

## HIGHLIGHTS OF THE WEEK

### POLITICS

#### KPK pressured to investigate Jokowi's jet-setting son

All eyes are still on Kaesang Pangarep, the youngest son of President Joko "Jokowi" Widodo, who became embroiled in a controversy over his use of a private jet for a recent trip to the United States. The controversy has only increased since Kaesang provided clarification over the matter to the Corruption Eradication Commission (KPK) on Sept. 17.

#### How important is Anies factor in Jakarta gubernatorial race?

The campaign period for the Jakarta gubernatorial election kicked off this week, but conspicuously missing from the race is former Jakarta governor Anies Baswedan, who all surveys say is the most popular figure for the job. The man who held the job in 2017-2022 is being kept out because no political parties chose him for their ticket. And when three political parties that had earlier endorsed his candidacy pulled out at the last minute, it was too late for him to register as an independent.

#### Jokowi's ambition to relocate capital city faces reality check

Outgoing President Joko "Jokowi" Widodo has yet to sign a presidential decree that will effectively relocate Indonesia's capital city to Nusantara, East Kalimantan. The Nusantara project may face a serious impediment as president-elect Prabowo Subianto will focus on his own priority programs, although on various occasions he has demonstrated a willingness to carry on the new capital city development.

#### Doubts cast over nutritional quality of Prabowo's free meals program

With the succession of national leadership fast approaching, the realization of president-elect Prabowo Subianto's flagship free meals program is facing an arduous challenge. Due to budget constraints, several adjustments will have to be made to the original plan, which may compromise the program's intended purpose.

#### Pilot's release paves way for Papua

### BUSINESS AND ECONOMY

#### Jokowi seals downstream legacy with Freeport, AMNT smelters

Less than a month before his second and final term comes to an end, President Joko "Jokowi" Widodo inaugurated two of the world's biggest copper and gold smelters on Sept. 23, essentially sealing his legacy in expanding the country's mineral downstream industry, which has created rifts with major economic powers.

#### Jokowi's last goal, to join CPTPP free trade agreement

Indonesia, now a member of the world's biggest free trade agreement, the Regional Comprehensive Economic Partnership (RCEPP), has applied to join the world's next biggest Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), which has been left by the United States but joined by China.

#### Jokowi inaugurates foreign investment projects in Nusantara

President Joko "Jokowi" Widodo has inaugurated the construction of several foreign investment-funded projects in Indonesia's future capital in Nusantara, East Kalimantan. The groundbreaking ceremony comes less than a month before Jokowi is succeeded by the incoming administration of Prabowo Subianto. This marks the eighth phase of investment groundbreaking for the city. However, Jokowi's final push for Nusantara comes just ahead of the incoming government's plans to shift government expenditure priorities, including reducing the state budget allocation for the Nusantara project.

#### BI cuts rate ahead of US Fed, further drives Indonesian bond rally

Bank Indonesia (BI) gave the market a surprise recently by cutting its benchmark rate ahead of the United States Federal Reserve. The rate cut, announced on Sept. 18, fueled the ongoing rally in Indonesian securities that started in August. The rupiah also saw a sharp rise, climbing 1 percent to reach Rp 15,080 per US dollar after the announcement, bringing its total weekly gain to 2.1 percent.

## **conflict resolution**

The recent release of a Susi Air pilot after one and half years in captivity marks a milestone in Indonesia's attempt to settle the long-standing armed conflict in Papua beyond doubt. Philip Mehrstens's freedom proved that the non-violent approach, rather than the use of violence, worked in the government's efforts to deal with the Papuan armed rebel group.

# POLITICS

## KPK pressured to investigate Jokowi's jet-setting son

All eyes are still on Kaesang Pangarep, the youngest son of President Joko "Jokowi" Widodo, who became embroiled in a controversy over his use of a private jet for a recent trip to the United States. The controversy has only increased since Kaesang provided clarification over the matter to the Corruption Eradication Commission (KPK) on Sept. 17.

However, the antigraft body's seemingly half-hearted review and reluctance to pursue the issue have reignited skepticism about its independence and credibility. As public pressure mounts, so do demands that the KPK ensure transparency and accountability in handling what could become a high-profile case.

Kaesang, who chairs the Indonesian Solidarity Party (PSI), said he hitched a ride on a private jet belonging to "a friend" to travel to the US, along with his wife Erina Gudono and the jet's owner.

He has also argued that since he is not a state official, he is not required to make any formal disclosures related to a private trip. He reiterated this stance to the KPK, saying that he was acting as a law-abiding citizen and not a state official.

KPK prevention and monitoring deputy Pahala Nainggolan revealed that during their meeting, Kaesang submitted a gratuity report that included a detailed itinerary of his US trip as well as travel expenses, estimated at Rp 90 million [US\$5,930] for each of the four passengers who traveled on the private jet: Kaesang, Erina, his sister-in-law and an aide.

Pahala said his team would be analyzing both Kaesang's report and statement to determine whether the trip was an unlawful gift. If it does, Kaesang must pay the state Rp 360 million in compensation for accepting the gratuity.

While Kaesang's visit to the KPK seemed to be an effort at damage control, the public deemed this was not enough, and calls have subsequently increased for the commission to thoroughly investigate the gratuity allegation against Kaesang.

A criminal law expert says the KPK can take action against Kaesang using Law No. 28/1999 on clean and corruption-free state officials, which stipulates that family members of a state official can act as intermediaries in receiving gratuities.

The expert also pointed to the KPK's past actions in moving quickly to investigate former customs officer Andhi Pramono and former tax official Rafael Alun Trisambodo, after their family members were caught flaunting their wealth on social media.

The KPK uncovered elements of corruption in Andhi and Rafael's cases, but it looks unlikely to treat Kaesang in the same way, at least for now. This could change when Jokowi leaves office on Oct. 20, however.

The IM57+ Institute said clarification was one of the stages in a gratuity review, and that the KPK should investigate the motive behind the private jet's provision to Kaesang for his US trip.

The antigraft watchdog also questioned Pahala's statement, which appeared to support Kaesang's reported per person fee for the private jet, which was cheaper than a business class seat on a commercial flight. The law expert was of the same view, saying that whoever provided the private jet

could be charged under Article 13 of Law No. 20/2001 on corruption eradication for giving an unlawful gratuity.

The Indonesian Anticorruption Community (MAKI) is one of two groups that reported Kaesang's trip to the KPK, alleging that the private jet was connected to a collaboration between PT Shopee International Indonesia and vice president-elect Gibran Rakabuming Raka, Kaesang's brother. MAKI supported its report with a copy of a memorandum of understanding (MoU) signed by Shopee and the Surakarta administration on the establishment of a Shopee office and gaming center on land owned by the municipality, which was then led by Gibran.

Connecting these dots, Indonesia Corruption Watch (ICW) opined that the KPK had sufficient grounds to pursue a wider investigation into the first family through Kaesang's alleged gratuity. This is especially pertinent, given that the public has filed a separate report with the KPK on gratuity allegations involving the use of a private jet by Medan Mayor Bobby Nasution, the President's son-in-law.

## What we've heard

A source familiar with the case investigation stated that the KPK leaders are divided in their approach to the Kaesang case.

According to him, all the five KPK leaders had regrouped to discuss the development of this case. The interim KPK chairman, Nawawi Pomolango, however, questioned the presence of deputy chairs Nurul Ghufon and Johanis Tanak, who he considered having a conflict of interest as they were undergoing selection for KPK leadership for 2024-2029 at that time.

Ghufon and Tanak are known to oppose the KPK move to investigate into Kaesang's for allegedly accepting gratuity in his flight on the private jet.

On the other hand, Nawawi and Alexander Marwata are inclined to pushing for a formal investigation into the case.

In the stalemate, Deputy for Prevention and Monitoring Pahala Nainggolan was asked for opinions that would break the tie. It turned out Pahala, who is also running for KPK post, supports Ghufon and Tanak.

## How important is Anies factor in Jakarta gubernatorial race?

The campaign period for the Jakarta gubernatorial election kicked off this week, but conspicuously missing from the race is former Jakarta governor Anies Baswedan, who all surveys say is the most popular figure for the job. The man who held the job in 2017-2022 is being kept out because no political parties chose him for their ticket. And when three political parties that had earlier endorsed his candidacy pulled out at the last minute, it was too late for him to register as an independent.

Anies never hid his ambition to return to his old job, publicly stating his interest shortly after losing the presidential election in February to Prabowo Subianto. The governorship would have given him a public platform to contest the 2029 presidential election. Now that this is out of the question, he has to think of alternative ways to maintain his visibility. But given the widespread support he commands, he may still have some influence in the Jakarta election. The real question is, how big might the Anies factor be in the outcome?

Three pairs of candidates have registered for the race, which will be held on Nov. 27 simultaneously with other elections for regional heads across the country. Leading the pack is former West Java governor Ridwan Kamil, who is running with Islamist politician Suswono. The pair is supported by the formidable coalition of seven political parties: the Gerindra Party, Golkar, the Democratic Party, the National Mandate Party (PAN), NasDem, the National Awakening Party (PKB) and the Prosperous Justice Party (PKS). The last three had supported Anies' presidential bid and were going to support him in this coming election, but they switched sides to join the coalition put together by president-elect Prabowo. The other contestants are Pramono Anung and Rano Karno, who are running on the ticket of the Indonesian Democratic Party of Struggle (PDI-P), and the independent pair of Dharma Pongrekun-Kun Wardana.

All surveys put Ridwan ahead of the other candidates, with over 50 percent of the vote, raising the prospect of winning the race in one round. Pramono comes a distant second at around 25-30 percent and Dharma a negligible 2-3 percent. But the surveys also show a sizable number of undecided voters, some put it as large as 25 percent, that could upset the results on election day. Many of these may be people who would have voted for Anies if he ran. The possibility of a second round cannot be ruled out.

Many disappointed Anies supporters, calling themselves "Anak Abah" (Dad's children), have turned to social media calling on voters not to boycott the election but spoil their ballot papers. *Abah* is an adopted Arabic word, and Anies is of Arab descent. Anies has been careful not to endorse the call as electoral law makes voter suppression a crime. He has been keeping his cards close to his chest, not endorsing any of the candidates, but stressing he will use his right to vote. In a social media message to the Anak Abah group, he told them not to rush in making their choices, and instead study the platforms of each candidate. Diehard supporters might vote according to his instruction.

Among the contestants, Pramono is the only one vying to tap Anies supporters, and he is still trying to meet with the former governor during the campaign. Mindful that Anies enjoyed the support of many Muslim voters, he claims he has secured the support of many *kiyai* (elderly Muslim leaders) in Jakarta who had endorsed Anies' candidacy in the past. Pramono has also pledged to continue many of Anies' policies and projects that he started during his governorship. Coming into the race as the underdog, Pramono will be counting on the votes from Anies supporters to stand a chance of beating the hot favorite Ridwan.

## What we've heard

Sources within Anies' circle said that the discourse among his supporters about poll boycott or deliberately invalidating vote by piercing all candidates in the ballot paper stemmed from their disappointment with his failure to contest the Jakarta election.

The movement, circulated on various social media platforms, was aimed to prevent vote rigging.

One of the sources said several community groups supporting Anies are involved in the movement in a show of protest against the political elites' disrespect for people's aspirations. The source said the movement is not orchestrated in a particular manner.

Another source who is affiliated with the Prosperous Justice Party (PKS) says the party's cadres and supporters will not join the movement despite their adulation of Anies. The source said they would vote for Suswono, PKS politician who will contest as the running mate to Ridwan Kamil of Golkar.

## Jokowi's ambition to relocate capital city faces reality check

Outgoing President Joko "Jokowi" Widodo has yet to sign a presidential decree that will effectively relocate Indonesia's capital city to Nusantara, East Kalimantan. The Nusantara project may face a serious impediment as president-elect Prabowo Subianto will focus on his own priority programs, although on various occasions he has demonstrated a willingness to carry on the new capital city development.

In a last-ditch effort to accelerate the capital city relocation and show to Prabowo that Nusantara is ready to replace Jakarta, Jokowi ran the government from the future capital city this week. The presidential plane landed at the Nusantara airport for the first time on Tuesday.

President Jokowi said that the airport will be ready for commercial flights, including those carrying haj pilgrims, sometime in December after improvements are made to the airport. Jokowi has also instructed Transportation Minister Budi Karya Sumadi to change the status of the airport from that of a solely VVIP facility to a public, commercial hub.

Previously the Presidential Palace claimed Jokowi would spend the final 40 days of his term in Nusantara, starting from Sept 10 to Oct. 19. Not only will the plan be difficult to implement, but also less likely to convince the public that Nusantara is ready to host the seat of power. Jokowi's reluctance to sign the decree on the capital relocation speaks volumes on this unpreparedness.

Jokowi said the belated completion of basic facilities, such as clean water and electricity, was the key consideration for the delay in the official relocation. The consequences of the signing of the decree are far-reaching. It will, for example, require the inauguration of Prabowo to take place in Nusantara, something that he and his allies do not want to happen.

In fact, the challenges facing the government when organizing the ceremony to commemorate the 79<sup>th</sup> anniversary of Indonesia's independence on Aug. 17 already showed that Nusantara was not ready yet to fully serve as the capital city.

Nevertheless, during his stay in Nusantara, President Jokowi witnessed the groundbreaking of several foreign investment-funded projects in the city. The government, including Jokowi himself, has gone the extra mile to woo foreign investment in Nusantara.

Development of Nusantara has so far relied much on the state budget. With the new administration set to take over from Jokowi, the state budget allocation for Nusantara may significantly decrease.

For the 2025 fiscal year the House of Representatives has agreed to allocate Rp 15 trillion (US\$9.88 billion) for Nusantara's development. Of the amount, Rp 5.8 trillion will go to the Nusantara Capital City (IKN) Authority, with another Rp 9.11 trillion to the Public Works and Housing Ministry. The budget has dropped from Rp 44 trillion in 2024 and Rp 27 trillion in 2023.

Second Deputy Finance Minister Thomas Djiwandono, Prabowo's nephew, has stated that the budget for 2025 could be increased based on Prabowo's future discretion.

In August, Prabowo promised to continue Nusantara's development to present the country with a new capital city based on sustainable development values.

On the other hand, the incoming Prabowo administration has secured Rp 71 trillion to cover his signature free nutritious meals program, which is slated to start in January 2025. Originally, the program will need Rp 100-120 trillion in its initial year.

The huge budget for the free meals program and other campaign promises that Prabowo will fulfil could affect his personal consideration of the Nusantara project, the key legacy of his predecessor, Jokowi.

## What we've heard

A government official said President Jokowi has not signed the presidential decree regarding the relocation of the capital city because he believes the infrastructure in Nusantara is not yet ready. The source said that basic infrastructure, such as water supply and access, is not fully operational.

President Jokowi deems Nusantara would need additional investments from the private sector to be able to replace Jakarta. "Investment from outside will only come when the basic infrastructure is ready," the source said.

Another consideration of Jokowi's reluctance to issue the decree is the legal implications of the policy document. The President believes that Nusantara is not prepared yet to host the inauguration the new president. "The issuance of the decree means that the IKN is ready for the inauguration," the source said.

The source also suggested that Prabowo himself preferred Jakarta as the site of his inauguration on Oct. 20. Therefore, Prabowo believes that Jokowi will not sign the decree before he leaves office.

## Doubts cast over nutritional quality of Prabowo's free meals program

With the succession of national leadership fast approaching, the realization of president-elect Prabowo Subianto's flagship free meals program is facing an arduous challenge. Due to budget constraints, several adjustments will have to be made to the original plan, which may compromise the program's intended purpose.

To woo voters during his presidential campaign, Prabowo promised to provide free nutritious meals for almost 83 million Indonesians, including students, *santri* (Islamic boarding school students) and pregnant women. On the surface, the program has great potential to address malnutrition and inequality across the country. However, the substantial budget and logistics required to implement this signature program raise questions about its feasibility.

Thus far, the Finance Ministry has allocated Rp 71 trillion (US\$4.4 billion) from the 2025 state budget for the free meals program. President Joko "Jokowi" Widodo established the National Nutrition Agency through a presidential regulation (Perpres) last month and appointed IPB University entomologist Dadan Hidayana as its head. This new agency will not only oversee the implementation of the free meals program set to kick off on Jan. 2, 2025, but also foster healthier lifestyles among Indonesians.

Trial runs for the program are currently underway in several cities. The Jakarta administration, for one, has distributed more than 5,000 free nutritious meals in several elementary schools. The program has also been trialed in several elementary schools in Kulon Progo regency, Yogyakarta, initiated by private ride-hailing company Grab and digital payment platform OVO.

While the organizational structure and work plan of the agency is being finalized, Dadan mentioned that it is considering other sources of funding for the program. One suggestion was to involve the private sector, where participating in the free meals program could fulfill a company's corporate social responsibility (CSR) obligation. Indonesia Strategic and Economic Action Institution senior analyst Ronny P. Sasmita, however, pointed out that not every private company is subject to CSR obligations, and the ones that are subject to them have small fiscal capacities, which may not significantly aid the program. Apart from seeking alternative sources of funding, there has also been talk that the program will not be implemented uniformly across the country on the basis that the ingredients for the free meals would be tailored to each region depending on their respective availability and consumption trends. However, this could also be an excuse to replace certain ingredients with cheaper and more accessible alternatives in order to accommodate budget constraints.

Proposals to replace rice with instant noodles and dairy milk with processed "fish milk", for example, have raised concerns about the nutritional value of the meals. While some experts have explained that fish milk is a suitable lactose-free alternative high in nutritional value, critics argue that milk is only complementary to a balanced nutritional intake obtained from the direct consumption of animal protein. Nutritionist Nurul Ratna Mutu Manikam added that consuming fish directly would be better for children and more practical than having to be processed into milk. Regardless, the incoming government must ensure there is transparency in the execution of the flagship program. Nutritional quality cannot be sacrificed due to budgetary constraints and funding cannot be carelessly sourced from other sectors only to fulfill a campaign promise that was vague in its conception.

The good news is such a program has been in place in some countries like Finland, Sweden, Brazil and India, allowing Indonesia to learn from their successes and failures.

## What we've heard

A government official revealed that the budget for Prabowo's free meals program will be reallocated from the spending of other ministries. The source claimed that the deputy agriculture minister and deputy finance minister, who are Prabowo's confidants, will oversee this budget reallocation. Doing so, however, would impede the implementation of other ministry programs. "This is because the budget is shifted to the free meals program," the source said.

The source, however, is unaware of which budget would be used to fund the program. While the National Nutrition Agency would run the program, its funding will be sourced from the ministries. "The initial stage will likely involve the military, which is organized down to the grassroots," the source said.

Another source added that the National Development Planning Agency (Bappenas) is currently determining the recipients of the free meals program. There is a budget of Rp 20 trillion for capital expenditures, but not for the operations of the National Nutritional Agency. "The exact figure will depend on the new agency," the source said.

## Pilot's release paves way for Papua conflict resolution

### Overview

The recent release of a Susi Air pilot after one and half years in captivity marks a milestone in Indonesia's attempt to settle the long-standing armed conflict in Papua beyond doubt. Philip Mehrtens's freedom proved that the non-violent approach, rather than the use of violence, worked in the government's efforts to deal with the Papuan armed rebel group.

New Zealand national Mehrtens was set free on Sept. 21 by the Papuan rebels who abducted him on Feb. 7 last year. Exchanges of fire between the group and Indonesian troops were absent during the peaceful yet long negotiations to release Mehrtens, which involved a lot of parties.

In the early days of the kidnapping, rumors had it that the rebel group had demanded a ransom. Nevertheless, the group leader, Egianus Kogoya, denied the reports, saying the group's sole demand was that Indonesia let Papua form an independent state.

On the other hand, the then Indonesian Military (TNI) commander, Adm. Yudo Margono, confirmed that the military would not object to the ransom demand in order to save Mehrtens. He also gave an assurance the military would refrain from the use of force in their attempt to release the pilot.

Gen. Andika Perkasa, the TNI commander before Yudo, was probably the first TNI commander to change the military approach into dialogue in dealing with the armed rebellion in Papua. Andika's peaceful initiative came after the issue of Papua was not debated in the United Nations General Assembly in 2022 for the first time in several years.

Nevertheless, the TNI had to pay the price for the new approach, with the number of soldiers killed or injured in the strife-torn territory increasing. More police officers also lost their lives in a number of attacks.

Many human rights defenders and international entities had called upon the Indonesian government to prevent further bloodshed and secure the release of the pilot, despite the fact that there have been

numerous clashes between armed rebels and Indonesian security forces throughout the course of events.

The government is facing some tough questions after allegations that military, police and intelligence personnel were involved in the killing of Papuans for security reasons. The rebel group has also recorded several civilian and security force killings to send a message of freedom for the Papuan people to the world.

When Gen. Agus Subiyanto took over from Yudo as the TNI chief, the negotiations between the Indonesian government and the Papuan armed rebel group to release Mehrtens continued.

Not only did the talks involve military and police officers, but also local government officials and community figures, including tribal group and religious leaders. Many believe that those people were the key factor in persuading the rebel group to set the pilot free.

After the pilot's release, peace talks with the Papuan separatist groups are eventually being considered as realistic. The security authorities in the incoming government should maintain this mechanism intact, regardless of the complexity of the decades-long conflict.

For too long Papuan people have been living in anxiety as they are sandwiched between the rebel groups and the security forces. Quite often civilians are accused of collaborating with either party, which could lead to torture or even execution.

A genuine dialogue, which is held on an equal footing, between the government and Papuan representatives will hopefully lead to a lasting peace in Papua. The release of Mehrtens is a good opportunity to realize this.

## What we've heard

The release of Mehrtens could not have happened without the participation of various parties, including former Nduga regent Edison Gwijangge. Edison met four times with the leader of the armed group, Egianus, to persuade him to unconditionally release the pilot.

Edison recruited 12 negotiators who he trusted to communicate with Egianus' group. "This team could go in and out of the forest to meet Egianus' group," said a source.

Edison was only able to meet Egianus in person at the end of 2023. In that meeting, the plan to release Philip before the Christmas celebration was conveyed. However, Egianus could not make a decision at that time, as he needed to talk with his team. The decision was finally made in August 2024, through a large meeting and a traditional stone-burning ritual, which cost at least Rp 1 billion (US\$64,741).

According to another source, the release of the pilot was also requested by women in Nduga. During the 20 months of captivity, the women took care of Mehrtens. According to the source, the women became increasingly concerned about the intensifying military operations to locate the pilot. While Mehrtens was held hostage, at least 10 houses in Nduga were burned down.

## BUSINESS & ECONOMIC POLICY

### Jokowi seals downstream legacy with Freeport, AMNT smelters

Less than a month before his second and final term comes to an end, President Joko “Jokowi” Widodo inaugurated two of the world’s biggest copper and gold smelters on Sept. 23, essentially sealing his legacy in expanding the country’s mineral downstream industry, which has created rifts with major economic powers.

On Monday, Jokowi first inaugurated the smelter of PT Amman Mineral Nusa Tenggara (AMNT) in West Sumbawa, West Nusa Tenggara, which Energy and Mineral Resources Minister Bahlil Lahadalia described as the first smelter belonging to a local business group, Medco Group, which owns shares in AMNT. The President then flew to Gresik, East Java, and inaugurated a smelter belonging to PT Freeport Indonesia, which is 51 percent owned by state-owned mining holding company MIND ID and 49 percent owned by the United States mining giant Freeport McMoRan.

Both AMNT and Freeport were reluctant to build the smelters, which they deemed unprofitable ventures, but had no other choice due to the government ban on exports of copper ores, as well as nickel and bauxite ores. The move was part of the Jokowi administration’s policy to expanding the mineral downstream industry. The smelters’ construction was delayed several times, in part due the companies’ reluctance and because of the COVID-19 pandemic.

Freeport’s Gresik smelter is the world’s largest single-line copper smelter and is worth around Rp 56 trillion (US\$3.6 billion). The smelter is expected to refine 1.7 million tonnes of copper and gold concentrate from the company’s Grasberg mine in Central Papua into 900,000 tonnes of copper cathodes, 50 tonnes of gold and 210 tonnes of silver. The Gresik smelter was completed in December 2023 and started pre-commissioning in May 2024. The facility is to be fully operational by the year-end, and will employ 2,000 people, including 800 direct employees and 1,200 contract workers.

AMNT’s West Sumbawa smelter is relatively smaller. With an investment value of Rp 21 trillion, it is capable of processing 900,000 tonnes of copper concentrate per year from the company’s Batu Hijau and Elang mines on Sumbawa Island into 222,000 tonnes of copper cathodes, 18 tonnes of gold and 55 tonnes of silver. AMNT had delayed the project several times and rushed to complete it over the past 14 months, which it claimed was the world’s fastest construction period for a smelter.

While inaugurating the Gresik smelter, President Jokowi expressed his hope that with the operation of the new Freeport and AMNT smelters as well as other mineral smelters, especially for nickel, his of downstream expansion policy would help the national economy shift from its reliance on household consumption to industrial manufacturing.

Jokowi launched his mineral downstream policy with a ban on nickel ore exports, which prompted protests from the European Union. The bloc subsequently filed a lawsuit over the ban with the World Trade Organization (WTO), which ruled in favor of the EU in October 2022, but Jokowi was unfazed and continued with his policy.

## What we've heard

A senior representative from the Indonesian Bauxite and Iron Ore Entrepreneurs Association (APB3I) expressed concern about the downstream industry's ability to absorb the processed products from new smelters, including copper. While the country's smelters had advanced one step from raw materials, the downstream sector was still unable to manufacture finished products.

In the case of Freeport's smelters, the copper concentrate they process are then refined further to produce copper cathodes, but only one-third of this product can be absorbed by domestic industries. This is primarily because the country's downstream industry is not ready to mass-produce copper concentrate, while not many companies process the copper concentrate into electrical cables or copper pipes. This means that refining copper concentrate into cathodes doesn't add much value due to a missing link in the downstream industry.

This is among the reasons Freeport has been reluctant to build a smelter. Moreover, building the Gresik copper smelter carried an investment cost of Rp 56 trillion, whereas copper cathode imports can be had for lower prices.

Meanwhile, the government, in this case the Finance Ministry, has not approved a proposal from businesses to provide tax incentives and subsidies to companies that use copper as their main raw material.

On the other hand, the downstream policy cannot be applied equally to all minerals, so the policy for nickel doesn't automatically apply to bauxite or other mining commodities.

According to some mining entrepreneurs, Indonesia is not a dominant player in the global bauxite market, as Indonesia's bauxite reserves amount to less than 5 percent of the world total. In contrast, Indonesia's contribution to the global nickel market reaches almost 30 percent.

With the ban on bauxite exports in place, importers that previously bought bauxite ore from Indonesia switched to suppliers in other countries, including Australia, the world's largest bauxite producer.

The volume of Indonesia's bauxite production has not been in sync with downstream processing so far, which has led to an imbalance between mining output and smelter capacity. A government source says the new bauxite smelters are unable to absorb the bauxite oversupply. This leaves domestic mining companies in a difficult position, as they have been unable to sell their products since the export ban policy was imposed. A source at the Energy and Mineral Resources Ministry said the unsold bauxite ore was at high risk of being smuggled.

Meanwhile, progress on other bauxite smelter projects is mostly still below 60 percent. The slow pace of construction is a result of tight financing, as smelters typically require US\$1.2 billion to develop, while most bauxite smelters are only designed to process bauxite ore into alumina.

## Jokowi's last goal, to join CPTPP free trade agreement

Indonesia, now a member of the world's biggest free trade agreement, the Regional Comprehensive Economic Partnership (RCEPP), has applied to join the world's next biggest Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), which has been left by the United States but joined by China.

Indonesia has conveyed a formal request to join the CPTPP via New Zealand. By joining the CPTPP, which accounted for 10 percent of global GDP in 2023, Indonesia aims to open more trade and investment opportunities, especially with countries with which it does not yet have free trade agreements, such as Mexico, Peru and Chile, which together accounted for only 0.57 percent of Indonesia's total trade in 2021.

Based on the initial study, by joining the CPTPP, Indonesian exports are projected to increase by 19 percent and foreign direct investment flows to the country by 11 percent. As a result, it will add US\$1.6 billion to Indonesia's GDP. Coordinating Economic Affairs Minister Airlangga Hartarto has argued that joining the CPTPP will not be hard, as 70 percent of domestic rules already align with the 30 chapters of the CPTPP.

The CPTPP is a free trade agreement that liberalizes trade and investment among 11 countries in Asia-Pacific, namely New Zealand, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, Singapore and Vietnam. It was originally known as the Trans-Pacific Partnership Agreement (TPP) when it was signed in February 2016. The US under President Barack Obama was a signatory and main sponsor. A year later, when President Donald Trump came to power in the US, he decided to withdraw from the TPP, and the remaining TPP signatories decided to rename the TPP the CPTPP in March 2018. On Dec. 30, 2018, the CPTPP came into force after being ratified by most members.

Indonesia's move to join the CPTPP follows other major countries in the region, such as China, Taiwan, South Korea and Thailand that had earlier applied to join the CPTPP, along with Ukraine, Uruguay, Ecuador and Costa Rica. They are still in the accession process to complete their membership of the CPTPP. The United Kingdom is going to join the bloc in December after a lengthy accession process of 2.5 years.

Previously, due to its focus on the RCEP, Indonesia had been hesitant to join the CPTPP. The RCEP initiative was introduced for the first time when Indonesia was the chair of ASEAN in 2011. The RCEP consists of the 10 ASEAN countries and five main trading partners China, Japan, South Korea, Australia and New Zealand, minus India, which pulled out of RCEP negotiations in 2019.

As one of the largest trading blocs, the RCEP accounted for 31.6 percent of global GDP in 2023. Although RCEP rules are similar to those of the CPTPP, they are not as comprehensive as the CPTPP, and RCEP rules on trade in services, intellectual property rights, labor and the environment, are not of the same degree as the CPTPP.

With its membership of the RCEP and its eagerness to join the CPTPP, China has strengthened its position in the Asia Pacific region, vis a vis the US. US President Joe Biden recognizes this, and he expressed US interest in renegotiating with the CPTPP during the presidential campaign in 2020. But since then the US has remained outside the CPTPP.

## Jokowi inaugurates foreign investment projects in Nusantara

President Joko “Jokowi” Widodo has inaugurated the construction of several foreign investment-funded projects in Indonesia's future capital in Nusantara, East Kalimantan. The groundbreaking ceremony comes less than a month before Jokowi is succeeded by the incoming administration of Prabowo Subianto. This marks the eighth phase of investment groundbreaking for the city. However, Jokowi's final push for Nusantara comes just ahead of the incoming government's plans to shift government expenditure priorities, including reducing the state budget allocation for the Nusantara project.

The foreign investments in this eighth phase include a Rp 150 billion (US\$33.13 million) project from Australia, a Rp 500 billion project from Russia and a Rp 500 billion project from China. Additionally, two domestic projects valued at Rp 25 billion and Rp 100 billion were also inaugurated. Jokowi noted that this might not be the last groundbreaking event during his presidency, as further project inaugurations could take place in the coming weeks.

The three foreign investors involved are Delonix Group from China, Magnum Estate International from Russia and Australian Independent School (AIS). Delonix Group is developing "Delonix Nusantara," a mixed-use complex featuring hospitality facilities, offices and urban green spaces, spanning 2.42 hectares. Magnum Estate is constructing an integrated relaxation and recreation area on 1.3 ha, while AIS is building a 1-ha campus designed to accommodate up to 750 students.

On the domestic side, Primahotel Manajemen Indonesia (d'primahotel Indonesia) and Plataran Boga Rasa are also contributing to the groundbreaking. d'primahotel Indonesia is investing Rp 100 billion to build the 145-room d'primahotel Nusantara, complete with a restaurant on 4,600 square meters of land. Jokowi expects the hotel to be completed within a year. Plataran, meanwhile, is developing the Rp 25 billion Teras Hutan Kota Nusantara, a nature-themed dining and event space covering 1,500 to 2,000 sq m.

Despite the progress, the government still needs to accelerate private sector investment in Nusantara. For 2025, the Finance Ministry has allocated Rp 9.11 trillion to the Public Works and Housing Ministry, and Rp 5.89 trillion to the Nusantara Capital City (IKN) Authority, to continue developing the city. Between 2020 and 2024, the government had already committed Rp 83.42 trillion in state funds to Nusantara, meaning total government spending on the project will exceed the Rp 93 trillion limit set for state budget contributions.

Even though government spending is projected to surpass Rp 93 trillion, the Nusantara project still requires over Rp 360 trillion in private sector investments to fully realize its vision. So far, only Rp 53.27 trillion worth of private investments have reached the groundbreaking stage. There is a risk that Nusantara will struggle to attract additional investment due to delays in relocating government offices and the project's potential misalignment with the growing trend of green investments. As a contingency, there are considerations that Nusantara could be scaled back to serve primarily as the location for a new presidential palace or as the administrative capital for East Kalimantan.

## BI cuts rate ahead of US Fed, further drives Indonesian bond rally

Bank Indonesia (BI) gave the market a surprise recently by cutting its benchmark rate ahead of the United States Federal Reserve. The rate cut, announced on Sept. 18, fueled the ongoing rally in Indonesian securities that started in August. The rupiah also saw a sharp rise, climbing 1 percent to reach Rp 15,080 per US dollar after the announcement, bringing its total weekly gain to 2.1 percent.

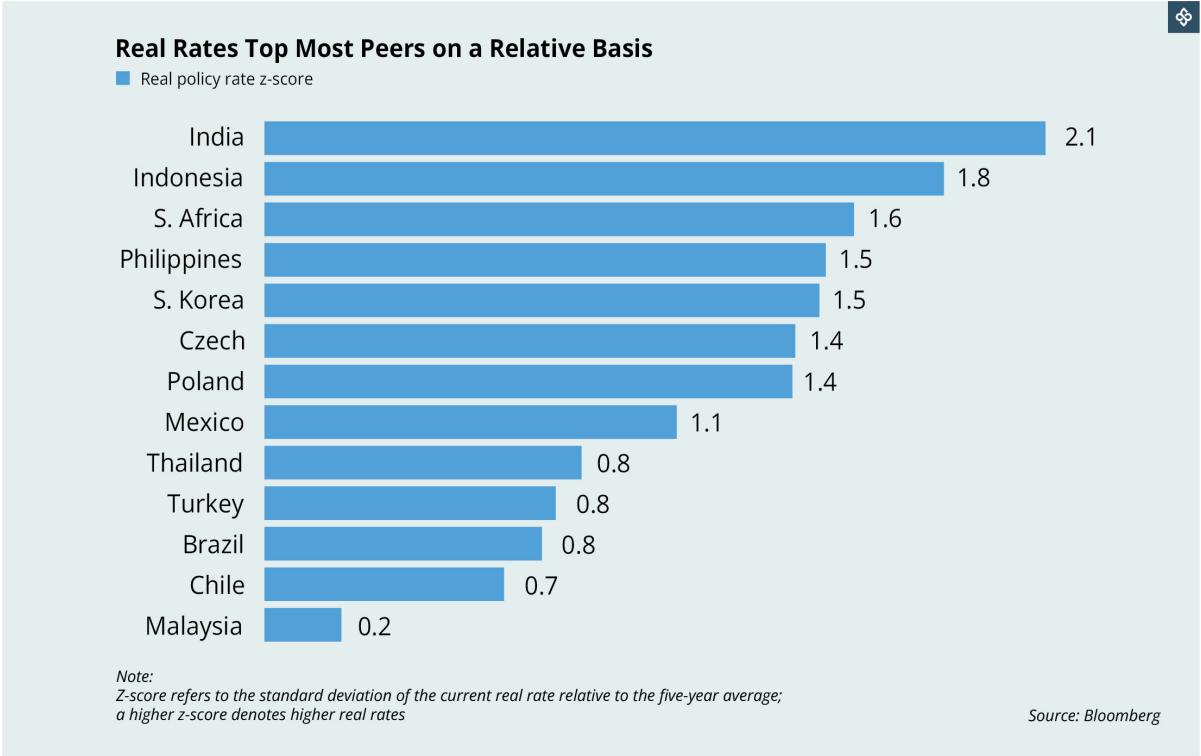
Global funds have shown increasing interest in Southeast Asian markets, particularly in emerging economies like Thailand, Indonesia and Malaysia, since July. The Indonesian market in particular was the top investment destination throughout the week following last month's Jackson Hole Economic Symposium, where the Fed signaled its pivot toward dovish policies.

In Indonesia's bond markets, BI's monetary instruments have become favorites among foreign investors, surpassing other sovereign bonds. As of Sept. 17, BI's instruments—Sekuritas Rupiah Bank Indonesia (SRBI), Sekuritas Valas Bank Indonesia (SVBI), and Sukuk Valas Bank Indonesia (SUVBI)—raised Rp 918.42 trillion, US\$2.95 billion and \$280 million, respectively. The SRBI, in particular, has been a key driver of foreign portfolio inflows, with non-resident ownership reaching Rp 246.08 trillion, accounting for 26.79 percent of the total outstanding.

BlackRock Singapore's Asian fundamental fixed income head Neeraj Seth notes that money managers are particularly interested in medium-to-longer-term bonds in markets like Indonesia and the Philippines, which have bigger room for monetary easing. He describes this period as a "golden age of fixed income" for emerging Asian markets.

Other market participants share this view, as real interest rates across Southeast Asia have risen compared with a year ago, supporting the outlook for future monetary easing. Furthermore, a Bloomberg survey reveals that Indonesia's real policy rate is currently 4.1 percent, which is a 1.8 standard deviation above the five-year average, indicating ample space for further easing. The higher a country's real policy rate relative to its five-year average, the more room there is for rate cuts. Meanwhile Indonesia now has the second-highest real rate over standard deviation from the five-year average, second only to India.

Another factor driving increased interest in Southeast Asia's emerging markets is the slowdown in China. Ongoing problems in China's housing market have led economists to predict that the country will miss its growth target of around 5 percent this year. This has prompted investors to shift away from China and seek out undervalued, rising markets in Southeast Asia. (Read: [RI emerges as Asia's top investment destination amid Fed's dovish turn](#))



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 Prasetya 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

+62 811-9966-083  
info@tenggara.id  
www.tenggara.id

**Board of Commissioners:**

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

**Board of Directors:**

Riyadi Suparno, Yose Rizal Damuri, Fathony Rahman

**Guarantor:** Riyadi Suparno

**Researchers & Writers:**

Andreas Meidyan, Ayesha Nadya Muna, Bayo Adhika Putra,  
Dwi Atmanta, Eva Novi Karina, Felita Astriani, Ferdinand  
Phoe, Frans Surdiasis, Irvan Iswaraputra, Kesya Adhalia,  
Yessy Rizky

**Disclaimer :**

Tenggara Strategics always aims to use reliable sources in providing our best analysis to our clients, and is not responsible for any errors, inaccuracies and/or viewpoints in the original source material upon which we have based our analysis. The analysis contained in this document is intended exclusively for our clients who have subscribed to this service, and is not for public consumption or dissemination. Nothing contained herein shall to any extent substitute for the independent investigations and the sound technical and business judgment of the reader. In no event will Tenggara Strategics, including its employees, be liable for any decisions made or actions taken in reference to the information contained in these documents, or for any incidental, consequential, indirect, special or exemplary damages, including damages from loss of profits or opportunities, even if advised of the possibility of such damages.