

Highlights of the week



IndonesiaLeaks: How will we proceed?

Whistleblower IndonesiaLeaks recently made an allegation of the involvement of National Police chief Gen. Tito Karnavian in a meat-importing corruption case. Considering the current state of the Corruption Eradication Commission (KPK), it is doubtful that further investigation on the allegation will be conducted.



Candidates borrow American themes in campaign race

The use of popular American references in presidential candidates' campaign aims to woo and impress potential voters. Such tactics demonstrates how candidates will resort to any possible means in winning votes, particularly at times when campaign activities have been strictly limited.



HCI focuses on children's health and education

World Bank Group launching of the Human Capital Index (HCI) during IMF-WB annual meetings last week sparked some controversies, despite being the first global ranking to focus on quality education and children's health.



Insurance SOE downed by poor regulation

A well-managed company, Jiwasraya was a success story for a state-owned (SOE) insurance company. Unfortunately, poorly designed regulation deeming SOE's business loss as criminal offense puts the company into bad financing situation.

POLITICS

IndonesiaLeaks: How will we proceed?

IndonesiaLeaks, a platform for whistleblowers, recently stirred up controversy by spreading reports that National Police chief Gen. Tito Karnavian was embroiled in a meat-import bribery case. The public has been divided in its reaction to the hullabaloo; some discredit the news as merely a hoax, while others urge the Corruption Eradication Commission (KPK) to investigate the reports. Looking at the KPK's internal dynamics and the current political environment in the country, is further investigation of the allegations feasible?

Takeaway: Looking at the strong presence of the police in KPK, further investigation of the alleged involvement of Tito Karnavian in a meat-import corruption case remains unlikely. Furthermore, considering how President Jokowi needs to present an image of unity ahead of the 2019 presidential election, the President is unlikely to jeopardize Tito's future and risk losing the support of the police for his reelection bid.

Background: Initiated by the Association for the Development of Nusantara Media (PPMN), Tempo Institute and the Alliance of Independence Journalists (AJI), supported by several organizations like the Legal Aid Institute for the Press (LBH Pers) and Indonesia Corruption Watch (ICW), IndonesiaLeaks recently published a report on two police officers who were then assigned as KPK investigators, Adj. Sr. Comr. Roland Ronaly and Comr. Harun, who allegedly destroyed evidence of the involvement of National Police chief Gen. Tito Karnavian in corruption related to meat imports.

CCTV footage made available to IndonesiaLeaks allegedly shows the two investigators rip pages of a book containing transfers of money from meat importer Basuki Hariman to Tito. In its report, IndonesiaLeaks claimed that KPK chairman Agus Rahardjo had previously told the independent whistleblower that he had seen the footage and handed it to the police after an internal KPK investigation found the police officers guilty. Nevertheless, ever since IndonesiaLeaks released the footage, Agus told the media that the footage did not show any officers tampering with evidence.

Considering the KPK's stance following the circulation of the footage, it seems unlikely that the anticorruption body will launch an investigation into Tito, at least for now. Without the KPK, how will the case unfold?

Insight: IndonesiaLeaks aims to acquaint the public with contentious issues and increase public awareness of and participation in such matters. Reports on Tito's alleged involvement in bribery should prompt demands for a thorough investigation by the KPK. Alas, such demands are unlikely to be met.

Previously, the KPK took on the National Police in its investigation of police officers and the attorney general's office, straining the relationship between the KPK and the police. Referred to as the fight between the gecko (KPK) and the crocodile (the police), the two law

enforcement agencies had locked horns three times between 2008 and 2015, each stemming from the KPK's probe into senior police officers' alleged roles in graft cases.

The acrimony between the two bodies, to a certain extent, resulted in the appointment of a number of police officers in the KPK's fourth leadership. Currently, one of the commission's deputies, Basaria Panjaitan, is a high-ranking police officer. The presence of National Police officers in the KPK is expected to strengthen the cooperation between the two bodies in tackling pervasive corruption in the country. Nevertheless, vested interests and embedded differences between the KPK and the police may make that objective look overly idealistic. It is assumed that the KPK's independence has been breached following the emergence of police officers within the commission. Over the past two years, not a single police officer has been reported as the target of a KPK investigation.

Indeed, following the release of the IndonesiaLeaks report, the KPK says it could not launch an investigation, as both Roland and Harun had rejoined the police force. Another episode of gecko versus crocodile, thus, remain highly unlikely.

Since the chances of the KPK investigating the Tito case look remote, expecting the National Police to conduct an internal investigation into its officers for allegedly tampering with evidence of Tito accepting a bribe is also unlikely. Not only have Roland and Harun escaped a probe, they have been promoted after leaving their posts at the KPK. Furthermore, the chief of the police's detective unit, Comr. Gen. Arief Sulistyanto, stated that the force had assessed and investigated the allegation and found that Tito was not implicated in corruption. Arief further explained that the KPK and the Attorney General's Office could not initiate another investigation either, citing a memorandum of understanding (MoU) signed by the three bodies, which prohibits such a move.

What is the remaining scenario, then? Any future investigation remains possible as long as the KPK wins support from the head of state, President Joko "Jokowi" Widodo. However, President Jokowi has affirmed that he would not intervene with the case. Indeed, it is understandable that the President decides to steer clear of the whole debacle. With the 2019 presidential election approaching, Jokowi cannot risk losing the police's support for his reelection bid. Nevertheless, the President cannot stay tightlipped either, as that would taint his image as a leader of impeccable integrity. This issue, thus, is likely to be framed as a hoax, a phenomenon that has been increasingly popular. Several figures from Jokowi's camp, for instance, have declared the allegation another political hoax. Such a declaration seems particularly likely in view of the fact that the public was recently shaken by a major political hoax spread by antigovernment activist Ratna Sarumpaet. IndonesiaLeaks, thus, may be framed as another attempt by the opposition to discredit Jokowi.

What we've heard: A source claimed National Police top brass knew that Tito, who was then the Jakarta Police chief, took money from the meat importer to raise funds needed to renovate the Jakarta Police headquarters back in 2016. Some of the funding also came from compensation a number of developers paid to the Jakarta government for violating the city's regulation on the floor area ratio (KLB).

Definitely, the police will protect Tito and the two police officers who allegedly destroyed evidence of him accepting a bribe, not only because such fund-raising is common practice within the force, but also because Tito did not seek personal gain.

The source said shortly after the IndonesiaLeaks report was published, Tito gathered his aides and ordered an “operation” to frame the investigative report as a hoax. The police may succeed in labeling the report fake news, because there is no longer any evidence to verify it in the first place.

Furthermore, it is reported as well that several issues have been purposefully heavily reported in order to sway the public’s attention from IndonesiaLeaks report. The issue surrounding the stray bullets found in the House of Representatives (DPR) building, for instance, is allegedly heavily circulated to cover up the IndonesiaLeaks report.

Tito reportedly said during the gathering that the IndonesiaLeaks report was part of an attempt by an external force to remove him from the National Police’s top job, hence threatening the police corps’ unity.

Candidates borrow American themes in 2019 presidential race

President Joko “Jokowi” Widodo drew smiles when he referred to the popular American TV series Game of Thrones in his address at the Annual Meetings of the International Monetary Fund and World Bank Group in Bali last week. But the speech was clearly aimed at impressing the home audience, particularly millennials, as he bids for his reelection in 2019. Not to be outdone, the lone challenger, former general Prabowo Subianto, took a leaf from United States President Donald Trump’s campaign book, using “Make Indonesia Great Again” as his new campaign slogan.

Takeaway: Since the scope of campaign activities has been gradually limited, it appears that both presidential candidates will resort to any necessary means to win the public support. The use of popular American references is one of the measures adopted by the candidates in winning votes, particularly the millennials’.

Background: Behind all their moves is obviously the campaign to woo undecided voters, which could potentially be large. Most Indonesian voters, particularly the young, have no affiliation of any sort in a political system that is almost devoid of clear ideological divisions. Less predictable are millennial voters, aged between 17 and 35 years old, who make up about 40 percent of the 185 million voters. How they vote would determine the outcome of the April 17 race. Jokowi and Prabowo need to convince this segment of voters to win the election. Most surveys today give Jokowi the lead, but he is not taking chances and clearly is working hard in securing millennial votes.

It’s early days yet in the campaign period and neither candidate has picked up the pace, preserving their energy and financial resources for the for two or three month final stretch. Jokowi is taking full advantage that his incumbency confers, using any and every platform, including international stages, to get his campaign messages out. Prabowo and his team, in the meantime, find their space far more limited, and even then, the rules appear to be working

against them. Their running mates, respectively Ma'ruf Amin and Sandiaga Uno, have been busier traveling and campaigning.

Insight: No one believes Jokowi has had the time to diligently follow *Game of Thrones*, but his use of the popular series in an international speech stirred controversy at home, particularly on social media. That is good enough as far as his minders are concerned. The whole idea is to get people talking about the President.

The reaction on social media has been mixed. Critics called it *norak* (corny, cheesy or pedestrian). His supporters lauded him for hitting the right note. Whether or not it has the intended effect on voters, particularly millennials, is hard to tell.

This is not the first time that Jokowi has pulled a stunt like this. In his speech at a World Economic Forum conference in Hanoi last month, he made references to Thanos, the villainous fictional character in the *Avengers* comic series. He drew smiles among the international audience, as well as jeers and admiration back home.

Talking about appearing cool, Jokowi surprised many at the opening ceremony of the Asian Games in Jakarta in August, with a theatrical performance of him “arriving” at the Gelora Bung Karno Main Stadium on a motorcycle, leather jacket and all, after making the short ride from the Presidential Palace through Jakarta’s notorious traffic — and “he” even staged an acrobatic stunt. A large part of this was obviously prerecorded, and it was later found that it was a Thai stunt biker that jumped over several cars and rode the motorbike into the stadium.

Supporters loved it and haters hated it, accusing him of electioneering in violation of the rule that bars campaigning outside the designated period, which did not start until Sept. 23.

But that is precisely the one huge advantage Jokowi has over Prabowo: he has national and international platforms at his disposal every day as he goes about his presidential duties, and he is almost automatically guaranteed a huge audience plus huge media coverage.

Prabowo finds the going hard. His team has yet to recover from an embarrassing fake news scandal by one of his chief campaigners that was called out by the police. Last week, two other key campaigners found themselves barred from addressing an academic seminar at Gadjah Mada University in Yogyakarta. The university, which not coincidentally is Jokowi’s alma mater, said campus should not be used for electioneering. The two men are listed as Prabowo’s campaigners, so they cannot make any appearance at the university, even for seminars on non-political topics.

University campuses would be obvious places for both candidates to reach out to millennials, including first time voters. The General Elections Commission reminded both camps of a regulation that clearly bars campaigning at educational institutions, houses of worships and government offices.

But while Prabowo’s team had been stopped from entering universities, that is not the case apparently for Ma'ruf, who has been visiting many *pesantren* (Islamic boarding schools), meeting with their charismatic and influential principals. When criticized for making political rounds in places of education in violation of the regulation, Ma'ruf said his visits were in the Islamic spirit of *silaturahmi*, the Muslim term for nurturing existing relations.

As chair of the Indonesian Ulema Council, Ma'ruf is the top ranked ulema in the country. Last week, he visited Singapore to give a public lecture at the Rajaratnam School of International

Studies. Appearing in sarong, he told the packed room that he would continue to wear the traditional attire rather than pants, as he is first and foremost an ulema.

Ma'ruf's continued use of the religious card is winning over political converts. Last week a number of leaders of the 212 Movement, a group of conservative Muslims originally set up to unseat Jokowi, declared their support for the Jokowi-Ma'ruf candidacy. Prabowo has never felt more abandoned as conservative Muslims had been one of his key supporters.

Prabowo made waves when he broached the first time his campaign slogan "Make Indonesia Great Again" in a speech at a congress of the Indonesian Institute for Islamic Propagation, a small but influential Islamic organization. One indication of its power is that Jokowi opened the conference in his capacity as President of the country. But to the audience it was obvious that they saw Jokowi and Prabowo using the platform to win their votes.

While his supporters were quick to seize on the slogan, critics were equally quick in coming up with the appropriate acronym: "Migrain".

American-educated Sandiaga Uno meanwhile is taking a page from Jokowi's 2014 campaign book. He has been engaging in *blusukan*, mingling and immersing with the people. He has been visiting traditional markets, meeting, talking and charming housewives, and promising he would make sure that basic food prices become affordable for them if elected.

Here is one area where Jokowi's incumbency can be a drawback. As President, protocols require him the utmost security protection. But Jokowi has been known to break away from his security minders, and reach out to the people and allow them to take selfies.

What we've heard: Sources close to Prabowo, who turned 67 on Wednesday, say he has been taking it easy with the campaign because of his poor health. He has instead encouraged Sandiaga to be more active in making the rounds, traveling across the country and reaching out to voters.

A source from Jokowi's camp said that the current campaign strategies enforced by Sandiaga resemble Jokowi's strategy in his previous campaign. This worries the president as he knows how effective the strategies can be.

BUSINESS & ECONOMIC POLICY

HCI focuses on children's health and education quality, despite controversies

On Oct. 11 at the Human Capital Summit in Nusa Dua, Bali, World Bank Group president Jim Yong Kim released the Human Capital Index (HCI), its first global ranking to focus on developments in education and children's health.

Takeaway: Unlike what critics said, the World Bank's HCI brings policymakers' attention to various neglected issues such as the quality of education and nutritional needs of children. Nevertheless, it does not mean that HCI comes with appropriate solutions for the nations' human capital problems. Rather, each country needs to experiment with probable remedies and choose what works on the ground.

Background: The HCI is part of the World Bank's Human Capital Project¹ launched in 2017, and a response to its World Development Report 2019 that highlights the implications of digital transformation and advancement in robotic technology on the future of work².

The HCI is controversial and has garnered a variety of responses. For example, *The Wall Street Journal* mentioned that the bank was shaming African countries with their economic difficulties.³ Likewise, Education International general secretary David Edwards opposed the new ranking, saying it was a waste of resources because of its similarity to the United Nations Development Programme's Human Development Index (HDI).⁴

The Indian government angrily rejected the HCI, saying that its policies on developing human capital were not considered in the new index.⁵ In contrast, Indonesian Finance Minister Sri Mulyani Indrawati welcomed the HCI, saying that Indonesia was ready to be one of its early adopters.⁶

Insight: While investing in human capital is believed to boost productivity and growth, research shows that the effect is conditional.⁷ For example, investment in education needs to be accompanied by environments where highly educated and productive people can work and learn together with other highly educated and productive people.⁸ Without such an environment, large investment in education will not produce the desired results.

¹ World Bank, "Human Capital Project." <https://tinyurl.com/y9hxryt8>

² World Bank, "World Development Report 2019." <https://tinyurl.com/y7kx5x8>

³ WSJ.com, "World Bank aims to shame with 'human capital' ranking." 11 October 2018 <https://tinyurl.com/y8pdryqn>

⁴ Ei-ie.org, "What's wrong with the World Bank's Human Capital Index?" 10 October 2018 <https://tinyurl.com/yb96t22x>

⁵ Financialexpress.com, "Modi government rejects World Bank's India ranking in Human Capital Index; here's what it will do now." 12 October 2018 <https://tinyurl.com/yazgra82>

⁶ Detik.com, "Sri Mulyani bicara soal Bank Dunia yang punya cara ukur daya saing SDM." 11 October 2018 <https://tinyurl.com/y8gj9wrc>

⁷ William Easterly. 2001. "The elusive quest for growth: economist' adventures and misadventures in the tropics." The MIT Press.

⁸ Robert E. Lucas Jr. 2015. "Human Capital and Growth." *The American Economic Review*, 105 (5): 85-88. <https://tinyurl.com/ycf378xe>

Nevertheless, it does not mean that the World Bank HCI is redundant as critics have said. Rather, it highlights issues that have often been neglected by policymakers, such as the nutritional needs of children and quality education.

In the local context, Indonesia has been successful in improving children's access to school, but has performed poorly in providing high quality education.⁹ This shortcoming was made apparent through the Programme for International Student Assessment (PISA) test, in which Indonesia lags behind other ASEAN nations. Vietnam, for example, recorded higher PISA scores despite its lower per capita income in 2017 (US\$2,343 to \$3,846).

Another stumbling block for Indonesia is the nutritional needs of children. Approximately, 9 million children under 5 in Indonesia, or 37 percent of the population, have childhood stunting.¹⁰ Compared to other ASEAN countries, Indonesia ranks among the lowest in preventing childhood stunting.

In short, the HCI helps countries like Indonesia recognize human capital-related issues. However, appropriate solutions do not always immediately follow such recognition. For example, one assumption for solving childhood stunting might be allocating more money toward childhood nutrition. However, James Heckman from the University of Chicago has found through a randomized experiment that early education delivers better economic outcomes than nutrition intervention alone.¹¹ Heckman's finding does not mean that nutritional intervention is not needed for children with stunting. Rather, it warns policymakers that solutions for many human capital problems might involve a tangential or holistic approach instead of a direct approach.

WB HCI components	UNDP HDI Indicators	HCI vs HDI
- Probability of survival to age 5 - Average years of schooling and quality of education as expressed in harmonized test score - Proportion of children without stunting - Adult survival rates measured from age 15-60	- Life expectancy at birth - Expected and average years of schooling - GNI per capita	- HCI excludes income calculations - HCI includes children's nutritional needs - HCI includes quality education

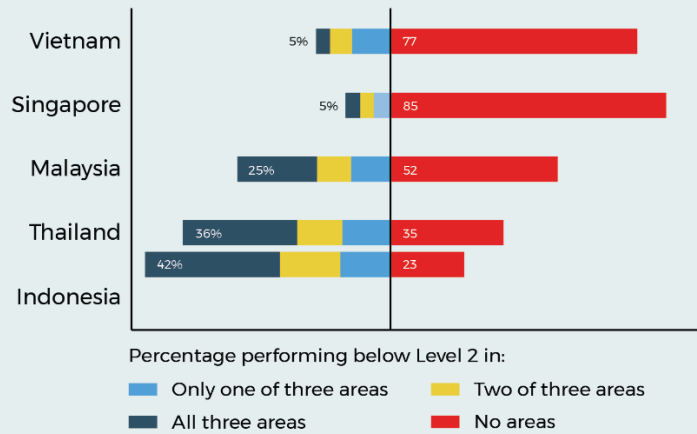
Sources: UNDP (<https://tinyurl.com/yd3qqar2>), World Bank (<https://tinyurl.com/yb5lrg38>)

⁹ Andrew Rosser. 2018. "Beyond access: making Indonesia's education system work." Lowy Institute. <https://tinyurl.com/y8vnyp6t>

¹⁰ Scallingupnutrition.org, "Indonesia's Vice President recognizes the need to overcome stunting." 11 August 2017 <https://tinyurl.com/ybrmz6v8>

¹¹ Heckmanequation.org, "The Jamaican Study." <https://tinyurl.com/y8jn29xu>

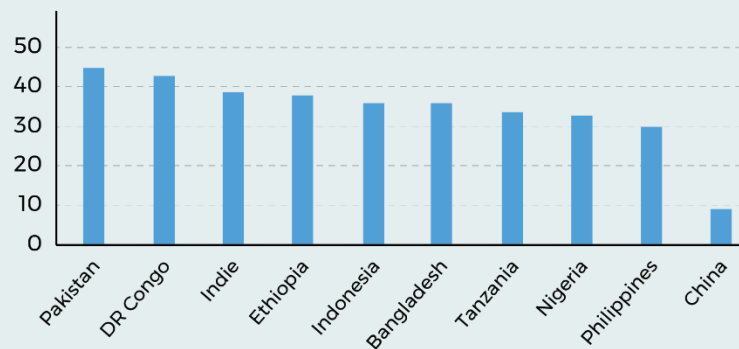
% 15 year-olds in ASEAN nations performing poorly in science, maths and/or reading



Source: PISA 2015

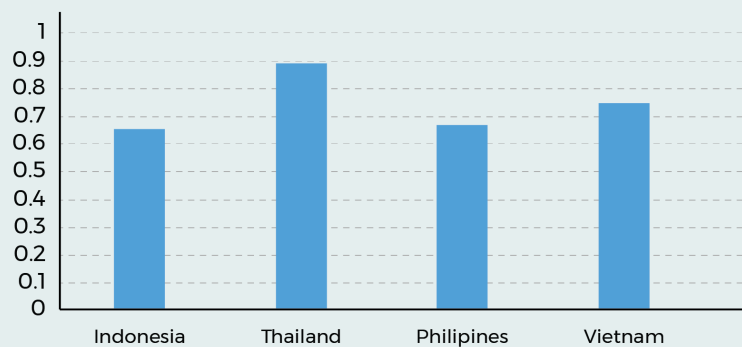
Countries with the highest prevalence of stunted worldwide as of 2017

(in % of the population of children under 5 years old)



Source: Human Capital Index, World Bank

Fraction of children under 5 not stunted among selected countries, 2018



Source: Human Capital Index, World Bank

Comparison on Indonesia HCI value between 2012 and 2017

Indicator	2012	2017
HCI Component 1: Survival		
Probability of Survival to Age 5	0,969	0,975
HCI Component 2: School		
Expected Years of School	11,5	12,3
Harmonized Test Scores	397	403
HCI Component 3: Health		
Survival Rate from Age 15-60	0,818	0,828
Fraction of Children Under 5 Not Stunted	0,608	0,664
Human Capital Index (HCI)	0,50	0,53
Uncertainty Interval	[0.49,0.51]	[0.52,0.55]

Source: Human Capital Index, World Bank

Well-managed insurance SOE downed by badly designed regulation

On Oct. 15, Jiwasraya president director Asmawi Syam announced that the state-owned insurance company would continue servicing its delayed interest payment to JS Proteksi Plan policyholders through a one-year roll-over scheme with a 7 percent interest rate per annum. For policyholders who do not want to take the roll-over scheme, Jiwasraya will pay their policy in full under an undisclosed agreement with a 5.75 percent interest per annum.

Takeaway: Jiwasraya is a well-managed company and a success story — but one that turned into a tragedy. The downturn was not the result of bad management of governance issues, but rather a badly designed regulation that regards business losses made by SOEs as a criminal offense without rigorous examination.

Background: The announcement was made following a meeting with Jiwasraya's policyholders on Oct. 10, which explained that the company needed to delay its interest payment, worth Rp 96.58 billion (US\$6.356 million), as well as a principal payment worth Rp 802 billion to 711 policyholders.¹²

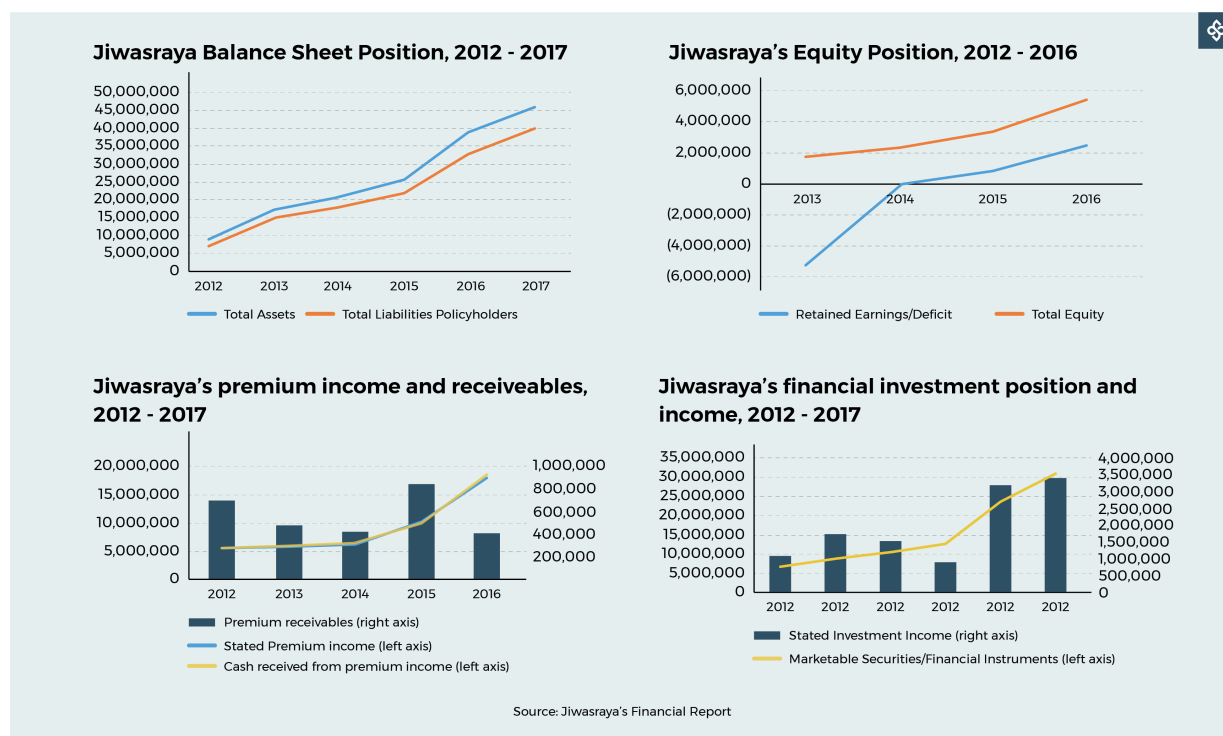
The delay was caused by liquidity and regulatory problems, in which Jiwasraya could not immediately convert its stock investments into cash because it would result in an investment loss. Because of its status as an SOE, the loss would be regarded as a state loss,¹³ which could be considered a criminal offense, as seen in a case involving former Pertamina president director Karen Agustiawan.¹⁴ This problem put the Financial Services Authority (OJK) in the

¹² Tirto.id, "Prahara baru dunia asuransi: Jiwasraya." 15 October 2018 <https://tinyurl.com/yaqvtvto6>

¹³ Kumparan.com, "Permasalahan Jiwasraya: return terlalu tinggi hingga rugi investasi." 18 October 2018 <https://tinyurl.com/y7f6b785>

¹⁴ Tempo.co, "Begini perjalanan kasus eks dirut Pertamina Karen Agustiawan." 24 September 2018 <https://tinyurl.com/y9ygutji>

spotlight, especially after its decision to save Bumiputera 1912 from bankruptcy earlier this year received harsh criticism from the Supreme Audit Agency (BPK).¹⁵



Insight: Unlike previous scandals involving insurance companies, such as Bumi Asih Jaya and Bakri Life, Jiwasraya's problem was not caused by mismanagement. Rather, it was due to a badly designed regulation that regards any business losses made by SOEs as a criminal offense

After restructuring its Rp 7.6 trillion liabilities in 2013-2014, which was due to the 1998 monetary crisis,¹⁶ Jiwasraya transformed from a pariah into a major insurance company. The value of its assets has grown from Rp 9.2 trillion in 2012 to Rp 45.6 trillion in 2017, driven by growing numbers of subscribed policyholders.

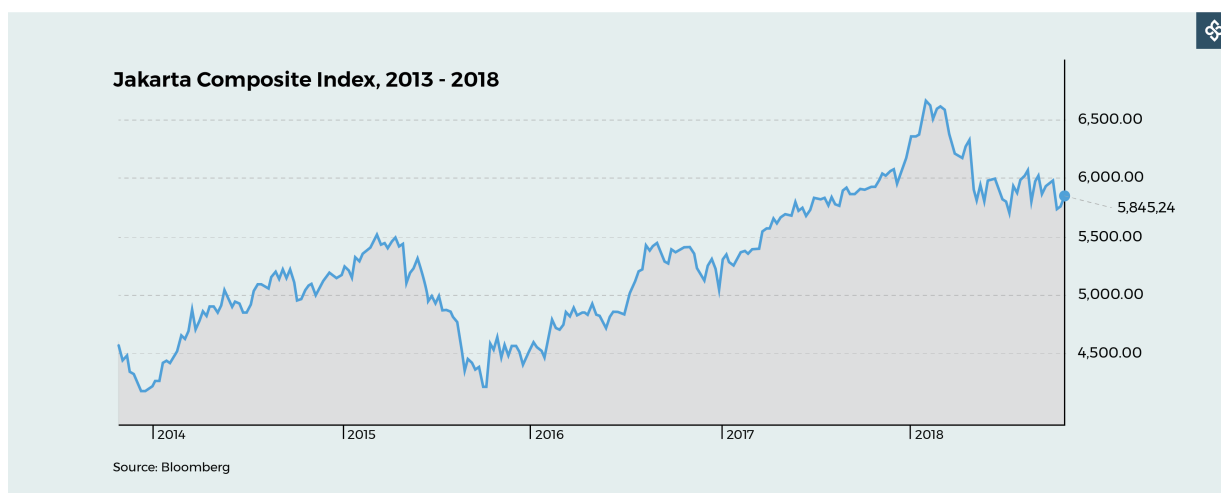
This increase also boosted revenue nearly fourfold, from Rp 6.7 trillion in 2012 to Rp 25.1 trillion in 2017. Moreover, most of Jiwasraya's policyholders pay their premium on time, resulting in low premium receivables and an abundant amount of cash generated from its insurance products.

With the cash, Jiwasraya turned to the financial market to generate more income and was successful, generating more than Rp 3 trillion in investment income in 2016 as well as in 2017. In 2018, however, its investment in the stock market has not produced the intended results due to the high uncertainty that surrounds Indonesia's economy and the financial market.

Despite this turn of luck, Jiwasraya is a highly successful SOE. Former president director Hendrisman Rahim deserves recognition for turning Jiwasraya from a pariah into a success story.

¹⁵ CNNIndonesia.com, "BPK: OJK menyalahi kewenangan tunjuk 'penyelamat' Bumiputera." 3 April 2018 <https://tinyurl.com/y9de27we>

¹⁶ Bisnis.com, "Jiwasraya terbebas utang klaim polis Rp 7.6 triliun." 7 August 2014 <https://tinyurl.com/ybh5e39x>



What we've heard: The problem surrounding state-owned insurance PT Asuransi Jiwasraya was actually spotted last year when public accounting office PricewaterhouseCoopers (PwC) reported a liquidity problem in an audit in 2017.

There was disagreement between Jiwasraya management and PwC about the company's capital reserve position, which prompted the audit company to give a "qualified opinion" on Jiwasraya's financial report.

Jiwasraya's management, however, tried to conceal the problem so that they would secure their bonuses. This irked the State-Owned Enterprises Ministry, which eventually replaced Jiwasraya's management and appointed Asmawi Syam the new president director. Asmawi was previously Bank Rakyat Indonesia (BRI) president director, and after that served as Askrindo president director for seven months.

The new management under Asmawi Syam reviewed the PwC report and found Rp 7.6 trillion (\$499.89 million) in capital reserve deficiency. The declining reserve came from falling stock prices that Jiwasraya had invested in. Consequently, the losses from the falling stock prices reduced the company's profit in 2017 to Rp 360 billion from Rp 2.4 trillion in 2016.

Jiwasraya has been known to be all-out in investing its capital on various investing instruments such as shares, mutual funds and bonds to pay its due policy benefit. Increasing global uncertainty has dragged down stock prices thus undermining Jiwasraya's investment. This is why the company was reluctant to sell their assets in shares and mutual funds — because doing so would result in realized losses.

Some players in the insurance business questioned why the Financial Services Authority (OJK) did not take preemptive and preventive actions, knowing the problem was traceable since 2017. They alleged that the OJK was weak at monitoring and supervision, despite issuing a number of regulations on insurance management.

MACROECONOMIC UPDATE

Trade surplus in September but unlikely in full year

Indonesia booked a trade surplus of \$227 million in September after deficits of \$2 billion in July and \$944 million in August.

Takeaway: Looking ahead, however, the government is unlikely to realize a trade surplus for the full year because of several factors, including the continuing pressure on the rupiah, the hike in global oil prices, the US Federal Reserve's normalization policy and the ongoing trade war between China and the US.

Background: Trade figures for September published by Statistic Indonesia (BPS) on Monday (Oct. 15) show that exports increased 1.7 percent from a year earlier to \$14.83 billion, while imports rose 14.18 percent to \$14.60 billion.

Imports of consumer goods still booked significant annual growth in September, while exports of agricultural products fell by 8.33 percent from a year earlier. Non-oil and gas trade recorded a surplus of \$1.29 billion in September, higher than the \$667 million recorded in August.

BPS also noted that the value of oil and gas imports fell 25.2 percent month on month in September, but it rose 17.75 percent year on year (yoy). The oil and gas trade deficit declined significantly to \$1.07 billion in September from \$1.61 billion in August.

The trade surplus of \$227 million in September brings the country's cumulative deficit from January-September 2018 down to \$3.78 billion, and the government appears optimistic that Indonesia could still achieve a trade surplus for 2018.

Insight: Indonesia's trade surplus in September could be the result of the government's aggressive policies to curb imports, rather than boost exports. The value of imports has been on a decreasing trend since the government implemented several policies to reduce the current account deficit, which has been draining foreign exchange reserves.

Those policies vary from short- to long-term measures, including postponing some infrastructure projects with high import content, increasing the import tax for 1,147 consumer products, the mandatory use of B20 biofuel blends and boosting exports by diversifying market destinations.

Those efforts to improve the trade balance are expected to reduce the current account deficit, so that it would send a positive signal to investors, especially foreign investors, to continue with their projects in Indonesia.

However, the effects of those policies will not be immediate, which is why we expect pressure on the rupiah to continue for some time, at least until the end of this year.

The rupiah has been depreciating against the dollar to pass the new psychological level of Rp15,000 per US dollar since the beginning of October. External factors continue to weigh on the rupiah, especially following the normalization of monetary policy by the US Federal Reserve, which might continue to increase the federal funds rate (FFR) until December 2018.

Also, the rise in global oil prices and the continuing trade war between the US and China have also contributed to the distortion of the rupiah's exchange value.

The government and other stakeholders, especially businesspeople, should better understand and respond in a prudent manner to the current situation, where Indonesia faces economic pressure mainly from the outside rather than from the domestic market.

They should also better anticipate the negative impacts of the trade war between the US and China – as both economies are major Indonesian trading partners – by exploring new market destinations. The trade war could lead to the slower growth of both countries involved and might distort demand for Indonesian goods/services in those two countries.

ISSUE UPDATE: PLTU Riau-1 corruption case

The deeper we go, the messier we get

On July 20, 2018, we covered the steam power plant (PLTU) Riau-1 corruption case, which involved high-level Golkar politicians. The case brought down the previous social affairs minister, Idrus Marham, and House of Representatives member Eni Maulani Saragih. It also revealed the role of the notorious former Golkar chairman Setya Novanto, who was convicted earlier in the e-ID graft case. Nevertheless, recent developments revealed the role of a new player, Samin Tan, who has close ties with the Bakrie family and was involved in the Bumi Plc fiasco against the Rothschild family.

Summary: The PLTU Riau-1 case highlights the role of politicians-cum-businesspeople in billion-dollar government infrastructure projects.

On August 15, 2018, the Corruption Eradication Commission (KPK) arrested Eni and Johannes Budisutrisno Kotjo, one of the shareholders of coal producer Blackgold Natural Resources, as graft suspects. The KPK declared Eni a suspect after he allegedly received Rp 4.8 billion in kickbacks from Johannes for her two services: lobbying for his company Samantaka Batubara to become a PLN Batubara supplier and for Blackgold Natural Resources to be appointed the contractor for the PLTU Riau-1 project, in partnership with Pembangunan Jawa Bali Company (PTPJB). The KPK also arrested Idrus last September for taking over the project from an old friend, Setya. *Read full story [here](#).*

Samin Tan - Short Profile



Image credit: detik.com



Professional Background

- Chairman**, Bumi PLC London (2012-2013); serving as president commissioner ever since
- President Director**, Borneo Lumbung Energi (2007 – 2011); now owner
- Owner**, Renaissance Capital Asia (from 2002)
- Partner**, Deloitte Touche (1998-2002)
- Partner**, KPMG Hanadi Sudjendro & Partners (1987-1998)

Facts:

- Owns a close business tie with the Bakrie family
- Mr. Tan did not complete his undergraduate study in accountancy from Tarumanegara University in 1986. Some sources, however, said that he holds a bachelor degree in economics from Tarumanegara University
- Indonesia's 28 richest man in 2011 with US\$ 940 million net worth (Forbes)
- Lost up to \$800 million in Bumi Plc London after its share price suddenly dropped in 2012
- Bought PT Borneo Lumbung Energi in 2006 by leveraging his tie with Bakrie through Bumi Resource Mineral and his own corporate advisory and investment banking company Renaissance Capital Asia from Beyond Petroleum Plc and Rio Tinto.

Sources: Merdeka.com, Tirta.id, Forbes, Bloomberg



What we've heard: The name Samin Tan emerged in the Riau I power plant graft case after Eni Maulani Saragih, a former House of Representatives member and key suspect, mentioned Tan's involvement in a court hearing. According to some sources, Tan asked the Golkar Party politician to lobby Blackgold Natural Resources owner Johannes B. Kotjo to be included in the Riau I project.

Sources said Tan bribed Eni with Rp 1 billion, not only to pave the way for his Borneo Lumbung Energi to become the Riau I subcontractor, but also to put his company in a "favorable" spot to become the developer of a power plant project close to Borneo Lumbung Energi's coal mine in Central Kalimantan.

Tan specifically targeted power plant projects with tender mechanisms that were similar to the Riau I plant, where state-owned electricity company PLN tasked its subsidiaries with directly appointing a contractor. Lumbung Borneo Energi was said to seek a partnership with PT Pembangkit Jawa Bali, one of the PLN subsidiaries that also faced problems in the alleged Riau I graft.

Some sources in the House of Representatives confirmed that the alleged bribe was also to push the Energy and Mineral Resources Ministry to implement the verdict of the Jakarta State Administrative Court that favors Tan.

In November 2017, Tan filed a lawsuit against the ministry after it cancelled a coal-mining license (PKB2B) with PT Asmin Koalindo Tuhup (AKT), a subsidiary of Borneo Lumbung Energi, to develop a coal mine in Murung regency, Central Kalimantan. The license was canceled after Tan was caught using AKT's recorded coal reserves as collateral for Borneo Lumbung Energi's US\$ 1 billion credit application to Standard Chartered Bank without ministerial approval.

The court ruled in April 2018 in favor of AKT and demanded that the license be restored. Nevertheless, the ministry has thus far not restored AKT's coal-mining license.

1 MONTH
Rp 5 mio / US\$ 350

Rp 2.5 mio / US\$ 175

Per Month

6 MONTHS
Rp 27.5 mio / US\$ 1,800

Rp 13.75 mio / US\$ 900

Per 6 Months

BEST DEAL! 1 YEAR
Rp 50 mio / US\$ 3,500

Rp 25 mio / US\$ 1,750

Per Year

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

TENGGERA BACKGROUNDER

Tenggara Backgrounder is a weekly briefing service combining insights and research analysis by experts from the Centre for Strategic and International Studies (CSIS) and Prasetya Mulya University, as well as background information from *The Jakarta Post* journalists. Tenggara Backgrounder provides you exclusive insights into what's happening behind the scenes along with insider scoops that are not published in the media.

Price list includes:

- Weekly delivery of Tenggara Backgrounder with a minimum of two economic and political themes
- Complimentary media headline summaries to be delivered daily
- An opportunity to propose topics to be discussed in Tenggara Backgrounder
- Free access to *The Jakarta Post* Online Premium Content

Disclaimer:

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

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

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



PT Trisaka Wahana Tenggara

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

+62 21 5300476/8 ext. 2009

info@tenggara.id

www.tenggara.id

Board of Commissioners:

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

Board of Directors:

Riyadi Suparno, Phillips J. Vermonte,
Deddi Tedjakumara

Guarantor: Riyadi Suparno

Researchers & Writers:

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