

HIGHLIGHTS OF THE WEEK

POLITICS

Jokowi-Prabowo meeting more than reconciliation

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Acceptance speech reaffirms Jokowi is a pragmatist

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Issue update: Who gets what in the new Cabinet lineup

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Novel’s investigation ends with whimper

After completing its six-month investigation into the acid attack on Corruption Eradication Commission (KPK) senior investigator Novel Baswedan, the Fact Finding Joint Team (TGPF) remains unable to hold anyone responsible for the crime.

BUSINESS & ECONOMY

Rini Soemarno rumored to get ousted from Cabinet

Rumors are swirling again that State-Owned Enterprises Minister Rini Soemarno will be ousted from the Cabinet. There has been a struggle among several political parties to take over the lucrative ministerial position. What will be the fate of Rini’s plan to create a super holding company for state-owned enterprises?

Jababeka’s founders fight hostile takeover

The Indonesia Stock Exchange (IDX) has suspended PT Kawasan Industri Jababeka’s stocks following a statement that the company faces a possibility of default on its US\$300 million bonds. Jababeka’s \$300 million bonds had a 30-day buyback clause that could be invoked when “change of control” occurred, and the change of control occurred in a general shareholders meeting on June 26.

Ex PLN president director Nur Pamudji suspiciously arrested

The National Police’s criminal investigation department (Bareskrim) arrested Nur Pamudji last month for his alleged role in a graft case relating to the procurement of high-speed diesel (HSD) fuel by state-owned electricity firm PLN. Nur was named a suspect four years ago when he was PLN president director.

Indonesia Macro Update: Investors upbeat about rupiah despite poor exports

Despite its poor export performance, Indonesia still recorded a \$196 million trade surplus in June, which reduces the overall trade deficit to \$1.93 billion. For the financial market, this performance is good enough. Following the announcement of June’s trade surplus, the rupiah appreciated to below Rp 14,000 per US dollar.

POLITICS

Jokowi-Prabowo meeting more than reconciliation

OVERVIEW

Reelected President Joko “Jokowi” Widodo and archrival Prabowo Subianto have finally ended their long-running feud. Prabowo congratulated Jokowi’s victory during the much-anticipated meeting, which took place on Jakarta’s MRT station in Lebak Bulus on July 13. The two reaffirmed the need for national unity, calling for a halt to the bickering between their supporters.

The public welcomed the reconciliation, as they might have grown tired with the strife that had been around since the two figures first locked horns in the 2014 race. Their close, if not intimate, encounter has given fresh air to the social sphere, which was muddled by divisive narratives before and after the April 17 vote.

A united front between Jokowi and Prabowo, more importantly, brings certainty to the political and economic realms, as indicated in the rupiah strengthening to below Rp 14,000 against dollar following the tete-a-tete meeting.¹

Regardless, the reconciliation process might not be smooth sailing, especially since a number of actors and groups have expressed their disappointment with the peace agreement. Islamist groups previously known for their staunch support for Prabowo, such as the 212 Alumni, the National Movement to Safeguard the Ulema Fatwa (GNPF), the Islam Defenders Front (FPI) and the Muslim People Forum (FUI), denounced the meeting², with the 212 Alumni going so far as to leave Prabowo.

Indeed, ever since the discourse on the reconciliatory meeting emerged, the hardline Islamic groups within the Prabowo camp have shown their displeasure. This is understandable as they would not benefit from the reconciliation, unlike Prabowo’s coalition parties, which could expect to receive strategic posts as part the reconciliation deal.

Following the reconciliation, Prabowo thus has work to do in assuaging his angry supporters. This might be why the repatriation of Rizieq Shihab, FPI’s leader who is in a self-exile in Saudi Arabia, was suggested as one of Prabowo’s terms for a reconciliation. Jokowi’s camp, however, has cold-shouldered the suggestion, saying that the firebrand cleric’s criminal case has nothing to do with the reconciliation process.

While Rizieq’s return may not happen anytime soon, it does not mean that Jokowi’s camp refused to make any concessions, which will be negotiated behind closed doors. There is a risk, however, that the reconciliation could lead to a coalition, which would put the checks-and-balances mechanism in jeopardy.

¹ CNNIndonesia.com, “Rekonsiliasi Jokowi-Prabowo Bawa Dolar AS ke Bawah RP14 Ribu” 15 July 2019 <https://tinyurl.com/y4qtdl5n>

² Tempo.co, “Inilah Penolak Rekonsiliasi Prabowo-Jokowi Menurut PA 212” 14 July 2019 <https://tinyurl.com/y6eac8v8>

WHAT'S MORE

The meeting point, Lebak Bulus MRT station, of Jokowi and Prabowo might bear deeper significance than expected. To begin with, the public transportation facility is a neutral ground. The Presidential Palace or Prabowo's home on Jl. Kertanegara in South Jakarta, for instance, are out of bounds as the power relations would have been lopsided.

Furthermore, choosing public transportation as their meeting place might have also been intended to involve the public in the process; it dismissed the belief that the reconciliation was solely an elite affair.

While reconciliation finally took place, one notable issue remains to be solved to guarantee long-lasting success, namely appeasing disgruntled elites and supporters at the grassroots.

Several notable figures have expressed their disapproval of the reconciliation, citing the need to keep the opposition strong. This was further exacerbated by reports about Jokowi's offer of several strategic posts to Prabowo and his party Gerindra. The reports came as the Democratic Party and the National Mandate Party, two of Prabowo's coalition parties, move closer to Jokowi.

Indeed, if Gerindra, PAN and the Democratic Party decide to join the ruling coalition, Jokowi's coalition will control nearly 90 percent of the House of Representatives' seats. This would leave the President's coalition almost unrestrained in the legislative body, with the Muslim-based Prosperous Justice Party (PKS) the sole opposition party.

As worrying as this sounds, the elites' protests against the Jokowi-Prabowo meeting, however, might be related to the distribution of strategic posts instead. To be specific, more parties mean more actors to accommodate. Ruling coalition parties now have to compete among themselves and against the opposition parties.

No wonder, then, the elite from Jokowi's coalition also reject Prabowo jumping ship. To date, PAN patron Amien Rais³, NasDem secretary-general Johnny G. Plate⁴ and PDI-P secretary-general Hasto Kristiyanto⁵ have expressed their dislike of more parties joining Jokowi's coalition. Particular elites, thus, might harbor suspicion against Jokowi's recent meet up with Prabowo.

The Islamist wing of Prabowo's camp has accused him of betrayal and threatened to desert him. Indeed, unlike political parties who can switch allegiance in the name of pragmatism, the conservative groups may find difficulties in changing their narrative, especially since their main political force, namely identity politics, is largely based upon their criticism of Jokowi's administration and the President's lack of Islamic credentials.

³ Kompas.com, "Amien Rais Setuju Rekonsiliasi, tetapi Bukan dengan Bagi-bagi Kursi" 15 July 2019 <https://tinyurl.com/y6pkgf6y>

⁴ Kumparan.com, "NasDem Tolak Gerindra Masuk Kabinet: Jadi Oposisi Kontributif Saja" 26 June 2019 <https://tinyurl.com/y4nu575f>

⁵ Gatra.com, "PDIP Tolak Parpol Baru Gabung di Koalisi Jokowi-Prabowo" 22 April 2019 <https://tinyurl.com/yxmtk5sh>

The 212 Alumni, one of the conservative groups objecting to Prabowo's reconciliation with Jokowi, plans to hold a congregation called Ijtima Ulama IV, during which the group will discuss its future stance on Prabowo.⁶

While the political parties' stature in the government is incomparable, the social clout of the nonpartisan groups is as large, or even larger in certain cases, than parties', especially at the grassroots level. The number of supporters of conservative Islamic groups, in particular, has increased as conservatism grows as well in the country.

Thus, despite his reconciliation with Jokowi, Prabowo might have made new enemies. Regardless, to date, there is yet any confirmation of Prabowo officially joining the ruling coalition. During his meeting with Jokowi, Prabowo stated that he was ready to help the President for the sake of the country. Whatever this means, the public has speculated ever since.

Acceptance speech reaffirms Jokowi is a pragmatist

OVERVIEW

Many traditional supporters of President Joko "Jokowi" Widodo have every reason to be disappointed after hearing his speech accepting victory of the April election on July 14.

Environmentalists and human rights campaigners in particular felt let down as the speech failed to address their causes. Instead the former furniture businessman served his vision for the next five years heavy on the economic and business agenda.

Jokowi had delayed delivering the acceptance speech until the Constitutional Court confirmed him the winner and his challenger Prabowo Subianto accepted defeat. Prabowo held on for as long as he could to avoid the wrath of his diehard supporters, but relented and agreed to meet on an MRT ride to personally congratulate the winner on Saturday on the eve of a massive party to celebrate the victory.

Anticipation was high among supporters that he would be bolder and more visionary in his second term in office when he read the speech at the gathering in the Sentul International Convention Center.

Jokowi had everything going for him: Winning by 10 percentage points, very much in control of the coalition of political parties that supported his reelection bid and assured of a controlling majority in the House of Representatives. He is also freed from reelection worries that had stopped him from making the necessary but tough and unpopular decisions in the last five years. The constitutional term limit bars him from running again in 2024.

If his second and last term in office is supposed to be the time to build his legacy, based on the speech, Jokowi's would be primarily economic.

⁶ Tempo.co, "Jokowi Bertemu Prabowo, PA 212 Akan Gelar Ijtima Ulama Ke-4" 14 July 2019
<https://tinyurl.com/y56h6gjk>

He listed five priority areas that he wants to focus in the next five years: Building more targeted infrastructure, strengthening human resources, bringing in more investment to create jobs, reforming the bureaucracy and improve state spending. Missing in his speech were issues that dogged his first term, like observance of human rights and guarantees of freedom and climate change. Foreign affairs is also missing. Jokowi has always been drawn to address domestic issues.

Those who have studied the President's style of government know that Jokowi is more a pragmatist than an idealist, and who is focused on a few deliverables. He delegates others into the capable hands of experts in his Cabinet. They will still be addressed, but they would not be a priority.

WHAT'S MORE

In his speech, Jokowi envisioned Indonesia moving up the rank of great nations. This is not far-fetched since Indonesia is already the seventh largest economy (measured by power purchasing parity) and is predicted to reach the top five by 2030.

"We have to believe that we can become one of the world's most powerful nations," he said, stressing the need to be more innovative in finding solutions that are becoming more complex.

- On infrastructure, the top priority in the first term, he would accelerate construction and with most of the big projects already built, he would focus on projects that directly support the centers of the people's economy, including small businesses and agriculture.
- He used the corporate speak *sumber daya manusia* (human resources development) in place of people as key to Indonesia's progress even as he pledged to address maternal deaths, child malnutrition and stunting. He would address the quality of education, set up a management talent institution, vocational schools and training centers.
- He would make Indonesia as open as possible to investors, remove much of the existing bureaucratic barriers. "We should not be allergic to investment, because this is the way to create as many job opportunities as possible." The normally courteous Javanese revealed a rare side of him when he said he would "whack anyone who got in the way."
- He would push for reform to make the bureaucracy leaner and faster. He would personally supervise reforms and would not hesitate to slash the bureaucratic process and fire staff who fail to perform.
- On government finances, he would make sure that every rupiah spent brings benefits to the nation and people's prosperity.

Issue update: Who gets what in the new Cabinet lineup

OVERVIEW

Four months prior to his inauguration, reelected President Joko “Jokowi” Widodo is selecting figures who will grace his next Cabinet. Speculation has been rife that the reshuffle is imminent as Jokowi wants his Cabinet to immediately get to work when his second term in office begins on Oct. 20.

While some incumbent ministers are touted to remain in their posts, such as Foreign Minister Retno LP Marsudi⁷ Finance Minister Sri Mulyani and Housing Minister Basuki Hadimuljono,⁸ other ministers like Coordinating Human Development and Culture Minister Puan Maharani and Law and Human Rights Minister Yasonna Laoly are set to resume their careers as House of Representatives politicians,⁹ and several ministers will be shown the door due to their implication in corruption cases.¹⁰

The public has also interpreted Jokowi’s reprimand of Energy and Mineral Resources Minister Ignasius Jonan and State-Owned Enterprises Minister Rini Soemarno for increasing oil and gas imports¹¹ and Environment and Forestry Minister Siti Nurbaya Bakar and Agrarian and Spatial Planning Minister Sofyan Djalil for their failure to boost investment as indications of their possible exit.

Jokowi’s preference of young aides may also signal the departure of aging ministers like Coordinating Economic Minister Darmin Nasution. Regardless, Darmin’s failure to ensure the implementation of the 16 economic policy packages Jokowi has signed could serve as another justification for his dismissal.¹²

Reports have it also that State Intelligence Agency (BIN) chief Budi Gunawan is tipped to replace Luhut Pandjaitan as coordinating maritime affairs minister, one of Jokowi’s close confidantes, following his crucial role in arranging the much-awaited meeting between Jokowi and his archrival Prabowo Subianto last week.¹³ Luhut had tried in vain to persuade Prabowo to meet with Jokowi.

⁷ Thejakartapost.com, “Top diplomat’s job deemed secure – for now,” 12 July 2019

<https://tinyurl.com/y4qn3xmb>

⁸ Thejakartapost.com, “Big names may leave Cabinet” 11 July 2019 <https://tinyurl.com/y322lbsm>

⁹ Katadata.co.id, “Hanya Dua dari Enam Menteri di Kabinet Kerja Jokowi Lolos DPR” 8 May 2019

<https://tinyurl.com/yyhjrmgi>

¹⁰ See our May 10th edition, “Last reshuffle to chuck away ‘problematic’ ministers”

¹¹ CNBCIndonesia.com, “Tak Cuma Rini-Jonan, Siti&Sofyan Djalil Juga Ditegur Jokowi” 8 July 2019

<https://tinyurl.com/y4t2eutd>

¹² Detik.com, “Disebut Ekonom Layak Direshuffle, Darmin: Jangan Tanya Saya” 9 May 2019

<https://tinyurl.com/y69bawps>

¹³ Pinterpolitik.com, “Budi Gunawan Gantikan Luhut?” 15 July 2019 <https://tinyurl.com/y2ets6es>

WHAT'S MORE

When it comes to the composition of the new Cabinet, President Jokowi initially considered appointing more party-affiliated ministers.¹⁴ He later changed his mind and hinted that the ratio of professionals and politicians in his new Cabinet would be set at 50:50 or 40:60.¹⁵

Ensuring a balanced composition between professionals and politicians is indeed crucial for Jokowi if he is to accelerate economic growth while preserving support from his coalition parties. For one, it is reported that investors expect Jokowi to bring in structural reforms and appoint figures who are willing to take firm action.¹⁶ In this regard, reports of the immediate dismissal of Rini and Darmin aptly illustrates the role of economic considerations in the Cabinet overhaul (**See our business issue for more information**).

Indeed, the Cabinet reshuffle will greatly impact the economy and business sector, considering that technical decisions issued by ministers directly affect investors and business players. It is hoped, thus, that the President will appoint independent figures for economic portfolios in order to avoid partisan regulations in the future.

Yet, allocating too many ministerial seats for independents might not be the most ideal option for Jokowi's coalition. As the coalition is expected to be enlarged, Jokowi must accommodate more political actors. The delay of the Cabinet reshuffle from June was allegedly due to simmering tensions between parties over ministerial posts. Rumors about opposition parties joining the coalition potentially exacerbates the competition for ministerial seats.

As political influence and lobbying power remain important, certain key political figures will potentially affect Jokowi's decisions in reshaping his Cabinet, despite his prerogative. In this regard, PDI-P matriarch Megawati Sukarnoputri looks to play a considerable role. Speculation is rife, for instance, that Budi Gunawan is on the list of ministerial candidates due to his close ties with Megawati. It is also the case of Defense Minister Ryamizard Ryacudu, another close confidante of Megawati¹⁷, who reportedly will survive the reshuffle.

Since President Jokowi has many considerations to juggle, it is no wonder that the date for the Cabinet reshuffle keeps changing. Regardless, the reshuffle plan has forced many, including business players, to wait and see. While for business circle the sooner the new Cabinet is unveiled the better, it is unlikely that Jokowi will reshuffle his Cabinet before securing full support from his coalition parties. Their sheer number, however, could make the process take some time.

¹⁴ Koran.tempo.co, "Presiden Republik Indonesia Joko Widodo: Di Partai, Orang Profesional Pun Banyak" 29 April 2019 <https://tinyurl.com/y3tzjsox>

¹⁵ KBR.id, "Bocoran Komposisi Kabinet Kerja 2019-2024, Ini Kata Jokowi" 12 July 2019 <https://tinyurl.com/y3vznxd>

¹⁶ Businesstimes.com.sg, "Indonesia's October cabinet reshuffle to bring new economic team to steer reforms, growth" 5 July 2019 <https://tinyurl.com/y3usgxcw>

¹⁷ CNNIndonesia.com, "Ryamizard: Lingkaran Megawati di Istana" 26 October 2014 <https://tinyurl.com/yxa9br8o>

WHAT WE'VE HEARD

Apart from consulting leaders of the ruling coalition members, Jokowi also seeks advice from the team formed by Luhut Pandjaitan, a team from Gadjah Mada University, in which Jokowi is an alumnus, and volunteers. A source, however, said Jokowi formed his own team and always listens to their advice and recommendations.

The team, led by a professor, consists of six people from various backgrounds, including a social media monitoring agency founder. The team, who regularly meet the President at the Bogor Palace, has been sorting and reviewing the resumes and track records of potential candidates for the ministerial seats chosen by Jokowi.

The source said the team had recommended that Jokowi dismiss Luhut and Coordinating Political, Legal and Security Affairs Minister Wiranto in the imminent reshuffle sometime in July and appoint them as presidential advisors. The two ministers, however, asked Jokowi to retain them until the end of Jokowi's first term in October.

Upon recommendation of the team, Jokowi also plans to appoint Mahfud MD as Wiranto's replacement as the chief security minister. But due to Wiranto's reluctance to make early exit from the Cabinet, Jokowi will assign Mahfud as interim religious affairs minister in place of Lukman Hakim Saifuddin. Mahfud hesitantly accepted the job, which he said should go to Nahdlatul Ulama (NU).

Meanwhile, another source said that the cabinet reshuffle would happen soon. It has been said that a number of people allegedly close to the President are creating and spreading rumors that could benefit them, one of which is a rumor on social media about possible candidates for ministerial posts. "I know who did that [spread names on social media], but just let them be. After all, [the rumors] have been labeled a hoax," said one source from a political party.

A meeting between President Joko "Jokowi" Widodo and opposition leader Prabowo last week sparked allegations about two particular figures and their chances of securing ministerial posts. The two are Pramono Anung and Budi Gunawan, with Pramono rumored to retain his current seat as Cabinet secretary and Budi reportedly being appointed state secretary. "Jokowi cannot decide. But since Jokowi is reportedly satisfied with his meeting with Prabowo, these two figures are worth considering," said the source.

This would affect PDI-P's internal map, as PDI-P patron Megawati reportedly does not want Pramono to retain his seat as Cabinet secretary. "[Pramono will be] replaced. It won't be him," said a source from Megawati's inner circle. According to the source, whose advice is often sought, the actual battle is happening within the party.

Megawati has reportedly requested that Budi Gunawan retain his position at the State Intelligence Agency (BIN). "Megawati wants several strategic posts to be filled by individuals of whom she approves. Some of these posts have been taken up by Megawati-backed figures," said the source. One these figures is Defense Minister Ryamizard Ryacudu.

However, Jokowi has reportedly requested that the appointment of state secretary be his prerogative. Yet, according to the source, Megawati's political clout has increased, boosting her bargaining position. Thus, it is likely that Megawati's request to name the state secretary will be accommodated. "[The new state secretary] could be party-affiliated, an independent or someone personally chosen by Jokowi, as long as they are first approved by Megawati," said the source.

Another post considered strategic is the law and human rights ministerial seat, which reportedly has been reserved by Jokowi for legal expert Yusril Ihza Mahendra. "Megawati has no problem [with Yusril] as his task for the next five years is already clear," said another source. The "task" referred to by the source is amending the Constitution. This specific task is intended to determine the extent of Yusril's capacity, especially in making amendments legally and politically. "Yusril's expertise in the law and political lobbying is the main consideration," said a source close to Yusril.

Regarding the amendment, three versions of the objective of the alleged amendment plan have developed, namely to reinstate the older version of the Constitution, to selectively change some of the Constitution's articles concerning the president and the People's Consultative Assembly (MPR) only or to reinstate the older version of the Constitution with a new stipulation regarding the length of the presidential term. An issue that has been "tested" among the public is the possibility of extending the presidential term to seven or eight years, but with the president not being able to run for a second term. Four groups would benefit from such an amendment, namely security personnel (military officers and retired police officers), nationalists, politicians and politically affiliated business players.

The desire to join hands with the Gerindra Party is closely related to the alleged plan to amend the Constitution, that is, to avoid criticism from the opposition. All of this has reportedly been orchestrated by those around Megawati who hold considerable political clout. There are at least two individuals in this regard, one of which is Budi.

Regarding Gerindra, it was reportedly Jokowi and Megawati who assigned Budi to approach Prabowo prior to their reconciliation. They have also allegedly green-lighted the possibility of Gerindra joining their coalition. There are four posts that could possibly be allocated for Gerindra. Two are ministerial posts and two are deputy ministerial posts. Meanwhile, Prabowo would reportedly be assigned to lead the Presidential Advisory Board (Wantimpres). Edhie Prabowo and Saraswati Djojohadikusumo are reportedly the Gerindra figures being considered for the ministerial posts.

Edhie and Saraswati are reportedly among the list of 48 names that have been verified by Budi as head of BIN. Since last month, the list has been in the exclusive possession of Megawati and Jokowi. Only a portion of the names have been disclosed to party leaders, even though negotiations for ministerial posts are ongoing.

Novel's investigation ends with whimper

OVERVIEW

After completing its six-month investigation into the acid attack on Corruption Eradication Commission (KPK) senior investigator Novel Baswedan, the Fact Finding Joint Team (TGPF) remains unable to hold anyone responsible for the crime.

During a press conference on July 17, the team failed to reveal both the perpetrators and mastermind of the attack, much to the people's chagrin. Head of the team, Nurcholis, said no adequate and conclusive evidence was found to confirm the involvement of suspected individuals in the attack.

The team, however, believes the attack was not intended to kill Novel, but rather to make the investigator suffer, to warn him or to enact revenge to his "excessive use of power".

While no breakthrough information was offered, the TGPF suggested the attack might have been linked to at least six high-profile cases that Novel had investigated. The cases are corruption in the electronic ID card project, bribery involving then-Constitutional Court chief justice Akil Mochtar and a regional election dispute, bribery involving former Supreme Court secretary Nurhadi Abdurachman, a mark-up on an athlete village project and bribery involving former Buol regent Amran Batalipu.¹⁸ Novel's investigation into the swift nest theft when he was the chief detective in Bengkulu in 2004 was also said to have led to the attack.

Albeit inconclusive, the TGPF urged the police to "hunt down" three unknown individuals who were strongly suspected of involvement in the attack. These individuals were seen loitering around Novel's residence days before the attack. The team, thus, recommended that National Police chief Gen. Tito Karnavian set up a new team with a specific technical competence that eluded the TGPF in capturing the individuals. National Police spokesperson M. Iqbal said the new team would be headed by National Police Criminal Investigation Department head Comr. Gen. Idham Azis.¹⁹

WHAT'S MORE

Established six months ago by the National Police, the TGPF was widely expected to unveil the mystery behind the attack on Novel. The team consisted of 65 members, 52 of them are police officers, with the remaining coming from various backgrounds such as law experts, academics, KPK officers and human rights activists.

Regardless, considering the heavy presence of the police in the team, many cast doubt over the independence of the team. The fact that several experts in the team answered to the police exacerbates the public's pessimism.

¹⁸ CNNIndonesia.com, "Enam Kasus Diduga Pemicu Teror Air Keras Novel Baswedan," 17 July 2019 <https://tinyurl.com/y3hhlk38>

¹⁹ CNNIndonesia.com, "Tim Kasus Novel Sebut Ada 3 Orang yang Harus 'Dikejar' Polri," 17 July 2019 <https://tinyurl.com/yyswx8iy>

The public and civil society groups originally demanded that the TGPF fall under the auspices of the President. Such a mechanism would realize Jokowi's pledge to eradicate corruption. The demand, however, has been left unanswered.

The longer the attack on Novel is unaddressed, the faster people will lose confidence in President Jokowi's commitment to anticorruption and the rule of law. Unless Jokowi takes a bold move to prove his doubters wrong, the Novel case will leave a stain to his second term in office.

WHAT WE'VE HEARD

The fact-finding joint team (TGPF) believed that Novel Baswedan was holding back information during his testimony, making the investigation suboptimal.

Meanwhile, several suspects and witnesses involved in the cases that Novel had handled during his tenure in the KPK, which mostly implicated politicians and bureaucratic officials, said that they were offended by the way Novel investigated their cases, for instance, by exposing their bank accounts, marriages and private lifestyles.

"Most of them felt that it was outrageous. Some information unrelated to the case was also exposed," said a source. "They were handcuffed in front of other people, which was humiliating for them."

Some of those offended by Novel investigation methods explicitly explained how they were going to take revenge, while some merely said they were offended.

According to a source, Novel was not the only investigator who offended the perps while doing their job. That was a common strategy used by other KPK investigators to put pressure on the suspects or potential suspects; hence, it has become one of the antigraft body's characteristics.

"It was our conclusion. Some of our sources similarly said they were offended by the other [KPK investigators], even if they were from different teams or institutions," the source said.

To be noted, the KPK was divided into at least three factions that often conducted the commission's red-handed operations. These three factions are grouped based on their institution and often interacted with the KPK's five leaders. One of these factions was Novel's faction, which is often labelled as the Taliban faction as they often Islamic garb often.

According to the same source, the involvement of a high-ranking officer from the National Police often mentioned by the media cannot be examined further, given that it was merely an assumption.

A source close to Novel expressed his pessimism, saying that from the beginning, the investigation by the TGPF has been a political matter to remove the traces of an investigation that had been conducted earlier by several civilians and police officers who sympathized with Novel.

“It cannot be done smoothly, however, without public exposure,” the source said.

According to the same source, the TGPF consists of inadequately competent civilians. The source said that it was only a matter of time before the identity of three potential suspects, who were seen loitering around Novel’s residence, was uncovered by the next investigation team.

“We’ll just see where it goes,” said the source.

BUSINESS & ECONOMIC POLICY

Rini Soemarno rumored to get ousted from Cabinet

OVERVIEW

Rumors are swirling again that State-Owned Enterprises Minister Rini Soemarno will be ousted from the Cabinet. There has been a struggle among several political parties to take over the lucrative ministerial position. What will be the fate of Rini's plan to create a super holding company for state-owned enterprises?

Rini has long been standing on shaky ground since the Indonesian Democratic Party of Struggle (PDI-P) campaigned for her ouster one year after she was installed as minister. But President Joko "Jokowi" Widodo retained her. As a result, the PDI-P led a move in December 2015 to ban Rini from attending any hearings at the House of Representatives, which is still effective. To this day, Rini has been represented by Finance Minister Sri Mulyani Indrawati.

Now that Jokowi – and vice presidential elect Ma'ruf Amin – is drafting a list for the new Cabinet composition, the PDI-P has appeared at the forefront to replace Rini, and other political parties in Jokowi's coalition have agreed to reserve the position for the PDI-P (see **what we heard**).

President Jokowi and Rini shared the vision of creating a super holding company for state-owned enterprises (SOEs). During the last presidential debate on April 13, Jokowi said he planned to establish a super holding company that would act as the ultimate parent company for all existing and to be formed holding companies in various sectors. When the super holding company is ready, there will be no more state-owned enterprises minister.

Now that it is almost certain that Rini will be removed, President Jokowi must look for a replacement with an excellent professional background – among the names submitted by political parties, especially the PDI-P. Moreover, the candidate must share Jokowi's vision for the formation of an SOEs super holding company. And to pursue that vision, strong support from the House is needed, as such action requires an amendment to the SOEs Law to legally allow the super holding company to manage all state firms.

The new minister should also tend to the messes left by Rini, especially SOEs' mounting debt and their domination in Indonesia's economic development, especially in the infrastructure sector, which is effectively crowding out the private sector.

The State-owned enterprise minister has a very strategic position. The new minister could further reform SOEs to improve efficiency and profitability and bring more benefits to the country or use the position to milk the SOEs for his or her party interests. It's up to President Jokowi to pick what type of SEO minister he wants.

WHAT'S MORE

The plan to reform SOEs started with a program to establish several holding companies that consolidate SOEs within similar business sectors. Tanri Abeng, a professional corporate manager who was appointed in early 1998 by then-president Soeharto as the first state-owned enterprises minister first launched such an initiative.²⁰

But politics got in the way. Tanri and his successors tried similar initiatives but most of them failed. Only Dahlan Iskan, the minister under the Susilo Bambang Yudhoyono administration, succeeded in establishing three holding companies respectively for 13 state plantation firms, three fertilizers and three cement companies.

Rini Soemarno, who has decades of experience in corporate management, including as CEO of PT Astra International, has followed in the footsteps of her predecessors in reforming SOEs. Under her leadership, the government established two holding companies for the mining industry, PT Indonesia Asahan Alumunium²¹ and oil and gas industry PT Pertamina²².

Slowly, the plan to inaugurate a super holding company took steps further with the formation of holding companies for several business sectors. The government is conducting a study to form a holding company in several industries, including a state-owned aviation holding company and state-owned construction holding company. Later, the established holding companies will become subholdings under the super holding, the CEO of which directly reports to the president.

Rini said the creation of the super holding company would hopefully make the management of all state-owned companies less bureaucratic – and free from political interference – as all companies would be managed professionally by the super holding firm.²³

WHAT WE'VE HEARD

According to several sources, the position of SOEs minister is reserved for the PDI-P, although several other parties in Jokowi's coalition have tried to nominate their own members.

Sources within the PDI-P said the party's secretary-general, Hasto Kristiyanto, had proposed Wahyu Trenggono for SOEs minister. Hasto and Wahyu have been close since 2014, when they sat together on the transition team.

Wahyu's name had come up often whenever there were rumors of a Cabinet reshuffle. This time, Wahyu's name reemerged stronger because he played an important role in managing Jokowi-Ma'ruf Amin's campaign funds.

²⁰ The Jakarta Post, "Consolidating state companies," 1 September 2016 <https://tinyurl.com/y4y8f52m>

²¹ Antaranews, "Inalum resmi menjadi holding BUMN industry pertambangan" 29 November 2017 <https://tinyurl.com/y645w262>

²² CNNIndonesia, "Pertamina Resmi Jadi Holding BUMN Migas" 11 April 2019 <https://tinyurl.com/y5fo9jb6>

²³ The Jakarta Post, "SOEs super holding establishment still a long way to go" 20 April 2019 <https://tinyurl.com/y3zv8uo7>

Pramono Anung, another PDI-P politician, reportedly does not agree with Hasto and proposed another candidate, Indika Energy president director Arsjad Rasjid. Pramono's nomination of Arsjad was said to have pleased Puan Maharani and Hapsoro "Happy" Sukmonohadi. Happy is one of Indika's shareholders. He was only revealed to be an Indika shareholder after the company joined the tax amnesty.

Villages, Disadvantaged Regions and Transmigration Minister Eko Putro Sandjojo, a politician from the Nation Awakening Party, was also mentioned as a possible replacement for Rini. Coordinating Maritime Affairs Minister Luhut Pandjaitan reportedly endorsed Eko for the position to President Jokowi last week. Eko had a long career in the private sector. He was former president director of Sierad Produce.

Another minister rumored to replace Rini is Energy and Mineral Resources Minister Ignasius Jonan for his success in transforming state-owned rail company PT KAI. But this time, Jonan's chances are slimmer. President Jokowi even criticized him and Rini during a Cabinet meeting in Bogor last week because of the widening trade balance deficit – mainly due to massive fuel imports. Also, Jonan was reportedly involved in the Eni Saragih graft case and was said to have handed some money to Eni.

Amid the tug of war between parties, a senior official of the PPP said Minister Rini had prepared two names should the President wish to replace her. They are her confidantes, state-owned lender BNI president director Achmad Baiquni and state-owned mining holding company PT Indonesia Asahan Alumunium (Inalum) president Budi Gunadi Sadikin. Golkar head Airlangga Hartanto was said to have supported Budi's nomination.

A PDI-P politician, however, said his party would reject the two proposed candidates since they were considered Rini's men and would not represent the PDI-P. However, the party could relax its stance if Megawati had no objection to any of them.

Jababeka's founders fight hostile takeover

OVERVIEW

The Indonesia Stock Exchange (IDX) has suspended PT Kawasan Industri Jababeka's stocks following a statement from Jababeka's former president director, Tedjo Budianto Liman, that the company faces a possibility of default on its US\$300 million bonds. In a meeting with IDX assessment director I Gede Nyoman Yetna, Budianto explained that Jababeka's \$300 million bonds had a 30-day buyback clause that could be invoked when "change of control" occurred, and the change of control occurred in a general shareholders meeting on June 26.²⁴

Unlike previous shareholders meetings in 2017 and 2018, which only had 53 percent and 45 percent attendance rate, respectively, the attendance rate in the 2019 shareholders meeting was unusually high at 90 percent. In the meeting, PT Imakotama Investindo and the Islamic Development Bank (IDB), which together hold 17.23 percent of shares, acted in concert to replace Budianto with Soegiharto, the state-owned enterprise minister in

²⁴ TheJakartaPost.com, "IDX summons Jababeka on default risk report." 10 July 2019
<https://tinyurl.com/y5lrwkoo>

Susilo Bambang Yudhoyono's administration from 2004 – 2007.²⁵ Their proposal was approved by 52 percent of the shareholders in attendance, or 47 percent of total shareholders.²⁶

Although Budianto never accused the financial conglomerate Panin Group directly in public, there has been suspicion in the media that his replacement received the blessing of Panin Group founder Mu'min Ali Gunawan, who is the largest single shareholder of Jababeka shares at 21.1 percent. In return for Mu'min support, the other shareholders agreed to appoint his lieutenant, Aries Liman, who holds the position of deputy chairman in Panin Sekuritas' board of commissioners,²⁷ as a new member of Jababeka's board of commissioners. Besides Mu'min's shares, Panin Group also holds another 2 percent of Jababeka's shares through PT Paninvest, one of Panin Group's subsidiaries in the insurance business.²⁸

Furthermore, an investigation by CNBC Indonesia found indication that the takeover was masterminded by Iwan Margana from Pratama Capital Indonesia. Jababeka's new president director, Soegiharto, previously held a position as senior adviser on Pratama's investment committee.²⁹ Our investigation also found that Imakotama holds 90 percent shares in PT Pratama Capital Sekuritas.³⁰ (see What's More)

WHAT'S MORE

According to our source in the financial industry, Pratama has targeted Jababeka since 2012 – alongside four other companies that Pratama regarded as having high potential but underperforming. To execute its plan, Pratama has established a consortium of foreign investors. One of those investors is SHUAA Capital psc from the United Arab Emirates. In 2012, Pratama and SHUAA Capital chairman at that time, Sheikh Maktoum Hasher al-Maktoum, signed a memorandum of understanding on its investment in Pratama.³¹ It is rumored that the deal was brokered by Soegiharto, who holds a prominent position in the Association of Indonesian Muslim Intellectuals (ICMI).³²

Another source said Jababeka's commissioner chairman and founder, Setyono Djuandi Darmono, was bitter about the takeover and tried to fight back by gathering support from the broader business community. Through his proxy, Tedjo Budianto Liman, he tried to stop the takeover by bringing this case to the IDX authority. IDX president director Inarno Djajadi promised to investigate the matter but told the public that the IDX might have limited authority in the case.³³

²⁵ Indopremier.com, "Hasil RUPS Juni 2019 KIJA." 1 July 2019 <https://tinyurl.com/y2pr75ym>

²⁶ Investor.id, "Jababeka tolak tudingan konspirasi." 16 July 2019 <https://tinyurl.com/y6ev62p5>

²⁷ Pans.co.id, "Dewan Komisaris" <https://tinyurl.com/y63vj29j>

²⁸ Beritasatu.com, "Grup Panin ditenggarai mulai kuasai Jababeka." 10 July 2019 <https://tinyurl.com/y278atej>

²⁹ CNBCIndonesia.com, "Inilah pemegang saham Jababeka yang 'berebut aset' Rp 11.95 T." 10 July 2019 <https://tinyurl.com/y66y56lc>

³⁰ IDX.co.id, "Pratama Capital Sekuritas" <https://tinyurl.com/y69cxjet>

³¹ Antaranews.com, "SHUAA menandatangani MoU dengan Pratama Capital Indonesia." 13 December 2012 <https://tinyurl.com/yxoawuoy>

³² ICMI.or.id, "Dr. Sugiharto, SE., MBA." 23 March 2015 <https://tinyurl.com/y2acsfly>

³³ Beritasatu.com, "Hostile takeover bisa rugikan publik, otoritas bursa diminta beri perhatian." 17 July 2019 <https://tinyurl.com/y4m7ufqh>

Interestingly, the Communications and Information Ministry posted a statement on its website saying that news on Jababeka's possibility of default was a hoax. In the post, the ministry quotes statements from Jababeka's new president director, Soegiharto, in which he said there had been no change of control, and hence no buyback on Jababeka's \$300 million bonds.³⁴ Given the nature of this case, the ministry's decision to label Jababeka's possibility of default as a hoax suggests that there might be a politically well-connected actor that supports the takeover.

Ex PLN president director Nur Pamudji suspiciously arrested

OVERVIEW

The National Police's criminal investigation department (Bareskrim) arrested Nur Pamudji last month for his alleged role in a graft case relating to the procurement of high-speed diesel (HSD) fuel by state-owned electricity firm PLN. Nur was named a suspect four years ago when he was PLN president director.

Bareskrim held a press conference last month to announce Nur Pamudji's arrest. Police displayed a pile of money, said to amount to Rp 173 billion (US\$12.24 million), confiscated from PT Trans-Pacific Petrochemical Indotama's (TPPI) bank account as evidence. This money, however, reportedly has nothing to do with the case (see **What we've heard**).

In the press conference, the head of Bareskrim's corruption directorate, Sr. Comr. Djoko Poerwanto, said Nur Pamudji, who was PLN director of primary energy at the time, broke the law when he implemented the right-to-match mechanism in the procurement of HSD fuel. With the mechanism, TPPI won the auction for the procurement of HSD for the Tambak Lorong, Semarang and Belawan combined-cycle power plants (PLTGUs).

TPPI came in third in the bidding after two other foreign companies, according to a procurement document³⁵. The right to match, also known as the Swiss Challenge, allowed PLN to invite TPPI to match the bid of the foreign company that won the bid. TPPI then agreed to match the bid and win the bidding.

Police conduct in naming Nur Pamudji, who received the prestigious 2013 Bung Hatta Anti-Corruption Award, as the sole suspect in this case was suspicious. Nur claimed that he did not break any rule since the PLN board of directors approved the decision to implement the right-to-match mechanism. Auriga Nusantara researcher Iqbal Damanik also pointed out that the police should name TPPI officials as suspects too since they broke the contract with PLN³⁶.

³⁴ Kominfo.go.id, "[HOAKS] PT Industri Kawasan Jababeka Tbk gagal bayar." 15 July 2019 <https://tinyurl.com/y2sml22c>

³⁵ MajalahTempo, "TersambarPengadaan Solar," 8–14 July 2019 p. 78 <https://tinyurl.com/y45s78x5>

³⁶ Koran Tempo, "PenyidikanKasusKorupsi Nur PamudjiDipersoalkan" 5 July 2019 p. 29 <https://tinyurl.com/y3nzp8sg>

Besides, Bareskrim could not find how Nur obtained a personal benefit from appointing TPPI as the winner of the HSD fuel auction. According to the Supreme Audit Agency (BPK) investigation, the state losses worth Rp 188 billion arose when TPPI failed to supply the HSD fuel. PLN then had to settle for another supplier at a higher price relative to what TPPI offered. The difference between the two prices was the source of the state's losses, but none of the state losses found their way to Nur Pamudji.

WHAT'S MORE

Bareskrim considered that TPPI failed to demonstrate the ability to provide the 500 million liters of HSD fuel each year needed by the Tambak Lorong and Belawan plants during the procurement process. "TPPI was unfit and did not qualify as a winner," National Police spokesperson Brig. Gen. Dedi Prasetyo said last month.

The auction committee, which collaborated with PT Sufocindoin to survey and verify the feasibility of bidders, issued an alert about problems in TPPI in December 2010. They noted three issues in the TPPI procurement documents: First, TPPI's suppliers in Singapore did not have reserves; second, TPPI did not have a binding agreement with its suppliers abroad; and third, TPPI did not have sufficient working capital.

Nur Pamudji, along with one member of the auction committee, flew to Singapore to meet with two of TPPI's partners. They found TPPI had enough fuel to keep the plants running for the next four years. Nur reported his findings to the PLN board of directors, which then decided for TPPI as the HSD fuel supplier for the two plants, with a contract worth Rp 7.8 trillion.

Entering the second year, TPPI stopped supplying HSD fuel to the PLTGUs. They argued that the factory was damaged. So, in mid-April 2012, TPPI declared that it was unable to continue the project because of problems within the company. PLN then terminated the contract, which triggered the investigation by the police.

Last week Bareskrim handed over the case to the Attorney General's Office. The prosecutors have to work hard to provide evidence of Nur Pamudji's corruption to bring the case to court.

WHAT WE'VE HEARD

After the police named him a graft suspect in the TPPI case in July 2015, sources said, Nur Pamudji asked then energy and mineral resources minister Sudirman Said for "protection". Nur at the time was chairman of the Unit for the Implementation of National Electricity Building Program, whose job was to oversee the 35-million-megawatt electricity project.

Together with Sudirman Said, Nur met with Vice President Jusuf Kalla, again asking for protection. Nur argued that he was a scapegoat in the case as Dahlan Iskan, then PLN president director, was well aware of the auction.

To several people close to him, Nur said he had never met with Honggo Wendratno, the owner of TPPI, before the auction took place. What happened was, said several people close to Nur, the PLN's former director of primary energy – along with PLN's finance director – was invited to a meeting at the Finance Ministry's non-tax revenue (PNBP) directorate, when Nur was introduced to executives of TPPI, which was already controlled by the government through state-owned asset management company PT Perusahaan Pengelolaan Aset (PPA).

However, the National Police's criminal investigation department (Bareskrim) director Sr. Comr. Djoko Poerwanto said that Nur had met with TPPI executives before the auction, so the impression was that there was a conspiracy before they determined the auction winner.

Another source said that the alleged state losses were not real. PLN was to pay TPPI only after the fuel was delivered. If TPPI failed to send fuel, PLN would not pay.

Another source said that the Rp 173 billion pile of money exhibited by the police at the press conference announcing the arrest of Nur Pamudji was money from PT Tuban LPG Indonesia (Honggo's LPG refinery) that had been in TPPI's account. Bareskrim confiscated Honggo's assets because this fugitive businessman was involved in a corruption mega-scandal between TPPI and the Upstream Oil and Gas Regulatory Special Task Force (SKKMigas). The money transferred to Bareskrim's account was related to the confiscation of Honggo's assets and not associated with the case of procurement of the HSD fuel. The money transferred in 2018 was what was shown to the media.

Another suspicion, according to several people close to Nur, is over the issuance of an investigation warrant issued only on Aug. 9, 2017 while the announcement of Nur as a suspect had been reported in July 2015. The letter ordering the start of an investigation (Sprindik) should have been signed before the police announced a suspect.

Former National Police deputy chief Oegroseno, now PLN commissioner, also confirmed that the case of the HSD fuel procurement is not a corruption case. The Corruption Eradication Commission (KPK) has also stated that this case is not corruption.

According to a source at PLN, Vice President Kalla sent people to discuss with Nur about the issue he was involved in. The meeting took place at the National Police headquarters in early July – one week after Nur was arrested and in police custody.

Indonesia Macro Update: Investors upbeat about rupiah despite poor exports

OVERVIEW

In response to a sudden increase in oil imports in April and May, President Joko "Jokowi" Widodo reprimanded Energy and Mineral Resources Minister Ignatius Jonan and State-owned Enterprises Minister Rini Soemarno in a Cabinet meeting at Bogor Palace on July 8. Although the country imported 9.2 percent less between January and May 2019 than in the same period of 2018, the reduction of imports was below President Jokowi's

expectation. The President ordered Jonan and Rini to reduce oil imports in the coming months.³⁷

It seems that both Jonan and Rini had already taken a cue before the meeting. In June, the volume of oil import decreased to 3.21 million tons from 3.67 million tons in May. Most of the reduction occurred in crude oil imports, which fell from 1.2 million tons to 809,000 tons. As a result, oil imports in June fell by 20 percent year-on-year (yoy) to \$1.7 billion.

The reduction in oil imports is not followed by a reduction in non-oil and gas imports. Rather, non-oil and gas imports in June increased by 8.2 percent yoy to \$9.87 billion. Consequently, last month's total imports grew by 2.8 percent yoy to \$11.58 billion.

The government still struggles to improve the country's export performance. Exports in June fell by 9.2 percent yoy to \$11.8 billion. China's slower economic growth of 6.2 percent in the second quarter of 2019 – the lowest in 27 years – added to the woes.³⁸ With a Chinese economic slowdown on the horizon, indicating weaker global growth in the near future, Indonesia is unlikely to achieve high economic growth by boosting exports.

Despite its poor export performance, Indonesia still recorded a \$196 million trade surplus in June, which reduces the overall trade deficit to \$1.93 billion. For the financial market, this performance is good enough. Following the announcement of June's trade surplus, the rupiah appreciated to below Rp 14,000 per US dollar.

WHAT'S MORE

June's trade surplus is not the only contributor to the current rupiah appreciation. Investors in the market are taking into account the possibility of a Federal Reserve rate cut at the end of this month, following a speech delivered in Paris last Tuesday by the Federal Reserve chairman Jerome Powell regarding the central bank's commitment to sustaining the United States' economic expansion.³⁹

Powell's speech is a boon for traders in the federal funds futures market, who have been calling for a 25 basis point (bps) cut.⁴⁰ Nevertheless, economists at Wall Street's major banks are not so sure about the merit of a Fed rate cut, because there is no strong justification for the Fed to adopt a loose monetary policy this year.⁴¹ Nevertheless, two top Fed officials, specifically Federal Reserve Bank of Chicago president Charles Evans and Federal Reserve

³⁷ Kompas.com, "Impor sektor migas tinggi, Jokowi tegur Jonan dan Rini." 8 July 2019 <https://tinyurl.com/y38lz9ff>

³⁸ CNBC.com, "China posts its lowest quarterly growth in 27 years as the trade war drags on." 14 July 2019 <https://tinyurl.com/y47je6y6>

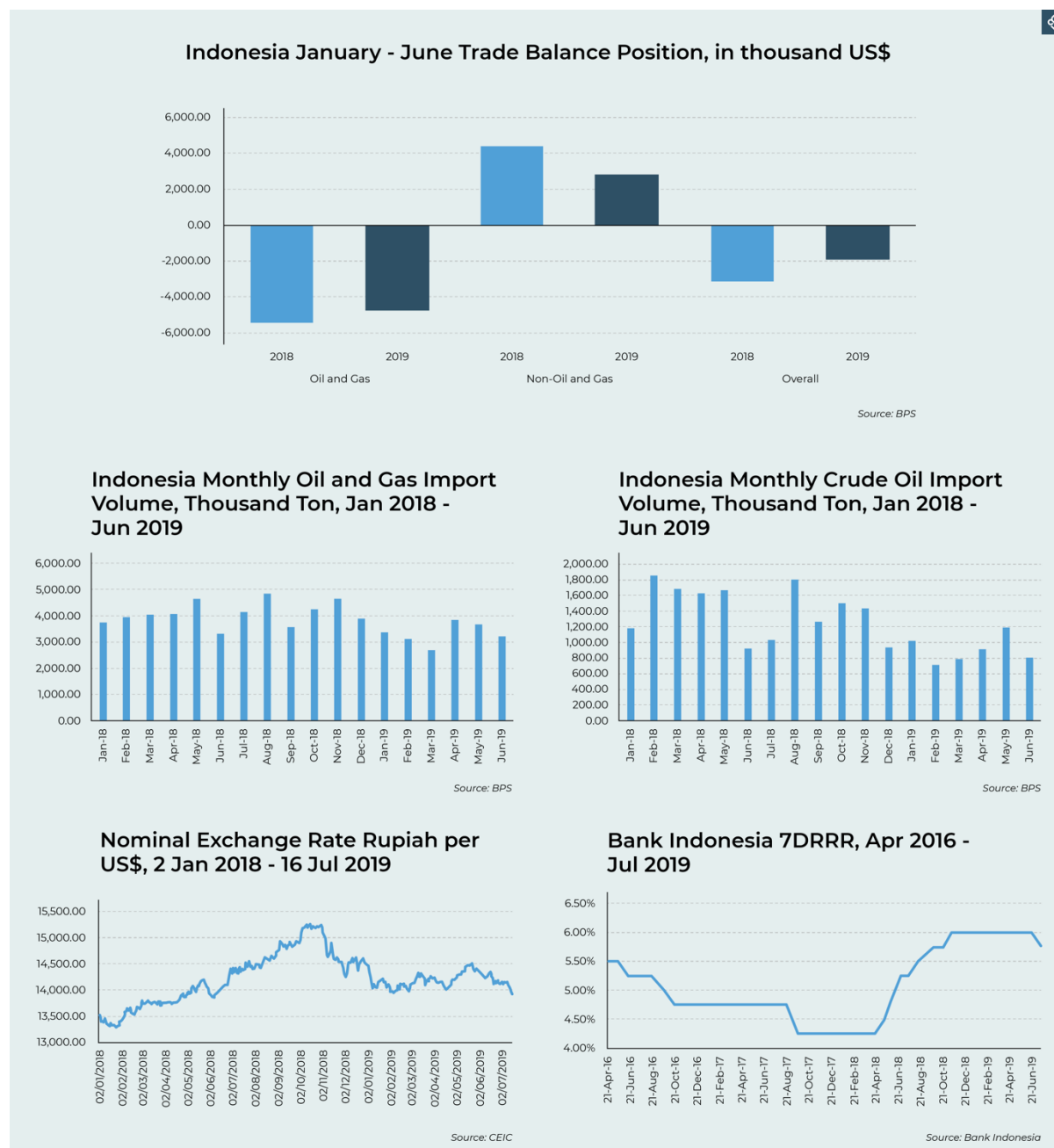
³⁹ CNBC.com, "Powell says 'uncertainties' have increased chances of a rate cut." 16 July 2019 <https://tinyurl.com/yxzlpjsja>

⁴⁰ CNBC.com, "Traders still believe the Fed will cut by a quarter point in July even after blowout jobs report." 5 July 2019 <https://tinyurl.com/y6pxkznt>

⁴¹ CNBC.com, "The economic signs are moving against the Fed's expected rate cut: 'it just doesn't smell right'." 17 July 2019 <https://tinyurl.com/y5ydfbcx>

Bank of Dallas president Robert Kaplan, insist that a ‘tactical’ Fed rate cut by 25 bps at the end of July was necessary.⁴²

Investors in Indonesia predict that the Fed will cut its rate at the end of July, giving Bank Indonesia leeway to adjust its 7-day reserve repo rate (7DRRR) accordingly and stimulate short-term growth. Morgan Stanley’s branch in Hong Kong provides the most aggressive prediction, in which BI would cut the 7DRRR four times this year by 100 bps to 5 percent.⁴³ Confirming that prediction, BI cut the 7DRRR by 25 bps to 5.75 percent on Thursday. The only question now is whether the Fed will deliver a rate cut too.



⁴² Reuters.com, “As Fed nears rate cut, policymakers debate how deep, and even if.” 17 July 2019

<https://tinyurl.com/y4rx5hlf>

⁴³ Bisnis.com, “Morgan Stanley: BI akan pangkas suku bunga empat kali tahun ini.” 17 July 2019

<https://tinyurl.com/y6k5n5q4>

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PT Trisaka Wahana Tenggara

The Jakarta Post Building
Jl. Palmerah Barat 142-143
Jakarta 10270

+62 21 5300476/8 ext. 2009

info@tenggara.id

www.tenggara.id

Board of Commissioners:

Jusuf Wanandi, Djisman S. Simandjuntak, Endy M. Bayuni

Board of Directors:

Riyadi Suparno, Phillips J. Vermonte,
Deddi Tedjakumara

Guarantor: Riyadi Suparno

Researchers & Writers:

Astria Zahra Nabila, Adinova Fauri, Bayu Tegar Perkasa, Benni Yusriza, Camilia Adianti, Dwi Atmanta, Frans Surdiasis, Stella Kusumawardhani, Lionel Priyadi, Vincent Lingga, Yesaya Christianto, Yessy Rizky

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