

Highlights of the week



Transactional politics remains in 2019

The costly campaign and elections would likely to maintain transactional politics or vote-buying in Indonesian electoral system. With companies and major donors piling up their money for their champions, candidates are facing potential “favor payback” pressure once winning, since there is no such thing as free lunch.



A new saga of the Islamic movement

The flag burning incident in Garut is speculated as an attempt to pitch the revival of identity politics, particularly the phenomenon of hardline Islamic organization, ahead of the 2019 general elections. How the presidential candidates address the incident will affect how future episode unravels.



Rice data polemic: where is the surplus?

The announcement of the new rice data by Statistics Indonesia (BPS) reveals a bigger problem in the country's rice production. The new data disclosed by BPS on surplus is 22 percent of the Agriculture Ministry's number, sparking a question whether Indonesia should redefine its rice policy and rice self-sufficiency goal.



Problems remain in minimum wage setting

The Government Regulation No 78/2015 has brought the needed assurance on minimum wage increase for business. However, a comprehensive solution is needed as it remains protested by labor unions. Unfortunately, both presidential candidates have yet to address the issue despite how politically valuable the unions are.

POLITICS

Transactional politics loom large in 2019 elections

Both presidential candidates for the April 17 election have opened special bank accounts to accept campaign donations from the general public. Incumbent President Joko “Jokowi” Widodo, running with top ulema Ma’aruf Amin, opened the joint account with Rp 11.9 billion (US\$800,000), while challenger, former Indonesian Army general Prabowo Subianto, running with wealthy businessman Sandiaga Uno, started the account with Rp 2 billion, before adding more of their own money. Sandiaga chipped in Rp 25.5 billion, and Prabowo another Rp 3.7 billion, to bring their tally to Rp 32 billion.

Takeaway: The costly campaign and elections would likely to maintain transactional politics or vote-buying in Indonesian electoral system. With companies and major donors piling up their money for their champions, candidates are facing potential “favor payback” pressure once winning, since there is no such thing as free lunch. The bigger the donation the bigger the pressure.

Background: In compliance with electoral law, all candidates will have to report their campaign finances, including the names of individual or corporate donors. But, unlike in the past, they are no longer required to explain how they spend their money. Once the election is over, their campaign finances will be audited by independent public accountants before a report is filed with the General Elections Commission.

The Election Law sets a limit on public donations: Rp 2.5 billion for individuals, and Rp 250 billion for groups and corporations.

This seems like a very transparent and clean way of running election campaigns.

Historically, the reality is far from the truth. In past elections, a lot of the money donated to campaign coffers escaped detection. Candidates for the presidential and legislative races, and in local elections for provincial governors, regency chiefs and city mayors, are known to have received and spent far more than they cared to report. The actual sum will never be known.

Transactional politics always loom large in Indonesian elections. In the absence of any change in law on campaign finances, 2019 will be no exception.

Insight: Jokowi appears to have had a far easier time in generating donations at the start of the election campaign period. The Rp 11.9 billion rupiah used to open the account was put up mostly by the nine political parties in the coalition supporting the Jokowi-Ma’ruf ticket, plus some donations from a few unnamed individual and corporate donors. Campaign manager Hasto Kristiyanto says more donations will be flowing in. The team promises, in the name of transparency, to periodically disclose the money it receives as the campaign progresses.

Prabowo appears to be struggling in raising money for his election campaign. None of the four political parties in his coalition have contributed to his campaign coffers, except his own Gerindra Party, and even then, it was his personal money. Once it became clear the other coalition partners were not following suit after the initial Rp 2 billion that Prabowo and Sandiaga gave when opening their joint account, both men decided to chip in more money, to make the total a decent sum.

The stark contrast with which the two candidates have been able to launch their fund raising campaigns seems like a repeat of the 2014 presidential race, when Jokowi and Prabowo were also the only two contestants, each then with different running mates and a different makeup in the supporting coalition of political parties. Jokowi, teaming up with Jusuf Kalla, ended up with the most money raised at Rp 295 billion. Prabowo, running with Hatta Rajasa, raised Rp 166 billion. Jokowi, running for the first time then, also started the campaign as the favorite with a massive lead. Although supported by a smaller coalition, most donors went with the favorite.

But these were the sums reported to the electoral commission. It's questionable whether they were the actual amount each candidate spent in 2014. Many donations were provided in kind, and thus could not be detected, or even quantified and traced to who provided them. They include the provision of transportation for candidates and supporters, accommodation, lunch boxes for volunteers, the production of T-shirts and other campaign materials, as well as the hiring of local and foreign political consultants, social media influencers or a cyber army.

Vote-buying, or transactional politics, is a common practice, although usually carried out on their behalf rather than by the official campaign teams.

As it is known that everyone engages in transactional politics of some sort, there have also been "dawn raids", where campaigners actively dole out money to voters the morning before they go to polling stations. The idea being that voters, who may have received money from other camps, will most likely cast their ballot for the last candidate or party to give them money. Although elections are secret ballots, politicians and pundits believe this method is still quite effective.

Going into the 2019 race, the incumbent president is the hot favorite once again, with surveys giving him a massive lead six months before polling day.

Donors will be more generous to the likely winning team. Some of these donations would be reported and their names officially listed. Major corporate donors, always the biggest contributors, however, will most likely hedge themselves and contribute to the challenger, although probably not as much. They need to protect themselves in the event of a surprise result.

There is no such thing as a free lunch. They expect favors from the winners. The bigger the donation, the bigger the expected payback. At the very least, big corporate donations ensured that all Indonesian presidents in the past were always pro-business. No president had been seen to campaign on an antibusiness platform. At the most, they presented themselves as anti-big foreign corporations, more to replenish nationalist credentials and win a few extra votes.

Elected legislators or leaders at the local level feel more pressure than the president would in giving favors to donors. A recent *Tempo* newspaper report said 100 regency chiefs and mayors have been nabbed for corruption in the last five years. Many elected politicians in the national and local legislature too have been sent to jail for graft.

The presidential race, however, is not the only game in town. There is the legislative elections for seats in the House of Representatives, the Regional Representatives Council, as well as the legislative councils in provinces, regencies and municipalities. The 16 political parties and up to 300,000 candidates running for office will all be racing to raise money for their own elections.

The bulk of the donations, both declared and undeclared, however, will likely go to the presidential campaign coffers, the election that matters most to corporate donators.

What we've heard: Unless Prabowo can increase his electability and hence his chances of beating Jokowi, he will find the going rough. His brother, businessman Hashim Djojohadikusumo, has been heard saying that he would not be underwriting Prabowo's election campaign the way he did in 2014. Sandiaga, who has been listed as one of Indonesia's wealthiest men, on the other hand, has money to burn. He gave up the Jakarta deputy governor job when nobody else had come up with the money Prabowo needed to run. Sandiaga also reportedly paid two of the coalition partners, PAN and the PKS, Rp 500 billion each to secure their support for his nomination. He looks like the man with nothing to lose. If Prabowo loses the election, Sandiaga will go back to running his business. In the unlikely event that Prabowo wins, Sandiaga will be well placed to contest the 2024 presidential race.

Flag burning, HTI and tauhid: A new saga of the Islamic movement?

The celebration of National Santri Day in Garut, West Java on Oct. 20 was disrupted by a flag burning incident. An attendee of the celebration carried a flag that was identified as representing the banned anti-Pancasila group Hizbut Tahrir Indonesia (HTI). Members of Barisan Ansor Serbaguna (Banser), the youth wing of the largest Muslim organization in Indonesia, Nahdlatul Ulama (NU), then burned the flag, leading to a public outcry, with claims that the flag bore the message of *tauhid*, the core of the Islamic faith. The flag burning incident raises the question on whether identity politics, specifically the phenomenon of hardline Islamic organization, still holds the potential to disrupt domestic politics.

Takeaway: It might be the wisest choice for President Jokowi to remain mostly silent following the flag burning incident. Issuing further statements may enable Jokowi's opposition to revive identity politics, specifically hardline Islamic organization, months before the 2019 general elections.

Background: The burning of a flag bearing the HTI symbol by Banser's members has sparked mixed responses from the public. Due to the uncanny resemblances between the Arabic letters on the flag and the spelling of *tauhid*, the public were generally divided in addressing the incident. Some believes that the flag indeed belongs to HTI and, thus, it is legitimate to burn it as the hardline Muslim group has been outlawed. Others argue, however, that the burned flag mirrored the *tauhid* flag often waved by the Prophet during his expeditions; hence, the incident is perceived as an offense against the whole Muslim community.

Not only has the hullabaloo surrounding the flag burning triggered political tension between groups, the incident also bears political significance for both President Joko "Jokowi" Widodo's and Prabowo Subianto's camps. Some actors believe that the incident was set up to pitch the re-emergence of identity politics, specifically the mobilization of a hardline Islamic movement, ahead of the 2019 general elections. The presidential candidates' current and possible future maneuvers in addressing the incident may, thus, affect the political landscape ahead of the upcoming elections.

Insight: It is speculated that the flag burning incident in Garut is an attempt to instigate a revival of identity politics, specifically a massive movement in the name of Islam, which in 2017 led to then-Jakarta governor Basuki "Ahok" Tjahaja Purnama, who was a Christian of

Chinese descent, to a shocking defeat in his bid for reelection and imprisonment. For Jokowi, the flag burning could revive the narratives depicting him as anti-Islam and for Prabowo reaffirm an internal schism inside his coalition.

In regard to Jokowi, the incident is an ugly reminder that identity politics, particularly Islamic political campaigning, still has the potential to reach a large number of supporters. Over the past week several mass rallies in support of *tauhid* have been held in a number of regions, during which the #2019GantiPresiden (#2019ChangePresident) hashtag movement was also promoted. Indeed, Jokowi's running mate Ma'ruf Amin's close affiliation with Nahdlatul Ulama (NU) have been targeted by protesters, who denounced the Jokowi administration and NU as overly lenient with external threats against Islam.

Given the mounting public outcry, at first glance it would make sense for Jokowi to issue a statement dismissing the allegations. Not only will such a statement reaffirm his support for Islam, but also will appease Banser, which is increasingly agitated since the public put it under intense scrutiny following the flag burning. Nevertheless, the President has solely urged the public to entrust the police to handle the issue.

Indeed, Jokowi's decision to remain silent is not as perplexing as it appears for issuing a statement may only prolong the public outcry. It is speculated that Jokowi joining the fray is exactly what the opposition wants. In pitching for the resurgence of a hard-line Islamic movement, the opposition may trick and corner Jokowi to issue statements, which later can be distorted in favor of the opposition as in the case of Ahok. If Jokowi rejects the allegations and defends Banser, for instance, he may be interpreted as denying the *tauhid* message inscribed on the burned flag, thus portraying him as anti-Islam. Such perception, to certain degree, is not completely incorrect as the flag *did* carry the message of *tauhid*. But so does the HTI flag. Hence, Jokowi's silence appears to be the most apposite, or lest he may be portrayed as anti-*tauhid* or anti-Islam by his opposition.

Prabowo, similarly, might plunge into an equally enigmatic problem. Any attempt to revive the hard-line Islamic movement could highlight the alleged internal rift within Prabowo's coalition. Following the incident, Prabowo gave a relatively lukewarm response. Indeed, although the incident provides him ammunition to attack Jokowi with anti-Islam rhetoric, Prabowo appears to have realized that careful consideration is still required in doing so. One wrong move may result in Prabowo being labeled as anti-Pancasila instead, a chance that Prabowo can't risk as the 2019 general elections are nearing.

On the contrary, a much stronger retort was hurled by the Prosperous Justice Party (PKS), a member party of Prabowo's coalition. A number of PKS cadres participated in public rallies in support of *tauhid*, during which the #2019GantiPresident movement was also bestirred. On his personal Twitter account, PKS executive Mardani Ali Sera lambasted the flag burning incident. Likewise, PKS politician Riau Mansyur HS said he would participate in a rally defending *tauhid* in the region.

Such discrepancy between Gerindra and the PKS illustrates further the alleged disunity within Prabowo's coalition. Indeed, power play between Gerindra and the PKS has been ongoing since the coalition was first established. The parties' rivalry over the vice-presidential candidacy and Jakarta deputy gubernatorial seat, for instance, has reportedly exacerbated the coalition's internal fissure. The PKS' tough measure against the flag burning might have been prompted by the party's bleak prospects in exceeding the 2019 legislative election's parliamentary threshold as well. The latest survey conducted by the Indonesian Survey Circle (LSI), for example, put the PKS among four other parties, namely the National Mandate Party

(PAN), NasDem Party, the United Indonesia Party (Perindo) and the United Development Party (PPP), that are unlikely to pass the parliamentary threshold. Thus, the PKS' strong reaction in the flag issue may embody its desperate bid to preserve its relevance, and thus electability, as conservative Muslims make the majority of the PKS' voter base.

Based on how the past week has unraveled, it appears that both Jokowi and Prabowo will maintain their muted response toward the flag incident. Nonetheless, both candidates should keep in mind that their silence may result in a backlash. Allegedly, Banser has taken Jokowi's silence as the president's implicit grant of legitimacy for rallies against Banser. If it ends up feeling betrayed by the President's silence, Banser may turn its back on Jokowi. Similarly, if Prabowo continues to stay silent he may indirectly give the PKS a green light to take the reins in the future, diminishing his control within his coalition.

What we've heard: Shortly after the public outcry against the flag burning arose, Nahdlatul Ulama figures suggested the President, through State Secretary Pratikno, to keep silent and let the Islamic group to settle the issue. The President, upon advice of the NU figures, also cancelled his presence in several mass gatherings organized by NU-affiliated groups to avoid misperception that he was partial in the sensitive issue of *tauhid* flag burning. He did come to a function in Tasikmalaya but only to open the event and did not join the mass gathering. First of all, they launched a counter narrative via social media by showing that even terrorist group Islamic State used flags that similarly bore *tauhid*. Next they approached a number of the country's influential habib, or ulemas believed to be descendants of the Prophet Muhammad, to help calm the Muslim audience. Some of them have gone so far as wearing Banser outfits in public. Finally, they arranged a meeting between Ma'ruf Amin and Indonesian Military (TNI) Commander Air Chief Marshal Hadi Tjahjanto, in which the respected NU figure convinced the armed forces chief to not hesitate to take tough measures against an outlawed, anti-Pancasila group like the HTI. To keep the momentum of the Muslims' support for the Unitary State of Indonesia, and hence Jokowi, the NU figures will gather ulemas from across Java in Semarang in mid-November and ulemas across Melayu, or Sumatra, in Pekanbaru, Riau later this month.

BUSINESS AND ECONOMICS POLICIES

Indonesia should book a rice surplus this year, but where is the surplus?

New rice data disclosed by Statistics Indonesia (BPS) late October shows that Indonesia will enjoy a surplus of 2.85 million tons of rice in 2018, much lower than the Agriculture Ministry's projection of 13.03 million tons.¹

Takeaway: The announcement of the new rice data by BPS reveals a big problem in the country's rice production. The new data dismisses the Agriculture Ministry's claim of a rice surplus of over Rp 10 million tons per year. The new rice data also indicates a bigger problem, which is that Indonesia needs to redefine its rice policy and decide whether it should expand its productive rice fields outside Java and Bali or accept the prospect of declining rice output.

Background: BPS announced on Oct. 24 that this year's rice production was estimated at 32.42 million tons, while household spending at 29.57 million tons, putting the surplus at 2.85 million tons.

BPS' new rice data was based on a survey it conducted, with the help of the Geospatial Information Agency (BIG), the National Institute of Aeronautics and Space (Lapan) and the Agency for the Assessment and Application of Technology (BPPT).

The last time BPS issued rice data was in 2014. Since then, the Agriculture Ministry had handled the rice data and provided the data to all relevant stakeholders. The problem is that the Agriculture Ministry data, which was also based on BPS data, provided a very optimistic projection of rice output. The ministry data showed that Indonesia should have enjoyed a surplus of over 10 million tons every year.

The latest ministry data shows that this year's rice surplus should reach 13.03 million tons, with total rice production estimated at 46.5 million tons and consumption at 33.47 million tons.

The problem emerged when rice prices kept increasing and surpassed the government-set maximum limit, prompting the government to import 2 million tons of rice this year. When asked why the government was importing rice while the country should have been enjoying a big surplus, Coordinating Economic Minister Darmin Nasution replied, "Where is the surplus?"

Rice Data by the Agriculture Ministry and BPS (in million tons)

	BPS Data 2018	Agriculture Ministry Data 2018
Productive paddy fields	7.1 million hectares	8.18 million hectares
Production	32.42 million tons	46.5 million tons
Consumption	29.57 million tons	33.47 million tons
Surplus/Deficit	2.85 million tons	13.03 million tons

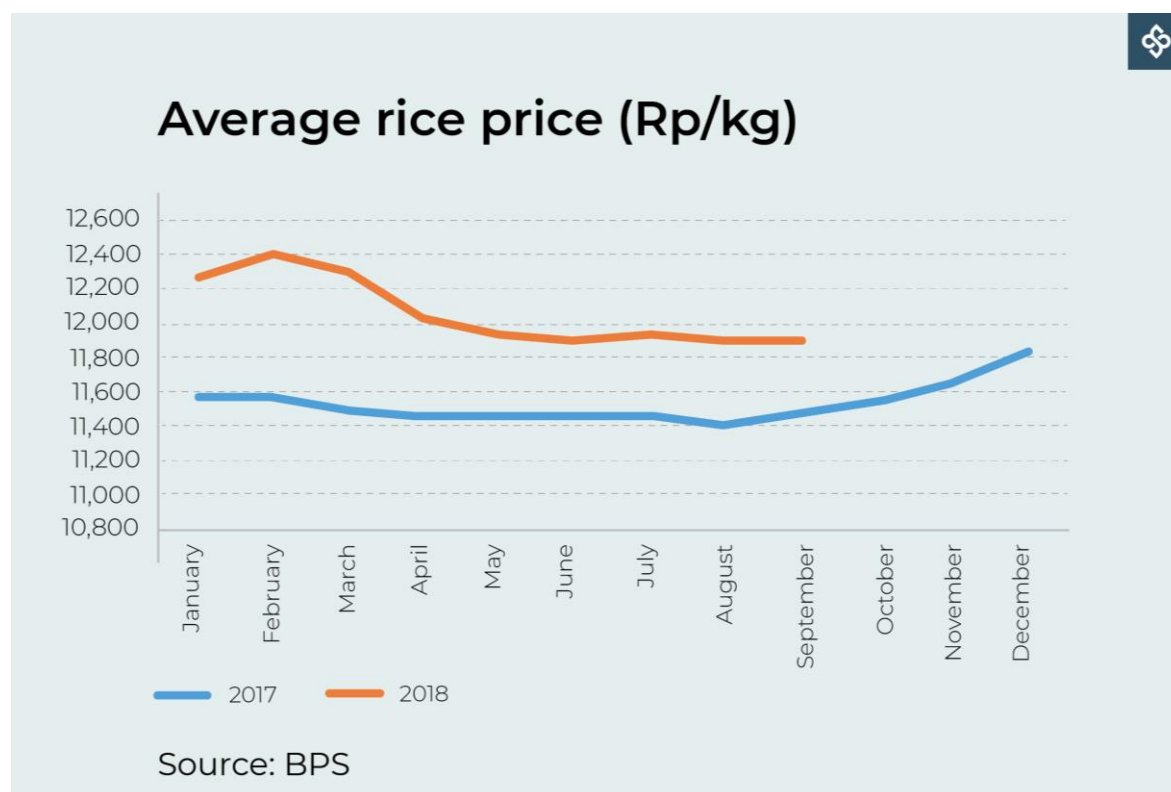
¹CNBC Indonesia, "BPS rilis data beras, tunjukkan data kementan salah, 23 October 2018
<https://tinyurl.com/ydeywtu4>

Rice production and consumption according to Agriculture Ministry (in million tons)

	2018	2017	2016	2015	2014	2013
Production	46.5	47.5	46.3	44.1	41.4	41.6
Consumption per capita (kg/cap)	98.7	81.6	86.81	84.49	84.62	85.51
Total consumption*	33.47	21.5	22.4	21.6	21.3	21.2

Source: Agriculture Ministry

*Total consumption data was calculated by multiplying consumption per capita with total population



Insight: The government is not united when it comes to the importation of rice. The Trade Ministry, backed by the Office of the Coordinating Economic Minister and Vice President Jusuf Kalla, decided earlier in the year to import 1 million tons of rice to stabilize rice prices. Then, in the middle of the year, the government decided to import another 1 million tons to contain further rice price increases.

The Agriculture Ministry, on the other hand, had been adamant that Indonesia did not need to import rice because, according to ministry data, the country should have enjoyed a surplus of 13.03 tons of rice this year.

Having promised to make Indonesia self-sufficient in rice, Agriculture Minister Andi Amran Sulaeman was against more rice importation and he was not alone. He received support from

State Logistics Agency (Bulog) chief Budi Waseso, who openly criticized the decision to import more rice.²

The core of the contention was actually the rice data provided by the Agriculture Ministry, which showed Indonesia would have enjoyed a big annual surplus in rice output of more than 10 million tons.

However, Vice President Jusuf Kalla and other economic ministers did not trust the figure because rice prices kept increasing, and at one point surpassed the maximum retail price of Rp 9,450 per kg. Coordinating Economic Minister Darmin Nasution openly questioned Amran's surplus claim and said, "It has always missed every year."³ Therefore, the government decided to import more rice to contain rice price increases despite the Agriculture Ministry's data of big surplus.

Bulog chief Budi, who was initially against rice imports, eventually accepted the mandate to import more rice in anticipation of the dry season. Furthermore, he said the 2 million ton import quota would not be used up and Bulog would only import according to the reported needs⁴.

The revelation of the new BPS rice data should end the controversy over the rice data as President Joko "Jokowi" Widodo asked all ministries, including the Agriculture Ministry, to refer to BPS data.⁵ Agriculture Minister Amran Sulaeman has no choice but to abide by Jokowi's instruction.

According to BPS chief Suhariyanto, the new data gathering method employed by BPS, called area sampling framing (KSA) using the assistance of satellite imagery, was more sophisticated and accurate than the previous eye-estimation method.

Nevertheless, despite the possibility it offers to end the conflict, BPS data is not a problem-free solution. The Bogor Institute of Agriculture's School of Agriculture dean, Suwardi, said the 2.85 million ton surplus was too low from the actual rice producing capacity⁶. The new BPS data has not included rice stocks in the hands of farmers, while most of the surplus came from previously imported rice. BPS head Suhariyanto confirmed the criticism, saying that 44 percent of total production had not been included as it directly went into farmers' repository⁷.

A surplus of 2.85 million tons is just too small and not safe for a country where rice is a staple food item. The country needs a bigger surplus, considering that Indonesia's average monthly consumption is around 2.5 million tons. Aiming for a bigger surplus, however, requires effort

²Detik.com, "Mendag, Mentan dan Buwas terlibat polemik impor beras," 22 October 2018
<https://tinyurl.com/yb7nmrna>

³CNN Indonesia, "Polemik Impor Beras, Menko Darmin salahkan data Kementan," 19 September 2018
<https://tinyurl.com/ydymgig4>

⁴Detik.com, "Buwas sebut impor beras 2 juta ton untukantisipasi paceklik," 4 September 2018
<https://tinyurl.com/y7dfb265>

⁵CNNIndonesia, "Jokowi tegaskan data beras BPS sekarang jadi acuan pemerintah," 24 October 2018
<https://tinyurl.com/ycaxwegt>

⁶Tribunnews.com, "Indonesia masih surplus beras walaupun pemerintah beda data dengan BPS," 26 October 2018
<https://tinyurl.com/yd4w69bg>

⁷Suryamalang.com, "Kepala BPS: Surplus Beras Nasional hanya cukup untuk sebulan," 25 October 2018
<https://tinyurl.com/y789mmda>

and additional costs. It cannot be guaranteed that Indonesia will continue to book a rice surplus in the following years.

Area Sampling Framing (KSA) - current

1. Land data collection through district land reports and satellite imagery verification
2. Land stratification via grid making and live geographic information (GIS)
3. Random sampling
4. Stratified random sampling
5. Segmentation

Eye-estimation method - 1970-2015

1. Extensive estimates from water use information
2. Extensive estimates from the amount of fertilizer usage
3. Farmers direct reporting to village administration
4. Eye-estimate verification based on the acquired land area data

→ Eye-estimation is susceptible to miscalculation since it depends on surveyors' familiarity with the area. The frequent changes of surveyor due to rotation increases the probability of miscalculation⁸.

The bigger problem actually lies in the fact that about half of rice output is produced in Java and Bali. These two islands are the most advanced islands in the country and have seen massive land use changes. Therefore, productive rice fields are expected to decrease on these two islands.

BPS Rice Data in 2018 (in million tons)

Month	Production	Consumption	Deficit/Surplus
January	1,55	2,51	-0,96
February	3,21	2,27	0,94
March	5,42	2,51	2,91
April	4,2	2,43	1,77
May	2,72	2,51	0,21
June	2,54	2,43	0,11
July	3,07	2,51	0,56
August	2,99	2,51	0,48
September	2,78	2,43	0,35
October	1,52	2,51	-0,99
November	1,2	2,43	-1,23
December	1,22	2,51	-1,29
Total	32,42	29,56	2,85

Source: BPS 2018

⁸ Kompasiana, "Mengenal lebih dekat angka ramalan produksi padi BPS," 8 September 2011 <https://tinyurl.com/y8yytnja>; The author is BPS evaluation and statistics reporting head.

What we've heard: Vice President Jusuf Kalla hosted a meeting involving relevant ministries two days before Statistics Indonesia (BPS) announced the much-awaited rice data in October. In the meeting, the Agriculture Ministry attempted to defend its data by asking BPS to include more samples for accuracy.

Kalla broke the deadlock by saying that differences in the data on productive rice fields, harvest area, the projection of unhusked rice and rice production were not solely the fault of the Agriculture Ministry. A source at the meeting said Kalla did not want to embarrass Agriculture Minister Andi Amran Sulaeman, who was absent from the meeting, over the discrepancy of rice data.

Agriculture Ministry data shows that Indonesia should enjoy a rice surplus of 13.03 million tons in 2018, meanwhile, the new BPS data shows a surplus of merely 2.85 million. The surplus, based on BPS data, however, could only be materialized provided there were no droughts or any situation that would affect harvests in the last quarter of 2018.

The source said Amran intentionally skipped the meeting. It was not the first time for Amran to be absent from meetings hosted by Kalla. Amran was said to have avoided meetings at Kalla's office and the Office of the Coordinating Economic Minister since debates and disagreements over rice data had become public knowledge. He would instead send his first or second echelons to meetings at the aforementioned offices.

The government's decision to restructure the rice projection calculation method was also said to have been a point of consideration for the agriculture minister. Amran was adamant that his ministry's data was correct as the data was also based on BPS surveys.

Kalla is among figures that have been insistent that the Agriculture Ministry data is incorrect. He questioned the basic assumption behind the ministry's data on daily rice per capita of 340 grams. During one of the meetings, Kalla had asked Agriculture Ministry officials to cook rice at his office to prove that the data on daily rice per capita was wrong.

Despite the reservations from the Agriculture Ministry, Kalla decided to let the BPS announce the new rice data.

PP No. 78/2015 ensures predictability in business, problems remain
In adherence to Manpower Ministerial Circular No.8.240/M-NAKER/PHI9SK-UPAH/X/2018, all provincial governments announced 8.03 percent increases in their 2019 provincial minimum wages (UMP) on Nov. 1

Takeaway: As President Jokowi's signature policy, PP No 78/2015 has brought the needed predictability for business, but it is no more than a band-aid solution for problems in wage negotiations. A more comprehensive solution is needed and next year's presidential election provides an opportunity to propose such a solution. Unfortunately, both Jokowi and Prabowo have not come up with any solutions.

Background: The circular, issued by Manpower Minister Hanif Dhakiri on Oct. 15, stated that all provincial governments were required to increase their 2019 UMP by 8.03 percent by Nov. 1. The 8.03 percent increase was based on Government Regulation (PP) No. 78/2015's formula, in which the percentage increase is calculated by summing up the annual real economic growth (5.15 percent in 2018) and the annual inflation (2.88 percent).

Besides the instruction for the 2019 UMP, the minister also obligated all regents and mayors, under the supervision of their governors, to raise the 2019 regency/city minimum wages (UMK) by Nov.21. If any of these officials failed to follow the Circular's instruction, the central government might take severe disciplinary action by removing them from office.

Insight: PP No. 78/2015 is a band-aid solution for Indonesia's wage negotiation issues. It provides predictability in determining regional minimum wages, so Indonesian businesspeople can plan their operations and investment budget with certainty.⁹ However, the proposed solution is far from optimal. By using the national real economic growth and inflation rate in its minimum wage determination formula, the regulation neglects variations in regional economic performance. For example, the formula benefits workers in low-performing districts such as Riau, which grew by 2.23 percent in 2016, lower than the national average at 5.02 percent, and hurts workers in high-performing districts such as Central Sulawesi, which grew by 9.98 percent.

Even though PP No. 78/2015 provides predictability in UMP and UMK negotiations, sectoral minimum wage (UMSK) negotiation, which is important for the manufacturing sector like the rapidly growing automotive industry, has been left in the cold. Consequently, most UMSK negotiations end in disagreement between labor unions and business associations, which in turn motivate either parties to pursue a lawsuit through the administrative court to cancel any decision made by local governments because they perceive the decision to be one-sided, such as happened in Batam¹⁰ and Jakarta¹¹. Another important matter is the newly inaugurated West Java Governor Ridwan Kamil's decision to revoke Gubernatorial Regulation No. 54/2018 enacted by acting governor Mochamad Iriawan to regulate the negotiation of the UMP, UMK and UMSK in West Java.¹² The question is whether Ridwan Kamil could propose a new policy that can be used as a model to solve the deadlock in UMSK negotiations.

⁹ Tribunnews.com, "Tibrani: PP no 78/2015 buat pengusaha mampu merencanakan." 24 November 2015
<https://tinyurl.com/y7hnc58j>

¹⁰ Tribunnews.com, "PTUN batalkan upah sektoral Kota Batam 2018. Ini kata aliansi pekerja." 16 October 2018
<https://tinyurl.com/ycfdr2r>

¹¹ Kumparan.com, "Pengusaha akan gugat Pergub upah minimum sektoral 2018 ke PTUN." 13 March 2018
<https://tinyurl.com/ybzflb4b>

¹² Detik.com, "Ridwan Kamil resmi cabut Pergub 54/2018 tentang UMP 2019." 1 November 2018
<https://tinyurl.com/y773c5be>

Basic cost of living (KHL) adjustment is still an important part in PP No.78/2015's minimum wage formula, but the government has delayed KHL adjustment negotiations from every year to once every five years, bringing the needed stability to the minimum wage negotiation process. Nonetheless, this policy motivates most labor unions to take anti-government and anti-Jokowi position as their political stance.

The Confederation of Indonesian Workers Union (KSPI), for example, announced its support for Prabowo Subianto's presidential bid under the condition that he revokes PP No. 78/2015, should he be elected, in return for the KSIP's support. However, the KSPI's announcement must be regarded as an exception. The majority of labor unions do not have the guts to openly oppose the government as KSPI did.¹³

If President Joko "Jokowi" Widodo wins his reelection bid, PP No. 78/2015 is likely to be retained as his signature labor policy. The question is whether he has any concrete plans to address other problems in the next five years, including broader industrial relation problems such as workplace safety and other labor disputes. So far, President Jokowi and his presidential campaign team have not come up with any policy proposals. For the challenger, Prabowo Subianto, the question is whether he and his campaign team have any better alternatives. So far, Prabowo's only concrete agenda is revoking PP No. 78/2015 without any alternatives to offer.

¹³ Tirto.id, "Tak semua serikat buruh dukung Jokowi atau Prabowo di Pilpres 2019." 30 April 2018
<https://tinyurl.com/yar7km9s>

ISSUE UPDATE: Freeport divestment

Politically stirred comments spark brouhaha despite successful negotiation

The negotiation between American miner Freeport McMoran (FCX) and state-owned mining holding PT Indonesia Asahan Aluminium (Inalum) on FCX subsidiary PT Freeport Indonesia (PTFI) divestment culminated in a purchase contract agreement in September 2018. All parties have formally agreed for payment completion in December 2018. The progress, however, was met with unfavourable public response after Supreme Audit Agency's (BPK) finding on PTFI's environment violation in April was politically twisted. The BPK announced Rp 185 trillion possible loss from PTFI waste and unauthorized use of protected forest area. Some in the opposition exploited the news and accused the government of lying to the public, saying that the environmental issue has resulted in payment cancellation.

Summary: The issue of environment becomes a political backfire although it had been initially addressed during Inalum-FCX early negotiation.

On July 12, FCX, PTFI, Inalum and Australian miner Rio Tinto, who owned 40 percent participating interest in PTFI, signed heads of agreement which set the basis for the final purchase agreement. Freeport's Grasberg notorious waste disposal management led to Rio Tinto's selling its participation interest on the biggest goldmine in the world. Rio Tinto's ownership hurts its reputation among institutional investors and consequently led to a number of divestments. The Indonesian government willingness to acquire PTFI was a clean slate exit for Rio Tinto. Now, with Indonesia signing on the purchase contract, the poor environmental records become attached to the Indonesian government. *Read full story [here](#).*

What we've heard: Not long after the House of Representatives Energy Commission problematized Freeport divestment, a number of government officials in the Presidential Palace contacted PT Inalum President Director Budi Gunadi Sadikin, asking for further information regarding the House's move.

Some of the officials, then, mobilize volunteers to prevent the issue from further publication on the social media platforms. The objective is to address the opposition's allegation, which claims that the government is not transparent enough in managing Freeport divestment.

This is why a number of volunteers who support President Jokowi were immediately mobilized on social media platforms. They actively posted short writings explaining that the process of Freeport divestment was still ongoing and the government targeted to finalize the whole transaction by the end of December. The volunteers also explained that the circulated claim which stated the government would suffer a financial loss of Rp 185 trillion due to environmental damages was still tentative. These explanations were then circulated in several WhatsApp groups and social media accounts.

The Palace focuses upon this issue seriously, especially since a number of opposition parties have accused President Jokowi of lying to the public regarding Freeport divestment. Several figures in Jokowi's inner circle did not want the divestment to get further attention and become the thorn in Jokowi's administration's side.

Brouhaha surrounding the Freeport re-emerged after several members of the opposition parties who held posts in the House dominated a meeting held by the House' Energy Commission last week. These members bombarded the Energy and Mineral Resources Ministry as well as PT

Inalum regarding the process of Freeport Indonesia share acquisition, environmental issues and also the status of Freeport's special mining license (IUPK).

The unfinished environmental issues were used by several politicians who concluded that the process of Freeport divestment was imbued with lies. To make matter worse, Inalum has yet to make a payment for Freeport share acquisition.

The signing process of the meeting memo was difficult. According to an attendant of the meeting, the meeting memo that has been widely circulated on the social media platforms has been actually revised for many times as the representatives of the government and Freeport disagreed with the meeting's conclusion. They were then forced to sign the memo. Budi Gunadi reportedly signed the meeting memo after he left the meeting. A staff of the House allegedly ran after Budi and asked him to sign the memo.

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For inquiries :
research@tenggara.id
 Yesaya +62 812 8987 6365 (WA Only)
 Nabila +62 822 6193 2575 (WA Only)

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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

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Researchers & Writers:

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