

HIGHLIGHTS OF THE WEEK

POLITICS

Megawati-Prabowo, Paloh-Anies: Foes turn friends

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Much ado about the Assembly speakership

One of the most hotly contested positions among political parties is the speakership of the People's Consultative Assembly (MPR). The job, in the recent past, has been mostly ceremonial. Rumor mills say the MPR speakership is important this time amid the growing campaign to reopen the debate on amending the Constitution.

Muhammadiyah, NU squabble over strategic posts

Squabbling between the country's two largest Islamic organizations, Nahdlatul Ulama (NU) and Muhammadiyah, has been reportedly reignited as President Joko "Jokowi" Widodo is preparing his upcoming Cabinet. Indeed, the NU's political clout has increased considerably, after Jokowi and his running mate, NU-backed Ma'ruf Amin, won the 2019 presidential race.

Jokowi's fight against radicalism in question

In his first political speech following his reelection on July 15, President Joko "Jokowi" Widodo boldly stated that his second and last term in office would not tolerate those who disturb and take issue with state ideology Pancasila. However, the government could only go so far as to create a new regulation to prevent the spread of radicalism and promote state Pancasila.

BUSINESS & ECONOMY

Duniatex struggles with more than \$2 billion debt

A subsidiary of PT Duta Merlin Dunia Textile (Duniatex), the largest textile manufacturer in Indonesia, failed to meet a scheduled US\$11 million interest payment for its dollar-denominated bond worth \$300 million (Rp4 trillion). Bloomberg reports that Duniatex's bond is part of the increasingly popular Asian junk bond market, mostly issued by Chinese real estate companies.

PTBA president director proposed to lead PLN

State-Owned Enterprises (SOEs) Minister Rini Soemarno has reportedly proposed Arviyand Arifin, currently president director of state mining company Bukit Asam (PTBA), to President Joko "Jokowi" Widodo as the sole candidate for state electricity firm PLN president director.

OJK demands Ilham Habibie bring in more cash for Muamalat

The Financial Services Authority (OJK) has rejected for a third time a rights issue request by PT Bank Muamalat Indonesia. The OJK demanded new investor Ilham Habibie deposit more cash to reach the required minimum capital. Initially, Ilham planned to cover the difference in the form of debt that could later be exchanged for shares. The OJK rejected this scheme.

Global Macro: US intervenes in Japan-South Korea trade dispute

Upon learning development of Japan-South Korea trade dispute, US President Donald Trump dispatched his national security adviser John Bolton to South Korea and Japan to prevent South Korea from making a drastic move that could jeopardize the trilateral cooperation.

POLITICS

Megawati-Prabowo, Paloh-Anies: Foes turn friends

OVERVIEW

In a sudden turn of events, foes recently turned into friends this week. The meeting between Indonesian Democratic Party of Struggle (PDI-P) matriarch Megawati Soekarnoputri and Gerindra Party chairman Prabowo Subianto on Wednesday ended the distant relationship between the two, at least for now. Having run together as presidential and vice presidential candidates in 2009, Megawati's ties with Prabowo took a turn for the worse when the former nominated Joko "Jokowi" Widodo in the 2014 presidential election. Prabowo deemed the move a betrayal, saying the two had reached a political agreement, dubbed the Batu Tulis pact, which stipulated Megawati's turn to support for Prabowo's presidential bid whatever the result of the 2009 election.

The meeting between the leaders of the country's largest political parties not only cemented the reconciliation process between Jokowi and Prabowo, which began a week earlier, but also suggested Megawati's blessing for Gerindra's entry to the ruling coalition. This would go against the wishes of other members of Jokowi's coalition, which have been generally hostile toward the idea of a cohabiting government.

The increasingly closer relationship between PDI-P and Gerindra might explain the unexpected ceasefire between NasDem Party chairman Surya Paloh and Jakarta Governor Anies Baswedan. Paloh, an ardent supporter of Jokowi's reelection bid and chief enemy of Anies in the 2017 Jakarta election, expressed his readiness to support Anies' candidacy in the 2024 presidential race.

While speculation about Anies' ambition for presidency has circulated, nobody would expect NasDem to offer Anies the ticket so early. Paloh's sudden change of heart could be a display of his dislike with the PDI-P-Gerindra maneuver.

In fact, Paloh hinted at NasDem's support for Anies only a few days after he met with leaders of the ruling coalition other than the PDI-P, during which they expressed their refusal to welcome Gerindra on board.

The Paloh-Anies encounter at NasDem's headquarters could jeopardize both PDI-P and Gerindra. Not only does the "rival" meeting confirm a crack within the PDI-P-led ruling coalition, it may also hurt the relationship between Prabowo and Anies, which has been cemented by their mutual disavowal of Jokowi's government in recent years.

Now that Paloh is ready to support Anies in the 2024 presidential race, which Prabowo will reportedly join, the NasDem founder would strategically put the former allies into a fight, turn friends into foes. Megawati and the PDI-P may not welcome Paloh's support for Anies with great enthusiasm. The criticism of the PDI-P elite against Paloh's move could signal an impending squabble between the two allies.

WHAT'S MORE

Jokowi's bloated coalition appears to be the seed of a schism among the winners of the presidential election over the prospect of their power-sharing mechanism. The possible arrival of opposition parties, namely Gerindra, the National Mandate Party (PAN) and the Democratic Party, in the grand coalition has exacerbated the internal dispute.

Gerindra's demand for control of food and energy affairs and PDI-P's plan to share the leadership of the People's Consultative Assembly (MPR) with Gerindra might be the last straw that finally pushed NasDem to put its foot down.

Paloh's strategy of involving Anies in his maneuver might be intended for him and NasDem to remain relevant in domestic politics, amid the current public fixation with the PDI-P and Gerindra. Paloh's message of support for Anies serves as a warning for the PDI-P not to accommodate Gerindra and directly pits Anies against Prabowo.

Meanwhile, the absence of Jokowi in the meeting between Megawati and Prabowo was noticed by the public. Prior to the meeting, Gerindra deputy chairman Arief Poyuono told the press of the President's participation in the meeting.¹ PDI-P secretary general Hasto Kristiyanto, however, denied the statement, saying that only Megawati and Prabowo would attend the meeting. At about the same time, Jokowi received the Crown Prince of the Emirate of Abu Dhabi, Mohammed bin Zayed Al Nahyan.

Jokowi's absence might convey hidden messages. For one, by leading the meeting herself, Megawati might attempt to reinstate her prominence in the PDI-P. It has been previously reported that Megawati and Jokowi had gone through a rough patch due to the latter's alleged growing independence, expounded by Jokowi's unilateral actions in the past.² Her meeting with Prabowo, thus, might be intended to balance out Prabowo's last meeting with Jokowi.

Another possible explanation is that by performing his state duty as the President during the Megawati-Prabowo meeting, Jokowi might try to distance himself from partisan acts. By avoiding further exposure to the ongoing negotiation between the PDI-P and Gerindra, Jokowi might intend to prevent more protests from his coalition and widening the alleged discord within his coalition.

WHAT WE'VE HEARD

A meeting between Indonesian Democratic Party of Struggle (PDI-P) chairwoman Megawati Soekarnoputri and Gerindra Party chairman Prabowo Subianto at the former's house on Wednesday was orchestrated by the same individual who, with assistance of one of Prabowo's confidantes, had arranged an earlier meeting between Jokowi and Prabowo.

The person, however, requested State Intelligence Agency chief Budi "BG" Gunawan to realize the plan. From Gerindra's side, party secretary-general Ahmad Muzani was asked to come forth to plan the meetings. Muzani also worked with one of Prabowo's closest aides, Gerindra deputy chairman Edhie Prabowo, to take part in the meetings.

¹ Kompas.com, "Megawati-Prabowo Bertemu Siang Ini, Jokowi Tidak Ikut," 24 June 2019 <https://tinyurl.com/y4jsfd28>

² Pinterpolitik.com, "Riak Retak Jokowi-Megawati," 28 June 2018 <https://tinyurl.com/y4x2v848>

Senior PDI-P politician Pramono Anung, who has maintained a close relationship with Muzani, was also involved in arranging the meetings by “talking” with both Jokowi and Megawati. “Pram knows how to approach the two [Jokowi and Megawati]. He [happens to be] an old friend of [Megawati’s],” said a source from the Presidential Palace.

On a different note, BG himself has been widely perceived as a representative of Megawati’s, so Prabowo reportedly trusts in BG’s propositions, including on political and economic matters. The political deal refers to Cabinet posts, the Presidential Advisory Board (Wantimpres) chief post and the top job at the People’s Consultative Assembly (MPR). “No one knew about this MPR speakership post offer until two weeks ago,” said a source from PDI-P’s inner circle.

Megawati and Prabowo have reportedly never had any problems with each other. Megawati has always perceived Prabowo as a friend who shared her ideology as well as her admiration for her father, founding president Sukarno.

Megawati needs an equal “friend” who can control the political landscape following the reelection of Jokowi. The agenda is to devise a strategy to prevent political parties from losing popular support in the 2024 election. “In the past five years, political parties have no longer been perceived as a part of democracy because of their bad image. That’s why nonpartisan individuals play an influential role in the Presidential Palace,” said the source who is close to Megawati.

To be able to cooperate with Megawati, Prabowo and Gerindra, according to the source, must be separated from the “extremists” who have been Prabowo’s close allies for the past five years. “Megawati chooses Prabowo and Gerindra as she believes they are still chaste in nature, so that they will not be used by the extremists,” said the source. To realize this, the PDI-P elite was sent to meet a senior economist close to Prabowo to keep Prabowo from the far-right groups.

Since June, several scenarios have been drafted by Prabowo so that he could personally meet Megawati. “I told Megawati that when she finally met Prabowo, Prabowo simply wanted a stronger economy so that people surrounding Jokowi could no longer manipulate the situation,” said the economist, referring to people who allegedly brokered investment from China and the West only for their own profits rather than Indonesia’s development. These people, who included party elites, businesspeople and prominent figures, mingle within the Jokowi coalition. A source close to Megawati said the ultimate goal of the Jokowi-Prabowo and Megawati-Prabowo meetings was to separate Jokowi from the NasDem Party and the Golkar Party, which often failed to notify Megawati of decisions that affected the coalition.

NasDem chairman Surya Paloh, according to the source, is believed to have used his influence to distance Jokowi from Megawati. Meanwhile, Golkar, has shown no respect for Megawati as in the case of its quest for ministerial posts without consulting Megawati.

Meanwhile, the meeting between Paloh and leaders of other Jokowi coalition parties was prepared in just one day. It was meant to follow up on the reconciliation meeting between Jokowi and Prabowo and Jokowi’s intention to welcome Gerindra into his next Cabinet. Coincidentally, Golkar Party chairman Airlangga Hartarto and National Awakening Party (PKB) chairman Muhaimin “Cak Imin” Iskandar share the concern about Gerindra joining the coalition, given its stronger bargaining position than that of Golkar or the PKB.

“[The meeting between NasDem and other coalition parties] was intended to warn Jokowi that the PDI-P is not the sole party with political power,” said a source from the Presidential Palace.

Jokowi was reportedly aware of the meeting between his coalition parties. His position is currently leaning toward Megawati and the PDI-P.

“Considering that this is Jokowi’s second and final term in office, his bargaining power will sooner or later run out,” said a source from a coalition party.

The source said Jokowi was aware of his weakening bargaining power and had therefore begun to remove people who stood between him and the PDI-P. They include Paloh, Coordinating Maritime Affairs Minister Luhut Pandjaitan and State-Owned Enterprises minister Rini Soemarno.

“I think Rini will remain in the Cabinet, but her post remains undecided,” said the source.

The Paloh-initiated meeting and the Megawati-Prabowo encounter were intended to kickstart preparation for the 2024 presidential election. All factions and parties within the Jokowi coalition are aware they may fight each other in 2024, as Jokowi and Prabowo will not be available any longer.

Although attending the meeting with Paloh, the PKB, which represents the aspirations of the country’s largest Islamic organization, Nahdlatul Ulama (NU), will not oppose the PDI-P as the largest nationalist-oriented party. Golkar came to the meeting to confirm its bid for MPR speakership.

Much ado about the Assembly speakership

OVERVIEW

With the ongoing parceling out of seats ahead of the formation of the new government in October, one of the most hotly contested positions among political parties is the speakership of the People’s Consultative Assembly (MPR). The job, in the recent past, has been mostly ceremonial. Other than inaugurating the elected president and vice president, it has little real political clout. The speaker of the House of Representatives has more power as he/she controls the legislative agenda. This seat is claimed by the Indonesian Democratic Party of Struggle (PDI-P) as the party that won the most House seats after the April 17 election, and is likely to go to Puan Maharani, the daughter of PDI-P chair Megawati Soekarnoputri, to prepare her for the 2024 presidential race. The MPR speakership is still up for grabs and being claimed by Golkar, Gerindra and the National Awakening Party (PKB), respectively the second, third and fourth largest parties in the House. The position accords the holder a high public profile, although not as high as the House speakership. Rumor mills say the MPR speakership is important this time amid the growing campaign to reopen the debate on amending the Constitution. But certainly the MPR speakership offers the holder a platform to build his or her reputation for 2024.

Gerindra insiders say the MPR seat was promised to them as part of the reconciliation deal after the hotly contested April presidential race. Gerindra chairman Prabowo

Subianto held on to admitting defeat for as long as he could, and conceding it on July 13 in a highly publicized meeting with incumbent and winner President Joko “Jokowi” Widodo. A deal was struck, but the details have never been publicly disclosed. One version, widely boasted by Gerindra insiders, says Jokowi promised to give two ministerial and two deputy minister seats in his next Cabinet as well as the head of the Presidential Advisory Council, and the MPR speakership. This claim has not been verified.

Golkar is openly pressing its claim too, underscoring that it had been with Jokowi before the presidential election campaign, and say now that they came second in terms of House seats, the MPR speakership belongs to them. Jokowi has the prerogative to pick people to serve in the executive branch, but he has little clout in filling the top positions in the legislative branches, including the House, MPR and Regional Representatives Council (DPD). The current law only stipulates that the House speakership goes to the party with the largest number of seats, leaving the speakership for the MPR and DPD up for negotiation. This is looking like a long-drawn battle, but they have to resolve the issue before the inauguration of the new members of the legislature on Oct. 1.

WHAT'S MORE

The MPR, made up of the 575 elected members of the House and 136 members of the DPD, holds a joint sitting of the two legislatures every August when the president delivers the state of the nation address. With its limited task, there is no other reason for the MPR to call for a joint sitting except in an emergency. The MPR’s main tasks, besides installing the president and vice president, include impeaching the president and vice president and amending the Constitution.

Historically, the MPR has impeached the president once, Abdurrahman Wahid in 2001. constitutional amendments since then have made it more difficult for the MPR to impeach the president. You have to have committed a serious crime or a breach of ethics to be impeached.

The MPR can amend the Constitution but it has not done so since 2002. To call for a meeting to amend the Constitution or any article in the text requires the support of one-third of MPR members. The meeting itself must be attended by at least two-thirds of members, and any decision to amend the Constitution must have majority support.

Not since the rules for amending the Constitution were laid down in 2002 have they been put into practice. There have been many calls for the nation to reopen the debate on amending the Constitution, but no one has taken the initiative to begin the motion, knowing that doing so could open Pandora’s Box that could easily take the nation in the wrong direction.

There is an emerging consensus to reopen the debate to amend the Constitution, but there are disagreements about what articles in the basic law should be amended. Some want a return to the original 1945 Constitution that was in place as late as 1999 that allowed Soeharto to rule the nation for over three decades unchallenged. Others want the House to be more empowered, yet some others want to recentralize the government.

The Muslim conservatives want to use the opportunity to turn Indonesia into an Islamic state or for sharia to be made the law of the land. They tried and were outvoted in 1945, and tried

and lost again in the constitutional amendment debate in 1999-2002. No doubt they would want to try again given the opportunity.

PDI-P chair Megawati has openly expressed her desire to amend the Constitution, specifically to restore the MPR's right to appoint the president, instead of giving it to the people to vote directly as has been the practice since 2004. This is bizarre given that Megawati was outmaneuvered in 1999 by forces in the MPR, in which she lost her bid for the presidency, although the PDI-P came first. She settled for the vice presidency and became president by default when Abdurrahman Wahid was impeached in 2001. But then again, Megawati has not benefited from the direct presidential election mechanism either, losing the race in 2004 and 2009.

President Jokowi has not publicly spoken on where he stands on the constitutional amendment but he has retained the services of Yusril Izha Mahendra, one of Indonesia's top constitutional lawyers. Amending the Constitution could possibly remove the maximum two terms in office, paving the way for him to run again in 2024, if he so desires.

Some in Gerindra are also keen on amending the Constitution. Since the PDI-P, rather than Jokowi, has the power to determine who gets the MPR speakership, representatives of the two parties have been meeting to hammer out a deal, which is likely to be combined with other offers that Jokowi has promised Gerindra. Golkar has been lobbying other major parties in the House to support its claim of the MPR seat. The seat is likely to be settled through a vote in the assembly.

But with big obstacles that had stopped earlier campaigns to amend the Constitution, the MPR seat in the end serves the holder more as a platform to bid for the 2024 presidential race and not so much to initiate the constitutional amendment.

Muhammadiyah, NU squabble over strategic posts

OVERVIEW

Squabbling between the country's two largest Islamic organizations, Nahdlatul Ulama (NU) and Muhammadiyah, has been reportedly reignited as President Joko "Jokowi" Widodo is preparing his upcoming Cabinet. Indeed, the NU's political clout has increased considerably, after Jokowi and his running mate, NU-backed Ma'ruf Amin, won the 2019 presidential race.

Unsurprisingly, NU stepped up its quest for strategic posts in the government. It has created shockwaves for blatantly asking for the education and culture ministerial post, considering its withdrawal from practical politics (*khittah*) since 1984.

Currently filled by Muhammadiyah member Muhadjir Effendy, the ministerial post has traditionally been reserved for Muhammadiyah since *reformasi* in 1998, with the exception in 2009-2014 when then-president Susilo Bambang Yudhoyono appointed NU's Muhammad Nuh his education minister. The education and culture ministerial seat is indeed strategic, as evident in the fact that 20 percent of the state budget is allocated for education alone. Additionally, as both NU and Muhammadiyah are affiliated with hundreds, if not thousands, of educational institutions, ranging from *pesantren* (Islamic

boarding schools) to universities, securing the education and culture ministerial seat allows the two organizations to devise policies beneficial to their respective affiliates.

NU has been critical of Muhadjir's policies, in particular the full-day school program. NU threatened to organize a mass protest and file a judicial review against the initiative.³

Muhadjir is currently the sole Muhammadiyah representative in Jokowi's current Cabinet, as against six NU-affiliated ministers. Jokowi will worsen the imbalance if he decides not to accommodate Muhammadiyah in his second term, which could happen especially since he has NU-backed Ma'ruf Amin as his vice president.

Jokowi will risk jeopardizing his own support base among moderate Muslims if he fails to appoint a Muhammadiyah member to the education portfolio. Moderate Muslim voters, either from NU or Muhammadiyah, were key in helping Jokowi win reelection in the most divisive race in the country's history last April.

A split between the two moderate Islamic forces is all that the ultraconservative and radical groups want in their pursuit of an Islamic state in Indonesia. The stake looks too high for Jokowi, who is poised to promote moderate Islam globally, that he is unlikely to gamble.

WHAT'S MORE

The dispute between NU and Muhammadiyah has reportedly expanded to their political vehicles, the National Awakening Party (PKB) that NU leaders founded and the National Mandate Party (PAN) whose support comes mostly from Muhammadiyah members.

The PKB, a member of the Jokowi-Ma'ruf coalition, has been thwarting off PAN, which only recently expressed interest from shifting allegiance from the opposition force to the ruling coalition. The two parties' elites have traded barbs over each other's ambition for strategic posts, including the People's Consultative Assembly (MPR) speakership spot.

In the current scenario, the NU and PKB potentially gain the upper hand over Muhammadiyah and PAN. For one, having its member in the vice presidential post, NU has increased its bargaining power vis-à-vis Jokowi. Besides, the PKB is the third largest party within the ruling coalition. In addition, support from the NU and PKB for Jokowi has been relatively unflagging throughout the President's reelection bid.

This contrasts with the officially nonpartisan Muhammadiyah, whose main aspiration has always rested more on humanitarian rather than electoral politics, and PAN, which supported the nomination of Prabowo Subianto-Sandiaga Uno in the presidential race. While Muhammadiyah allows its members to choose their own political affiliation, PAN was undeniably set up to serve the interests of Muhammadiyah in the first place.

Jokowi has endured an uneasy relationship with Muhammadiyah due to its diversity in terms of political preference of its individual members. Muhammadiyah's influential figures Amien

³ NU.or.id, "Tolak Full Day School, NU Siap Demo dan Judicial Review," 7 August 2017 <https://tinyurl.com/y4x3ytg4>

Rais and Dahnil Anzar Simanjuntak, for example, were key players in the Prabowo-Sandiaga campaign team and behind Jokowi's failure to secure solid support from Muhammadiyah voters, many of whom live outside Java. The recent presidential election showed that Jokowi could exercise control over the Muhammadiyah elite, but not the grassroots.

However, this does not mean that the Java-centric NU could easily remove the influence of Muhammadiyah in Jokowi's upcoming government, or specifically make him choose an NU member over Muhammadiyah as the education minister. Jokowi would need Muhammadiyah to neutralize the influence of the NU and PKB. As if to boast its growing political clout, the PKB, for instance, has been butting heads with other coalition parties by asking Jokowi for 10 ministerial posts. Jokowi's non-PKB coalition members have also cold shouldered NU's request for separate ministerial posts for its members.⁴

For NU, as well as the PKB, the rise of Ma'ruf to the country's second top office provides the group a stepping stone to seize back the presidency in 2024, after winning it in 1999 through Abdurrahman "Gus Dur" Wahid. But with Jokowi restricted from running, other parties may turn their back on the NU and PKB, and make Muhammadiyah their new ally to win presidency for themselves.

WHAT WE'VE HEARD

President Jokowi has reportedly assigned an executive of the United Development Party (PPP) to meet a Muhammadiyah member overseas to "talk about education and culture affairs". The meeting took place this week.

The PPP politician, who went abroad also to enhance inter-parliamentary cooperation, said Jokowi only wanted to know how the Muhammadiyah figure could develop the country's education and culture, given his background as a scholar.

The PPP politician said Jokowi was considering the Muhammadiyah member for the education and culture ministerial post not only because of his affiliation with the country's second largest Muslim organization, but also due to his dedication to research. Besides, they know each other quite well.

⁴ Tirto.id, "Reaksi Partai Koalisi Soal Jatah Menteri PKB-NU di Kabinet Baru," 3 July 2019 <https://tinyurl.com/y62a6h79>

Jokowi's fight against radicalism in question

OVERVIEW

In his first political speech following his reelection on July 15, President Joko “Jokowi” Widodo boldly stated that his second and last term in office would not tolerate those who disturb and take issue with state ideology Pancasila. However, the government could only go so far as to create a new regulation to prevent the spread of radicalism⁵ and promote state Pancasila.⁶

For many, Jokowi’s commitment to combatting radicalism, therefore, is in question, particularly after he chose to end his long-running feud with his presidential election rival Prabowo Subianto, who relied on support from Islamist hard-liners grouped under the 212 Alumni (PA 212). While Jokowi has currently managed to restrict the group’s maneuvering, his initial intention to eradicate radicalism looks to be missing the target, given that the PA 212 is more like an army of political adventurers who mask their aim for votes behind religious narratives, rather than a radical group that poses a security threat to the country.

In 2017, President Jokowi signed a decree that banned leading radical organization Hizbut Tahrir Indonesia (HTI), but prodemocracy activists are worried that freedom of speech would eventually fall prey to the draconian regulation. Moreover, the ban could be counterproductive as it may give birth to new radical groups, such as the Muslim People Forum (FUI), whose secretary-general is a former leader of HTI.⁷

WHAT'S MORE

Not everybody is happy with the reconciliation between Jokowi and Prabowo, who met at Lebak Bulus MRT Station in South Jakarta on July 13. The PA 212, for instance, was quick to call Prabowo a traitor for making concessions with their nemesis, Jokowi. The hard-line group threatened to leave Prabowo for disrespecting their sacrifice and staunch supporters of his presidential bid.

The PA 212 groups people who took part in the Dec. 2, 2016 rally in Jakarta that demanded the prosecution of then-Jakarta governor Basuki “Ahok” Tjahaja Purnama for blasphemy. Ahok, known as a close ally of Jokowi, was eventually sentenced to two years in prison. He completed his jail sentence last February.

Sectarian narratives that effectively undermined double-minority figures like Ahok in the Jakarta election in 2017 were used once more in the presidential election of 2019. The tactic

⁵ Kompas.com, “Soal Radikalisme dan Terorisme di kampus, Pemerintah buat Regulasi Baru,” 7 June 2019 <https://tinyurl.com/y4mvkghb>

⁶ Detik.com, “Kapolri Paparkan 5 Cara Pemberantasan Radikalisme di Indonesia,” 19 January 2017 <https://tinyurl.com/y2ubxloy>

⁷ CNNIndonesia.com, “Jejak Al Khatthath, Caleg Gagal yang Coba Gulingkan Jokowi,” 1 April 2017 <https://tinyurl.com/y473rttm>

reunited the group with Prabowo, who was seeking retribution for his 2014 defeat to Jokowi. To run the ploy, a number of leading PA 212 figures joined the campaign team of Prabowo and his running mate Sandiaga Uno, who had relinquished his post as deputy governor of Jakarta.

The Islamist hard-liners arguably contributed much to Prabowo's 45 percent of the vote. Prabowo, for one, won the most votes in provinces known for their conservative view of Islam, like Banten, West Java, West Sumatra and West Nusa Tenggara, which he also controlled in 2014.

As much as Prabowo needed the support of the PA 212, he seemed content with the deal behind his reconciliation with Jokowi, leaving his most vocal and daring support base of Islamist hard-liners behind, corroborating their role as a mere political tool.

For the PA 212, the reconciliation between Jokowi and Prabowo is no more than a form of political pragmatism. The group may have lost Prabowo, who seemed to have broken his promise to defend Islam and ulemas, but they could strengthen their alliance with the Islam-based Prosperous Justice Party (PKS), which is the only political party in Prabowo's coalition that has vowed to remain part of the opposition.

While Jokowi and Prabowo may have put their feud behind them, the long-standing, deep-rooted polarization between their supporters would be difficult to address, at least in the short run. Aspirations for a more Islamic Indonesia will, therefore, persist.

As long as the government takes superficial measures in the matter, radical groups and radicalism will find fertile ground to grow in the country.

BUSINESS & ECONOMIC POLICY

Duniatex struggles with more than \$2 billion debt

OVERVIEW

Businesspeople and investors were taken by surprise by the news that a subsidiary of PT Duta Merlin Dunia Textile (Duniatex), the largest textile manufacturer in Indonesia, failed to meet a scheduled US\$11 million interest payment for its dollar-denominated bond worth \$300 million (Rp4 trillion). Economic analysts regard this event as a sign of a dire situation for Indonesia's textile industry caused by a trade war between China and the United States.⁸ However, Bloomberg reports that Duniatex's bond is part of the increasingly popular Asian junk bond market,⁹ mostly issued by Chinese real estate companies¹⁰.

Duniatex entered the Asian junk bond market facilitated by BNP Paribas and Standard Chartered, because local banks refused to extend its loans. Bisnis Indonesia reported that Duniatex was in talks with various state-owned as well as private banks to restructure more than Rp17 trillion (\$1.2 billion) in debt.¹¹ What is little known is that Duniatex owner Sumitro Hartono (Jau Tau Kwan) from Surakarta used the borrowed money to expand the family business into electronic retail under the name of Hartono Elektronik and property in Central Java and Yogyakarta (**see What We've Heard**). Moreover, the Hartonos' debt in the property business is rumored to be at least Rp7 trillion (\$500 million). Altogether, the Hartonos' debt is at least Rp28 trillion (\$2 billion).

This raises the question of whether the family has the economic and political means to get through its debt crisis. With reportedly Rp19 trillion (\$1.33 billion) in income per year, the Hartonos are walking a tightrope. Moreover, the Hartonos are not well connected politically. Without strong political connections as those wielded by their rivals, the Lukmintos, owner of PT Rejeki Isman Textile (Sritex) from Surakarta, the Hartonos need to fight harder for survival. (**see What's More**)

WHAT'S MORE

Duniatex and Sritex are longtime rivals, and their rivalry goes beyond the textile industry. Their rivalry culminated in June 2011, when Sritex filed a lawsuit accusing Duniatex of copyright infringement over its 'yellow lines on the edge of the fabric'. The Central Java Police apprehended Sumitro in October 2011, alongside with textile shop Ratu Modern owner Lie Lay Hok.

Following his imprisonment, Sumitro hired OC Kaligis as his lawyer. In March 2012, Kaligis won the court battle at the Karanganyar District Court, arguing that Sritex's copyright over its

⁸ Detik.com, "Lampu merah industri tekstil Indonesia." 25 July 2019 <https://tinyurl.com/yxf8p4zj>

⁹ Bloomberg.com, "Cracks in Asia junk bonds shown in fast fall of textile firm." 18 July 2019 <https://tinyurl.com/y2dyzeds>

¹⁰ WSJ.com, "Chinese real estate has eaten the Asian junk-bond market." 7 May 2019 <https://tinyurl.com/y3y9x5al>

¹¹ Bisnis.com, "Utang Duniatex Rp17 triliun direstrukturisasi, begini skenarionya." 23 July 2019 <https://tinyurl.com/y63dzsqz>

‘yellow line’ design was legally flawed. In fact, Sritex obtained the copyright for its ‘yellow line’ design in August 2011, two months after filing the copyright infringement lawsuit against Duniatex.¹²

However, the Central Jakarta District Court refused to cancel Sritex’ copyright in October 2012.¹³ Using the Jakarta court ruling, the Supreme Court sided with Sritex and deemed Sumitro guilty of copyright infringement.¹⁴ Shocked by this ruling, Kaligis brought this case to the House of Representatives, but to no avail.¹⁵

Muhammad Lukminto, the Lukmintos’ patriarch, passed away in February 2014. Many top politicians and government figures attended his funeral, such as former information minister Harmoko, Major General Sunindyo, who was at the time the commander of the Regional Command IV/Diponegoro, retired TNI commander General Djoko Santoso and President Susilo Bambang Yudhoyono, reflecting how politically well-connected the Lukminto family is.¹⁶

WHAT WE’VE HEARD

According to a businessman from Central Java, there has been a rumor circulating about Duniatex’s financial trouble. Even before the news broke on the group’s inability to service an interest payment, bankers refused requests to extend or give additional loans to Duniatex. Bankers’ refusal to provide or rollover credit suggests that Duniatex has a serious problem.

The businessman, who is known as one of the “nine dragons” in Surakarta, also said that, in the past two years, Duniatex owner Sumitro Hartono had expanded his property business aggressively, which includes apartments, hotels, shopping malls and hospitals. The properties are located in various cities in Central Java, for example The Alana Hotel, Fave Hotel, Best Western Premier, Noorman Hotel Semarang, Hartono Trade Center and Hartono Mall in Solo Baru district. “Pak Mitro also has properties in Yogyakarta, such as the Marriott Hotel, D’Salvatore Art & Boutique Hotel and Wisma Hartono as well as De Rivier Hotel in Jakarta,” the businessman said.

There is a rumor about mismanagement in Duniatex’s businesses, and the businessman expressed confidence that the rumor was true. “It is rare for a business to fail servicing its interest payment in the first three to four months,” the source said. However, foreign bankers’ role in facilitating Duniatex entry to the Asian junk bond market raises the source’s suspicion, citing weak regulatory oversight as the main issue.

Another businessman from Semarang claimed Duniatex had been in trouble for more than 10 years. When Sugeng Hartono, Sumitro’s father, passed the business on to his son, Duniatex

¹² Detik.com, “PT Duniatex kalahkan PT Sritex, OC Kaligis: Kaji ulang hak paten!” 22 March 2012
<https://tinyurl.com/y2z9ofvm>

¹³ Kontan.co.id, “Hakim tolak pembatalan hak cipta kain milik Sritex.” 1 October 2012
<https://nasional.kontan.co.id/news/hakim-tolak-pembatalan-hak-cipta-kain-milik-sritex>

¹⁴ Detik.com, “Bos PT Dunia Tekstil dipenjara 1 tahun, kuasa hukum: Kami keberatan.” 29 December 2012
<https://tinyurl.com/y4dvs7oe>

¹⁵ Beritasatu.com, “Kasus hak cipta benang kuning memicu kriminalisasi.” 30 January 2019
<https://tinyurl.com/y35wlmpd>

¹⁶ TheJakartaPost.com, “Textile giant Sritex owner Lukminto dies.” 8 February 2014
<https://tinyurl.com/y55v6dhc>

was already in a pool of debt. “There was no way for Sumitro to keep the business alive without piling on more debt,” the source said. Interestingly, at the time local banks were optimistic about Duniatex’s prospects. Both state-owned and private local banks competed in offering loans to Duniatex.

The Semarang businessman sees Sumitro’s expansion into the property business as a reckless move. “Sumitro buys the properties with debt, and the debt is rumored to be at least Rp7 trillion,” the businessman said.

Issue Update: PTBA president director proposed to lead PLN

OVERVIEW

State-Owned Enterprises (SOEs) Minister Rini Soemarno has reportedly proposed Arviyand Arifin, currently president director of state mining company Bukit Asam (PTBA), to President Joko “Jokowi” Widodo as the sole candidate for state electricity firm PLN president director. If he is approved, he would replace Sofyan Basir, who became embroiled in the Riau-1 power plant corruption case.

Arviyand was actually not Rini’s first choice. She had offered the position to several people, including PLN acting president director Djoko Rahardjo Abumanan and former telecom company Telkomsel president director Alex Sinaga, but they refused to take up the mantle (see **What we’ve heard**).

Since Sofyan Basir was named a suspect in the Riau-1 corruption case on April 23, the post of PLN president director has been filled by two different acting chiefs. PLN director of human capital management Muhammad Ali was appointed as acting president director for the first 30 days after Sofyan was named a suspect.

Ali was then replaced by Djoko Raharjo Abumanan on May 29, when the Corruption Eradication Commission (KPK) officially detained Sofyan and was officially suspended from his position as PLN president director. Aside from being acting president director, Djoko is still PLN strategic procurement director.¹⁷

This temporary situation is not ideal for PLN’s performance because an acting president director would not make strategic decisions. According to Vice President Jusuf Kalla, the criminal case that is plaguing Sofyan has slowed down PLN’s performance as anyone taking his place would be hesitant to make important decisions.¹⁸

¹⁷ CNBCIndonesia.com, "Calon Kuat Dirut Baru PLN dari Internal?" 10 June 2019 <https://tinyurl.com/y33eovyd>

¹⁸ CNBCIndonesia.com, "JK sebut PLN, Pertamina sedang lesu, ada apa?," 25 June 2019 <https://tinyurl.com/y4nftg2x>

WHAT WE'VE HEARD

Rini's nomination of Arviyan as a candidate for PLN president director has stirred controversy even inside her own ministry. Sources in the ministry said some of Rini's subordinates reminded her not to nominate Arviyan because he was known to be close to Sofyan Basir.

In addition, before holding the top position at Bukit Asam, Arviyan was said to be one of the people responsible for the problems currently plaguing Bank Muamalat, which currently lacks capital. Before serving as Bukit Asam president director, Arviyan had a long career at Muamalat, including serving as its president director from 2009 to 2014. He was even involved in the establishment of the bank in 1991.

Rini eventually picked Arviyan after she offered the PLN president director position to several people, but they all turned it down. One source said that soon after the KPK named Sofyan Basyir a suspect in the Riau-1 corruption case, Rini offered Alex Sinaga to succeed Sofyan, but Alex turned down the offer.

Rini then offered the position to a number of PLN directors as people inside PLN had wanted someone from PLN to lead the company. First, Rini offered the position to current PLN acting president director Djoko Rahardjo and then PLN West Java regional business director Haryanto W.S. However, according to our source, both refused Rini's offer. Since both of them declined the offer, Rini proposed Arviyan to President Jokowi.

Issue Update: OJK demands Ilham Habibie bring in more cash for Muamalat

OVERVIEW

The Financial Services Authority (OJK) has rejected for a third time a rights issue request by PT Bank Muamalat Indonesia. The OJK demanded new investor Ilham Habibie deposit more cash to reach the required minimum capital. Initially, Ilham planned to cover the difference in the form of debt that could later be exchanged for shares. The OJK rejected this scheme. (see **What we've heard**).

Bank Muamalat head of corporate affair Hayunaji said last week that the bank had submitted a request for the rights issue using the financial statements of the December 2018 books. However, the OJK had not approved the request, and the bank needed to renew its bid with a new financial report from the first six month of this year.¹⁹

During Muamalat's shareholders meeting on May 17, the shareholders agreed that the bank would issue new shares to raise Rp 2 trillion. The shareholders also approved that Ilham Habibie should become the new controlling shareholder through Al Falah Investments Pte. Ltd, following the rights issue.

¹⁹ Investor Daily, "Jajaki Rights Issue, Bank Muamalat Masih Lengkapi Dokumen," 19 July 2019 <https://tinyurl.com/yvrhxof5>

In addition to Al Falah, Financial service cooperative PT Koperasi Simpan Pinjam Jasa (Kospin Jasa) and Lynx Asia would also become new shareholders by absorbing unexercised rights in the rights issue. Al Falah reportedly deposited Rp 1.7 trillion in an escrow account on April 30. Kospin Jasa placed Rp 250 billion and Lynx Asia Rp 50 billion.

A series of bad financing agreements and declining profit have led to a cash shortage that has put the bank's operations in limbo (See Tenggara Backgrounder Oct. 5, 2018). As the existing shareholders were reluctant to bankroll the bank, they invited new investors. A number of investors have been deemed suitable for Muamalat, including tycoon Dato Tahir, agriculture company Mina Padi and now a consortium involving Ilham Habibie.

WHAT WE'VE HEARD

After Bank Muamalat's rights issue plan had been rejected by OJK for the third time, one source said, Muamalat president commissioner Ilham Habibie met with vice president-elect Ma'ruf Amin to discuss the matter. Ma'ruf, chief of Muamalat's syariah supervisory board, is one of the key people behind the bank's establishment in the early 1990s.

The source said Ma'ruf was deeply concerned about the problem that convoluted Muamalat, and he brought up this issue to President Joko "Jokowi" Widodo, who then convened a meeting early this month involving officials from the OJK, the Deposit Insurance Corporation (LPS) and the Finance Ministry. Bank Muamalat president director Achmad Kusna Permana was also invited to the meeting, but he stayed outside the room, as the OJK did not want to be confronted with Muamalat.

The meeting revealed that Muamalat needed a capital injection of up to Rp 8 trillion – not Rp 6 trillion as previously stated. Another source said Sri Mulyani did not want the government to bail out Muamalat.

In the meeting, President Jokowi asked the OJK to immediately complete the entry process for the investors who would inject capital to Muamalat. The OJK was given a deadline until August to decide Muamalat's status. The LPS was told to get ready if the OJK declared Muamalat a failed bank, as the LPS has to pay out depositors with funds of less than Rp 2 billion.

One week after the meeting, the OJK invited Muamalat's commissioners and directors. In that meeting, one of the OJK officials protested against Ilham's decision of bringing Muamalat's affairs to Ma'ruf Amin, to the extent that it was discussed by Jokowi in a special meeting. The OJK did not approve the rights issue proposed by Muamalat last month because the consortium of investors brought by Ilham only provided Rp 2 trillion in cash.

Al Falah has proposed to fill the gap in Muamalat's capital requirements by issuing bonds. These bonds would later be exchangeable for shares. Islamic Development Bank (IDB) president Bandar H. Hajjar was said to have sent a letter to the OJK, so that the scheme offered by Al-Fallah could be approved. The IDB has a 32.7 stake in Muamalat, but it did not want to pour in fresh money to save the bank.

It is the issuance of these bonds that was not approved by OJK. Several sources said OJK officials wanted the capital requirements to be met with cash. Investors brought in by Ilham did not want to pour in that much money.

After the deadline for the rights issue had passed, the OJK introduced a new potential investor to Ilham and other Muamalat commissioners. What surprised Muamalat commissioners was that there was a former Muamalat person among the brokers who brought in the new investor. Up until now, the fate of Muamalat is uncertain.

Global Macro: US intervenes in Japan-South Korea trade dispute

OVERVIEW

Japan has had enough with South Korea repeatedly reopening the chapter of Japanese atrocities during World War II. In October 2018, South Korea's Supreme Court ordered Nippon Steel & Sumitomo Metal to pay nearly US\$90,000 in compensation to each of four laborers who had been forced to work at the company's steel mill.²⁰ In November 2018, the same court ordered Mitsubishi Heavy Industries to pay \$71,500 in compensation to each of six male victims and \$85,000 – \$100,000 to each of four female victims.²¹ In response to the Supreme Court ruling, a district court in the southeastern city of Pohang froze Nippon Steel's more than 80,000 shares of POSCO-Nippon Steel RHF Joint Venture in January.²² (See Profile Box)

In response to these rulings, the Japanese government requested that the South Korean government establish an arbitration panel involving a third country as a mediator in accordance with the 1965 Treaty on the normalization of the Japanese-South Korean diplomatic relationship.²³ South Korea's refusal to solve this issue through an arbitration panel has angered Japanese Prime Minister Shinzo Abe. In retaliation, he imposed restrictions on the export of three chemical materials – fluorinated polyimide, photoresist and high-purity hydrogen fluoride (HF) – which are used in smartphone and chip production. Under these restrictions, Japanese exporters need to obtain export permits that take 90 days to process each time they want to ship these materials to South Korea.²⁴ Moreover, Abe might escalate the row by removing South Korea from its “white list” of trusted countries by the end of July.²⁵

²⁰ DW.com, “South Korea court orders Japan's Nippon Steel to compensate forced laborers.” 30 October 2018 <https://tinyurl.com/vyju7k>

²¹ Koreaherald.com, “Supreme court orders Mitsubishi to compensate Korean forced labor victims.” 29 November 2018 <https://tinyurl.com/y573tdam>

²² VOAnews.com, “S. Korean court seizes assets of Japanese company over forced labor.” 9 January 2019

²³ Koreaherald.com, “S. Korea says will prudently consider Japan's call for arbitration panel over forced labor.” 20 May 2019 <https://tinyurl.com/y43pg2bz>

²⁴ Reuters.com, “Japan to tighten export rules for high-tech materials to South Korea: media” 30 June 2019 <https://tinyurl.com/y3kolpxs>

²⁵ CNBC.com, “South Korea-Japan trade fight risks ‘further escalation’.” 17 July 2019 <https://tinyurl.com/yxms4dyl>

Japan's export restriction has caught South Korea off guard. South Korean smartphone and chip producers Samsung and SK Hynix are in panic as they reportedly have fewer than 90 days of supply of the chemicals.²⁶ Attempts to find alternative supply sources are likely to be futile, because Japan produces 90 percent of fluorinated polyimide and photoresist worldwide, and 70 percent of high-purity HF.²⁷

Abe's policy has angered the South Korean public, which launched a campaign to boycott Japanese goods.²⁸ Pressured by the public, South Korean politicians have urged President Moon Jae-in to scrap a bilateral General Security of Military Information Agreement (GSOMIA) with Japan, which would undermine trilateral defense cooperation between the United States, Japan and South Korea.²⁹ Upon learning about this development, US President Donald Trump dispatched his national security adviser John Bolton to South Korea and Japan to prevent South Korea from making a drastic move that could jeopardize the trilateral cooperation.³⁰ (See **What's More**)

WHAT'S MORE

At first, the US hesitated to intervene in the Japanese-South Korean trade dispute,³¹ even in the face of a global supply chain disruption that could hurt major US tech companies like Apple³². However, South Korea's decision to review the GSOMIA agreement with Japan has alarmed the US. If the dispute is not resolved, it could jeopardize the US' Indo-Pacific strategy to contain China.³³

The Indo-Pacific strategy is also important for Japan. Following a statement from President Moon's national security adviser Chung Eui-yong to review the GSOMIA, Japan's Defense Minister Takeshi Iwaya said Japan had no plan to end the agreement.³⁴ Based on Iwaya's statement, it is likely that Prime Minister Abe will make compromise on his export restriction policy on national security grounds – ironically, the export restriction was itself based on 'national security' grounds.

²⁶ Asiatimes.com, "As trade war counts down, Seoul offers olive branch to Tokyo." 17 July 2019

<https://tinyurl.com/yxhk5lag>

²⁷ Reuters.com, "Supply-chain pain: South Korea chipmakers and their suppliers seek to bypass Tokyo curbs." 8 July 2019 <https://tinyurl.com/y54b4zrk>

²⁸ TheGuardian.com, "South Korean petrol stations refuse to fill up Japanese cars amid growing boycott." 24 July 2019 <https://tinyurl.com/yxexzlqa>

²⁹ Koreajoongandaily.joins.com, "Intelligence pact with Tokyo is at risk, says Seoul." 20 July 2019 <https://tinyurl.com/y3x6tf22>

³⁰ UPI.com, "John Bolton arrives in South Korea, stresses Indo-Pacific security." 23 July 2019 <https://tinyurl.com/y3efkxgl>

³¹ Reuters.com, "US diplomat says United States won't intervene in Japan-South Korea dispute." 12 July 2019 <https://tinyurl.com/yxe7dp5p>

³² CNBC.com, "The Japan-South Korea dispute could push up the price of your next smartphone." 22 July 2019 <https://tinyurl.com/y2tb654x>

³³ Dailysignal.com, "Why South Korea is key to America's Indo-Pacific strategy." 22 July 2019 <https://tinyurl.com/y27l5uz6>

³⁴ Donga.com, "'Ending GSOMIA is not an option,' Japanese Defense Minister says." 24 July 2019 <https://tinyurl.com/y4hk2b7s>

Nevertheless, the compromise will not solve the source of the problem, South Korea's animosity toward Japan due to historical scars dating back to World War II. The 1965 Treaty addressed government-to-government relations, but it does not solve the animosity that lingers deep in South Korean society. A more sympathetic solution is needed, and it is up to the two countries to manage this issue appropriately.

For Indonesia, the question is whether this trade dispute could hamper the government's plan to turn the country into a production hub for the global electronics industry. Taking advantage of the US-China trade war, Indonesia has secured \$40 million in investment in a factory from Taiwan's Pegatron Corporation in the Batamindo Industrial Park in Batam, Riau Islands.³⁵ But that Japan-South Korea trade dispute might hinder this progress. The most likely scenario is that global electronic manufacturers would put their investment plans on hold as they 'wait and see' whether a compromise will be reached on Japan's export restriction to South Korea.

Profile of Nippon Steel and POSCO's Joint Venture

Name

POSCO-NIPPON STEEL RHF
Joint Venture, Co., Ltd.

Year of Establishment

January 2008

Capital

Approximately 5 billion
Japanese yen (US\$46 million)

Total Investment

Approximately 16 billion
Japanese yen (US\$148 million)

Shareholding

POSCO 70%, Nippon Steel 30%

Products

Direct reduced iron (DRI)
supply and dry-dust recycling

Facilities

Two units of Nippon Steel type DRI
production and dry-dust recycling
equipment (Rotary Hearth Furnace:
"RHF") with a processing capacity of
200,000 tons each - one located at
Pohang city, North Gyeongsang prov-
ince, the other at Gwangyang city,
South Jeolla province

Source: Nippon Steel - POSCO Joint Venture Document

³⁵ TheJakartaPost.com, "Taiwan's Pegatron opens US\$40 million factory in Batam." 9 July 2019
<https://tinyurl.com/yxoncx8m>

Tenggara Strategics is a business and investment research and advisory institute established by the Centre for Strategic 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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