

Highlights of the week



NU takes stand for tolerance

During its national consultation meeting and grand conference last week, Indonesia's largest Islamic organization, Nahdlatul Ulama (NU), displayed a strong stance for national unity. The group issued several recommendations, including a ban on the use of the word *kafir* (infidel), a limitation of fatwas (Islamic edicts), the adoption of Islam Nusantara (Islam of the archipelago), caution over the spread of hoaxes and encouragement of active public participation in the upcoming general elections.



Plastic bags suffocating Indonesian policy makers

On March 1, the Association of Indonesian Retailers (Aprindo) announced that its members in Jakarta and surrounding townships would charge shoppers for plastic bags, ahead of a long-awaited plan to reduce their use in Jakarta. The Indonesian capital has been entertaining the idea since December, but Jakarta Governor Anies Baswedan appears to be struggling to sign a draft policy that has been drawn up by his staff. It is speculated that the powerful plastic industry lobby, the last remaining voice to oppose the plan, is holding back the governor.



Indonesia looks to adopt 5G, but not anytime sooner

Indonesian government officials announced on the sidelines of the 2019 Mobile World Congress in Barcelona late last month that Indonesia would soon adopt 5G technology. Implementation, however, would not be anytime soon as Indonesia still lacks the infrastructure and regulatory support to adopt it. 5G technology is essential for a country which seeks to become a digital economy and implement Industry 4.0, which Indonesia under President Joko "Jokowi" Widodo has aspired to.



Major airlines allegedly behind airfare surge

Air transportation users and courier customers have borne the brunt of rising airfare and cargo tariffs charged by airlines, who had no alternative but to increase fares to compensate for losses last year and the year before due to rising fuel prices and weakening rupiah. Air transportation users were again surprised by the fact that AirAsia tickets mysteriously disappeared from the country's most popular online travel agents, Traveloka.com and Tiket.com. AirAsia's shocking decision to withdraw its ticket from these platforms opened a Pandora's box in Indonesia's commercial aviation sector.

POLITICS

NU takes stand for tolerance

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Takeaways:

- Most of the recommendations made by the NU during its grand conference fit into two categories, namely recommendations based on the NU's political interests and recommendations based on the NU's long-term strategic interests.
- The NU's recommendations concerning Islam Nusantara, hoaxes and election abstention might be politically-motivated, namely to bolster Jokowi-Ma'ruf's candidacy. Meanwhile, the remaining recommendations are more likely to reaffirm the organization's strategic national influence.
- While some NU members renounce Ma'ruf's candidacy as opposed to the organization's espoused distance from politics, it is indisputable that NU cadres have long been involved in domestic politics.

Background: The NU made a number of recommendations in the course of its national consultation meeting and grand conference in Banjar, West Java. Describing itself as a moderate, peaceful and humanitarian organization, the NU, through its recommendations, emphasized the importance of transforming controversial interpretations of Islamic teachings and recontextualizing particular religious perspectives to become more relevant in the contemporary era. To do this, the recommendations are expected to firmly establish equality between the *ukhuwwah Islamiyah* (fraternity of Muslims), *ukhuwwah wataniyyah* (fraternity of citizens) and *ukhuwwah basyariyyah* (fraternity of humankind), highlighting the equal importance of solidarity among Muslims and between Muslims and non-Muslims.

The NU's recommendations reflect its concerns about government policies related to sustainable and renewable energy, hoax eradication, peace in Papua, alternatives to tobacco and the so-called Industry 4.0. In addressing these concerns, the NU proposes several measures, including adopting a moderate view of Islam known as Islam Nusantara, prohibiting the use of the word *kafir*, streamlining the issuance of fatwas, encouraging active public participation in the upcoming general elections, reestablishing mosques as centers of social movements, promoting small and medium tobacco enterprises with lower risks and creating an environment apt for the Fourth Industrial Revolution.

With the NU's event conducted a week after Muhammadiyah's national congress, comparisons between the NU's and Muhammadiyah's views are inevitable, especially since the two

¹ *Tempo.co*, "Berikut Poin-poin Rekomendasi Konferensi Besar NU" March 2, 2019 <https://tinyurl.com/y2toxxag>

organizations are often depicted as rivals. Compared to Muhammadiyah's positions, the NU's recommendations reflect a strong stance in favor of tolerance. However, the NU's seemingly close ties with domestic politics and pragmatism might be one of the reasons behind its daring posture. How can the NU's recommendations, thus, shape domestic politics ahead of the general elections?

Insight: While, at first glance, they may appear scattered and unrelated, the NU's recommendations can generally be divided into two broad categories, namely recommendations based on the organization's immediate political interests, that is to accommodate current political circumstances ahead of the upcoming elections, and recommendations based on the NU's long-term strategic interest, that is to strengthen its influence on strategic national issues. With regard to the first category, the NU is likely to achieve its short-term political interest, which is to ensconce its political stature through the nomination of the incumbent, President Joko "Jokowi" Widodo, and his running mate, Ma'ruf Amin, through several recommendations. Indeed, as the former *rais 'aam* (supreme leader) of the NU, Ma'ruf's candidacy might elevate the NU's political stature, especially if he wins the election.

To help the Jokowi-Ma'ruf ticket triumph, thus, one course of action the NU can pursue is to rally and preserve the support of NU elites and members for the pair as well as to safeguard the trust of NU members in the candidate pair. This was realized through the NU's latest grand conference, where the organization implicitly reaffirmed its preparedness to ensure Jokowi-Ma'ruf's victory not only in its traditional strongholds, such as East Java, but also in other regions of the country. Furthermore, the conference served as a "warning" for the opposition that the NU was ready to counter its frequent use of identity politics.

Such a move is requisite given that the NU has yet to fully fortify its members' support for Jokowi and Ma'ruf, as indicated by a number of surveys.² A survey by Alvara Research Center in August 2018, for instance, found that Jokowi-Ma'ruf had only secured support from 53.8 percent of NU members, while 35.7 percent of NU members supported Prabowo-Sandiaga. Meanwhile, an Indonesian Survey Institute (LSI) survey in December 2018 revealed a slight increase, with 56.6 percent of NU members supporting Jokowi-Ma'ruf and 28.6 percent supporting Prabowo-Sandiaga. The latest survey conducted by Populi Center in January 2019 found that the number of NU members supporting Jokowi-Ma'ruf had decreased to 54.1 percent, while those supporting Prabowo-Sandiaga had increased to 31 percent.

A number of the NU's recommendations manifest its short-term political interests. To parry identity politics often employed by the opposition, several NU recommendations seek to counter public accusations of Jokowi, particularly those claiming he was anti-*ulema* or even Islamophobic.

Specifically, the NU recommends an end to the use of the word *kafir*, claiming such a derogatory reference might exacerbate a schism between Muslims and non-Muslims in Indonesia at a time of rampant religious persecution.³ Undeniably, with the rise of religious intolerance, the word *kafir* holds considerable political power, particularly in securing votes from Muslims and building legitimacy. In the 2017 Jakarta gubernatorial election, Ahok as a Christian governor lost his bid for reelection because of conservative groups' denunciation of Muslims who vote for non-Muslim candidates, labelling those who support non-Muslim candidacy as *kafir*.⁴ Fear of

² Majalah.tempo.com, "Percaturan Nahdlatul Ulama" 2 March 2019 <https://tinyurl.com/y4mm2e7av>

³ Tempo.com, "PBNU Jelaskan Alasan Usul Hapus Sebutan Kafir" 2 March 2019 <https://tinyurl.com/y3zmadb4>

⁴ BBC.com, "Pilkada DKI Jakarta: Faktor-faktor apa saja yang menyebabkan kekalahan Ahok-Djarot?" 21 April 2017 <https://tinyurl.com/yxqnggo8>

religious sanctions and intimidation, thus, often impedes Muslim voters from voting for non-Muslim candidates or Muslim candidates affiliated with non-Muslims. For Jokowi, this is a warning, as he is often associated with Ahok and is backed by the Indonesian Solidarity Party (PSI), which is often accused of Islamophobia.

Second, the NU recommends strong action against hoaxes and hate speech ahead of the April general elections and highlights the urgency of digital literacy to overcome the issue. Countering hoaxes, according to the NU, is akin to the preservation of common sense, which is, according to Islam, one of the essentials that must be protected.⁵ This is another bold move, as the number of circulating hoaxes related to the 2019 presidential election is three times that of hoaxes circulated in the 2014 election. Most of the hoaxes target Jokowi, labeling the President as anti-Islam.⁶

Aside from countering the rampant use of identity politics, the NU also takes part in addressing another grave concern of the Jokowi-Ma'ruf camp, that is the increasing popularity of *golput* (abstention). Previously, a survey commissioned by Indikator predicted that the number of voters abstaining from the upcoming election will exceed 20 percent.⁷ *Golput* has been widely discussed on social media platforms, mostly led by Jokowi supporters.⁸ Indeed, it is reported that a considerable portion of Jokowi's supporters is toying with the idea of abstaining due to their disappointment with Jokowi's performance. To tackle this concern, the NU discourages its members from abstaining from the election, as every individual, according to the NU, had to exercise their electoral rights responsibly.⁹ By exercising their right to vote, it is hoped that NU members can take part in realizing a more democratic and legitimate government.

Other than its political recommendations, the NU also offer various recommendations that illustrate its objective to strengthen its influence on national strategic issues. In regard to strategic issues, to date, the NU's involvement has been mostly limited to issues managed under the Religious Affairs Ministry. A number of NU recommendations, however, indicate that the organization is ready to expand its influence over strategic issues outside the scope of the Religious Affairs Ministry.

In regard to a separatist movement in Papua, the NU strongly recommends that the government review Law No 21/2001 on Papuan Special Autonomy provisions that have yet to be implemented. This, according to the NU, is one of the main culprits behind pervasive separatism in the easternmost territory. Although the organization has repeatedly expressed its opposition to separatism, the history between the NU and Papua is long and complex, starting with the decision of Abdurrahman "Gus Dur" Wahid's, former NU chairman and Indonesian president, to change the name of the province from Irian Jaya to locally-preferred Papua. This, according to the NU, indicates the organization's major interests in preserving peace and justice in Papua. Its

⁵ *Sindonews.com*, "Rekomendasi Munas Alim Ulama: Hoaks dan Hasutan Kebencian Harus Dilawan" March 1, 2019 <https://tinyurl.com/yyagxye7>

⁶ *Tempo.co*, "PoliticaWave: Ada 10 Isu Hoaks di Media Sosial Serang Jokowi" Feb. 7, 2019 <https://tinyurl.com/y3lgin4r>

⁷ *Tempo.co*, "Indikator Perkiraan 20 Persen Pemilih Golput di Pilpres 2019" Jan. 8, 2019 <https://tinyurl.com/y5enlf9q>

⁸ *Majalah.tempo.co*, "Lampu Kuning Golongan Putih" Feb. 1, 2019 <https://tinyurl.com/yye3jcu2>

⁹ *Tempo.co*, "Munas Ulama NU Rekomendasikan Warga NU Tidak Golput" March 1, 2019 <https://tinyurl.com/yyksd9jn>

recommendation, thus, highlight the importance of a cultural, moderate and persuasive approach involving religious figures and communities in addressing separatism.¹⁰

Another strategic issue deliberated by the NU is alternative products for tobacco. NU argues that the livelihood of its members is correlated with tobacco; not only are most of them smokers themselves, a considerable number of NU members also work in tobacco-related fields. The economic benefit of and health disadvantage caused by tobacco industry, thus, should be considered equally. To do this, the NU recommends that the government promote alternative products with lower health risks. The NU also recommends tobacco regulation that is pro-people and pro-micro, small and medium enterprises (UMKM). Indeed, the NU has been a strategic lobbying partner of tobacco industry players grouped under the Indonesian Cigarette Producers Association (GAPPRI). When the finance minister issued Ministerial Regulation No. 146/2017 on simplifying the cigarette excise to increase excise revenue, the NU voiced its opposition, arguing that the regulation could cut jobs in the tobacco industry, especially the small-scaled industry.

Although in general the NU's recommendations are much firmer than Muhammadiyah's, the NU has been criticized as too political and partial. It is reported that a portion of NU members, grouped under the name of Komite Khittah NU (NU Khittah Committee), has questioned Ma'ruf's candidacy, arguing it was against the NU's principle of "return to *khittah*" (staying out of politics).¹¹ It may not be a coincidence that some of the clerics who actively participate in the committee have expressed their support for Prabowo-Sandiaga.¹²

Despite NU's denial that its latest conference was politically motivated, it is obvious that the NU and its members have participated actively in domestic politics. Since the Reform Era, every presidential election had at least one NU cadre as candidate. In the 2004 election, for instance, Gus Dur and Hasyim Muzadi, NU chairman at the time, and NU-affiliated Jusuf Kalla were nominated as candidates. In the 2009 election, Kalla, ran for president but lost to the incumbent, Democratic Party-backed Susilo Bambang Yudhono. In 2014, Kalla was nominated again as running mate of Jokowi and the two won. Now, Ma'ruf joins forces with President Jokowi in facing Prabowo-Sandiaga. Regardless of the outcome of the elections, it is without a doubt that the NU will play a major part in choosing the victor.

¹⁰ *Nu.or.id*, "Untuk Perdamaian Papua, Munas NU Desak Pemerintah Evaluasi UU Otonomi Khusus" March 2, 2019 <https://tinyurl.com/yzzfcugm>

¹¹ *Majalah.tempo.co*, "Latah Kembali ke Khittah" March 2, 2019 <https://tinyurl.com/yyxocfuv>

¹² *Ibid.*

Plastic bags suffocating Indonesian policy makers

On March 1, the Association of Indonesian Retailers (Aprindo) announced that its members in Jakarta and surrounding townships would charge shoppers for plastic bags, ahead of a long-awaited plan to reduce their use in Jakarta.

The Indonesian capital has been entertaining the idea since December, but Jakarta Governor Anies Baswedan appears to be struggling to sign a draft policy that has been drawn up by his staff. It is speculated that the powerful plastic industry lobby, the last remaining voice to oppose the plan, is holding back the governor. Aprindo had earlier objected but has now decided to go ahead on its own in the absence of a government policy. Although two cities in Kalimantan -- Banjarmasin and Balikpapan -- are ahead of the game in restricting the use of plastic shopping bags, the rest of the nation looks to Jakarta to set the tone. That, apparently, is not forthcoming yet.

Takeaways:

- Indonesia, named as the second-worst marine plastic polluter, dumped 3.32 million tons of plastic waste into the sea in 2010. By 2025, at the current trajectory, that amount will surge to 7.42 million.
- A big part of the problem lies with policymakers rather than with the people. Throughout the years, the government has put on a great show of campaigning against plastic waste, but gradually, city administrations ceased their campaigns. Much may depend on Jakarta, a city of 10.5 million people, to set the national attitude toward plastic waste management.
- It is reported that Jakarta has formulated a draft policy that curtails the use of plastic in the city. The draft policy still needs Governor Anies Baswedan's signature, who said he still needed to review it.
- Pending Anies' decision, some small private initiatives have been introduced. However, a much bigger and more effective and concerted campaign is needed to seriously cut back on the use of plastics in the country.

Background: Indonesia has been struggling to curtail the use of plastics, particularly shopping bags and drinking water that come in plastic bottles or cups. Evidence of their presence is visible everywhere, not just in trash cans, but on the streets, riverbanks and the country's many beaches. A video that went viral last year showed how fish and coral reefs in waters off Bali, Indonesia's number one holiday resort, are choked by large swaths of plastic waste. A photo also went viral last year of a dead sperm whale washed ashore in Sulawesi, with 6 kilograms of plastic waste in its stomach.

A 2015 report in the *Science* journal named Indonesia as the second worst marine plastic polluter after China. It said in 2010, Indonesia dumped 3.32 million tons of plastic waste in the sea, as against 8.82 million by China. By 2025, at the current trajectory, that amount would reach 7.42 million for Indonesia and 17.8 million for China.

A big part of the problem is with policy makers rather than with people's heavy addiction to plastics, or their habit of littering. Indonesia put on a great show when it hosted the Oceans Summit in Bali in October, committing itself, along with other nations, to tackle marine plastic debris. Ministers were seen in photos picking up trash on Bali's beaches. But there is a huge difference between official rhetoric and the reality on the ground.

In 2016, the government, led by the Ministry of Environment and Forestry, launched a concerted campaign to cut back on the use of plastic bags. Shoppers, aware of their environmental hazards, were rapidly adjusting to find alternatives to plastic bags or paying extra for each plastic bag. But two months into the campaign, city administrations withdrew from the campaign. The Jakarta administration was among the first, declaring that the campaign was not working or effective. Soon enough, shoppers went back to using plastic bags.

Jakarta, a city of 10.5 million people, has one of the toughest problems. It is constantly fighting with neighboring Bekasi, which hosts a landfill that absorbs 700,000 tons of garbage that is disposed of by Jakartans every day, of which 14 percent is plastic waste. The Jakarta Office for the Environment said more than 300 million plastic bags were being disposed of by residents every year.

If much depends on Jakarta in setting the national tone, then much depends on Anies to take the initiative. Taking a tough stance against plastic use would go down well for the governor known to have presidential ambitions for 2024. But other interests apparently weigh heavy on him.

Insight: In December, news leaked that Jakarta was about to launch a campaign to curtail the use of plastic shopping bags beginning in the new year. A draft of the new policy suggested that shoppers would have to pay between Rp 200 and Rp 2,000 for each plastic bag. The draft also said retailers, who continued to offer plastic bags, would be fined between Rp 5 million and Rp 25 million.

The draft policy just needed Anies' signature, his staffers said. This last remark invited a rebuke from the governor himself, who said he needed to review the details of the policy, adding that he needed to hear various objections too.

Rumors circulated again in late February about the imminent implementation of the policy beginning in March. Anies again offered the same answer: He still needed to review the policy before putting his signature on it. But this time around, instead of talking about a ban on plastic bags, the wording had been toned down to promote the mono-use of plastic bags.

Aprindo, which wrote an objection to Anies in December, has decided to implement its own campaign, Kantong Plastik Tidak Gratis (Plastic Bags Aren't Free), from March 1, encouraging its members to charge shoppers. Its members include minimarket chains Alfamart and Indomart, which have mushroomed in Jakarta, most cities and towns. Reports in the first week of March suggest, however, that not all members are heeding the association's appeal, which is not binding.

Jakarta is not alone in planning to ban or reduce the use of plastic bags. Depok and Bogor have already started trial runs. In Bogor, the regency administration has even started its own campaign called Bogor Antik (Anti-Plastic Bogor).

The various campaigns inevitably spooked the plastic industry. The Association of Indonesian Plastic Industry (Inaplas) wrote to Anies in December objecting to the plan. It had apparently also written to the heads of other local administrations, including Banjarmasin which had gone ahead with the plan, as well as Bandung, Bogor and Denpasar, which are contemplating similar moves.

Inaplas cautioned that the ban would kill the plastic recycling industry in the country, which involves small and medium enterprises. Thousands of people earn their livelihood in Indonesia

as scavengers and plastic waste is among the most profitable items thanks to the recycling business. It admitted that plastic bags accounted for about 14 percent of the production of the nation's plastic industry.

Inaplas suggested a better waste management system be put in place as a way of containing the plastic bag problem. It also warned that a plan to impose excise on plastic bags, now being contemplated by the Finance Ministry, would only encourage smuggling. Pending Anies' decision, there are some private initiatives already going on, albeit on a small scale.

A movement against the use of plastic straws launched in September is growing and it is enlisting restaurants to its cause, including the popular Kentucky Fried Chicken. A much bigger and more effective and concerted campaign is needed to seriously cut back on the use of plastics in Indonesia. No one for now has addressed the widespread sale of drinks packaged in plastic bottles and cups, which is an industry dominated by giants.

Issue update: AHY takes the reins – Future of Democratic Party

Background: Following his wife's hospitalization for blood cancer, Democratic Party chairman and former president Susilo Bambang Yudhoyono (SBY) announced his withdrawal from election-related activities and named his eldest son, Agus Harimurti Yudhoyono (AHY) as his replacement.

In his acceptance speech on March 1, AHY, who heads the party's Joint Command (Kogasma) for the 2019 elections, said he would prioritize efforts to help the Democratic Party perform in the legislative election. AHY rued the fact that the simultaneous elections had divided political parties and voters behind presidential candidates, Joko "Jokowi" Widodo with running mate Ma'ruf Amin and Prabowo Subianto with Sandiaga Uno. This situation, AHY said, disadvantaged medium-sized parties like the Democrats, who do not have any presidential or vice-presidential candidate.

Despite being part of the coalition supporting Prabowo and Sandiaga, the Democratic Party appears to be taking the middle way, as suggested by AHY speech. Some speculate that AHY made the decision due to the uncertainties looming over the presidential election; Prabowo and Sandiaga have yet to show a high electability rate and AHY is also aware that many Democratic Party members in the grassroots level support Jokowi and Ma'ruf.¹³ Some political flexibility is thus needed.

Indeed, the Democratic Party has been accused of being fickle. After Prabowo chose Sandiaga over AHY as his vice-presidential candidate, it has demonstrated lukewarm support for the pair. Last September, the party even granted its members the freedom to support any of the presidential candidates, despite the party's official support for Prabowo and Sandiaga. Now that AHY has been mandated by his father to lead the party's charge, will the Democrats be even more flexible than before?

¹³ *Detik.com*, "Pidato AHY Dinilai Tunjukkan Demokrat Ambil Posisi Tengah di Pilpres" 2 March 2019 <https://tinyurl.com/yyec6583>

What we've heard: SBY had planned AHY's appointment since November 2018. Originally, SBY wished to hand over the mandate to AHY while they were on the campaign trail in several regions known as the Democrats' strongholds sometime in January 2019. But the plan changed when SBY had to focus on his wife's treatment.

Although realizing Jokowi's electability rate is still stronger than Prabowo's, SBY does not want to lose face in front of Jokowi and Indonesian Democratic Party of Struggle (PDI-P) chairwoman Megawati Soekarnoputri. Thus, SBY's main priority is to maintain the party's performance in the 2014 election, with at least 10 percent of the vote.

Other than to secure votes in particular regions, the party also aims to increase Prabowo-Sandiaga's electability. In this case, replacing SBY are Soekarwo and Nachrowi Ramli. The former is the Democrat's greatest lobbyist, while the latter is a retired Army general. Soekarwo is responsible for securing the "eastern region", while Nachrowi will focus on the west. For Soekarwo, who has a strong basis in East Java, it is hoped that he can help to realize SBY's top priority. If voters coincidentally support Prabowo-Sandiaga, then he can also help SBY achieve his second objective.

Other than East Java, Soekarwo has reportedly been asked to woo votes for the party in West Nusa Tenggara, Sulawesi and Papua. Furthermore, Soekarwo is also expected to lure voters in Central Java through key figures in Nahdlatul Ulama (NU), with whom he is well-acquainted.

Meanwhile, Nachrowi has been assigned to conduct operations in West Java and Banten.

In regard to Jakarta, the Democratic Party is still struggling to repeat its achievement in 2014. It is likely that votes for the Democratic Party in Jakarta will decrease.

AHY himself will focus on Sumatra, especially Democrat stronghold Aceh, followed by North Sumatra and West Sumatra. These regions are quite challenging for AHY as the Golkar Party and NasDem Party also have strong constituents in the regions.

In short, AHY's appointment will provide him the first opportunity to consolidate the Democratic Party, after previously campaigning for Democrat candidates in the 2018 regional elections.

The Prabowo-Sandiaga camp hopes that AHY can boost their confidence. Indeed, uncertainty has lurked since SBY decided not to be directly involved in wooing voters. Previously, SBY was expected to campaign in Central Java, West Java and, most importantly, East Java.

However, the Gerindra Party, the Prosperous Justice Party (PKS) and the National Mandate Party (PAN) still cherish the hope that AHY can become a great commander in securing votes for Prabowo and Sandiaga.

BUSINESS & ECONOMIC POLICY

Indonesia looks to adopt 5G, but not anytime sooner

Indonesian government officials announced on the sidelines of the 2019 Mobile World Congress in Barcelona late last month that Indonesia would soon adopt 5G technology.

Implementation, however, would not be anytime soon as Indonesia still lacks the infrastructure and regulatory support to adopt it.

Takeaways:

- Indonesia is one of the first countries in the region to adopt 5G technology, despite the fact that its internet speed using 4G technology is the slowest in the region.
- 5G technology is essential for a country which seeks to become a digital economy and implement Industry 4.0, which Indonesia under President Joko “Jokowi” Widodo has aspired to.
- Adoption of 5G technology will need the necessary technology infrastructure and regulatory support.
- The completion of the Palapa Ring project, as the backbone of digital communications, will support the adoption of 5G technology.
- The government aims to issue regulatory support later this year, including clearing the frequencies required for 5G technology.
- Indonesia will likely see the commercial adoption of 5G technology only after 2021, or three to four years after China and South Korea, which will adopt it this year.

Background: Indonesia is one of the first countries in Southeast Asia to have announced such an ambitious target of adopting 5G technology, despite the fact that its internet speed using 4G technology is the slowest in the region.¹⁴

The announcement, nevertheless, has created an online buzz among domestic observers, inciting excitement between technology users and enthusiasts who believe that the greater bandwidth capacity would help Indonesia to truly enter the digital and information age. The number of news stories covering 5G technology in Indonesia, monitored between Feb. 28 and March 5 this year, showed a significant increase.

In Southeast Asia, Indonesia is one of the countries that have tested 5G, along with Singapore, Malaysia, the Philippines, Thailand, Vietnam and Cambodia.¹⁵ Indonesia launched the trials for its own 5G network in Jakarta and Palembang during the 2018 Asian Games.

Communications and Information Minister Rudiantara said the government was preparing the necessary regulations for 5G this year -- including the allocation of the frequencies for 5G -- to facilitate more trial runs for enterprises and industries in 2020. Rudiantara added that the trial run targeted enterprises and industries because 5G was more feasible for them than for general consumers.

¹⁴ *Tirto.id*, “Jaringan 4G masihterlelet di ASEAN, Indonesia sulitkebut 5G,” Feb. 26, 2019, <https://tinyurl.com/y5latmk6>

¹⁵ CIO, “How will 5G impact industries in Southeast Asia?” Feb. 7, 2019 <https://tinyurl.com/y3owd2hm>

5G technology is essential for a country which seeks to become a digital economy and enter Industry 4.0, which Indonesia under Jokowi has aspired to. Unlike the upgrade of wireless networks in the past, 5G will deliver not only faster phone and data transfers, but also help connect not only humans, but also humans to machines and machines to machines, that underpin future technology such as self-driving cars. 5G technology will help with the future development of smart cities.

Insight: 5G technology is certain to take the economy to the next level, but Indonesia's readiness to adopt the technology anytime soon is questionable. It still lacks both infrastructure and regulatory support. The frequencies required for 5G are still being used for many applications from walkie-talkies to car alarm signals and satellite service for the military and it needs time to clear them. And most of all, its application would be limited to enterprises and industries as it would be too costly for individual consumers to have the 5G service. 5G requires almost the identical backbone infrastructure as 4G, which consists of lay-off fiber optic networks and base transceiver stations (BTS). The only difference lies in the adjustment of the BTS to high transceiver stations (HTS) in order to transmit higher frequency bands. The good news is that 5G transformation is cheaper than 4G transformation from 3G. However, Indonesia is far from ready to transform 4G, and the incomplete 4G infrastructure will likely hinder 5G adoption.

Multiple reports have suggested that Indonesia's 4G network is still far from covering the entire population. According to wireless coverage mapping company Open Signal's 2018 The State of LTE report, Indonesia's 4G LTE availability level was at 72.39 percent.¹⁶ Indonesia is ranked below Thailand and Malaysia whose 4G LTE network availability reach 85.6 and 74.88 percent, respectively.

Meanwhile, Indonesia's ambitious fiber optic lay-off project, the Palapa Ring, is not yet at 100 percent. The project, which is the backbone of digital communication, aims to plant fiber optic networks spanning 12,148 kilometers across the western and eastern parts of Indonesia. The government completed the West Ring (Java-Sumatra-West Borneo) and Central Ring (East Borneo-Sulawesi-Bali-Nusa Tenggara-North Maluku) last year, while the East Ring (Maluku-Papua) completion reached 88.14 percent as of December last year.¹⁷ Reports suggest it will take time for the project to be finalized and the rings to be fully integrated before they become operational, meaning that the completion of the West and Central Rings does not necessarily imply Indonesia is ready for 5G.

Another challenge for the government is preparing a regulatory framework for refarming -- a term used to define the reorganization of frequency bands. Communications and Information Minister Rudiantara said the ministry was currently pushing for a draft regulation that allowed it to reallocate frequency band slots because the 3.5 GHz band -- the best frequency for 5G -- was currently being used by satellites and VSAT, which mostly served the military.¹⁸ Looking at how the military has been overly rigid over changes that might affect their operations, this process will likely to take some time as well.

¹⁶Open Signal, "The State of LTE (February 2018)," February 2018, accessed on March 4, 2019, <https://tinyurl.com/y22nfw7w>

¹⁷Deficient, "Selesaidibangun, Palapa Ring Tengah Laris Manis," Dec. 23, 2018, <https://tinyurl.com/y2234tx9>

¹⁸Suara.com, "Rudiantara: Frekuensijadikendalapenerapan 5G di Indonesia," Aug. 20, 2018, <https://tinyurl.com/y6znvgf4>

4G LTE VS 5G

	4G LTE	5G
Top Speed (Gbps)	1	20
Data download and upload speed at user's level (Mbps)	10	100
Latency	10	20
Number of coverage (unit/km ²)	100,000	1,000,000

Source : *Bisnis Indonesia*

NUMBER OF BTS CURRENTLY BEING OPERATED (UNIT)

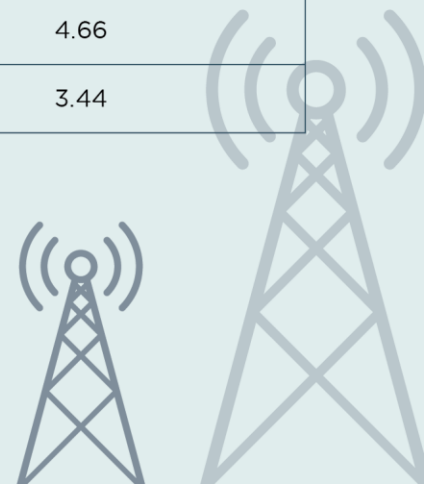
OPERATOR	QIV/2018	QIII/2018	QII/2018	QI/2018
Telkomsel	N/A	183,283	175,683	167,649
XL Axiata	118,596	116,134	111,789	105,792
Indosat Ooredoo	N/A	67,002	66,373	64,375

Source : *Bisnis Indonesia*

4G LTE SPEED AMONG INDONESIAN OPERATORS IN 2019 (MBPS)

OPERATOR	AVERAGE DOWNLOAD SPEED	AVERAGE UPLOAD SPEED
Telkomsel	8.06	5.79
XL Axiata	6.68	5.01
Indosat Ooredoo	3.63	2.95
Smartfren	14.77	4.66
Tri	3.15	3.44

Source : 2019 NPREF



Even when 5G technology is ready to be rolled out in Indonesia, people in general will not be able to enjoy the service immediately because the government will focus first on its application to enterprises and industries. Rudiantara said 5G was more compatible for industrial use rather than for personal use due to its bandwidth size and high cost factors. "Commercial use of 5G will be too costly for personal use because it exceeds people's purchasing power."¹⁹ The beneficiaries of 5G technology will be limited in densely populated areas and industrial estates because its application in less-densely populated rural communities will be too costly. Without government subsidies, less-densely populated areas would have to pay exorbitantly fees to have 5G services.

With Indonesia having so many things to fulfill before it adopts 5G, it is only reasonable to expect that the technology will be publicly available only after 2021 because one industry player said Indonesia's adoption of technology usually lags three to four years behind the most technologically advanced countries in Asia -- China and South Korea -- which commercially implemented 5G technology this year.

Issue update: Garuda, Lion allegedly behind airfare surge, Traveloka fiasco

Background: Air transportation users and courier customers have borne the brunt of rising airfare and cargo tariffs charged by airlines, who had no alternative but to increase fares to compensate for losses last year and the year before due to rising fuel prices and weakening rupiah.

The airfare and cargo increases were spearheaded by state-owned Garuda Indonesia group, including Citilink and now NAMA Air and Sriwijaya Air, and the Lion Air group. Together, they control more than 80 percent of the domestic market. In terms of airfare, the two groups did not breach any rules as they kept their prices higher than the fare limit set by the government. In terms of cargo rates, the government does not set limits, and therefore, the airlines arbitrarily increased cargo fares several times since the middle of last year.

Garuda Indonesia has raised its air cargo tariffs five times since June 2018. Compared to its June 2018 rates, its cargo rates have increased by between 70 percent and 325 percent, with an average increase of 112 percent. Sriwijaya Air has raised its cargo fare twice, with increases of between 19 and 225 percent, with an average increase of 60 percent. Lion Air has raised its cargo fares four times, with increases ranging from 22 to 176 percent, with an average increase of 61 percent.²⁰

These sharp increases have impacted courier companies and ecommerce businesses. Some courier companies have since diverted their air freight services to a combination of land and sea transport to keep their operational costs low while raising the price of express air cargo. Meanwhile, the Express Couriers Association of Indonesia (Asperindo) has been urging the government to intervene in what it calls unhealthy airline practices to save their own businesses, which had just begun to grow from the burgeoning ecommerce industry.

¹⁹Tirto.id, "Jaringan 4G masihterlelet di ASEAN, Indonesia sulitkebut 5G," Feb. 26, 2019, <https://tinyurl.com/y5latmk6>

²⁰Tempo Magazine, "Kurir terbang mulai tumbang," March 2, 2019.

Big ecommerce players such as Tokopedia, Lazada and Blibli.com have no other choice but to spend more money on delivering their goods quickly to customers. Although they can bear the rising cost, for now, Tokopedia vice president for logistics Anthony Wijaya warned that the situation would eventually affect everyone in the value chain – from customers and vendors to marketplaces – in the long run.

But the story does not end there. Air transportation users were again surprised by the fact that AirAsia tickets mysteriously disappeared from the country's most popular online travel agents, Traveloka.com and Tiket.com. After failing to get a satisfactory response from Traveloka, AirAsia – one of the most popular budget airlines in Asia – decided to withdraw its tickets from Indonesia's most popular travel site and said it was still waiting for a proper response from Tiket.com.

AirAsia's shocking decision opened a Pandora's box in Indonesia's commercial aviation sector. One government source was quoted by *Tempo* magazine as saying that it was state-owned airline Garuda Indonesia and Lion Air Group who threatened Traveloka and Tiket.com not to offer AirAsia tickets.²¹ The two airline groups were reportedly displeased by AirAsia's reluctance to follow in their footsteps and raise ticket prices. Instead, AirAsia began offering free checked-in baggage of up to 15 kilograms while other domestic budget carriers started to charge for the service. Garuda has denied that it forced Traveloka to drop AirAsia tickets, while Lion Air has yet to comment on the matter.

The Business Competition Supervisory Agency (KPPU) responded to the growing uproar by investigating how the airfare and cargo fare surges initially started and how AirAsia was excluded from Traveloka and Tiket.com. However, the KPPU failed to summon the relevant parties for questioning. It remains to be seen how this issue evolves.

What we've heard: A source at the KPPU said that the antimonopoly body was speeding up its investigation into the recent ticket price hikes and the disappearance of AirAsia tickets from Traveloka and Tiket.com.

The KPPU is focusing its investigation on several fronts, including alleged price fixing done by Garuda and Lion Air both on airfares and cargo fares, Garuda's decision to ban JNE, one of Indonesia's most popular courier companies, from its cargo and the AirAsia ticket issue.

The source said that KPPU investigators had received a tip about a suspected meeting between Garuda Indonesia president director I Gusti Ngurah Askhara Danadiputra and Lion Air Group president director Edward Sirait to start the price increase.

The source also said that Garuda's ban on JNE, beginning Feb. 7, was fueled by Asperindo's letter to President Joko "Jokowi" Widodo, which complained about air cargo tariff increases. Asperindo chairman Mohammad Feriadi, also the president director of JNE, has openly voiced the same protests via the media a number of times.

Three days after the ban became effective, executives of Garuda Indonesia, Asperindo and JNE met to solve the quarrel, in which Garuda agreed to lift the ban immediately. But Garuda lifted the ban only two days later.

²¹ *Tempo Magazine*, "Bertahan murah di langit Asia," March 2, 2019.

Another source, however, believed that the KPPU's investigation into the airline business would not be smooth because Garuda and Lion Air seemed to be buying time when they were asked about information and data. Furthermore, Lion Air has yet to respond to the KPPU's invitations and suggested that the antimonopoly body go to the Indonesian National Air Carriers Association (INACA), who is led by Garuda Indonesia's president director.

The KPPU has also approached Traveloka for an explanation about AirAsia's claim that Traveloka discriminated against the airline by removing AirAsia tickets from its searches. A source at the Indonesian Ombudsman said that AirAsia's missing tickets in Traveloka were Garuda Indonesia's doing, as it had reportedly pressured Traveloka to stop selling AirAsia ticket or it would withdraw from Traveloka.

An investigator at the KPPU hoped that AirAsia could report its suspicions to the antimonopoly body and provide it with a reason to investigate the allegation. However, AirAsia has not filed a report to the KPPU, deciding instead to withdraw its tickets from Traveloka.

MACROECONOMIC UPDATE

Current account deficit still haunts economy in 2019

On Feb. 10, Bank Indonesia (BI) reported that the current account deficit in 2018 increased to US\$31.1 billion – or 2.98 percent of the gross domestic product (GDP), nearly double the deficit from the previous year at \$16.2 billion or 1.6 percent of the GDP.

Takeaways:

- The current account deficit will still be a problem in 2019. As indicated by January trade data, Indonesia might suffer from a trade account deficit this year due to shrinking non-oil and gas exports.
- It is unclear whether capital outflow will become an issue in 2019, but capital outflow is still possible under one condition: a growth recession in China, triggered by a current account deficit this year.

Background: The year 2018 was a difficult one for the economy. In 2018, Indonesia recorded the highest current account deficit in the past 15 years. It was higher than the deficit between 2012 and 2014, when the economy slowed down due to the end of the boom in global commodity prices. The highest deficit in that period was \$29.1 billion.

The 2018 current account deficit was caused by lower-than-expected export growth. Between 2013 and 2016, Indonesia's exports and imports experienced negative growth, caused by the end of the global commodity prices boom. In 2017, there were strong signs of recovery, as shown by the 16.3 percent export growth, 15.7 percent import growth and increasing trade surplus to \$11.8 billion from \$9.5 billion in the previous year. However, export recovery did not continue in 2018 due to the rise of economic protectionism in developed economies. Export growth slowed down to 6.7 percent, but import growth accelerated to 20.2 percent. As a result, Indonesia's trade position reversed from a surplus to a \$8.5 billion deficit.

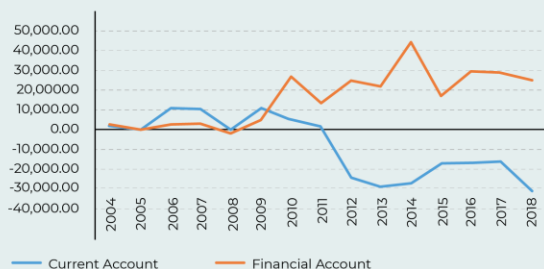
Besides experiencing current account and trade account deficits, the economy also suffered sudden capital outflow in the first and third quarters of 2018. The outflow was the result of the United States Federal Reserve's decision to tighten its monetary policy. As a result of the outflow, the rupiah depreciated to its historic low at Rp 15,200 per US dollar in October 2018.

The outflow ended in the fourth quarter of 2018, marked by a \$10 billion capital inflow. The inflow was the result of the Federal Reserve's announcement in which the US monetary authority decided to relax its monetary tightening policy in 2019 due to a weakening US economic forecast.²² Following this reversal, the rupiah appreciated to Rp 14,500 per US dollar by the end of the year.

Insight: The current account deficit, which came as a result of a weak export performance, and rapid capital outflow that resulted in instability in the rupiah exchange rate were the stories of 2018. In 2019, the current account deficit will still be a problem, as indicated by January trade data. Last January, Indonesia recorded a \$1.1 billion trade deficit, larger than the deficit from the previous year at \$756 million. Moreover, the January export figure shrank 4.7 percent year-on-year (yoy) to \$13.8 billion, followed by a 2 percent yoy decrease in imports to \$15 billion.

²² FT.com, "Fed cuts outlook for US economic growth in 2019." 19 December 2018 <https://tinyurl.com/y4m2pyqh>

Indonesia's Current Account and Financial Account Position, 2004 - 2018



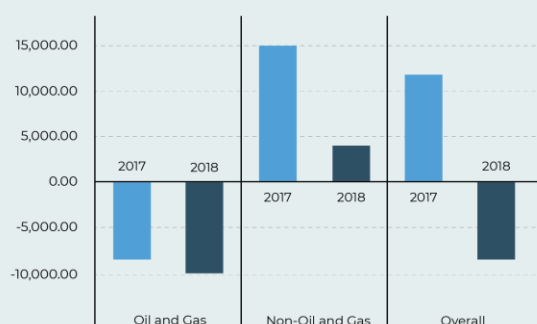
Source: Bank Indonesia

Indonesia Annual Export and Import Growth, 2004 - 2018



Source: Statistics Indonesia (BPS)

Indonesia Jan-Dec Trade Balance Position



Source: Statistics Indonesia (BPS)

Indonesia's Quarterly Direct Investment and Portfolio Investment Position, Q1.2016 - Q4.2018



Source: Bank Indonesia

The import decrease was the result of falling oil and gas imports. Since last December, the oil and gas import volume has been decreasing. The question that has arisen is whether oil and gas imports will keep falling throughout the year. If this is the case, Indonesia might have a lower oil and gas trade deficit this year.

Although non-oil and gas imports in January still grew at 2.2 percent yoy, it is significantly lower compared to the growth rate for January 2018 of 28.7 percent yoy. A sharp decline in non-oil and gas import growth suggests that the government import restriction policy is working.

Nevertheless, the import restriction policy alone is not enough. The government needs an export strategy to combat shrinking non-oil and gas exports. Last January, exports decreased 4.5 percent yoy, compared to 9.1 percent growth in the previous year. If this condition continues, there is a strong possibility that Indonesia will experience a higher current account deficit in 2019.

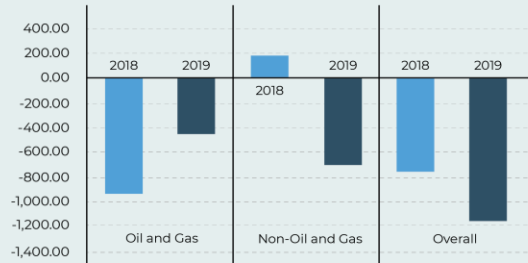
It is unclear whether capital outflow will become an issue for Indonesia in 2019; however, capital outflow might occur under one condition: growth recession in China, triggered by a current account deficit in 2019. According to Joe Quinlan from Bank of America, the possibility of a current account deficit in China would restrict its domestic as well as foreign investments. In turn, less Chinese investment would reduce the demand for global financial assets.²³

²³ Valuewalk.com, "What China's current account deficit means for investors." 6 December 2018

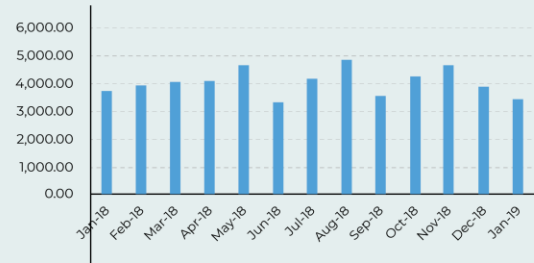
<https://tinyurl.com/ya6dapk7>

For Indonesia, a decreasing global demand for financial assets might lead to rupiah depreciation. Facing the possibility of depreciation, BI would respond with a rate hike, putting the brake on investment and economic growth.

Indonesia January Trade Balance Position



Indonesia Monthly Oil and Gas Import Volume Jan 2018 - Jan 2019



Source: Statistics Indonesia (BPS)

China's Current Account Balance, % of GDP 2001 - 2018



Source: World Bank

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