

Highlights of the week



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Public transport winning race against private cars

The arrival of the MRT and light rapid transit (LRT) marks the beginning for public transportation winning the road race against private vehicles in Jakarta. But with the coming inauguration of these two massive projects, questions are now being raised, including from no less than Vice President Jusuf Kalla, about the huge costs and length of time needed to build them.



Regulation targets major e-commerce companies

On Jan. 12, the Finance Ministry's Taxation Directorate General enacted the long-awaited e-commerce taxation regulation, Finance Ministerial Regulation No. 210/2018, which will be fully implemented on April 1. Although the regulation looks good on paper, there is serious concern about the implementation and enforcement of this regulation, particularly on merchants and service providers.



Update: Batam's fate lies on politicians' wager

The government decided late December to transfer the control of BP Batam to the mayor of Batam to solve the problem of dualism in Batam's governance system, which was blamed for the slump in investment and economic growth on the island. The government has also decided to scrap Batam's FTZ status and planned to build three special economic zones (SEZs). The debacle behind the Batam mayoralty and BP Batam now continues after several executives in Jakarta were reported to have pulled their strings to protect their proxy's interests.

POLITICS

First presidential debate: Normative or in progress?

The first official presidential debate on Jan. 17 drew criticism. Critics argue that the debate was too general, or even borderline boring, as candidates offered no new programs or fresh ideas throughout the debate. The patterns of narrative delivered in the first debate, however, may foreshadow the course of the upcoming debates.

Takeaway:

- To analyze the first presidential debate, spectators should perceive the first debate and the remaining four debates as a continuous process, rather than as separate entities.
- The first debate serves as a “teaser”, where candidates provided a glimpse of the central themes that they will address in the upcoming debates.
- Jokowi-Ma’ruf’s penchant for legal matters and Prabowo-Sandiaga’s preference for economic issues and social inequality in the first debate indicate that candidates will reuse these topics in the upcoming debates.

Background: Many spectators might have yawned at the first presidential debate. Instead of seizing the debate’s opportunity to present new ideas, programs or recommendations, candidates resorted to trading barbs and attacking each other, frequently straying out of the debate questions altogether.

Some blamed the General Elections Commission (KPU) for disclosing the debate questions beforehand, while others argued that by providing information about the questions, the KPU created leeway for the candidates to offer normative answers.

Meanwhile, some believed that the blame rested with the candidates, Joko “Jokowi” Widodo-Ma’ruf Amin and Prabowo Subianto-Sandiaga Uno. Set to explore the topics of corruption, law enforcement, human rights and terrorism, candidates often offered out-of-context responses throughout the debate. When asked about religious, ethnic and political discrimination in the country, for instance, vice-presidential candidate Sandiaga told a story about a fisherman being criminalized for planting mangroves instead. Likewise, when asked about his proposed solution for the huge cost of politics in the country, President Jokowi raised the issue of nepotism instead, citing the importance of a transparent and merit-based recruitment process for bureaucrats.

While the first presidential debate did not necessarily provide clear insight into the candidates’ real programs, it still provided useful information, albeit indirectly. The debate’s content, which some may find bizarre, indicates how the four upcoming presidential debates may unravel.

Insight: Criticisms of the first presidential debate are plenty, with most concluding that the debate was dull at best, or downright ludicrous at worst. A professor from the Indonesian Institute of Sciences, for example, stated that the candidates appeared as if they had not studied the debate material adequately.¹ Similarly, Commission for Missing Persons and Victims of Violence chief Yati Andriyani described the debate as “one-sided” and often “off-topic”.² These

¹ Koran.tempo.co, “Debat Calon Presiden Kurang Gereget” January 18, 2019 <https://tinyurl.com/ybzug8b3>

² Ibid.

analyses, however, treated the first debate and the remaining four as separate entities, instead of parts of a continuous process.

Most of the criticisms of the first debate mostly centered on its substance, or lack thereof, pointing out the incongruence between candidates' responses and the debate's topics. The alleged incongruence, however, may be due to several reasons.

First, most of the topics raised in the first debate, namely corruption, terrorism, law enforcement and human rights, were not the candidates' forte because of their mediocre or even poor track records in these subjects. In terms of corruption, for instance, both Jokowi's and rival Prabowo's anticorruption measures were relatively inept. Jokowi's commitment to corruption eradication in the country has often been questioned, exacerbated by his silence on the acid attack on Novel Baswedan, a senior Corruption Eradication Commission (KPK) investigator. Jokowi's indifference toward Novel, who is often touted as the icon of the KPK, thus indirectly undermines the antigraft body. Meanwhile, Prabowo's approval of the nomination of a considerable number of former graft convicts as Gerindra Party legislative candidates in the upcoming election also indicates his half-hearted commitment to anticorruption.

Candidates' weakness in the subject of human rights was also apparent. Prabowo's infamous involvement in the abduction of human rights activists back in 1998, for one, might have prevented the presidential candidate from delving deep into the issue during the debate. Meanwhile, Jokowi's failure to settle past human rights abuses presents major setbacks for the President in the area.

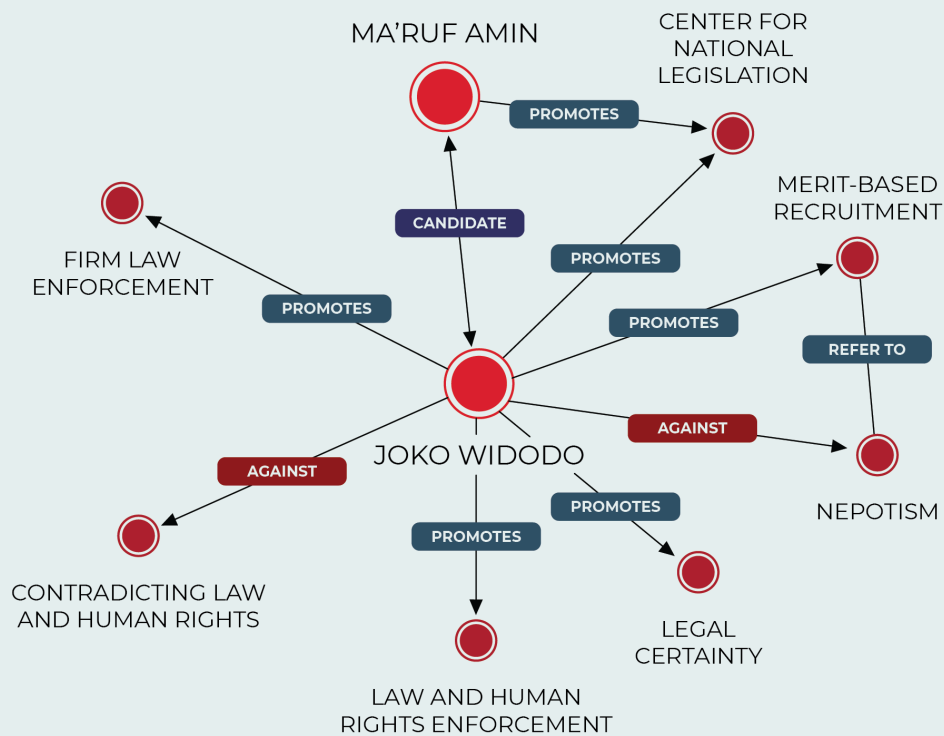
Because of the candidates' inadequacy in the first debate's topics, both Jokowi-Ma'ruf and Prabowo-Sandiaga steered clear from serious dialogue, much to the audience's chagrin.

The second possible explanation behind the first debate's monotony was the candidates' strategy to save potential debate material for future debates, which the candidates assume may provide greater opportunity to present their ideas compared to the first debate. In this regard, the first debate should not be perceived as an independent entity, but rather the first part of a sequential process.

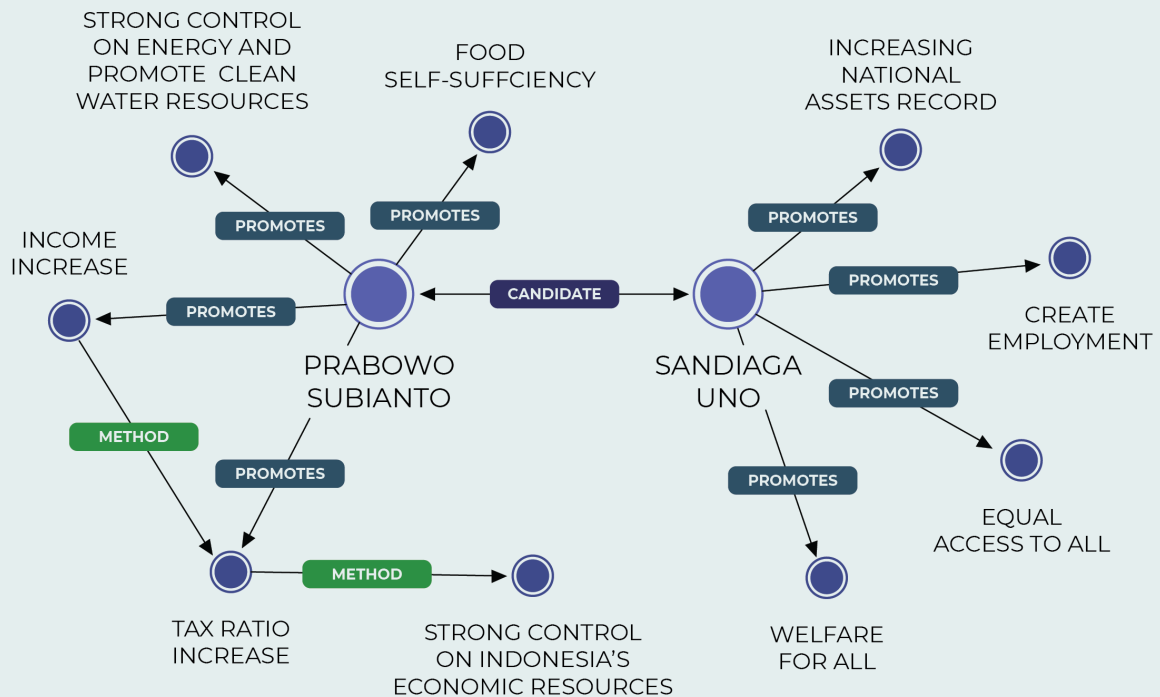
To analyze presidential debates as a continuous process, the first debate thus serves as a "teaser", where candidates provided a glimpse of the central themes that they would address in the upcoming debates. In this regard, both candidates' strong points and weaknesses can be traced. Based on our issue mapping analysis on the first presidential debate, we found two concurrent themes in the debate, namely law enforcement in regard to Jokowi-Ma'ruf, and economic issues as well as social inequality in regard to Prabowo-Sandiaga. This indicates that in the upcoming debates, both candidates would center their ideas, programs and maneuvers around their preferred themes.

Jokowi-Ma'ruf's penchant for law, particularly implementation of and adherence to clear legal mechanisms, was illustrated throughout the debate. In presenting their vision and mission, Jokowi emphasized the importance of firm law enforcement, particularly in fighting corruption and terrorism. In the second segment, which specifically discussed law enforcement, Jokowi provided a suggestion, which some argued was the sole new idea proposed by the candidates throughout the debate, concerning overlapping law enforcement mechanisms in the country, that is to consolidate and synchronize regulations by merging legislative functions into one body called the Center of National Legislation. This body, Jokowi proposed, would be directly under the jurisdiction of the President in order to avoid overlapping authority.

Jokowi - Ma'ruf Mapping



Prabowo - Sandiaga Mapping



Source: Tenggara Strategics Research Team

Jokowi-Ma'ruf's predilection toward law was also translated into the provision of legal certainty. In addressing Sandiaga's claim on small and medium enterprises' (SMEs) difficulties in expanding their businesses, for instance, Jokowi promised to revise the established legal discourse that might hinder SMEs' expansion and create legal stability for SMEs. Legal certainty, furthermore, would also stimulate and increase investment, according to Jokowi.

Last, Jokowi-Ma'ruf's preference for law could also be seen from a number of their challenges toward the opposition to adhere to established legal procedures. Prabowo's claim on partial law enforcers, for instance, was disputed by the President, who challenged Prabowo to report his claim as long as he could show supporting evidence. In a similar vein, Jokowi also countered Sandiaga's claim on persecution of minority groups by challenging the vice-presidential candidate to report it to law enforcers.

On the other hand, Prabowo-Sandiaga steered toward economic issues and social inequality throughout the debate, as illustrated by their criticisms, proposals and claims. In the segment on law enforcement, for instance, Sandiaga correlated the lack of legal certainty in the country with increasing unemployment and investment barriers. In addressing prevalent corruption in the country, Prabowo played the economic card as well, criticizing the low salary of government officials and claiming that their economic woes was among the reasons behind corruption. In similar fashion, in terms of terrorism Sandiaga identified economic hardship as the root cause of the spread of radicalism.

Ideas and suggestions offered by Prabowo and Sandiaga, too, were predominantly based on economic or financial approaches. Their anticorruption measures, for one, were based on increasing the income of relevant officials such as judges, prosecutors, the police as well as bureaucrats. To realize this, Prabowo and Sandiaga offered economic-based methods as well, namely increasing tax revenue and taking charge of national economic resources. How these actions would be accomplished, however, was not elaborated.

The strong presence of legal matters, economic issues and social inequality in the first debate hints at how the upcoming debates may unravel. It is likely that candidates will follow the same pattern and emphasize similar subjects. Jokowi-Ma'ruf, for instance, may reemploy legal arguments in countering the opposition's claims, signifying Jokowi-Ma'ruf's defensive measures in the upcoming debates. In contrast, the dominance of economic issues and social inequality in Prabowo-Sandiaga's narrative hints at the groundwork of the pair's future offensive measures.

What we've heard: Presidential campaign teams from the two camps are generally satisfied with how the first presidential debate played out, although both Joko "Jokowi" Widodo and Prabowo Subianto were considered to be less aggressive than expected. Both candidates reportedly refrained from asking key questions that their teams had prepared.

Neither camp was overly concerned about the first presidential debate. Considering the short memory of the Indonesian public, both camps felt that the first debate would be unmemorable.

An unpublished internal survey conducted by a trusted survey organization found that both Jokowi's and Prabowo's camps understand that they need to secure the support of swing voters. The considerable number of swing voters has reportedly made Jokowi's camp eager to maintain his electability rating above 52 percent.

Long before the first presidential debate commenced, both camps had analyzed current circumstances, particularly in regard to human rights and legal matters. However, in the first

debate, neither camp attacked the other's weaknesses. Jokowi did not raise the issue of human rights violations, while Prabowo did not discuss the case of Corruption Eradication Commission (KPK) investigator Novel Baswedan.

It has been reported that the Jokowi camp plans to highlight infrastructure and energy in the second debate. The plan was allegedly devised in an initial first meeting between the two camps, in which they discussed the frequency and topics of the debates.

Meanwhile, the Prabowo camp is reportedly confident about Sandiaga's performance in the upcoming third and fifth debates. Vice presidential candidates will square off without the presence of the presidential candidates in the third debate, which will address the issue of social welfare. The fifth debate will discuss macroeconomic policy. The Jokowi camp will face the fifth debate with confidence given the improvements in macroeconomic indicators during his term.

Both camps perceive presidential debates as a means to increase their electability ratings prior to the presidential election. Both presentation and substance are key to winning support from the public, especially that of swing voters.

Public transportation winning the road race against private vehicles

Jakarta this year welcomes two new public transportation systems that should significantly ease its notorious traffic congestion, often cited as the worst in the world. The arrival of the MRT and light rapid transit (LRT) marks the beginning for public transportation winning the road race against private vehicles. Although the existing busway and rail commuter line services between them carry more than 1.6 million passengers on a typical working day, they are hardly sufficient for Greater Jakarta, which has a population of 33 million. Until the arrival of the MRT, Greater Jakarta is the only one among the world's 10 largest megacities without a subway system. But with the coming inauguration of these two massive projects, questions are now being raised, including from no less than Vice President Jusuf Kalla, about the huge costs and length of time needed to build them. The busway is 10 times cheaper and only needs two years to build.

Takeaway:

- The arrival of the MRT and LRT this year will only provide a modest contribution to the efforts to improve the public transportation system in Greater Jakarta.
- For the foreseeable future, the busway and railway commuter lines remain the backbone for the megacity.

Background: Jakarta's MRT is slated for inauguration in March with a modest beginning. Phase 1 of the project is a 15.7 kilometer stretch linking Lebak Bulus in South Jakarta and Hotel Indonesia traffic circle in Central Jakarta, with 13 stations along the line, including six underground. The distance will be covered in less than 30 minutes. Initially, it will carry 212,000 passengers per day, but its capacity can reach 960,000.

Construction of Phase 2 begins soon after, linking Hotel Indonesia traffic circle and Kampung Bandan in North Jakarta. It is slated for completion in 2025. A third phase, which is a long way away, will stretch from west to east Jakarta.

The LRT, using elevated rail tracks, has several projects underway. But the first one ready for inauguration, planned for February, is the 5.8 km route linking Kelapa Gading in North Jakarta and the Velodrom in Rawamangun, East Jakarta. Another route under construction and slated for inauguration later this year links Cibubur to Cawang in East Jakarta to Kuningan and Dukuh Atas in Central Jakarta, and from Cawang to Bekasi Timur.

Insight: With a combined population of 33 million, Greater Jakarta or better known by the Indonesian term Jabodetabek – including Metro **J**akarta and the adjacent townships of **B**ogor, **D**epok, **T**angerang and **B**ekasi – is the third largest megacity in the world after Tokyo (pop. 38 million) and Shanghai (35 million), and is ahead of Delhi and Seoul.

But in the absence of a mass rapid transportation system capable of moving millions of commuters going to and from work every day, most people rely on private vehicles. Ownership of private motor vehicles has been growing at 9.5 percent while the city could only build new roads at a rate of 0.01 percent every year between 2005 and 2010. Inevitably, people find themselves caught in traffic gridlock.

Many Jakartans responded to the challenge by switching to motorcycles, including *ojek* (motorcycle taxis), the fastest mode of transportation though not necessarily the safest or most convenient.

Serious efforts to redress this situation began with the launch of the busway by designating bus-only lanes in 2004 and the electric rail commuter line in 2008, both building networks within the Jabodetabek area. Both offer affordable, fast and efficient modes of transportation. Their number is nowhere near enough for the growing number of commuters.

The busway was initially introduced as a temporary stop gap pending the construction of the MRT system. But 15 years later, it is now looking more like a permanent feature of Jabodetabek. Operated by city-owned PT Transportasi Jakarta (Transjakarta), it operates 13 corridors (bus-only lanes) and 155 “feeder routes” extending well into the adjacent townships.

Table 1. Tale of Jakarta’s two rapid systems

Electric rail commuter line	Busway
Operator PT Kereta Commuter Indonesia	Operator PT Transportasi Jakarta (Transjakarta)
5 Routes	13 corridors and 155 feeder routes
79 stations	
418.5 km	251.2 km
900 trains	1,600 buses
Average passengers 1 million on working day	Average passengers 600,000 per day

Source: Tenggara Strategics Research Team

With many people leaving their cars behind, the busway has made significant savings, according to a 2010 Japan International Cooperation Agency study: Rp 28.1 trillion (US\$2 billion) in fuel that would have been burned and the equivalent of Rp 36.9 trillion in labor productivity that would have been lost with people stuck in traffic jams. This gives a total saving of Rp 65 trillion.

The commuter line is operated by PT Kereta Commuter Indonesia, a subsidiary of state-owned railway operator PT Kereta Api Indonesia. Its network links Jakarta to its adjacent townships with electric train services. Last year, it added the express train services to Soekarno-Hatta International Airport.

With the inauguration of the MRT and LRT comes the question of integrating the different systems and methods of payments, which are operated by different companies under different authorities. Transjakarta and MRT Jakarta fall under the Jakarta administration, while Commuter Indonesia and the LRT are subsidiaries of PT Kereta Api Indonesia. President Joko “Jokowi” Widodo has indicated that their operation should be coordinated by a single agency at the national level, rather than leaving it to the Jakarta administration, which has no jurisdiction in the neighboring townships.

The arrival of the MRT and LRT this year will be a modest contribution to the efforts to improve the public transportation system in Greater Jakarta. For the foreseeable future, the busway and railway commuter lines remain the backbone for the megacity.

The success story of the busway has led the authorities to rethink the long term plan to address Greater Jakarta’s transportation problems. Studies point out that rail-based transit systems, whether the MRT or LRT, are 10 times more expensive to build than the busway. The advantage of the busway is that it only needs two years to build. The LRT and MRT in Jakarta took more than six years, preceded by many more years of arguments about the costs and who gets to build the projects.

BUSINESS & ECONOMIC POLICY

PMK 210/2018 targets major e-commerce companies, not MSMEs

On Jan. 12, the Finance Ministry's Taxation Directorate General enacted the long-awaited e-commerce taxation regulation, Finance Ministerial Regulation (PMK) No. 210/2018, which will be fully implemented on April 1.³

Takeaway:

- PMK 210/2018 is just the government's first step to regulate Indonesia's fast-growing e-commerce sector.
- Despite the requirements for individual merchants and service providers to have an NPWP and register for the PKP, the new regulation targets e-commerce transactions conducted by major e-commerce companies.
- There is a strong indication that the implementation of PMK 210/2018 in January 2019 is the result of Aprindo and APPBI lobbying.

Background: Following the enactment of Presidential Regulation No. 74/2017 on the e-commerce road map in August 2017, the Finance Ministry began to draft the first e-commerce taxation regulation.⁴ At first, the ministry was optimistic that the regulation could be formulated by the end of 2017.⁵ However, creating regulations for e-commerce taxation proved more complicated than the ministry initially expected.

For example, the Finance Ministry was puzzled by the question of whether a tax should be imposed exclusively on e-commerce transactions under marketplace platforms or include transactions made on social media platforms.⁶ Also, there was a debate regarding the form of taxation imposed: income tax, value-added tax, or non-tax receipts (PNBPs).⁷ Besides domestic concerns, the ministry also needed to address the issue of taxing cross-border e-commerce transactions.⁸

Finally, the ministry decided to delay the completion of the first draft until January 2018. The first draft, however, was rejected by the Indonesia E-Commerce Association (idEA), because the drafted regulation only taxed commerce transactions under marketplace platforms, ignoring transactions made on social media. Moreover, idEA disagreed with the ministry's plan to impose

³ Detik.com, "Aturan pajak e-commerce berlaku efektif 1 April 2019." 12 January 2019

<https://tinyurl.com/y9d7j7dt>

⁴ Techinasia.com, "Kementrian Keuangan tengah menyusun pajak e-commerce." 22 August 2017

<https://tinyurl.com/yddnkryw>

⁵ Okezone.com, "Pajak e-commerce ditargetkan berlaku akhir 2017." 13 November 2017

<https://tinyurl.com/y8ssf8ll>

⁶ Kompas.com, "Pajak e-commerce akan segera terbit, akan ada migrasi bisnis ke medsos." 5 October 2017

<https://tinyurl.com/yc79u78o>

⁷ Kompas.com, "Pajak e-commerce diusulkan masuk penerimaan negara bukan pajak." 23 November 2017

<https://tinyurl.com/ycb7b5pg>

⁸ Liputan6.com, "Di forum WTO, RI usul pajak e-commerce." 14 December 2017 <https://tinyurl.com/yadzma4k>

a 0.5 percent income tax on e-commerce players with annual sales of less than Rp 4.8 billion and require all of them to obtain tax numbers (NPWPs).⁹

In response to the disagreements, the ministry decided to revise the drafted regulation. In February 2018, for example, the Finance Ministry's Taxation Directorate General stated that the regulation would include all e-commerce transactions on social media.¹⁰ Nonetheless, the Finance Ministry's accommodative stance on idEA's demands disappointed the Indonesian Retailers Association (Aprindo) and the Indonesian Shopping Center Association (APPBI). Through Trade Minister Enggartiasto Lukita, they lobbied the Finance Ministry to get tough on e-commerce taxation regulation, providing a level playing field for online and offline retailers.¹¹

Insight: PMK 210/2018 marks a major shift in Indonesia's dynamic and rapidly growing e-commerce sector. Under Article 3 of the regulation, all e-commerce players, including individual merchants and service providers, are required to obtain an NPWP. For individual merchants and service providers who do not have an NPWP, they could register their citizenship identity number (NIK) to the marketplace platform provider companies that they belong to.

Besides having an NPWP, all e-commerce players must be registered on the corporate taxpayers list (PKP), except for individual merchants and service providers with annual sales of up to Rp 48 billion.¹² Being on the PKP is important, because the registration is needed to collect value-added tax and luxury goods taxes. According to Article 5 of PMK 210/2018, individual merchants and service providers with a PKP license are responsible for collecting value-added and luxury goods taxes. Their transactions will be documented and reported to the tax authority by marketplace platform providers.

PMK 210/2018 also regulates taxation and duties on e-commerce transactions conducted by marketplace platform providers such as JD.id, Amazon, and Lazada. According to Article 8 of PMK 210/2018, marketplace platform provider companies must collect value-added tax from their sales of goods and services. If they sell imported goods with value of up to US\$1,500, then they must pay the duty under the delivery duty paid scheme.

Although PMK 210/2018 looks good on paper, there is serious concern about the implementation and enforcement of this regulation, particularly on merchants and service providers. Danang Girindrawardana, the head of public policy at the Indonesian Employers Association (Apindo), questioned the Finance Ministry's requirement that individual merchants and service providers have NPWPs, with the regulation's objective to boost value-added and luxury tax collection from e-commerce transactions. According to Indonesian tax law, the collection of such taxes can only be conducted by businesses with corporate NPWPs, not individual NPWPs. Therefore, the regulation sends a confusing message regarding the government's objective with its e-commerce taxation regulation.¹³

⁹ Techinasia.com, "Aturan pajak terbaru siap meluncur, Asosiasi E-Commerce Indonesia ajukan keberatan." 31 January 2018 <https://tinyurl.com/ya6zljnw>

¹⁰ Kompas.com, "DJP: Ada aturan pajak e-commerce, penjual di medsos juga harus bayar pajak." 17 February 2018 <https://tinyurl.com/yaltoewv>

¹¹ Detik.com, "Mendag ke pengusaha mal: Aturan pajak e-commerce 2 minggu lagi." 12 April 2018 <https://tinyurl.com/yacmyfen>

¹² Pajak.go.id, "Batasan omzet Pengusaha Kecil Wajib PPN dinaikan." 3 January 2014 <https://tinyurl.com/yb79pnsq>

¹³ Hukumonline.com, "Perlu regulasi baru bila pemerintah ingin Tarik pajak e-commerce individu." 16 January 2019 <https://tinyurl.com/yb78eggp>

Ignatius Untung, the chairman of idEA, raised a similar concern, saying the objective of PMK 210/2018 in requiring individual merchants and service providers to have NPWPs was perplexing. According to idEA's research, 95 percent of individual merchants and service providers in Indonesia's marketplace e-commerce platform are micro and small enterprises. Moreover, the regulation says so little about taxing e-commerce transactions on social media, where the bulk of Indonesia's e-commerce transactions are made.¹⁴

Indonesian Retail Business Association deputy chairman Tutum Rahanta supports the new e-commerce taxation regulation, stating that the regulation was necessary to close the price gap between goods sold online and offline.¹⁵ PT Lestari Internusa (Sogo) managing director Handaka Santosa also supports PMK 210/2018. To level the playing field further, he argued that the government should push the e-commerce sector to meet the Indonesian National Standards (SNI) requirement.¹⁶

Rather than targeting micro, small and medium enterprises, it seems that the objectives of PMK 210/2018 are (a) boosting tax collection from major e-commerce companies, (b) leveling the playing field between major e-commerce companies and offline retailers in shopping centers, and (c) mapping the landscape of the e-commerce sector by using administrative data.

What We've Heard: According to an industry source, the decision to exclude mandatory tax number (NPWP) and citizen identification number (NIK) registration was the result of a meeting between e-commerce industry players and the Finance Ministry on Jan. 14.

In the meeting, e-commerce industry players worried that the mandatory NPWP and NIK registration requirement would discourage new and small scale individual merchants from opening their business on e-commerce platforms. Also, it might hamper their efforts to grow their business.

The source also said that e-commerce held the potential to formalize Indonesia's large, informal economy. Rather than discouraging potential merchants with the mandatory NPWP and NIK registration requirement, the merchants could register to obtain an NPWP later, after their business grows. Moreover, the source argued that the obligation for small individual merchants to register their NPWP and NIK was not necessary, because all e-commerce transactions were automatically recorded and traceable.

Given the variation within e-commerce business, e-commerce players have asked the government to reconsider the NPWP and NIK registration policy, and adjust it accordingly with the e-commerce business model in question. According to our source, the mandatory NPWP and NIK registration is more appropriate for the B-to-C (business-to-consumer) business model. Meanwhile, C-to-C (consumer-to-consumer) merchants should be treated differently. These vendors are likely to be new e-commerce merchants, with no prior experience. The registration policy should accommodate this reality by aiming for a gradual transformation from C-to-C business to B-to-C business.

¹⁴ Hukumonline.com, "Ini pokok-pokok keberatan pelaku usaha atas terbitnya PMK e-commerce." 14 January 2019 <https://tinyurl.com/ya5qzori>

¹⁵ Beritasatu.com, "Pajak e-commerce buat persaingn dengan ritel lebih adil." 16 January 2019 <https://tinyurl.com/y9zp89ws>

¹⁶ Antaranews.com, "Peritel Sogo minta diperlakukan adil dengan 'e-commerce'." 16 January 2019 <https://tinyurl.com/ybkuaaw>

The source also rejected an accusation that stated that e-commerce players are not paying any taxes. With the current self-assessment tax reporting system, offline sellers – whose revenue could be in the billions in rupiah – might abuse the system by underreporting.

The source asserted his point that players in the e-commerce industry did not want special treatment. They supported government efforts to develop sustainable sources of taxes overtime. In supporting the efforts, e-commerce players have been creating features that allow tax payments to be made with their platform, and this effort was met with praise from the Finance Ministry.

Issue Update: Batam's fate lies on politicians' wager

Summary: Once a lucrative free trade zone (FTZ), Batam's economic growth began to crumble after the fall of the New Order government in 1998 and the subsequent introduction of massive decentralization afterwards, which gave birth to the Batam mayoralty and Riau Islands province. Investment in Batam fell drastically after the mayor of Batam contested the authority of the Batam Free Trade Zone Authority (BP Batam), creating dualism in Batam's governance system.

In the latest development, the government decided late December to transfer the control of BP Batam to the mayor of Batam to solve the problem of dualism in Batam's governance system, which was blamed for the slump in investment and economic growth on the island. The government has also decided to scrap Batam's FTZ status and planned to build three special economic zones (SEZs): Aero Marine City, Water City and Rempang City. Located in three different areas across Batam, the government aims at reinvigorating the local economy once again by allocating each of the SEZs to be special zones for different types of industry.

The debacle behind the Batam mayoralty and BP Batam now continues after several executives in Jakarta were reported to have pulled their strings to protect their proxy's interests.

What We've Heard: A government official said the fuss surrounding BP Batam was not just about the lingering clashes of authority between Batam Mayor Muhammad Rudi and former BP Batam head Lukita Dinarsyah Tuwo. There was a far greater issue at stake, relating to the allocation of land for industrial purposes and collusion in government project developments, once Batam starts building the three SEZs.

According to the source, Batam Mayor Muhammad Rudi, who is a NasDem Party politician, had given the authority to develop the reclaimed Integrated Central Business District (CBD) and Tering Bay coastal property development projects to PT Kencana Investindo Nugraha. The developer, reportedly owned by a NasDem Party official in Jakarta, aims at developing the marine space in Batam Central, Bengkong and Nongsa subdistricts.

Batam Regional secretary Jefridin had sent an official notification to the Riau Islands governor regarding PT Kencana Investindo's investment plan. The plan was said to match with the Batam mayoralty's regional spatial development plan to develop a special integrated service, housing and port zone, known as Batam Marina Bay. The city administration was also said to have mapped the surrounding marine space for the project.

The problem, however, was that BP Batam was also planning to develop a waterfront city, CBD and financial center in same area. Unlike the Batam mayoralty's plan, BP Batam's plan opted out of the establishment of commercial housing. Even if there was one, it would be limited to horizontal housing clusters to support the CBD. BP Batam had also planned to hold a beauty contest to select potential investors to develop the area.

A number of businessmen confirmed PT Kencana Investindo's investment plan. The plans of BP Batam and the Batam mayoralty had been presented to Coordinating Maritime Affairs Minister Luhut Pandjaitan. Luhut reportedly preferred BP Batam's plan.

Not stopping in those three subdistricts, Batam Mayor Muhammad Rudi had given the project for Hang Nadim International Airport to a local businessman, who is also a NasDem politician. This businessman wanted to bring Seoul's Incheon Airport to develop Hang Nadim. Lukita rejected the plan as BP Batam was opening a tender at the time to choose a developer to build Hang Nadim.

To ensure everything goes well, another source said, Trade Minister Enggartiasto Lukita – as a NasDem politician – lobbied a number of officials in Jakarta so as to merge BP Batam with the Batam mayoralty. The purpose was no other than to make Rudi the ex-officio head of BP Batam and equip him with more authority to manage regional development and provide stronger business recommendations. The lobbying took place before President Joko “Jokowi” Widodo hosted a limited cabinet meeting late December about Batam, which resulted in the decision to transfer the control of BP Batam to the mayor of Batam.

Early January, Coordinating Economic Minister Darmin Nasution sacked Lukita as BP Batam head and replaced him with Edy Putra Irawady, who previously served as one of Darmin's special staffers. On the morning before Edy Putra's innuaguration, politicians from the Indonesian Democratic Party of Struggle (PDI-P) Batam branch reported Rudi and NasDem Party's action in Batam to PDI-P executives in Jakarta. After his dismissal, Lukita was summoned to meet with PDI-P chairwoman Megawati Soekarnoputri in her residence at Jl. Teuku Umar, Jakarta.

Another source said, Edy's appointment is to neutralize the uproar surrounding the decision to transfer BP Batam's authority to the mayor of Batam and maintain the status quo until April 30, 2019. The purpose is to prevent Rudi from automatically becoming BP Batam's ex-officio head and to postpone amendments to regulations that would legalize the appointment of the Batam mayor as ex-officio head of BP Batam. Current regulations prevent the mayor of Batam from holding a concurrent position as BP Batam head. The decision to transfer the control of BP Batam to the mayor of Batam would likely be cancelled if the NasDem Party does not pass the parliamentary threshold in the April 17 elections.

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