

## Highlights of the week



### Visiting traditional markets: A new campaign venue?

Traditional markets have been frequently visited by presidential and vice-presidential candidates since the start of campaign period late in September. According to candidates' most used justification, their visits are to check price stability. Regardless the composition and demographic background of candidates' voters imply that there is a bigger picture to see.



### Underemployment is the real deal

Indonesia's unemployment rate fell to 5.34 percent in August from 5.50 percent a year earlier. The figure, however, conceals the bigger problem in Indonesia's unemployment rate. As the current survey method defines someone as employed if he/she does at least one hour of paid work in a week, the actual unemployment figure might be greater than what the news have said. Despite the good news, furthermore, there are 7 still million people out of a job.



### Foreign lobbying behind controversial policy revision

The draft revision to electronic transaction regulation, that would abolish the requirement for electronic system providers to build local data centers and keep electronic transaction data within Indonesian territory, have incited growing protests from local players. Contradicting rationales behind the plan and the protests may be an indication that extensive foreign lobbying are involved.



### Problematic agriculture policies cause polemic, again

Agriculture Minister Amran Sulaiman's policies and data have created another fiasco, yet again. His anti-import policy in the maize sector since mid-2015 has created a chain effect that culminated in the latest corn import decision and poultry feed shortage. Now, the growing uproar between poultry farmers and their associations against Amran has put them at odds with the interests of maize farmers. If left unchecked, Amran's policy could hurt President Jokowi politically.

## POLITICS

### Visiting traditional markets: A new campaign venue?

A new distinct feature of this year's presidential campaign are the candidates' frequent visits to traditional markets across the country. How can visiting traditional markets possibly sway the direction of the presidential campaign? Are these visitations purely based on economic considerations as claimed by the candidates? Or do they bear greater implications?

**Takeaway:** President Jokowi's and Sandiaga Uno's fervor for visiting traditional markets carries a deeper implication, namely the candidates' aim to secure the votes of middle and lower classes. Considering that these classes make the most of Jokowi-Ma'ruf's and Prabowo-Sandiaga's supporters, according to the latest survey, their decision to target traditional markets is unsurprising. The fact that the most of undecided voters come from middle and lower classes does not hurt either, as it provides an opportunity for the candidates to reap new potential supporters.

**Background:** Since the presidential campaign commenced late in September, traditional markets have become prime targets for campaign activities. Both President Joko "Jokowi" Widodo and Ma'ruf Amin and their challengers Prabowo Subianto and Sandiaga Uno have frequented traditional markets across the country.

President Jokowi and Sandiaga, who have paid the most visits to traditional markets, said economic considerations were behind their sojourns, namely to monitor commodity price stability. Nevertheless, the latest survey on voters' backgrounds indicates that such visits were driven by pragmatic reasons, to woo voters, particularly those in the lower-middle class.

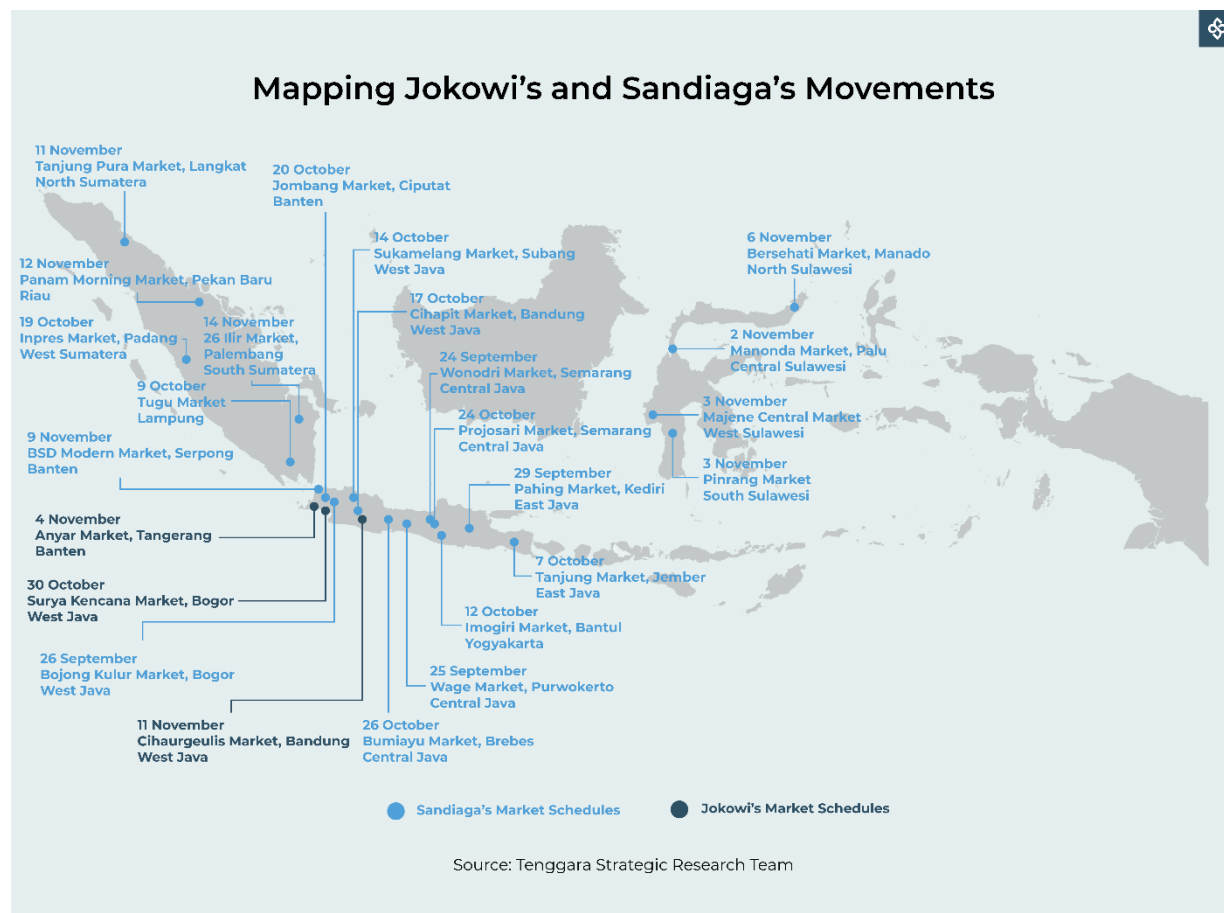
Such pragmatism is not surprising, especially during a political year. Regardless, it is interesting to explore their possible rationales for choosing particular traditional markets.

**Insight:** President Jokowi's recent visits to three traditional markets have been rumored to compensate for Sandiaga's constant visits to markets across the country. It is true that Jokowi first paid a visit to a traditional market in late October, while Sandiaga's series of visits began much earlier on Sept. 24, a day after the campaign period started. Such speculation, however, has been rejected by Jokowi and Ma'ruf's campaign team, stating that the President's habit of conducting *blusukan* (impromptu visits) had been well-known even before he took office. The campaign team further stated that the President's visits were to counter Sandiaga's dismissive remarks about his allegedly increasing commodity prices.

Although it is unlikely that Jokowi's decision to visit a number of traditional markets recently was purely based on pettiness, it is possible that Jokowi's alleged fear of Sandiaga mimicking his campaign strategies urged him to match Sandiaga's visits with his own.

Other than that, Jokowi's and Sandiaga's visits to traditional markets potentially bear greater implications than merely to throw barbs at each other. Although they visited different locations, their choice of traditional markets as their campaign's focal points indicates their focus on the daily social interactions occurring in the markets, including between merchants and buyers.

How this bears a greater implication is through the backgrounds of the said merchants and buyers and how they correlate with Jokowi's and Prabowo's supporters. A *Kompas* survey conducted from Sept. 24 to Oct. 5 unveiled three major findings that may explain the candidates' penchants for touring traditional markets. First, the majority of supporters of the two tickets comes from middle and lower classes: 60.7 percent and 31.1 percent of Jokowi's and Ma'ruf's supporters come from the middle and lower classes respectively, while 65.7 percent and 25.5 percent of Prabowo's and Sandiaga's supporters come from middle and lower classes respectively. Second, the survey also found that people from the middle and lower classes prevail, as well among undecided voters, namely 60 percent and 28.3 percent respectively. Lastly, the survey concludes that a significant number of undecided voters are merchants and housewives.



Based on these findings, several inferences about Jokowi's and Sandiaga's alacrity to visit traditional markets can be drawn. First, traditional markets are often perceived as a representation of the lower-middle class, which makes up the majority of candidates' supporters. Traditional markets, as places where business activities involving lower-middle class take place every day, become a benchmark for candidates to measure their electoral performances and prospects.

Second, considering that a significant number of the candidates' supporters are merchants and housewives, traditional markets make an apt destination for their campaign activities. Predominantly bustling with business transactions carried out by merchants and housewives, targeting traditional markets alone could enable Jokowi and Ma'ruf and Prabowo and Sandiaga reach out to as much as 39 percent and 40.5 percent of their voters respectively.

Last, not only to check their political standing among their committed supporters, visiting traditional markets may also assist candidates reap new voters from the undecided. Not only does the majority of undecided voters consist of the lower-middle class, 34.1 percent of undecided voters are also either merchants or housewives. Such a demographic composition, thus, makes traditional markets a fertile ground for wooing potential voters.

The demographic background of candidates' supporters also provides a possible explanation for the asymmetry between Jokowi's and Sandiaga's trips' frequencies and regional scope. Jokowi, for one, has only made three visits to traditional markets since the beginning of the campaign period, while Sandiaga has visited as many as 21. Moreover, the three traditional markets that Jokowi visited were located in West Java and Banten, while Sandiaga's tour has gone as far as Sulawesi and Sumatra.

In regard to frequency, Jokowi's fewer visits compared to Sandiaga's could be, to a certain degree, due to Jokowi's much stronger electoral stronghold in the country, giving the President's greater confidence. Prabowo and Sandiaga's much weaker support base, on the other hand, requires the pair to devote more effort to preserve and woo votes.

Jokowi's tight grip across the country may explain his visits' much smaller scope, as well, compared to Sandiaga's. Unlike Jokowi and Ma'ruf, Prabowo and Sandiaga have the need to establish their political presence in many regions, hence their exuberance in visiting many markets in various regions. Meanwhile, Jokowi's decision to visit traditional markets in West Java and Banten may result from his weak stronghold in these two provinces; Jokowi only managed to secure 42.9 percent in Banten and 40.22 percent in West Java in the 2014 presidential election, utterly defeated by Prabowo.

Representing the majority of candidates' supporters, traditional market would continue bearing enormous electoral implications. As the campaign period is still far from its end, it remains very likely that the presidential and vice-presidential candidates would resume their sojourns.

**What we've heard:** Jokowi visited traditional markets in Tangerang in Banten and Bandung in West Java because the two provinces are Jokowi's current priorities. Jokowi's political gimmick surrounding *tempe* (fermented soybean) and *petai* (a pungent vegetable) – two traditional foods of Indonesia – was in response to Sandiaga Uno's frequent remarks on commodity prices in some markets in Indonesia.

Sources from Jokowi's team, his PDI-P party and volunteers said Jokowi was advised to visit the traditional markets during his meeting with several think tanks in Menteng, during which one said that it was necessary for Jokowi to respond to the narrative created by Sandiaga, namely the one about the price of food in the markets, particularly *tempe* and *petai*. The suggestion, according to the source, emerged because Jokowi was worried about Sandiaga's campaign movements and narratives about the Jokowi administration's poor economic performance. Hence, Jokowi was advised to visit markets in Bandung and Tangerang as the two cities are critical for Jokowi to win votes. According to Jokowi's internal survey, the President has yet to significantly increase his electability in West Java and Banten, where he lost in the 2014 election. His electability did increase, but remained below the expectation of at least 50 percent, especially as he needs legitimacy for his work in the past four years.

## Unemployment rate conceals Indonesia's real problem: Underemployment

Indonesia's unemployment rate fell to 5.34 percent of the workforce in August from 5.50 percent a year earlier. This is good news in a way, but in absolute numbers, it still translates to more than 7 million people out of a job. In a political year, with President Joko "Jokowi" Widodo bidding for reelection in April 2019, any positive economic trend helps his case, especially when many other economic indicators are going the wrong way.

**Takeaway:** The current method of unemployment calculation is not yet effective and covers greater unemployment problem of underemployment below the surface. Many of those surveyed by Statistics Indonesia who only work one hour the previous week may be considered as employed, but they do not necessarily earn enough for subsistence. With economy and welfare remain as key issues in deciding the outcome of the presidential race, people must be more cautious with the use of falling unemployment rate narrative.

**Background:** The economy and the welfare of the people will be key issues in deciding the outcome of the presidential race. No doubt, Jokowi's election campaign team will tout the falling unemployment rate.

But the way the government calculates the figure, including how it defines "employed", conceals Indonesia's real problem on the job front: underemployment. There are no reliable statistics that measure underemployment, with estimates ranging anything from 20 million to 60 million. Underemployment is closely linked to the poverty rate in Indonesia, which in March stood at 9.82 percent of a population of more than 269 million. This translates to a staggering 25.95 million people, but as Jokowi's campaign team will tirelessly remind you, this is the first time in Indonesia's history that the poverty rate has dropped to a single digit.

An unemployment rate of 5.34 percent is still comparable to most developed and developing countries around the world. There was a time when the unemployment rate was consistently in (the lower) double digits. With the economy growing at a steady rate of above 5 percent, Indonesia has been able to absorb most of its school and university graduates into the labor market each year, estimated at between 2 and 3 million.

Despite the impressive growth rates seen in the last two decades (Indonesia is the 16<sup>th</sup> largest economy in the world and this year joined the US\$1 trillion economy club) a closer analysis shows it is still a largely traditional economy, although not as agrarian based as it has been in the recent past. One indicator of how traditional an economy comes from the number of people working in the informal sector. In the case of Indonesia, it is 70 million, or 57 percent of the work force.

At the end of the day, the unemployment rate is more of a political tool that does very little to inspire employment boosting policies. Any real attempt to improve the situation must seek to shift more of the country's workforce into the formal sector. Only then can Indonesia reduce its underemployment rate or at least come up with an unemployment figure that reflects the reality in the job market.

**Insight:** Statistics Indonesia released on Nov. 5 two politically important economic figures, namely gross domestic product (GDP) growth for the third quarter, and the unemployment rate

in August. Since both were positive, suspicions were raised about the timing of the release, amid the campaign for next year's elections.

GDP growth at 5.17 percent in the July-September quarter defied naysayers' predictions, particularly those of the Prabowo Subianto camp, Jokowi's lone challenger in the presidential race, and which has focused on the economic slowdown. Third quarter growth may be lower than the 5.27 percent clocked in the second quarter, but considering the turmoil the economy went through, it was still a decent performance.

The unemployment figure may not be that great on a year-to-year comparison, but it was still a big reduction from the 6.02 percent in 2015.

#### Open Unemployment

|                       | August 2018   | August 2017    |
|-----------------------|---------------|----------------|
| <b>Workforce</b>      | 131.1 million | 128.06 million |
| <b>Unemployed</b>     | 7.01 million  | 7.04 million   |
| <b>% of workforce</b> | 5.34          | 5.50           |

Source: Statistics Indonesia

When the figures came out, many analysts were quick to seize on the high level of unemployment among vocational school graduates, with analysis suggesting the failure of these schools to provide necessary skills. While this may be true, the higher number of college graduates should also be a major concern.

There is higher unemployment in urban areas at 6.45 percent against 4.04 percent in rural areas.

#### Education background of unemployed as percentage of their peers

|                                               |       |
|-----------------------------------------------|-------|
| <b>Primary school</b>                         | 2.43  |
| <b>Junior high school</b>                     | 4.80  |
| <b>Senior high school</b>                     | 7.95  |
| <b>Vocational school</b>                      | 11.24 |
| <b>College graduates (diploma and degree)</b> | 11.91 |

Source: Statistics Indonesia

At one time two-thirds of workers in Indonesia only had primary school certificates or did not even finish school. Now that more people are completing high school, and some even going on to college, the education background of the unemployed has inevitably changed. More than anything else, this is a reflection of the mismatch between education and what the economy needs or the overall quality of the education system, from the primary to tertiary level.

These official figures for "open unemployment" should be taken with a grain of salt.

Statistics Indonesia conducts a survey every February and August to measure the country's unemployment levels. The size of the workforce is defined as those people above 15 years old and either working or looking for work, and excludes those still in school or college, housewives and those who decide not to work. You are defined as being employed/working if you did at least one hour of paid work in the past week.

This method, apparently accepted by the International Labor Organization, is a legacy of a nation that was until recently still largely rural-based, where many farmers had only real jobs during planting and harvesting seasons, but not much in between.

But with Indonesian society becoming more urban – 56 percent of the population now lives in cities – the method of computing unemployment may have become outdated.

This makes the figures problematic since it conceals the level of underemployment, the real challenge for the government to tackle. Many of those surveyed by Statistics Indonesia who only work one hour the previous week may be considered as employed, but they do not necessarily earn enough for subsistence.

Indonesia's urbanization has not been accompanied by a modernization of the economy. Of the 123 million people who worked according to the survey, 70.49 million had jobs in the informal sector, and only 53.42 million in the modern economy. Needless to say, those in the informal sector do not enjoy the protection and privileges accorded under the country's labor laws, including labor protection, union representation and minimum wage regulations.

# BUSINESS & ECONOMIC POLICY

## Extensive foreign lobbying likely behind electronic transaction regulation revision

The government is finalizing a controversial draft revision of Government Regulation (PP) No.82/2012 on electronic system providers and electronic transactions after it had been postponed for nearly two years since the plan was announced in late 2016. The PP regulates e-commerce and digital business, the future of Indonesia's economy. The draft PP, however, faces growing objections from players in data center businesses. Are there any ulterior motives to the revision?

**Takeaway:** The draft revision to PP82/2012 would abolish the requirement for electronic system providers to build local data centers and keep electronic transaction data within Indonesian territory. This revision would be a hard hit for local data centers, complicate tax collection for e-commerce transactions and undermine the new GPN.

**Background:** Uproar surrounding the draft revision of Government Regulation No. 82/2012 has grown louder after local data center providers openly criticized several points that came with the latest draft revision. The Indonesian Data Center Association (IDPRO) suggested that the government maintain Article 17, which obliges data providers to build data centers in Indonesia<sup>1</sup>. Separately, the Cloud Computing Indonesia Association (ACCI) asked the government to involve industry players in finalizing the draft revision to avoid misinterpretation in the future.

The latest draft revision covers a wide array of electronic data-related issues, such as definitions, requirements for the various electronic system management providers, electronic transactions, digital signatures, the role of the government and sanctions in cases of non-compliance. However, the most prominent controversial points of the planned revision are related to the abolition of the requirement to place data centers and store electronic transactions in Indonesia.

Despite the controversies, the draft revision also added important necessary points, such as rights to be forgotten, compulsory data encryption and sanctions for non-compliance. The government – in this case, the Communications and Information Ministry – has reiterated that the planned revision was due to these issues not being addressed in the prevailing regulation. However, it has failed to address the concerns of local businesses, especially local data center providers.

**Insight:** The current debate about the planned revision of PP 82/2012 on electronic system providers centers around two main issues: the requirement to establish data centers and disaster recovery centers in Indonesia and the requirement to keep electronic transaction data within Indonesian territory.

The planned revision surprisingly removes those two requirements. And removing these two requirements will bring serious consequences to the businesses of data centers as well as the ability of the tax authority to tax electronic transactions. It will also have a dire consequence on the integrity of the national payment gateway (GPN) that was only launched last June.

<sup>1</sup> Selular.id, "Pelaku data center tolak revisi PP 82/2012," 18 October 2018 <https://tinyurl.com/y7x6xkus>

The latest draft revision abolishes the requirement for electronic system provider companies to establish local data centers. Article 17 of the prevailing PP 82/2012 clearly requires companies to establish local data centers and disaster recovery centers in Indonesia, regardless of the type of data. In the draft revision, Article 17 states that local data centers and recovery centers are required to process data that is only categorized as strategic. This implies that non-strategic data – in the draft revision categorized as data with high and low importance – may be processed in data centers outside Indonesia.

#### Contentious articles

| Article            | Existing Regulation                                                                                                                                       | Draft Revision                                                                                                                           |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| <b>11</b>          | Electronic system providers must employ Indonesian nationals for expert or data processor position for strategic data and/or electronic system management | Abolished                                                                                                                                |
| <b>17</b>          | Electronic system providers must establish data center and disaster recovery center in Indonesian territory                                               | Electronic system providers must store and process <b>strategic</b> data using a data center and recovery center in Indonesian territory |
| <b>43-point 1b</b> | Electronic system providers must keep their electronic transaction data within Indonesian territory                                                       | Abolished                                                                                                                                |
| <b>83J</b>         | Non-existent                                                                                                                                              | Data classification into strategic, high importance and low importance according to its relevance to state and security interests        |

Therefore, we can understand why the Indonesian Data Center Association (IDPRO) protested the plan revision and asked the government to maintain Article 17 as is. Abolishing the requirement for electronic system providers to build data centers in Indonesia would slowly kill the business of local data centers.

The existence of PP.82/2012 has been helping local players nourish the data center business. The obligation to build local data centers for all types of data and the requirement to employ local data experts have given local business players the upper hand. According to a 2018 report from Frost & Sullivan, Article 17 is the key factor to Indonesia's lucrative investment in the information and communication technology sector, particularly in data center development<sup>2</sup>. The elimination of these benefits thus jeopardizes local data center businesses in the long run<sup>3</sup>. Ipsos Business Consulting – in its report on the Indonesian data center market in 2017 – predicted that national data center growth would decline to below 11.4 percent per year if Article 17 of PP 82/2012 was removed.

Information and Communications Minister Rudiantara argued that the abolishment of the requirement to build local data centers would be good for start-up companies. The minister said most start-ups were using cloud services as their data repository. Changing the regulation would then provide legal protection for their actions.

<sup>2</sup> Frost & Sullivan, "Digital Market Overview: Indonesia," 25 May 2018 <https://tinyurl.com/yb64p7x6>

<sup>3</sup> Liputan 6, "Pemerintah dinilai beri kelonggaran soal lokalisasi data center," 7 November 2018 <https://tinyurl.com/ya9aek5n>

The Information and Communications Ministry has been nurturing new start-up technology through the One Thousand Start-Ups Program<sup>4</sup>, which aims to create the country's next leading technopreneurs.

**Data Criteria based on PP No.82/2012 draft revision**

|                                           | Strategic data                                                                                                                                                                                                      | High Importance data                                                                                                                                                                                                                                                                                                               | Low Importance data                                                                                                                                                                                                                |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Processing and storage requirement</b> | <ul style="list-style-type: none"> <li>- Must be stored using local electronic system in Indonesia</li> <li>- Must be replicated and connected to the national data center and disaster recovery centers</li> </ul> | <ul style="list-style-type: none"> <li>- May be processed and stored abroad if data processors can meet all the requirements set by each of the related sectoral regulators</li> <li>- Overseas processing and storage must include/consider Indonesian legal jurisdiction in monitoring and data protection guidelines</li> </ul> | <ul style="list-style-type: none"> <li>- May be processed and stored abroad</li> <li>- Overseas processing and storage must include/consider Indonesian legal jurisdiction in monitoring and data protection guidelines</li> </ul> |
| <b>Data transfer permission</b>           | Data transfer outside of Indonesia is not allowed without presidential approval                                                                                                                                     | n.a.                                                                                                                                                                                                                                                                                                                               | n.a.                                                                                                                                                                                                                               |
| <b>Data access</b>                        | Data must be accessible to law enforcers for monitoring                                                                                                                                                             | Data must be accessible to law enforcers for monitoring                                                                                                                                                                                                                                                                            | Data must be accessible to law enforcers for monitoring                                                                                                                                                                            |

Rudiantara's argument, however, contradicts his earlier demand for data providers and over-the-top (OTT) companies such as giants Google and Facebook to build local data centers.<sup>5</sup> The demand for OTT companies to build local data centers was driven by the Finance Ministry's needs to monitor their electronic transactions that would be subject to taxation. Despite the request, OTT companies have been reluctant to comply. The draft revision, therefore, would affectively negate that request.

The draft regulation abolishes not only the requirement to build local data centers but also the requirement for electronic system providers to keep their electronic transaction data within Indonesian territory. This will further complicate matters at the tax office with regard to taxing e-commerce transactions. Not only that, this will also undermine the new national payment gateway (GPN).

Launched in last June, the GPN requires banks, switching and routing companies to establish local data centers in Indonesia and keep their electronic transaction data within Indonesian territory. The draft revision, therefore, runs counter to the integrity of the GPN.

<sup>4</sup> Kominfo, "Kominfo meluncurkan gerakan nasional 1000 startup digital," 19 June 2016 <https://tinyurl.com/yalgwhvs>

<sup>5</sup> Beritasatu, "Google diwajibkan bangun data center di Indonesia," 7 January 2014 <https://tinyurl.com/y7y3s3ju>

What we've heard is that the controversial points in the draft revision are to satisfy demands made by the United States, while the financial institutions of which, Visa International and MasterCard, are apparently excluded from the GPN. It had been said that the US threatened to remove its Generalized System of Preference (GSP) facility for Indonesia's exports to the US if Indonesia did not amend the regulation.

When revisions of a regulation are drafted for vested interests and harm the interests of some parts of society, it will only stoke protests and bring bad outcomes. Such revisions are just not worth pursuing.

**What we've heard:** Some sources at the Financial Services Authority (OJK) and Bank Indonesia said that the planned revision of Government Regulation No. 82/2012 was related to the ongoing negotiation between Indonesia and the United States on the latter's Generalized System of Preferences (GSP) facility for Indonesia's exports to the US.

The US has threatened to remove Indonesia from its GSP facility if Indonesia does not amend its regulation that requires all financial institutions participating in the national payment gateway (GPN) to have their data centers in Indonesia and keep their electronic transaction data within Indonesian territory.

Launched in June 2018, the GPN practically excludes Visa Worldwide and MasterCard. They could not comply with the ruling to keep their local electronic transaction data within Indonesian territory. In addition to Visa and MasterCard, Citibank also protested the requirement to build data centers in Indonesia.

The protests from these three US-based international financial institutions prompted the United States Trade Representative (USTR) to demand that the Indonesian government review the regulation. USTR officials were said to be in Indonesia a few weeks ago to discuss the issue with the government.

With pressure mounting at the country's doorstep, some sources said that Indonesian ministries and state agencies were not united in their stance. The Trade Ministry, the Investment Coordinating Board and the Office of Coordinating Economic Minister have called for the revision, arguing that if Indonesia did not comply, its exports to the US would immediately drop when the GSP facility is removed.

Meanwhile, Bank Indonesia and the OJK are against the revision, especially the requirements on data centers and electronic transactions, arguing that the revision could compromise the stability of Indonesian banking and the financial system. They want all local financial transactions to be managed locally, especially those involving the GPN. Allowing banks and switching and routing companies participating in the GPN to have their transaction data stored overseas would undermine the GPN.

Despite the opposition from Bank Indonesia and the OJK, the government moved ahead with the plan to revise PP82, with the Communications and Information Ministry drafting the revision. The issue became public after some local data center companies came out in September to voice their concerns about the revision. The draft revision is now already in the Office of the State Secretary and ready to be signed by President Joko "Jokowi" Widodo. However, last-minute opposition came from the Office of Coordinating Political, Legal and Security Affairs Minister, the Law and Human Rights Ministry and the National Cyber and Encryption Agency (BSSN). In a meeting last week, they voiced concerns about the draft revision potentially undermining data security.

## Agriculture policy results in conflicting interest for maize, poultry farmers

Indonesian Ombudsman Commissioner Alamsyah Saragih rebuked Agriculture Minister Andi Amran Sulaiman for allegedly scapegoating importers and poultry feed manufacturers as a cover for his own ministry's 13 million tons surplus claim, with the Agriculture Ministry having officially requested that 100,000 tons of maize be imported before the end of this year.<sup>6</sup>

**Takeaway:** Amran's anti-import policy in the maize sector since mid-2015 has driven the maize price up. The rising maize price has improved maize farmers' income. Conversely, it has driven poultry farms' operational costs up, eroding their profit margins. Now, poultry farmers and their associations have decided to go against Amran's policy, which inadvertently puts them at odds with the interests of maize farmers. If left unchecked, Amran's policy could hurt President Jokowi politically.

**Background:** Coordinating Economic Minister Darmin Nasution stated that the Agriculture Ministry's request to import 100,000 tons maize to stabilize the rising maize price was inconsistent with Amran's claim that there was a production surplus of 13 million tons of maize this year.<sup>7</sup>

Meanwhile, National Layer Poultry Association head Ki Musbar Mesdi and Indonesian Employers Association (APINDO) livestock and fisheries division head Anton J. Supit questioned claims made by the Agriculture Ministry. They said the ministry's claim, backed by the Indonesia Maize Farmer Association,<sup>8</sup> that poultry feed manufacturers absorbed 70 percent or 7 million tons of the national quarterly maize production was not true. At most, poultry feed manufacturers can absorb 4 million tons, including a buffer stock of 2 million tons for three months.<sup>9</sup>

**Insight:** The maize import issue, which involves the Agriculture Ministry, the Trade Ministry and the Office of the Coordinating Economic Minister, could be a case of déjà vu – there was a similar issue with the previous rice import that involved the three ministries and the office of the Vice President. Statistics Indonesia (BPS) has not published any data related to maize production since 2016,<sup>10</sup> which may suggest that there is data and policy mismanagement in the Agriculture Ministry.

In the maize sector, the ministry unintentionally pitted maize and poultry farms against each other. Unlike rice, which is mostly consumed directly by the end consumer, maize is important for the poultry sector, serving as the main ingredient for chicken feed.

<sup>6</sup> Wartaekonomi.co.id, "Ombudsman minta kementan tak kambing hitamkan mafia pangan." 12 November 2018 <https://tinyurl.com/y8qrl9o8>

<sup>7</sup> Liputan6.com, "Menko Darmin buka-bukaan soal impor jagung 100 ribut ton." 7 November 2018 <https://tinyurl.com/y97bnupz>

<sup>8</sup> CNNIndonesia.com, "Kementan tuding pabrik pakan besar penyebab harga jagung naik." 13 November 2018 <https://tinyurl.com/y8hwg6ue>

<sup>9</sup> Jawapos.com, "Tundungan kementan terhadap industri pakan tak bernalar." 14 November 2018 <https://tinyurl.com/ybc8mc8z>

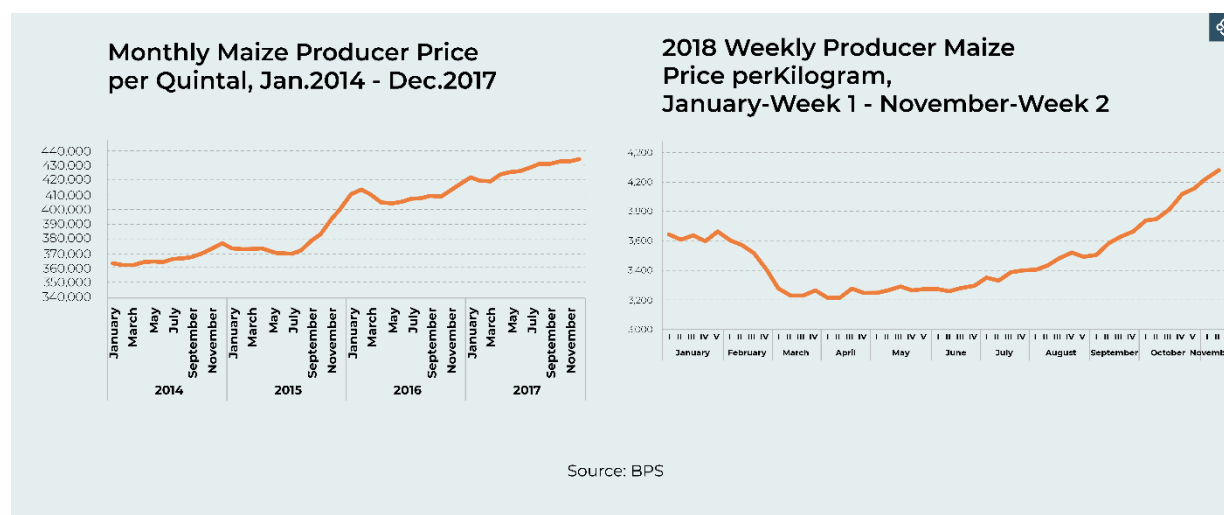
<sup>10</sup> Tempo.co, "Soal impor jagung, BPS tak rilis data produksi sejak 2016" 6 November 2018 <https://tinyurl.com/y7wsy4qp>

Amran Sulaiman may have overlooked this when he announced that he would stop all maize imports back in mid-2015.<sup>11</sup> Amran's announcement drove the maize price up at the producer level, from Rp 370,000 per quintal in July 2015 to Rp 410,000 per quintal in February 2016. After that, the maize price kept increasing, hitting Rp 430,000 in December 2017.

The rising maize price is good news for maize farmers. It incentivizes them to invest and improve maize production. But, for poultry farmers, the rising maize price is bad news. It increases their operational costs, specifically chicken feed cost, and reduces their profit margins.

In 2018, the maize price increased to an unprecedented level. According to Agriculture Ministry data, the weekly maize price at the producer level increased from Rp 3,647 per kilogram in the first week of January to Rp 4,082 per kg in the second week of November. This price increase was of concern to ministry officials and caused poultry farmers to hold street demonstrations in Surakarta,<sup>12</sup> Blitar<sup>13</sup> and Riau<sup>14</sup>.

Following this event, the question that arose is whether President Joko "Jokowi" Widodo would take any corrective action to fix Amran's agricultural policy, as the issue could affect his political standing.



**What we've heard:** According to an internal source, Agriculture Minister Amran Sulaiman made an import request to Coordinating Economic Minister Darmin Nasution after hundreds of poultry farmers held street demonstrations, protesting the chicken feed shortage. During Nov. 2's closed-door coordination meeting, the committee made a decision to import 100,000 tons of maize.

Nevertheless, Amran was adamant that the import was a joint decision made in the meeting, denying that it was a request made by him or his ministry. Amran's denial followed the usual

<sup>11</sup> Kompas.com, "Mentan hentikan impor jagung, para pengusaha protes." 9 August 2015

<https://tinyurl.com/yakptnlr>

<sup>12</sup> Kompas.com, "Protes harga pakan naik, peternak ayam petelur se-Solo Raya demo." 18 October 2018

<https://tinyurl.com/yderbzqe>

<sup>13</sup> Jatimnow.com, "Protes harga pakan, peternak ayam di Blitar luruk kantor pemkab." 15 October 2018

<https://tinyurl.com/ybwh5amq>

<sup>14</sup> Goriau.com, "Harga pakan tinggi, ratusan peternak ayam demo di kantor bupati dan DPRD Tanah Datar." 15

November 2018 <https://tinyurl.com/ycm9npez>

script, in which he bragged about his ministry's achievement of producing a 13 million ton maize surplus this year.

According to other source, no one in the government believes Amran's claim. Rather, they suspect that the Agriculture Ministry manipulates its maize data like in the rice data scandal. A field survey corroborates their suspicion: it is difficult – if not impossible – to find ready-stock maize from farmers.

A source from the Trade Ministry also said that there had been an acute shortage of maize in the past few months. Even, big poultry companies complained about the shortage to the Trade Ministry. To ease the shortage, both the Trade Ministry and poultry farmers decided to increase wheat imports, as a substitute ingredient for chicken feed.

Following the decision to import 100,000 tons of maize, the Agriculture Ministry submitted a request to Japfa and Charoen, borrowing 10,000 tons, or 5,000 tons each, of their maize stocks to ease chicken feed shortage at small poultry farms. Initially, both Japfa and Charoen feel reluctant. Even, Japfa only promised to lend 1,000 tons of its existing maize stocks.

To ease their worries, the Agriculture Ministry assured them that the State Logistics Agency (Bulog) will recompense their stock after the imported maize arrived at the port. Eventually, both Japfa and Charoen agreed to lend their stock. Despite its desperate behind the scene effort, the Agriculture Ministry falsely claimed that there was no problem with ready-stock maize in the market.

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