

Highlights of the week



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JK’s political maneuver

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House expands oversight authority in new draft SOE

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Jakarta’s NJOP surge surprises property developers

Property developers in Jakarta are surprised by the new regulation that increases the amount of taxable value of property (NJOP) by an average of 19.54 percent, and in some areas by 240 percent.

Tenggara Strategics is a business and investment research and advisory institute established by the Centre for Strategics and International Studies (CSIS), The Jakarta Post and Prasetya Mulya University. Combining the capabilities of the three organizations, we aim to provide the business community with the most reliable and comprehensive business intelligence related to areas that will help business leaders make strategic decisions.

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POLITICS

Who will Jokowi choose?

As the deadline for the registration of presidential and vice-presidential candidates contesting the 2019 election approaches, it remains unclear who President Joko “Jokowi” Widodo will choose for his running mate. As Jokowi’s electability rating is not yet convincing, his choice of running mate is pivotal. Several names have been touted to become Jokowi’s next VP, with each offering considerable yet different benefits for him.

Background: The buildup to the upcoming 2019 presidential race has been full of suspense. The public has been speculating about Jokowi’s running mate, yet he refuses to respond or drop a hint. Indeed, Jokowi’s choice will affect his future as he or she will play a significant role in wooing voters and increasing Jokowi’s electability. Hence, Jokowi’s choice will illustrate which groups have been prioritized to become his voters.

It appears that Jokowi’s first and foremost choice was Vice President Jusuf Kalla (JK). Nevertheless, pairing Jokowi with JK for the second time incurs the risk of violating the 1945 Constitution. Several figures with distinct background and expertise, thus, have been rumored to become Jokowi’s next VP.

Possible Candidates for Jokowi



Insight: Public discourses have centered on the belief that there are three criteria Jokowi’s VP candidate must meet. First, the candidate must have the capacity to win the hearts of Muslim voters, considering the potential use of the Islamic card to beat him. The candidate must help Jokowi to not only secure votes from followers of Nahdlatul Ulama, the country’s largest Muslim organization, but also seize a majority of conservative vote.

Second, the candidate must have expertise in the economy to guarantee economic stability in the future. Thus, choosing a technocrat may be suitable to convince the restless, demanding voters.

Third, the candidate must have influence in both military and police politics. Strong support from the police and military will undoubtedly benefit Jokowi at the grassroots level, considering the two forces' capabilities to utilize their personnel and resources to tackle security-related issues. Also, holding influence over the police and military means reducing the power of potential opponents with military backgrounds, such as Gatot Nurmantyo, who seeking to contest in the presidential election.

Of course, finding a candidate that meets all three criteria is an impossible task for Jokowi. Of the existing potential candidates, none meet more than one criteria. Based on the current situation, it is believed Jokowi will focus more on choosing a candidate who can help him bolster his Islamic credentials.

The issue, then, is what kind of Islamic characteristics can help Jokowi in the upcoming election?

First, Jokowi needs a member of Nahdlatul Ulama or someone who is perceived to embrace NU values. If Jokowi cannot snatch the conservative vote, NU's support would ensure him victory. Second, he needs someone who can be a win-win solution for his coalition parties. The figure should not be a potential threat to the coalition members' ambition in the 2024 election. As he is currently backed by five political parties, another theory is that to preserve his impartiality and avoid internal squabbling, Jokowi will choose a nonpartisan figure. Third, Jokowi may need a person from outside Java in order to hold a broader appeal.

Mahfud MD is the strongest non-partisan candidate in the current pool, albeit he is of Javanese descent. However, Jokowi may be hiding another candidate that suits all the characteristics. This hidden candidate might be circulated to the public after the opposition announces Jokowi's contender.

Either way, the chosen vice-presidential candidate will reveal Jokowi's priority; is it improving his Islamic credentials, winning the emerging technocrats' votes, or ensuring long-term support from his coalition?

What we've heard: Of all individuals that are said to be Jokowi's potential running mate, three names that are most cited are: Mahfud MD, MUI chairman Ma'ruf Amin and former TNI commander Moeldoko. These names are also included in the list of names that Jokowi has submitted to KPK for track record check. However, Jokowi's final pick is still unclear.

Meanwhile, some of his supporters, have shown gestures to leverage their bargain positions by arranging meetings to discuss on the next year's presidential election. This includes PKB's chairman Muhaimin Iskandar and Golkar chairman Airlangga Hartarto, who have said to support each other. According to senior politicians from both parties, Muhaimin's and Airlangga's only target is to achieve as many ministerial seats as possible in Jokowi's cabinet later. Both party leaders are also facing growing internal fighting that may put their chairmanship in jeopardy thus they need Jokowi and not vice versa.

Jokowi's reluctance to discuss his running mate candidate is also due to the lack of uncertainty from his potential contender Prabowo and his coalition.

JK's political maneuvers

With the door to running alongside President Joko “Jokowi” Widodo in the next presidential election closed, Jusuf Kalla’s next political maneuvers remain uncertain. Numerous predictions have been made about which camp Kalla will side with after his term as vice president ends.

Background: Having served as the vice president during the presidency of Susilo Bambang Yudhoyono (SBY) and his successor Jokowi, Kalla is unquestionably a seasoned politician. Moreover, Kalla’s sphere of political influence is augmented by his persona as a moderate Muslim. It is no surprise that many figures, including Jokowi, perceive Kalla as a desirable ally.

Kalla’s impressive background covers a diversity of realms. First, he was appointed as the chairman of the Assembly Ethics Board of the Alumni of Islamic Students Association (KAHMI) and the Indonesian Council of Mosques (DMI). Another big plus is Kalla’s experience as the chairman of the Indonesian Red Cross (PMI), which illustrates the vice president’s involvement within not only the political but also social and humanitarian spheres. This helps Kalla gain favor in the eyes of a majority of Indonesians. Lastly, Kalla’s political experience remains a major factor for winning votes. A former chairman of the Golkar Party and the vice president under the SBY presidency, Kalla is a figure who can rely on his popularity to reap a large number of votes.

Kalla has expressed his hesitation to continue working on the political stage. Nevertheless, his experience, performance and achievements make it unlikely that he will leave politics behind for good.

Insight: Experts claim there are three possible political maneuvers Kalla may undertake: maintain his support for Jokowi, switch allegiance, or run for president himself. Each possible maneuver is problematic in different ways.

First, maintaining his support for Jokowi appears to be Kalla’s most likely maneuver. As mentioned above, Jokowi once expressed his desire to pick Kalla as his running mate for a second time. The speculation over Kalla becoming Jokowi’s running mate is also fueled by the fact that Jokowi’s wish seems to match with Kalla’s implied aversion to directly challenging Jokowi’s political footing, as stated in a *Tempo* interview with the Vice President.

However, the chances of Kalla running alongside Jokowi once again appears unlikely. Despite Jokowi’s and Kalla’s mutual desire to reunite in the upcoming election, the 1945 Constitution forbids presidents and vice presidents from running for office for a third time. The Constitutional Court recently turned down a motion to reassess the prohibition. Nonetheless, despite the Court’s decision, Kalla’s opportunity to become the vice president for a third time is not yet completely lost, as the United Indonesia Party (Perindo), one of the new parties that support Jokowi, has reportedly filed a new petition for a new interpretation that would justify Kalla’s candidacy.

Kalla’s second possible maneuver is to depart from Jokowi’s coalition altogether. Rumors about Kalla running in opposition to Jokowi in the upcoming presidential election have arisen after several political parties made expressions of support for a Kalla candidacy. For instance, Syarif Hasan, the deputy chairman of the Democratic Party and SBY’s right-hand man, has shown enthusiasm to back Kalla as a presidential candidate with SBY’s eldest son Agus Harimurti Yudhoyono (AHY) as his running mate. Indeed, this possibility appears feasible, especially as, according to a survey conducted by Poltracking Indonesia, Kalla is Jokowi’s second strongest contender after Prabowo Subianto.

Regardless, in practice, realizing this possibility may not be that simple. First, Kalla has explicitly declined the Democratic Party’s temptation. His rejection may have been caused by SBY’s strong hold over AHY’s political future. Thus, Kalla may choose to avoid any possibility of becoming a figurehead controlled by SBY. Furthermore, even if Kalla manages to find a malleable vice-presidential candidate, running for president may prove difficult because of Kalla’s inadequate electability. Compared to Jokowi’s 55 percent and Prabowo’s 28 percent, Kalla is still far below the desired electability threshold with only 15.3 percent.

Finally, Kalla's last possible maneuver is to support Jokowi's contender, quite possibly Anies Baswedan, the governor of Jakarta. This theory has grown increasingly popular after the media coverage portraying the close relationship shared between Kalla and Anies. This rumor has also been sparked by Aksa Mahmud, Kalla's in-law, who has claimed that supporting Anies was still one of Kalla's most feasible options.

Nevertheless, although Kalla has never straightforwardly rejected such a possibility (like he did with regard to running for office with AHY), based on previous interviews and news reports, it appears that supporting Anies in the upcoming presidential election could be problematic. Not only is Anies' meager electability insufficient to compete in the presidential election, Kalla's much wider experience vis-à-vis Anies' in Indonesian politics may impede Anies' coalition from nominating Kalla. Furthermore, *Tempo's* interview with Kalla also implied that the vice president perceives the 2019 presidential election as solely for seasoned veterans such as Jokowi, Prabowo, or even himself, while rookies such as Anies or AHY may compete in the 2024 election.

All in all, Kalla's political future is still undecided. At least until Jokowi announces his chosen vice-presidential candidate before Aug. 10, the three maneuvers still remain possibilities. However, it is very likely that if no move can improve his political standing, Kalla will at least seek to maintain the status quo.

What we've heard: All the political gestures Kalla has shown so far are aimed at three targets: 1. To seek ways to pave the way for his vice presidential bid in 2019; 2. To pave the way for him to join the race as a presidential candidate if all doors for a vice presidential bid are closed; and 3. To prepare a presidential candidate, Anies Baswedan, that he will endorse to compete with Jokowi.

It is said that PDI-P matron Megawati Soekarnoputri and Kalla had held a private meeting with Perindo chairman Harry Tanoesudibjo to ask Perindo join the efforts to challenge Article 169 of the 2017 law on elections which limited the terms of office of president and vice president to only two periods. Perindo has officially filed a judicial review on the matter on July 12. This move is aimed to unlock the door for Kalla's vice presidential endeavor.

However, according to several Golkar senior politicians, Kalla's presidential and vice presidential aspirations will face a stumbling block, the lack of political vehicle. This is the reason why Kalla has conducted several political visits to influential figures, including SBY. He needs as many political supports as possible in order to actually join the race. Kalla is currently approaching Golkar, which he has abandoned for quite sometime, including in regard with financial matters. Golkar is currently facing financial crisis following the arrest of its former chairman Setya Novanto. Kalla is trying hard to seek support from Golkar. Golkar can be yet another battlefield for Jokowi vs Kalla because the current chairman, Airlangga Hartarto, is known as a die hard supporter of Jokowi.

Should his presidential aspiration hit the wall, Kalla is said to willingly step back and play a role as a king maker, and has prepared to endorse Anies Baswedan to contest the election as a presidential candidate. According to sources from the PKS, Anies has shown early rejection to the party's proposal to be a vice presidential candidate as he intends only to become a presidential candidate. But lobbying still goes on.

BUSINESS & ECONOMICS

House expands oversight authority in new draft SOE bill

The House of Representatives wants to strengthen its authority in the new draft state-owned enterprise (SOE) bill by expanding oversight authority over privatization and the establishment of SOE holding companies. Unlike the prevailing Law No. 19/2003 on SOEs, the new draft requires SOEs to consult with and obtain approval from the House before taking any corporate action, such as a merger and acquisition, as well as an initial public offering. The draft also includes oversight authority over corporate actions taken by the subsidiaries of SOEs. University of Indonesia (UI) Management Institute managing director Toto Pranoto has warned that excessive oversight may hinder the activities of SOEs, especially when they need to raise funds quickly via the financial market.



Insight: The House's decision to expand its oversight authority in the new draft SOE bill is retaliation for President Joko "Jokowi" Widodo's previous regulation, specifically Government Regulation No. 72/2016, which removed lawmakers' authority in overseeing state capital investment in SOEs.

The removal of lawmakers' oversight authority in the regulation is controversial. Former Constitutional Court chief justice Mahfud MD disapproved this policy and challenged it at the Supreme Court last year. Moreover, this controversy has turned into a struggle between lawmakers and the President to gain monitoring control over the newly established SOE holding companies and their subsidiaries, because President Jokowi uses the regulation as the legal foundation to establish SOE holding companies.

Ironically, struggle over power and authority is common in President Jokowi's administration. For instance, last month the President's policy to increase civil servant's religious holiday bonus (THR) stirred controversy among local leaders, because his ministers advised local leaders to use their discretionary powers in reallocating the general allocation fund so they have enough funds to pay the increased THR. According to the Public Finance Law, exercising such authority is borderline illegal, as the appropriate procedure requires local leaders to obtain approval from the Regional Representatives Council beforehand.

The takeaway: The expansion of House oversight in the new draft SOE bill creates a struggle over authority and power between lawmakers and President Jokowi to control SOE holding companies and their subsidiaries.

¹ Tempo.co, "House Wary of President's Regulation Revision", 19 January 2017 <https://tinyurl.com/y7t33xct>

² Antaranews.com, "Mahfud Gugat PP 72/2016 ke MA", 10 March 2017 <https://tinyurl.com/y7r75knq>

³ CNBCIndonesia.com, "Salurkan THR PNS, Kepala Daerah Takut Langgar Hukum", 5 June 2018 <https://tinyurl.com/y9ofnrls>

BUMN
Hadir untuk negeri

State-Owned Enterprises Regulation Controversy

Government Regulation No. 72/2016

Article 2A

Chapter 1



Capital injections in the form of SOE shares transfer to other SOE may be carried out without passing through state budget mechanisms

Meaning: No House's approval is needed

Chapter 2



In case one SOE shares is being used as capital injection to other SOEs, then second SOE may become the first's subsidiary if the purchase makes it a majority shareholder

Twist:

"The Government Regulation No.72/2016 only provides elucidations to the Government Regulation No.44/2005. The government would still need approval from the House of Representatives if they want to sell an SOE. Sales and privatizations are regulated in other articles,"

Finance Minister Sri Mulyani on
February 8, 2017

Draft Bill

Article 107



Replacing the Regulation No. 43/2005 and No. 19/2003 article 63, 64, 65. And exclusively set privatization methods only through:

- Stock sales according to stock market regulation, such as Initial Public Offering (IPO)
- Stock offering to investors
- Stock distribution to managements, staffs and/or employees



All actions required the House of Representatives' permission

Article 119

Replacing Government Regulation No. 43/2005

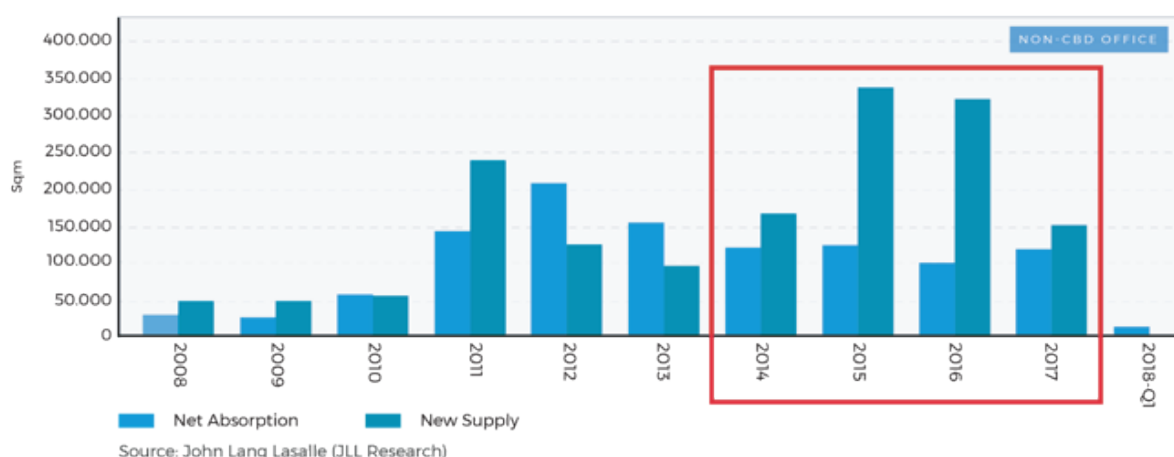
BUT

requiring all actions to be approved by the House of Representatives

Jakarta's NJOP surge surprises property developers

Property developers in Jakarta are surprised by the new regulation that increases the amount of taxable value of property (NJOP) by an average of 19.54 percent, and in some areas by 240 percent.¹ The regulation, Governor Regulation No. 24/2018, was enacted in March 2018 and intended to function as a redistributive policy, by taxing business district areas like Sudirman area in Jakarta (Rp 93.9 million per square meter) and benefiting Jakartans with lower economic status².

Supply and Demand for New Office Space in Jakarta Non-CBD Areas



Supply and Demand for New Office Space in Jakarta CBD Areas, including 2018 – 2022 Projection



⁴ Koran.Tempo.co, "NJOP Lahan Jakarta Naik Hingga 240 Persen", 9 July 2018 <https://tinyurl.com/ybxf8jxu>

⁵ CNNIndonesia.com, "Anies Naikan NJOP, Jalan Jendral Sudirman Paling Tinggi", 6 July 2018 <https://tinyurl.com/yc4abtsl>

Despite the good intention, the government policy to raise NJOP will hurt office rental market in Jakarta. As shown by the figures above, office rental market in Jakarta has been struggling with excess supply in this past few years. A sudden NJOP surge is likely to push office rent cost up, which in turn will discourage potential customers and depressing the market further.

Insight: Jakarta Governor Anies Baswedan's decision to raise the NJOP by an average of 19.54 percent this year is driven by his ambitious campaign programs such as KJP and KJS Plus, 0 percent house down payment, *Kampung* and traditional market revitalization, OK-OTrip, and OK-OCE that are estimated to cost taxpayers Rp 7.9 trillion.³ In total, the planned government expenditure increases from Rp 61.8 trillion in 2017 to Rp 71.1 trillion in 2018. To finance his ambitious campaign programs, Governor Anies raises the planned government revenue by Rp 3.5 trillion, and 14 percent of this increase will be funded by raising the rural and urban land and building tax (PBB-P2).

Jakarta Government Revenue Structure

In Billion Rupiah		2013	2014	2015	2016	2017	2018
Total Revenue	Target	40,799	65,042	56,309	57,161	62,517	66,029
	Realization	39,517	43,824	44,209	53,784	64,823	N.A.
PBB-P2	Target	3,600	6,500	7,100	7,100	8,000	8,500
	Share of Total Revenue	8.8%	10.0%	12.6%	12.4%	12.8%	12.9%
	Realization	3,375	5,657	6,807	7,010	7,606	N.A.
	Share of Total Revenue	8.5%	12.9%	15.4%	13.0%	11.7%	N.A.

Source: Laporan Keuangan Pemerintah Daerah DKI Jakarta and <https://apbd.jakarta.go.id/>

PBB-P2 has become one important revenue sources of the Jakarta administration following the central government's decision to transfer the administration of this tax to local governments in 2013 as mandated by Law No. 28/2009 on regional taxes and fees. In 2017, for example, it accounted for 11.7 percent of realized total government revenue. More importantly, the government has been ramping up its effort to collect this tax year after year. No wonder, Governor Anies sees an opportunity to use PBB-P2 as one source of revenue to finance his ambitious expenditure programs.

One important question arises from this event is whether other local leaders will follow through with this example and use it as a tactic to finance their ambitious expenditure plan. If the answer is yes, then property developers need to prepare for more unpleasant regulatory surprises in the future.

The takeaway: Governor Anies raised the NJOP to finance his ambitious 2018 budget plan and other local leaders may follow through with his example in using PBB-P2 to finance their ambitious expenditure plan.

⁶ Liputan6.com, "Program Anies-Sandi Masuk Rancangan APBD 2018, Ini Rinciannya" 3 November 2017 <https://tinyurl.com/yaro7jsw>

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