

Highlights of the week



New BNPB chairman signals revival of militarism

The appointment of Lt. Gen. Doni Monardo as the new Disaster Mitigation Agency (BNPB) chairman may carry greater implications not only for the agency itself, but for the country's civil bureaucracy at large. Being an active military officer, speculation about the potential ways that Doni's appointment could change the BNPB is rife. Following a series of natural disasters last year, challenges, hopes and expectations now rest on Doni's shoulders.



For KPK, terror threats are occupational hazards

A device that made to look like explosives were thrown separately at the house of two leaders of the Corruption Eradication Commission (KPK) on Jan. 9. KPK commissioners and staffers, including investigators, are used to getting death threats. While those working for KPK accept death-and-terror threats as occupational hazards and they are not deterred in their work in going after corrupt state officials, the National Police's performance in uncovering real cases of harassment against KPK is dismal.



RI to become key player in electric vehicle industry

President Joko "Jokowi" Widodo surprised automotive industry players when he announced after a special Cabinet meeting on Monday that Indonesia would soon enter the electric vehicle industry and the government was preparing necessary regulations to support it. For Indonesia, the switch to electric vehicle would benefit both the economy and the government's environmental goal.



Timber verification in Papua faces challenges

Following the arrest of Papua Forestry Agency head Jan Jaap Ormuseray, deeper issue could be seen underbelying the misuse of the timber legality assurance system (SVLK) in Papua. From the perspective of the indigenous communities, the SVLK system does not provide immediate economic benefits to Papua's indigenous communities.

POLITICS

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Takeaway:

- Doni Monardo's active military status indicates that the government may find it more difficult in the future to preserve the delicate balance between the military and civil bodies in the country.
- Despite the government's justification, it is not yet clear how Doni's active military status may positively impact disaster mitigation, including preventive and rehabilitative measures.
- Doni's appointment may reflect a political objective of President Jokowi to rally military support for his reelection bid.

Background: The year 2018 was marked by a string of natural disasters in Indonesia. As the agency responsible for mitigating disasters, the effectiveness and endurance of the BNPB was tested. The government came under criticism for its poor disaster mitigation measures, and it is likely that this is one of the reasons behind the appointment of the new BNPB chairman, which is to boost the effectiveness of the agency.

At least, this is what the government has been saying. However, a number of circumstances indicate that this may not be the case.

Controversies have shrouded Doni's appointment. First, as soon as the Presidential Palace confirmed that his inauguration was slated for Jan. 2, the same institution announced that the swearing-in ceremony would be delayed. Then, because Doni would remain an active military officer, the President decided to revise the established regulation that would allow Doni to chair the BNPB.

According to Indonesian Military Law No. 34/2004 Article 47 Paragraphs 1 and 2, active military officers can only hold civilian posts in several government institutions, including the Office of the Coordinating Political, Legal and Security Affairs Minister. However, as the BNPB then fell under the President, active military officers could not lead the agency.

President Joko "Jokowi" Widodo then amended Presidential Decree No. 8/2008 on the BNPB, placing the agency under the supervision of the Office of the Coordinating Political, Legal and Security Affairs Minister. The revision allows Doni to remain in the military while heading the BNPB.

In explaining the reasons behind the extra mile that President Jokowi took in appointing Doni, the government said, for instance, being an Army general would enable Doni to consolidate and mobilize emergency relief faster and more efficiently, particularly in post-disaster mitigation. Nevertheless, the BNPB's responsibilities also include preventive measures, which require administrative and managerial mastery that may elude active military officers.

Whether Doni will make a great BNPB chairman is still to be seen. Regardless, improvements in the agency are urgent, given the country's vulnerability to natural disasters.

Insight: Doni is not the first BNPB chairman with a military background. Since its inception in 2008, the BNPB has been headed by two retired military officers, respectively Maj. Gen. (ret) Syamsul Maarif and Rear Admiral (ret) Willem Rampangilei.

Doni's winding road to the BNPB's top job shows the complexity of appointing active military officers to civilian posts. Jokowi was forced to revise Presidential Decree No. 8/2008 to provide a solid legal foundation for Doni's appointment.

Furthermore, as stated by American political scientist Peter Feaver, a well-founded balance between military and civilian bodies is fundamental for a country's health. Although a weak military may jeopardize the country's security, an excessively strong military may turn against the country that feeds it. Now that Doni leads the BNPB, a military officer heading a civilian body illustrates the increasingly blurred lines between military and civil realms in the country. The primary challenge for the government is thus to preserve Indonesia's military-civilian balance, particularly in the BNPB, following Doni's appointment.

In explaining its decision, the government stated that being active in the military meant Doni could effectively coordinate with military soldiers in carrying out post-disaster mitigation efforts.¹ This explanation, however, has a number of loopholes. First, it assumes that Doni's service in the military will guarantee smooth consolidation among involved players during post-disaster mitigation. In practice, mitigation efforts do not solely involve the military in the long run, but also other civilian and humanitarian bodies. Swift consolidation may occur if the military can transfer the mitigation process to civilian bodies after the initial mitigation measures are carried out; hence a well-balanced relationship between the military and civilian bodies in the BNPB is a prerequisite. An active military officer taking the lead, however, may result in biases or preferential treatment for particular bodies.

Second, the government's explanation heavily relies on the assumption that the BNPB's responsibilities mostly revolve around post-disaster mitigation, while according to the law, they also encompass preventive measures and rehabilitation. Meanwhile, Doni's active military status' alleged capability to consolidate military troops may only be applicable during a state of emergency as preventive and rehabilitation measures are outside the military's portfolio.

Following his inauguration, Doni disclosed his plans on the BNPB's future conduct, which mostly concern prevention. This includes introducing disaster mitigation in school's curricula² and involving prominent religious figures to promote disaster mitigation at the grassroots level.³ So far, none of his plans require him to exercise military powers.

It is safe enough to suspect, therefore, that Doni's appointment may carry greater importance, particularly for President Jokowi's short-term political objectives. Widely dubbed a confidante of former president Susilo Bambang Yudhoyono (SBY), who is supporting Jokowi's rival Prabowo Subianto in the upcoming presidential election, winning Doni's support may help Jokowi streamline the military's support at large, especially considering Doni's military career

¹ Detik.com, "Istana Jelaskan Alasan Kepala BNPB Harus Pejabat TNI Aktif" 7 January 2019 <https://tinyurl.com/y8b6plvr>

² Kontan.co.id, "Resmi jadi Kepala BNPB, Doni Monardo prioritaskan penyelesaian dampak bencana" 9 January 2019 <https://tinyurl.com/y9farxqa>

³ BNPB Official Facebook Account <https://tinyurl.com/y7zbwag3>

trajectory. Doni has led the Pattimura and Siliwangi military commands, Army's Special Forces as well the Presidential Security Detail (Paspampres).

Doni's promotion might also appease certain military circles who had expected him to become the Army chief of staff last year.⁴ The coveted post eventually went to Andika Perkasa, a younger military officer, much to Doni's chagrin.

It would be unsurprising if Doni's appointment indeed bears greater implications for Jokowi's political purposes, particularly since Jokowi has to battle two "generals" in the upcoming presidential election, namely Prabowo and SBY, whose influence in the military has remained intact. Having a general of his own, thus, would surely help Jokowi balance the scales.

Nevertheless, the danger of military politicization must also be considered, particularly in this political year. Ahead of the upcoming general election, the military's impartiality matters, considering that one of its primary duties is to protect the nation. In contrast, a politicized military will make the fierce competition between presidential candidates even murkier.

Either Doni's installment as the new BNPB chairman was based on genuine reasons or political pragmatism, but the agency does indeed assume great responsibilities. Major disasters that occurred in 2018 were no exception. According to the BNPB's data, on average 2,500 disasters per year occur in Indonesia.⁵ Doni's performance, thus, is a matter of life and death for the nation.

What we've heard: A source said Jokowi had asked Doni to head the BNPB right after earthquakes shook West Nusa Tenggara in August last year. However, while the President's official request was pending, Doni was also waiting for updates from the Indonesian Military chief's plan regarding succession in the Army. Reportedly, the Association of Army Retirees, Veteran Association and a senior minister supported Doni's nomination for the Army chief post, while another senior minister had no objection to Doni's promotion to the Army top job. Last-minute maneuvers, however, cost Doni the post.

Meanwhile, several Indonesian Democratic Party of Struggle (PDI-P) senior politicians and a minister who is also from the party also threw their weight behind Doni, because he had already been accepted by the PDI-P. Doni, according to them, could restore the relationship between the PDI-P and the Army, which has been strained since 1965.

Now, Doni's appointment as the new BNPB head, too, is expected to strengthen ties between the PDI-P and the Army. Moreover, by appointing Doni, Jokowi will be perceived as a fair and neutral leader, considering that Doni is perceived by many as SBY's confidante.

As the new BNPB head, Doni can keep direct access to the President while reporting to the Coordinating Human Development and Culture Minister and Coordinating Political, Legal and Security Affairs Minister as TNI's contact in the government. Strategically speaking, Doni, thus, can retain his military career while occupying a strategic post.

Another source, however, said Jokowi was aware of Doni's military ambitions. Jokowi did not choose Doni as the Army chief as he "would be difficult to control", while the President was

⁴ See Tenggara Backgrounder November 30th, 2018 edition

⁵ Tirto.id, "Doni Monardo Ditunjuk Jadi Kepala BNPB & Taktik Jokowi Rangkul TNI" 2 January 2019 <https://tinyurl.com/yc3hrw7v>

intent on cleaning up the Army from adversarial generals ahead of the election. On the other hand, Jokowi acknowledges that Doni is a smart person and a doer who can help him craft and execute policies if he is reelected. “He is a trump card,” the source, who has access to the palace and mingles with the military, said of Doni’s future career.

He said Doni has built a good relationship with PDI-P chairwoman Megawati Soekarnoputri for quite a long time. Even when he served as Paspampres chief under President Yudhoyono, Doni paid courtesy visits to Megawati. The penchant for tree planting has connected the two, the source said.

For graft fighters, terror threats are occupational hazards

Devices that were made to look like explosives were thrown separately at the houses of two leaders of the Corruption Eradication Commission (KPK) on Jan. 9. The police determined that they were hoax bombs and would not have caused any damage. But the police are investigating to find the culprits behind what was clearly an act of terror related to the work of the KPK in fighting corruption in high places.

Takeaway:

- The KPK’s scope of work includes corruption cases within the inner circle of power, creating hostility between the antigraft body and other powerful bodies, such as the House of Representatives and the National Police.
- KPK commissioners and staff have accepted death and terror threats as occupational hazards. This does not erase the fact, however, that the National Police’s performance in uncovering cases of harassment against the KPK is abysmal.

Background: KPK commissioners and staffers, including investigators, are used to getting death threats. It is almost an everyday occurrence for them to receive threatening phone calls or short messages, some addressed to members of their family. Rarely do these threats translate into real physical acts. In the few times they have, like the attack on KPK top investigator Novel Baswedan in April 2017 that nearly blinded him and put him out of action for over a year, the police were unable to find out who had carried it out and for what motive.

While those working for the KPK accept death and terror threats as occupational hazards -- and they have not been deterred in their work in going after corrupt state officials -- the National Police’s performance in uncovering real cases of harassment against the KPK is dismal.

No one has claimed responsibility for the act of terror on the house of KPK chairman Agus Rahardjo in Bekasi just outside Jakarta, and on his deputy Laode M. Syarief who lives in Kalibata, South Jakarta. While no one was hurt, it was clear that someone did not like what the KPK was doing. Who and which case is anybody’s guess. The KPK investigates dozens of cases of corruption simultaneously; all of them, by definition of the KPK’s scope of work, involve people in powerful places. The latest incident could be related to any of the ongoing corruption investigations, or to past cases as an act of revenge. The KPK has a nearly perfect record – almost every case it investigates leads to conviction. In contrast, confidence in the police’s ability to resolve cases of terror against the KPK is low.

Insight: On Jan. 8, a day before the hoax bomb incident, the police announced the formation of a fact-finding team to investigate the attack against Novel, himself a police officer who quit

the force to become the lead investigator at the KPK. It is not clear why the team, headed by National Police chief Gen. Tito Karnavian, was founded almost two years after the attack. The announcement came after news leaked that the challenger to President Joko “Jokowi” Widodo in the April presidential race, Prabowo Subianto, would use Novel’s unresolved case in the presidential debate on Jan. 17 among the incumbent’s failures on human rights, law and justice, the main topic of the first of five rounds of debate. The police’s fact-finding team would provide Jokowi with a response if Novel’s case came up in the debate.

Many doubt not so much the police’s ability, but their lack of political will to investigate the acts of terror against the KPK. The National Police have a long history of rows with the KPK. Some of their top officers have been the target of KPK investigation. One or two ended up in jail. The police had a bone to pick most particularly with Novel, who was investigating a corruption case within the police force when he was ambushed by two men on a motorcycle who attacked him with acid on an early morning in April 2017. Novel is back at work after undergoing more than a year of treatment at a Singapore hospital that saved one of his eyes. Novel was the target of police prosecution for something that he had allegedly committed years ago while serving as a junior officer. His case didn’t go anywhere, proving that the police had no hard evidence.

The KPK got into two big fights with the National Police. In 2010 it investigated Comr. Gen. Susno Duadji, then-head of the Criminal Investigations Directorate. Susno fought back with counter accusations against KPK leaders, and threatened with even more forceful reprisals. He dismissed the strength of the KPK in what he termed a duel between “a gecko and a crocodile”. He ended up in jail.

IN 2015, the KPK was used by President Jokowi to check on corruption allegations against Com. Gen. Budi Gunawan, who had been nominated for the top job at the National Police. The entire National Police corps came down hard on the KPK, and some of the KPK commissioners were served with summonses for various crimes. Budi Gunawan settled for the deputy police chief job and subsequently in 2016 became chief of the National Intelligence Agency. The KPK never pursued his corruption case.

The KPK’s scope of work, investigating cases of corruption within the inner circle of power, means it has been going after top corruptors since its founding in 2004. Among its more recent high profile victims were the chief of the Constitutional Court Akil Mochtar who got life imprisonment in 2015; Setya Novanto, speaker of the House of Representatives, who received 15 years in 2018; Irman Gusman, speaker of the Regional Representatives Council, who received 4.5 years in 2017. Idrus Marham, social affairs minister under President Jokowi, is on trial for corruption, thanks to the KPK.

IN 2018, the KPK faced powerful resistance from the House of Representatives for its investigation into a massive corruption scandal regarding the e-ID project. The House set up its own inquiry commission to look into the KPK’s work, and busted a KPK “safe house” where it had put up key witnesses for safety. The House lost that fight, and speaker Setya Novanto ended up in jail.

Given its line of work, the KPK has few friends and many enemies in powerful places. But it counts on public support, and works closely with the media, in many of its fights with powerful figures and institutions, including the police. Public opinion in the end saved the KPK many times in these fights.

BUSINESS & ECONOMIC POLICY

RI's race to become key player in electric vehicle industry

President Joko “Jokowi” Widodo surprised automotive industry players when he announced after a special Cabinet meeting on Monday that Indonesia would soon enter the electric vehicle industry and the government was preparing necessary regulations to support it.

Takeaway:

- The electric vehicle industry in Indonesia is generally in a good position as a result of the government’s shifting views as well as ongoing projects.
- Electric vehicles might become a promising substitute to conventional vehicles with positive economic implications.
- Further regulatory adjustments and supporting infrastructure development should also be prioritized before electric vehicles can be widely used.

Background: The Jokowi administration, just like any other previous administration, has been considered unfriendly to the development of electric vehicles. Many suspect that the foreign-dominated automotive industry has prevented the government from pursuing the development of environmentally friendly local electric vehicles.

The Jokowi administration even took those behind the development of local electric vehicles to court including former state-owned enterprises minister Dahlan Iskan who ordered the procurement of 16 locally built electric cars to be used as shuttles for the Asia Pacific Economic Cooperation (APEC) forum in Bali in 2013, at a cost of Rp 32 billion.

Dahlan appointed a private company PT Sarimas Ahmadi Pratama to provide the cars and ordered three state-owned companies, Bank Rakyat Indonesia (BRI), Perusahaan Gas Negara (PGN) and Pertamina to finance the procurement. The cars, however, failed to meet the requirements and Dahlan decided to give them to various universities to be used for research purposes.

As a result, the Attorney General’s Office considered the project to be a waste of state money and took Dasep Ahmadi of PT Sarimas Ahmadi Pratama to court. In March 2016, he was sentenced to seven years in prison. Dahlan was named a suspect in the case in January 2017.

Dahlan spearheaded the development of several national electric car prototypes -- Tucuxi, Evina, Selo and Gendhis -- with the help of several innovators from the Bandung Institute of Technology (ITB), Surabaya Institute of Technology, the University of Indonesia and Gadjah Mada University, whom he dubbed the “Pandawa Putra Petir” (Pandawa, the Sons of Thunders). Unfortunately, the project did not end well. Dahlan was at the wheel of the first prototype, Tucuxi, when it crashed during a test drive in Magetan, Central Java, in 2013. The crash did not stop his ambition to develop locally built electric vehicles.

After he was named a suspect, Dahlan bought a Tesla electric car to show the public that his pioneering electric car project was not a waste of money, arguing that electric cars were the future of Indonesia.⁶ Dahlan was eventually cleared of all charges.

Dahlan then invited Jokowi to his office in Surabaya, East Java, in October 2017 and showed off his collection of locally produced electric vehicles, including the Gesits electric motorcycle produced by ITS. A year later, Jokowi himself endorsed Gesits by personally riding the prototype at the State Palace in Jakarta last November.

To support the development of the electric vehicle industry, Jokowi assembled his Cabinet ministers last Monday to prepare the necessary regulations to speed up its implementation. He argued that Indonesia needed to acquire electric vehicle technology because, first, it was environmentally friendly and, second it saved on foreign exchange from importing fuel. His ambition is to make Indonesia one of the key players in the electric vehicle industry.⁷

Government's electric vehicle implementation targets		
	2025	2050
Charging stations (SPLU)	1,000	Around 10,000
Electric car ownership (unit)	2,200	4.2 million
Hybrid car ownership (unit)	711,900	8.05 million
Electric motorcycle ownership (unit)	2.13 million	13.3 million

Source: Investor Daily, Energi and Mineral Resource Ministry

Insight: Indonesia has long been an unfriendly market for electric vehicles. But this situation may change soon following the government's decision to speed up the development of local electric vehicles.

The government has promised to create a friendly business climate for the development of the more environmentally friendly electric vehicles. The President himself promised that he would issue a presidential regulation soon to speed up the process. Finance Minister Sri Mulyani Indrawati also announced on Monday that her office would cut luxury goods sales tax (PPnBM) on electric vehicles by 50 percent.⁸

The government has targeted in its automotive road map that low-carbon emission vehicles (LCEV) would reach 10 percent of total automobiles by 2020 and 20 percent by 2025. The LCEV includes electric cars, hybrid and plug-in hybrid cars.

This era saw promising changes for electric vehicles following massive investments by Chinese investors, followed by French and local investors, to build lithium batteries for electric vehicles, using nickel as the raw material. Indonesia has one of the biggest nickel reserves in the world.

⁶ Detik.com, "Beli Mobil Listrik Rp 4 M, Dahlan Ingin Buktikan Dirinya Benar," May 12, 2017.

<https://news.detik.com/berita/d-3499521/beli-mobil-listrik-rp-4-m-dahlan-ingin-buktikan-dirinya-benar>

⁷ Tempo.co, "Jokowi ingin Indonesia jadi pemain utama mobil listrik," Jan.14, 2019 <https://tinyurl.com/y7u66eek>

⁸ Investor Daily, "PPnBM Mobil Listrik akan Dipangkas 50%," Jan. 15, 2018

Lithium battery producer GEM Co Ltd of China has begun the development of a lithium battery plant at a sprawling nickel-based industrial complex in Morowali, Central Sulawesi.⁹ Last August, French metallurgic company Eramet SA and a Chinese joint venture company owned by the Tsingshan Holding Group, Huayou Cobalt Co. and Zhenshi Holding Group began the development of the Weda Bay Industrial Park in Halmahera, the first industrial complex to focus on nickel processing and the electric battery industry.¹⁰

Coordinating Maritime Affairs and Fisheries Minister Lout Pandjaitan, who attended the groundbreaking ceremony of the Weda Bay Industrial Park, said the complex would make Indonesia a major electric vehicle producer. If everything goes to plan, Indonesia will have its own lithium battery-producing complex soon.

State-owned mining holding company PT Indonesia Asahan Aluminum (Inalum), through its subsidiary PT Aneka Tambang, also plans to build a battery plant, following Inalum's acquisition of shares in Vale Indonesia, the largest nickel producer in Indonesia (**See divestment of Vale**).

The government's plan, when it materializes, will have a positive benefit on the economy. First of all, electric vehicles are more environmentally friendly than petrol-powered automobiles.

Multiple studies have found that electric cars are more efficient, and therefore responsible for less greenhouse gas and other emissions than cars powered solely by internal combustion engines. A European Union study, based on expected performances in 2020, found that an electric car using electricity generated solely by an oil-fired power station would use only two-thirds of the energy of a petrol car traveling the same distance. Moreover, the benefits are even higher when the power is produced by renewable power plants such as hydro, wind and solar panels.¹¹

Researchers at the University of Leeds, UK, also found that pure electric cars cost less over four years than petrol or diesel cars in the UK, US and Japan, and China is said to eventually to lead the market.¹²

For Indonesia, the benefits would be substantial because it has problems finding foreign exchange to import fossil fuels. Because of the rising demand for fuel, Indonesia posted an historic trade deficit last year, totaling US\$8.57 billion. The cause of the deficit was the trade in oil and gas, which resulted in a total deficit of over \$12.4 billion, as trade in the non-oil and gas sector booked a surplus of a mere \$3.84 billion. The government has pursued a number of measures to reduce the deficit in the oil and gas sector, including the introduction of B20 biodiesel fuel. And the policy to speed up the development of the electric vehicle industry, when it is successful, could contribute in reducing the oil and gas deficit.

The only concern about the introduction of the massive production of the electric car industry will be safety. A study from the University of California and Royal National Institute of Blind

⁹ Tirto.id, "Pabrik Baterai Mobil Listrik di Morowali resmi mulai dibangun," Jan. 11, 2019 <https://tinyurl.com/y9r9xenf>

¹⁰ Berita Satu, "Perusahaan Tiongkok jajaki investasi Baja, Karbon dan Baterai Rp 137 T," Apr. 15, 2018 <https://tinyurl.com/yddmtm9l>

¹¹ The Guardian, "How green are electric cars?," December 12, 2017. <https://tinyurl.com/y7ku4h5w>

¹² The Guardian, "Electric cars already cheaper to own and run than petrol or diesel – study," Dec. 1, 2017 <https://tinyurl.com/yksen5yk>

People found that electric vehicles were prone to accidents. The study also discovered that electric vehicles were 40 percent more likely to hit other road users.¹³

Despite the government's staunch promotion and actions, the road for electric vehicle industry is still rocky. It needs new infrastructure to support this industry to grow, such as charging stations and battery recycling facilities. It remains to be seen when the Gesits motorcycle will hit the streets as the company promised that it would roll out the motorcycle commercially this year.

The existing automotive producers will also not stay silent as they will be most affected by the policy. They have invested a lot in production facilities and control a network of workshops and after-sale services across Indonesia. It will be interesting to see how they will respond to the government's readiness to build the local electric vehicle industry.

Vale divestment discussed as govt seeks to build electric car industry

Indonesia's largest nickel miner, PT Vale Indonesia, sent a letter to the government earlier this month, according to which the main shareholders reportedly agree to sell their stakes in the company to comply with Government Regulation No. 77/2014.¹⁴ The news comes just before a Cabinet meeting on Monday to speed up the development of the local electric vehicle industry.

The discussion of Vale's possible divestment became public when the letter directed to the Energy and Mineral Resources Ministry in early January was leaked to the media. According to Energy and Mineral Resources Ministry Minerals Director General Yunus Saefulhak, Vale's divestment was slated for June 2019 in line with the government regulation.

Yunus, as well as the ministry's Minerals and Coal director, general Bambang Gatot, said the ministry needed to consult with the Finance Ministry before it could proceed with the negotiation.

According to the government regulation as well as Vale's contract of work amendment in 2014, Vale is required to divest 40 percent of its shares. With 20 percent of the shares publicly traded, there are 20 percent left to be divested.¹⁵ Using Vale's Jan. 7 stock price, *CNBC Indonesia* valued the stake at Rp 6.48 trillion.¹⁶

State-owned mining holding company PT Indonesia Asahan Aluminum (Inalum), which could potentially buy the shares, has not commented on any such plan.

What we've heard: According to a source, the negotiation between Inalum and Vale S.A. started in July last year – one year before Vale's obligatory divestment. Inalum president director Budi Gunadi Sadikin and Vale S.A. CEO Fabio Schvartsman have reportedly met several times.

Schvartsman came to Indonesia in early September 2018 to inspect Vale's operations in Sorowako, South Sulawesi, where he met with Budi and his deputy Orian Petrus Moedak. Their next meeting was conducted at Vale S.A. headquarters in Brazil in November, when Vale agreed to team up with Inalum. Vale even asked Inalum to complete the divestment in

¹³ Tirto.id, "Bahaya di sunyinyamobilistik," Jul. 16, 2018 <https://tinyurl.com/y9y2y72b>

¹⁴ CNBC Indonesia, "Vale divestasi seperti Freeport, Inalum bakal beli?," Jan. 9, 2019 <https://tinyurl.com/yddkxruq>

¹⁵ Investor Daily, "Pelepasan 20% saham Vale Indonesia dimulai," Jan. 11, 2019

¹⁶ CNBC Indonesia, "Vale bisa divestasi 20 persen tahun ini, berapa nilai tebusannya?," Jan. 7, 2018 <https://tinyurl.com/y6vsj526>

March 2019, before the general elections to reduce uncertainty from a possible change of administration after the election.

The shares that would be divested would be those belonging to Vale Canada Ltd and Sumitomo Metal Mining Co. Vale Canada currently controls 58.73 percent of Vale Indonesia, while Sumitomo holds 21.18 percent and the remaining 20.09 percent are held by the investing public.¹⁷

Nonetheless, the negotiations so far have not reached a conclusion. One of the main issues is apparently how to pursue the divestment: whether Inalum would buy Vale shares directly or through a rights issue.

By acquiring Vale shares, Inalum would increase nickel reserves controlled by its subsidiary PT Aneka Tambang (ANTAM) and thereby would give ANTAM ample nickel reserves to enter the battery industry. ANTAM has reportedly finalized the establishment of a joint venture to build an integrated smelter and battery plant, development of which is slated for mid-2019.

¹⁷ Vale, "At glance," cited on Jan. 17, 2019 <https://tinyurl.com/ybdvzvvg>

Timber verification faces major challenge from indigenous communities in Papua

Following a series of raids conducted by the Environment and Forestry Ministry in December 2018 and January 2019 in Surabaya, the Papua Police arrested Jan Jaap Ormuseray, the head of the Papua Forestry Agency, as a suspect of extortion in a case of illegal logging.¹⁸

Takeaway:

- The SVLK misuse in Papua might damage President Jokowi's reputation of combating illegal logging, but the system itself is working as intended, as reflected by the participation of civil society and environmental groups in uncovering the illegal certification.
- However, a deeper issue underlies this case, namely the rights and obligations of Papua's indigenous communities to manage resources from indigenous forests. From the perspective of the indigenous communities, the SVLK system does not provide immediate economic benefits to Papua's indigenous communities.

Background: Illegal logging in Papua has been a major issue since 2017. According to an investigation by the Coalition against Forestry Mafia, two privately-owned timber legality verification companies (LVLK): PT Ayamaru Sertifikasi in Bogor, West Java, and PT Transtra Permada in Sleman, Jogjakarta, provided timber legality certifications (S-LK) for 7 wood-processing companies in the Papuan regencies of Jayapura and Sarmi, which acquired timber from an area not specified in their annual production forest working plans (RHK-HT).¹⁹ Later, an investigation by *Tempo* magazine found that this timber had been sourced from indigenous forests in Papua and West Papua provinces with no social forestry license.²⁰

Following the Coalition's findings, the forestry ministry tightened the screws through various means. In June 2018, for instance, it invited the Corruption Eradication Commission (KPK) to audit and oversee the implementation of the timber legality assurance system (SVLK) in Papua.²¹ The ministry also conducted its first raid at Tanjung Perak Port, Surabaya, in December 2018. From this raid, the ministry confiscated 40 containers full of Merbau timber.²² Emboldened by this success, the ministry conducted three more raids in January 2019 at Soekarno-Hatta Port, Makassar, and Teluk Lamong Port, Surabaya. In total, 384 containers of illegal Merbau timber were confiscated, valuing more than Rp 200 billion.²³

¹⁸ Kumparan.com, "Kepala Dinas Kehutanan Papua ditahan terkait kasus pemerasan." 11 January 2019

<https://tinyurl.com/y82dafb6>

¹⁹ Mongabay.co.id, "Koalisi temukan dugaan pelanggaran 7 perusahaan bersertifikat kayu legal di Papua." 29

November 2017 <https://tinyurl.com/y9et9bj6>

²⁰ Tempo.co, "Mesin cuci kayu ilegal." 21 December 2018 <https://tinyurl.com/y8c88zcv>

²¹ Detik.com, "Marak illegal logging, KPK supervise permasalahan hutan di Papua." 6 June 2018

<https://tinyurl.com/yd4bvrzp>

²² VOAINdonesia.com, "KLHK amankan 40 kontainer kayu Merbau ilegal asal Papua di Surabaya." 7 December 2018

<https://tinyurl.com/yatrjf3q>

²³ Tirto.id, "KLHK sita 384 kontainer kayu ilegal asal Papua dalam sebulan." 16 January 2019

<https://tinyurl.com/y7fa282l>

Insight: The suspected SVLK misuse in Papua is a blow for President Joko “Jokowi” Widodo. Although the SVLK was enacted in 2010 during President Susilo Bambang Yudhoyono’s administration, including the negotiation to harmonize it with the European Union’s Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT-VPA),²⁴ the SVLK is applied under President Jokowi’s supervision. More importantly, President Jokowi has made the eradication of illegal logging one of his nine priorities.

Nonetheless, the SVLK is not a failure. Rather, the case shows that the system works as intended. As a system that relies on private initiatives, the participation of civil society and environmental groups under the banner of the Independent Forest Monitoring Network (JPIK) is crucial to safeguard the integrity of the SVLK. The Coalition against Forestry Mafia’s investigation that uncovered the case in Papua proves that the JPIK monitoring mechanism works.

The findings under JPIK mechanism need to be followed up by the ministry. So far, the ministry has responded well by inviting the KPK to audit and oversee the application of the SVLK in Papua, as well as stepping up enforcement through raids in Surabaya and Makassar. However, these efforts will not solve the root of the problem in Papua.

The problem is the gap between what is perceived as the rights of Papua’s indigenous people in managing and exploiting natural resources from their indigenous forests – their own land – and what is permitted by the government under prevailing regulations. While the central government and environmental groups promote sustainable forestry management in Papua, the people of Papua are not satisfied with the proposed framework, which they feel does not give Papua’s indigenous communities immediate economic benefits. This issue was discussed by Papua Walhi Director Aihes Rumbekwan in a meeting between Papua administration representatives and United Nations Office on Drugs and Crime (UNODC) country manager Collie Brown to combat illegal logging and illegal mining in Papua.²⁵

Indigenous Papuan communities, organized by Robby Kbarek, responded angrily to the ministry’s raids in Surabaya and Makassar by holding a demonstration and blockading the forestry ministry’s offices in Papua, as well as the offices of the Papua Forestry Agency. They felt the raid to enforce the SVLK ignored their rights to manage indigenous forests in the way that gave them the highest economic benefits. They even demanded that the confiscated timber be returned to them because it had been acquired from their forest.²⁶

Even though their demands are perplexing, they are not surprising at all. Francis Fukuyama in his book *The Origins of Political Order* discussed this issue when discussing political development in Melanesia. Under their tribal social system, the job of politicians is to bring in as many resources as possible for the good of their tribe or community. The idea of benefitting the provincial government, which includes other tribes, or the central government, is not their priority. The question is whether the SVLK could be tailored to bridge the gap in understanding in Papua.

²⁴ Beritasatu.com, “Ratifikasi FLEGT-VPA memperkuat SVLK.” 2 March 2014 <https://tinyurl.com/y8e6qo8b>

²⁵ Tabloidjubi.com, “Masyarakat adat harus mendapat akses legal pengelolaan hutan.” 9 October 2018 <https://tinyurl.com/y76vxvz4>

²⁶ LegalerIndonesia.com, “Masyarakat adat Papua palang kantor KHLK Papua.” 14 January 2019 <https://tinyurl.com/y72d58eg>

Macroeconomic update: Is the sudden drop in December's oil and gas import volume a good or bad sign?

On Jan. 7, President Joko “Jokowi” Widodo delivered an upbeat speech over the state of the economy in 2018, citing that over the year the economy was estimated to have grown by 5.15 percent, with low inflation at 3.5 percent.²⁷

Takeaway:

- Despite higher estimated real economic growth in 2018 at 5.15 percent, Indonesia's trade account recorded a deficit of \$8.6 billion, a sharp turn from 2017's trade surplus at \$11.9 billion.
- The falling non-oil and gas trade surplus, from \$18.3 billion to \$3.8 billion, and the widening oil and gas trade deficit, from \$8.6 billion to \$12.4 billion, are the causes, exacerbating Indonesia's current account position that has been in the red since 2012.
- A sudden fall in global oil prices in November last year as well as in the December oil and gas import volume might ease the deficit pressure on the trade account, but there is a possibility that a sudden drop in the December oil and gas volume import indicates weaker economic performance in the future.

Background: The year 2018 was a crucial year for President Jokowi. In the face of the upcoming 2019 presidential election, he needed to show voters that the economy was on a good trajectory under his stewardship. However, real economic growth has stagnated at around 5 percent since he assumed the presidency in 2014.

To stimulate the economy, President Jokowi boosted government expenditure. He did so in 2015 and early 2016, but the economy did not budge an inch. This time the economy responded to the President's expansionary fiscal policy. In fact, the economy had already shown signs of recovery that started with positive export and import growth in the fourth quarter of 2016 and rising domestic investment at 7 to 8 percent from below 5 percent since the second half of 2017.

Despite President Jokowi's fiscal policy success in boosting real economic growth, the economy suffered from a trade deficit of US\$8.6 billion. The deficit was caused by the President's fuel and electricity subsidy policy,²⁸ as well as rising trade protectionism in 2018²⁹. While the trade deficit from oil and gas widened to \$12.4 billion in 2018 from \$8.6 billion in 2017, the surplus from non-oil and gas trade shrank to \$3.8 billion from \$18.3 billion.

Indonesia's \$8.6 billion full year trade deficit in 2018, announced by Statistics Indonesia on Jan. 15, is a cause of worry. It confirms Bank Indonesia's projection announced last December that the current account deficit would climb above 3 percent of GDP.³⁰ For the business community

²⁷ Antaranews.com, “Presiden: Perekonomian Indonesia tumbuh positif pada 2018.” 7 January 2019
<https://tinyurl.com/yap2oan3>

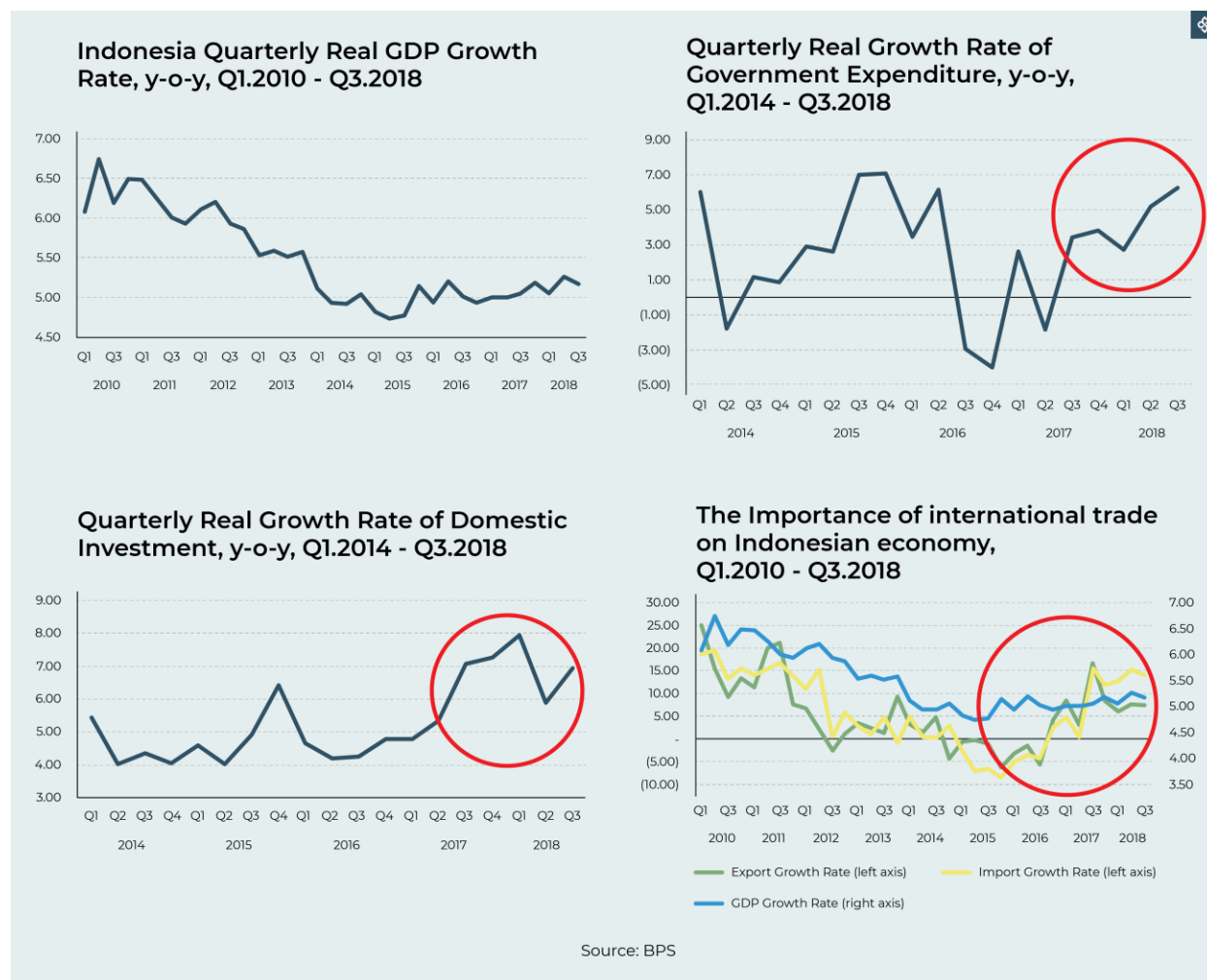
²⁸ CNBCIndonesia.com, “Realisasi APBN 2018: lifting migas meleset, subsidi BBM jebol.” 2 January 2019
<https://tinyurl.com/yc9zjljv>

²⁹ Bloombergquint.com, “WTO Chief expresses concerns over increasing protectionism.” 19 March 2018
<https://tinyurl.com/y92wb4bs>

³⁰ CNNIndonesia.com, “BI kerek proyeksi defisit transaksi berjalan jadi 3 persen.” 20 December 2018
<https://tinyurl.com/y9nlf42n>

and investors in the financial market, Indonesia's current account deficit could go to 3.5 percent of GDP.³¹

In response to this problem, Bahana Sekuritas Economist Satria Sambijantoro urged the government to hasten structural reform, reduce Indonesia's dependence on commodity exports such as coal and palm oil while boosting value-added manufacturing export.³² Hastening structural reform is necessary, especially in the face of the widening monthly non-oil and gas trade deficit to \$883 million in December.



Insight: Indonesia's non-oil and gas trade has recorded deficits for three straight months since October. The deficit widened from \$393 million in October 2018 to \$883 million in December 2018, the highest of the year. This development is a legitimate cause of worry, raising a question as to whether Indonesia could generate the required non-oil and gas trade surplus to cover the deficit in oil and gas trade.

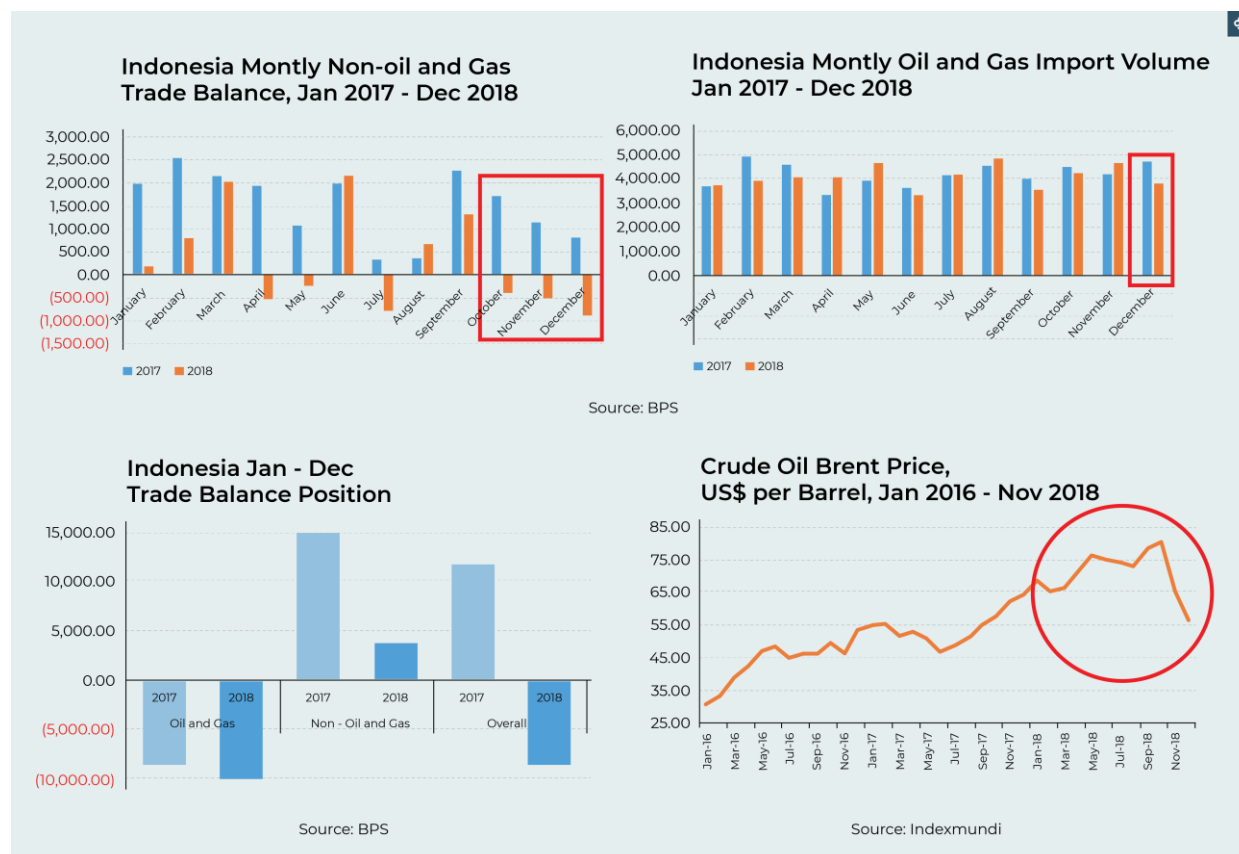
Nevertheless, a sudden fall in global oil prices from \$70.75 per barrel in October 2018 to \$48.95 per barrel in December 2018 might ease the pressure to deliver large a non-oil and gas trade surplus in 2019. Besides falling global oil prices, Indonesia's oil and gas import volume in

³¹ CNBCIndonesia.com, "Waduh, defisit transaksi berjalan bakal bengkak ke 3.5% PDB." 18 December 2018 <https://tinyurl.com/ycjavg8y>

³² Antaranews.com, "Ekonom ingatkan pentingnya pengembangan ekspor bernilai tambah." 15 January 2019 <https://tinyurl.com/yabmsuo4>

December also fell to 3.8 million tons from 4.8 million tons in December last year. Finance Minister Sri Mulyani Indrawati claims that the reduction of oil and gas imports was the result of the government's mandatory 20 percent biodiesel policy.³³

Although this development might ease Indonesia's trade account and current account deficit problems, it might indicate weaker economic performance in the future such as in the case of China. Global investors have been rattled by the weak Chinese economy and their worry has spread to the global oil market.³⁴ It is still unclear whether a sudden drop in the December oil and gas import volume is a sign of weaker economic performance in 2019. Further confirmation from future economic data is needed.



³³ Tribunnews.com, "Sri Mulyani klaim kebijakan biosolar B20 dan PPh Impor berhasil tekan impor." 17 January 2019 <https://tinyurl.com/yb8c6cgw>

³⁴ FT.com, "Oil prices fall 2% as China stokes demand worries." 15 January 2019 <https://tinyurl.com/y8a8hc82>

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