

Highlights of the week



Can Jokowi manage his grand political coalition?

President Joko “Jokowi” Widodo looks to have it all in his second term now that he is almost assured of winning last month’s election (the formal announcement is not due until May 22). Jokowi sits on a grand coalition of political parties, made even bigger with one or more parties that had opposed his reelection looking to join in. But will he really govern unopposed over the next five years?



Relocating capital city: Same old plan

President Joko “Jokowi” Widodo’s plan to relocate the capital city came as a surprise. With only five months left before his first term ends, the President presented the ambitious plan during a Cabinet meeting. While the plan may astonish some, talk about moving the capital city date back to the era of founding president Sukarno. As past presidents have failed, it remains to be seen whether Jokowi can realize the decades-old plan.



Oil & gas thorough investment policy reform needed

Only two out of five oil and gas blocks on offer received winning investors; the remaining three are to be retendered. At the same time, reports say that Royal Dutch Shell intends to withdraw from the development of the giant Masela gas block. However, the reports, according to our sources, turned out to be untrue, which demonstrates the complications around the Masela project.



BI to see another female senior deputy governor

President Joko “Jokowi” Widodo has submitted the name Destry Damayanti, currently commissioner of the Deposit Insurance Corporation (LPS), to the House of Representatives as the sole candidate for Bank Indonesia (BI) senior deputy governor to replace Mirza Adityaswara, whose term will end in July. House Speaker Bambang Soesatyo confirmed to several media outlets that Jokowi had sent the letter nominating Destry as a single candidate to the House.

POLITICS

Can Jokowi manage his grand political coalition?

President Joko “Jokowi” Widodo looks to have it all in his second term now that he is almost assured of winning last month’s election (the formal announcement is not due until May 22). Jokowi sits on a grand coalition of political parties, made even bigger with one or more parties that had opposed his reelection looking to join in. But will he really govern unopposed over the next five years?

His biggest opposition in 2019-2024 will not come from the House of Representatives that his coalition government controls. The real political battles will come from within the mixed bag of political parties in his coalition, with each pressing for their interests. Jokowi in addition has to accommodate the interests of the military and Muslim conservatives, both with growing clout and both likely demanding payback for helping him win the race.

In his first term, Jokowi passed the coalition test with flying colors. The second term, however, will be much more challenging.

Takeaways:

1. In his second term, President Jokowi’s biggest opposition will not come from the House of Representatives but rather the numerous parties in his grand coalition now that the Democratic Party and PAN might join his coalition.
2. In Jokowi’s coming second term, the coalition game changes. For the political parties, the real goal is to win the 2024 presidential and legislative elections.
3. The game is further complicated with the inclusion of military and Muslim conservatives, represented mainly by Nahdlatul Ulama, as additional political forces in his coalition as rewards for helping Jokowi win reelection.
4. Reconciling the diverse and competing political interests of members of his coalition can be a dangerous game. Several of his predecessors lost much of their political capital because of the constant infighting within their coalition and/or failure to reconcile the parties.

Background: The Democratic Party of former president Susilo Bambang Yudhoyono is almost certain to join President Jokowi’s grand coalition as soon as the election’s final results are announced. The meeting between Yudhoyono’s son, Agus Harimurti, and Jokowi at the invitation of the latter on May 2 at the Presidential Palace signaled the end of the party’s opposition to Jokowi’s presidency. The party had learned that being in opposition in 2014-2019 did not help its standing. From the peak of 21 percent and winner of the election in 2009 when Yudhoyono won his presidential reelection bid, the Democrats’ political fortunes have since fallen, winning a mere 10.2 percent of the vote in the 2014 elections and just above 8 percent (based on quick count predictions) this year.

There are several implications if the Democrats’s join Jokowi’s coalition. One is that it has weakened the claim of Jokowi’s challenger Prabowo Subianto that he was the rightful winner of the election. Another is that Agus, a former Army officer with strong political ambitions, would be eying a Cabinet seat in the next Jokowi administration to prepare himself for the 2024 presidential race. Last and more importantly, while it strengthens the hand of the government, for Jokowi it will also mean another force in his grand coalition to contend with.

Insight: There are indications that two other parties that had opposed Jokowi's reelection bid last month, Prabowo's own Gerindra and the National Mandate Party (PAN), will be joining the coalition.

Jokowi had already met PAN chairman Zulkifli Hasan at the Presidential Palace 10 days after the April 17 election. Although the meeting discussed reconciliation after a very divisive election, PAN has a history of moving in and out of coalition governments. In the 2014 election, PAN supported Prabowo's presidential bid but joined the Jokowi coalition a few months after the race. It quit the Jokowi coalition in September when it threw its support behind Prabowo's nomination in the 2019 race.

Jokowi's entreaties to meet Prabowo to cool down the political temperature have been rebuffed as Prabowo continues to claim that he was the winner. But if political common sense prevails, Gerindra will also join the coalition, and like everyone else, prepares for the 2024 battle. Jokowi has made it known that he is open to the idea.

With or without Gerindra, PAN or the Democratic Party, Jokowi's new coalition is already big as it is to have a controlling majority in the House of Representatives. Quick count predictions put the combined votes of the five parties in his coalition that won the right to representation in the House (The PKB, PDI-P, Golkar, NasDem and PPP) at 53 percent against 36 percent for the four parties in Prabowo's camp (Gerindra, the PKS, PAN and Democrats). The remaining votes went to parties that did not meet the threshold of winning at least four percent of the national vote. Their share of the vote will be redistributed among the winning parties to determine how many representatives they can send to the 575-seat House. In 2014, Jokowi's coalition of four parties failed to win a controlling majority, but in less than a year of his presidency, he recruited three parties from the opposition to his coalition, giving him control of the House.

Jokowi has learned the art of managing a coalition in his first term. Unlike past presidents, he does not chair a political party and hence is always vulnerable to pressures, particularly if one party was allowed to dominate the coalition. Within months of his inauguration in October 2014, he brought Golkar, PAN and the PPP into his coalition, not only weakening the opposition, but helping tamper the strength of former president and chair of PDI-P Megawati Soekarnoputri in the coalition government. Jokowi squandered his political capital in the first few months fighting with Megawati over the appointment of the National Police chief, a battle that ended in a compromise.

But with Golkar, the second largest party after the PDI-P in the 2014 elections, on his side, Jokowi had been able to govern and virtually dictate to the coalition members, including Megawati's PDI-P. As a popular president, no party in the coalition would dare to openly challenge him, lest they suffer in the 2019 elections. Sure enough, the PDI-P is the biggest beneficiary in the coalition, winning the most votes in last month's legislative elections, just as it did five years ago.

In Jokowi's coming second term, the coalition game changes. For the political parties, the real goal is to win the 2024 presidential and legislative elections. The coalition parties behind Jokowi in the 2019 elections joined forces in September to flex their muscle in imposing 76-year-old Muslim scholar Ma'ruf Amin as running mate over Jokowi's preferred candidate, 62-year-old Muslim politician Mahfud M.D. The choice of Ma'ruf was clear: Given his age and health condition, he has no 2024 ambitions.

This episode showed that Jokowi will not have his way all the time with the coalition and it set the tone for the coalition game for 2019-2024. The game is further complicated with the inclusion of not only more political parties invited by Jokowi, but also the inclusion of military and Muslim conservatives, represented mainly by Nahdlatul Ulama, as additional political forces as rewards for helping him win reelection.

Going by the first term in office, Jokowi has the knack of being a fast learner. He defied skeptics who viewed him as a novice in the complex national political game when he took the presidency in 2014. Surviving the first term and winning the 2019 election were testaments of his command of politics, including in managing the coalition. It remains to be seen how fast he learns and adapts to the new political situation of 2019.

Reconciling the diverse and competing political interests of members of his coalition can be a dangerous game. President Yudhoyono in his second term in 2009-2014 lost much of his political capital because of the constant infighting within his Democratic party and in his coalition government. Indonesia's first president Sukarno failed to reconcile the competing demands of the communist party and the army in the 1960s. That rivalry ended with much bloodshed, and Sukarno lost power in 1965 to pave the way for military rule for the next three decades.

Relocating the capital city: Same old plan

President Joko “Jokowi” Widodo’s plan to relocate the capital city came as a surprise.

With only five months left before his first term ends, the President presented the ambitious plan during a Cabinet meeting. While the plan may astonish some, talk about moving the capital city date back to the era of founding president Sukarno. As past presidents have failed, it remains to be seen whether Jokowi can realize the decades-old plan.

Takeaways:

1. The capital city relocation plan has been around since the era of the country’s first president, Sukarno. It remains uncertain how Jokowi can outdo his predecessors in regard to relocating the capital city.
2. Not only finding the most ideal funding scheme, Jokowi must also ensure the legitimacy of his capital relocation plan.
3. In discussing the feasibility of the relocation plan, Jakarta’s perspective should not be the sole factor. Rather, the views of other regions, especially those which are likely to host the new capital city, must also be considered.

Background: The National Development Planning Agency (Bappenas) is formulating the most ideal scheme to relocate the capital city from Jakarta, as mandated by President Jokowi last month. Citing its preliminary study on the plan, Bappenas offered three alternatives to the President.¹ First, Jakarta might remain the capital city, but a new government district surrounding the Presidential Palace and National Monument would be established to boost efficiency. Second, a new capital city located 50 to 70 kilometers outside Jakarta could be built. The last alternative, which was approved by the President, is to establish a new capital city outside Java.

¹ Thejakartapost.com, “Jokowi wants to move capital out of Java” 29 April 2019 <https://tinyurl.com/yxdt6b5h>

Jokowi reportedly prefers the last alternative as it can solve the pervasive overpopulation problem in Java and end the long-standing Java-centric approach to development.²

Some, however, have questioned the feasibility of the plan. Not only will it require a hefty price, the relocation plan may take up to 10 years to realize.³ Since efforts to relocate the capital have fallen by the wayside, Jokowi needs a thorough plan to realize his ambition.

Insight: Discussions about moving the capital city have existed since the first president, Sukarno, proposed to move the seat of power to Palangkaraya, Central Kalimantan, which he deemed the most ideal city as it lies in the center of the archipelago. His plan, however, gradually dissipated as the former president built more infrastructure in Jakarta until it became a metropolis, making it harder to leave the city behind. The huge cost to build a new capital city was another hurdle to Sukarno's plan.

The discourse reemerged during the term of the second president, Soeharto. Large-scale urbanization in Jakarta inspired the former general to move the capital city to Jonggol, about 50 km south of Jakarta. The plan never materialized and Soeharto stepped down in May 1998. The relocation plan resurfaced during the era of Susilo Bambang Yudhoyono (SBY), the sixth president. SBY reopened the possibility of relocating the capital city following massive floods that paralyzed Jakarta. SBY never came up with a concrete plan, however.

In 2017, President Jokowi revived the relocation plan, citing the need to address Jakarta's overpopulation problem and traffic congestion once and for all. Jokowi is a man who realized past presidents' dreams like the MRT in Jakarta, the trans-Java toll road and infrastructure in remote areas, but relocating the capital city looks to remain elusive.

The tough challenge facing Jokowi's capital relocation bid concerns funding. The government has two possible scenarios, which both require an exorbitant price. First, the new capital city can be built across 40,000 hectares of land with a population of 1.5 million. This plan will cost Rp 466 trillion (US\$32.5 billion). According to the second draft, the new capital can be built on 30,000 ha of land with a population of 870,000, which will cost Rp 323 trillion.

While Jokowi has reiterated his aversion to include the relocation plan's hefty price in the state budget, it remains unclear what the other possible alternatives are.

Moreover, some have questioned President Jokowi's underlying motives in relocating the capital city. A member of the campaign team for rival presidential ticket Prabowo Subianto-Sandiaga Uno said the discourse about the capital city's relocation was simply an attempt to divert the public's attention from alleged election fraud, which he said cost Prabowo-Sandiaga the victory.⁴ Meanwhile, another member of the Prabowo-Sandiaga camp speculated that the President's plan was motivated by his dislike for Jakarta Governor Anies Baswedan, who was supported by Prabowo in the 2017 election.⁵

² Ibid.

³ MediaIndonesia.com, "Bappenas: Rencana Pemindahan Ibu Kota Butuh Waktu 5-10 Tahun" 30 April 2019 <https://tinyurl.com/yxt77k4e>

⁴ Viva.co.id, "Rocky Sindir Pemindahan Ibu Kota Pengalihan Isu Kecurangan Pemilu" 2 May 2019 <https://tinyurl.com/y2zlk884>

⁵ IDNtimes.com, "Pemindahan Ibu Kota, Kubu Prabowo: Jangan-jangan Karena Anies Gubernur" 30 April 2019 <https://tinyurl.com/y6pbrbp8>

As stated by Trisakti University's urban planning observer Nirwono Yoga, other than the economic challenges, equally important for the government was to ensure a common understanding among key political players before relocating the capital city.⁶ A firm legal foundation, Nirwono says, must also be built, on which the minutiae of the relocation plan can rest.⁷ Indeed, several essential aspects of the plan, such as the selection of the new capital city's location and land acquisition for new infrastructure, require a strong legal basis to guarantee the legitimacy of the new capital city.

The government recently attempted to defend the legitimacy and urgency of the relocation plan. First, it said relocating the capital city was congruent with Jokowi's long-term objective to improve infrastructure and human development. By relocating the capital city off Java, Jokowi hopes to end the development approach that is heavy on Java to create more equal and all-encompassing development programs.⁸ The plan, according to the President, will also encourage more people to relocate outside Java, creating more balanced population distribution, growth and economic development.⁹

Second, the government has highlighted the urgency of a new capital city by revisiting Jakarta's checkered history. National Development Planning Minister Bambang Brodjonegoro stated that Jakarta was first established as the capital city by the Dutch East India Company (VOC) and then the Dutch colony before independence.¹⁰ Bambang, thus, attempted to reclaim the legitimacy of the relocation plan by citing the participation of Indonesians in determining the new capital city.

Nevertheless, public discussions on the relocation plan, both its pros and cons, often centers around Jakarta. Those who oppose the relocation plan, for instance, often argue that the plan will not solve Jakarta's notorious traffic congestion, pervasive flooding or overpopulation problem. Meanwhile, those who support the plan believe that relocating the capital city will help Jakarta overcome such problems, at least to some extent. On the other hand, the perspectives of other cities, particularly the candidates for the new capital city, should also be considered.

To date, there are four provinces in contention to host the new capital city, namely Central Kalimantan, South Kalimantan, West Kalimantan and West Sulawesi. The governors of the said provinces have been involved in the discussions. West Sulawesi Governor Ali Baal Masdar, for instance, insists that West Sulawesi is ready to host the new capital city and only needs logistics to realize the plan.¹¹ Central Kalimantan Governor Sugianto Sabran gave an even more enthusiastic response, saying that land in three particular areas in Central Kalimantan, namely Palangkaraya, Mantingan Regency and Gunung Mas, will be available "until doomsday comes".¹² Meanwhile, South Kalimantan Governor Sahbirin Noor not only welcomed the plan, but also highlights the cordiality of residents as a plus.¹³

⁶ Detik.com, "Rencana Jokowi Pindah Ibu Kota Bisa Mangkrak Karena 3 Hal Ini" 06 May 2019

<https://tinyurl.com/y29u4sog>

⁷ Ibid.

⁸ PresidenRI.go.id, "Presiden Jokowi: Pemindahan Ibu Kota untuk Kepentingan Jangka Panjang" 30 April 2019

<https://tinyurl.com/y5nx4owp>

⁹ Ibid.

¹⁰ Detik.com, "RI Mau Pindah Ibu Kota, Bappenas Sebut Jakarta Buatan VOC dan Belanda" 06 May 2019

<https://tinyurl.com/y3k5myxu>

¹¹ Kompas.com, "Daerahnya Potensial jadi Ibu Kota Baru, 4 Gubernur Ini Diundang ke Istana" 06 May 2019

<https://tinyurl.com/y25nuvk2>

¹² Ibid.

¹³ Ibid.

Independent actors have also gauged the appropriateness of the provinces as the host of the new capital city. Chairman of the Indonesian Network of Climate Change and Forestry Experts, Mahawan Karuniasa, said relocating the capital city to Kalimantan would positively affect the region as the government would then concentrate more on solving the region's central problems, including forest and land fires.¹⁴ Up to 50 percent of forest areas in Kalimantan, according to Mahawan, could be restored if the capital city was relocated to Kalimantan.¹⁵

With his second term to begin in October, relocating the capital city might top Jokowi's wish list as he wants to leave a life-long legacy in 2024. Without proper preparation, however, the relocation plan may emulate the same old one.

What we've heard: According to a source from a ministry, President Jokowi is serious about his plan to relocate the capital city. Having succeeded in striking a deal with gold mining giant Freeport, Jokowi was confident of winning a second term.

Jokowi has reportedly requested a team to be established. The team will bear comprehensive roles, namely:

1. Finding available land in Kalimantan where central government infrastructure can be built and accommodated;
2. Finding funding for infrastructure;
3. Solving prevailing issues, including forest fires;
4. Formulating a business scheme with industry players to acquire funding for not only infrastructure but also business, especially business services;
5. Lobbying countries that can promote the development of the central government offices under a cooperation scheme.

"It all can be managed. It may only take a few years to see the results," said the source. Several locations have been surveyed. The most feasible location is the one in a mountainous area. There are also three possible scenarios that have been explored.

However, from a political perspective, this plan might be difficult to realize if Jokowi cannot dominate the House of Representatives. That is why Jokowi is reportedly consolidating power in the House. "The most important thing is public support, so that the House can be pressured," added the source.

Although realizing the relocation plan may take 10 to 20 years, the source is sure that Jokowi can implement the plan in his second five-year term. "All necessary teams and preliminary studies are ready. We only wait for the cue," said the source.

Regardless, it is reported as well that another objective of the relocation plan is to boost public confidence that Jokowi indeed won last month's presidential election. The capital relocation discourse is aimed at winning over those who remain unconvinced by Jokowi's victory, particularly the floating masses.

¹⁴ CNNIndonesia.com, "Hutan Kalimantan Bakal Hijau Kembali Jika Pindah Ibu Kota" 30 April 2019
<https://tinyurl.com/y37huwpv>

¹⁵ Ibid.

Government moves against political dissent

Much to the public's chagrin, Coordinating Political, Legal and Security Affairs Minister Wiranto recently announced that the government would establish a "national legal team" as a means to supervise and check "words, acts and thoughts" from public figures that violate the law. The decision, according to Wiranto, came after several actions that prompted public discontent in the wake of last month's general elections. To the surprise of many, Wiranto said any media outlet that "assisted in breaking the law" would be shut down. While Wiranto later clarified that he was referring to social media, rather than the mass media or press, many remain startled by the government's stronger measures on cracking down on political dissent.

Insight: Wiranto claimed that the aftermath of the election was vulnerable to provocation and illegitimate actions, which was one of the main reasons behind the establishment of his national legal team. According to Wiranto, while the Communications and Information Ministry has addressed legal violations on social media and shut down more than 700 thousands social media accounts for spreading hoaxes, hate speech and provocation, the wrongdoers have yet to be deterred.

Several high-ranking officials repeated Wiranto's remarks. Former State Intelligence Agency (BIN) chief Hendropriyono, for instance, strongly reminded Indonesians of Arabic descent not to incite the public to commit treason, a clear jab toward Indonesian firebrand cleric Rizieq Shihab who often criticizes the government in the name of Islam. Indeed, Rizieq, to a certain degree, illustrates the rise of Islamic conservatism in the country, one of several thorns in President Joko "Jokowi" Widodo's side.

Defending the actions on maintaining postelection security, the government's measures have been deemed overdone. Andalas University's Center for Constitutional Studies' Feri Amsari argued that Wiranto's national legal team was inappropriate to solve postelection conflicts as they should be addressed by the Integrated Election Law Enforcement Center instead, a coordination hub between the Elections Supervisory Body (Bawaslu), the police and the judiciary. Thus, Wiranto's team seems redundant at best or downright tyrannical at worst, since it appears that the team will specifically crack down on President Jokowi's opposition.

Likewise, Hendropriyono's racially tinged statement was quickly criticized due to its overgeneralization. Political activist Rahman Simatupang, for instance, stated that Hendropriyono's remark itself was provocative in nature and hence counterproductive.

Looking at the public's strong reaction against Wiranto's remarks, the government must proceed carefully in anticipating backlash when the election's result is publicly disclosed. As stated by former Corruption Eradication Commission (KPK) commissioner Bambang Widjojanto, Wiranto's statement could be perceived by the public as an indication of President Jokowi's authoritarian streak. It would be ironic if in countering his rival Prabowo, who is often portrayed as an authoritative figure, Jokowi is classified by the public as an authoritarian himself due to his inner circle's lack of wisdom.

Last reshuffle to chuck away ‘problematic’ ministers

In the wake of vote counting progress that projects his second term, President Joko “Jokowi” Widodo reportedly plans to reshuffle his cabinet one last time before his first term ends in October. Jokowi said he might consider more party-affiliated figures as his new ministers, asking for an end to the unnecessary dichotomy of independent professionals and party members given that there are also a lot of professionals within political parties.¹⁶

One thing to consider is that many graft cases have implicated party-backed ministers in Jokowi’s current Cabinet. While his last reshuffle plan may aim to cast aside the “problematic” Cabinet members, appointing more party-backed ministers may backfire instead.

Insight: The Corruption Eradication Commission (KPK) arrested then-United Development Party (PPP) chairman Muhammad “Romy” Romahurmuziy in March for allegedly facilitating job promotions in the Religious Affairs Ministry in exchange for bribes. During his pretrial motion on May 5, the KPK named Religious Affairs Minister Lukman Hakim Saifuddin, who is also a PPP politician. Lukman allegedly accepted a “compensation fee” worth Rp 10 million (US\$700) from Haris Hasanuddin for helping him win promotion as the head of the ministry’s East Java division.¹⁷ It is reported that the fee was given to Lukman after he allowed Haris to sit a test for promotion, even though at that time disciplinary action was being taken against him.¹⁸

Another party-affiliated minister implicated in a bribery case is Youth and Sports Minister Imam Nahrawi, who is backed by the National Awakening Party (PKB). Imam has been accused of accepting a bribe from the National Sports Committee (KONI) in order to pass the approval and disbursement of the ministry’s grant regarding the committee’s supervisory duties in the 2018 Asian Games and 2018 Asian Para Games.¹⁹ While he remains a witness, Imam has admitted that he, along with his wife, aides and colleagues went on *umrah* (minor haj) in October 2018 using the ministry’s money.²⁰

Recently, NasDem-backed Trade Minister Enggartiasto “Enggar” Lukita has been subjected to public scrutiny as well for allegedly giving money amounting to Rp 2 billion in Singapore dollars to graft suspect Bowo Sidik Pangarso, who then served as chairman of House of Representatives Commission VI, in connection with a trade regulation on refined sugar. KPK investigators have searched Enggar’s office and seized several documents.²¹

Last year, former Social Affairs Minister Idrus Marham, who was also the Golkar Party secretary-general, was arrested and named a suspect for his involvement in a bribery case pertaining to a coal-fired power plant (PLTU) project in Riau. Although he is not the sole minister in Jokowi’s cabinet implicated in a bribery case, Idrus is the first minister to be

¹⁶ Koran.tempo.co, “Jokowi Rombak Kabinet Sebelum Pelantikan,” April 29, 2019 <https://tinyurl.com/y2nughtz>

¹⁷ Kompas.com, “Sidang Praperadilan Romahurmuziy, Menag Lukman Hakim Saifuddin Disebut Terima Uang” 07 May 2019 <https://tinyurl.com/y2f5vyrw>

¹⁸ Republika.co.id, “Di Praperadilan Romi, KPK Sebut Menag Terima Rp 10 Juta” 07 May, 2019 <https://tinyurl.com/yvyr5ty>

¹⁹ Thejakartapost.com, “High-ranking sports ministry official indicted for accepting bribes,” 07 May, 2019 <https://tinyurl.com/y4cn2oxg>

²⁰ Kumparan.com, “Pejabat Kemenpora Ubah BAP Soal Rp 2 M untuk Umrah Imam Nahrawi,” 30 April, 2019 <https://tinyurl.com/y6kn6rp6>

²¹ Thejakartapost.com, “KPK raid trade ministers office in bribery investigation,” 29 April, 2019 <https://tinyurl.com/y48xbz26>

indicted; in April, Idrus was sentenced to three years imprisonment for accepting Rp 2.25 billion in bribes.²²

The bribe that Idrus received reportedly had been used to fund Golkar's extraordinary national congress in December 2017.²³ The graft case also implicates Airlangga Hartarto, the industry minister and Golkar chairman; Airlangga allegedly requested Eni Maulani Saragih, another Golkar politician who was involved in the bribery scandal, to "safeguard" the Riau PLTU project.²⁴

Although only Idrus has been convicted, the fact that some of his ministers are entangled in bribery scandals tarnishes Jokowi's administration. The checkered trajectory of his Cabinet is not lost on the public. Jokowi's alleged plan to include more party members to fill the ministerial seats might trigger an unwelcome public reaction. Indonesian Forum for Budget Transparency (Fitra) secretary-general Misbah Hasan, for instance, urged the President to consider more professionals and nonpartisan individuals in his Cabinet during his second term.²⁵

Presidential spokesperson Johan Budi has confirmed that a Cabinet reshuffle may take place sometime after Idul fitri, which is expected to fall on June 4. It is possible that Jokowi will use the reshuffle as a platform to remove problematic ministers and give him a fresh start in his second term.

²² Thejakartapost.com, "Former minister Idrus Marham sentenced to three years in prison," 23 April, 2019 <https://tinyurl.com/y6jsqag8>

²³ Thejakartapost.com "Idrus allegedly used bribes in failed Golkar leadership bid" 15 January, 2019 <https://tinyurl.com/yyswgkqm>

²⁴ Majalah.tempo.co, "'Nyanyian' Eni Menggoyang Beringin" 22 September, 2018 <https://tinyurl.com/yxfucysr>

²⁵ Kabar24.bisnis.com, "Saran FITRA Untuk Jokowi: Kurangi Menteri Berlatar Parpol" 06 May 2019 <https://tinyurl.com/y594g5hp>

BUSINESS & ECONOMIC POLICY

Oil and gas investments face hurdles, thorough reform needed

Only two out of five oil and gas blocks on offer received winning investors; the remaining three are to be retendered. At the same time, reports say that Royal Dutch Shell intends to withdraw from the development of the giant Masela gas block. However, the reports, according to our sources, turned out to be untrue, which demonstrates the complications around the Masela project.

Takeaways:

1. The deteriorating oil and gas investment under Jokowi rooted in energy nationalism and mismanagement of the sector.
2. Energy nationalism has deprived foreign investors of their investments in Indonesia, such as France's Total and US-based Chevron. Mishandling of Masela has cost operators dearly and prolonged project execution.
3. Another barrier to investment in the oil and gas sector has been the introduction of a gross-split scheme in place of the well-established cost recovery production sharing scheme and a new negative list that reduces foreign investors' role in the oil and gas business.

Background: The government has named two winners from the recent auction of five oil and gas blocks: Kuwait-based energy firm Kufpec Regional Ventures (Indonesia) Ltd. and the consortium of Canada-based Sonoro Energy. Kufpec is to develop and operate the Anambas Block in West Natuna, while the Sonoro consortium is to develop the ready-to-produce Selat Panjang block in Riau. From the auction, the government secured US\$109.2 million in investment commitments (KKP) for exploration.

Deputy Energy and Mineral Resources Archandra Tahar explained that the other three blocks – West Ganal Block, West Kaimana Block and West Kampar – would be reauctioned as the current bidders failed to meet the auction requirements.²⁶

In an unrelated development, Reuters reported that Royal Dutch Shell plans to sell its 35 percent participating interest in the US\$15 billion LNG project in the Masela Block's Abadi field. The report said the company expected to raise about \$1 billion from selling its interest in the project to help finance its \$54 billion purchase in 2015 of the British energy firm, BG Group. However, Upstream Oil and Gas Regulatory Agency (SKKMigas) chairman Dwi Sutjipto denied the reports, saying they were baseless. "Informally, Shell has told us that there is no plan to sell their stake," Dwi said.²⁷

Insight: Investment in the oil and gas sector has consistently declined during the administration of President Joko "Jokowi" Widodo (see table). Two things have been hampering investment in the sector: the tendency for the economy and, more specifically, energy nationalism under Jokowi to rise and mismanagement by the Energy and Mineral Resources Ministry.

²⁶The Jakarta Post, "Govt picks only two winners in oil and gas block auction," May 9, 2019.

²⁷The Jakarta Post, "Report on Shell's Masela exit a 'wake-up-call'," May 8, 2019.

Facing ultra-nationalist presidential candidate Prabowo Subianto, Jokowi looked so sensitive when his opponent attacked him for not being nationalist enough and then he deliberately prepared the groundwork to assert his nationalism to ensure that he would not lose out in the nationalist narrative.

Oil and gas investments in Indonesia (US\$ billion)

Year	Upstream	Downstream	Total
2013	20.4	2	22.4
2014	20.4	1.3	21.7
2015	15.3	2.6	17.9
2016	11.6	1.2	12.8
2017	10.3	0.77	11.07
2018	12	0.68	12.68

Source: Energy and Mineral Resources Ministry

During his first term in office, Jokowi took the symbolic decision to pursue the nationalization of PT Freeport Indonesia by buying the majority stake (51 percent) of the gold mine in Papua. Jokowi also implemented the decision of his predecessor to take over the Mahakam oil and gas block in East Kalimantan from France's Total and Japan's Inpex. Later, Jokowi directed the takeover of the Rokan oil and gas block in Riau from United States-based Chevron, which had been operating the block since 1924.

Facing declining production in Mahakam, Pertamina offered an operational partnership in the block to Inpex and later Total, but neither accepted the offer. Both Total and Inpex may have been well prepared for the takeover as the process had taken for some time, but not Chevron. The takeover of Rokan had been so sudden for Chevron, as the American company had just relinquished its Makassar Strait gas block and sold its interest in South Natuna Sea Block B. Chevron, which has been operating in Indonesia for more than 90 years and was Indonesia's single largest oil producer until the Rokan takeover, now has a small interest in the country's oil and gas industry.

Aside from the energy nationalism, the oil and gas sector suffers from mismanagement, with flip-flopping policies making investment riskier. The mishandling of the Masela project in Maluku is a good example. Initially designed as an off-shore project, with investment value of US\$15 billion, the Jokowi administration suddenly decided in March 2017 to reverse course and change it into an on-shore project, believing that the on-shore project would bring more benefits to the people and also be cheaper. It turned out later that an onshore project is a lot more expensive.

The flip-flopping decisions over the Masela project have cost the operators dearly, as they have to redraft the project's plan of development (POD) into an on-shore POD. Up to now, the POD has not been approved as the government considers the new cost of \$19 billion too expensive and insists the operators bring down the cost to get it near to that in the initial offshore POD. This process has created headaches for the operators. Therefore, when news broke that Shell would relinquish its interests in Masela, the market tended to believe it.

Other barriers to investment in the oil and gas sector are the government's introduction of the gross-split scheme to replace the well-established cost-recovery production sharing contracts and the revised negative list of investments that reduces the roles of foreign investors in the sector. Industry players do not see the gross-split as attractive. Nevertheless, the government tends to coerce operators that have not started their projects to change their plans of development into

gross split schemes. Some foreign operators have apparently been reluctant to rework their PODs because of unforeseeable risks.

Those factors have made Indonesia less attractive for investment. In its Global Petroleum Survey 2018, the Fraser Institute put Indonesia at the bottom among the 10 least attractive jurisdictions for investment, together with Venezuela, Yemen, Tasmania, Victoria, Libya, Iraq, Ecuador, New South Wales and Bolivia. In 2017, Indonesia was also among the 10 least attractive jurisdictions for investment.²⁸

Regaining investor confidence in the oil and gas sector needs a big move. There is a hope that President Jokowi would remove the erratic Ignatius Jonan from the energy and mineral resources portfolio as he has become entangled in one or two corruption cases currently investigated by the Corruption Eradication Commission. However, replacing only the minister would not be enough. Some industry players have pointed at the deputy minister and his people in the ministry and also at SKKMigas, which created a lot of headaches for operators.

Based on Presidential Decree No. 44/ 2016, the negative investment list restricts foreign investment as follows:

- May no longer engage in onshore drilling.
- The maximum foreign shareholding for offshore drilling is 75 percent.
- May no longer engage in oil and gas construction services for onshore pipe installations, production installations, horizontal/vertical tanks and storage installations; the maximum foreign shareholding for oil and gas construction services for offshore pipe installations and spherical tanks is 49 percent, while for construction of oil and gas platforms it is 75 percent.
- May no longer engage in the operation and maintenance of wells, design and engineering support services or technical inspections.
- For oil and gas survey services, the maximum foreign shareholding is 49 percent.

Source: PricewaterhouseCoopers' Oil and Gas in Indonesia: Investment and Taxation Guide, 9th edition, May 2018. <https://tinyurl.com/yvvybc8h>

What we've heard: According to one of our sources from the government, the discussion between Inpex-Shell and SKK Migas about Masela Block's Abadi field is still ongoing. They discussed total investment, the profit sharing scheme between the government and contractors as well as incentives that Inpex and Shell have asked for such as tax incentives or credit investment.

With the total investment under the onshore scheme being larger than the offshore one, Inpex and Shell are said to have asked SKK Migas to increase the profit-sharing portion for the contractors from 40 to 45 percent. However, the discussion about the profit-sharing scheme has not reached conclusion.

According to the source, there is no sign that Shell will sell its 35 percent participating interest in the Masela Block. Another source also gave assurances that Shell would stay in the Masela Block. Inpex holds the other 65 percent interest.

The same source also said since the information about SKK Migas where, under the order of Arcandra, foreign experts were appointed to assess the Inpex-Shell plan of development was leaked, the discussion about the Masela Block's development was handled by SKK Migas head Dwi Soetjipto – whom President Jokowi instructs directly.

²⁸Fraser Institute. *Global Petroleum Survey 2018*. <https://tinyurl.com/yxh82ev9>

Jokowi asked Arcandra not to interfere on the Masela issue. The source also said that Jokowi had instead asked Arcandra to help him obtain more votes in Arcandra's birthplace West Sumatra during the campaign period. However, Jokowi only gained 13 percent of the vote in West Sumatra.

Issue Update: Bank Indonesia to see another female senior deputy governor

President Joko "Jokowi" Widodo has submitted the name Destry Damayanti, currently commissioner of the Deposit Insurance Corporation (LPS), to the House of Representatives as the sole candidate for Bank Indonesia (BI) senior deputy governor to replace Mirza Adityaswara, whose term will end in July.

House Speaker Bambang Soesatyo confirmed to several media outlets that Jokowi had sent the letter nominating Destry as a single candidate to the House. Bambang said the House would soon process the nomination.

Our sources said initially there were six names nominated to the President, with two candidates from the LPS board of commissioners: Destry and Fauzi Ichsan, two others from Bank Indonesia with the current deputy governor Erwin Rijanto as one of the candidates, one from the Finance Ministry and the other from the Financial Transaction Reports and Analysis Centre (PPATK). The President eventually picked Destry as the sole candidate to prevent the House selection from being embroiled by transactional politics.

Destry is not new to Indonesia's financial industry. Before assuming her position as one of LPS' commissioners, Destry was chief economist of Bank Mandiri from 2011 to 2015. Before that, she was head of economics at Mandiri Sekuritas from 2003 to 2011 and senior economic adviser to the British Embassy in Indonesia from 2002 to 2003. She studied economics at the University of Indonesia and her Master of Science degree from Cornell University.

What we've heard: Before President Joko "Jokowi" Widodo nominated Destry as the sole candidate for BI senior deputy governor to the House, there were reportedly other names competing against her.

One of them was Fauzi Ichsan, who was said to be Destry's main contender. One source said that Fauzi was not chosen because he had a close relationship with the Indonesian Democratic Party of Struggle (PDI-P). Such a relationship was well known among bankers. This prevented Fauzi from being selected because selecting somebody close a political party would send a bad signal to the market.

Two other names competing in the nomination were Erwin Rijanto and Iskandar Simorangkir, deputy minister for macroeconomy and finance at the Office of Coordinating Economic Minister. Iskandar originally came from Bank Indonesia.

A letter from Coordinating Economic Minister Darmin Nasution and Finance Minister Sri Mulyani to the President reportedly suggested two other names: Fiscal Policy Agency head Suahasil Nazara and PPATK deputy chairwoman Dian Ediana Rae. These names were said to have been approved by Bank Indonesia.

Another source in the government said those names were leaked to the public just to enliven the nomination process. The source said Jokowi had preferred Destry from the beginning. Destry's clear track record had been known by officials in the State Palace since Jokowi appointed her to lead the selection team for commissioners of the Corruption Eradication Commission. Destry was even said to have met Darmin to discuss BI's future monetary policy long before the names of the candidates arrived at the State Palace.

The purpose of having an outsider as BI senior deputy governor was to ensure for checks and balance during monetary policy and decision-making processes.

Issue Update: Finance Ministry, KPK to check Garuda's dubious financial report

Anomalies in PT Garuda Indonesia's financial report has led the Finance Minister Sri Mulyani and the Supreme Audit Agency (BPK) to step in to audit the financial report. The supreme audit agency summoned the executive of the public accounting company (KAP) that audited Garuda's financial reports. According to the Finance Ministry's secretary-general Hadiyanto, the ministry had conducted an investigative audit on Garuda and had reported the result to the Finance Minister.

The polemic started recently when two of Garuda's commissioners rejected the 2018 financial report of the airline related to Garuda's receivables at its business partner PT Mahata Aero Teknologi. Garuda included the receivables as income on its balance sheet, but this was opposed by the two commissioners, representing CT Corp which owns 28 percent of Garuda shares through a subsidiary company TransAirways. If the receivables were not recorded as revenue, the company would have suffered losses of US\$244.95 million last year instead of booking a meager profit of \$5 million.

What we've heard: Garuda Indonesia used Deloitte Indonesia to audit its 2017 report. However, as Deloitte was sanctioned by the Finance Ministry and blacklisted by the Financial Service Authority over the SNP Finance fraud case²⁹³⁰, Garuda used the service of Tanubrata Sutanto Fahmi Bambang and Rekan, a member of BDO International.

Market players questioned why Garuda did not use the service of the other big four: aside from Deloitte – PwC, EY and KPMG. Garuda Indonesia's finance director Fuad Rizal said the BDO was a reputable public accountant, among the big five. "As a big five audit firm, the BDO should have implemented good international audit standards," he said³¹.

One executive of a state-owned company said knowing the new Garuda CEO Ari Askhara, he was not surprised to hear about Garuda's dubious financial reports. "Just look at what he did with Pelindo III's financial reports when he was its CEO," the executive said. Ari Askhara was CEO of port operator Pelindo III from 2017 to 2018 before he was appointed CEO of Garuda.

²⁹ *Tempo.co*, "Kasus SNP Finance, Kemenkeu jatuhkan sanksi ke Deloitte Indonesia," 28 September 2019.

<https://tinyurl.com/y47z9mc9>

³⁰ *Kontan.co.id*, "Terseret kasus SNP Finance, Deloitte Indonesia berupaya cari jalan keluar," 31 March 2019.

<https://tinyurl.com/y39nn869>

³¹ *Wartaekonomi.co.id*, "Diduga Rekayasa LK, Garuda Indonesia Tak Pakai Auditor Terbaik," 31 March 2019.

<https://tinyurl.com/y54h4qvg>

Macroeconomic update: Stabilization policy kicks in while exports, imports shrink for first time since Q4 2016

Statistics Indonesia (BPS) announced on May 6 that the Indonesian economy grew 5.07 percent in the first quarter, lower than the 5.2 percent median estimate in a Bloomberg survey of economists.³²

Takeaways:

1. Indonesia's economic growth in the first quarter performed below expectations because of shrinking exports-imports and weaker investment growth.
2. Fiscal expansion alone could not lift economic growth, but it lessened the pain of downward macroeconomic adjustment.
3. Bank Indonesia is optimistic on the trajectory of the country's current account and trade account deficits and next week publication will reveal how well it progressed in the first quarter.

Background: The first quarter result was disappointing. Economists projected that fiscal expansion and political spending during the election would lift the economy.³³ Instead, the economy only grew 5.07 percent year-on-year (yoy) amid 5.21 percent growth in government spending.

For Bank Indonesia (BI), however, the economy performed as expected.³⁴ Since May 2018, BI has pursued an exchange rate stabilization policy by intervening in the foreign exchange market and hiking its policy rate, namely the 7-Day Reverse Repo Rate (7DRRR). Foreign exchange intervention did not affect economic growth, but the 7DRRR hike put a brake on investment. Between May and November 2018, BI increased the 7DRRR from 4.25 to 6 percent. Since then, the 7DRRR has been maintained at 6 percent. Because of BI's decision to hike the 7DRRR, investment growth slowed from 7.94 percent in the first quarter of 2018 to 5.03 percent in the first quarter of 2019.

Although the US and eurozone economies performed better than expected,³⁵ emerging markets, especially in the Southeast Asian region, performed poorly in the first quarter due to weak export growth. The Philippines, for instance, recorded weaker than expected growth at 5.6 percent compared to the forecast of 6 percent due to lower export growth.³⁶ Likewise, weak export performance hit the Malaysian economy in the first quarter, and Bank Negara Malaysia, Malaysia's central bank, responded by cutting the policy rate by 25 basis points to 3 percent for the first time since 2016 to lift growth.³⁷

³² Bloomberg.com, "Indonesia's economic growth disappoints as export slump." 6 May 2019 <https://tinyurl.com/y6b8o3tx>

³³ Kontan.co.id, "Pengeluaran pemilu dan bansos membantu mendorong pertumbuhan ekonomi kuartal I 2019." 5 May 2019 <https://tinyurl.com/y4qp8jp6>

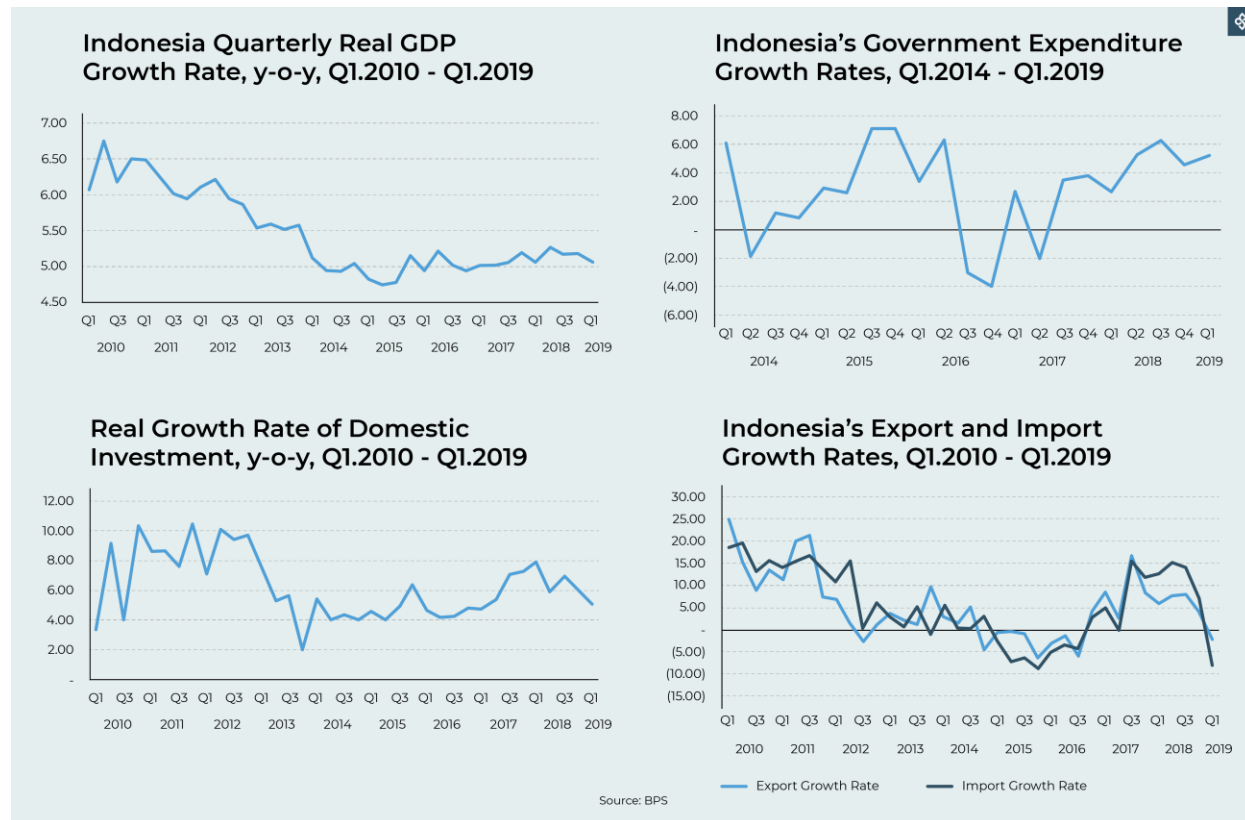
³⁴ Bisnis.com, "BI: Perbaikan defisit transaksi berjalan sesuai target." 24 April 2019 <https://tinyurl.com/y3msr3eg>

³⁵ FT.com, "Global economy defies doomsayers in first quarter." 6 May 2019 <https://tinyurl.com/y6xpcdoy>

³⁶ FT.com, "Philippines economic growth disappoints in the first quarter." 9 May 2019 <https://tinyurl.com/y4u5olwt>

³⁷ Reuters.com, "Update 2-Malaysia c.bank makes 1st rate cut since 2016 in bid to lift growth." 7 May 2019 <https://tinyurl.com/y4uk7f5x>

In the first quarter, Indonesia also suffered from contracting exports at -2.08 percent. Nevertheless, the government anticipated this and has been implementing a restrictive policy on imports to maintain the current account and trade account balances since August 2018.³⁸ Because of the government's import restrictions, import growth in the first quarter shrank -7.75 percent.



Insight Weak investment growth and shrinking exports were the major drivers behind Indonesia's poor economic growth in the first quarter. Fiscal expansion alone could not lift the economy, but at least it lessened the pain of downward macroeconomic adjustment. The question for the future is how the BI will respond in the face of a weak economy in 2019. Would BI cut its policy rate to lift growth?

Economists and businesses have been pressuring BI to cut the 7DRRR to lift growth.³⁹ Low inflation since 2015 at 3 to 3.5 percent provides wiggle room for the BI to adjust the interest rate. However, cutting the



³⁸ Kompas.com, "Sri Mulyani beberkan jurus pemerintah tekan impor." 15 August 2018 <https://tinyurl.com/yy7bf5aw>

³⁹ CNNIndonesia.com, "Ekonom dan pengusaha desak BI turunkan suku bunga." 7 May 2019 <https://tinyurl.com/v3myvayd>

interest rate to lift growth would be inconsistent with BI's policy objective of reducing the current account and trade account deficits. So far, President Joko "Jokowi" Widodo signaled that he supports BI's policy.⁴⁰

Last April, BI Governor Perry Warjiyo sounded optimistic on the first quarter current account deficit. He predicted that current account deficit in the first quarter of 2019 would be lower than the deficit in the fourth quarter of 2018 at 3.57 percent of GDP.⁴¹ Next week, BI will publish the current account data. If the data shows that Indonesia's current account has progressed well, perhaps BI might consider to cut the 7DRRR from the second half of 2019.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Accumulative Inflation Jan-Apr	1.15%	0.39%	1.09%	2.31%	1.39%	-0.07%	0.16%	1.27%	1.09%	0.80%
Annual Inflation	6.96%	3.79%	4.30%	8.38%	8.36%	3.35%	3.02%	3.61%	3.13%	N.A.

Source: BPS

⁴⁰ CNNIndonesia.com, "Jokowi mengeluh atasi 20 tahun defisit neraca pembayaran." 9 May 2019
<https://tinyurl.com/y482fjr6>

⁴¹ Tempo.co, "Gubernur BI: Defisit transaksi berjalan mengarah ke 2.5 persen." 24 April 2019
<https://tinyurl.com/yxd5ofqu>

Tenggara Strategics is a business and investment research and advisory institute established by the Centre for Strategic and International Studies (CSIS), The Jakarta Post and Prasetiya Mulya University. Combining the capabilities of the three organizations, we aim to provide the business community with the most reliable and comprehensive business intelligence related to areas that will help business leaders make strategic decisions.



PT Trisaka Wahana Tenggara

The Jakarta Post Building
Jl. Palmerah Barat 142-143
Jakarta 10270

+62 21 5300476/8 ext. 2009

info@tenggara.id

www.tenggara.id

Board of Commissioners:

Jusuf Wanandi, Djisman S. Simandjuntak, Endy M. Bayuni

Board of Directors:

Riyadi Suparno, Phillips J. Vermonte,
Deddi Tedjakumara

Guarantor: Riyadi Suparno

Researchers & Writers:

Astria Zahra Nabila, Adinova Fauri, Benni Yusriza, Dwi Atmanta, Frans Surdiasis, Stella Kusumawardhani, Lionel Priyadi, Vincent Lingga, Yesaya Christianto, Yessy Rizky

Disclaimer:

Tenggara Strategics always aims to use reliable sources in providing our best analysis to our clients, and is not responsible for any errors, inaccuracies and/or viewpoints in the original source material upon which we have based our analysis. The analysis contained in this document is intended exclusively for our clients who have subscribed to this service, and is not for public consumption or dissemination.

Nothing contained herein shall to any extent substitute for the independent investigations and the sound technical and business judgment of the reader. In no event will Tenggara Strategics, including its employees, be liable for any decisions made or actions taken in reference to the information contained in these documents, or for any incidental, consequential, indirect, special or exemplary damages, including damages from loss of profits or opportunities, even if advised of the possibility of such damages.