

Highlights of the week



Debate behind repatriating IS sympathizers emerges

With the fall of the Islamic State (IS) in Syria, countries around the world are sharing a dilemma: Should they repatriate their citizens who joined the terrorist group and thus ensuring their rights of protection while risking the spread of radicalism at home? Indonesia, which has dozens of its citizens stranded at Al-Hol refugee camp in East Syria, is one of the countries that must decide what to do with these people.



Prabowo's Islamism: A make or break card?

The massive campaign rally held by Prabowo Subianto, the lone challenger in the April 17 presidential race, at Gelora Bung Karno Stadium (GBK) in Jakarta on April 7, was most notable for its powerful Islamism message. This exclusivism agenda troubled not so much non-Muslim voters, most of whom support incumbent President Joko "Jokowi" Widodo, but it alarmed many of Prabowo's own supporters, not the least the Democratic Party, one of the four political parties in the coalition in his campaign. Turning to Islamism seemed like a desperate make or break strategy.



Is establishing Aviation holding SOE the solution?

The government mulls the establishment of aviation holding company after a series of controversies such as allegation of cartel in, airfare and cargo fee hikes, as well as the issuance of two regulations by the Transportation Ministry favoring higher airfare and cargo fee. By establishing an aviation holding company, the government plans to synergize air transportation infrastructure development planning with Garuda's business expansion, while helping the national air carrier to save operational expenses.



LinkAja!, QRIS to raise competition in Emoney market

The competition for server-based electronic money service will tighten following the introduction of LinkAja! e-money by three state banks and state-owned telecom company Telkomsel to challenge the domination of Go-Pay and OVO. In a related development, Bank Indonesia announced that it plans to standardize QR code for payment into Integrated QR Indonesia System (QRIS).

POLITICS

Repatriating IS sympathizers: Citizens or combatants?

With the fall of the Islamic State (IS) in Syria, countries around the world are sharing a dilemma: Should they repatriate their citizens who joined the terrorist group and thus ensuring their rights of protection while risking the spread of radicalism at home?

Indonesia, which has dozens of its citizens stranded at Al-Hol refugee camp in East Syria, is one of the countries that must decide what to do with these people.

Takeaways:

- According to the 2016 Citizenship Law, Indonesians who joined IS in Syria and Iraq cannot have their citizenship revoked. Therefore, the state is obliged to ensure their safe repatriation.
- The repatriation process, however, may take months as the majority of those who joined IS do not have official documents such as passports or ID cards.
- Once repatriated, IS sympathizers must be prosecuted and enrolled in a deradicalization program as stipulated by the law.
- The increasing role of IS' female members in radicalism and terror acts should be taken into account in the deradicalization efforts.
- In addressing radicalism and terrorism, a balance between a hard and soft approach matters.

Background: As United States-backed Syrian Democratic Forces (SDF) defeated IS in its last stronghold in Baghuz, Syria, thousands of IS sympathizers are now stranded in the war-torn country. Indonesia is among the countries that now have to ponder what to do with their citizens who fought for the IS. It is argued that repatriating them may facilitate the spread of radicalism at home. Some even insist that Indonesia has no obligation to repatriate them because they automatically gave up their citizenship when joining the IS.

The issue has taken a new twist following the news of Shamima Begum, a British citizen who joined IS while she was only 15 years old. She lost her young son to pneumonia after the United Kingdom revoked her citizenship.¹ Indeed, the health situation in the Al Hol camp, according to the World Health Organization (WHO), is "critical".² As of January 2019, at least 29 children and newborns have reportedly died while travelling to the camp or shortly after arrival.³

The humanitarian crisis in the refugee camp is not the sole justification for repatriation. While IS has been defeated by the SDF, the possibility of the terrorist group resorting to guerilla warfare – as it initially did after the group was first established – remains. And having desperate foreign sympathizers roaming around may provide IS the means to regroup. In short, returning IS sympathizers are "time bombs" that have to be defused as soon as possible.

¹ BBC.com, "Shamima Begum: IS Teenager's Baby Son Has Died, SDF Confirms", 8 March 2019 <https://tinyurl.com/yyc8fy57>.

² World Health Organization, "WHO Concerned Over Critical Health Situation in Al-Hol Camp, Al-Hasakeh", 31 January 2019 <http://tinyurl.com/y3ygs29m>.

³ Ibid.

Since Begum's plight made headlines worldwide, debates about the return of IS sympathizers have narrowed to the repatriation of IS widowers and children, who are perceived as especially vulnerable after IS' defeat. This, however, does not resolve the dilemma that Indonesia faces as recent terrorist attacks in the country were perpetrated by women and children. Radical views, therefore, may have been transferred to the vulnerable.

Insight: According to a report released in 2017 by Turkey's Ministry of Interior, the sheer number of Indonesians joining IS makes Indonesia the second-largest contributor of foreign militants to the terrorist group.⁴ Indeed, in 2017, the National Counterterrorism Agency (BNPT) estimated that at least 1,321 Indonesians had traveled to Syria and Iraq to fight with IS.⁵ This makes the matter of repatriation especially urgent for Indonesia, particularly considering the growing radicalism at home.

Indonesia has its own experience in repatriating IS sympathizers. In 2017, the National Police's counterterrorism squad Densus 88 worked with the Social Affairs Ministry in retrieving 52 out of 100 Indonesian citizens who were deported by Turkey for alleged involvement in IS.⁶ Of the 52 people, 27 were reportedly minors. Regardless, in previous cases, Indonesia managed to repatriate its citizens before they actually joined the IS.

Considering the urgency and complexity of repatriation, what are the options available to Indonesians stranded in Syria?

Some argue the government has no obligation to repatriate IS sympathizers as they automatically lost their citizenship once they joined IS. Indeed, a draft amendment of the Terrorism Law stipulates that the state might revoke an Indonesian of their citizenship if they joined foreign armed forces. The provision, however, may contradict Citizenship Law No. 12/2006, which says one's citizenship can only be revoked if he or she enlists in a foreign *state's* armed force. IS is a non-state entity. Therefore, joining its armed force may not provide a solid legal basis for the revocation of Indonesian IS sympathizers' citizenship.

The 2016 law also stipulates citizenship may be withdrawn from an Indonesian who pledges loyalty to a foreign state. Meanwhile, those who joined IS in Syria and Iraq did not necessarily shift allegiance. Instead, most of them joined the IS for religious rather than political reasons; that is, to champion Islamic values as propagated by IS. The 2016 law does not provide solid ground for the revocation of citizenship due to religious allegiance.

Legally speaking, therefore, the government may have no other option than to repatriate IS sympathizers. Proponents of repatriation insist that despite their illegal move to join IS, sympathizers' status as Indonesian citizens confers them the right to protection from the state.

In order to do this, the government must first check and validate the citizenship of IS sympathizers who claim to be Indonesian. The verification process may take months as the majority of those who joined IS do not have official documents, such as passports or ID cards. They traveled to Syria through illegal means. Consequently, the government must follow the

⁴ Detik.com, "Jumlah WNI ISIS Yang Ditangkap Di Turki Terbanyak Kedua Di Dunia!", 15 July 2017 <http://tinyurl.com/y33k8zbz>.

⁵ Taufiqurrohmah, M. (2015). The Road to ISIS: How Indonesian Jihadists Travel to Iraq and Syria. *Counter Terrorist Trends and Analyses*, 7(4).

⁶ CNNIndonesia.com, "Kemensos Koordinasikan Pulangkan 52 WNI Terduga ISIS", 31 January 2017 <http://tinyurl.com/y2jh1bq>

process manually, including crosschecking statements and information given by IS sympathizers with several parties, including their relatives at home.⁷

However, these repatriated IS sympathizers would face criminal investigations upon their return to Indonesia. According to the Terrorism Law, the returnees must undergo a deradicalization program, which consists of identification and evaluation, rehabilitation, reeducation and social reintegration. For terror convicts and individuals who have been radicalized, the program may include education on nationalism, religion and entrepreneurship.

While the government's deradicalization efforts deserve appreciation, some have called for its improvement. The Commission for Missing Persons and Victim of Violence (Kontras), for instance, said that some terror convicts continued to support and even commit hardline acts after they were released.⁸ Former terror convict Yudi Zulfachri said that one possible reason behind the ineffectiveness of the deradicalization program was its misplaced objective: Indonesia's deradicalization program focuses on changing the radical behavior instead of the radical ideology of terror convicts.⁹ Consequently, deradicalization program only covers the surface of the problem.

Another important consideration is the increasing role of women in intolerant, radical or even terror acts. A study conducted by Wahid Foundation and the Centre for Strategic and International Studies (CSIS) found that in 2016 alone, at least six women were arrested for their alleged involvement in terrorism. The phenomena, according to the study, might be due to the shift of IS' strategy, which now allows more space for its female members to maneuver.¹⁰ Unlike male combatants, the role of IS' female members generally centers on indoctrinating children with IS' values and creating a generation of young terrorists.¹¹ In discussing the repatriation of IS sympathizers from Indonesia, therefore, the growing role of women in radicalism and terrorism should be considered, especially given Indonesia's patriarchal mindset.

To boost the efficiency of deradicalization efforts, it is argued that the government should balance its prevailing hard approach (law enforcement) with a softer approach, which is more humane. Densus 88 has been widely criticized as trigger-happy after they reportedly arrested and killed dozens of terror suspects.¹² While such an approach cannot eliminate threats immediately, a softer approach is needed to deradicalize those who have been indoctrinated with hardline sentiments. On the contrary, a hard approach may instead harden their hostility toward the state.

⁷Matamatapolitik.com, "Pemerintah Cek Klaim Anggota ISIS dari Indonesia yang Minta Pulang", 31 March 2019 <http://tinyurl.com/yydqt66x>

⁸ Tirto.id, "KontraS Anggap Program Deradikalisasi Pemerintah Kurang Efektif" 19 May 2018 <http://tinyurl.com/yy9oyhxt>

⁹ Liputan6.com, "Ini Kelemahan Program Deradikalisasi BNPT Menurut Eks Napi Terorisme", 19 May 2018 <http://tinyurl.com/y6az97he>

¹⁰ Wahid Foundation & Center for Strategic and International Studies. 2017. "Intoleransi Dan Radikalisme Di Kalangan Perempuan". Jakarta: Wahid Foundation.

¹¹ Ibid.

¹² Okezone.com, "DPR Kritik Aksi Densus 88 Tembak Mati Terduga Teroris", 26 December 2016 <http://tinyurl.com/y2yfyakw>

Prabowo's Islamism: A make or break card?

The massive campaign rally held by Prabowo Subianto, the lone challenger in the April 17 presidential race, at Gelora Bung Karno Stadium (GBK) in Jakarta on April 7, was most notable for its powerful Islamism message. This exclusivism agenda troubled not so much non-Muslim voters, most of whom support incumbent President Joko “Jokowi” Widodo, but it alarmed many of Prabowo’s own supporters, not the least the Democratic Party, one of the four political parties in the coalition in his campaign. Turning to Islamism seemed like a desperate make or break strategy. It could win him additional Muslim votes needed to beat Jokowi, but at the same time it could alienate non-Muslims and Muslims who believe in inclusivism. To many voters, it also sent the signal of the kind of policies Prabowo will bring into his presidency if he wins.

Takeaways:

- Prabowo’s religiously-tinged campaign at GBK has alarmed many, including his own supporters, for its exclusivity and powerful Islamist message. Democratic Party patron and former president Susilo Bambang Yudhoyono is among those who expressed their concern over the potential polarizing effect of Prabowo’s campaign.
- Yudhoyono might have purposefully made his letter public to openly disassociate the Democratic Party from the Islamist agenda.
- Yudhoyono’s letter may indicate as well that the Democratic Party is bracing itself to switch sides to Jokowi’s camp after the election. Being on Jokowi’s side would provide Yudhoyono the means to build public profile of his son, Agus Harimurti, for the 2024 election.
- The Islamist agenda in Prabowo’s campaign was very likely influenced by Prabowo’s close association with Rizieq Shihab, the founding leader of the FPI and mastermind of the 212 Movement. His close ties with Rizieq, however, may be a double-edged sword as Prabowo may find difficulties to fend off his demands in the future.

Background: Most reputable opinion polls predict a victory for Jokowi, and with less than a week before election day, all but one survey gives the incumbent a double-digit lead. Prabowo needs a miracle to pull off a big upset. Last week’s rally in Jakarta, the last and the biggest in the nation’s capital, gave him an opportunity to project himself as the better alternative to the incumbent in leading the nation for the next five years. He squandered that chance by allowing the event to be hijacked by the Islamists in his camp. Polarizing the nation along religious lines is a dangerous game. Muslims, who make up about 88 percent of the population, have become increasingly divided in this election, between those who want to see an inclusive Indonesia as it is today, or an exclusive one where Islam and sharia take precedent over others.

Insight: The Islamist nature of the rally’s agenda was already clear from the start: People were asked to come as early as 3 a.m. to prepare for morning prayers at around 4:30 a.m., to be followed by *zikir*, or chanting praises to God. And there were sermons by religious leaders, including the live-streamed presence of Rizieq Shihab, the founding leader of the Islam Defenders Front (FPI), who is on the run in Saudi Arabia, to avoid prosecution over accusations of pornography.

This agenda has all the fingerprints of the 212 Movement, which Rizieq launched in 2016 to foil the reelection bid of incumbent Jakarta governor Basuki Tjahaja Purnama in 2017. The movement used Islamic themes as part of the campaign to oust the Christian of Chinese descent

governor. The movement was clearly visible again last Sunday morning with the same mission: To oust Jokowi.

In his speech, Rizieq was more circumspect in attacking Jokowi, who is a Muslim. In his speech, he appealed to people not to vote a leader who supports the now defunct Indonesian Communist Party (PKI), same-sex marriage and criminalizes clerics like him. Although he did not refer Jokowi by name, the FPI has been accusing Jokowi of supporting the now defunct PKI, while same-sex marriage is not even an issue discussed in Indonesia. And he claimed the pornographic charges against him were fabricated.

Prabowo and his team did not appear disturbed that his event had been seemingly hijacked by the 212 Movement. They denied the gathering was exclusive for Muslims, pointing at the presence of some non-Muslims, including Prabowo's Christian brother, Hashim Djojohadikusumo, in the audience.

But former President Susilo Bambang Yudhoyono, founding chair of the Democratic Party, sent a letter to the rally organizers a few days before April 7, requesting that the meeting's agenda be made less exclusive, to reflect the inclusive character of the coalition. The Democratic Party and Gerindra are secular-nationalist and the other two parties in the coalition, Prosperous Justice Party (PKS) and the National Mandate Party (PAN) harbor an Islamist agenda.

Yudhoyono had his own reason to make his letter to the campaign rally organizers public a day after the rally took place. He was not only distancing his name and his party from the Islamist agenda he was also preparing for beyond the election. Prior to endorsing Prabowo's nomination in September, Yudhoyono had approached Jokowi for the possibility of joining his coalition. Circumstances prevented this from happening and he reluctantly joined Prabowo's coalition at the last minute before the nomination. Throughout the campaign period, Yudhoyono told Democratic politicians that they could endorse Jokowi's presidential bid in their campaign for seats in the legislative councils if it helped with their own cause. His real interest is more in the 2024 election, when he expects his eldest son Agus Harymurti to bid for the presidency. Agus needs a platform to build his public profile in the next five years, and a Cabinet post in Jokowi's next administration would be the best option. Speculations are that Democratic Party would join Jokowi's coalition as soon as the election is over.

Until the Jakarta campaign rally, Prabowo and Gerindra had been quite successful in keeping a safe distance from the FPI. They had rejected the 212 Movement's demands to pick a cleric as Prabowo's running mate. Although the FPI continued to campaign hard to dislodge Jokowi, it was never seen as part of Prabowo's strategy. While appealing to the conservative Muslims, he avoided using the FPI rhetoric for more Islamism.

Courting the FPI has its costs. Jakarta Governor Anies Baswedan, who won the 2017 gubernatorial election with the help of the 212 Movement, has been struggling to fend off the FPI's demands for payback.

It is unclear whether last Sunday's rally in Jakarta reflected a change in strategy as Prabowo's camp is desperate to win over more votes in the last days of the campaign period. It is also unclear as to what the net effect will be on balloting day, whether the rally helps tip the balance in his favor. All will be revealed on April 17.

What we've heard: According to a source who often advises Yudhoyono, the former president is worried his image as a democratic figure would be at stake by joining forces with

Prabowo, who has increasingly been associated with a hardline attitude. Yudhoyono has on several occasions asked Prabowo to lower his hardline tone, but to no avail. “He was worried at that time,” said the source.

For Yudhoyono, the problem is his democratic credentials would be tarnished if he followed Prabowo’s campaign strategy. On the other hand, Yudhoyono’s primary reason for joining Prabowo’s coalition was because it would offer him greater opportunity to play a key role than if he supported Jokowi.

Yudhoyono simply wants to maintain his good image if Prabowo loses the election, as indicated by most surveys. From the beginning, Yudhoyono never cared much about the presidential election. As soon as Agus lost his vice-presidential bid to Sandiaga, Yudhoyono switched his focus to the legislative election, with the target of helping the Democratic Party finish fifth and pass the parliamentary threshold. Joining Prabowo’s coalition, thus, appeared to be more reasonable than siding with Jokowi as it would give him more attention. “This is just a game.

For Yudhoyono, [joining Prabowo’s coalition] could embellish his image,” said the source. Prior to Prabowo’s rally at the GBK on April 6, Yudhoyono had been informed that the event would accommodate Islamist groups. Representatives of other religious groups were also invited but Prabowo’s camp had difficulty in finding prominent figures who were willing to turn up to the rally. “The problem for them is Prabowo’s prevailing image [as more accommodating toward hardline Islam],” said the source, who is also a businessperson.

Yudhoyono himself, according to the source, could not do anything to change Prabowo’s agenda for the rally. Therefore, in order to give the Democratic Party political momentum, Yudhoyono made his letter public in a bid to show that Yudhoyono and the Democratic Party remained inclusive, in the hope it could win more votes from groups who still admire Yudhoyono, said the source.

Amien’s call for ‘people’s power’ an attempt to delegitimize election

National Mandate Party (PAN) patron Amien Rais, who is a campaign advisor of the Prabowo Subianto-Sandiaga camp, has called for the “people’s power” – a mass demonstration – if the election was suspected of being rigged. While any and all electoral disputes must be submitted to the Constitutional Court, Amien said he no longer trusted the court and would not follow the established mechanism. An outpouring of criticism immediately followed his controversial statement, that Amien’s notion of “people’s power” would undermine democracy and prevent the country’s development.

Insight: An electability survey by the Centre for Strategic and International Studies (CSIS) has found that Joko “Jokowi” Widodo-Ma’ruf Amin still leads in popularity against challenger Prabowo Subianto-Sandiaga Uno at respectively 51.4 percent and 33.3 percent. With an 18.1 percent margin and little time remaining until voting day, it is unsurprising that the rival camp may be anticipating defeat.

Amien’s call for the “people’s power” could thus be seen as an anticipatory measure, in the event that Prabowo-Sandiaga fails to attract the votes that are still up for grabs in the zero-sum game. The call could also be intended to spark distrust among voters over the credibility of the election. Additionally, in highlighting the power of the people, Amien may be disguising his

attempt to undermine the prevailing legal and electoral mechanisms through a populist measure. By calling for mass mobilization, his attempt could be perceived as intended for the common good and not for personal gain.

Regardless, the potential for the public to respond to his call remains minimal. Several actors have quickly denounced Amien's call, with the General Elections Commission (KPU) condemning his remark and KPU chairman Arief Budiman urging all to abide by the established mechanism for resolving electoral disputes. Rather, Amien's call might backfire on the Prabowo-Sandiaga camp, which is making last-ditch efforts to turn the tables on the incumbent. It could, however, also be perceived as a rallying cry to supporters that the challenger is not ready to give up the fight for April 17.

Fake news on cyberattacks attempt to delegitimize KPU

Speculation is looming about the neutrality of the General Elections Commission (KPU) in the upcoming presidential election, exacerbated by the spread of fake news. The most recent hoax is video footage intended to show that the KPU's IT servers are programmed to ensure the victory of the incumbent President Joko "Jokowi" Widodo and running mate Ma'ruf Amin in the election.¹³ The video went viral on social media platforms, including Twitter and Facebook.

The KPU quickly denounced allegations of its partiality and reports that hackers had predetermined the election results. KPU commissioner Pramono Ubaid Tanthowi said the poll body had anticipated possible cyberattacks by, among other measures, perfecting its servers' capacity, storage and security.¹⁴

Pramono also said that even if cyberattacks paralyzed the system, it would not affect the election results because the official outcome would follow manual vote recapitulation.¹⁵ The KPU's server operates mainly to store database from which it would provide a real-time vote count.

Insight: The latest hoaxes targeting the KPU reaffirm prevailing speculation about attempts to delegitimize the commission and the elections. As the poll organizer, the KPU is prone to attacks from any party that would justify a means for an election win. Issues about the KPU's servers being vulnerable, thus, might aim to portray the commission as incompetent. Consequently, they could cry foul for the KPU's weak IT system. The KPU's incompetence would give them solid ground to reject election results.

Furthermore, associating the KPU with one particular candidate may be intended to delegitimize the commission, which has to uphold impartiality. Early this year, fake news about the discovery of seven containers of cast ballots from China for Jokowi-Ma'ruf circulated.¹⁶ Partiality of the KPU would justify the rejection of election results.

¹³ Thejakartapost.com, "Med school graduate among suspects in KPU server hoax case", 9 April 2019
<https://tinyurl.com/y5zh8u7s>

¹⁴ Kompas.com, "Sudah Antisipasi, KPU Sebut Serangan Siber Tak Akan Pengaruhi Hasil Pemilu", 27 March 2019
<https://tinyurl.com/yy5pte25>

¹⁵ Ibid.

¹⁶ Thejakartapost.com, "KPU reports propagators of 'cast ballots' rumor to police", 3 January 2019
<https://tinyurl.com/y6rsvabx>

BUSINESS & ECONOMIC POLICY

Is establishing Aviation holding SOE the solution?

The government mulls the establishment of aviation holding company after a series of controversies such as allegation of cartel in, airfare and cargo fee hikes, as well as the issuance of two regulations by the Transportation Ministry favoring higher airfare and cargo fee.

Takeaways:

- By establishing an aviation holding company, the government plans to synergize air transportation infrastructure development planning with Garuda's business expansion.
- The harmonization of infrastructure planning and Garuda's business expansion work both ways for Garuda too, in which there is a cost-cutting opportunity for Garuda through vertical integration.

Background: Fierce competition in the aviation industry, as well as the need to coordinate the development of airport infrastructure motivate the government to consolidate state-owned enterprises (SOEs) on aviation and related businesses.

Last week at her office, SOEs Minister Rini Soemarno said that she was considering the establishment of a new holding company for the aviation industry that would consist of state-owned airport operators PT Angkasa Pura I and PT Angkasa Pura II, state-owned air surveillance company PT Survai Udara Penas and national flag carrier Garuda Indonesia.¹⁷ According to Rini, there are four main reasons for establishing the aviation holding:¹⁸

- To improve coordination between SOEs in the aviation industry and related businesses, as well as create greater economic impact
- To improve national connectivity and strengthen SOEs competitiveness following rising demand for air transport
- To facilitate SOEs business expansion in the aviation industry
- To improve public services in air transport

Just a few days before the holding announcement, the Transportation Ministry had issued Transportation Minister Regulation No. 20/2019 on price ceiling calculation for domestic economic class flight and Transportation Minister Decree No. 72/2019 on price floor formulation method for domestic economic class flight. Both regulations were enacted in the same week.

Insight: With an aviation holding company, the government plans to hit two birds with one stone.

First, the holding company is expected to make the national carrier Garuda Indonesia effective and profitable. Under the aviation holding, Garuda will become the main operator of all the government's aviation business: not only air cargo and passenger services, which includes Garuda-owned low-cost carrier Citilink Indonesia, but also other air services such as operating rain-making plane and doing air medical evacuation that are currently managed by Pertamina-owned Pelita Air, as well as doing air surveillance operation that is currently done by Penas. By

¹⁷ Kontan, "Proyek baru: Holding Penerbangan," Apr. 8, 2019. P.18

¹⁸ Liputan6, "PT Penas bakal jadi induk Holding BUMN Perhubungan Udara?" Apr. 5, 2019.

doing all of these activities, Garuda Indonesia will transform into a strategic national company – beyond a passenger airline – with capabilities to dominate all aviation services in Indonesia.

Besides transforming Garuda Indonesia into a strategic national company, the holding company is also expected to synergize Garuda's business expansion with the government's infrastructure plan and airport operation. The government's failure in Kertajati shocks President Joko "Jokowi" Widodo administration.¹⁹ To avoid the same failure, the government needs a more comprehensive infrastructure development plan by making Garuda's business expansion an integral part. Eventually, this synergy will work both ways, not only benefitting the government in making more comprehensive infrastructure plan, but also offering opportunity for Garuda Indonesia to cut cost through vertical integration.

On paper, this is a good plan, but realizing it will be challenging. Only time will tell the soundness of the SOEs Ministry's business plan for Indonesia aviation sector.

Highlights from latest regulatory announcement on airlines:

- Transportation Minister Regulation No. 20/2019
Airfare price floor is increased to 35 percent from 30 percent of the price ceiling
- Transportation Minister Decree No. 72/2019
Airfare price ceiling can reach up to 100 percent of the actual set prices for full services airlines, 90 percent for medium services airlines and 85 percent for low cost carriers

Several comparison of price floors for major domestic routes

New price floor	Old price floor
Jakarta-Semarang: Rp 326,000	Jakarta-Semarang: Rp 280,000
Jakarta-Yogyakarta: Rp 349,000	Jakarta-Yogyakarta: Rp 299,000
Jakarta-Surabaya: Rp 480,000	Jakarta-Surabaya: Rp 412,000
Jakarta-Makassar: Rp 750,000	Jakarta-Makassar: Rp 643,000
Jakarta-Jayapura: Rp 1,916,000	Jakarta-Jayapura: Rp 1,640,000
Jakarta-Pontianak: Rp 531,000	Jakarta-Pontianak: Rp 455,000
Jakarta-Palembang: Rp 344,000	Jakarta-Palembang: Rp 295,000
Jakarta-Padang: Rp 597,000	Jakarta-Padang: Rp 512,000
Jakarta-Medan: Rp 738,000	Jakarta-Medan: Rp 632,000

Source: Transportation Minister Regulation No. 20/2019, Transportation Minister Decree No. 72/2019

What we've heard: Some sources from the government said the appointment of PT Survai Udara Penas (persero) as the head of aviation holding has been decided since January 2019. An executive at a state-owned company said the appointment happened during the first monthly meeting.

There are several considerations into the assignation of Penas as SOEs aviation holding. Other than being fully owned by the government, Penas is different business that does not collide with Angkasa Pura's business line, which could become the source of internal tension and jealousy among SOEs.

SOEs Ministry worried that appointing Angkasa Pura I could spark an internal conflict with Angkasa Pura II, because they are in the same business. Another source said the ministry was trying to avoid the internal friction occurred during the merger between Pertamina and state-owned gas producer PGN.

Furthermore, Garuda Indonesia cannot be assigned as holding company, because its share is traded publicly, with Trans Airways, a subsidiary of Chairul Tanjung's CT Corpora, owns 24.6 of Garuda's shares.

¹⁹ Detik, "Bandara Kertajati sepi, dari 11 rute Cuma 1 yang beroperasi." 4 April 2019 <http://tinyurl.com/y584kmac>

The SOEs Ministry initially considered state-owned air navigation provider AirNav to lead the holding. However, the plan was cancelled due to AirNav status as public service company with non-profit obligation, maintaining the security standard of Indonesia aviation industry, which is in conflict with the mission of the aviation holding, namely boosting profit from SOEs in the aviation sector.

A source in the SOEs Ministry said that AirNav will be part of the holding later. AirNav's status as public service company will be changed, turning it into a profit-oriented company. There is a report that the SOEs Ministry had discussed this idea the Air Transportation Directorate General at the Transportation Ministry.

The merger also includes Pertamina-owned Pelita Air, with agreement from the Pertamina Board of Director.

Since the first meeting in January, the ministry has consulted with international consulting firm PricewaterhouseCoopers (PwC) to conduct feasibility study. According to a source from Angkasa Pura, PwC calculated that the holding will create Rp 6.96 trillion worth of cost efficiency per year from 2019-2023.

Nevertheless, there is still problem with Penas, specifically its financial condition. Between 2012 – 2016, Penas has recorded lost from operation. The SOEs Ministry plan to fix Penas financial condition first, so it will not burden the other SOEs. As the holding company, the government expect that Penas could compete with SOEs with from neighboring Southeast Asian countries like Singapore's Changi Group and Malaysia's Khazanah Berhard.

LinkAja!, QRIS to raise competition in electronic money market

The competition for server-based electronic money service will tighten following the introduction of LinkAja! e-money by three state banks and state-owned telecom company Telkomsel to challenge the domination of Go-Pay and OVO. In a related development, Bank Indonesia announced that it plans to standardize QR code for payment into Integrated QR Indonesia System (QRIS).

Takeaways:

- LinkAja! has the potential to consolidate the long-standing competition of state-owned banks into one e-money service.
- Go-Jek and OVO dominates the server-based e-money market by 99.8 percent
- LinkAja!'s plan to connect LinkAja! to state banks' deposit accounts in the middle of this year could serve as an opportunity to grab a market share in the server-based e-money service.
- Bank Indonesia's QRIS could increase financial inclusion by incorporating more small and medium enterprises into the e-money payment system

Background: Bank Indonesia data in 2019 showed that two private players – Go-Pay and OVO – dominate server-based electronic money mobile money by 99.8 percent. Meanwhile, the mobile money offered by various banks only account for 0.2 percent.²⁰ That's the reason behind the introduction of LinkAja! by Mandiri, BNI, BRI and Telkomsel.

²⁰ *Investor Daily*, "Pangsa pasar uang elektronik fintech capai 99.9%," Apr. 8, 2019. P.23

The four state-owned enterprises (SOE) had their own mobile e-money, Mandiri Pay, Yap! (BNI), My QR (BRI) and T-Cash (Telkomsel), but going on their own, they did not make any mark in the market. Therefore, SOE Minister Rini Soemarno forced the three state banks and Telkomsel to merge their mobile e-money into LinkAja!

Initially coined by the Association of State-Owned Banks (Himbara), LinkAja! aims to increase state-owned companies' market shares in the electronic money market. LinkAja! is a mobile application that integrates all state banks' electronic money and electronic money payment services into one application to enhance user experience while eliminating competition between state-owned banks in the sector.

Starting from April 13, customers of state banks would be able to enjoy an integrated electronic money service from state-owned banks, which was previously offered separately, through a new QR-based application called LinkAja!²¹

Anticipating the growth of server-based e-money, Bank Indonesia (BI) announced that it would regulate and standardize QR based payment so that the central bank would continue to have access to all transactions involving server-based e-money. BI's deputy governor for payment system policy Filianingsih Hendarta said BI will start standardizing QR code payments with

State-lenders electronic money services to be integrated in LinkAja!

- E-cash (Bank Mandiri)
- T-Bank (BRI)
- UnikQu (BNI)
- T-Cash (Telkomsel)

State-lenders QR based electronic payment services to be integrated in LinkAja!

- Yap! (BNI)
- My QR (BRI)
- Mandiri Pay (Bank Mandiri)
- T-Cash (Telkomsel)

Source: Kontan

The difference between chip-based and server-based e-money

Chip-based or card-based e-money has been in used in Indonesia for a much longer time than server-based e-money to encourage people move from cash-based into cashless society. Chip is planted in the card to store the value of the money, currently maximum Rp 1 million. The chip-based e-money available in the market include Flazz BCA, E-Money Mandiri, Brizzi BRI, Tap Cash BNI, Blink BTN, Mega Cash, Nobu E-Money, JakCard Bank DKI.

Meanwhile, server-based e-money, often called mobile e-money, refers to payment service using mobile phone, connected to the providers' server. People can use a mobile phone to pay for a wide range of products and services, both online and offline, such as paying various bills buying foods, books and various other products where the merchants already connected to the providers' servers. The mobile money available in the market include Go-Pay, OVO, Dana, T-Cash Telkomsel, Mandiri Pay, Yap! BNI, My QR BRI, XL Tunai, Rekening Ponsel CIMB Niaga and others.

QRIS starting from the second half of 2019.

Insight: E-money transaction data from Bank Indonesia indicates that server-based e-money will be the "next" transaction mode in Indonesia. Go-Pay and OVO have been successful because they fit people's lifestyle, where both Go-Pay and OVO offer multi-services and multi-purposed payments, as well the fact that they are easy to use and reach even the non-bankable population.

Therefore, Himbara's response through the creation of LinkAja! is common business competition logic. However, it faces an uphill battle to shake Go-Pay and OVO's well

²¹ Kontan, "Seluruh uang elektronik Himbara migrasi ke LinkAja!" Apr.4, 2019. P.1

established market shares. Go-Pay and OVO currently control 99.8 percent of the server-based e-money market and are start-ups with an aim of increasing valuation by increasing market penetration through various means, mostly through the *bakar duit* (burning money) strategy.

For state banks grouped in Himbara, they cannot burn money like Go-Pay and OVO by offering big discounts. Their status as state-owned enterprises, moreover, would limit LinkAja!'s capability to offer similar promotions, even if they are prepared to replicate the method, it would not be as intensive as what its rivals might have been doing since they cannot book losses.

Furthermore, both services have teamed with two of the most influential transport technology applicators: Go-Jek and Grab; And significantly raised their number of users. The special discount offered to Go-Jek and Grab users, in fact, helped boosted their penetration rate. OVO, even partnered with the Indonesia's first Decacorn online marketplace, Tokopedia, and provided various promotions for customers making purchase with OVO's payment.

LinkAja! must find a breakthrough that gives more public exposure to the service. Rather than copying its rivals, LinkAja! could opt for something that Go-Pay and OVO could not do, by capitalizing on the strong customer base of the state-lenders, with millions of customers spread all over Indonesia. In fact, LinkAja! already plans to connect LinkAja! to banks' deposit accounts in the middle of this year. Therefore, technically, millions of Himbara's customers would become LinkAja users.

LinkAja! has the potential to become a hit if it could exploit its status as a state-owned service. It would be more attractive if LinkAja! could offer lower interbank facility fees currently provided by ATM Bersama, LINK and Prima (around Rp 4,000 to Rp 7,500 depending on the type of action and destination),²² or even eliminate them.

BI's announcement of QRIS, concurrently, would provide LinkAja! an opportunity for expansion. Targeting to make Indonesia's electronic money more inclusive, the QRIS will increase participation of small and medium enterprises in the digital payment trend by offering simpler requirements for digital transactions.²³

Integrating LinkAja! with the QRIS system, then, would provide an entry point to the untapped market while helping the government increase the number of people in the financial system, or increasing financial inclusion. At the same time, QRIS may help ease electronic transaction taxation monitoring.

Hence, there are still some chances for LinkAja! to enliven the electronic money competition. Nonetheless, considering Indonesia's fluid market characteristic, the state-owned cooperatives must carefully strategize its long-term plan, or alas, it may become a mediocre service that nobody would use.

What we've heard: An executive at a state-owned company said without the intervention of the SOE minister, the integration of state-owned lenders e-money into LinkAja was just not possible. Bank BNI, for example, was hesitant to join LinkAja because it wanted to raise its own digital payment brands, Yap! and UnikQu, because BNI has spent Rp 30 billion to develop Yap! alone.

²² Infoperbankan, "Biaya transaksi menggunakan ATM Bersama," Aug. 16, 2018. <https://tinyurl.com/y6ag52cu>

²³ *Investor Daily*, "Semester II, BI implementasikan QR Indonesia Standard," Apr.5, 2019. P.23

When Telkomsel digital payment service T-Cash was chosen to become the parent company of the state-owned digital payment service, this irked state banks. Eventually, state lenders agreed to be led by T-Cash since it was the most established company in terms of organization and operational infrastructure; while state-lenders digital payment systems were just ones of their auxiliary services, mostly under retail payment division.

Far before T-Cash was chosen, the SOEs Ministry reportedly had mulled several options, including asking Himbara to acquire Dana, a financial technology company belonging to the EMTEK group. Nonetheless, the plan was aborted as the acquisition cost was bigger than the expense to develop and merge the prevailing digital payment systems.

Far before Go-Pay came out, Bank Mandiri's eCash team was said to have met with Go-Jek leaders to establish a partnership. Go-Jek initially wanted to make eCash its digital platform system. But the partnership failed and Go-Jek developed its own platform, Go-Pay, which eventually grew into a market leader.

Govt targets Google, Facebook in its latest taxation policy

The Finance Ministry has issued a regulation that will require all foreign companies conducting business activities in Indonesia to pay taxes. Under Finance Ministerial Regulation No. 35/2019, foreign companies in Indonesia are required to set up a formal business entity and obtain a tax identification number to enable them to legally operate in the country.

Background: The foreign companies, including over-the-top (OTT) companies such as Google, Facebook and Twitter, must abide by the regulations. They have to pay corporate income tax, sales taxes on luxury goods as well as collect and pay value-added tax. The regulation provides a tax guideline for both foreign companies who want to do business in Indonesia and the tax office in addressing their tax issues, the spokesperson for the Taxation Directorate General, Hestu Yoga Saksama, said last week.

Meanwhile, Finance Minister Sri Mulyani Indrawati explained that the new regulation would provide a legal benchmark for policymakers to respond to the changing nature of cross-border businesses.²⁴

Insight: The Finance Ministry prepared two ministerial regulations on taxation, one targeting small traders doing online business via various local marketplaces and the other one targeting foreign digital giants doing online business in the country.

Both regulations aim to expand the country's tax base and thus increase tax revenue. The first regulation, Finance Minister Regulation No. 210/2018, however, was met with opposition from e-commerce players of the Indonesian E-Commerce Association (IdEA), who claimed it might deter small businesses from trading via online platforms, defeating its intended purpose. Finance Minister Sri Mulyani Indrawati finally backed down and cancelled the regulation which is supposed to be implemented on April 1.²⁵

²⁴ *Bisnis Indonesia*, "Perusahaan OTT kini sulit berkelit," April 5, 2019. P.4

²⁵ CNNIndonesia.com, "Jadi Gaduh, Sri Mulyani 'Tarik' Aturan Pajak e-Commerce," March 29, 2019.

<http://tinyurl.com/yylcgngc>

The second regulation, PMK 35/2019, was met with little opposition. It even came as a surprise. It was issued on April 1 and became effective immediately. So far, global giant companies, commonly referred to as OTT companies such as Google, Facebook and YouTube, have been voicing their opposition to the government's plan to require them have a local entity and place data centers in Indonesia so that the government would be able to monitor their transactions.

Global internet giants have been dominating the global digital advertising market. In the United States, for example, duopoly Google and Facebook, controlled the rising digital advertising market by almost 60 percent in 2018.²⁶ In Indonesia, the duopoly and other global OTT companies are said to control the local digital advertising market by some 80 percent. Some estimates put Indonesia's digital reached between US\$1.4²⁷ and US\$2.6 billion in 2017 and 2019.²⁸

However, governments all over the world have been facing difficulties in taxing these global OTT companies as they conduct online transactions not in the countries where the actual transactions happen, but in tax-free territories.

Highlights of PMK No. 35/2019

- Foreign individuals or business entities must obtain tax IDs and set up formal business entities onshore to conduct business in Indonesia
- Tax ID application must be completed one month after the business has started
- Taxation Avoidance Agreement (P3B) is valid only for auxiliary and preparatory businesses
- A formal business entity is an entity with a permanent office or without a permanent office in Indonesia. Those with permanent offices include:
 - Management office
 - Branch office
 - Representative office
 - Office building
 - Factory
 - Workshop
 - Warehouse
 - Promotional and sales space
 - Mining and natural resource extraction
 - Oil and gas field
 - Fishing, farming, agriculture, plantation or forestry concessions
 - Computers, electronics and automation means used by foreign individuals or foreign entities to conduct businesses via internet.

Those without a permanent office include:

- Construction, installation and assembling projects
- Service providers that provide services onshore more than 60 days in one year
- Individuals or business entities that act as agents of foreign services
- Insurance agents or employees of insurance companies that do not have offices in Indonesia but receive premium from Indonesian customers

²⁶ Emarketer.com, "Duopoly vs. Amazon Share of Total US Digital Ad Spending, 2018 & 2020 (% of total digital ad spending)", Sept. 2018.

²⁷ Katadata.co.id, "TV Masih Mendominasi, tapi Iklan Online Tumbuh Lebih Cepat" Nov. 11, 2018. <https://tinyurl.com/y3sbcz63>

²⁸ Digiads.co.id, "Di 2019, Indonesia Berpotensi Puncaki Pertumbuhan Pasar Digital Advertising", Feb. 15, 2019. <https://tinyurl.com/y447mgee>

Indonesia has a special experience in taxing OTT companies. A few years ago, Indonesia was at loggerheads with Google over the latter's tax obligation. In 2016, the tax office demanded that Google pay the government about Rp 5 trillion (US\$371.42 million) in back taxes and penalties. After negotiations, Google agreed to pay taxes in 2017 but details were not disclosed.

With the new tax regulation, Indonesia has more reasons to force OTT companies to pay taxes. However, the effectiveness of the regulation remains to be seen. Indonesia's experience in taxing Google is based on negotiations, not on a credible system from where the government could trace the underlying taxable transactions. The government has not been able to force these OTT companies to place their servers in Indonesia so that the government would have access to their online transactions with Indonesians.

Finance Minister Sri Mulyani brought this issue of taxing global and regional OTT giants to the G-20 countries forum last year, and called on a global joint effort to tax these companies based on economic significance, as opposed to based on decisions by the companies' central or branch offices. Therefore, she called for international cooperation to fight for the right for governments to collect fair taxes, particularly from tax evaders.²⁹

Often, the issues faced by finance ministers of developing countries such as Indonesia are more technical than at the policy level, on how to collect fair taxes in the digital economy. Therefore, Indonesia's experiment with taxing the OTT companies would serve as a good lesson for other countries on how to be able to gain fair taxes and therefore benefit from the current digital economic era.

Airfare, cargo fee hikes make significant contribution to March inflation

Statistics Indonesia (BPS) announced on April 1 that monthly inflation in 2019 was lower than 2018 and 2017, despite the sudden surge in inflation contribution from transportation, communication and financial services, specifically from the recent airfare and cargo hikes.

Takeaways:

- Garuda's growing indebtedness, particularly in its short-term debt, is the major factor behind Garuda's decision to increase airfares and cargo fees.
- Courier companies have no choice but to follow Garuda's decision, resulting in higher delivery fees for consumers.
- The rising popularity of e-commerce might keep demand for air cargo high.

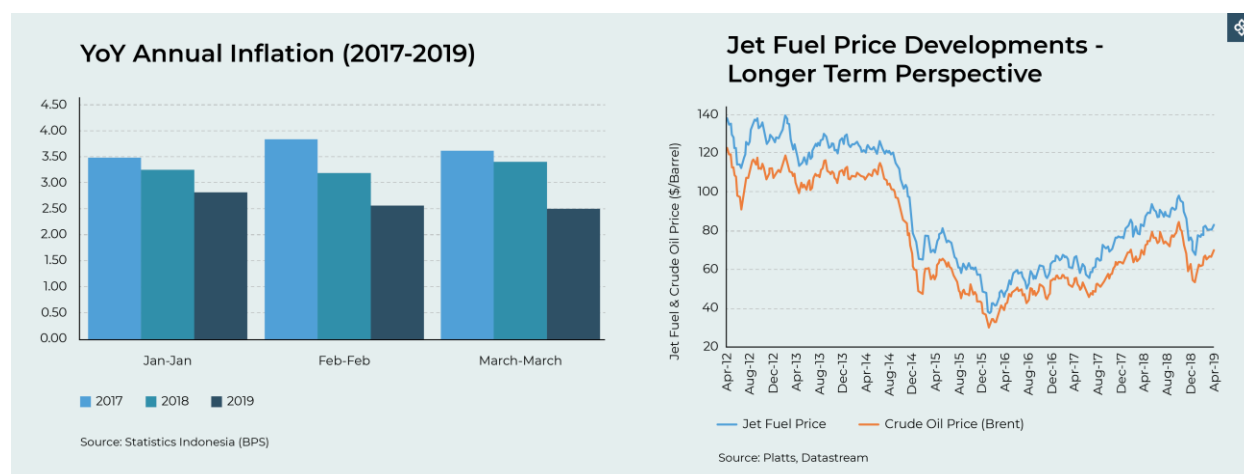
Background: Inflation was recorded at 0.11 percent in March, compared to 0.08 percent deflation in the previous month.³⁰ The latest figure brought year-to-date (ytd) inflation to 0.35 percent, while year-on-year inflation stood at 2.48 percent in March 2019.

²⁹ The Jakarta Post, "Indonesia calls for joint effort to tax Google, Facebook, Amazon," March 23, 2018. <http://tinyurl.com/y4e85cjj>

³⁰ Statistics Indonesia, "Perkembangan Indeks Harga Konsumen dan Inflasi Bulanan Indonesia," Apr. 2, 2019. <http://tinyurl.com/y2msb42c>

The main contributor to inflation last month was manufactured food, beverages and cigarettes, the prices of which rose 0.21 percent and contributed 0.04 percent to March's headline inflation figure.

BPS head Suhariyanto, however, highlighted the sudden surge in inflation contribution from transportation, communication and financial services, specifically from the latest hike in airfares and cargo. Compared to March 2018, the price index for transportation, communication and financial services has increased by 3.13 percent. "If we look at the pattern in last year, airfares contributed to inflation only in two periods such as in the Month that coincides with Ramadan or the year-end holiday season, but in March air fare contributed 0.03 percent to headline inflation."³¹



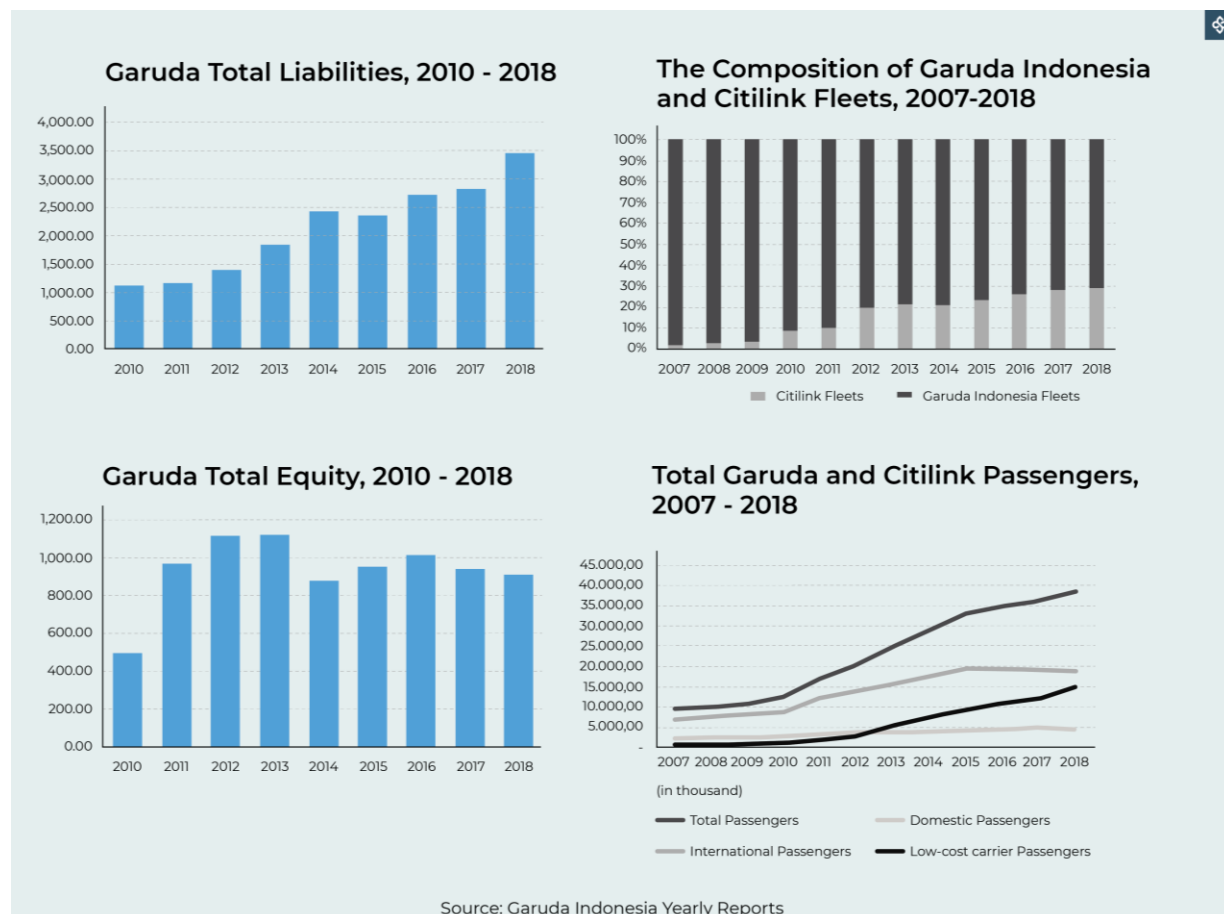
Insight: As highlighted by the BPS, inflation contribution from airfare and cargo hikes in March was unusual. The decision of major Indonesian airlines, spearheaded by Garuda, to keep their fares at the higher end of the fare limit has startled consumers and courier companies.

Rising oil price in 2018 was suspected to be the reason of the latest airfare hike, but it seems that Garuda's rising indebtedness is the major motivation behind the hike. In 2018, Garuda's total liabilities increased by US\$ 636 million to \$3.46 billion, driven by an increase in its current liabilities by \$530 million to \$2.45 billion.

The debt incurred was used to finance the expansion of Citilink, which made up 30 percent of the Garuda fleet in 2018. In 2018, The number of Citilink passengers had increased to 14.8 million, from 12.2 million in 2017. Meanwhile, the number of Garuda Indonesia passengers had decreased slightly from 23.9 million to 23.6 million.

Despite its increasing liabilities, Garuda's total equity in 2018 shrunk from \$937 million to \$910 million, which included Garuda's staggering retained deficit at \$409.7 million. Shrinking equity combined with rising current liabilities has forced Garuda to find a quick source of profit and cash to service its short-term debt. With blessings from the government and help from Lion Air, Garuda chose to increase its airfare and cargo fee, sharing its burden with airplane passengers and courier companies.

³¹ *The Jakarta Post*, "Airfares contribute to rise in inflation," Apr. 2, 2019. Headline



Courier companies have no choice. PT Tiki Jalur Nugraha Ekakurir (JNE and TIKI) and PT Global Jet Express (J&T Express) have announced they will implement new rates in April. This increase is not the first. Similar rate adjustments took place in December 2018, when airlines shocked courier companies with their new air freight charges.³² Although courier companies have stressed that they would gradually shift their express delivery system from air to sea and land cargo to keep operational expenses low and delivery fees low, the rising popularity of e-commerce shopping might not reduce the demand for air cargo.

³² *Bisnis Indonesia*, "Kurir ramai-ramai naikan tarif lagi," Mar. 29, 2019. P.30

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