ATLANTIS PRESS
Advances in Economics, Business and Management Research, volume 151
Proceedings of the International Conference on Management, Accounting, and Economy (ICMAE 2020)

The Impact of the Implementation of Government Restrictions on Mineral Exports in the Mining Sector and Its Sustainability

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***Abstract*—The purpose of this study is to analyse investors' abnormal returns on the Indonesia Stock Exchange with the PP No. 1 of 2014. This law is in accordance with the government policy on the Gradual Restrictions on Mineral Exports, while developing smelter for exporters. This is a qualitative research, with data obtained from the stock returns from ANRO, ANTM and BUM companies, which are the top three mining stocks listed in the Indonesian Stock Exchange/BEI and from the CSPI, with the event study used for analysis. The result showed that negative/positive abnormal returns occurred 7 days prior to the announcement of PP No. 1 of 2014, with the expectation of insider trading sourced from the policy information at t-3 and t-2.**

***Keywords*—event study, abnormal return, dan insider trading, unfair activity**

I. Introduction

In 2009, the government issued Law No. 4 concerning Mineral and Coal Mining. According to articles 103 and 170 of law No. 4, the increase in mineral benefits is the interest of the people and regional development. This policy is also intended to increase the economy of mining activities by processing and refining mineral resources in the country using local coal resources, thereby, and exporting the refined materials.

The ban on the exportation of raw coal, is also intended to increase employment, by absorbing tens of thousands of new workers throughout Indonesia, from the yearly 3 million job seekers, thereby boosting the economy and reducing unemployment.

However, prior to the government's policy to ban raw mineral and coal exports, mining companies are required to build smelters to process the various derivative products, ultimately using domestic industries.

This a 5 years ban, effective January 1, 2014. At the beginning, the stock market opened with positive sentiment from the trade balance surplus, however, it did not last long, as the flow of profit started to hit increased, and the IDX composite (IHSG) eventually closed up 1.1% to 4257.7. The average volume of daily transactions rose by 5.3% to the level of Rp. 2687.8 billion, while the consumer and property sectors, which were the best performance, rose by 2.1% and 1.5%, respectively.

However, the mining sector had the worst performance at -2.3%. Furthermore, from the 70 largest capitalized shares in the market, MYOR, CTRA, and KLBF recorded the biggest positive performance in a week, each rising 15.6%, 8.2%, and 6.5%, respectively. Conversely, INCO, ADRO, and JRPT recorded the most declines of -8.8% -6.5% and -5.0%. This decline was expected due to the impact of the policy to ban the exportation of unprocessed coal without developing smelters for mining entrepreneurs (effective January 1, 2014). In addition, Government Regulation/PP No. 1 of 2014 on the Limitation of Concentrate Minimum for the Export of Mining Products was issued in stages and signed by President Susilo Bambang Yudhoyono on January 11, 2014, and restrictions were effective from 12 January at 00.00.

The cancellation of the enactment of the 2009 Mining Law tends to threaten the sustainability of the Indonesian mining industry because it still relies on the exportation of mineral and coal in primary form, with low added value.

The research purposes are 1) To determine investors' ability to acquire an abnormal return on the Indonesia Stock Exchange, with the PP No. 1 of 2014 concerning Gradual Limits on Mineral Exports and the Obligation to develop Semelter for Exporters, 2) Calculate the amount of Abnormal return obtained by each stock, 3) etermine the availability of insider trading activities that allow investors to obtain an abnormal return with government policy, and 4) Provide a Policy Recommendation to determine the Exchange authorities ability to overcome the problem of insider trading.

II. Literature Review

It is suspected that Investors acquire a significant positive abnormal return on the Indonesia Stock Exchange, especially on shares of the mining sector, which are included in LQ 45, with the PP No. 1 of 2014 concerning Gradual Restrictions on Mineral Exports and the Obligation of making Smelters for Exporters. It is suspected that there are insider trading activities that allow investors to obtain positive abnormal returns with the issuance of PP No. 1 of 2014.

III. Methods

This study utilized secondary data on the development of mining sector stock prices, included in LQ 45, with high intensity, on the volume of shares traded and frequency. The stock prices included in LQ 45 is sourced from the monthly and daily reports of the Indonesia Effect Exchange, which can be downloaded directly on the JSX/Jakarta Stock Exchange Index website.

The population of this study is the three actively traded mining sector shares listed on the floor of the Indonesia/IDX that affect the exchange and included in LQ 45. The three shares are ANRO, ANTM, and BUMI, which account for more than 40% of the current capitalization.

IV. Definition of Variable Operations

A. Stock Return i Mining Sector in Period t (Rit) is [1]:

Rit = $(P_{it} – P_{it-1})/P_{it-1}$

where: P_{it} = stock price i in period t

P_{it-1} = stock price i in the previous period (t -1)

t = Time period, in daily

B. Market Return/IHSG in Period t (Rmt) is (figure 1):

$R_{mt} = (IHSG_t – IHSG_{t-1})/IHSG_{t-1}$

where : $IHSG_t$ = Is a joint stock price index in period t

$IHSG_{t-1}$= The combined price index of the previous period (t-1)

t = Time period, in daily

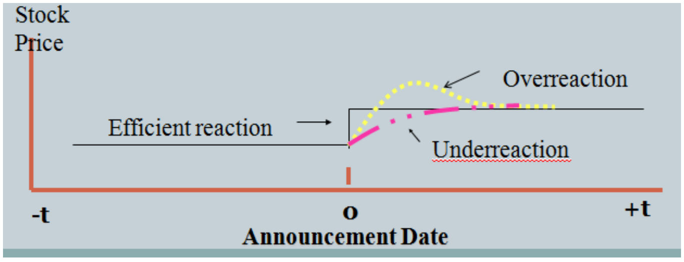

Fig. 1. Market return.

The stages of the Event Study research [2]:

- Determine the event day for the issuance of Government Regulation No 1 of 2014, concerning the gradual limitation of mineral exports on January 11, 2014. However, due to the fact that this day falls on a Saturday/closed day of the stock exchange, the event was moved to Monday the 13th.
- Determine the window/event period, which is 7 days before the event, and after the announcement of PP No. 1 of 2014 limiting mineral exports.
- Set the Estimate period, which is 100 days before t-7 events.
- Define a Post-event, which is 10 days after t + 7 event.
- Calculate the actual return for each share in each window period using the following formula:

$R_{it} = C_{it} + \beta_{it} R_{mt}$

where : R_{it} = Stock Return in period t

R_{mt} = Market Return/IHSG in the period t

C_{it} = Constants (intercept)

β_{it} = Stock Beta parameters i (slope)

- Calculate the market index return as the estimated return using the following formula: market-adjusted model
- Calculate abnormal returns, using the formula:

ARi,t = Ri,t – Rm,t

Where: ARi,t = abnormal return of securities i-th in the period of t-th events

Ri,t = real return for i-th securities in the t-th period

Rm,t = return expectation of i-th securities for the t-th period

The study used a window period of 125 days (7, 1, and 7 days before, during, and after the event, respectively), and 100 Day Window Balancer. This is because it takes 7 days to determine the capital market reaction after the event occurs.

V. Results and Discussion

Based on the results, investors that engaged in the mining sector experienced negative abnormal returns when the stock market was opened at the beginning of the year. ANRO, ANTM, and BUMI shares experienced a price decline due to the effective implementation of the 2009 Coal Mineral Law on January 1, 2014.

In addition, 4 days before PP No. 1 of 2014 was issued, investors enjoyed positive abnormal returns, and the period t0 and t1 remained positive despite a decline. It slightly increased at t2 and t3 then decreased again at t4, t 5, and t6. This situation is also supported by the results of the average cumulative abnormal return of the three stocks, with a graph close to the average AR curve/EVR at an abnormal return on average above 20%.

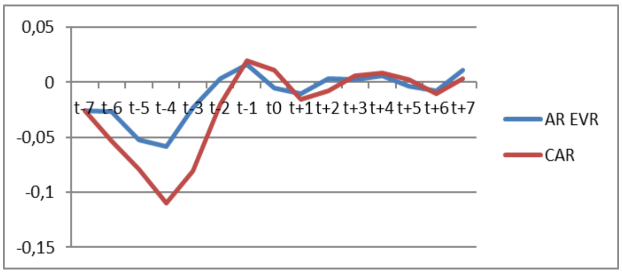

Fig. 2. Processed data.

Graphic: Abnormal average return/ar evr and cumulative abnormal average/ car return stock mining (figure 2).

Studies were conducted to determine why investors have enjoyed positive abnormal returns since 4 days before PP No. 1 of 2014 was issued. According to various studies, negative sentiment needs to have been held early in the opening of the stock exchange for investors engaged in the mining sector for the shareholders to make sales. It was estimated that the profit of the mining sector has the ability to drop dramatically with the enactment of the provisions of the 2009 Oil and Gas Law.

These empirical results reinforce the notion of insider trading activities in the mining sector. This act was allegedly carried out by parties in the state palace/secretary that was close to the preparation of PP policy No. 1 of 2014. In addition, this activity is detrimental to the public that moves the exchange floor, intentionally or unintentionally, and only benefits a handful of naughty investors [3].

VI. CONCLUSIONS

In conclusion, the following analyses were made in investors abnormal returns on the Indonesia Stock Exchange with the PP No. 1 of 2014 concerning Gradual Restrictions on Mineral Exports. First, there was an Abnormal Negative Return for 7 days before the announcement on the Limitation of Minimum Concentrates for the Exportation of Mining Products from 2nd to 10th January 2014, which was triggered by Rumors. A ban on mineral exports was applied on 1 January 2014 in accordance with the mandate of the Oil and Gas Law Act Number 4 of 2009 concerning Mineral and Coal Mining. Second, an Abnormal Positive Return occurred on January 13, 2014 (7 days after), with various provisions prohibiting the exportation of minerals and coal. This law was applied to minerals alone in the first, second, and third years, at 25%, 40%, and 60%, respectively. Third, it is estimated that there is insider trading, which is sourced from the policy information that was leaked 3 days before the issuance at t-3 and t-2. This was also reflected by the AR and CAR curves, which increased positively.

Further research needs to be conducted on the Stock Exchange Authority and the capital market. Legal sanctions need to be imposed on the parties involved in assuming the domain is proven to be able to enrich returns for certain groups/investors. Lessons need to be undertaken on the issuance of government policy that as acts as a source of indications of insider trading. In addition, the state secretariat needs to be more careful in storing legal provisions before announcing its application by the government. The exchange authority is expected to refine the provisions regarding insider trading further and increase sanctions for the perpetrators. The theoretical implications of this research are expected to be one of the references in event studies in the Indonesia Stock Exchange.

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