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RI team set for talks to avoid trade spat

Main exports at risk of slump if US revises GSP

Meetings scheduled this month between govt, USTR officials

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

The government is preparing to lobby the United States Trade Representative (USTR) in a bid to maintain duty-free privileges under the Generalized System of Preferences (GSP) for exports to the world's largest economy.

Coordinating Economic Minister Darmin Nasution said the government had been preparing material to lobby the US administration at an upcoming meeting in an effort to maintain the GSP.

"[The government's goal] is to maintain the GSP because it has a considerable impact on our exports," he said at his office in Jakarta on Wednesday.

Darmin estimated that Indonesia's main commodity exports might drop around 30 to 40 percent if the GSP facility was lifted as Indonesian commodities to the US would be slapped with an increase in import duty of between 10 and 25 percent.

On April 12, the USTR announced on its website that it would review the GSP for Indonesia, India and Kazakhstan. Regarding Indonesia, the USTR said the concerns were over compliance with the GSP's market access and services and investment critera.

The GSP gives preferential treatment in the form of tariff exemptions for imported products, and which is granted by developed to developing countries to promote economic development in the latter.

The USTR review emerged following a trade war between the US and China, which has been escalating recently.

Darmin said there would be a meeting between high-ranking government officials and the USTR in Singapore on July 17, which would be followed by another meeting between the two parties in the US on July 23.

Among the points of contention was the size of the trade deficit, Darmin said.

Aside from gaining benefits from the GSP, Indonesia also enjoys a similar scheme for its exports to Australia and the European Union, among others.

Indonesia was the fourth largest beneficiary of the GSP last year, booking US$2 billion of its exports to the US under the scheme, according to USTR data.

Meanwhile, India was the top beneficiary of the GSP over the same period with the scheme benefitting $5.6 billion of exports.

Indonesia posted a $9.67 billion surplus in its trade with the US last year, with exports booked at $17.77 billion and imports recorded at $8.12 billion, Trade Ministry data revealed. Indonesia's major exports to the US last year included textiles, footwear and palm oil.

The US' trade deficit with Indonesia, however, may be wider as the US Census Bureau recorded a $13.34 billion deficit in 2017, with US exports posted at $6.86 billion and imports recorded at $20.2 billion over the same period.

Shinta W. Kamdani, Indonesian Chamber of Commerce and Industry's deputy chairwoman for international relations, said the government's efforts to maintain the GSP was important in keeping bilateral trade relations mutually beneficial.

"In addition to improving the competitiveness of some exports to the US, we believe that the GSP is particularly important for US businesses and consumers," Shinta said in a statement recently. "The GSP allows US businesses and consumers to get quality goods at affordable prices."

Meanwhile, University of Indonesia economist Fithra Faisal Hastiadi argued that the evaluation of the GSP was more of an effort by the US administration to open bilateral communication channels with Indonesia.

"It [the US] wants more control [over trade relations] through bilateral rather than multilateral or regional means," he said.

Fithra said the government's move to lobby the US administration was important amid escalating trade tensions between the US and China, the two largest economies in the world.

"The revision [of the GSP] would reduce the possibility of posting a surplus in our trade with the US, therefore it would add more pressure to the current account deficit and strain the rupiah even further, which is something we do not want," he said.

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DEFENSE SEMINAR

Indonesia seeks peace in South China Sea

Dian Septiari and
Novan Iman Santosa
THE JAKARTA POST/JAKARTA

Amid rising tensions in the disputed South China Sea, claimed in most part by China, efforts to seek peace have become part of Indonesia's defense diplomacy, Defense Minister Ryamizard Ryacudu said on Wednesday.

He said Indonesian defense diplomacy was implemented through a friendly approach to the four great powers in the Indo-Pacific region: the United States, China, Russia and ASEAN.

"One of the positive impacts we feel from this is [...] the calm situation in the South China Sea," Ryamizard said at the opening ceremony of the 2nd Indonesia International Defense Studies Seminar (IIDSS) in Jakarta.

The South China Sea issue was among the topics raised at the seminar, which was opened by Coordinating Political, Legal and Security Affairs Minister Wiranto.

Ryamizard said the Indo Pacific region, as a Strategic Maritime Axis, lay between the north of the South China Sea and North Natuna waters, with trading routes entering throught the Malacca Strait and then continuing to the south through the Sunda Strait and the Indian Ocean. The route is valued at some US$5.3 trillion each year, making it the world's third-largest trade route.

"We always talk about this [South China Sea] every year. How to maintain security, to stay away from provocation," he said. "I don't want to just talk, I want a concrete solution."

He said he had lobbied his Chinese counterpart for an ASEAN-China joint maritime patrol in the South China Sea.

"They [the Chinese] said the South Chinese Sea is our backyard that we need to guard together," he said.

"We will have the joint patrol this year, that is what a soft power approach is like."

Meanwhile, speaking in a personal capacity, Haryo Budi Nogroho, the deputy assistant to the presidential special envoy for maritime delimitation between Indonesia and Malaysia, said Indonesia acted as an honest broker, being a non-claimant.

He said Indonesia had contributed positively to confidence building measures, which resulted in the Declaration on the Conduct of Parties in the South China Sea in 2002.

Indonesia sponsored second track workshops, firstly initiated by senior diplomat Hasjim Djalal, as an opportunity for claimants to address common concerns without touching on the issues of sovereignty and delimitation, he added. Haryo said such concerns covered transfer of technology, sharing information, the rising sea level and ocean acidification.

"We hope Indonesia will continue to play this role as an honest broker to facilitate the delayed conclusion of a Code of Conduct," he said.

He said many often forgot that the dispute in the South China Sea could impact non-claimants, given that it was a strategic area for submarine cables and that environmental problems also concerned all countries in the region.

Another issue raised in the seminar was Indonesia's multilateral diplomacy that could be made tangible and provide real benefit to the people.

Darmansjah Djumala, Indonesian ambassador to Austria, who is also the chairman of the International Atomic Energy Agency's board of governors, said nuclear could bring actual benefit to Indonesian people.

Even though Indonesia had yet to have nuclear power, there was potential, Darmansjah said.

"We have had 47 years of planning, we have had the law regulating it since 1997 and we have more than 1,000 experts," he said, "and not many people know that we have 77,000 tons of potential uranium reserve."

Other sessions on the first day of the IIDSS discussed a wide range of issues such as the nonproliferation of weapons of mass destruction and tackling transnational crimes in ASEAN. In a session covering sustainable resources development, two speakers discussed the use of renewable energy and off-grid systems to develop infrastructure in Indonesia's remote and border areas.

On Thursday, speakers at the two-day seminar will discuss various issues on tackling terrorism and separatism, best practices in humanitarian assistance and disaster relief, and challenges posed by media and information warfare.

KPPU to stay independent, says minister

The Jakarta Post
JAKARTA

The Trade Ministry has emphasized that the revision of Law No. 5/1999 on monopolies and unfair business competition will not jeopardize the independence of the Business Competition Supervisory Commission (KPPU).

Previously, the government had suggested to the House of Representatives' working committee on the revision of the law to have the KPPU work under the Trade Ministry's authority.

That suggestion had caused concern among businesspeople, who argued it could weaken the commission's authority to ensure fair competition.

"The government and the House of Representatives' [working committee] have agreed to keep the KPPU as an independent body that works under the president, not as part of the government working under the Trade Ministry's authority," Trade Minister Enggartiasto Lukita said recently during a visit to the KPPU offices in Central Jakarta.

He said the government respected the KPPU as an independent body that could help create a healthy business climate and was committed to strengthening the committee's role.

Enggar also said that the KPPU would be involved in the ongoing discussion on the bill and was invited to provide insight to House members.

The revision of the law was expected to be completed this year.

Responding to Enggar's statement, KPPU chairman Kurnia Toha lauded the government's move, saying it could help the House design a bill that would strengthen the commission's position as a law enforcement body.

Kurnia said the commission had several concerns about the revision that needed to be discussed to strengthen the KPPU's role in creating healthier business competition in the country.

The first concern, he said, was for the KPPU to be able to supervise foreign enterprises outside the country, if their activities impacted Indonesia's economy. Currently, the law only regulates businesses that are located in and do business in the country, as stipulated in Article 1 Paragraph 5 of the law.

The second concern, he said, pertained to pre-merger and acquisition notification of the commission.

Businesses would be obliged to announce merger and acquisition plans before execution, so that the KPPU could assess the plans and determine whether the corporate action could result in a monopoly or unhealthy competition.

The current law requires businesses that merge with or acquire shares of another enterprise to report to the KPPU within 30 days after the action. This policy, Kurnia said, had made the commission's job more difficult, as it was hard to dissolve a merger or annul an acquisition.

The third aspect to consider, he went on, was to impose higher fines on businesses proven to have violated the law.

Although he did not mention the range proposed by the commission, he said the fine should be bigger than the current range of Rp 1 billion (US$69,560) to Rp 25 billion mandated by the law to create a deterrent effect.

KPPU commissioner Chandra Setiawan added that the commission would suggest to the House to include in the revision leniency provisions for cartel members acting as whistle-blowers, akin to the Corruption Eradication Commission's (KPK) justice collaborator program.

"If cartel members decide to report their peers, we should be able to reduce their punishment as compensation," he said.

Sutrisno Iwantono, the Indonesian Employers Association (Apindo) executive in charge of public policy, told *The Jakarta Post* that he agreed with some of the KPPU's suggestions, such as the pre-merger and acquisition notification to prevent monopolization, as well as the higher fines.

However, he said, the leniency program might not be fitting for Indonesia because of the lack of enforcement in the procedural law in the country.

Although Apindo had not received an invitation to the hearing on the law at the House, Iwan said the association was willing to provide insight on the bill, and suggested that the law clearly separate the roles of an investigator and a judge in the KPPU to prevent unjust verdicts. **(ris)**

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INFRASTRUCTURE

Govt struggles with Trans Sumatra toll road project

Farida Susanty
THE JAKARTA POST/JAKARTA

Financing issues have hobbled the government's plan to complete the mega Trans Sumatra toll road on schedule.

It is likely that contractors will fail to meet the August deadline set by President Joko "Jokowi" Widodo for the completion of a toll road network connecting Bakauheni, Lampung, to Palembang in South Sumatra.

Jokowi wanted the project to be ready for the Asian Games, which will kick off in mid-August.

Presidential Regulation No. 117/2015 assigned state construction firm Hutama Karya to finish building eight sections of the Trans Sumatra toll road by next year, including the Palembang-Indralaya route, Medan-Binjai, Bakauheni-Terbanggi Besar and Terbanggi Besar-Pematang Panggang route.

The eight sections will make up 645 kilometers of a new toll road network connecting the entire island of Sumatra. However, Hutama Karya data shows that only 21.86 km is operational, including the 6.17-km second section, the Medan-Binjai route, connecting Semayang and Helvetia.

The company recently completed 10 km of the Trans Sumatra toll road network, which is not yet operational.

"We are doing a concerted effort [to finish the project]. When we made the projection [of when the toll road network would be operational], the land [acquisition] should have been completed," Indonesian Toll Road Authority (BPJT) head Herry Trisaputra Zuna said on Wednesday.

One of the main four sections connecting Pekanbaru and Dumai is currently facing land procurement issues, with only 64.86 percent of the land required available for development.

So far, Hutama Karya has completed only 8.66 percent of the section. The Pekanbaru-Dumai toll road was initially projected to start operating in December, while the remaining sections are expected to be completed by the same time next year.

Another major problem hampering construction is a lack of funds, especially as the toll road network is expected to see less traffic compared to the Trans Java network, BPJT noted.

Hutama Karya estimated that for the eight main toll roads, the company will need at least Rp 88 trillion (US$6.1 billion). It has fallen short of its targeted equity by Rp 13.7 trillion.

And with the additional sections — such as the Palembang-Tanjung Api-Api, which is included in the presidential regulation, Padang-Pekanbaru and Medan-Aceh — the firm will need Rp 250.5 trillion, of which it fell short by Rp 128.681 trillion in equity.

To address the project's financing, the government provided capital injections (PMN) in 2015 and 2016 amounting to Rp 5.6 trillion. The PMN has been used to build the four main sections.

The government has also given concession contracts for the Jakarta Outer Ring Road (JORR) and Tanjung Priok Port access road in Jakarta to Hutama Karya for an underlying asset to seek financing.

It was followed by a state guarantee on the Hutama Karya loan for the Medan-Binjai section amounting to Rp 481 billion, and Rp 1.2 trillion for the Palembang-Indralaya section. Hutama Karya then issued a state-guaranteed bond worth Rp 6.5 trillion.

"In 2018, Hutama Karya requested an additional PMN from the government and DPR [House of Representatives] of Rp 12.5 trillion," said Hutama Karya finance director Anis Anjayani.

Riko Amir, head of the Finance Ministry's division for state budget risk mitigation, said the government conceded that it had a limited budget to support the project and would look for other financing options.

"If the equity does not work out, Hutama Karya will issue another bond with a state guarantee, but we have to see what the underlying asset will be like," he said.

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One-day business licensing

Coordinating Economic Minister Darmin Nasution finally launched on Monday the Online Single Submission (OSS), an integrated digital licensing system that promises to complete processing business permits from the central government and regional administrations within a few hours, compared to the several months the process took before.

That sounds like a fairy tale, considering the large number of licenses and permits (with more than 50 at the latest count) businesses need to obtain from dozens of state and local organizations to operate in the world's largest archipelagic nation.

The OSS system is certain to encounter many bugs and glitches at the outset, and it will have limited regional reach within the first year at least, due to the lack of IT infrastructure in many regencies. Therefore, managing the OSS has been temporarily assigned to the office of the chief economy minister before it becomes the full responsibility of the Investment Coordinating Board (BKPM).

Businesspeople still have the option to process their permits at the one-stop integrated licensing counters at the BKPM in Jakarta and at provincial and regency investment boards (BKPMDs). And licenses for mining and financial service businesses are still processed outside the OSS system.

Darmin's office has been under pressure to complete the rather revolutionary OSS system, because it not only integrates the entire licensure process, but also took it online, thereby removing the need to process the documents in person. Doing so also required legal reform, revising and reconciling hundreds of laws and regulations.

We can openly admit that the licensing process has long been prone to bribery and corruption; it's no wonder that there has been strong resistance to implementing the OSS.

But we should also be magnanimous in commending President Joko "Jokowi" Widodo for his steely determination to develop the new digital licensing system. In fact, Jokowi put business licensing reform and infrastructure development at the top of his administration's working programs from the very start of his term.

Certainly, it is much easier to build physical infrastructure than to reform the bureaucracy to expedite business licensing and strengthen law enforcement, as the latter requires a drastic change in the mindset of officials from simply approving and issuing permits to being a good public servant that coordinates well will all relevant government organizations.

Of the 10 key indicators the World Bank uses in its Ease of Doing Business rankings, Indonesia has always performed most poorly in those areas that require massive deregulatory measures, such as business licensing and import and export clearance, property registration, tax filing and investor protection.

The keys to making the OSS a success are to ensure that it has a secure and controlled system to facilitate business licensing as a legal certainty for investors, to steadily develop the government's IT infrastructure and to establish high integrity in its operations, right from the outset.

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Chevron out from Makassar Strait

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

Makassar Strait block uneconomical, says ministry official

Auction for block to take place in about three months

The government announced on Wednesday that United States oil giant Chevron had decided to withdraw its proposal to extend its contract for the Makassar Strait block, which expires in 2020.

The company said the block was uneconomical, and that it would be removed from its Indonesia Deepwater Development (IDD) project.

The IDD project is one of the biggest natural gas projects in the country, which aims to produce 1.23 million standard cubic feet per day (mmfcd) of gas and 50,750 barrels condensate per day (bcpd) by 2023. The first phase in Bangka Hub started production in 2016.

The project covers three blocks — the Makassar Strait, Rapak and Ganal — with the latter two to expire in 2027 and 2028, respectively.

"We decided to terminate the block [Makassar Strait] and exclude it from the IDD project. The existing operators, Chevron, Pertamina and Sinopec, have said they weren't interested anymore. So we will tender it soon," said oil and gas Director General Djoko Siswanto of the Energy and Mineral Resources Ministry.

When contacted by *The Jakarta Post*, Chevron Indonesia spokesperson Danya Dewanti neither denied nor confirmed about the decision, stressing that the company would remain in the IDD project.

"The government of Indonesia is an important and valued partner and we are continuing the discussions on the second stage of the Indonesia Deepwater Development [IDD]," she said on Wednesday.

Upstream Oil and Gas Regulatory Special Task Force (SKK-Migas) chairman Amien Sunaryadi said the auction for the block would take place in about three months.

On June 29, Chevron proposed an extension to its production sharing contract for the Makassar Strait block, along with the Rapak and Ganal blocks. In early July, however, the government ordered the company to renew their proposal and exclude Rapak and Ganal to reduce the IDD project's cost, as it was still in cost recovery.

In 2014, Chevron told the government the construction cost for the IDD project would reach US$12.8 billion. On June 26, however, the cost was lowered to around $6 billion.

Meanwhile, the government may be missing its year-end target to ink deals for around 23 oil and gas blocks, which are ready-to-produce units, as more than a dozen blocks have yet to be finalized and several units are possibly delayed until next year.

In the first half of 2018, only around seven on-stream block agreements were inked, with the latest deal being three units from the batch of 2020, namely Salawati, Kepala Burung Block A and Malacca Strait.

Previously, the Energy and Mineral Resources Ministry targeted to finalize six on-stream blocks, set to expire in 2020, before June 15 or the day of the Idul Fitri festivities. However, only three contracts have been sealed, and it happened on last Wednesday.

There are currently still three other blocks in the 2020 batch that have yet to be finalized, namely Makassar Strait, South Jambi B and Brantas.

Djoko of the ministry said on Wednesday the South Jambi B and Brantas blocks were still stumbling on internal issues as well as payment of signature bonus and performance bonds, respectively.

"We will confirm with the operator of South Jambi B the internal issue, as usually a state firm has a long process to set out the administration," he said, referring to Chinese oil and gas firm PetroChina as the new operator for South Jambi B.

The ministry's upstream oil and gas business development director, Ediar Usman, said on Wednesday his side remained upbeat to seal the deals of those exploration blocks as their potential resources were enticing enough for investors.

As of Wednesday, only seven potential investors have shown interest in five exploration blocks, namely Air Komering, Bukit Barat, Andika Bumi Kita, Southeast Mahakam and Ebuny. The latter four are offshore blocks.

Ediar denied that the gross split scheme, which was introduced in early 2017, was the reason for the snail's pace in deals over oil and gas blocks, noting that to date the ministry had yet to receive any complaints from investors on that matter.

However, the gross split scheme, which replaces the cost recovery scheme deemed burdensome to the state budget, failed to convince lawmakers. Eni Saragih, the deputy chairwoman of the House of Representatives' Commission VII, which oversees energy, suggested recently that the ministry had to reevaluate the new scheme.

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Election disputes filed with MK despite wide margins

Karina M. Tehusijarana
THE JAKARTA POST/JAKARTA

As the registration period for filing election disputes closes, many losing regional head candidates have registered petitions despite being far behind the winning tickets.

As of Wednesday evening, there were 56 regional election disputes filed with the Constitutional Court (MK), including six relating to gubernatorial elections in five regions. Registration closed at midnight on Wednesday.

The six consist of petitions from losing candidates in Maluku, North Maluku, South Sumatra, Lampung and Southeast Sulawesi.

In North Maluku, candidate pair Abdul Gani Kasuba and M. Al Yasin Ali contested the victory of Ahmad Hidayat Mus and Rivai Umar. Abdul and Al Yasin's petition chiefly points to Ahmad's arrest and detainment by the Corruption Eradication Commission as a disqualifying factor, despite the 2016 Region Elections Law saying corruption suspects lose their right to candidacy only if they are convicted.

Ahmad, a former regent of the Sula Islands, was named a suspect in March in relation to a reportedly botched procurement project for an airport that was estimated to have caused Rp 3.4 billion (US$236,480) in state losses.

In the Lampung race, two out of three losing candidate pairs filed separate petitions against the victory of the Arinal Djunaidi-Chusnunia pair.

Both the Herman Hasanusi-Sutono and Muhammad Ridho Ficardo-Bachtiar Basri pairs alleged that Arinal and Chusnunia engaged in "structured, systematic and massive" cheating, pointing to vote-buying.

The South Sumatra and Southeast Sulawesi petitions focus more on administrative violations committed by the local General Elections Commission (KPU) and bias on the part of polling station officials.

The arguments and cases built by the losing candidates are varied, but mostly their petitions are not based on razor-thin defeats.

According to Article 158 of the 2016 law, candidates can only file a dispute if the margin is between 0.5 and 2 percent of the votes cast, depending on the population of the region.

Of the six gubernatorial election dispute petitions, only North Maluku's meets the requirement, with 7,870 votes or 1.42 percentage points between Abdul-Al Yasin and Ahmad-Rivai.

The losing South Sumatra candidate pair were 5 points behind winners Herman Deru and Mawardi Yahya, while petitioners from Lampung, Maluku and South Sulawesi were all over 12 points behind the winning tickets.

Very few of the 50 mayoral and regency election disputes meet the requirement either.

The petitioners argued, however, that the violations that occurred during the elections artificially inflated the winners' vote tallies and that the court should consider the disputes despite failing to meet the requirement.

"A democratic election cannot happen if the means to achieve it are limited and parties cannot use the judicial process to settle regional election disputes," Herman-Sutono's petition said.

Constitutional scholar Feri Amsari said strictly observing the required margin would encourage more election violations.

Regional elections set no margin of victory and candidates with the most votes win the election.

"Candidates will try to cheat as much as possible to gain more votes and exceed the 0.5 to 2 percent threshold, thus avoiding electoral disputes," Feri said. "I find this very problematic."

He expressed the hope that the court would take a more considered stance and determine whether widespread cheating had indeed occurred before applying the vote-margin requirement.

Constitutional Court spokesperson Fajar Laksono said earlier that the court would consider disputes that did not meet Article 158's requirements, saying that the court wanted to avoid the criticism of merely putting simple mathematical considerations ahead of constitutional rights.

The court has had to deal with a deluge of election disputes since the first direct regional elections were held in 2005, with the court ruling on 910 petitions between 2008 and 2010.

Fadli Ramadhanil of the Association for Elections and Democracy said the KPU could improve the verification of voter lists and detection of vote-buying.

"If the organizers can ensure the elections are conducted fairly, then there will be no need for election disputes," he said.

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ANALYSIS.

Consolidation is happening: Holcim is up for sale

Ricky Ho
JAKARTA

According to Bloomberg, Lafarge Holcim is considering the sale of its Indonesian subsidiary, Holcim Indonesia (SMCB) for US$2 billion. This follows Lafarge Holcim's decision to shed 3.8 billion Swiss francs ($4.1 billion) in assets in March, with two-thirds of the impairments concentrated in Algeria, Malaysia, Iraq, Brazil, Indonesia and Egypt.

With 15 metric tons of total capacity it owns, Lafarge Holcim's asking price implies an enterprise value per ton (EV/t) of approximately $133 per ton, a 60 percent premium compared to what SMCB trades at present.

However, it is still at a 30 percent discount from the average investment cost of the new entrants, excluding Conch's Manokwari plant in Papua.

We note that implied price-earnings ratio (PER) and EV to earnings before interest, taxes, depreciation and amortization (EBITDA) of the asking price is extremely high, as SMCB has booked losses even at the operating profit level in the first quarter of 2018. We believe the sale is still at the very early stages, and thus the value of transaction is still very fluid.

The group has appointed bankers to find buyers and facilitate the asset divestment plan. Given the major changes in asset ownership, we believe the divestment process will be subject to review and approval from the regulatory authorities and SMCB's minority shareholders.

Who are the potential buyers? We believe the potential buyers could include: China's major players, China National Building Material (CNBM) and Anhui Conch, and other global and regional players, such as CRH from Ireland, Siam City Cement and Siam Cement from Thailand, as well as Ultratech from India.

In 2015, CRH acquired more than 36 tons of disposed assets, mainly in Europe, Canada, Brazil and the Philippines, during the merger between Lafarge and Holcim for 6.5 billion euros (US$7.1 billion), which translated into implied EV/t and EV/EBITDA of approximately $200 per ton and 8.6 times respectively.

What are the implications? If SMCB gets acquired by a new player looking to enter Indonesia or Anhui Conch, we believe it may not bode well for the sector as they will be quite aggressive in both growing market share and raising utilization rate.

We also think Anhui Conch will find this opportunity attractive, given that they have difficulty in sourcing limestone in Java, although Anhui Conch has never engaged in inorganic expansion (via merger and acquisition) in the past.

Furthermore, we believe either Indocement (INTP) or Semen Indonesia (SMGR) will have to step up to bid if Anhui Conch sets its target on SMCB. Among the two, we believe INTP will have a greater urgency and financial capability to acquire SMCB. The likely winner is the player that does not spend the money on the asset and enjoys the recovery, after the consolidation.

We have illustrated how the competitive landscape will change once the consolidation takes place through the Herfindahl-Hirschman Index (HHI) in Exhibit 1.

The writer is a senior research analyst at Bahana Sekuritas.

Exhibit 1. Herfindahl-Hirschman Index (HHI) under the scenario that the top two players acquire struggling cement producers

	SMGR+SMCB	SMGR+SMP	SMGR+Blma	INTP+SMCB	INTP+SMP	INTP+Blma
Combined capacity (In ktpa)	50,500	42,250	37,500	39,900	31,650	26,900
Combined capacity share (%)	46.2	38.7	34.3	36.5	29.0	24.6
Combined volume (in kt)	36,778	29,442	28,168	26,470	19,134	17,861
Combined volume share (%)	55.4	44.4	42.5	39.9	28.8	26.9
Capacity market share						
HHI - before	1,949	1,949	1,949	1,949	1,949	1,949
HHI - after	2,841	2,351	2,068	2,736	2,231	2,033

Source: Company data, Bahana estimates
*Note: The United States Department of Justice considers a market with an HHI of less than 1,500 to be a competitive marketplace, an HHI of 1,500 to 2,500 to be a moderately concentrated marketplace and an HHI of 2,550 or greater to be a highly concentrated marketplace.

BAHANA

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BI's fight to defend the rupiah: Will it succeed?

Winarno Zain
JAKARTA

Following Bank Indonesia's (BI) decision to raise its reference rate by a significant amount last month to stem the slide of the rupiah, the rupiah has not budged from its position. The rupiah strengthened against the United States dollar after BI raised its seven-day reverse repo rate by 50 basis points to 5.25 percent.

However, one week after BI's decision, its value dropped again to Rp 14,409 against the dollar, slightly worse than the level recorded before BI raised the interest rate.

BI seems to be overwhelmed by a multitude of negative factors surrounding the rupiah, and if BI ammunition becomes less effective in defending the rupiah, it will have to resort to more market intervention — a more risky action — which would result in the accelerated depletion of its external reserves.

And BI's actions would be more costly since its rate increase could adversely affect economic growth. With BI's rate rise, it would be difficult for banks to expand its lending growth to support the economy.

For some time, the rupiah has been under pressure from the tightening of US monetary policy. But the rupiah is also facing financial market turbulence triggered by President Donald Trump's move to wreak havoc on the international trading system by declaring a trade war against the US' main trading partners.

On the domestic side, the persistent deficit in the Indonesian current accounts has not been helpful in BI's efforts to defend the rupiah.

Market concern for Indonesian external risk has been reflected in the decline of foreign direct investment (FDI), which fell from US$8.1 billion in the third quarter of last year to $3.1 billion in the first quarter of 2018. Portfolio investment flows, which were in surplus of $20.7 billion last year, turned into a deficit of $1.2 billion in the first quarter of 2018.

Although BI has been working hard in its domain to defend the rupiah, but the value of the rupiah depends on other factors beyond BI's control. There is evidence that a negative current-account balance could aggravate a country's currency in the middle of market volatility.

Turkey suffered a current-account deficit equal to 5.5 percent of its gross domestic product (GDP) and its currency fell 17 percent. India's rupee fell 7 percent because its current accounts suffered deficit of 1.9 percent to GDP.

During the same period, Argentina's peso fell 33 percent and suffered a current-account deficit of 5.3 percent to GDP.

Argentina has to request a loan from the International Monetary Fund (IMF) of $50 billion to prevent it from plunging into financial crisis. Meanwhile, Thai's baht strengthened by nearly 2 percent and the Malaysian ringgit was up by 0.1 percent.

The two countries had current-account surpluses of 10.2 and 3.2 percent of their GDP, respectively.

The health of the balance sheet and its current accounts play an important role in ensuring the stability of a country's currency. In a country with strong current accounts, the capital flight will generally be minimal when there is economic shock.

Conversely, a weak current-account balance may cause decline in market confidence and trigger foreign capital outflow when there is financial turmoil.

This is the situation that Indonesia is in now. The Jakarta Composite Index (JCI) has fallen 1. 7 percent in one week, and was down 10. 2 percent since the beginning of the year.

Unfortunately, the outlook for Indonesia's balance of payments this year is becoming more uncertain owing to the confusion of investors all over the world over the direction and unpredictability of President Trump's policies and the degree and pace of US Fed monetary policy tightening.

Trump's trade war against China officially started on July 6, when the US increased tariffs on 800 Chinese export items valued at $34 billion. China said it would retaliate by slapping a tariff on 545 US export items of the same value.

The fight could get uglier as more and more tariffs are imposed on those countries' exports. The economic impact that would spill over from this trade war into the world economy is worrying.

During the first five months of 2018, Indonesian trade has been hit by unbalanced growth between imports and exports.

Up to May, exports had grown by 9. 6 percent, while imports grew 24.7 percent. This means imports have been growing at a rate of 2. 5 times export growth.

Because of this gap, trade deficits for the first two months of the quarter (April and May) reached $3.1 billion, a significant increase from the deficit in the first two months of the previous quarter, which was $8 million.

This trade deficit would of course put further pressure on the current-account balance. It is understandable that one of BI's deputy governors projected that the current-account deficit in the second quarter would rise to 2. 5 percent to GDP from 2. 1 percent to GDP in the first quarter.

At the same time, capital inflows — both FDI and portfolio — could not be expected to be robust as last year. So it is likely that the overall balance of payments this year would be in deficits, repeating the pattern of first quarter 2018, when the deficit reached $3. 9 billion.

The exchange reserve stood at $123 billion at the end of March, a decline of $9 billion from the end of January 2018. This means our exchange reserves have depleted at a rate of $2. 25 billion per month.

The prospect of deficit in the balance of payments and the need for BI to carry out market intervention to defend the rupiah, means that the depletion reserves will continue. And it remains to be a hard fight for BI to defend the rupiah.

The writer is a commissioner in a publicly listed oil and gas service company. The views expressed are his own.