

HIGHLIGHTS OF THE WEEK

POLITICS

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Muhaimin's PKB, Jokowi's naughty ally

Unlike other parties, the PKB's election of its leader looks set to be a relatively quiet affair. It has been confirmed that incumbent chairman Muhaimin "Cak Imin" Iskandar's bid for a new mandate will go unchallenged. The reelection of Cak Imin should be unsurprising, thanks partly to the party's success in winning more legislative seats in the April election.

Questions arise over cabinet reshuffle's grinding halt

After two months of heavy reporting, President Joko "Jokowi" Widodo's reported plan to reshuffle his cabinet before the end of his first term has finally vanished into thin air. The chances of a Cabinet shakeup diminished even further after Jokowi ordered all his current ministers not to take any strategic decisions, including job rotations, until the new Cabinet is formed this October.

KPK leadership race back in spotlight

The Corruption Eradication Commission (KPK) leadership race is back in the spotlight following a controversial statement from one of the police generals participating in the selection process. Insp. Gen. Dharma Pongrekun had lashed out at public criticism against candidates from the police, including him, who had failed to submit their wealth reports (LHKPN), saying such a requirement was irrelevant.

BUSINESS AND ECONOMY

EV policy attracts investors from Korea, China

The much-anticipated presidential regulation (Perpres) on electric vehicles (EV) was finally signed by President Joko "Jokowi" Widodo on Monday, after two years of waiting. This regulation is intended to attract investment in electric vehicles and is likely to change the landscape of an automotive industry long dominated by Japanese producers.

EY partner sanctioned in Hanson International accounting scandal

The Financial Services Authority (OJK) fined PT Hanson International, its founder and president director Benny Tjokrosaputro as well as its financial director Adnan Tabrani to a total of Rp 5.6 billion on Aug. 8 for overstating Rp613 billion out of Rp732 billion land sale transaction in the 2016 financial statement. Benny bore the brunt of the fine at Rp5 billion.

Blackout reveals PLN's deep-rooted problems

The massive power outage on Aug. 4 that affected Jakarta, Banten, West Java and part of Central Java has revealed several problems plaguing the electricity firm, while the government plans to increase the amount of compensations PLN has to pay its customers in the event of blackouts, in a bid to prevent similar incidents in the future.

Jokowi reorganizes ministries to counter downward economic spiral

The Indonesian economy is in a downward cycle. To support the government's expansionary fiscal policy, Bank Indonesia has changed the course of its monetary policy. Meanwhile, Indonesia's current account deficit expanded. Worried by this development, President Joko "Jokowi" Widodo has made export promotion – to improve the country's trade account and boost economic growth – the cornerstone of his foreign policy.

POLITICS

Megawati, from wannabe queen to most powerful kingmaker

Overview

Megawati Soekarnoputri, the president of Indonesia from 2001 to 2004, is the country's most powerful kingmaker today. Her appearance at the congress of the Indonesian Democratic Party of Struggle (PDI-P) from Aug. 8 to 10 in Bali displayed how much political power she possesses.

She may have lost two presidential bids, in 2004 and 2009, but today, next to President Joko "Jokowi" Widodo, she has the most power. She has been a kingmaker since 2014, when she gave up her presidential ambition and handed the PDI-P ticket to Jokowi. Her party continued to be the main backer of Jokowi in his reelection bid this year.

Looking ahead, Megawati will make sure her handprints appear everywhere, from the formation of ministers in Jokowi's next Cabinet, to the naming of speakers in the House of Representatives and the People's Consultative Assembly (MPR). Through the legislature, which her party controls, she will impose her own agenda that may differ from that of Jokowi. Her plan to reopen the debate on amending the Constitution is already running afoul with Jokowi. After last week's congress, it also became clear she will play a key role in the 2024 election.

In attendance at the Bali congress were all the country's top leaders: Jokowi, outgoing and incoming vice presidents Jusuf Kalla and Ma'ruf Amin, and chairs of all the major political parties, including Prabowo Subianto, founder of Gerindra and loser to Jokowi in the April presidential race.

Pundits had earlier predicted that the congress of the PDI-P, which Megawati founded in 1999, would see her making preparations for succession for one of her two offsprings in the party. At 72, it was time that she made a gradual retreat from politics, so they argued.

Her speech opening the congress defied these predictions. There were no signs she was stepping out or stepping back from her post as party chair. On the contrary, her confidence on stage – she poked fun at some of the VIPs present – indicated that she would continue to be actively leading the party.

This became clearer with the new PDI-P executive board, which she single-handedly picked after the congress overwhelmingly voted her as chair again. There is only one chair, and no deputies that pundits had earlier predicted would run the day-to-day operations on her behalf. She has kept Hasto Kristiyanto, a loyalist, as secretary-general, the second-most powerful job in the party.

Her two offsprings were named onto the 28-member board: Daughter Puan Maharani, 45, heads the department for government, defense and security, and son Muhammad Prananda Prabowo, 49, heads the department for digital, micro, small and medium enterprises. Neither are an obvious candidate to succeed her. And that's because she has no intention of stepping down.

In her speech, she reminded the audience that the PDI-P had won the general election twice in a row, in 2014 and 2019. Reflecting on the current debate that President Jokowi is parceling out seats for his next Cabinet to political parties, she pointedly told him that the PDI-P deserved the most and that she would not settle for just four seats as in the current Cabinet.

What's more

The mood at the PDI-P congress was far more relaxed compared to four years ago, held after the 2014 elections. Megawati then invited newly inaugurated President Jokowi to the event, but did not give him the platform to address the congress. Instead, Megawati introduced Jokowi to the crowd as “an officer of the party”. Tension between the two came with a battle over the appointment of a new police chief in early 2015. Jokowi refused to name Budi Gunawan, Megawati's choice, and the case dragged on for months. The battle ended with a compromise, but both sides wasted valuable political capital.

At this month's congress, Megawati appeared far more relaxed and jovial. But she made it clear that she has power that comes with the PDI-P winning the legislative elections. Winning an election twice in a row is no fluke or accident. Many people inside and outside the party had grossly underestimated her political skill.

If in the past, the battle for top government jobs was the subject of behind-the-scenes negotiations. This time around, nothing is secret or sacred. All political parties are openly staking their claim in Jokowi's next administration. The National Mandate Party (PKB) demands 10 Cabinet posts. Gerindra said Jokowi had promised two Cabinet seats and two deputy minister positions.

Megawati made it public that she would not settle for same number of seats as other parties. As the main party that had supported Jokowi's election campaigns, both in 2014 and 2019, she said the PDI-P should get more than everyone else, especially since some parties that had opposed Jokowi's presidential election – an obvious reference to Gerindra – seemed assured of some Cabinet seats.

The extent of Megawati's political power will be tested in the appointment of the MPR speaker. Puan is already a shoe-in for House speaker, but while the PDI-P is prepared to waive its claim for MPR speakership, it wants to make sure that the speaker agrees to her demand to open the debate on amending the Constitution. The MPR has the sole power to begin this discussion.

With 128 of the 575 seats in the House, the PDI-P only has so much leverage when it comes to influencing the future of both legislative bodies. It will have to work with other parties, and muster its negotiating skills, in pushing its agenda. While the PDI-P wants to amend one or two articles of the Constitution – those pertaining to the powers of the MPR – other parties are vying for more thorough amendments. Gerindra wants the nation to revert to the original 1945 Constitution, with the same basic laws that allowed Indonesia to be governed by a dictator, Soeharto, for a long period of time. Islamist parties will likely push for the creation of an Islamic state and sharia as the law of the land. Can she really control the MPR? That is still an open question.

The nation will see a more active and energetic Megawati in the coming five years, playing the role of a kingmaker through the PDI-P. There is no clear succession plan in place, not even one determining whether Puan or Prananda would be groomed for the 2024 presidential election. Knowing her ambitions, and given her newfound confidence, it would not be surprising if Megawati decides to run herself.

What We've heard

During a meeting ahead of the Indonesian Democratic Party of Struggle's (PDI-P) national congress, the party's matriarch Megawati Soekarnoputri decided the party would not undergo restructuring as previously planned. Thus, the establishment of a new post, namely a daily chairmanship for her son Prananda Prabowo, will not happen.

"The party is not solid yet. [The planned new post] therefore, will not be established," said a PDI-P executive.

What the source meant by the party not being "solid" is that Megawati's inner circle within the PDI-P is reportedly divided into two factions, namely the faction that supports Megawati's daughter Puan Maharani and the faction that supports President Joko "Jokowi" Widodo. Both factions, however, are reportedly deferential to Megawati as it is impossible to directly defy the party's chairwoman.

"Ibu [Megawati], thus, still needs to retain her current position in order to keep the party solid in the next five years," said the same source.

The next five years will provide a huge opportunity for the PDI-P to shape history. Other than preparing its plan to amend the 1945 Constitution to reinstate the State Policy Guidelines (GBHN) and restore the People's Consultative Assembly (MPR) as the highest institution in the country, the PDI-P is reportedly also preparing its cadres for the 2024 presidential election. The party's solidity, hence, will be increasingly important for the party.

Another source has confirmed the party's solidity in Central Java, especially in Surakarta. "This [the party's solidity] includes a number of regional heads, who are supporters of Jokowi," said a source close to Jokowi. Following his reelection, Jokowi reportedly has a specific agenda to undertake in the PDI-P. He has successfully gathered mass support from the party's cadres, especially those from Central Java and Surakarta. Jokowi has reportedly accumulated this support since he was elected as the mayor of Surakarta.

Meanwhile, Puan, who is considered one of the most politically eloquent members of the PDI-P, was reportedly responsible for gathering votes in Central Java and East Java during both the presidential and legislative elections. The number of votes the PDI-P received in these two regions indeed met the party's target.

On the other hand, Prananda's political track record is still questioned by both factions, considering he is relatively new to the political stage having taken on a role in the past five years.

"This is a signal the party still needs to consolidate further," said the source.

Although many doubt Prananda's ability to lead the party, no one would ever dare oppose Megawati's decision. Megawati, thus, will have to retain her position as the party's leader in the next five years. "In the meantime, the party will be looking for her successor," added the source.

Prananda has been acknowledged by both factions as a good speechwriter and master of former president Sukarno's ideas. Since 2013, Megawati's speeches have regularly been written by

Prananda, who always quotes his grandfather, Sukarno's, ideas. "He really understands Sukarno. He has studied and explored his grandfather's thoughts," said a PDI-P executive who is close to Puan.

During the congress, Megawati delivered her speech as if she were talking in front of her friends. She was not afraid to bellow with laughter or to convey her heart.

"Megawati was relieved after the presidential and legislative elections. She was satisfied [with the results]," said a PDI-P executive. The way in which Megawati delivered her speech has not escaped the public either. As she became really confident, Megawati was comfortable speaking without a script.

"Someone who is close to Megawati suggested that she acted naturally. She has often acted naturally, especially during closed plenary meetings and national working meetings. So it is not difficult for Megawati [to act naturally]," said the source.

Muhaimin's PKB, Jokowi's naughty ally

Overview

The agenda of the incoming national meeting (Muktamar) of the National Awakening Party (PKB) on Aug. 20 will likely focus on the election of the party chairman for the next five years and setting the party's next moves.

Unlike other parties, the PKB's election of its leader looks set to be a relatively quiet affair. It has been confirmed that incumbent chairman Muhaimin "Cak Imin" Iskandar's bid for a new mandate will go unchallenged. The reelection of Cak Imin should be unsurprising, thanks partly to the party's success in winning more legislative seats in the April election.

Indeed, 2019 appears to be the PKB's year. It has now emerged as the fourth largest party in the House of Representatives. In the Joko "Jokowi" Widodo-Ma'ruf Amin coalition, the PKB is the third largest. The party has been acknowledged as an important factor behind President Jokowi's victory. Being a political outlet of Indonesia's largest Muslim group Nahdlatul Ulama (NU), the PKB's support for Jokowi complemented the President's coalition with its religious tinge. This proved to be greatly needed considering that the coalition behind Jokowi, whose Islamic credentials were often targeted by his opposition, would have otherwise been dominated by nationalist parties. Thus, the PKB's support, coupled with the candidacy of NU-backed Ma'ruf, added the much-needed impetus for moderate Muslims to vote for Jokowi.

Given the important role the PKB played, Cak Imin had the confidence to ask the reelected President for 10 ministerial seats, which many deem as outrageous, and demanding the People's Consultative Assembly's (MPR) speakership for himself. It appears that Cak Imin is fully aware that the rise of the PKB provides momentum for the party to expand its political clout.

In discussing the PKB's future stance, Cak Imin likened the party to bees, saying that despite the numerous benefits of honey they produce, they would painfully sting anyone who disturbed them. Many speculate that Cak Imin's rhetoric is a dare to other parties, particularly the opposition, which might hamper the PKB's political march. Considering the NU's support for the PKB, which has reportedly grown stronger following the PKB's rigorous financial backing of the Islamic organization¹, it appears the PKB's sting would be a painful one indeed.

All things considered, the PKB will most likely continue its crusade under Cak Imin's leadership. Regardless, other parties might "sting" back if the PKB becomes too aggressive. Furthermore, based on the complicated history between the NU and the PKB, it remains possible the NU could suddenly retract its support for the PKB, leaving the party without its most important ally.

What's more

Cak Imin's growing influence is evinced in his success in becoming the first PKB reigning chairman whose reelection bid has gone unchallenged. Past chairmen Matori Abdul Djalil and Alwi Shihab triggered party division after their elections.

Indeed, under Cak Imin's leadership, the PKB managed to increase votes for the party from approximately 4 percent in 2009 legislative election, to 9.04 percent in 2014 and 9.72 percent in 2019. Cak Imin's achievements, however, have not come without careful maneuvers on his part. His success in wooing support from the NU, for one, was largely thanks to his extensive network with business players. Cak Imin's decision to appoint Lion Air Group founder Rusdi Kirana as his deputy, for instance, reportedly led to a major financial sponsorship for NU-affiliated *pesantren* (Islamic boarding schools) from the PKB.²

Despite being relatively unopposed within the party, Cak Imin is reportedly not so popular outside the PKB. His relationship with President Jokowi has allegedly become strained following Cak Imin's political onslaught in the past months. It started with Cak Imin's not-so-subtle threat against Jokowi a few days before the President announced his running mate for the 2019 presidential election. Cak Imin, who had vigorously expressed his willingness to be Jokowi's running mate, hinted that the PKB might withdraw its support for Jokowi's reelection bid unless the incumbent heeded his demand, much to the President's annoyance.³

Now that the PKB has secured a considerable number of votes in the 2019 legislative election, Cak Imin is continuing his maneuvers. Not only has he asked for an enormous number of ministerial posts for the PKB and the MPR speakership for himself, Cak Imin is also one of the most outspoken critics of Jokowi's reported plan to welcome the opposition into his next cabinet.

Following Cak Imin's pressure, Jokowi's absence at the PKB's anniversary event on July 23 sparked further speculation about the strained relationship between the President and the party. If the relationship between Cak Imin and Jokowi is indeed troubled and beyond repair, the PKB might have to start thinking about appointing a new chairman. This will not be easy, however, considering the lack of cadres who can match Cak Imin. Some of the PKB's most prominent cadres, such as its central executive board chairman Abdul Kadir Karding and secretary-general Hanif Dhakiri, are less popular and less capable of challenging Cak Imin, especially considering Abdul's recent demotion and Hanif's failure to win a legislative seat. In this regard, while Cak Imin's current popularity is sufficient to ensure the PKB maintains its power at present, the party might sooner or later face that one problem that has plagued other parties, namely the problem of regeneration.

What We've heard

Similar to the Indonesian Democratic Party of Struggle's (PDI-P) recent congress, the PKB's national congress is expected to proceed smoothly and without any surprises. Cak Imin has a very good stature within the party considering his aristocratic lineage from the NU. Cak Imin is a nephew of the late former president Abdurrahman "Gus Dur" Wahid, who was also a grandson of NU founder Wahid Hasyim himself.

"It's difficult to find a replacement for Cak Imin, unless he himself wants to step down," said an NU member close to PKB elites.

According to the source, another "aristocrat" would be needed to replace Cak Imin. Any figure replacing him would also have to be financially and politically strong. "So [Cak Imin's replacement] must be politically flexible. So far, however, there is no one that can beat Cak Imin's flexibility," said the source, who was also close to Vice President-elect Ma'ruf Amin. Ma'ruf himself has reportedly agreed to Cak Imin's continued leadership of the PKB.

An external attempt to expel Cak Imin, said the source, had failed to penetrate a barricade of Cak Imin's supporters within the PKB. The strength of Cak Imin's supporters, according to another source, was also tested following former Constitutional Court justice Mahfud MD's failure to run as President Jokowi's vice president in the 2019 presidential election.

"The consolidation of the NU's [support for Cak Imin] is currently very strong within the PKB," said a source who was close to Gus Dur's inner circle.

Initially, if Mahfud had been chosen as Jokowi's running mate, the chance of Cak Imin being replaced as PKB chairman would have been higher; Yenny Wahid, Gus Dur's daughter, would have had enough political power. However, since Gus Dur's inner circle is no longer in the PKB, the chance for Gus Dur's inner circle to lead the PKB is reportedly slim to none.

Gus Dur lost to Cak Imin, his own nephew, in 2005 and 2006 in a fight over PKB chairmanship. At that time, Cak Imin supported then-president Susilo Bambang Yudhoyono (SBY). Meanwhile, Gus Dur wanted to keep the PKB as a neutral party in the legislature.

Questions arise over cabinet reshuffle's grinding halt

Overview

After two months of heavy reporting, President Joko "Jokowi" Widodo's reported plan to reshuffle his cabinet before the end of his first term has finally vanished into thin air. The chances of a Cabinet shakeup diminished even further after Jokowi ordered all his current ministers not to take any strategic decisions, including job rotations, until the new Cabinet is formed this October.¹ It has been speculated the instruction is a hint the President intends to keep his ministers stock-still and that no drastic changes will occur within his Cabinet until the start of his second term.

The question then, is why has the Cabinet reshuffle been postponed, or even cancelled? The most plausible explanation is the increasingly jumbled lobbying activities besieging the President. Previously, it had been predicted that the large size of Jokowi's coalition would

come back to bite him, as coalition parties demanded a slice of the President's pie. What the parties had not expected, however, was Jokowi's move to woo the opposition after he secured his second term. To make matters worse, the President's dalliance with the opposition parties occurred amid rumors about the Cabinet reshuffle. As a result, the already stiff competition among coalition parties for ministerial seats turned even fiercer as the line between coalition and opposition parties blurred.

Additionally, parties have demanded larger slices of pie than expected. The National Awakening Party (PKB), which was content with three ministerial seats in the current Cabinet, for instance, has made an appeal for at least 10 ministerial posts, much to other parties' chagrin. Following the PKB's statement, other parties have been trying to outdo each other. The Golkar Party and NasDem Party have strongly argued they deserve more ministerial seats than the PKB as they acquired more seats in the House of Representatives than the PKB in the 2019 legislative election.

Jokowi is not safe even from his own political party, the Indonesian Democratic Party of Struggle (PDI-P), as the party's chairwoman, Megawati Soekarnoputri, bluntly demanded the highest number of posts in his Cabinet during the party's national congress last week.

Now, the most unobtrusive option for Jokowi is to put off his plan to reshuffle the Cabinet altogether and let the competition and lobbying process among parties take its course before he forms his next Cabinet following his inauguration in October. In this way, Jokowi could calculate the ambitions and lobbying power of each contending party as well as the political concessions they are willing to make. Thus, based on this calculation, Jokowi could reckon which individuals to appoint as ministers without sparking unnecessary brouhaha.

What's more

As the political landscape is shifting, it may be too premature to reshuffle the Cabinet presently. Indeed, recent developments surrounding the ministerial race have surprised many, as friends turn foes and foes turn friends. Jokowi, thus, might choose to remain cautious in appointing ministers lest he make too many drastic changes within his Cabinet and make it unstable.

One important development that Jokowi might consider is forming a "mini coalition" within his coalition following his reconciliatory meeting with Gerindra Party chairman Prabowo Subianto and PDI-P chairwoman Megawati's meeting with Prabowo on separate occasions. Following the meeting between Jokowi and Prabowo, all coalition parties, minus the PDI-P, held a meeting in at the NasDem headquarters to discuss their stance toward the possibility of opposition parties joining Jokowi's coalition, strongly hinting at the parties' disappointment in Jokowi's "illicit affair" with the opposition.

As if to display their disappointment even further, some of Jokowi's coalition parties have blatantly expressed their willingness to take strong measures. NasDem chairman Surya Paloh, for instance, declared NasDem's readiness to nominate Jakarta Governor Anies Baswedan, one of Jokowi's critics, for the 2024 presidential election. Meanwhile, the chief of Golkar's advisory board, Aburizal Bakrie, has urged Golkar to nominate its own cadre as a presidential candidate in the 2024 election.

In addition to the coalition parties' countermeasures, Jokowi must also take notes on Megawati's recent maneuvers. Not only does her meeting with Prabowo reaffirm Megawati's predominance over other parties, Jokowi's absence from the meeting is an indication of the matriarch's willingness to take independent action. This, coupled with Megawati's message to Jokowi during the party's

national congress to allocate more ministerial seats for the PDI-P, strongly suggests who wears the pants in Megawati's complicated relationship with Jokowi. Considering Megawati's prevalent political influence, Jokowi, thus, might keep a wary eye on her growing relationship with Prabowo. One wrong move and Megawati and Prabowo might gang up against the President instead.

The last factor that Jokowi must consider is the possibility of a revolt from his current ministers, especially those who are likely to be replaced. It remains possible that "problematic" ministers may take advantage of the delay of the Cabinet reshuffle to maintain their influence through various measures. This might be another reason behind Jokowi's order for his ministers not to take any strategic decisions in the upcoming weeks.

President Jokowi is currently playing a dangerous game that requires thorough calculation. On one hand, all parties must be accommodated to prevent "mutiny" by his coalition. Jokowi, after all, could not easily discard his coalition parties considering the considerable roles they played in helping him secure reelection. On the other hand, no one, including the PDI-P, should receive more than their fair share to prevent the dominance of a particular group in his government. Losing this game will lead Jokowi to a hollow victory, where the real control lies in the political parties despite his being the President.

Issue update: KPK leadership race back in spotlight

Overview

The Corruption Eradication Commission (KPK) leadership race is back in the spotlight following a controversial statement from one of the police generals participating in the selection process. Insp. Gen. Dharma Pongrekun had lashed out at public criticism against candidates from the police, including him, who had failed to submit their wealth reports (LHKPN), saying such a requirement was irrelevant. According to the 1999 Good Governance and Freedom from Corruption, Collusion and Nepotism Law and the 2002 KPK Law, submitting wealth reports is obligatory for potential KPK leaders, but Dharma says he sees nothing wrong with KPK leader candidates' refusal to submit such reports.

Dharma's blunder has put police officers vying for KPK leadership seats under public scrutiny. These officers include Insp. Gen. Firli Bahuri and National Police deputy detective chief Insp. Gen. Antam Novambar, whose track records as law enforcers have been questioned by many.

As the KPK's deputy head for enforcement, Firli had been subject to an internal investigation for allegedly meddling in a graft investigation involving former West Nusa Tenggara governor M. Zainul Majdi, known as Tuan Guru Bajang (TGB). The investigation was stopped when Firli was recalled back to the police force and promoted as South Sumatra Police chief. Firli's return to the police hindered the KPK's plan to issue any ruling on his alleged ethics code violation.

Meanwhile, Antam was accused of intimidating then-KPK law enforcement deputy Endang Tarsa into giving favorable testimony for National Intelligence Agency (BIN) chief Budi Gunawan, who then served as the National Police's deputy chief and faced a bribery accusation. Budi was eventually cleared of all charges.

The "problematic" KPK leadership candidates have given rise to public distrust of the KPK selection process amid the selection committee's alleged preference for particular candidates.

What's more

As the race for KPK leadership seats approaches its final stage, the selection team has narrowed down the number of candidates vying for the antigraft body's top jobs to 40 names.

While the professional backgrounds of the candidates vary (they include academics, law enforcers, KPK commissioners, civil servants, auditors, advocates and police officers), the fact that six high-ranking police officers, including the "problematic" ones, have survived the rigorous testing so far has raised many eyebrows.

Selection committee head Yenti Garnasih said the committee's tendency to prefer police officers for KPK leadership was based on the 2002 Corruption Eradication Commission (KPK) Law, which stipulates that the KPK was established to strengthen the role of the police and prosecutors in combating corruption.

While Yenti did not dismiss the fact that public confidence in the police was relatively low, she insisted that the police's participation in the selection of KPK leaders was strongly needed, given their experience in law enforcement and understanding of investigation and prosecution mechanisms.

Many, however, do not buy that far-fetched rationale, saying law enforcement was not merely the territory of the police. Other professions, such as lawyers, antigraft campaigners and academics, possess equal, if not better, understanding of law enforcement. While legal expertise was an important qualification for KPK leaders, other traits, such as integrity, independence and a strong commitment to anticorruption are nonnegotiable.

The relationship between the antigraft body and the National Police has not always been smooth sailing. In investigating graft cases, the two state institutions have a checkered history, portrayed in one of the most notorious fights between the institutions dubbed *cicak melawan buaya* (gecko versus crocodile). Many, therefore, have speculated that the increasing presence of police officers in the KPK is an attempt by the police to "constrain" the antigraft body.

To make it to the final list, the remaining 40 candidates are currently undergoing a profile assessment, which will be followed by public hearings to screen the candidates' backgrounds and track records. The involvement of the public is expected to increase transparency of the selection process.

The final result, however, rests with the selection committee. Its nine members, thus, bear the main responsibility for ensuring a level playing field for all the candidates.

BUSINESS & ECONOMIC POLICY

EV policy attracts investors from Korea, China

Overview

The much-anticipated presidential regulation (Perpres) on electric vehicles (EV) was finally signed by President Joko “Jokowi” Widodo on Monday, after two years of waiting. This regulation is intended to attract investment in electric vehicles and is likely to change the landscape of an automotive industry long dominated by Japanese producers.

The long time needed to prepare the presidential regulation was the result of a tug of war between the Industry Ministry that sided with conventional Japanese auto producers and the Energy and Mineral Resources Ministry that wanted to shift the industry into fully electric vehicles (see **What we’ve heard**).

The government’s EV policies have already attracted auto producers, mainly from South Korea and China, to invest in EV production in Indonesia. Hyundai of South Korea plans to build a Rp 12 trillion (US\$840.63 million) plant in Karawang, West Java, with a capacity to produce 250,000 units a year. China’s BYD and JAC have conveyed interest in relocating their EV businesses to Indonesia¹.

Meanwhile, Japanese automotive companies that had invested aggressively in conventional cars are trying to save their investment by transitioning to the hybrid car business. Japan’s Daihatsu invested Rp 13 trillion in fuel-based cars and is not yet capable of building EV batteries². Mitsubishi is also preparing for hybrid car production. Toyota, although prepared for full electrification, is questioning the government’s readiness on the infrastructure side.

Nonetheless, the government appears confident that the country will soon be ready for full EV production, given the abundant reserves of nickel, the main raw material for the production of lithium batteries for EVs. In the initial period, the country would import completely built-up (CBU) units. The Perpres stipulates that the local content requirement for EVs shall reach 35 percent in 2023.

Indonesia plans to make that requirement achievable through domestic battery production. The battery is the main component of EV, accounting for 50 percent to 60 percent of EV prices. Currently, Chinese investors are building plants to produce lithium batteries for EVs in Morowali, Southeast Sulawesi, and Weda Bay, Halmahera, Maluku. Therefore, local battery production is expected to make Indonesian-made EV more competitive.

Because of the EV policy, three nickel producers in Indonesia, PT Aneka Tambang Tbk (ANTM), PT Vale Indonesia Tbk (INCO) and PT Central Omega Resources Tbk (DKFT) have seen their stock prices increase since May.

What's more

No one has revealed any details of the newly signed presidential regulation. Three weeks before President Jokowi signed the regulation, Finance Minister Sri Mulyani said electric vehicle production would be supported by two regulations, the presidential regulation on electric vehicle batteries and a revision of Government Regulation No. 41/2013 on luxury vehicle taxes.

According to Sri Mulyani, the Perpres stipulates a number of fiscal incentives for the EV industry, such as import tariff incentives for machinery and materials supporting EV production, VAT deductions and tax incentives for imported goods related to investment in the EV industry.

Meanwhile, the revision of PP 41/2013 will change the classification to determine taxes imposed on passenger vehicles. Based on emission rates, the new classification will distinguish between low-cost green cars (LCGC), hybrid EVs, plug-in EVs, flexy engine EVs, fuel cell EVs and fully electrified vehicles. It will grant fiscal incentives through the luxury goods tax commensurate with the vehicle's carbon emission. Full electric or fuel cell vehicles with zero carbon emissions will be subject to zero luxury tax³.

According to Sri Mulyani, with the issuance of the two new policies, Indonesia is expected to pick up its pace and improve its competitiveness both domestically and abroad. In the newly signed Indonesia-Australia Comprehensive Economic Partnership Agreement (IA CEPA), Indonesia has demanded market access for EV produced in Indonesia. Under IA CEPA, Indonesia can already export EVs containing at least 40 percent local content.

What We've heard

The draft presidential regulation on EVs took a long time to be delivered to President Jokowi because the Industry Ministry and the Energy and Mineral Resources Ministry could not reach an agreement on its substance.

The Industry Ministry was seen to be siding with Japanese automotive manufacturers' interests. Several Japanese automotive companies, which have been dominating the Indonesian automotive industry with conventional combustion-engine vehicles, prefer developing hybrid cars and plug-in hybrid cars rather than jump to full EVs. Therefore, they want hybrid cars to remain accommodated in the Perpres.

The Energy and Mineral Resources Ministry, on the other hand, considers hybrid cars developed by Japanese automotive companies not eligible for incentives, as they still depend on fossil fuels. The hybrid technology in vehicles is only to reduce fuel consumption, and the ministry insisted that the presidential regulation should only regulate electric cars, not hybrid cars.

Although now accommodated, the incentive for hybrid cars is much lower than for fully electric cars. Details on the different incentives are expected to be stipulated in a Finance Ministry regulation.

EY partner sanctioned in Hanson International accounting scandal

Overview

The Financial Services Authority (OJK) fined PT Hanson International, its founder and president director Benny Tjokrosaputro as well as its financial director Adnan Tabrani to a total of Rp 5.6 billion on Aug. 8 for overstating Rp613 billion out of Rp732 billion land sale transaction in the 2016 financial statement. Benny bore the brunt of the fine at Rp5 billion.¹ As reported by Bisnis Indonesia, Hanson and Benny paid the fine immediately, because they wanted to avoid the risk that the fine might jeopardize Hanson's plan for a rights issue in the near future.²

The OJK also sanctioned Sherly Jokom, a partner in public accounting firm Purwantono, Sungkoro and Surja, which operates as an affiliate of Ernst and Young in Indonesia (EY Indonesia), by suspending her public accountant license for one year.³ The legal case is the third for EY Indonesia in as many years. The first case occurred in 2016 – 2017 when the Public Company Accounting Oversight Board (PCAOB) investigated EY Indonesia for an audit failure of PT Indosat's 2011 financial statement. The PCAOB imposed a US\$1 million penalty on EY Indonesia and a \$20,000 fine on the company's professional practices director Roy Iman Wirahardja.⁴

The second case revolves around Bank Bukopin's 2015, 2016 and 2017 financial statements. In 2018, Bank Bukopin revised down its 2016 profit from Rp1.08 trillion to Rp 183.56 billion due to credit card data mismanagement. Because of this revision, Bank Bukopin's retained earning was cut by Rp2.6 trillion to Rp5.5 trillion, which automatically reduced the bank's total equity to Rp6.9 trillion from Rp9.5 trillion.⁵ In response to this revision, the Indonesia Stock Exchange (BEI) summoned EY Indonesia for clarification and threatened the accounting firm with an OJK investigation.⁶

For Indonesia, the Hanson International case is the sixth case in these past two years, after

- Bank Bukopin
- SNP Finance that involves KAP Satrio, Bing, Eny and partners (Deloitte Indonesia)
- Jiwasraya with KAP Djoko, Sidik & Indra
- Tiga Pilar Sejahtera with KAP Amir Abadi Jusuf, Aryanto, Mawar and partners (RSM International) and

Garuda Indonesia with KAP Tanubrata, Sutanto, Fahmi and partners (BDO International).

What's more

Among the six cases, that of SNP Finance is the most serious, because it ended with criminal charges.⁶ The case hurt accounting firm Deloitte Indonesia financially. As we reported in our previous Backgrounder, Bank Mandiri has told its clients that the Bank will not provide loans for companies with Deloitte-audited financial statements. As a result, many clients have canceled their auditing contracts with Deloitte, including Garuda Indonesia.

To survive in the public accounting business, Deloitte Indonesia partners reorganized the company. From now on, Deloitte Indonesia is represented by KAP Imelda and partners⁷ which obtained its license in June⁸. The role of KAP Satrio, Bing, Eny and partners is reduced to internal advisory. Because of this reorganization, many auditors who work for KAP Satrio, Bing, Eny and partners were given two options, either to stay with an internal advisory role or receive a severance package, so they could continue their career as an auditor or accountant in another company.

Issue Update: Blackout reveals PLN's deep-rooted problems

Overview

The massive power outage on Aug. 4 that affected Jakarta, Banten, West Java and part of Central Java has revealed several problems plaguing the electricity firm, while the government plans to increase the amount of compensations PLN has to pay its customers in the event of blackouts, in a bid to prevent similar incidents in the future.

A former PLN CEO told us that the blackout would never have happened if PLN had not slashed the budget for maintenance and had a proper system in place to cut the electric current whenever there was a disruption in high-voltage transmission lines. Under the leadership of Sofyan Basyir, who is currently being tried over allegedly bribery relating to the Riau 1 coal-fired power plant, PLN had increased marketing expenditure while holding off maintenance expenditure. This resulted in minimal maintenance and limited human resources to do the maintenance (see **What we've heard**).

Moreover, the absence of a definitive CEO had made things worse for PLN, because an acting CEO would not take strategic decisions. The State-Owned Enterprises Ministry faced difficulties in finding the right CEO candidate for PLN, as most able candidates had turned down the ministry's offer, given that four out of last five PLN CEOs faced legal problems and three ended up in prison (see **What's more**).

The massive blackout has prompted the government to formulate a new regulation to prevent similar incidents. One immediate step taken by the government is to increase the amount of compensation PLN has to pay customers in the event of a blackout. A higher penalty will make it more costly for PLN to screw up, pushing the firm to deliver excellent services to its customers.

Under prevailing regulations, in the event of a blackout, PLN must compensate customers in the form of discounts on their electricity bills in the following months, with a 20 percent discount for subsidized customers and 35 percent discount for nonsubsidized customers.¹ The government is now considering to increase the compensation to between 100 percent and 300 percent, depending on how long the blackout lasts.²

The Energy and Mineral Resources Ministry's electricity director general, Rida Mulyana, said the new regulation would be issued soon and would not apply retroactively. Therefore, in the case of the mass blackout on Aug. 4, customers would get compensation as stated in the current regulation. PLN has calculated the total amount of compensation to be paid out at Rp 839 billion (US\$58.7 million).

What's more

Since the arrest of Sofyan Basyir on April 23, the position of PLN president director has been assumed by three different acting chiefs. PLN director of human capital management Muhammad Ali was appointed as acting president director for the first 30 days after Sofyan was named a suspect. Ali was then replaced by Djoko Raharjo Abumanan on May 29, when the Corruption Eradication Commission (KPK) officially detained Sofyan, whose position as PLN president director was

suspended. Aside from being acting president director, Djoko was also PLN's strategic procurement director. Djoko was then replaced by Sripeni Inten Cahyani on Aug. 2, two days before the massive power outage occurred.

State-Owned Enterprises Minister Rini Soemarno actually proposed Sripeni as the definitive CEO. Some sources said that Rini wanted Sripeni to immediately carry out her duties as president director, not as acting president director. However, her proposal was rejected by the final assessment team chaired by President Joko "Jokowi" Widodo.

According to a state-owned enterprise commissioner, Sripeni received the highest assessment score of all candidates. Another name sticking out was that of PLN regional director for East Java, Bali and Nusa Tenggara Supangkat Iwan Santoso. However, Iwan was entangled in the Riau-1 power plant bribery case. In the police investigation, he was said to be present at one of the meetings at Sofyan Basir's house discussing the Riau-1 project.

Sripeni's candidacy came after some PLN directors refused to be nominated as the firm's definitive president director. Those reportedly refusing the offer included Djoko Rahardjo, PLN West Java regional business director Haryanto W.S. and former telecom company Telkomsel president director Alex Sinaga.

They turned down the ministry's offer given that four out of last five PLN CEOs faced legal problems, and three ended up in prison. They are Sofyan Basir (2014-2019), Nur Pamudji (2011-2014), Dahlan Iskan (2009), and Eddhie Widiono (2001-2008). Only Dahlan Iskan managed to avoid prison after he won a pre-trial motion in the South Jakarta district court.

What We've heard

Our sources said that the massive blackout on Aug. 4 was caused by a combination of problems at PLN, ranging from an unreliable protection relay in the high-voltage transmission line to subpar equipment, a cut in the maintenance budget and simply bad luck.

A former PLN director said the disruption caused by an overgrown *sengon* tree in the high-voltage transmission line between Ungaran and Pemalang in Central Java would not have caused a short circuit if only the protection relay had been working correctly. A protection relay is a device that will detect whether a disruption in the transmission is permanent or transient. Ideally, when the protection relay detects a permanent disruption, the system will automatically lock the transmission, so that no electricity is transmitted.

During the recent blackout, Unggaran's protection relay recognized the disruption from the *sengon* tree as a nonpermanent disruption. Consequently, the electricity from East Java continued to be transmitted through Unggaran and caused a short-circuit, which in turn caused several power plants in the western part of Java to trip, including the coal-fired Suralaya power plant with a capacity of 3,400 megawatts.

The situation was exacerbated by the long recovery process. When PLN tried to restart the Suralaya power plant, it needed power supply from the water-powered Saguling power plant. However, the process of transferring the electricity from Saguling to Suralaya took much longer than necessary. It should have taken only 30 minutes, but on Aug. 4, it took six hours due to a subpar fiber-based communication device connecting the two power plants. When electricity finally arrived at Suralaya, the boiler within the plant was already "cold", so it took another six to eight hours to kick-start one generator.

Another former high-ranking PLN executive blamed the reduced maintenance budget for the Aug. 4 blackout. Since Sofyan Basir appointed PLN president director, the source said, the maintenance budget, including funds to maintain transmission lines, had been cut. Sofyan was said to be only interested in public image and therefore increased the company's marketing budget, while neglecting the basics to maintain the stability of the crucial Java-Bali electricity system.

Meanwhile, a former PLN president director said the quality of maintenance also got worse because PLN had failed in its regeneration of technical experts to maintain the transmission lines. PLN has to rehire retired employees to do transmission maintenance. Ideally, PLN should have a strong qualified team of technical staff that could maintain all transmission lines 24 hours a day.

Indonesia Macro Update: Jokowi reorganizes ministries to counter downward economic spiral

Overview

The Indonesian economy is in a downward cycle. GDP growth decelerated to a year-on-year (yoy) rate of 5.05 percent in the second quarter of 2019 from 5.27 percent a year earlier, as investment growth fell from 5.85 percent yoy to 5.01 percent yoy and exports contracted by 1.81 percent yoy. Stronger household spending in the second quarter at 5.17 percent yoy due to the Idul Fitri holiday, combined with the government's decision to aggressively expand budget spending by 8.23 percent yoy, prevented economic growth from dropping below 5 percent.

To support the government's expansionary fiscal policy, Bank Indonesia has changed the course of its monetary policy. It began with cutting the 7-day reverse repo rate (7DRRR) by 25 basis points (bps) to 5.75 percent last month, following the United States Federal Reserve's decision to take an 'insurance cut'¹. After July's rate cut, BI announced it would pursue further rate cuts in the coming months to stimulate investment.²

Meanwhile, Indonesia's current account deficit expanded from US\$7 billion in the first quarter of 2019 to \$8.4 billion in the second quarter, driven by the shrinking of the trade account surplus from \$1.2 billion to \$186 million.

Worried by this development, President Joko "Jokowi" Widodo has made export promotion – to improve the country's trade account and boost economic growth – the cornerstone of his foreign policy. On Wednesday, he announced that the Foreign Ministry would have an expanded role in his second term as the Foreign and Export Ministry. As the new name suggests, the ministry will have a dual purpose: (a) managing world politics and diplomacy with foreign countries and (b) promoting exports from Indonesia.³ **(see What's More)**

Indonesia Quarterly Real GDP Growth Rate, y-o-y, Q1.2010 - Q2.2019



Source: Statistics Indonesia (BPS)

Household Spending Growth Rate, Q1.2014 - Q2.2019



Source: Statistics Indonesia (BPS)

Real Growth Rate of Domestic Investment, y-o-y, Q1.2010 - Q2.2019



Source: Statistics Indonesia (BPS)

Indonesia's Export and Import Growth Rate, Q1.2010 - Q1.2019



Source: Statistics Indonesia (BPS)

Indonesia's Government Expenditure Growth Rate, Q1.2014 - Q2.2019



Source: Statistics Indonesia (BPS)

Indonesia Current and Trade Account Positions, in million US\$, Q1.2016 - Q2.2019



Source: Bank Indonesia

Indonesia's Quarterly Direct Investment and Portfolio Investment Position, in million US\$ Q1.2016 - Q2.2019



Source: Bank Indonesia

What's more

Besides export promotion, President Jokowi also makes boosting export-oriented foreign investment a priority in his foreign policy. Rather than giving this responsibility to the new Foreign and Export Ministry, President Jokowi will create for this purpose a new ministry, the Investment Ministry, which will oversee both domestic and foreign investment.⁴

Some economists and think tanks have criticized the President's decision. An economist from the Center of Reform on Economics (CORE), Mohammad Faisal, calls the new ministry redundant, because the government already had the Investment Coordinating Board (BKPM).⁵ Economist Faisal Basri is afraid that President Jokowi might misunderstand the problem, confusing the need for more investment with underutilized production capacity.⁶ In fact, net foreign direct investment in the first half of 2019 reached \$10.6 billion, up 50 percent from \$7 billion in the corresponding period of last year.

Muhaimin's PKB, Jokowi's naughty ally

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³ Liputan6.com, "Pengamat: Jokowi Terganggu dengan Tekanan dari Cak Imin" 28 May 2018 <https://tinyurl.com/y5dnhl1l>

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EV policy attracts investors from Korea, China

¹ Kontan, "Karpas Merah bagi Investasi Mobil Listrik," 9 August 2019 p.1 <https://tinyurl.com/y6fn2vue>

² CNNIndonesia, "Cemas Menanti Pengumuman Perpres Kendaraan Listrik," 14 August 2019 <https://tinyurl.com/yyg2qoz2>

³ Investor Daily, "Pemerintah Serius Genap Mobil Listrik," 16 Aug 2019 p.1 <https://tinyurl.com/yxgaermx>

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⁴ PCAOBUS.org, "Order instituting disciplinary proceedings, making findings, and imposing sanctions." 9 February 2017 <https://tinyurl.com/yy9bhs52>

⁵ CNBCIndonesia.com, "Drama Bank Bukopin: Kartu kredit modifikasi dan rights issue." 27 April in 2018 <https://tinyurl.com/y36qz6ka>

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⁶ Kontan.co.id, "Bareskrim tetapkan tersangka kasus SNP Finance, bagaimana nasib auditornya?" 25 September 2018 <https://tinyurl.com/y6oh4ace>

⁷ Deloitte.com, "Indonesian office." <https://tinyurl.com/y4ha6kxx>

⁸ SIKAP.BPK.go.id, "KAP Imelda dan rekan." <https://tinyurl.com/y6acrfor>

Blackout reveals PLN's deep-rooted problems

¹ Energy and Mineral Resources Ministry Regulation No. 27/2017 on service quality level and the cost of electricity distribution by PLN

² Kontan, "Besaran kompensasi listrik bisa tiga kali lipat," 13 August 2019 p.14

Jokowi reorganizes ministries to counter downward economic spiral

¹ Bloomberg.com, "Greenspan backs the case for the Fed taking out an insurance rate cut." 24 July 2019 <https://tinyurl.com/yxp4y6j2>

² Liputan6.com, "BI kaji waktu untuk kembali turunkan suku bunga." 12 August 2019 <https://tinyurl.com/yyyz98o4>

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⁵Tempo.co, “Jokowi bentuk Kementerian Investasi, CORE: Bisa terjadi pemborosan.” 15 August 2019 <https://tinyurl.com/y54sg6ge>

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