

HIGHLIGHTS OF THE WEEK

POLITICS

Prabowo pared down as Jokowi powers on

President Joko “Jokowi” Widodo, aware of Prabowo Subianto’s strength, offered an olive branch by inviting him to join his coalition. Now that Jokowi has been confirmed president for a second term in office, his offer to Prabowo still stands. But if and when they do meet, their power relations have dramatically changed. Prabowo comes to the negotiating table in a much weaker position.

Opposition may grace Jokowi’s cabinet

Ever since Joko “Jokowi” Widodo and running mate Ma’ruf Amin were crowned as the winning pair of the 2019 presidential election, speculation about the composition of the new cabinet has circulated. The ministerial game, however, reportedly may change now that Jokowi is said to have moved to reach out to the opposition as a symbol of reconciliation with archrival Prabowo Subianto.

Chasing the agrarian reform target

Several companies involved in land conflicts have recently given up parts of their concessions to later be distributed by the government to the people living in the disputed area. Such decision might be a part of President Joko “Jokowi” Widodo’s last-minute maneuver to fulfill one of his campaign promises, namely solving land disputes in the country.

Indonesia launches integrated data system

On July 12, President Joko “Jokowi” Widodo signed Presidential Decree No. 39/2019, which stipulates the minutiae of Satu Data Indonesia, an online portal that stores integrated data acquired from various agencies. With a view to promote good governance, Satu Data Indonesia has won wide support.

BUSINESS & ECONOMY

Indonesia to boost domestic demand of palm oil

Indonesia, the world’s largest palm oil producer, has suffered most from falling international prices of palm oil due to slowing demand and rising output. The government’s approach to protecting what is a strategically important industry has been less conciliatory and more interventionist: boosting domestic demand by subsidizing biofuels and later “green energy”.

Poultry farmers protest sharp broiler price fluctuation

Poultry farmers are fed up with volatile broiler prices that have occurred since mid-2018. At producer level, the price of live chickens is reported to be Rp 7,000 per kg, far below the floor price of Rp 18,500 mandated by the government in Trade Ministerial Regulation No. 96/2018.

Vale resubmits divestment proposal

The valuation of PT Vale Indonesia is expected to be completed in August this year. The announcement was made after Vale resubmitted its divestment proposal. If all goes well, Vale might be able to boost Inalum’s plan to develop lithium batteries used for electric vehicles in the future.

Vietnam in the crosshairs as US, China agree on trade truce

The United States and China agreed to call a truce on their trade war and restart stalled trade talks during a meeting on the sidelines of the Group of Twenty (G20) Summit. Criticism from both Democrats and Republicans, however, raised doubts over the prospects of US-China trade negotiations. In response to this situation, Chinese exporters may continue to relocate their business to other Asian countries like Vietnam.

POLITICS

Prabowo pared down as Jokowi powers on

OVERVIEW

When incumbent President Joko “Jokowi” Widodo gave his acceptance speech at the General Elections Commission (KPU) on July 1, losing challenger Prabowo Subianto stayed away, still bitter about his defeat and sustaining his claim, at least for the benefit of his supporters, that he had been cheated of an election victory. Prabowo has never publicly accepted defeat, let alone congratulated the winner. When the Constitutional Court announced on June 27 its verdict dismissing Prabowo’s claims of massive electoral fraud, he said he respected the ruling, but was deeply disappointed.

Prior to Monday’s ceremony at the KPU, Prabowo had the opportunity to extract political and economic concessions from Jokowi. The former Army general not only had the support of 45 percent of the nation, the nation saw a display of his raw power in the May 21 and 22 violent clashes in Central Jakarta between his diehard supporters and the police. Jokowi recognized Prabowo’s strength, and offered an olive branch by inviting him to join his coalition.

The winner, rather than the loser, took the initiative to patch things up after a very divisive and polarizing election. Jokowi made several behind-the-scenes approaches, sending three former generals as emissaries. Prabowo rejected them all. For a while, it looked like Prabowo was playing hard to get, and by refusing to meet Jokowi, he increased his bargaining power. But the two never met and negotiations never took place. This looks like a case of missed opportunity for Prabowo.

Now that Jokowi has been confirmed president for a second term in office, his offer to Prabowo still stands. But if and when they do meet, their power relations have dramatically changed. Prabowo comes to the negotiating table in a much weaker position. Whether or not Prabowo accepts the offer to join Jokowi’s coalition, it is still his call to make, but it has to do more with what he and his Gerindra Party intends to do in the next five years. At the press conference at the KPU after his acceptance speech, Jokowi was asked if he still hoped to meet Prabowo as he had tried in previous weeks. He smiled and said: “Don’t ask me that question. Ask Prabowo when he wants to see me.” The initiative for reconciliation is now in the hands of the loser.

WHAT’S MORE

Although the presidential inauguration is not until October, Jokowi is preparing his new Cabinet early, without Prabowo’s contribution, and will announce a big reshuffle of his team of ministers this month. He rightly uses the prerogative of a winning incumbent to dispel unnecessary uncertainties that would normally come with a three-month transition period. After his inauguration in October, he will administer some minor fine-tuning to his team.

In 2014, he could only form his government after his inauguration. This year, he can almost single handedly pick his team, with little or no consultation either with the outgoing Vice President Jusuf Kalla, or the vice president-in-waiting Ma’aruf Amin. Jokowi, however, does

have to contend with a bigger coalition of five political parties, and will have to reward them with Cabinet seats as payback for supporting his reelection bid.

Where does this leave Prabowo and Gerindra? If Gerindra, the political party founded and chaired by Prabowo, decides to accept Jokowi's offer to join his coalition at this late stage of the game, it will probably get one Cabinet seat, and even then, Jokowi would have a lot of explaining to do to the other parties.

If Gerindra rejects the offer, it will become the leading opposition party in the House of Representatives. But Prabowo's coalition of political parties that supported his 2019 election bid would be considerably weak, with the likely departures of two members: The National Mandate Party (PAN) and the Democratic Party of former president Susilo Bambang Yudhoyono. Both have indicated their intention to cross over and join Jokowi's coalition.

The House Undivided: Distribution of House Seats 2019-2024

	Party	Seats	Supported the candidacy of
1	Indonesian Democratic Party of Struggle (PDIP)	128	Jokowi
2	Golkar	85	Jokowi
3	Gerindra	78	Prabowo
4	National Democratic Party (NasDem)	59	Jokowi
5	Nation Awakening Party (PKB)	58	Jokowi
6	Democratic Party	54	Prabowo
7	Prosperous Justice Party (PKS)	50	Prabowo
8	National Mandate Party (PAN)	44	Prabowo
9	United Development Party (PPP)	29	Jokowi

Source: General Elections Commission

This would leave Gerindra and the Prosperous Justice Party (PKS) as the only opposition parties in the House of Representatives. Their combined 128 amount to a mere 22 percent of the House's 575 seats, hardly an effective countervailing force against the formidable coalition supporting Jokowi, which will further be enlarged by the two defectors, PAN and the Democratic Party. PAN was also with the Gerindra-led opposition coalition in 2014 but joined the Jokowi coalition one year later. The Democratic Party stayed on in opposition but was independent from Gerindra in the last five years. Yudhoyono's ambitious son, Agus Harimurti, has met Jokowi three times in the past month, lobbying for a Cabinet seat that would give him a public platform to build his image for the 2024 presidential election.

Historically, parties have little to gain by staying in opposition. Joining the coalition government, on the other hand, gives you access to power and finance, and a platform to build a reputation for the next general election. The PKS remains true to its principle and says it will fight its battle as an opposition force, stating that joining the coalition would be a betrayal of its supporters and voters.

Gerindra has to make its own political calculations on how much it stands to gain or lose by joining Jokowi's coalition. Being in opposition in the last five years did not help much in building its support as reflected in the 11.8 percent vote share in the election, down from 12.6 percent in 2014.

Prabowo has two small but vocal and hardliner factions among his supporters who have been vehemently anti-Jokowi and would not likely endorse any deal he makes with the elected president.

One is the group of conservative clerics linked to the 212 Movement, whose leader Rizieq Shihab is on the run from a sex scandal case and living in Saudi Arabia. The other is the family of former president Soeharto, which financed much of the anti-Jokowi campaign in the past year. Soeharto's six children, almost all still in control of their businesses, fear a newly empowered and reelected President Jokowi will go after their wealth, mostly stashed abroad, which they accumulated during their father's 32-year reign.

WHAT WE'VE HEARD

The Prabowo camp is facing a dilemma related to an offer to join the ruling coalition which reportedly initially came from PDI-P chairwoman Megawati Soekarnoputri through State Intelligence Agency (BIN) head Budi Gunawan. Although Prabowo is reportedly inclined to accepting the offer, he is still looking for other alternatives that can assuage his supporters, who reportedly expect Prabowo to remain in the opposition camp.

"I've warned him to remain careful if he is to accept [Megawati's offer]. It would be better if he remains in opposition to preserve the 44 percent of the vote he obtained. It's not easy to secure that many votes," a source who is close to Prabowo said.

During a meeting with leaders of the members of his coalition, including PAN patron Amien Rais, PKS chairman Sohibul Iman and secretary generals of Gerindra, PAN and the PKS, Prabowo disclosed his intention to accept Megawati's offer.

"It seems that Amien accepted [Prabowo's decision]. The toughest challenge comes from the PKS because it will be alienated," the source said. Apparently on purpose, Megawati sent a lobbyist who is close to Amien.

The PKS itself reportedly has prepared its own graceful exit from the Prabowo-led coalition to join the ruling coalition. However, to date, there has been no agreement yet among the party's elite.

Gerindra and PAN appear to be inclined to accepting Megawati's offer. A source from the Prabowo camp who is close to Budi Gunawan is reportedly still trying to convince Prabowo to take Megawati's offer. Reportedly, four ministerial posts were offered to Prabowo, two of them related to the economy.

As part of Prabowo's strategy, Sandiaga will be outside the ruling coalition. "Sandi has confirmed his rejection to join [the Jokowi camp], even though he reportedly has been threatened to do otherwise," said one of Sandiaga's advisers. "The state-owned enterprises ministerial post was directly offered by Jokowi," the source said.

Although he will be outside the government, Sandiaga has been asked to refrain from criticizing Jokowi's economic policies. Or else he will face punishment. "His checkered past will be unveiled just to disturb him," another source said.

Jokowi himself reportedly considers Sandiaga a rising star politician who can pose a threat to the PDI-P and Golkar. “These days Sandiaga is close to Airlangga [Golkar’s chairman]. And he is a potential candidate for the 2024 presidential race,” said a business player who is close to both Sandiaga and Airlangga.

The rest of Jokowi’s allies are aware about the offer to Prabowo. NasDem Party chairman Surya Paloh and the National Awakening Party (PKB) chairman Muhaimin Iskandar are reportedly disappointed with the approach to Prabowo. “It is difficult to distribute 40 ministerial seats and governmental agency chief posts to 12 parties,” a source quoted Paloh as saying.

Issue Update: Opposition may grace Jokowi’s cabinet

OVERVIEW

Ever since the General Elections Commission (KPU) crowned Joko “Jokowi” Widodo and running mate Ma’ruf Amin the winning pair of the 2019 presidential election on May 21, speculation about the composition of the new cabinet has circulated.

For one, it has been reported that Jokowi would include more politicians in his new cabinet, which is currently heavy on independent figures. Indeed, considering his expanded coalition, it would be unsurprising if Jokowi picked the parties’ members as ministers in exchange for their support of his reelection bid.

Cabinet seats will largely go to Jokowi-Ma’ruf’s coalition parties. The ministerial game, however, reportedly may change now that Jokowi is said to have moved to reach out to the opposition as a symbol of reconciliation with archrival Prabowo Subianto. With the ruling coalition comprising nine parties, the opposition parties, consisting of Prabowo’s Gerindra Party, the Prosperous Justice Party (PKS), National Mandate Party (PAN) and Democratic Party, are facing a stiff competition for a few ministerial seats.

Rumors about the opposition gracing Jokowi’s new cabinet swirled after the Democratic Party’s Agus Harimurti Yudhoyono (AHY), son of the party’s chairman Susilo Bambang Yudhoyono, met with President Jokowi on May 22, the second time since the April 17 elections. Speculation about PAN switching sides followed after PAN chairman Zulkifli Hasan also held talks with the President.

Most recently a debate has revolved around the possibility for Jokowi to welcome Prabowo’s Gerindra aboard his next government. On the one hand it suggests that Jokowi is not against the idea of expanding his coalition, with a view of bulldozing political barriers to his ambitious plans in the second and final term of office. On the other hand, Jokowi is sending a message to his original coalition parties that he is the boss.

In the end, in forming his new cabinet, Jokowi must determine his priorities. Would Jokowi prioritize maximizing his clout in the government and thus invite the opposition into his cabinet? Or would Jokowi prefer to placate his coalition parties by solely allocating them ministerial seats? The last possible, and probably the safest, alternative would be having his new cabinet dominated again by independent figures and technocrats. Generally preferred by the public, a technocratic cabinet will prevent Jokowi from being portrayed as a puppet of the political parties, a serious possibility considering how the President’s large coalition became a major fixture in his reelection bid.

WHAT'S MORE

Since President Jokowi announced his large coalition, it has been predicted that the “quota” of ministerial posts for party members would increase in order to accommodate Jokowi’s nine coalition parties. Several ministerial seats are predicted to have new occupants in the new cabinet. The religious affairs minister, the trade minister and the youth and sports minister, for instance, are very likely to be replaced as they are currently entangled in corruption scandals. Meanwhile, the coordinating human development and culture minister and the law and human rights minister are expected to be replaced as well because the two incumbents have secured House of Representatives seats.

Coalition members have started nominating their members to fill the Cabinet posts. Based on their performance in the 2019 legislative election, the Indonesian Democratic Party of Struggle (PDI-P), Golkar Party, National Awakening Party (PKB) and NasDem Party, which all won more than 9 percent of the vote, are likely to get more ministerial posts than the rest of the coalition members.

For one, the PKB, which is affiliated with Ma’ruf, has proposed 20 ministerial candidates, with a hope of securing at least 10 ministerial seats in Jokowi’s new cabinet.¹ Big names such as PKB chairman Muhaimin “Cak Imin” Iskandar and the party’s deputy chief Ida Fauziyah reportedly are on the PKB list proposed to Jokowi.

Likewise, while not as aggressive as the PKB, the Golkar Party has reportedly requested five ministerial seats.² Other than Airlangga Hartarto, Luhut Panjaitan and Agus Gumiwang, currently the industry minister, coordinating maritime affairs minister and social affairs minister respectively, Golkar has expressed its wish to have more seats in the coming cabinet.

Minor players in Jokowi’s coalition such as the Indonesian Solidarity Party (PSI) and the United Indonesia Party (Perindo) have also offered their members to grace Jokowi’s new cabinet; PSI chairman Grace Natalie and Angela Tanoesoedibjo, daughter of Perindo chairman Hary Tanoesodibjo, have both been nominated by the PSI and Perindo respectively, following reports of Jokowi’s search for a “millennial minister”. Meanwhile, it is reported that the Crescent Star Party’s (PBB), a late-coming supporter of the Jokowi-Ma’ruf’s presidential bid, Yusril Izha Mahendra, is eyeing the law and human rights ministerial post after acting as the pair’s attorney in the just-concluded legal dispute over the election’s result at the Constitutional Court.

The fight for the ministerial seats will indeed be a cutthroat one. Not only among parties, party members must also compete with independent figures. Previously, Jokowi stated that he considered appointing prodemocracy activists of 1998 as ministers. Having activists in Jokowi’s cabinet is indeed a huge possibility, considering how they could help clean up Jokowi’s apathetic image toward humanitarian causes. Having prodemocracy activists as his ministers could also dismiss the growing accusations of Jokowi’s shift to authoritarianism because of the President’s close ties with some military figures.

¹ [Tribunnews.com](https://tribunnews.com), “Jokowi-Maruf jadi Presiden & Wapres, PKB Usulkan 20 Nama Calon Menteri, Golkar Ingin 4-5 Kursi” 1 July 2019 <https://tinyurl.com/y6eulpfa>

² [CNNIndonesia.com](https://cnnindonesia.com), “Golkar Anggap Wajar Minta Jatah 5 Menteri ke Jokowi” 28 May 2019 <https://tinyurl.com/y4wxjxzg>

Several prodemocracy activists who have been active in politics and supporters of Jokowi include Adian Napitupulu, Budiman Sudjatmiko, Wahab Talaohu and Abdullah Taruna. Meanwhile, activists who are affiliated with the opposition include Andi Arief, Fahri Hamzah, Desmond J. Mahesa and Pius Lustrilanang.

With numerous members and independent figures alike fighting for the limited number of Cabinet seats, it is no wonder that the opposition parties have been met with hostility from Jokowi's coalition parties upon news of Jokowi's plan to include the opposition in his new cabinet. To date, members from the PDI-P, Golkar, PKB and NasDem have opposed any plan to form a larger government. Their reasons include Jokowi's majority support in the House and the absence of checks and balances if there is a lack of opposition. Certainly if Jokowi eventually recruits those from the opposition as ministers, internal scuffles will plague his second term.

Issue update: Chasing the agrarian reform target

OVERVIEW

Approaching the end of his first term in October, reelected President Joko "Jokowi" Widodo is making a last-minute maneuver to fulfill one of his campaign promises, namely solving land disputes in the country through agrarian reform, which aims to redistribute and legitimize the ownership of land under the mechanism of land objects for agrarian reform. Out of the 9 million hectares of land targeted, 4.1 million ha comes from forest areas.³

Following a meeting at the Presidential Office on June 12, Environment and Forestry Minister Siti Nurbaya Bakar said the ministry had attempted to resolve land conflicts in forest areas. Several companies involved in land conflicts have recently given up parts of their concessions to later be distributed by the government to the people living in the disputed area. Siti said the companies voluntarily gave up their land concessions as the disputes harm their business.⁴

A total of 13 plantation companies joined the move, involving more than 50,000 ha of land located in Riau, Jambi, South Sumatera, East Kalimantan, West Kalimantan and Bangka Belitung.⁵ Most of these companies are subsidiaries or affiliated with giant paper producer Asia Pulp and Paper (APP), a subsidiary of a diversified business group Sinar Mas.⁶ According to a statement acquired by *The Jakarta Post*, the company conceded its concession as part of its support for the government's agrarian reform.⁷

News about companies releasing their concessions came a month after President Jokowi ordered his aides to accelerate the resolution of agrarian conflicts in the country. The

³ Thejakartapost.com, "Firms pledge to give up land to end conflicts" 28 June 2019
<https://tinyurl.com/y6bxskrt>

⁴ Ibid.

⁵ Mongabay.co.id, "Belasan Perusahaan Kayu Lepas Lahan Berkonflik" 25 June 2019
<https://tinyurl.com/y3ygs54>

⁶ See Note 1

⁷ Ibid.

President previously called on the owners of land permits to concede ownership rights to the locals who were living in the disputed areas before the issuance of the permits.

The voluntary release of the concessions signals a positive breakthrough in land redistribution. Some, however, have quipped this unfortunately came a little too late. While declared one of the President's first term's flagship programs, the state's efforts to address agrarian conflicts have often been deemed sluggish or merely "lip service". In reality, the program only touches the surface of the deep-rooted agrarian conflicts in the country.

WHAT'S MORE

The slow implementation of Jokowi's agrarian programs has been blamed for the government's failed bid to effectively address land disputes that have haunted Indonesia since independence. Agrarian reform has often been translated merely into land certification, instead of land redistribution. As land certification mostly concerns awarding legal certainty to land owners, it leaves the problems of those without land unaddressed. It is feared, thus, that the government's shift of focus to land certification would mean the essence of agrarian reform is overlooked.

Furthermore, while the recent decision of several companies to give up their concessions should be welcomed, many problems remain. For one, the companies that conceded their land had not been heavily involved in land conflicts to begin with. Unfortunately, companies that are deemed the most involved in land conflicts are not on the list.⁸

In the five years of its implementation, the government has only distributed 188,000 ha of land to people across the country,⁹ which is still far below the government's initial target. The future of this agrarian reform program will remain unclear if the program's implementation is left unchecked. Companies' voluntary decision to give up disputed land must be followed by solving internal problems facing the government, including a lack of cooperation and coordination among ministries and governmental agencies in streamlining their priorities in agrarian reform.

Indonesia launches integrated data system

OVERVIEW

On July 12, President Joko "Jokowi" Widodo signed Presidential Decree No. 39/2019, which stipulates the minutiae of Satu Data Indonesia, an online portal that stores integrated data acquired from ministries, governmental institutions, central and regional authorities, as well as other related agencies. The data stored in the portal, according to the decree, must adhere to a number of principles, namely fulfilling minimum standards, interoperability, collecting metadata and code references.

⁸ See note 2

⁹ Thejakartapost.com, "Minister says 188,000 ha distributed in land reform program" 26 October 2018 <https://tinyurl.com/y46ayrsd>

With a view to promote good governance, Satu Data Indonesia has won wide support. Indeed, while the streamlined database was originally intended to facilitate decision-making processes at the top, the open access to information could encourage the public to take part in monitoring as well as evaluating the government's conduct and, hence, increase the government's transparency and accountability.

Satu Data Indonesia particularly aims to improve the government's data management, which has been frequently criticized for discrepancies and overlapping. The problems surrounding data management are not missed by Jokowi. While discussing the issue of bureaucracy during the presidential debate, for instance, he often underscored the urgency of digital transformation in governance, which he dubbed *Dilan* (short of *Digital Melayani* or digitally serving) government, as part of the country's preparation for Industrial Revolution 4.0 through bureaucratic reform.

In the long run, a well-integrated and consolidated database might be intended to speed up implementation of Jokowi's future projects. As Jokowi intends to push for various transformations in his second and final term, tension and challenges may arise.

By establishing a unified and streamlined database that is publicly available, Jokowi could secure legitimacy for his programs. For one, the inclusive and participative database can help the President improve constituent engagement and create a sense of belonging among the public toward the government's projects.

Furthermore, an integrated database could tremendously accelerate the realization of the government's projects as cross-agency data sharing becomes a walk in the park. Indeed, overlapping data has been a thorn in Jokowi's flesh. The disparity of rice production data between the Agriculture Ministry and Statistics Indonesia, for instance, led the government to an erroneous rice import policy.¹⁰ Satu Data Indonesia will put an end to such blunders.

WHAT'S MORE

Data discrepancies have prevailed for decades. Such an issue was particularly glaring nearing the elections back in April, with regional governments, Statistics Indonesia, the National Population and Family Planning Board, the General Elections Commission and the Home Ministry had their own voter population data. The brouhaha stemming from the discrepancies proves the urgency to streamline and consolidate a database.

It is no wonder, thus, that the establishment of Satu Data Indonesia has been generally welcomed. On paper, the government appears to be prepared for running an effective program. The newly signed Presidential Decree sets up an authority consisting of a Steering Council, Central Data Supervisory Institution, Central Data Trustee and Central Data producers, all of which will manage and coordinate the online database.

¹⁰ CNNIndonesia.com, "Stok Beras Melimpah, Buat Karut Marut Impor 2018" 03 July 2019 <https://tinyurl.com/y4kmqekf>

Nevertheless, the establishment of the integrated online database will mean nothing if no effective implementation follows. Satu Data Indonesia is a means rather than an end. One equally important aspect is promoting the spirit of an open, inclusive and transparent government to ensure meaningful application of the online database. The alleged egocentrism of individual governmental agencies, for instance, must be resolved as it will hinder complete cross-institutional and cross-sectoral data integration. A full commitment from the top to the grassroots level on the enforcement of Satu Data Indonesia, thus, is a requisite to the realization of a data-based and digitally-empowered government.

BUSINESS & ECONOMIC POLICY

Indonesia to boost domestic demand of palm oil

OVERVIEW

Indonesia, the world's largest palm oil producer, has suffered most from falling international prices of palm oil due to slowing demand and rising output. The government's approach to protecting what is a strategically important industry has been less conciliatory and more interventionist: boosting domestic demand by subsidizing biofuels and later "green energy".

Indonesia's palm oil exports dropped to US\$20.5 billion last year from \$22.9 billion due to falling prices as export volume increased slightly to 32 million metric tons last year from 31 million tons in 2017. The average crude palm oil price fell to \$595 per metric ton last year from \$714 in 2017.

The fall in prices has been consistent since its peak of over \$1,200 per metric ton in 2011. The consistent price fall has been attributed to rising supplies from Indonesia and Malaysia, which together supplies 85 percent of the global palm oil market, and subdued demand in major markets, especially Europe and India. Indonesia – and Malaysia – have seen the drop in demand in Europe as a result of a massive negative campaign against palm oil, especially the "palm oil free" movement.

After a decade-long negotiation for the EU-demanded timber export standards, the Indonesian government's patience for permitting foreign interests to dictate agricultural policy is wearing thin. There is a growing view within the government and the palm oil industry that sustainability standards were at heart an expression of European "green colonialism".

The government's response to the "green colonialism" has been interventionist to boost demand and prop up prices: subsidizing biofuels using palm oil as the input, starting with a mandatory 10 percent minimum biofuel (with palm oil blend) content for diesel and, last year, this was increased to 20 percent and this year to 30 percent in what is known as the B-30 program.

The subsidy was in theory funded by the export levy of CPO collected and managed by the Indonesian Oil Palm Estate Fund (BPDP). This agency collects around \$1 billion a year, 80 percent of which is allocated to subsidize the biofuel program.

BPDP chairman Dono Bustami said that with B-30 policy for 2019, Indonesia would produce around 10.2 million kiloliters of biodiesel, of which 9 million would be consumed domestically. With this policy, the government would save around \$4 billion from diesel imports and collect Rp 2.47 trillion in taxes.

Not only that, state oil and gas company Pertamina, with support from the BDPP, is currently piloting in the production of green gasoline and green diesel, with 100 percent crude palm oil using a catalyst produced locally. Later this year, Pertamina is piloting in the production of avtur jet-fuel using 100 percent CPO. These green fuels are expected to be produced commercially in 2023. When it happens, Indonesia's dependency on imported fuels will be reduced and at the same time would boost domestic demand for palm oil and hopefully lift up prices.

WHAT'S MORE

Palm oil has been a strategic commodity for Indonesia. With an export value of over US\$20 billion last year, palm oil is the third-most valuable Indonesian export after petroleum and coal. Its big foreign exchange contribution has been important to balance Indonesia's trade for the past decade.

The government has been grappling with trade deficits. In the first five months of this year, Indonesia suffered a trade deficit of \$2.1 billion, mainly from the deficit from the oil and gas trade of minus \$3.8 billion, as trade in non-oil and gas contributed a surplus \$1.6 billion.

Last year, Indonesia suffered a record trade deficit of \$8.5 billion, from a surplus of \$11 billion in the previous year. Again, the main culprits behind the trade deficit were the rising deficit in the oil and gas trade of minus \$12.5 billion (from minus \$8.6 billion in 2017) and the declining surplus in non-oil and gas trade of \$3.97 billion (from a whopping surplus of \$20.4 billion in 2017).

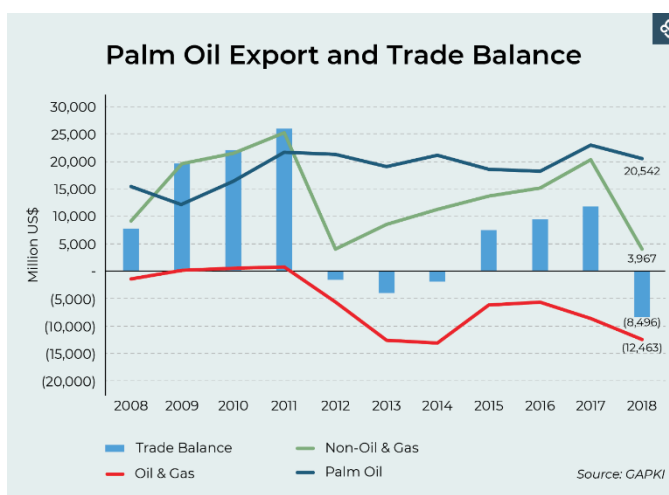
Without palm oil, Indonesia's trade deficits would have been deeper. Palm oil exports contributed \$20.5 billion last year, down a bit from \$22.9 billion in 2017. However, exports become more challenging, especially in major markets such as Europe and India – which together account for 35 percent of Indonesia's palm oil exports.

Europe has been the most challenging market for Indonesia's palm oil exports. Indonesia has been facing various barriers from the European Union. At one point, the EU imposed punitive duties on palm oil imports for biofuels from Indonesia, and Indonesia challenged the duties through the World Trade Organization, winning the battle. The duties were removed last year. However, the damage has been done, Indonesian exports to the EU had been declining for some years when the duties were in place.

The EU is active in its campaign against palm oil and has seen the rise of the "palm oil free" movement. Initially driven by NGOs, this movement has subsequently been embraced by European consumer goods companies. Last year, European imports of Indonesia's palm oil dropped to 4.8 million tons last year from 5 million tons in 2017.

A drop in palm oil exports to Europe will likely continue this year and the years to come after the EU adopted a delegated act, phasing out the use of palm oil in biofuel production starting in 2021, with a complete ban slated for 2030.

Indonesia is also facing declining palm exports to its biggest export market, India. Early last year, India imposed punitive duties of between 44 percent and 54 percent for Indonesian palm oil and its derivatives, compared to only 40 percent and 45 percent for Malaysian palm oil and its derivatives. This is because Malaysia has a free trade agreement with Indonesia,



while Indonesia does not. This has resulted in the declining exports to India to 6.7 million tons last year, from 7.6 million tons in 2017.

With declining palm oil exports to its key export markets and declining prices in the international market, Indonesia has turned to domestic markets. The government has tried to boost demand in the domestic market by introducing mandatory 20 percent minimum biofuel (with palm oil blend) content for diesel last year and 30 percent this year.

Poultry farmers protest sharp broiler price fluctuation

OVERVIEW

Poultry farmers are fed up with volatile broiler prices that have occurred since mid-2018. Last week, poultry farmers from various cities in Yogyakarta, as well as West, Central and East Java gave away tens of thousands of live chickens as a protest to the sharp drop in broiler prices.¹¹ Between the first week of June and the first week of July, the national broiler price fell by Rp 5,300 (37 US cents) per kilogram, or 14 percent in a month, to Rp 32,650 per kg.

Another sharp decline occurred earlier this year. Between the last week of December last year and the first week of March this year, the broiler price dropped by 18.1 percent to Rp 32,250 per kg. In response, poultry farmers held a street protest in front of the State Palace on March 5.¹²

At producer level, the price of live chickens is reported to be Rp 7,000 per kg, far below the floor price of Rp 18,500 mandated by the government in Trade Ministerial Regulation No. 96/2018.¹³ Because of this, many farmers decided to reduce the size of their farm. For example, Suroto from Solo, Central Java, halved the number of chickens in his farm to 350,000.¹⁴

To prevent broiler and live chicken prices from falling further, the Agriculture Ministry directed poultry breeders to cut day-old chicken (DOC) production by 30 percent from an estimated of 75 million per week.¹⁵ However, large breeding companies refused to cooperate at first, unless the government provide a legal safeguard to protect them from a Business Competition Supervisory Commission (KPPU) investigation, which was extended a few days ago¹⁶. **(see What We've Heard)**

¹¹ TheJakartaPost.com, "Poultry farmers give away chickens amid oversupply." 28 June 2019

<https://tinyurl.com/yvf4yk88>

¹² Tempo.co, "Harga terlalu murah, peternak ayam berunjuk rasa di Istana Negara." 5 March 2019

<https://tinyurl.com/y4mcmdwg>

¹³ CNBCIndonesia.com, "Harga ayam di tingkat peternak anjlok, ada apa?" 2 July 2019

<https://tinyurl.com/y5crpu5h>

¹⁴ Gatra.com, "Stok ayam berlimpah, peternak di Jateng rugi Rp 160M." 26 June 2019

¹⁵ CNNIndonesia.com, "Harga ayam anjlok, Kementan minta pangkas jumlah telur tetas." 28 June 2019

<https://tinyurl.com/y4o9rclo>

¹⁶ TheJakartaPost.com, "Business watchdog extends probe into chicken price drop." 2 July 2019

<https://tinyurl.com/y63htcd9>

With DOC production at its lowest since 2013, it is unclear whether the Agriculture Ministry's policy to cut DOC production would affect the current price drop. **(see What's More)**

WHAT'S MORE

Following a decline of broiler chicken prices at the producer level in late 2015, the Agriculture Ministry's director general of livestock, Muladno, directed large breeding companies to cull 6 million broiler parent stock (PS) to reduce the production of day-old chick (DOC).¹⁷ The price stabilized after the culling, though 12 large breeding companies were found guilty of cartel practices by the KPPU¹⁸.

However, the production of day-old chick did not go down until March 2017, when the Agriculture Ministry introduced Agriculture Ministerial Decree No. 3035/2017 to reduce broiler and layer chickens supply.¹⁹ After the introduction, the production of DOC fell sharply to 391 million in 2017, from 1.89 billion in the previous year. Meanwhile, the national supply of broiler PS decreased further and reached its bottom in 2018 with 7.4 million broiler parents.

Large breeding companies has decreased their number of DOC production while switching their business model from DOC to Grand Parent Stock (GPS) and Parent Stock production. In 2017, the number of Broiler PS production soared to 1.29 billion, from 49.5 million in the previous year. At the same time, large poultry breeders began to produce GPS with an annual capacity of 81.3 million GPS chickens.

Based on this fact, the current Agriculture Ministry's policy to reduce DOC production is unlikely to be effective, because large breeders have changed their business models to GPS and PS production.

WHAT WE'VE HEARD

According to an industry source, until last week, large chicken breeding companies refused to follow the Agriculture Ministry's direction to cut their supply of day-old chicken (DOC) by culling their broiler parent stocks (PS) aged older than 68 weeks. They are worried this would be regarded as a cartel practice by the KPPU.

They were also reluctant to cut the production of their DOC by 30 percent. Their refusal was conveyed to the ministry in a series of meetings during the past two weeks.

¹⁷ Republika.co.id, "Kementan sebut afkir dini unggas solusi selamatkan peternak." 7 March 2016

<https://tinyurl.com/yvr3zrdw>

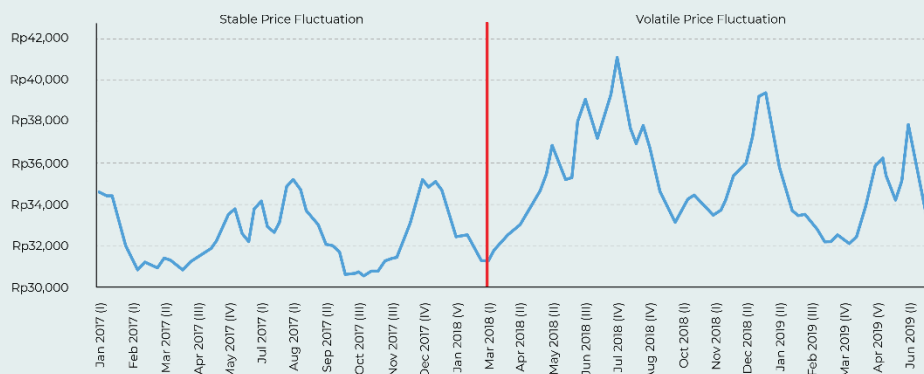
¹⁸ Detik.com, "Cerita pengusaha ayam, diminta pemerintah afkir dini hingga vonis kartel." 27 October 2016

<https://tinyurl.com/yylp5pue>

¹⁹ TheJakartaPost.com, "Ministry issues regulation to address chicken oversupply." 31 March 2017

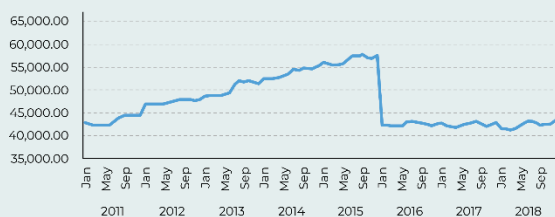
<https://tinyurl.com/yxd97syv>

National Broiler Price, Weekly, Jan 2017 (I) - Jul 2019 (I)

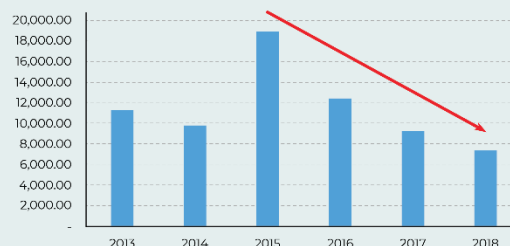


Source: Information Center for Strategic Food Prices (PIHPS)

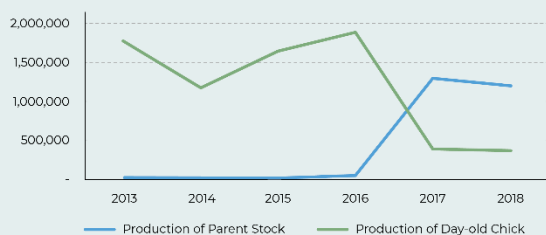
National Broiler Chicken Price, Price per Chicken (1.5 kg), Monthly Jan 2011 - Dec 2018



National Population Broiler Parent Stock (PS), in Thousand, 2013 - 2018



National Production of Broiler Parent Stock (PS), and Day-old Chick (DOC), in thousand, 2013 - 2018



National Production of Broiler Grand Parent Stock (GPS), in thousand, 2013 - 2018



Source: BPS

They refused because of an incident in 2016 that involved the KPPU. In 2016, the Agriculture Ministry held a closed-door meeting asking large breeding companies to control their broiler PS population through culling to reduce their DOC population. A few months after the culling took place, there was a scarcity of DOC supply that caused a sharp increase in chicken prices. Because of their closed-door agreement with the Agriculture Ministry to cull 6 million broiler PS, the KPPU charged 12 breeding companies and found them guilty of cartel practices.

Breeding companies want to avoid the same incident from happening again. In case they need to carry out the ministry's direction, the Agriculture Ministry must provide such a direction under a decree that refers to prevailing ministerial regulations and laws.

Another source said that excess supply of broiler PS was also caused by loose inspection procedures at the customs and excises' quarantine zone. He also said it was common practices for breeding companies to import broiler PS larger than what is stated in the import recommendation letter.

Usually, the number is added by breeders of broiler grandparent stocks (GPS) from the countries of origin. According to a number of sources, the excess in imports is as high as 10 percent, mostly serving as a safeguard for chickens dying from stress while being transported. However, customs and excises officers at the quarantine zone do not bother to check whether the actual number of PS import matches with what is written in the recommendation letter.

Issue update: Vale resubmits divestment proposal to ministry

OVERVIEW

The valuation of PT Vale Indonesia is expected to be completed in August this year, according to the government.²⁰ The announcement was made after Vale resubmitted its divestment proposal (**see What We've Heard**). Vale submitted its documents to the Energy and Mineral Resources Ministry earlier this year, and the ministry's mineral business supervision director, Yunus Saefulhak, reported it to the Finance Ministry and State-owned Enterprises (SOE) Ministry.²¹

Following the first proposal, Vale reached a deal with state-owned mining holding company Inalum to sell 20 percent shares from the divestment. The SOE Ministry's undersecretary for mining, strategic industries and media affairs, Fajar Harry Sampurno, greenlighted the deal.²² As stated in Vale's revised contract of work, the company must divest 40 percent of its shares to local investors.²³ Vale already divested 20 percent to the public through the Indonesia Stock Exchange (IDX), formerly the Jakarta Stock Exchange, back in 1988.²⁴

If successful, the acquisition of Vale's shares would boost Inalum's plan to develop lithium batteries used for electric vehicles. Together with its subsidiary PT Aneka Tambang, Inalum plan to established two lithium battery plants equipped with high-pressure acid leaching (HPAL) and rotary kiln-electric furnaces (RKEF). To establish these plants, Inalum has explored the prospects of establishing a joint venture with Zhejiang Huayou Cobalt Company Ltd.²⁵

²⁰ CNBCIndonesia.com, "Valuasi Divestasi Vale keluar Agustus 2019." 25 June 2019

<https://tinyurl.com/y2ya4gqk>

²¹ TheJakartaPost.com, "INCO confirms talks with Inalum on sale of 20 percent of shares." 8 February 2019

<https://tinyurl.com/y2wrndqu>

²² CNBCIndonesia.com, "BUMN beri sinyal positif untuk Inalum akusisi saham Vale." 20 March 2019

<https://tinyurl.com/y5y4j5e9>

²³ Vale.com, "Pemerintah Indonesia dan PT Vale menandatangani amandemen Kontrak Karya." 17 October 2014 <https://tinyurl.com/yy28xok2>

²⁴ Vale.com, "Sejarah Vale di Indonesia." <https://tinyurl.com/y6qhkk4s>

²⁵ Reuters.com, "Indonesia's Inalum, Antam may tie up with Zhejiang Huayou to process nickel." 17 May 2019

<https://tinyurl.com/y5e6yqw5>

WHAT WE'VE HEARD

According to a government official, PT Vale Indonesia's divestment plan was delayed because Energy and Mineral Resources Minister Ignasius Jonan had not given it his approval, despite the business-to-business agreement between Vale and Inalum.

Vale had submitted all the documents required by the ministry in the beginning of the year. However, Vale executives in Brazil found it strange when Jonan said he had not received the documents for the divestment proposal. An industry source said that an executive from Vale International complained about the minister's attitude, which had slowed down the divestment process. From Vale's point of view, Jonan's attitude was astonishing compared to the friendly and welcoming nature of the ministry and Inalum.

Nevertheless, executives from Vale Indonesia do not want to have problems with the ESDM Ministry, so they will just follow the ministry's demand by resubmitting the required documents.

Global macro: Vietnam in the crosshairs as US, China agree on trade truce

OVERVIEW

The United States and China agreed to call a truce on their trade war and restart stalled trade talks during a meeting on the sidelines of the Group of Twenty (G20) Summit last Saturday. Just a day before the meeting, China had ordered 544,000 tons of Soybeans from the US to signal goodwill.²⁶

Buoyed by this positive result, US President Donald Trump promised not to impose any new tariffs on Chinese products and ease an export ban on Huawei.²⁷

Despite the positive result, China continues to remain cautious over the prospects of US-China trade negotiations. The *People's Daily*, the official newspaper of the Communist Party of China's Central Committee, wrote in its editorial about the dangers of short-sightedness and a confrontational approach, as well as the need to increase mutual trust through consensus building.²⁸

Likewise, the official state-run Xinhua News Agency wrote that China was ready to safeguard its core interests if trade frictions escalate once more.²⁹

²⁶ SCMP.com, "US Department of Agriculture reports surprise soybean deal with China just a day before Donald Trump-Xi Jinping G20 meeting." 29 June 2019 <https://tinyurl.com/y4ecqzql>

²⁷ CNBC.com, "Trump says he agreed with Xi to hold off on new tariffs and to let Huawei buy US products." 29 June 2019 <https://tinyurl.com/y3bs8w9u>

²⁸ People.cn, "China, US need to press ahead with sincerity, action." 1 July 2019 <https://tinyurl.com/y4gbdw85>

²⁹ Xinhuanet.com, "Commentary: China, US should jointly expand consensus, narrow differences." 30 June 2019 <https://tinyurl.com/y64fpx52>

Meanwhile, Trump's promise to ease Huawei's export ban has angered Republicans. Senator Marco Rubio from Florida threatened to reinstate the ban through legislation with a veto-proof majority. Senator Rick Scott from Florida and Senator Marsha Blackburn from Tennessee supported Rubio's initiative. Retired general Robert Spalding, who advises Trump on 5G issues, raised his concern over Trump's policy flip-flop. Senate Democrat Minority Leader Chuck Schumer also expressed his concerns, saying such a reversal might undercut the US' ability to change China's unfair trade practices.³⁰

Criticism from both Democrats and Republicans raised doubts over the prospects of US-China trade negotiations. In response to this situation, Chinese exporters may continue to relocate their business to other Asian countries like Vietnam. Since 2016, Vietnam has become one of the main destinations for Chinese foreign direct investment (FDI), and Chinese FDI to Vietnam would further strengthen the country's standing as an alternative route for Chinese exports to the US,³¹ which has alarmed Trump.

Before the G20 Summit, Trump lambasted Vietnam as a trade abuser and threatened to impose tariffs on the country's exports. To avoid Trump's wrath, the Vietnamese government promised to reduce its US\$39.5 billion trade surplus with the US in 2018 by buying more US goods.³² However, Trump ignores the olive branch and slaps 456.23% tariff on imports of steel products from Vietnam.³³

WHAT'S MORE

Similar to Vietnam's experience, Indonesia had seen a dramatic increase of Chinese FDI to \$2.66 billion in 2016, from \$628 million in 2015. However, Chinese FDI to the country peaked in 2017 at \$3.36 billion. In 2018, it fell by almost 30 percent to \$2.37 billion. In contrast, Chinese FDI to Vietnam has shown a stable upward trend.

The sudden fall of Chinese investment in Indonesia was likely due to rising anti-Chinese sentiments following the fall of Basuki "Ahok" Tjahaja Purnama in the 2017 Jakarta gubernatorial election and anti-Chinese campaigns targeting both mainland and the Chinese-Indonesian community engineered by Bachtiar Nasir during the 2019 Presidential election.

Anti-Chinese sentiments are also high in Vietnam as a result of China's nine dash line claim in the South China Sea. However, this has not affected the two countries' economic relationship. Chinese exporters still regard Vietnam as an important production hub, specifically as an alternative route to avoid tariffs from the US, which concerns President Joko "Jokowi" Widodo.

³⁰ Washingtonpost.com, "The Cybersecurity 202: Trump's Huawei reversal is outraging Republicans." 1 July 2019 <https://tinyurl.com/y6n7eh4z>

³¹ Ha, Lam Thanh. 2019. "Chinese FDI in Vietnam: Trends, Status, Challenges." ISEAS Perspective 2019, 34.

³² Bloomberg.com, "Vietnam buys more US goods after Trump calls it trade abuser." 29 June 2019 <https://tinyurl.com/y2ff24qp>

³³ Bloomberg.com, "US slaps import duties of more than 400% on Vietnam steel." 3 July 2019 <https://tinyurl.com/y3hd82sz>



Following his victory in the 2019 presidential election, President Jokowi sent his most trusted lieutenant, Maritime Affairs Coordinating Minister Luhut Binsar Pandjaitan, and Vice President Jusuf Kalla to sign 23 memorandums of understanding (MoU) with China worth \$14.2 billion at the 2019 Belt and Road Summit in Beijing. To court more Chinese investment, Jokowi proposed to President Xi Jinping at the G20 Summit last weekend the establishment of special low-interest funds to facilitate Chinese investment in Indonesia.

In his second term, Jokowi will likely adopt stronger Chinese-leaning economic policies to achieve his ambition of not only developing Indonesia's dilapidated infrastructure but also reviving the country's export-based manufacturing sector.

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