zooming in mostly on Southeast Asian countries, Tu added.

"The \$3.68 billion for all these countries, especially in Southeast Asian countries, is really small and I believe we have huge room to grow this year," he said, not disclosing the exact target nor elaborating how much of the investment would be directed to Indonesia.

Meanwhile, data from the ministry shows that approximate-

ly 10,000 Taiwanese companies have accumulated up to \$100 billion worth of investment across the 18 countries by 2017.

In terms of government-to-government cooperation, Tu said the Taiwanese government had prioritized the agriculture and petrochemical sectors to invest in Indonesia. Both sectors are part of the NSP's flagship programs, according to data provided by the Taiwanese government.

Speaking on a separate occasion, the head of the Indonesian Trade and Economic Office (KDEI) in Taipei, Robert J. Binyaryo, said investments and industrial cooperation were among the key points of Indonesia's economic relationship with Taiwan.

"The KDEI Taipei has also been facilitating both Indonesian and Taiwanese businesspeople in business-matching opportunities to follow up Taiwan's export and import inquiries," Robert said in a written statement issued by the Trade Ministry last week.

The Indonesian government recorded a trade surplus between Taiwan and Indonesia last year. The figure reached \$962 million, a 25.6 percent improvement from 2016, which also saw another surplus at \$765 million.

Prolonged selection may hurt business climate

Businesspeople have raised concerns over the prolonged tension between the government and the House of Representatives over the selection of the Business Competition Supervisory Commission (KPPU) leaders, as it could damage the business climate.

House Commission VI, which oversees trade, industry, investment and state-owned enterprises, has yet to carry out a fit and proper test on 18 commissioner candidates at the antimonopoly agency, although the government had submitted the list last November.

As the tenure of the current commissioners was supposed to end on Dec. 27, 2017, the deadlock meant their tenure was extended for two months until Feb. 27.

Nevertheless, the commission did not conclude the selection because of a tight schedule of meetings, it claimed. The agency is thus without new leaders, leading to another extension until April 27.

At present, the KPPU is handling 19 merger and acquisition notifications and 10 ongoing cases, including a business competition row between mineral water companies Danone Group and Mayora, the outcome of which will depend on the new leadership.

The Indonesian Employers Association (Apindo) called for the House to progress quickly as the absence of the new commissioners would hamper the KPPU's operations and affect the business climate.

Apindo expert team leader Sutrisno Iwantono said the independent bodies, including the Corruption Eradication Commission (KPK), Ombudsman and KPPU, were professional and the selection of their leaders should not be politicized.

"The conflict between the government and the House is unnecessary. If they keep postponing the appointment of new KPPU commissioners, it will damage the business climate," he told *The Jakarta Post*.

"The House should not question the independence of the selection committee just because the old commissioners failed the test. The selection committee are all independent figures," Sutrisno added.

Institute for Development of Economics and Finance researcher Nail Huda expressed a similar view, saying that both the government and House should cooperate to complete the selection in a timely manner.

Lawmakers should have notified the government earlier when they learned there was a dispute regarding independence, instead of raising the issue recently, he added.

"Meanwhile, the government should set a deadline for the House. Through supporting political parties, they can push the House to conduct a fit and proper test," he told *the Post*.

The selection process intends to pick nine commissioners out of the 18 candidates.

The selection committee is led by senior economist Hendri Saparini, and comprises University of Indonesia professors Rhénald Kasali and Ine Minara Ruky, former Joko "Jokowi" Widodo-Jusuf Kalla campaign volunteer and Pertamina commissioner Alexander Lay, Gadjah Mada University deputy rector Paripurna Poerwoko Suganda and Cabinet Secretariat administration and apparatus undersecretary Cecep Sutiawan.

Current commissioners, including Munrokhim Misanam, Chandra Setiawan, Kamsar Lumbanradja and chief Syarkawi Rauf, took part in the selection process, but only Chandra made it to the shortlist in October.

Commission VI deputy chairman Azam Asman Natawijana earlier said lawmakers questioned the result of the selection process as well as the composition of the selection committee appointed by the government. Some of its members were either a commissioner of a company that had trials with the KPPU or the expert witness in its case.

Presidential spokesman Johan Budi Sapto said the government had conducted the selection process according to the rules and had no plan to re-select candidates.

Calls for BNN to end lethal drug war

Mar. 2, 2018

J. Post

Marguerite Afra Sapiie
THE JAKARTA POST/JAKARTA

When Comr. Gen. Budi Waseso was sworn in to lead the National Narcotics Agency (BNN) in 2015, he emphasized that the eradication of drugs must be "aggressive" and that he wanted to revise the 2009 Narcotics Law so that all drug abusers would be sent to prison instead of rehabilitation centers.

Almost three years later, the newly sworn-in BNN commander, Insp. Gen. Heru Winarko, appears to have taken a less hawkish stance than his predecessor, emphasizing preventive measures and rehabilitation programs as his priorities.

Heru, previously the law enforcement deputy at the Corruption Eradication Commission (KPK), was inaugurated as BNN chief on Thursday at the State Palace, replacing Budi, who will retire in March after serving in the post for two and a half years.

Under Budi's leadership, BNN personnel were frequently told not to hesitate to shoot drug traffickers, dealers and users who resisted arrest, a call which many said has contributed to the deaths of nearly 100 suspected drug dealers in 2017 alone.

Amnesty International data revealed that 98 suspected drug dealers were killed without judicial process in 2017. The number has far exceeded that of the previous year, when 18 people were shot dead in 2016.

Budi continuously made contentious moves, such as procuring highly lethal weapons to fight against armed drug syndicates and expressing support for Philippines President Rodrigo Duterte's controversial stance against drug offenders that has resulted in the deaths of many.

Amnesty International Indonesia director Usman Hamid called for Heru to stop Budi's hard-line policy, saying the new chief should return the BNN to its true nature as a law-abiding agency that respected due process of law when arresting drug dealers.

"[The BNN] should prioritize a legal approach when it conducts prosecution, because 'shoot-to-kill' is considered extrajudicial killing or unlawful killing [...] The process to prosecute drug syndicates should be fair," Usman told *The Jakarta Post* on Thursday.

Authorities repeatedly said these people were killed because they resisted arrest; however, rights activists often doubted the statement due to lack of thorough investigations into the arrests.

Heru's inauguration comes following a massive shipment of 2.9 tons of crystal methamphetamine worth millions of dollars intercepted from two foreign-flagged vessels off Indonesian waters, an incident which showed the serious drug problems facing

Heru Winarko appointed new BNN chief

Rights group calls on BNN to end extra-judicial killings

Indonesia.

Authorities have said international syndicates took advantage of the vast waters off Indonesia and the presence of *pelabuhan tikus* (traditional unloading ports) to smuggle illegal substances.

In recent years, Indonesia has become a target market for international drug networks on the back of its large population and the country's archipelagic nature situated in vast sea territories.

President Joko "Jokowi" Widodo said he expected Heru to, among other things, step up efforts to prevent smuggling of drugs into the country and to reduce the number of drug offenders, including by implementing better rehabilitation programs.

Jokowi also wanted the anti-graft body's standards to be implemented within the BNN. "Integrity is the most important thing because circulation of drugs, money and turnover [at the BNN] is huge. It's easy to tempt people to do bad things," Jokowi said.

Recently, the BNN, in cooperation with the Financial Transaction Reports and Analysis Centre (PPATK), uncovered the largest ever drug trafficking-related money laundering scheme in the country, worth Rp 6.4 trillion (US\$468.8 million).

Budi said the latest scheme was a sharp increase from a Rp 3.2 trillion operation uncovered in 2016. He also said he expected his successor to continue exposing such schemes and improve measures to resolve drug problems in the country.

Speaking after his inauguration, Heru said he would focus on continuing and improving programs of his predecessor, as well as address drug trafficking by improving cooperation with neighboring countries.

"We will also pay attention to traditional unloading ports. In this matter, the BNN cannot work alone, so we will maintain cooperation with, among other parties, the Indonesian Military," Heru said.

He added that the standards implemented to revamp the BNN's performance would be gradually adjusted under his leadership, which is expected to begin after the handover ceremony next week.

KPK commissioner Basaria Panjaitan said he expected Heru to be an agent of change at the BNN to implement good standards at the antidrug body, including transparency and improving cooperation with the KPK.

The two-star police general graduated from the National Police Academy (Akpol) in 1985.

Corrupt dynasty under spotlight of KPK probe

Kharishar Kahfi

THE JAKARTA POST/JAKARTA

It was very much a case of like father, like son when Kendari Mayor Adriatma Dwi Putra was arrested by the Corruption Eradication Commission (KPK) on early Wednesday morning in Kendari, the capital of Southeast Sulawesi.

His father, Asrun, the former Kendari mayor who has placed his bid in the coming Southeast Sulawesi gubernatorial race, was nabbed three hours later that day, also in Kendari.

It turned out that Adriatama allegedly assisted his father in a bribery case related to a road construction project in Kendari.

On Thursday, the antigraft body named Adriatma and Asrun, along with former Kendari financial and management board head Fatmawati Faqih, suspects for allegedly accepting Rp 2.8 billion (US\$196,000) in bribes from contractor Hasmun Jamzah.

Investigators also found indications that Asrun had "used some of the money to fund his campaign for this year's Southeast Sulawesi gubernatorial election", KPK deputy chief Basaria Anjaitan said on Thursday.

Son accepts bribe to fund father's gubernatorial election campaign

Political dynasties prone to corruption: Activist

The allegation, she said, was supported by a communication record between Fatmawati — who acted as the middleperson — and Hasmun revealing an indication that the father and son had requested the illicit money because of the "increasing cost of politics".

Adriatma helping the funding of his father's campaign seems to be sound evidence of a corrupt political dynasty, in which one family member would help another to get elected into an administration, presumably to prolong the family's authority over a region, including by breaking the law and employing corrupt practices.

"Corruption becomes more likely if a regional administration is controlled by a political dynasty, as it could influence the local bureaucrats to be not transparent and accountable," Indonesia Corruption Watch (ICW) researcher Febri Hendri said.

Adriatma's corruption case is

the latest involving a family dynasty.

It brings to mind a 2013 graft case that occurred in Banten, where former governor Ratu Atut Chosiyah gained notoriety for building a political dynasty, as many of her relatives controlled strategic political posts across the province.

Last year, she was sentenced to five years in prison in a second graft case that came to surface after she was found guilty of bribing Constitutional Court chief justice Akil Mochtar over an election dispute in Banten in 2013. She is still serving prison time to date.

The same thing occurred in South Sumatra's Banyuasin, where the KPK arrested regent Yan Anton Ferdian for allegedly accepting bribes. The court found him guilty last March and punished him with eight years in prison.

The court revoked Yan's right to be elected to public office for three years after serving his prison sentence. As was the case with Atut, who is also stripped of her political rights.

But it appears that such punishments have failed to deter others, as similar cases continued to occur.

For instance, the case of former Batu mayor Eddy Rumpoko in

East Java, who was arrested last September for allegedly accepting bribes related to a rigged procurement project. Eddy was later succeeded by his wife Dewanti Rupoko as the sitting mayor.

A month later, the KPK named East Kalimantan's Kutai Kartanegara regent Rita Widayarsi a suspect in a bribery case related to permit issuance for an oil palm plantation in the regency. Rita followed in the steps of her father both in the political arena and in terms of corruption. Her father, the late Syaokani Hasan Rais, served as regent for two periods before being sent to prison for graft in 2007.

This year's regional elections in 171 participating regions have been dominated by deep-rooted political dynasties, such as in West Kalimantan and West Sulawesi.

Asrun himself was the fifth candidate participating in the coming elections to be arrested by the antigraft body in bribery cases, the latest being on Feb. 16 involving Central Lampung regent Mustafa.

The KPK also found evidence that suspects in four previous cases used the illicit money they received to fund their election campaigns.

Robust economy to boost vehicle sales

Rachmadea Aisyah

THE JAKARTA POST/JAKARTA

The Association of Indonesian Automotive Manufacturers (Gaikindo) is pinning its hopes on the growing domestic economy to boost sales of commercial vehicles as it organizes its first commercial vehicles exhibition, the Gaikindo Indonesia International Commercial Vehicles Expo (GIICOMVEC) in Jakarta from March 1 to 4.

Thirty-two participants are selling all locally assembled products, primarily made of local components. The event is part of Gaikindo's efforts to scale up commercial vehicle sales by 10 to 15 percent this year, from the 235,310 units the industry sold in 2017.

Meanwhile, exports are also expected to improve to 35,000 units, from 27,000 units last year, said Gaikindo general chairman Yohannes Nangoi.

"We estimate the market will grow in the future, especially with the recovering prices of palm oil and coal," Nangoi told the press on the sidelines of the expo's opening on Thursday, adding that the first-time event was expected to serve approximately 3,000 potential buyers.

Although the event's name has the word "international", the current GIICOMVEC is prioritizing domestic buyers coming from various sectors such as logistics, mining, oil and gas and construction, Nangoi added.

At least seven vehicle makers displayed in the expo were slated to launch new products, he said, including Mercedes-Benz's Daimler and Mitsubishi Fuso.

Gaikindo has not set a fixed transaction target for the expo considering it was still testing out the waters. Nevertheless, the four-day event has been estimated to garner more than 20 percent of annual sales in the country this year.

"This event should be able to cover a large portion of [our] sales target because it can bring all commercial vehicle manufacturers and their supporting companies together with their customers," said Nangoi.

Industry Minister Airlangga Hartarto, who inaugurated the

expo, said while he believed commercial vehicle manufacturers were more than capable of building their own image, there were still aspects, such as limited availability of roads in the country, that the government could help to overcome in order to boost vehicle production.

"Commercial vehicles are also key to the streamlining of our commodities' distribution, so any disturbance to the former will affect the competitiveness of every other industry," Airlangga said in his speech. "Better economic growth and recovering commodity prices, on the other hand, will also be able to help push producers to make more commercial vehicles."

Meanwhile, commercial vehicle manufacturers participating in the event are seeing differing trends in their best-selling models.

Mercedes-Benz's Daimler Commercial Vehicles Indonesia, for instance, launched in the expo its latest Axor truck model, which is intended for the logistics business.

"I see the demand from logistics customers who are investing [in Indonesia] and who believe that high gross domestic product growth in Indonesia will continue," said Daimler Commercial Vehicles president director Markus Villinger during the launch. "We can see very good orders [in this category]."

Villinger declined to reveal the price of the newly launched truck but promised that it would be just as competitive as any other truck in the same category.

Astra's United Tractors (UT), which holds the license of commercial vehicle manufacturers UD Trucks, from Japan, and Scania, from Sweden, brought three new models to be launched at the exhibition.

UT marketing director Loudy Irwanto Elias said the launch was a response to an exponential rise in the company's truck sales, which reached 91 percent in 2017.

"This [sales] jump is due to the robust infrastructure and business development, particularly in Java and Sumatra," said Loudy.

More than 60 percent of UT's truck sales, therefore, is concentrated in the construction vehicle and mining vehicle categories, he added.