

HIGHLIGHTS OF THE WEEK

POLITICS

Relocating the capital city - constitutionally

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Jokowi-Megawati discord before inauguration

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Papua’s endless conflict

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PPP at crossroads

In its latest political maneuver, United Development Party (PPP) acting chairman Suharso Monoarfa, secretary-general Arsul Sani and deputy chairmen Amir Uskara and Mardiono paid a visit to Gerindra Party chairman Prabowo Subianto. While the encounter might have been an attempt to improve ties between the two parties following the divisive 2019 presidential election, the PPP’s political stance, however, remains a question.

BUSINESS AND ECONOMY

Indonesia’s palm oil-based biofuel faces another hurdle in EU

The European Commission has imposed since Aug. 13 a temporary import duty ranging from 8 to 18 percent on biodiesel products from Indonesian companies. Indonesia submitted a letter to the World Trade Organization (WTO) on Aug. 16 to challenge the anti-subsidy import duty.

Coordination failure hampers Manpower Law revision

President Joko “Jokowi” Widodo’s plan to revise Law No. 13/2003 concerning manpower before the end of his first term in September this year failed because of coordination failure. Feeling optimistic with the KSPSI’s support, Manpower Minister Hanif Dhakiri planned a press conference on Aug. 18 – cancelled at the last minute – to announce the government’s revision proposal.

Govt opens doors to Brazilian chicken imports amid falling prices

The Indonesian government has reopened its market to imports of Brazilian chicken following pressure from Brazil and the WTO, which ruled in favor of Brazil. The decision took local poultry farmers by surprise as they have been suffering from low prices due to oversupply and, now, they have to compete with cheaper Brazilian chickens.

Foreign securities companies shrink stocks brokerage businesses

Last July, three foreign securities companies asked to downgrade their membership at the Indonesia Stock Exchange (IDX) from active to inactive member. A week later, Merrill Lynch and Deutsche decided to revoke their membership and froze their stocks brokerage businesses in Indonesia. Meanwhile, Nomura chose to keep its membership but reduced its brokerage business activities.



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POLITICS

Relocating the capital city - constitutionally

Overview

President Joko “Jokowi” Widodo’s plan to relocate the capital city took a new twist when he officially asked the House of Representatives in his state of the union address last week for approval of his bid.

While many have speculated as to where the seat of power will be moved, Jokowi’s gesture brings up a more fundamental question: How can the relocation plan be legally executed?

It is reported that there are at least nine laws or regulations that Jokowi must amend before he can realize his plan for his monumental legacy, including Law No. 29/2007 on the Jakarta special capital region, Law No. 23/2014 on regional administration, Law No. 2/2012 on land acquisition and Law No. 26/2007 on spatial planning. Considering the complexity of the crisscrossing laws and regulations related to the capital city, Jokowi may have to not only amend existing laws and regulations, but also draft new legislation.

The complex legal necessities mean the House will arise as a key player, other than Jokowi as many had thought, in the capital city relocation plan. In order to amend or make a new law, the government must go to the House leaders to submit a presidential letter along with the draft law. In the case of capital relocation, an overall layout and study of the relocation plan must accompany the draft law. The House’s consultative body will then decide whether the debate can continue. If the government’s proposal is approved, the consultative body will pass on the draft bill to relevant House commissions or a special committee for further deliberation.

Nevertheless, despite the complexity of the legal proceedings, considering the Jokowi coalition’s control of the House, it almost certain the capital relocation plan will face no major obstacle. Furthermore, Jokowi’s reconciliation with opposition parties will further accelerate realization of his plan. Gerindra Party leader Prabowo Subianto, for instance, has expressed his support for Jokowi’s relocation plan, saying the party had championed such a plan since 2014.¹

This does not mean, however, that all lawmakers will readily accept Jokowi’s plan. House Deputy Speaker Fadli Zon of Gerindra has criticized Jokowi’s plan for not going through a comprehensive study.² Likewise, deputy chairman of House Commission V Sigit Sosiantomo has questioned the urgency of the capital relocation, citing the lack of adequate infrastructure and human capacity to implement the plan.³

Although the skepticism represents a minority voice in the House, it could trigger a public debate that may impact on the deliberation process. If public opposition to the plan looms large, Jokowi may have to delay or drop his plan altogether.

What's more

Despite the complex legal procedures and the crucial role the House will play in Jokowi's relocation plan, the media have focused much on Jokowi's maneuver. His state of the union address last week, in fact, marked the first time he acknowledge the political weight of the legislative body in realizing his relocation plan.

The fact that Jokowi was confident enough to unveil his plan before he formally sought the House's support implies that not only was he upbeat about his plan, but also about political clout to bulldoze his way through the legislative body.

When asked about his coalition parties' response to his relocation plan in a recent interview with *Tempo* newspaper, President Jokowi said he had to go through a legitimate process to realize his plan, with the first step being addressing the crisscrossing regulations.⁴ He added that his request for the House's consent marked the beginning of his legal crusade.⁵ How much significance Jokowi's move actually bears to win the House's approval, however, remains a question considering the majority power that Jokowi's coalition parties hold in the House.

President Jokowi's capital relocation plan, thus, will become the first litmus test of his political clout. If he can relocate the capital city without any major impediments from the legislative power, it is highly likely that he will not find any difficulties in getting his other plans approved by the House throughout his second term.

Jokowi-Megawati discord before inauguration

Overview

His inauguration for the second term as president is not due until October 20, but President Joko "Jokowi" Widodo is already engaged in a public fight with Megawati Soekarnoputri, the chair of the Indonesian Democratic Party of Struggle (PDI-P), which is the main supporter of his coalition government.

The PDI-P, which won the most seats in the House of Representatives in the April election, is pushing for an amendment to the Constitution, more specifically to restore the power of the People's Constitutional Assembly (MPR) in setting the nation's policy guidelines, effectively taking much of the power from the hands of the president.

Jokowi, who won his reelection bid in April with the help of the PDI-P, says he opposes the move, stressing that he himself is a product of the current political system where the president is directly elected by the people.

If Megawati's plan is accepted, the MPR will again be technically the most powerful institution in the country and the president will be answerable and accountable to it. It remains unclear whether Megawati's plan includes restoring the MPR's prerogative of electing the president and vice president. Constitutional experts say any change must be thorough to be effective, meaning that the MPR should be the body to elect the president as well as to set what is known as the Garis Besar Haluan Negara, or the Broad Outlines of State Policy.

The MPR was stripped of many of its powers during the series of amendments to the 1945 Constitution in 1999-2002. As a result, beginning in 2004, Indonesians elected their president

and vice president directly. The beneficiaries of this direct election system were Susilo Bambang Yudhoyono who was elected in 2004 and again in 2009, and Jokowi in 2014 and again this year.

The MPR's roles under this system are mostly ceremonial, inaugurating the president and vice president, and presiding over the meeting where the president presents his annual State of the Nation address. The MPR is currently made up of all the 575 members of the House of Representatives and 136 members of the Regional Representative Council (DPD), or the Senate. One power that the MPR has but rarely uses is in calling for amendments to the Constitution.

In spite of the powers conferred by the Constitution on the president, he has little or no control over the House, which is the domain of the political parties, and by way of extension, they too control the MPR. The PDI-P as the party with the most seats in the House, is already assured of the House speaker position, which is likely to go to Puan Maharani, Megawati's daughter.

What's more

The big political parties are currently fighting over who should be the MPR speaker. Megawati is flexing the PDI-P's muscle and is aligning with Gerindra, the third-largest faction in the House, in campaigning to get the speakership for Gerindra, provided that it agrees to support her constitutional amendment plans. Gerindra is founded and chaired by Prabowo Subianto, who unsuccessfully challenged Jokowi in the 2014 and 2019 presidential races.

But other parties, which are part of Jokowi's coalition government, have formed alliances to deny Gerindra the MPR top job. Golkar, the second-largest faction in the House, is vying for the job. It openly dismisses the constitutional amendment plan as a "setback for democracy".

The fight between the parties in Jokowi's coalition, made even more complicated if Gerindra decides to join the new government, does not bode well for him in starting his second and last five-year term in office. He may find that the parties in his coalition have political agendas different from his own and could frustrate his plan as he sets out to build his legacy.

This isn't the first time that Jokowi and Megawati have been at odds. In 2015, the two got into a fierce fight when Jokowi refused to comply with Megawati's demand that he appoint Gen. Budi Gunawan as the National Police chief. They came to a compromise in the end, but both lost much of the political capital that they had won in the 2014 elections.

While Megawati may get her way in ensuring that the MPR opens the debate on the constitutional amendment, with only 21 percent of the House seats, she may find that she has no control over the direction of the debate.

She may in fact be opening a can of worms.

Gerindra, for one, says it wants more sweeping changes to the Constitution, essentially going back to the original text of the basic law. DPD members, who are non-partisans, will be pushing for more power for it, refusing to play second fiddle to the House in the law-making process. Some of the Islamist parties will likely push for the recognition of sharia as the law for Muslims, just as they did, and failed, in the 1999-2002 debate.

To get the MPR to open the debate, the petition must have the support of two-thirds of the members. Any decision to amend the Constitution or the articles requires majority support.

It is unclear what Megawati's game plan is in pushing for restoring the MPR's power. She has been both a victim and a beneficiary of the powerful MPR. In 1999, when the PDI-P won the biggest vote in the election, other parties in the MPR colluded to deny her the presidency, and gave it to Abdurrahman "Gus Dur" Wahid. She settled for the vice presidency. Less than two years later, the same parties conspired to impeach Gus Dur, and paved the way for her presidency. She fell prey to the direct presidential system twice, losing in 2004 and in 2009 to Yudhoyono.

She has dropped her presidential ambition but has become a powerful kingmaker since 2014 when she gave the PDI-P ticket to Jokowi and again in 2019. Next to Jokowi, today Megawati is the most powerful political figure in the country, controlling the largest party and much of the legislature.

Jokowi, however, could end up the biggest beneficiary from the constitutional amendment. It takes just one political party to propose deleting the article on the limit of two five-year terms a president can serve. Given his massive support and popularity, such a motion could be swiftly introduced, allowing him to run for president again in 2024.

What We've heard

In the current political makeup of the legislative body, only the Indonesian Democratic Party of Struggle (PDI-P) and Gerindra Party support the constitutional amendment. The PDI-P has pushed for the amendment in order to reinstall the People's Consultative Assembly (MPR) as the highest institution and to reinstate policy framework for long-term development plans (GBHN). Meanwhile, Gerindra supports the amendment plan to uphold articles on economic control by the state and on education in the Constitution.

The two parties are waiting for the Golkar Party's support. "This depends on who will become Golkar's next chairman. If it's Airlangga, Golkar will possibly follow Jokowi's lead. If Bambang Soesatyo wins, the party might join forces with the PDI-P and Gerindra in amending the Constitution," said a source from Golkar Party.

Both Airlangga and Bambang reportedly agreed to an amendment plan. The difference, however, is that Airlangga supports Jokowi's amendment plan, which only aims at changing the GBHN. "Or no amendment at all," said the source. Jokowi, the source said, had "a troop of supporters from other parties and volunteers". Hence, in Jokowi's last term, the President, according to the source, wants to fight Megawati and the PDI-P.

Jokowi's dissidence has started. In the PDI-P itself, Jokowi reportedly has his own group of supporters, and the President is well-aware that he has been regarded as a symbol of direct election, just like his predecessor Susilo Bambang Yudhoyono (SBY). "Currently, through a third-party, Jokowi is exchanging messages with SBY. One of the messages' substances is the idea of appointing Agus Harimurti Yudhoyono (AHY), SBY's son, as a minister in Jokowi's next Cabinet," said the source.

Megawati reportedly does not mind Agus's appointment, but she does not recommend him. "So if AHY is appointed in the next Cabinet, it would be OK for Mega, although she does not recommend him," added the source. Megawati, according to the source, would not stop AHY's appointment because she knows "AHY still can be a good son".

Papua's endless conflict

Overview

Protests swept across West Papua following alleged attacks on Papuan students in Surabaya on Aug. 18. The students were reportedly abused physically and verbally by security personnel and members of mass organizations after reports circulated about their refusal to observe Indonesian Independence Day on Aug. 17 and that they had discarded an Indonesian flag. While raiding the Papuan students' dormitory, local people reportedly chanted racial slurs, provoking mass outrage in Papua and neighboring West Papua.

Following the tension, discussions on Papua have largely generated binary thinking among people, a belief that peace can prevail in Papua if local people enjoy better welfare through development or greater autonomy.

President Joko "Jokowi" Widodo himself has conducted five major development projects in Papua, which sapped trillions of rupiah from the state budget, since taking office. Nonetheless, despite the lucrative projects that he claimed as inclusive, many have criticized Jokowi's development crusade in Papua as "tone-deaf" and antithetical to Papuans' needs. For instance, Jokowi's well-known trans-Papua project, which aims to build 4,158.29 kilometers of roads across Papua, has met with objection due to its lack of far-reaching effects on local Papuans. Indonesian Institute of Sciences (LIPI) researcher Cahyo Pamungkas says the trans-Papua project will threaten Papuans as the road will bring more newcomers and imported products to Papua, thus jeopardizing the locals' economy.¹

The problem, therefore, lies not in the lack of development projects, but the absence of Papuans' participation in designing and implementing the projects. Inclusivity should enable Papuans to determine their own future beyond a Java-centered parameter. Non-Papuans who demand equal treatment for Papuans, thus, should bear in mind that equal does not mean identical; it would be counterproductive to adopt a one-size-fits-all development blueprint in Papua.

Those who understand the peculiarities of Papuans might prefer to grant the people freedom to define their own future. Independence, however, does not warrant an end to exploitation in Papua as there have been instances when native revolutionaries turned into dictators and continued exploiting their own people after gaining independence. Looking at Indonesia's current political constellation, furthermore, independence for Papua might not be politically feasible. Resistance from Indonesian elites, especially the military, will likely prevail.

What's more

What makes the recent incident in Papua different from previous ones is the shift from vertical conflict of the Papuan people and the state to a horizontal conflict between Papuans and non-Papuans.

Indeed, prior to the incident in Surabaya, an armed conflict occurred between security personnel and the military wing of the OPM in Nduga regency in Papua, which claimed 182 lives according to volunteers grouped under the Nduga Solidarity Civil Society Coalition.² While the TNI and police denied such a claim, most of the casualties had suffered gunshot wounds inflicted by law enforcers,

physical attacks and untreated illnesses.³

Nevertheless, the conflict in Nduga has been reduced to a security matter that is outside the public realm.

The most recent riots in Papua have garnered rapt media and public attention as they confronted indigenous Papuans and migrants. Reports and discussions on the recent riots do not center around separatist issue, but rather on nationalism and racism, issues that are particularly pertinent to the public following the Independence Day commemoration. Consequently, like a flame to moths, the nationalist and racial undercurrent embedded in recent Papua riots have greatly enraptured the public.

Having generated widespread interest, the shifting nature of the conflict over Papua could lead to two opposing results. On the one hand, the popularity of the riots in public discourse could effectively draw popular support and sympathy for the Papuans, tilting the scales to the Papuans' favor. Reports on Papua riots in the past week do indicate a critical stance against alleged racism and discrimination against Papuans, with many, including non-Papuans, showing sympathy toward Papua's self-determination. On the other hand, the nationalist tinge allegedly triggering attacks against Papuan students in Surabaya could conversely elicit support from right-wing or conservative groups. In this regard, the recent Papua riots could instead justify continuation of the military and police operations in Papua.

What We've heard

A politician from Papua who is close with the military and the intelligence agency said the issue surrounding Papua was reminiscent of the East Timor problem during the New Order. "The vulnerability in Papua has been around since back then. Hence, once triggered, all will explode," said the source. However, the main concern now is how different today's situation is in Papua compared to previous incidents in the region. "[...] It appears as if [the situation today] has been aggravated even more with racist statements," said the source.

What was reportedly behind the latest tensions in Papua was a political battle between elites in President Joko "Jokowi" Widodo's camp. A number of individuals asked for more recognition in Jokowi's second term as they will have their tenure ended shortly. According to the source, the military and the intelligence agency discovered that Papua was allegedly working with the political elites, but they could only share information to particular superiors who they trusted the most.

The trigger of the most recent tensions over Papua was what happened in Malang and Surabaya. "What's funny is that the police took part in persecuting the Papuan students," said the source. "[The police's participation] makes them look weak as the police's top brass and rank and file do not convey the same message to the Papuans," added the source.

Currently, according to the source, the riots in Papua have taken a turn for the worse due to racist comments and the government's uncoordinated measures to handle the situation. "It is not the hoax [that Papuan students disrespected the national flag] that matters, but those who uttered racist comments," said the source. The source said that Papuans had endured racial abuse from many, including state officials, since the New Order but the government had never taken strong measures against this.

The source doubted whether Jokowi could solve the problem. "He's facing a dilemma. If [the elites] are ousted from the government, it will create more problems. If they remain in the government, it will create problems as well," said the source.

Currently, according to the source, after consulting with a number of people, the President will attempt to appease the situation by approaching Papuans. “Jokowi has never had any problems with Papua, and Papua has never had any problem with Jokowi. But what about the President’s inner circle?” the source said.

PPP at crossroads

Overview

In its latest political maneuver, United Development Party (PPP) acting chairman Suharso Monoarfa, secretary-general Arsul Sani and deputy chairmen Amir Uskara and Mardiono paid a visit to Gerindra Party chairman Prabowo Subianto. The meeting, according to Arsul, was held to discuss the possibility of the two parties joining forces in the 2020 simultaneous regional elections and at the House of Representatives.

Prior to the reconciliatory meeting between Prabowo and Indonesian Democratic Party of Struggle (PDI-P) chairwoman Megawati Soekarnoputri, Suharso was present in a gathering of the ruling coalition’s members, which was hosted by NasDem Party chairman Surya Paloh, but was not attended by a PDI-P representative. The meeting was reportedly arranged to oppose Gerindra’s possible entry to the grand coalition.¹

While the Suharso-Prabowo encounter might have been an attempt to improve ties between the two parties following the divisive 2019 presidential election, the PPP’s political stance, however, remains a question.

The PPP’s unclear stance and political direction might be part of its strategy to deal with uncertainties plaguing the grand coalition, especially given the PPP’s sub-par performance in the April legislative election. Furthermore, it risks not receiving any “reward” in the form of a ministerial seat from President Joko “Jokowi” Widodo for barely passing the parliamentary threshold with just 4.52 percent of the vote, making it the smallest member of the ruling coalition.

When winning 6.53 percent of the vote in the 2014 election, the PPP only secured one seat, the religious affairs minister post, in Jokowi’s first Cabinet. The prospect of the PPP is rather bleak, especially considering the rise of the National Awakening Party (PKB), another Muslim-based party within the Jokowi coalition that is also eyeing the religious affairs minister job. Due to fears about its gradual decline in the country’s political stage, pragmatically, it is only right for the PPP to change its strategy and do what it takes to strive, including mending the rift with Gerindra.

What's more

It has, indeed, been a tough year for the PPP. It has been, to say the least, bereft of a strong political figure ever since its then-chairman, Suryadharma Ali, was arrested for allegedly embezzling Indonesia’s haj funds while he was the religious affairs minister in 2014. The PPP then faced dualism in its leadership when two executives, namely Djan Faridz and Muhammad “Romy” Romahurmuziy, at the same time claimed the party’s top position.²

Romy eventually prevailed and was elected the party’s chairman, but earlier this year the Corruption

Eradication Commission arrested him for his alleged role in bribery practices to botch job promotions at the very same ministry, which involved Suryadharma's successor and PPP cadre Lukman Hakim Saifuddin. The recent departure of the party's most prominent cleric and head of its sharia council, Maimoen Zubair, or popularly known as *Mbah Moen*, rubbed more salt into the wound.

The PPP's "problematic" cadres, therefore, might be the reason why the party lost its appeal in the eyes of voters. The PPP, in a way, has to at least retain its relevance in Indonesia's political arena. Its strategy to collaborate with Gerindra might be a good start to regain its feet while preparing for the much-anticipated 2024 presidential and legislative elections.

What We've heard

A meeting between United Development Party (PPP) acting chairman Suharso Monoarfa and Gerindra Party chairman Prabowo Subianto was to discuss the leadership posts at the People's Consultative Assembly (MPR). Following a meeting with NasDem Party chairman Surya Paloh, during which no agreement was reached, Suharso started to pursue a secure position for the PPP in the MPR.

"[The PPP] asked for an MPR deputy speaker seat, so that it becomes one package," said a Gerindra Party politician. A Golkar Party politician confirmed this.

The MPR leadership package, according to Gerindra's plan, will be chaired by the Gerindra Party, with deputies from the Golkar Party, the Indonesian Democratic Party of Struggle (PDI-P), the National Awakening Party (PKB), the PPP and the National Mandate Party (PAN). This is slightly different from Golkar Party's version, which puts the current House of Representatives speaker Bambang Soesatyo in the MPR's top job. The Gerindra Party politician said the MPR speaker seat would be filled by either Gerindra secretary-general Ahmad Muzani or its deputy chairman Edhy Prabowo. One source from the PDI-P said, however, the MPR speakership post remained contested. "It can be discussed later," the source said. This is because PDI-P chairwoman Megawati Soekarnoputri and Prabowo cannot meet for further negotiations before they know who the Golkar leader is.

The PPP, which finished slightly above the parliamentary threshold, owns little to no bargaining power.

"Suharso felt that the PPP was not being accommodated during the meeting between coalition parties in Gondangdia," one PDI-P executive said, referring to the NasDem headquarters.

One PPP senior politician also confirmed Suharso's bargaining position. The politician said that Suharso was worried he could not retain his position as the party's chairman. His fate will be decided in the party's national meeting in November. Moreover, it looks like the PPP will be left behind. While President Joko "Jokowi" Widodo is reportedly waiting for internal consolidation of the PKB and Golkar before deciding on his future Cabinet, he reportedly does not care much about the PPP.

"A part of Suharso's bargaining power is how to maximize the PPP's seat allocation in the Cabinet as well as in the parliament," said the same source.

In the upcoming PPP congress, outside figures, namely former Indonesian Military (TNI) commander Gatot Nurmantyo and Jakarta Governor Anies Baswedan, will contest the chairmanship race. "They are both strong candidates," said the source.

BUSINESS & ECONOMIC POLICY

Indonesia's palm oil-based biofuel faces another hurdle in EU

Overview

The European Commission has imposed since Aug. 13 a temporary import duty ranging from 8 to 18 percent on biodiesel products from Indonesian companies. The European Commission imposes a countervailing duty based on accusations that palm oil companies in Indonesia receive trade-distorting aid from the government, such as subsidies from the Indonesian Oil Palm Estate Fund (BPDP-KS) and export financing from Indonesia Eximbank¹.

Indonesian companies that will have to bear higher duties in EU are PT Ciliandra Perkasa, PT Wilmar Nabati Indonesia and PT Wilmar Bioenergi Indonesia of Wilmar Group, PT Intibenua Perkasatama and PT Musim Mas of Musim Mas Group, as well as PT Pelita Agung Agrindustri and PT Permata Hijau Palm Oleo of Permata Group².

The Indonesian government denied the subsidy allegations, saying that supports from BPDP were not subsidy and accused the European Union of having a discriminatory policy against Indonesian biodiesel. Indonesia submitted a letter to the World Trade Organization (WTO) on Aug. 16 to challenge the anti-subsidy import duty³. Indonesia previously won five of its six disputes against the EU in the WTO's Dispute Settlement Body, the latest being the anti-dumping dispute reported to the WTO and the European Court of Justice (ECJ) in 2017.

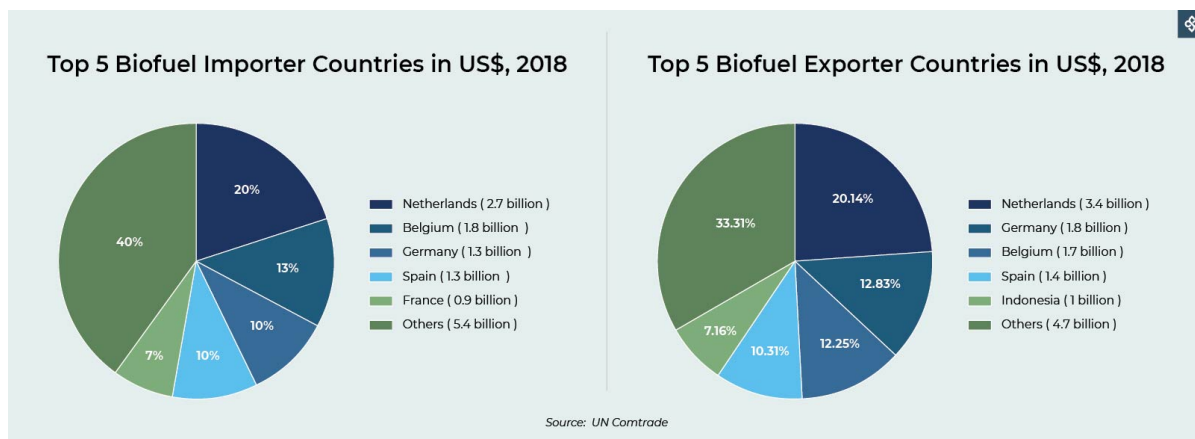
The Indonesian government believes the EU intentionally imposed the import duty to protect its vegetable oil producers. Trade Minister Enggartiasto Lukita threatened to impose similar tariff on fruits and dairy products from the EU and is even currently pushing domestic airlines to halt purchase of Airbus aircrafts. He said Lion Air co-founder Rusdi Kirana supported the government's move.

Whether Indonesia will follow through with its retaliation plan against the EU remains a question. However, with alternatives for its palm oil absorption through increased domestic demand and rising exports to other markets, especially China, the import duty from the EU might have triggered a tit-for-tat.

What's more

The countervailing duty is the latest twist in the palm oil dispute between Indonesia and the EU that started as early as 2013. The anti-subsidy investigation started when the European Biodiesel Board (EBB) filed a complaint of unfair competition in December last year.

EBB members' countries of origin, including the Netherlands, Germany, Belgium and Spain, have consistently been the major global market shareholders for biofuel exports and imports. However, Indonesia has been gaining a larger market share over the years and finally became one of the top five biofuel exporters last year in the EU-dominated ranking.



A similar case happened in the United States in 2017 and 2018. Cheap Indonesian biofuels made their way to the United States then, angering a group called the National Biodiesel Fair Trade Board, which alleged that imported biodiesel from Indonesia – and Argentina – had flooded the US market and violated trade agreements.

Under pressure from its local biodiesel producers, the US Department of Commerce imposed anti-dumping duties on biodiesel from Indonesia and Argentina. Indonesia did not challenge the decision.

Facing restrictions in EU and the US, Indonesia has tried to boost exports to China, following the country's decision to remove the import tariff quota for palm oil in light of the ongoing trade war with the US. Indonesia's exports of crude palm oil (CPO) and its derivatives to China showed positive growth in the first half of this year, rising 39 percent year-on-year (yoy) to 2.54 million tons.⁴

Indonesia is also jacking up its domestic demand to absorb its biofuel production. President Joko "Jokowi" Widodo said he wanted to increase the portion of the palm oil blend in the biodiesel mix from currently 20 percent (B20) to 30 percent (B30) in January next year and 50 percent (B50) by the end of 2020. He said the move was to leverage Indonesia's bargaining position against whoever tried to weaken Indonesian palm oil. He had met with Malaysian Prime Minister Mahathir Mohamad during a bilateral meeting in Malaysia and agreed to "fight against palm oil discrimination".⁵

Coordination failure hampers Manpower Law revision

Overview

President Joko "Jokowi" Widodo's plan to revise Law No. 13/2003 concerning manpower before the end of his first term in September this year failed because of coordination failure. Initially, President Jokowi was confident that the revision would go smoothly with the support of Yorrys Raweyai and Andi Gani Nena Wea from the Indonesian Workers Union Confederation (KSPSI). Feeling optimistic with the KSPSI's support, Manpower Minister Hanif Dhakiri planned a press conference on Aug. 18 – cancelled at the last minute – to announce the government's revision proposal.

However, the Manpower Ministry failed to consult with other labor unions regarding the key points of the revision, resulting in disappointment from supporters and opponents alike. The Indonesian Metal Workers Federation (FSPMI), which opposes the revision, seized this opportunity to organize street protests in Jakarta and various towns under the umbrella of the

Workers and People Movement (GEBRAK).

A planned street protest in Jakarta, which was planned to be held in front of the House of Representatives (DPR) complex on Aug. 16, failed to take place because the police blocked protesters from reaching the DPR complex. Twenty-one of the protesters were arrested.¹ On the other hand, street protests in Bekasi,² Karawang,³ Bogor,⁴ Purwakarta,⁵ Subang,⁶ Pelalawan Riau,⁷ Cirebon,⁸ Cimahi,⁹ Tangerang and Serang were successful. Pressured by the protests, local governments agreed to write an endorsement letter that supports the FSPMI's position, addressed to the House of Representatives.

All-Indonesia Workers Association (SPSI) chairman and Jokowi's supporter in the last presidential election¹⁰ R. Abdullah teamed up with the FSPMI but organized the rally under a different group, the National Welfare Movement (GEKANAS). GEKANAS held a street protest in front of Merdeka Palace on Aug. 21.¹¹ GEKANAS representatives were received by the presidential office's (KSP) deputy IV, Yahya Tatang Badru Tamam, and used the meeting to express their frustration with a nontransparent revision process.

The revision process in the parliament also did not go smoothly due to the Manpower Ministry's failure in coordinating its actions with the ruling coalition parties. The endorsement letters from local governments apparently surprised them, and they decided to postpone the revision process until October. (see **What We've Heard**)

What We've heard

Before the House of Representatives started the new legislative session in early August, Indonesian Democratic Party of Struggle (PDI-P) secretary-general Hasto Kristiyanto had invited all faction leaders from the ruling coalition to discuss President Jokowi's plan to revise Law No. 13/2003 concerning manpower. However, according to one party executive from the ruling coalition, the meeting failed to take place, as they never received the required initial draft revision.

The party executive also said that ruling coalition members already agreed on a scenario to turn the revision into a parliamentary committee recommendation to speed up the legislative process. Under this scenario, the Manpower Ministry only needed to provide the initial draft revision.

Another politician from the ruling coalition blamed the Manpower Ministry for failing to coordinate their action with operatives from coalition parties. "Hanif only uses this opportunity to score political points with the business community. The revision is important for President Jokowi, because he wants to return the favor for their political support in the last presidential election," the politician said.

Endorsement letters written by various local governments to support labor unions' rejection of the Manpower Law revision forced the ruling coalition to find an alternative strategy. The politician said that the new strategy would be discussed after the presidential inauguration in October.

Govt opens doors to Brazilian chicken imports amid falling prices

Overview

The Indonesian government has reopened its market to imports of Brazilian chicken following pressure from Brazil and the WTO, which ruled in favor of Brazil.¹ The decision took local poultry farmers by surprise as they have been suffering from low prices due to oversupply and, now, they have to compete with cheaper Brazilian chickens.

Several farmers associations protested the government's decision to allow Brazilian chicken meat to enter local markets, saying that they would easily lose out in the competition with Brazilian chicken meat. According to the National Poultry Breeders Association (Gopan), Brazilian frozen chicken meat can be sold at Rp 6,000 a kilo, one-third the price of local chicken.²

Gopan said Indonesian poultry famers faced higher input – especially from chicken feed – than their competitors from Brazil. The cost of chicken feed in Indonesia is among the most expensive due to imported corn as raw material. Chicken feed accounts for almost 70 percent of total costs.

Poultry farmers have been facing falling prices of their products due to oversupply. A few months ago, for example, poultry farmers from various cities in Java gave away tens of thousands of live chickens to protest the sharp drop in broiler prices. Many suspect broiler overproduction to be one of the reasons behind the falling price.³ Now they have to face imports of cheaper Brazilian chicken meat.

Indonesia has no other option than to allow imports from Brazil because it has been buying time since it lost to the WTO panel in 2017 as Indonesia decided not to appeal the decision (See **What's more**).

Losing the trade dispute at the WTO shows the Indonesian government's recklessness in formulating policies to protect the local poultry industry. According to our source, the Trade Ministry and the Agriculture Ministry are at odds over measures to protect the domestic poultry industry. The Trade Ministry said the Agriculture Ministry's unpreparedness in facing the trial was one of the reasons Indonesia lost the trial. (see **What we've heard**).

What's more

Brazil, the world's largest exporter of frozen chicken meat, formally objected to Indonesia's chicken import policies by requesting a consultation with Indonesia through WTO's Dispute Settlement Body (DSB) in October 2014. Brazil argued that its chicken meat faced difficulties entering the Indonesian market due to unfriendly import regulations.

Brazil blamed in particular trade ministerial and agriculture ministerial regulations for restricting imports of chicken meat from the country.^{4,5} According to the regulations, importers of Brazilian chicken meat are required to meet certain conditions, including having more stringent halal criteria than those faced by local producers. Also, the importer has to go through a long and complicated process to get an import license.

INDONESIA v. BRAZIL TRADE DISPUTE (DS 484)



Summary of Panel's findings

What Brazil won:

Positive list requirement

The panel found that the non-inclusion of certain chicken products (i.e., chicken cuts) in the list of products that could be imported into Indonesia qualified as a "legal ban" and was inconsistent with Article XI of the 1994 GATT. It further found that the ban was not justified under GATT Article XX as it did not meet the requirement under Article XX(d).

Intended use requirement

Intended use requirement is a substantive requirement that importers commit to respect when applying both for an import recommendation from the Agriculture Ministry and an import approval from the Trade Ministry. The panel found that the intended use requirement was inconsistent with GATT Article XI and was not justified by GATT Article XX(b) and GATT Article XX(d).

Licensing procedures: fixed license terms

Fixed license terms relate to the limitation imposed by the government on the possibility of an importer modifying certain aspects of its import license. The panel found the fixed license terms aspect of the licensing regime were inconsistent with GATT Article XI:1 and not justified under GATT Article XX.

Undue delay in the approval of the veterinary health certificate

The panel found that Indonesia had caused an undue delay as it had not begun the approval procedure for Brazil's proposed veterinary health certificate and because it required Brazil to complete a non-sanitary and phytosanitary questionnaire.

What Indonesia won:

Halal requirement

The panel found that Indonesia did not discriminate against imported chicken in enforcing its halal labeling requirements.

Transportation requirement

The panel found that Brazil failed to demonstrate that the direct transportation requirement had a trade-restrictive effect.

General prohibition

The panel found that Brazil was unable to make a prima facie case because it did not demonstrate the existence of the alleged unwritten general prohibition.



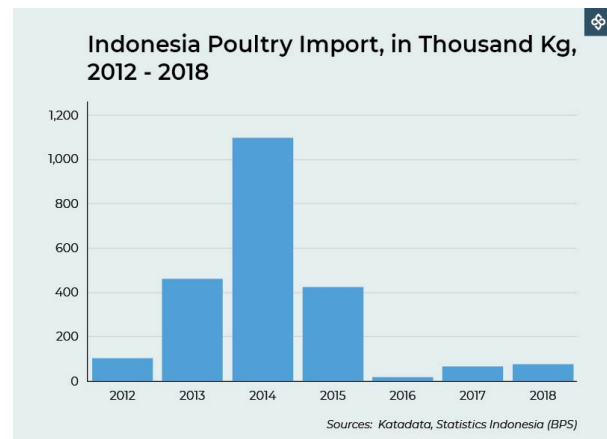
Those regulations succeeded in closing the stream of chicken meat imports to Indonesia. According to Statistics Indonesia (BPS), Indonesia still imported 1.1 million tons of chicken meat in 2014, but the figure shrank to only 76,000 tons in 2018.⁶

According to the WTO verdict, Indonesia's losses were in the positive list requirement for chicken products, intended use requirement and licensing procedures that were not consistent with WTO rules, and undue delay in the approval of veterinary health certificates.

Meanwhile, Indonesia won on halal and transportation requirements allowed under WTO rules.

Under the WTO verdict, Indonesia was required to adjust its regulations by July 22, 2018 at the latest. However, Brazil accused Indonesia of delaying the policy adjustment, saying that as of June 2019, Indonesia had yet to implement the WTO recommendations.

Brazil then officially proposed the formation of a panel to assess whether Indonesia had made adjustments. On June 24, the WTO reappointed the old panel members to comprise the panel in the next dispute process. Because of this panel's insistence, the Trade Ministry finally abolished policies deemed to have violated WTO regulations.



What We've heard

Since Indonesia's defeat in the WTO dispute with Brazil in 2017, the Agriculture Ministry has continued stalling so that Brazilian chicken would not enter Indonesia immediately. However, a senior official at the Trade Ministry said Indonesia could not delay any longer because at the WTO trials, Brazil threatened to raise import tariffs on Indonesian palm oil. The country even threatened to ban Indonesian palm oil imports altogether if Indonesia failed to follow the WTO decision.

Brazil kept pushing Indonesia to revise the disputed regulations on chicken imports immediately. The Trade Ministry, said the source, could not carry out imports if the Agriculture Ministry did not change its regulations related to poultry import. To appease Brazil, Trade Minister Enggartiasto Lukita promised that Indonesia would import frozen Brazilian chicken meat of up to 50,000 tons.

After winning its trade dispute trial and with assurances from the Indonesian government, the Brazilian Embassy in Jakarta was said to have hosted a meeting with several businesspeople grouped in the Association of Indonesian People's Poultry Individuals (Pinsar). The embassy asked the entrepreneurs to become importers of frozen Brazilian chicken meat.

One source said that the businesspeople invited to the meeting at the embassy suggested that the embassy invite Brazilian businesspeople to invest directly in Indonesia by, for example, opening slaughterhouses, which are still limited in number. The Brazilian Embassy refused to do so and insisted that Brazil would export frozen chicken meat.

Although the businesspeople in Pinsar were not interested in importing Brazilian chicken, another source said, Brazil would still benefit from the WTO ruling as publicly listed food producer PT Indofood Sukses Makmur had established cooperation with BRF, the largest frozen chicken exporter from Brazil.

Both reportedly agreed to establish a joint venture company that engages in the poultry feed and food processing business in Indonesia. The cooperation began in 2014, but because the government banned chicken imports from Brazil, Indofood could not bring in the frozen chicken. Now that the government has lifted the ban, the cooperation can be materialized with Indofood importing frozen chicken from Brazil and processing it in Indonesia.

Foreign securities companies shrink stocks brokerage businesses

Overview

Last July, three foreign securities companies – PT Merrill Lynch Sekuritas Indonesia, PT Deutsche Sekuritas Indonesia and PT Nomura Sekuritas Indonesia – asked to downgrade their membership at the Indonesia Stock Exchange (IDX) from active to inactive member.¹ A week later, Merrill Lynch and Deutsche decided to revoke their membership and froze their stocks brokerage businesses in Indonesia. Meanwhile, Nomura chose to keep its membership but reduced its brokerage business activities.²

Their decision is not surprising. In fact, foreign securities companies have been reducing their exposure in the Indonesian market since the end of 2017, when the United States Federal Reserve decided to tighten its monetary policy by slimming down its US\$4.5 trillion balance sheet and raising the Fed funds rate gradually.

The Fed's monetary policy brings a lasting effect for some foreign securities companies. After the Fed reversed its policy in the middle of the year, those companies decided to maintain a workforce rationalization policy. Germany's Deutsche Bank, for example, will cut its workforce by 18,000 over three years.³ Bank of America-owned Merrill Lynch continues not only its policy to shrink its workforce, but also the policy to trim costs by cutting broker pay.⁴ Japan's Nomura also pursued a policy to cut \$1 billion in costs by overhauling its investment banking and brokerage business until 2020.⁵

However, not all foreign financial companies are pursuing this strategy. Citi Group, for instance, responded to this condition by aggressively acquiring strategic clients from foreign securities companies leaving Indonesia (**see What We've Heard**). For local securities and stock brokerage companies, this condition is an opportunity to increase their presence in Indonesia's stock market.

In the fixed income market, which includes government as well as corporate bonds, the story is different. Foreign financial companies have increased their presence and reportedly hold an all-time high Rp 1020 trillion (\$71.6 billion) worth of government bonds.⁶ In the private sector, foreign financial companies facilitated local companies such as Lippo and debt-troubled textile manufacturer Duniatex to enter the Asian junk bonds market.⁷

What We've heard

According to several sources in the financial industry, Nomura Sekuritas Indonesia reduced its brokerage business in Indonesia to optimize its digital trading platform Instinet. Nomura has been

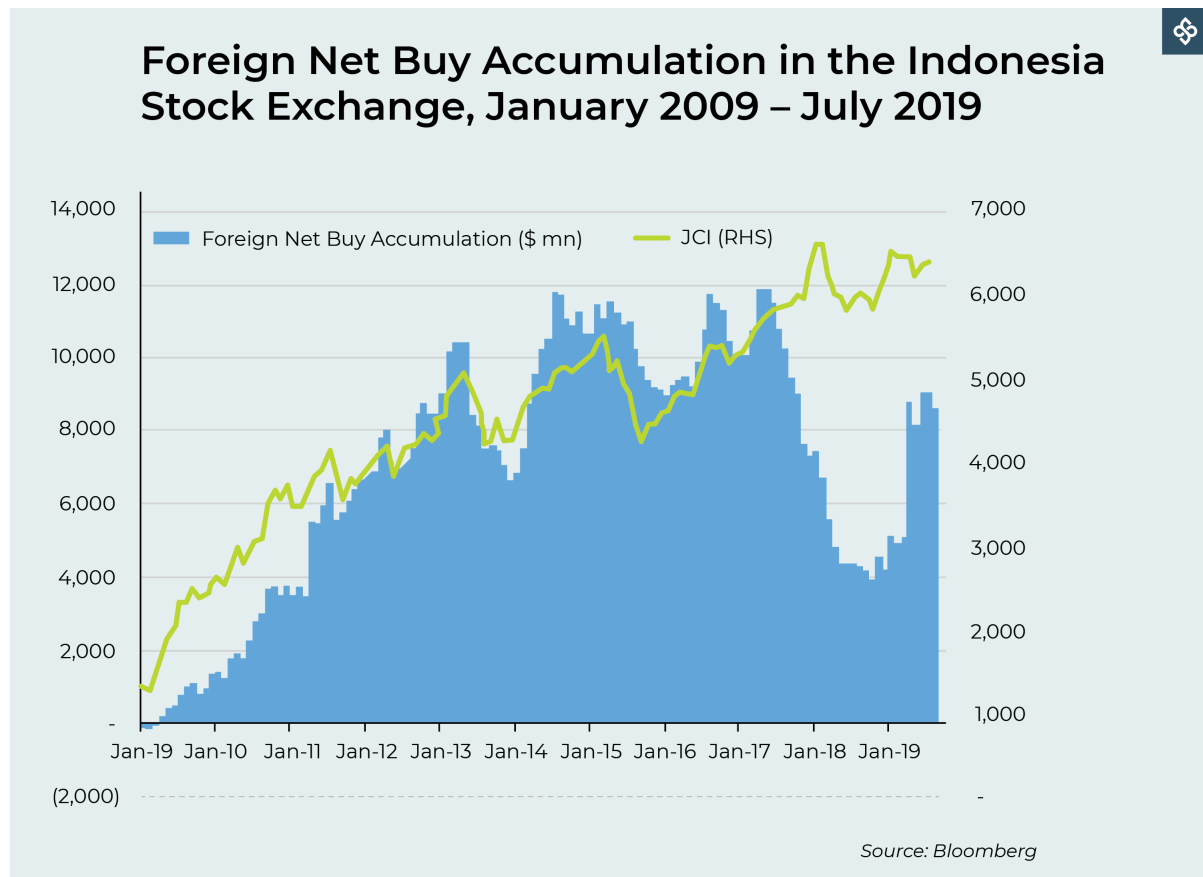
developing Instinet since 2007 and intensified its use in Indonesia following BEI's decision to adopt automation technology in 2012.

Unlike Nomura, Deutsche and Merrill Lynch need to scale down their business in Indonesia due to company restructuring at their headquarters. According to a financial market practitioner, the restructuring includes scaling down their brokerage business in Indonesia, which has turned gloomy this year. Stricter data regulation in their home countries, such as the European Union General Data Protection Regulation, also adds to the woes.

Gloomy brokerage business prospects also affect investment research teams. Australian securities company Macquarie, which is well-known for its strong and highly paid research team, has rationalized research jobs within the company due to falling brokerage business activities. Before the rationalization, Macquarie spent 20 percent of its income on its research division. Moreover, stocks market research in general has become more generic and less exclusive, discouraging securities companies from investing in highly paid research teams.

Not limited to Indonesia, the demise of the brokerage business has become a global phenomenon. A financial practitioner said that a Singaporean stock market regulator had warned Indonesian about the gloomy prospects at the end of last year. Others ASEAN countries are also experiencing a slowdown in brokerage business activities.

Nevertheless, there are a few exceptions. According to one source, Citi Group has tried to take advantage of this situation by acquiring strategic clients from poorly performing securities companies, including companies that closed down their businesses in Indonesia. Citi has solid end-to-end infrastructure to provide high-level services for institutional clients, and it is very likely that Citi will obtain great benefits from economies of scale.



Indonesia Macro Update: Jokowi doubles down on biofuels to curb oil and gas imports

Overview

President Joko “Jokowi” Widodo’s B20 policy has been successful in reducing Indonesia’s oil and gas imports. Compared with accumulative crude oil imports from January and July 2018 of 10 million tons, Indonesia imported 3.6 million tons less crude oil in the same period this year. Not only crude oil imports, accumulative fuel imports also fell to 13.5 million tons this year, from 14.8 million tons in 2018. As a result, Indonesia recorded a lower accumulative oil and gas trade deficit in 2019, of \$4.9 billion, than in 2018 at \$6.7 billion. **(see What’s More)**

Buoyed by this success, President Jokowi has pushed for faster implementation of his higher biodiesel mixture policy. “I want the current 20 percent blended biodiesel [B20] to move on to 30 percent [B30] by January 2020 and jump to 50 percent [B50] by the end of 2020,” the President said during a Cabinet meeting on August 12.¹ He also took his optimism to the annual State of the Nation address before the House of Representatives and Regional Representatives Council (DPD) members. “We want to produce aviation fuel [avtur] from palm oil as well,” President Jokowi said.²

In fact, state-owned oil and gas holding company Pertamina has tried to produce avtur from kernel oil since the end of 2018.³ The project is led by Prof. Subagjo from the Bandung Institute of Technology (ITB).⁴ The kernel oil is supplied by state-owned plantation firm PT Perkebunan Nusantara III (PTPN III), a holding company for 14 PTPN companies, and PT Rajawali Nusantara Indonesia (RNI).⁵ This year PTPN III has tried to raise Rp15 trillion (US\$1 billion) of funds through initial public offerings and bonds to revitalize and expand its biofuel production capacity.⁶ Energy and Mineral Resources Minister Ignasius Jonan said the development of kernel oil-based avtur might take three to five years.⁷

What's more

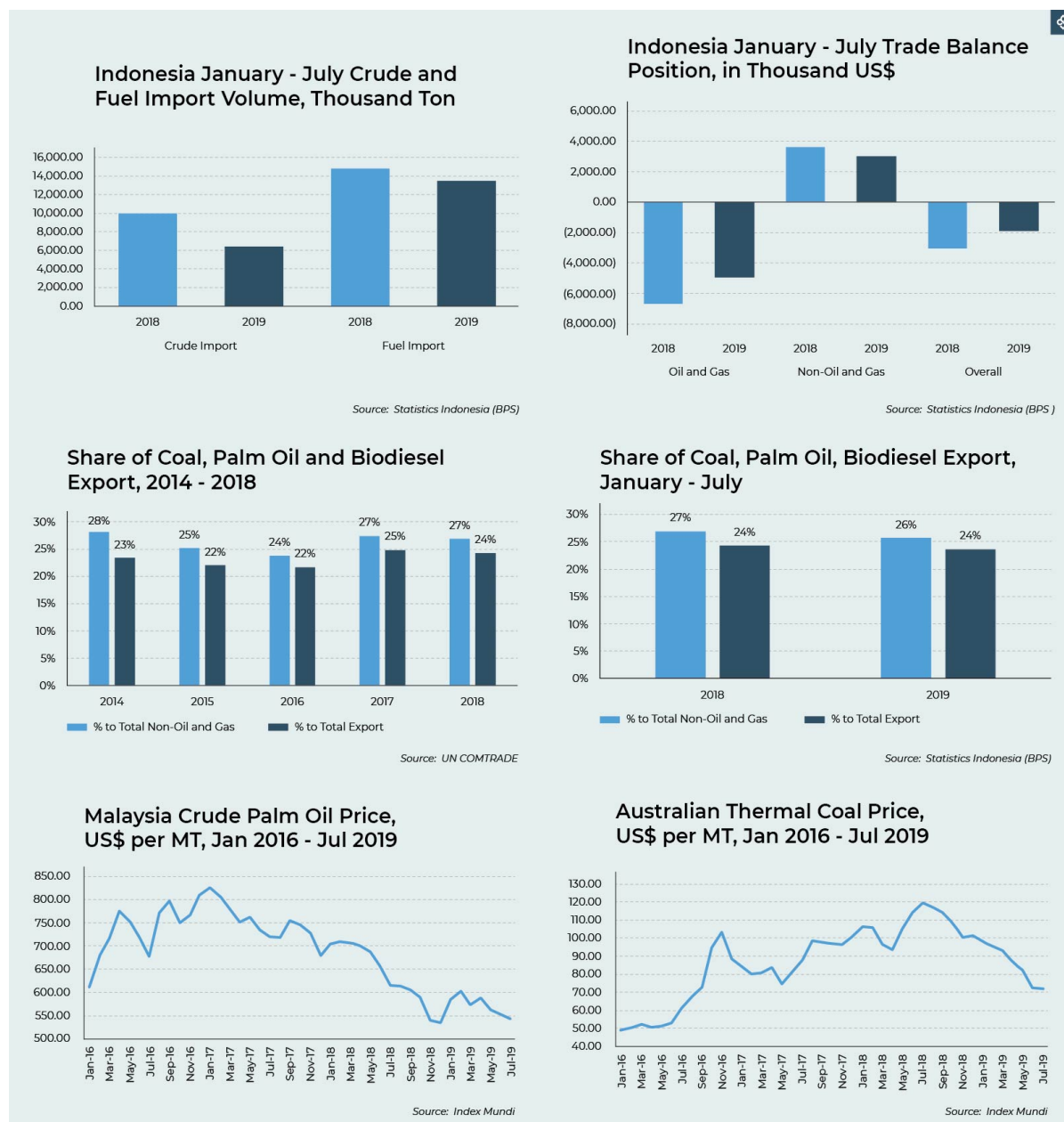
Despite its success in reducing the oil and gas trade deficit, the government is still struggling in diversifying Indonesia’s export base. Since 2014, coal, palm oil and biodiesel has accounted for 24 – 28 percent of the country’s non-oil and gas exports and 22 – 25 percent of total exports. To improve Indonesia’s export performance in the immediate future, the government needs to boost coal, palm oil and biodiesel exports.

Since the beginning of the year, however, global palm oil and coal prices have continued their downward trend. Moreover, growing hostility from the European Union toward Indonesia’s palm oil and biodiesel industry has become a considerable challenge for the government in boosting Indonesia’s position in the palm oil export value chain **(see also our other article on EU’s biodiesel duties)**.

In response to growing hostility from the EU toward palm oil and the biodiesel industry in Southeast Asia, Malaysia has played the Brexit card by calling on London to distance itself from the EU’s policy on palm oil, offering a trade deal that benefits Malaysia’s palm oil industry in return.⁸ It is unclear whether President Jokowi has such a strategy in his “export promotion foreign policy” playbook.

In India, Prime Minister Narendra Modi's government has initiated a safeguard investigation into palm oil imports from Malaysia.⁹ If the investigation results in a decision to apply safeguard duties, it will hinder Malaysia's efforts to replace Indonesia as India's number one palm oil importer but might not automatically increase palm oil imports from Indonesia.

Meanwhile, the Chinese Commerce Ministry has announced a raise in its palm oil import quota. The draft is still under review until the 22nd of August. If approved, this policy might boost Indonesian palm oil exports to China.¹⁰



Relocating the capital city - constitutionally

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