

HIGHLIGHTS OF THE WEEK

POLITICS

Legal battle continues, without a fight

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PDIP-P desperately seeks Megawati's successor

The winner of the 2019 legislative election, the Indonesian Democratic Party of Struggle (PDI-P), has decided to move its congress forward to August from April 2020.

The party claims the earlier schedule will enable it to consolidate its strategic agenda with that of the government¹, but one popular hypothesis of the motive behind the decision is the urgent need for its own regeneration. Megawati Soekarnoputri, the party's paramount leader, looks certain to lead the party for another five years but has to find the right person to succeed her.

Repatriating former IS combatants, who's responsible?

Following the declaration of the Kurdish-led forces' victory over the Islamic State (IS) group last May, thousands of jihadists and their families have been living out of the Al-Hol camp in northern Syria, exceeding the facility's capacity of 10,000 people. Their way home, however, is not easy as they must go through several steps of screening by government institutions dealing with security, counterterrorism, immigration and foreign affairs.

BUSINESS & ECONOMY

Trump's trade war spreads to other Asian countries

When people discuss United States President Donald Trump's trade war, they tend to think about the renegotiation of the North America Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico, or the escalating trade dispute with China. However, it is not widely known that Trump's trade war has spread to other Asian countries, such as Cambodia, India and maybe Indonesia.

BI prioritizes macro stability over short-term growth

On June 20, Bank Indonesia (BI) announced to keep its seven-day reverse repo rate (BI 7-DRR) at 6 percent, defying demand from the business community, the Financial Services Authority (OJK) and Finance Minister Sri Mulyani Indrawati to stimulate short-term growth through a rate cut.

Pertamina, Aramco have three months to solve dispute

After being suspended following a valuation issue, a US\$6 billion refinery project to be developed by state-owned oil and gas company Pertamina and Saudi Arabian energy producer Saudi Aramco in Cilacap, Central Java, may continue soon. This agreement is expected to resolve a valuation dispute between the two parties over the next three months, until the end of September 2019.

Masela sees lights at end of the tunnel

After being delayed for 20 years since its discovery, Masela block in Maluku is seeing the light at the end of the tunnel after Upstream Oil and Gas Special Regulatory Task Force (SKK Migas) chairman Dwi Soetjipto and INPEX Indonesia president director Shunichiro Sugaya signed earlier this week a head of agreement (HoA) on the development of the Abadi field in the block.

POLITICS

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OVERVIEW

In their last-ditch effort to change the result of the 2019 presidential election, losing presidential candidate Prabowo Subianto and running mate Sandiaga Uno are seeking every avenue to convince the Constitutional Court that electoral fraud in a “structured, systematic and massive” manner did happen and cost them the victory. They claim that the fraud inflated votes for Joko “Jokowi” Widodo-Ma’ruf Amin by approximately 22 million,¹ which otherwise should have given them about 52 percent of the vote.

Testimonies and the evidence they presented, particularly during a hearing on June 17, however, were insufficient to support their allegations.

The first witness called to take the stand, Prabowo-Sandiaga national campaign team IT director Agus Maksum, was grilled by justices over his statements about fictitious voters on the voter list (DPT).² At the end, Agus conceded that he actually “did not know” whether the bogus voters really existed or not or whether they really cast their ballots.³

Another witness, Beti Kristiana, from Boyolali, Central Java, claimed to have found a scattered pile of signed envelopes allegedly containing original C1 vote tally forms a day after voting day.⁴ Beti, however, failed to prove that the documents she found were indeed C1 vote tally forms, saying that she thought so only because “the papers were large and wide”.⁵

While without a doubt the number of documents submitted by Prabowo’s team as evidence of electoral fraud was enormous (reportedly at least three trucks), the substance of the evidence was unconvincing. In fact, the team had to withdraw about 30 containers of documents as they could not be verified as evidence.

The Prabowo legal team’s failure to present damning evidence and witnesses will potentially jeopardize not only Prabowo’s chance of winning the court battle, but also his credentials. The lack of strong evidence has led many to suspect the court hearing only serves as an emotional outlet for him or a mechanism to save his face.

WHAT’S MORE

Weak evidence has plagued Prabowo’s team throughout the election dispute. Initially, the Prabowo camp submitted links to articles published by online media outlets as evidence, turning it into a laughing stock. Prabowo relied on the online news media after he repeatedly condemned the mainstream media for spreading lies and favoring the incumbent.

¹ TheJakartaPost.com, “Prabowo to present ‘unexpected’ witnesses in court”, 17 June 2019 <https://tinyurl.com/yx9vjm7h>

² Kompas.com, “Hakim Palguna: Anda Bilang Tidak Ada di Dunia Nyata, Sekarang Bilang Enggak Tahu”, 19 June 2019 <https://tinyurl.com/y6oehhcf>

³ Tempo.co, “Hakim Tegur Saksi Tim Prabowo karena Gunakan Diksi Tak Netral”, 19 June 2019 <https://tinyurl.com/yxw5uaj9>

⁴ TheJakartaPost.com, “Court grills witnesses”, 20 June 2019 <https://tinyurl.com/y5p6s63x>

⁵ Ibid.

The team of lawyers representing Prabowo also quoted foreign experts, such as Tim Lindsey and Tom Power from Australia, in their lawsuit to support their claim. According to Prabowo's team of attorneys, both Lindsey and Power indicate in their writings the rebirth of the New Order authoritarian regime in Indonesia under Jokowi.

The foreign scholars, however, objected to the lawyers' use of their academic pieces without their consent. Lindsey, for one, claimed he never called Jokowi authoritarian or said the 2019 presidential election was tinged with fraud. He wrote the essay in 2017. Meanwhile, Power said his writing had been interpreted out of its context by Prabowo's team.⁶

Indeed, Prabowo's attorneys are facing an uphill challenge to prove structured, systematic and massive electoral fraud had occurred in the election. They need not only valid, but also impactful evidence. Elections Supervisory Agency (Bawaslu) commissioner Fritz Edward Siregar said the evidence presented should show that the electoral fraud occurred in at least 50 percent of provinces in the country in order to represent its structured, systematic and massive nature.⁷

There is one possible redeeming feature for Prabowo's team, however, to explain the absence of reliable witnesses and evidence, which is the court's refusal to grant protection to their witnesses. Throughout the trial, Bambang Widjojanto, head of Prabowo's legal team, repeatedly expressed his concern over the safety of his witnesses.⁸ According to Bambang, one of the witnesses, Agus Maksum, had received death threats when he questioned the validity of the voter list before voting day. The court, regardless, rejected the request, saying that the request lacked legal foundation. This might provide ample justification for the Prabowo team's failure to bring forward strong witnesses.

WHAT WE'VE HEARD

The witnesses presented by the Prabowo Subianto-Sandiaga Uno legal team in the ongoing legal dispute over the result of the 2019 presidential election are deemed unconvincing enough for the court's panel of nine justices. An internal source from the Prabowo camp believes the court will be unable to accommodate Prabowo's challenge.

According to the source, the main problem lies in Prabowo and his team, who were too slow in deciding whether to challenge the election result at the Constitutional Court. Only after May 22, they agreed to file a lawsuit. All documents and witnesses, thus, were prepared in a short time. "[The preparation time] was cut short by Idul Fitri. Everything was not well-prepared," said the source.

A portion of the vote tally documents (C1) were available as of May 22. But they were scattered, many of them were in the hands of the Prosperous Justice Party (PKS). The collection of the evidence was only able to start after Idul Fitri. "Not all of them [the documents] were collected," said the source.

⁶ CNBCIndonesia.com, "Pakar Asing Ramai-ramai Protes Prabowo, Ada Apa?", 15 June 2019 <https://tinyurl.com/yyzu4yg3>

⁷ Kumparan.com, "Bawaslu Jelaskan Laporan Kecurangan TSM yang Bisa Diproses", 20 May 2019 <https://tinyurl.com/y48qj3ev>

⁸ Koran.tempo.co, "Kubu Prabowo Terus Mengklaim Saksi Terancam", 20 June 2019 <https://tinyurl.com/y3xb4dzo>

Furthermore, the line-up of the team of attorneys kept changing. The decision to appoint Bambang Widjojanto as the head of the legal team was made on May 21.

“Due to the poor preparations, we looked for other loopholes, and we found one about Ma’ruf Amin,” the source said. When registering for the presidential race, Ma’ruf held a post in a subsidiary of a state-owned enterprise, which Prabowo lawyers say is against the Election Law.

The Prabowo camp is aware that the case of Ma’ruf cannot be settled at the Constitutional Court, but the Elections Supervisory Agency (Bawaslu). Nonetheless, Prabowo demanded that the court solve the matter because the court is the highest institution to hear election disputes.

PDI-P desperately seeks Megawati’s successor

OVERVIEW

The winner of the 2019 legislative election, the Indonesian Democratic Party of Struggle (PDI-P), has decided to move its congress forward to August from April 2020. The party claims the earlier schedule will enable it to consolidate its strategic agenda with that of the government⁹, but one popular hypothesis of the motive behind the decision is the urgent need for its own regeneration. Megawati Soekarnoputri, the party’s paramount leader, looks certain to lead the party for another five years but has to find the right person to succeed her.

The upcoming congress, therefore, will provide a platform for the future succession. Megawati will reportedly appoint a chief executive who will deal with the day-to-day operations of the party. Such an appointment may shed light on who Megawati will pass the torch to.

Speculation has been rife about Megawati’s crown prince or princess. President Joko “Jokowi” Widodo meets the requirements for the job, but he is unlikely to take the post as it will spark constitutional disorder: the President would have to answer to a political party chief. Likewise, allowing Jokowi to share the limelight with her might not be on Megawati’s agenda.

Who, then, might win Megawati’s blessing? Considering the immortal presence of Sukarno, Indonesia’s first president and Megawati’s father, in the PDI-P, it is likely that its future leader will come from Sukarno’s familial line. In this case, Puan Maharani, Megawati’s daughter and the coordinating human development and culture minister, might make a strong candidate. Widely touted as the speaker of the House of Representatives in the next period and a presidential candidate in 2024, Puan is deemed fit for the chief executive job.

Another possible choice is Prananda Prabowo, Megawati’s son and Puan’s half-brother. As PDI-P’s creative economy director, Prananda’s political weight is yet to be as significant as Puan’s. Appointing Prananda as the party’s executive, however, might be Megawati’s strategy to groom not only one, but two “confidantes” in the party’s structure. Having *both* of her children in key positions, moreover, will cement the grip of the

⁹ Detiknews, “PDI-P Ungkap alas an kongres dipercepat,” 14 June 2019, <https://tinyurl.com/y3nw9m97>

Sukarno clan not only on the party but also on domestic politics in general. After all, you should not put all your eggs in one basket.

WHAT'S MORE

Having led the PDI-P since 1999, Megawati's influence in the party is profound. While ideally regeneration is a must to ensure the party's survival and commitment to democracy, having one symbolic figure that leads the party in the long run can benefit the party in a significant way: gluing the mixed bag of members in the party.

Assuming that the chief executive assumes the party's leadership once Megawati retires, the candidates, thus, must be capable of consolidating the party's rank-and-file and solving its ups-and-downs. This will be difficult, considering that the party is allegedly split between hardline nationalists loyal to the Sukarno clan and those outside the clan, or the independents. Each faction has its own bargaining chip for Megawati to consider in appointing her successor.

At first glance, appointing an offspring of Sukarno as Megawati's successor may be the most attractive option. The great name of Sukarno is the best brand for the party, as evident in its successive election victories in 2014 and 2019.

In this regard, Puan and Prananda are serious contenders for the party's leadership. Other than Puan and Prananda, there is Puti Guntur Soekarno, daughter of Sukarno's eldest son Guntur Soekarnoputra and niece of Megawati. Naturally, Megawati will prefer her own children than her niece.

Regardless, it does not mean that Puan and Prananda are without flaws. Puan's performance as minister, for one, has been frequently criticized, such as her slowness in mitigating the severe impact of the earthquakes in Palu and Donggala last year. Likewise, the public has rarely heard about Prananda's contribution to the party's rise or his role in the party's internal dynamics.

To make matters worse, the internal squabbling has reportedly shaken the clan itself. A rupture among Sukarno's children is indeed alive and kicking due to their opposing political views. Megawati, for instance, reportedly has a difficult relationship with her sister Rachmawati Soekarnoputri, who is a member of the opposition Gerindra Party and a supporter of Jokowi's archrival Prabowo Subianto. Meanwhile, Sukmawati Soekarnoputri, the younger sister of Megawati and Rachmawati, established the now disbanded Indonesian Marhaenism Nationalist Party (PNI Marhaenisme).

Puan's and Prananda's alleged inaptitude, coupled with Megawati's estranged relationship with her siblings, may create an opportunity for members outside the Sukarno clan to seize the party's leadership. Indeed, having an independent leader could allow the party to breathe easier, especially if he or she is proven to be an achiever.

A number of figures who suit this criteria include State Intelligence Agency (BIN) chief Budi Gunawan, Central Java Governor Ganjar Pranowo and, of course, President Jokowi himself. Not only do they have formidable track records, their rise to the party's top posts mark a start to its embracing of fully fledged democracy.

There is no guarantee, nonetheless, that Budi or Ganjar can consolidate the Sukarno loyalists and expand public support at the grassroots. Meanwhile, Jokowi's strong political clout may alarm Megawati, particularly considering his readiness to negotiate with opposition parties after winning reelection.

WHAT WE'VE HEARD

The Indonesian Democratic Party of Struggle (PDI-P) held a national meeting on June 19-20 as a prelude to its national congress slated for August in Bali. The national working meeting was actually a private gathering orchestrated by Prananda Prabowo and his team to design the nature and the agenda of the upcoming congress.

There are two agendas to pursue. First is to consolidate voters to maintain Megawati as the party's chairwoman and second is to formulate strategies for the PDI-P to win the 2024 legislative election without Jokowi.

The national congress has been moved forward by eight months from its initial date so that the PDI-P will be ready, including to bargain for seats in Jokowi's Cabinet. It is anticipated that Jokowi's Cabinet will be large because it must accommodate multiple parties and non-parties that contributed to Jokowi's reelection.

After winning in 1999, but losing to the Golkar Party in 2004, and to the Democratic Party in 2009, the PDI-P has learned that the defeats were a result of the elite's failure to groom "warriors" at the grassroots level. For the PDI-P to rise again in 2024, it should not rely on figures such as Jokowi, Basuki Tjahaja Purnama or Ganjar Pranowo, but on its collective power. "This is the role Nanang is playing this time around," a source from the PDI-P said, referring to Prananda.

Megawati has groomed Prananda since 2013. Prananda has quietly played a role in preparing Megawati's speeches, including the choices of quotes and phrases uttered by founding president Sukarno to revive the memories of the party's members, "We won collectively, not just because of a figure, an important figure, or even the offspring of Sukarno. But [because of] our effort together, gotong-royong (mutual cooperation), which is what we are known for," the source said.

During the national congress, Prananda, according to some sources, will be appointed the executive chairman. This post, as well as deputy chairman, is considered taboo in the PDI-P. "We always obey Mega, there is no way we would stray," he said.

The executive chairman post, according to multiple sources, will allow Prananda to focus on internal party duties and strengthening party consolidation. During the 2019 elections, Prananda was considered successful in conducting his duties. The new post will provide Prananda a stepping stone to the party's highest post.

Repatriating former IS combatants, who's responsible?

OVERVIEW

Following the declaration of the Kurdish-led forces' victory over the Islamic State (IS) group last May, thousands of jihadists and their families have been living out of the Al-Hol camp in northern Syria, exceeding the facility's capacity of 10,000 people. Due to overcapacity, issues such as health, hunger and well-being have started to arise. The Kurds has asked countries to repatriate the tens of thousands of former IS sympathizers. Likewise, the so-called "stateless" people, 600 of whom are reportedly from Indonesia, are begging to return to their respective homeland.¹⁰

Their way home, however, is not easy as they must go through several steps of screening by government institutions dealing with security, counterterrorism, immigration and foreign affairs.

According to the 2018 Terrorism Law, the National Counterterrorism Agency (BNPT) is the institution responsible for counterterrorism measures, with support from the Indonesian Military (TNI) and supervision by the House of Representatives. The Law and Human Rights Ministry's Immigration Directorate General is responsible for the repatriation process, with assistance from the Foreign Ministry as the state agency that communicates with foreign governments.

Regardless, the repatriation of former IS sympathizers is predominantly in the BNPT's hands, as stipulated by the Terrorism Law. Other agencies, in practice, mostly remain silent in terms of terrorism. The role of the Foreign Ministry in counterterrorism is limited to administrative matters, such as recording Indonesian citizens traveling to countries susceptible to radicalism and terrorism. In this regard, the ministry has admitted to having no comprehensive data of Indonesians joining the IS group as many of them left the country without proper documents.

Consequently, the BNPT handles most parts of the repatriation of Indonesians who fought for the IS group. Resting the bulk of the country's counterterrorism efforts on the shoulder of only one agency may result in a less inclusive and one-dimensional approach in addressing terrorism. Without involvement of humanitarian agencies in counterterrorism efforts, the country will resort to a hard approach in addressing radicalism and terrorism, which may be counterproductive.

WHAT'S MORE

While the government remains undecided on what to do with the ex-IS jihadists and their families, the absence of state actors responsible for their return is questioned. Given that most of them are women and children, the roles of the National Commission for Child Protection (Komnas PA) and the National Commission on Violence Against Women (Komnas Perempuan), should play a significant role. However, their contribution is yet to be found. The narrative around repatriation of former IS sympathizers, thus, has always focused mainly on the role of BNPT.

¹⁰ Tirto.id, "VIDEO: Anggota ISIS asal Bandung, 'Saya Ingin Pulang ke Indonesia'" 27 March 2019 <https://tinyurl.com/y34ms7lk>

Although women are just as vulnerable to radicalism as men and required to undergo deradicalization,¹¹ some of them merely went to Syria on their husband's orders or were victims of fraud. Therefore, they still need to undergo rehabilitation, if not deradicalization, to let go of their trauma and any influence from their connection with the terrorist network. Still, the possibility of them infiltrating radical ideologies inside the country is inevitable.

Regardless, the deradicalization process itself should be carefully formulated by not only the BNPT, but also other related agencies to ensure a more comprehensive approach. While the BNPT claimed that approximately 60 percent of the agency's deradicalization efforts had succeeded,¹² many argued that the BNPT's approach is aimless and superficial, focusing only on the radical behavior of the former terrorists without looking at the radical ideology embedded within them.¹³ As stated by Institute for Policy Analysis of Conflict director Sidney Jones, there is chance that the BNPT's deradicalization programs will be ineffective, especially considering the absence of a program specific for deportees, including female deportees.¹⁴

¹¹ Thejakartapost.com, "Govt buys time to act on IS returnees" 5 April 2019
<https://tinyurl.com/yyftmsll>

¹² Kompas.com, "BNPT: Deradikalisasi Berhasil 60 Persen" 6 September 2016 <https://tinyurl.com/y5jpdveu>

¹³ Liputan6.com, "Ini Kelemahan Program Deradikalisasi BNPT Menurut Eks Napi Terorisme" 19 May 2018
<https://tinyurl.com/y6az97he>

¹⁴ Tirto.id, "Mengantisipasi Kebengisan Simpatisan ISIS di Indonesia" 30 May 2018
<https://tinyurl.com/y5e5g54o>

BUSINESS & ECONOMIC POLICY

Global Macro: Trump's trade war spreads to other Asian countries

OVERVIEW

When people discuss United States President Donald Trump's trade war, they tend to think about the renegotiation of the North America Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico, or the escalating trade dispute with China. However, it is not widely known that Trump's trade war has spread to other Asian countries, such as Cambodia, India and maybe Indonesia.

Concerned with democratic backsliding in Cambodia that would bring the country closer toward China's orbit, two US senators, Ted Cruz and Chris Coons, introduced the Cambodian Trade Act of 2019 to review Cambodia's eligibility to access the General System of Preferences (GSP) on the basis of human rights. To increase pressure, the Trump administration nominated W Patrick Murphy, a veteran US diplomat known for his democracy-promoting advocacy, to be US Ambassador for Cambodia.¹⁵ Combined with the European Union's decision to review Cambodia's eligibility to access its Everything But Arms (EBA) trade preferential scheme on human rights issues, it is likely that the US' effort will be successful in preventing Cambodia from further democratic backsliding.¹⁶

Trump's trade war has also reached India, which signed a military cooperation agreement to align its military communication systems with the US military's in 2018¹⁷. Unlike the case of Cambodia, Trump's trade war in India is motivated by India's economic policy rather than politics. According to official report from the Office of the United States Trade Representative, the source of concern is Prime Minister Narendra Modi's "Make in India" policy, which loosens barriers for foreign investment while raising duties and various non-tariff barriers to impede imports from the US.¹⁸

To change Modi's policy course, Trump terminated India's trade preferential status in the GSP in May.¹⁹ At first, India decided to hold back any retaliatory actions and tried to solve this issue through diplomacy. Unable to do so, India retaliated by imposing tariffs as high as 70 percent on 28 US products effective from June 16.²⁰ In response, the US threatened to cap India's H-1B visas, which is necessary for Indian IT engineers to work in the US.²¹

¹⁵ Asiatimes.com, "Tough new face of US diplomacy in Cambodia." 15 June 2019 <https://tinyurl.com/y2logwxa>

¹⁶ TheDiplomat.com, "Uncertainty and pressure: Cambodia under the weight of sanctions." 5 March 2019 <https://tinyurl.com/y2srz27l>

¹⁷ Independent.co.uk, "US and India sign 'breakthrough' military agreement despite differences over Iran and Russia." 6 September 2018 <https://tinyurl.com/yxm9h8wh>

¹⁸ USTR.gov, "2019 National Trade Estimate Report on Foreign Trade Barriers." 19 March 2019 <https://tinyurl.com/yvvo7gus>

¹⁹ TheHindu.com, "US President Donald Trump terminates preferential trade status for India under GSP." 1 June 2019 <https://tinyurl.com/y2orsl6t>

²⁰ BBC.com, "India announces retaliatory trade tariffs against the US." 15 June 2019 <https://tinyurl.com/y2kpfuxd>

²¹ Reuters.com, "Exclusive: U.S. tells India it is mulling caps on H-1B visas to deter data rules – sources." 20 June 2019 <https://tinyurl.com/y6c7szhh>

WHAT'S MORE

Indonesia's GSP status is still under negotiation. Nevertheless, the pessimism sounded by Indonesian Employer Association (Apindo) deputy chairwoman Shinta Widjaja Kamdani suggests that Indonesia is under serious risk of losing its GSP status.²² The secrecy surrounding a meeting between Trade Minister Enggartiasto Lukita and US Trade Representative Robert Lightizer has raised suspicions regarding the progress of Indonesia's GSP renewal negotiation.

According to the 2019 USTR report, Indonesia applies a tariff rate averaging 8.1 percent, which is significantly lower than India's 13.8 percent. Nevertheless, Indonesia's simple average WTO bound tariff rate of 37.1 percent has put the country's trade policy into question. The report found that tariff rates exceeding 35.6 percent include iron, steel, automobile, chemical and more than 1,300 agricultural products.

Indonesia's overlapping import licensing requirement as regulated in Trade Ministerial Regulation No. 70/2015 is a major source of concern for the US. A restrictive import permit regulation that requires importers to hold either an import permit for distribution (API-U) or for own manufacturing (API-P) is seen as a serious impediment for trade.

Although Indonesia's weak intellectual property rights protection has become a source of attention in the report, the US is more concerned with piecemeal reform rather than major regulatory revision as it requires a revision on the prevailing law through the House of Representatives (DPR).

A Bank Indonesia regulation that prevents wholly foreign-owned switching companies from supplying switching services for domestic transactions in the National Payment Gateway receives special attention. In fact, the US has been lobbying BI to relax this requirement since 2018. However, BI decided to stand firm on its policy stance, in which foreign switching companies must cooperate with an Indonesian switching company.²³

Regarding investment barriers, the US is concerned with Indonesia U-turn on a nationalistic investment policy in the oil and gas sector that hinders foreign firms from operating in the country. Presidential Regulation No. 35/2004 requires foreign firms to use 91 percent local content by 2025, up from 61 percent in 2012. This has put foreign firms at major disadvantage compared to majority Indonesian-owned companies, which usually lack technical requirements to conduct exploration as well as extraction activities.

Energy and Mineral Resources Ministerial Regulation No. 42/2018, which obliges all oil and gas contractors to sell their production to Pertamina at a heavily discounted rate in an attempt to reduce Pertamina's crude oil imports, creates a significant financial burden. This regulation is simply a subsidy for Pertamina from oil and gas contractors, which comes on top of the production sharing (gross split) contract.

²² Kontan.co.id, "Apindo prediksi AS bias saja menghapus fasilitas GSP untuk Indonesia." 17 June 2019 <https://tinyurl.com/y6b6bhvn>

²³ Kompas.com, "BI minta perusahaan pembayaran asing ikuti aturan Indonesia." 14 September 2018 <https://tinyurl.com/y6m724q6>

Indonesia Macro Update: BI prioritizes macro stability over short-term growth

OVERVIEW

On June 20, Bank Indonesia (BI) announced to keep its seven-day reverse repo rate (BI 7-DRR) at 6 percent, defying demand from the business community, the Financial Services Authority (OJK) and Finance Minister Sri Mulyani Indrawati to stimulate short-term growth through a rate cut. Rather than ceding to their demand, BI decided to prioritize the country's trade account and current account deficits.²⁴

The United States Federal Reserve announced at midnight western Indonesia time its decision to keep the Fed rate within the range of 2.25 to 2.5 percent. In a statement, however, the Fed said it was open to the possibility to cut its rate in the future, citing growing global economic uncertainties as the main reason. Nevertheless, a Fed rate cut is conditional on the Fed's economic projection.²⁵

WHAT'S MORE

BI 7-DRR rate cut is also conditional on two things. One is the Fed's future policy direction. Another is the state of Indonesia's trade account and current account deficits. There is a strong disagreement on Wall Street between traders and economists, with the former believing a rate cut is imminent, while the latter sees the possibility of rate cut with skepticism.

In April, Indonesia recorded a US\$2.5 billion trade deficit owing to a sudden increase in oil and gas imports and weaker non-oil and gas export. A sudden, large monthly trade deficit is worrisome, but it does not mean Indonesia would suffer from a subsequent trade deficit in the coming months. Hence, it is necessary to wait for May trade data, which will be released by early next week, to assess the state of Indonesia's macroeconomic stability.

Pertamina, Aramco have three months to solve valuation dispute

OVERVIEW

After being suspended following a valuation issue, a US\$6 billion refinery project to be developed by state-owned oil and gas company Pertamina and Saudi Arabian energy producer Saudi Aramco in Cilacap, Central Java, may continue soon. This agreement is expected to resolve a valuation dispute between the two parties over the next three months, until the end of September 2019²⁶.

State-Owned Enterprises Minister Rini Soemarno, Energy and Mineral Resources Minister Ignasius Jonan and several other executives from both ministries met with Saudi

²⁴ CNBCIndonesia.com, "Neraca pembayaran jadi pertimbangan BI tahan suku bunga." 20 June 2019

<https://tinyurl.com/yy2clwmf>

²⁵ CNBC.com, "Here's what changed in the new Fed statement." 19 June 2019 <https://tinyurl.com/y5nmnhkr>

²⁶ Bisnis Indonesia, "Aramco Berlanjut di Cilacap," 18 Juni 2019, p.1 <https://tinyurl.com/yxr6h3tn>

Arabian Energy, Industry and Mineral Resources Minister Khalid A. Al Falid, who previously worked as Aramco's CEO, during the G20 meeting in Japan this week.

Both sides agreed that Pertamina and Aramco would each appoint financial advisers to re-evaluate the refinery project. The two financial advisers will then appoint an independent financial adviser that will provide a neutral comparison assessment for the two valuations from the advisers appointed by Pertamina and Aramco.

To assist the negotiations, the Indonesian government will form a joint team from the SOE Ministry, energy ministry, Finance Ministry and Pertamina. In carrying out its duties, the team will be accompanied by the Development Finance Comptroller (BPKP) and the deputy attorney general for civil and state administrative court affairs (Jamdatun) to ensure that all processes follow good corporate governance practices and related regulations²⁷.

Pertamina has six refinery projects, including the Cilacap refinery. When all the projects go onstream, they are expected to double Pertamina's fuel production to approximately 2 million barrels per day (bpd) from around 1 million barrels bpd. In addition to increasing refinery capacity, the new refineries will also improve fuel quality, reaching the EURO V standard that is more environmentally friendly.

WHAT WE'VE HEARD

President Joko "Jokowi" Widodo visited Saudi Arabia's King Salman bin Abdulaziz Al-Saud at his private palace last April, just a few days before election day. President Jokowi reportedly asked the king to nudge Aramco to move forward with the Cilacap refinery development plan. King Salman did not respond to the president's request.

According to a source inside the oil and gas industry, Aramco plans to divert its refinery investment from Cilacap to China and India. This idea came from crown prince Muhammad bin Salman Al-Saud.

Pertamina and Aramco signed a joint venture development agreement (JVDA) in December 2016 to build the Cilacap refinery, with 55 percent shares going to Pertamina while the rest to Saudi Aramco. The project, however, hit a standstill following a dispute over the valuation of the refinery: Pertamina priced the old-refinery twice the price valued by Aramco.

This price difference happened because Pertamina insisted that the valuation of refinery assets must use current asset values, while Aramco insisted that valuations must use the asset value of 2016, considering that Cilacap refinery is an old refinery.

Amid the dispute, Pertamina had tried to find another source of funding. However, a Pertamina executive revealed that finding an alternative source of funding was not an easy feat and Pertamina failed to find one.

²⁷ ESDM Ministry, "Bertemu Arab Saudi, Pemerintah Pastikan Kerja Sama Pertamina-Saudi Aramco Berlanjut", 18 Juni 2019, <https://tinyurl.com/y6su3lpo>

That's the reason why at the G20 energy ministerial meeting in Japan, the Indonesian government lobbied Saudi Arabia to continue the cooperation in developing the Cilacap refinery. Pertamina is finally willing to revisit its valuation by involving an independent financial adviser, appointed by both parties. This second stage of valuation is expected to conclude by the end of September.

Masela sees light at the end of the tunnel

OVERVIEW

After being delayed for 20 years since its discovery, Masela block in Maluku is seeing the light at the end of the tunnel after Upstream Oil and Gas Special Regulatory Task Force (SKK Migas) chairman Dwi Soetjipto and INPEX Indonesia president director Shunichiro Sugaya signed earlier this week a head of agreement (HoA) on the development of the Abadi field in the block.

Energy and Mineral Resources Minister Ignasius Jonan, Japanese Industry and Trade Minister Hiroshige Seko and Inpex Corporation president director Takayuki Ueda attended the signing ceremony in Karuizawa, Japan, on the sidelines of G20 energy ministers meeting.

Jonan explained that the HoA covered three main areas: 1) The Indonesian government and INPEX agree that the project – either onshore or offshore – shall produce 9.5 million tons of liquefied natural gas (LNG) per year and 150 million standard cubic feet per day of natural gas for onshore petrochemical industry; 2) The government will ensure INPEX receives an operating permit until 2055 and another seven-year permit as an extra incentive for developing the onshore processing facility, 3) The government share is set between 50 percent and 59 percent depending on the production capacity of the year.²⁸

Jonan noted that Inpex's investment will be the biggest since the Foreign Investment Law was enacted in 1967, reaching around US\$18 billion to 20 billion. Simultaneously, Masela's development is expected to add up to 10.5 million tons gas equivalent to Indonesia's oil and gas production capacity.

The development of Abadi field has been held up for several years after President Joko "Jokowi" Widodo abruptly decided to change the Masela project from an offshore to onshore project. The project's future became uncertain after Inpex and Shell, which together own the project, proposed a much higher development cost for onshore, more than US\$19 billion, as opposed to below \$16 billion for offshore. The government, via Energy and Mineral Resources Deputy Minister Archandra Tahar, demanded that Inpex and Shell bring down the cost to below \$16 billion.

According to our sources, the government accepted the investment cost proposed by Inpex and Shell after Minister Jonan himself took over the matter from his deputy. This led to the signing of the HoA.

²⁸ *Kompas*, "Masela Block welcomes new chapter," June 17, 2019. P.13

WHAT WE'VE HEARD

One source said the development plan for the block could have been sped up if Minister Jonan had been involved in the discussion after Inpex and Shell submitted the result of their pre-Front End Engineering Design (pre-FEED) study to SKK Migas in October 2018. Jonan saw the pre-FEED study report and considered the investment cost mentioned there as reasonable.

Nevertheless, Jonan delegated the task to his deputy Archandra Tahar to review the technical discussion concerning the plan of development (PoD) from Inpex and Shell. At this stage, progress at Masela was stuck, as Achandra demanded that Inpex and Shell bring down the investment cost from more than \$19 billion to below \$16 billion. Not only that, Achandra also involved his consultant friends from Houston, United States, to press Inpex and Shell.

At the end of March 2019, upon hearing reports about Achandra's move, President Jokowi asked Archandra not to continue his involvement in the block. Since then, SKK Migas chairman Dwi Soetjipto took over the discussion with the contractors. In May 2019, Jonan started to become more intensely involved in the discussion and initiated bringing the negotiations to Inpex headquarters in Tokyo, where they reached a basic agreement that served as the foundation of the HoA.

The basic agreement said the investment would range between \$18 billion and \$20 billion and the government was happy to get lower share from 60 percent to 50 percent. However, when investment cost turned out to be lower, the government's share would increase. After the signing of the HoA, Inpex and Shell will submit the revised PoD within two weeks. According to another source, Jonan has set a target for the PoD to be signed during the closing of the G20 Summit in Japan either on June 28 or 29, so that it could also be witnessed by President Jokowi.

The source said Jonan finally jumped into the negotiations as he wanted the resolution for the Masela project to be remembered as one of his achievements at the end of his career as the energy and mineral resources minister.

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 Prasetiya 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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