

HIGHLIGHTS OF THE WEEK

POLITICS

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No posts for PDI-P, NasDem in Prabowo's bloated cabinet

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Gibran could end up as another 'spare tire' vice president

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National Police rise to the challenge of corruption

The recent formation of the National Police's Corruption Eradication Corps (Kortas) by then president Joko "Jokowi" Widodo a few days before he stepped down on Oct. 20 has sparked a discourse about its potential to reshape the country's antigraft campaign.

BUSINESS AND ECONOMY

Sri Mulyani's reappointment sparks excitement and compromise

Sri Mulyani Indrawati was once again appointed finance minister under newly inaugurated President Prabowo Subianto, making her the first to serve under three different presidents, despite her and Prabowo's initial reluctance. As Sri Mulyani remains in her position, Prabowo will have to compromise and delay his plan to establish a national revenue collection agency.

Two institutions with one task: Establishing an SOEs super-holding

President Prabowo Subianto's appointment of Muliaman Hadad as the head of the newly established Daya Anagata Nusantara (Danantara) investment management agency has confused the public following the reappointment of Erick Thohir as state-owned enterprises (SOEs) minister. Both Muliaman and Erick are to manage 41 SOEs, with a single aim of establishing an SOEs super-holding company similar to Singapore's Temasek Holdings.

Prabowo appoints Luhut as head of revived National Economic Council

Luhut Binsar Pandjaitan was sworn in by President Prabowo Subianto on Oct. 21, 2024, alongside over 100 ministers, deputy ministers, and minister-level officials in the newly expanded cabinet. A fellow retired honorary general, Luhut has been named head of the National Economic Council (DEN) in Prabowo's administration, as well as presidential adviser on digitalization and governance technology. This appointment reinforces Luhut's continued influence over Indonesia's economic development.

Prabowo's promises self-sufficiency amid energy trilemma

President Prabowo Subianto has vowed to achieve energy self-sufficiency amid ongoing geopolitical tensions while emphasizing the country's abundance of renewable energy sources to develop greener power, such as biodiesel. However, Prabowo's aim could be overoptimistic, oversimplifying the real issues in Indonesia's energy sector.

POLITICS

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Prabowo announced on Oct. 20 a 109-strong team that comprises 48 ministers, including seven coordinating ministers, 56 deputy ministers and five heads of government bodies. The President added the list of aides with over a dozen special advisors and special envoys. The new cabinet is the largest since the New Order era. Prabowo's Red and White Cabinet clearly dwarfs the Onward Indonesia Cabinet of former president Joko "Jokowi" Widodo, which had 34 ministers, including Prabowo.

Among the cabinet members, 17 ministers have served during Jokowi's presidency, including Finance Minister Sri Mulyani Indrawati, Health Minister Budi Gunadi Sadikin, Industry Minister Agus Gumiwang Kartasasmita, Coordinating Economic Minister Airlangga Hartarto and Coordinating Human Development and Culture Minister Pratikno. Politicians from Prabowo's ruling coalition fill 23 ministerial seats, while 25 are held by non-partisans, including active and retired military and police officers.

Golkar Party holds the most ministerial seats with eight, followed by Prabowo's Gerindra Party with five. Of the eight political parties that form the House of Representatives, two of them, the Indonesian Democratic Party of Struggle (PDI-P) and the NasDem Party, refuse to join the cabinet despite Prabowo's invitation. Prabowo also accommodates some non-parliament parties, such as the Indonesian Solidarity Party (PSI), the Gelora Party and the Crescent Star Party (PBB), as well as volunteer groups, which receive ministerial and deputy ministerial seats.

Clearly Prabowo, like his predecessors, is attempting to please everyone who contributed to his election win and pledged to support his government. However, the National Awakening Party (PKB) was rewarded three ministerial posts, including one coordinating ministerial job, even though it fought Prabowo in the presidential race. The PKB joined forces with the Prosperous Justice Party and the NasDem Party to support the presidential candidate Anies Baswedan and his running mate Muhaimin Iskandar, the PKB chairman, in the Feb. 14 race. As the dust of the election settled, the three parties jumped ship to the Onward Indonesia Coalition under Prabowo. Political elites are optimistic that the bloated cabinet will help Prabowo's government realize its programs and campaign promises.

With a majority in the House, the Prabowo administration will not face many problems in securing approval of draft laws and budget initiatives. It is safe to say that Prabowo's legislation program will go unopposed, thanks to his coalition's firm grip in the House.

From the very beginning, Prabowo has demanded loyalty from his aides. He has also required them to attend a series of orientation programs at his mansion in Hambalang, Bogor, West Java and the Military Academy in Magelang, Central Java to make sure the cabinet members understand his vision well. The challenge facing Prabowo's allies is how to strike a fine balance between serving the President's interests and their own. In supporting Prabowo's government, the political parties intend to maximize the privilege of being part of the ruling government to pursue their long-term goals, including winning the presidency or vice presidency in the next election. For the time being, the cabinet members will have to learn as quickly as possible how to translate Prabowo's dreams into concrete actions, or else the President will show them to the door.

What we've heard

According to a politician from the ruling coalition, Prabowo will continue to devise job descriptions for the ministries in the coming months. This restructuring, according to a source, is necessary because of the separation and formation of new ministries, which requires adjustments in resources and budget. "Bureaucratic issues will be an initial challenge for the new cabinet," the source said.

Prabowo also instructed the cabinet members to develop a 100-day program, which will be reviewed during a retreat at the Military Academy in Magelang, Central Java. Therefore, ministers are currently synchronizing their programs. According to several sources, they are drawing ideas and direction from Prabowo's inaugural speech on Oct. 20. "Two related ministers have already met to discuss this matter," the source said.

To oversee his large cabinet, Prabowo will also make trusted individuals special staffers to ministers. The source said these special staff members will act as eyes and ears to ensure that ministers, particularly those with political party backgrounds, do not deviate from Prabowo's agenda. "These special staffers will report to Sjafrie Sjamsuddin as the head," the source said.

However, Prabowo also has plans to manage state-owned enterprises (SOEs). He appointed Muliaman Hadad as the head of the Anagata Nusantara Investment Management Agency, which will manage government investments. A source familiar with the formation of the agency said the Danantara Investment Agency will serve as a holding company for SOEs, while the SOEs Ministry will only act as a portfolio. "This is a long-term and gradual plan," the source said.

No posts for PDI-P, NasDem in Prabowo's bloated cabinet

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Ministerial positions have long been used as a political reward for a president's allies. It is for this reason that many believe Prabowo reappointed several ministers from his predecessor Joko "Jokowi" Widodo's cabinet. Analysts speculate that the move was intended to politically repay Jokowi's all-out support for Prabowo during the presidential race earlier this year.

Interestingly, the NasDem Party, which supported the opposition presidential candidate Anies Baswedan but eventually joined Prabowo's large-tent coalition in April, was not awarded any ministerial posts. NasDem chairman Surya Paloh claimed that he turned down the ministerial seats offered by Prabowo to show that the party did not endorse the notion of political dowries.

NasDem's presidential election ally, the National Awakening Party, on the other hand, was awarded three ministerial posts for joining Prabowo's ruling coalition.

NasDem deputy chairman Saan Mustopa added that refusing cabinet positions did not mean that the party withdrew its support from Prabowo's administration. On the contrary, Saan, who is also a House of Representatives deputy speaker, reaffirmed the party's support for Prabowo through the legislature.

The NasDem party currently leads three House commissions, namely Commission II overseeing home affairs, Commission IX overseeing health, manpower and social security, and the newly formed Commission XIII overseeing human rights. The party faction also currently occupies six deputy chair posts among the commissions.

Meanwhile, the PDI-P's stance toward the new administration remains in question. Reports of a possible meeting between PDI-P matriarch Megawati Soekarnoputri and Prabowo to discuss the matter circulated prior to the latter's inauguration on Oct. 20. However, the meeting has never materialized, with PDI-P top brass saying Megawati decided to postpone the encounter due to her health, which was also the reason why she failed to turn up for Prabowo's inauguration.

Signals of the PDI-P's inclusion in Prabowo's cabinet emerged when its executive Pramono Anung, who is running for governor in Jakarta, went to Prabowo's residence in South Jakarta, where the then president-elect was vetting his prospective ministers. Pramono, however, denied speculation of coalition talks with Prabowo.

According to Megawati's daughter and the party's central executive board head, Puan Maharani, whether the PDI-P will join the government coalition or remain an opposition party will be later announced by Megawati. Like NasDem, Puan, who is also House speaker, said the party would support Prabowo through the legislature rather than through the cabinet.

Puan also clarified that former State Intelligence Agency (BIN) head Budi Gunawan was appointed coordinating political and security affairs minister for his expertise and that while he had been affiliated with the PDI-P in the past, he was not a member of the party.

According to another PDI-P executive, Deddy Yvery Sitorus, the party's stance is also contingent on the Jakarta State Administrative Court's (PTUN) ruling regarding the petition it filed against the General Elections Commission (KPU) regarding the legitimacy of Vice President Gibran Rakabuming Raka's candidacy during the presidential election.

Deddy also backed Puan's statement and added that supporting the government through a legislative institution like the House would give the party the space to conduct the appropriate checks and balances. The PDI-P is the biggest faction in the House and leads Commission I overseeing defense, Commission V overseeing infrastructure and transportation, the Budgetary Commission and the newly formed State Finance Accountability Body.

What we've heard

According to a source, the PDI-P is divided in its response to join the government coalition. While some want to become an opposition party, others suggested joining after some time. "There were also those who immediately accepted the invitation to join the government coalition," the source added.

The source also explained that Megawati was still hesitant about having PDI-P politicians join the cabinet after finding out Prabowo's roster. The source said that Megawati was concerned about the number of Jokowi's aides that remain in the cabinet. "Jokowi's influence remains strong," the source said.

Meanwhile, NasDem was offered ministerial seats related to either forestry or the environment. However, the posts eventually went to other people who are trusted by an influential figure in the mining industry. "NasDem also insisted on obtaining the position of attorney general, which Prabowo did not grant," the source said.

Gibran could end up as another ‘spare tire’ vice president

Historically, vice presidents in Indonesia rarely shone because their fate depended on how much space was given to them by the sitting president. Newly sworn-in Gibran Rakabuming Raka may end up as another “spare tire”, the popular term to describe vice presidents who held mostly ceremonial roles and who were lucky to be acknowledged in the footnotes of history books.

One week since their Oct. 20 inauguration, President Prabowo Subianto has not publicly announced what specific tasks, if any, he will give Gibran, the 37-year-old son of former president Joko “Jokowi” Widodo. Since it is not mandatory, Prabowo may end up not giving him any at all.

The Constitution is not clear about the role of the vice president other than acting as an assistant to the president. In state protocols, they are second-in-command, certainly higher than members of the cabinet. But the president has the discretion to determine the power and influence of their deputy. Most have been there just to sit still and look pretty.

Some presidents gave their vice presidents specific but politically limited tasks. Islamic scholar and politician Amin Ma’ruf, who was vice president in Jokowi’s second term, looked after the development of the sharia economy. Economist Budiono, vice president to president Susilo Bambang Yudhoyono in 2009-2014, managed the economy on his behalf.

Gibran’s young age and limited political experience, he had been mayor of the small town of Surakarta in Central Java, may have been a factor in why Prabowo has not given him any specific assignment. But another more important factor may be their strained relations following last month’s revelations alleging that Gibran had attacked Prabowo’s personal character when the latter was challenging his father in the 2019 presidential race.

The owner of the social media account by the name of Fufufafa had been traced to Gibran. The postings among others claimed Prabowo to be a failure, in his profession because he was dismissed from the Army, and in managing his family, with his marriage to the daughter of then president Soeharto ending in divorce.

Gibran has denied that he was the owner of the account, but the allegations angered many in Prabowo’s inner circle, although he himself publicly managed to stay calm throughout the scandal, which has now dissipated from the news. In the run-up to their inauguration, the two were rarely seen together. Gibran was not consulted when Prabowo was putting together his cabinet. There were more consultations, with his father. In Prabowo’s 109-member cabinet, 14 have been retained from Jokowi’s team.

Jokowi is heavily invested in the Prabowo administration. He agreed to Prabowo’s request to pick Gibran as running mate in the presidential race, and thus tapped into his own popularity, a factor that helped the pair win the election. Jokowi has seized control over Golkar, putting his loyalist Bahlil Lahadalia in charge of the largest party in Prabowo’s coalition government. Deprived of a chance to extend his rule after two terms, Jokowi now still pull strings in the new government, if not through Gibran, then through Golkar.

Despite being second in command, two “spare tire” vice presidents moved up to the top job when the president became incapacitated. BJ Habibie became president in 1998 when Soeharto called it a day under pressures from massive protests. Megawati Soekarnoputri was the beneficiary following the impeachment of Abdurrahman Wahid in 2001.

There were concerns previously about Prabowo’s age, he turned 73 on Oct. 17, and about his health. There are concerns about his ability to contain his emotion, and whether he can stand the pressures of the job of president. But these concerns have been allayed as the new president appeared to look healthy and composed as he prepared to take over the presidency. He certainly looked calm and strong during the inauguration. The vice president position may give Gibran the opportunity to build his public image in the next five years and contest the 2029 presidential election, as part of Jokowi building his political dynasty. But how much space and influence Gibran has depends very much on the sitting president. Who is to say that Prabowo is not interested in a second term?

What we've heard

A government source revealed that Prabowo and Gibran have already divided labor in managing the future government. According to this source, Prabowo will oversee key sectors such as defense, the economy, and foreign relations. Meanwhile, Gibran has been assigned the responsibility of handling issues related to the creative economy and infrastructure.

The source explained that the former Surakarta mayor will oversee several ministries, including the Coordinating Infrastructure Ministry led by Agus Harimurti Yudhoyono, the Transmigration Ministry, the Public Works Ministry, and the Creative Economy Ministry. "The issue of the development of the new capital, Nusantara, will also be under Gibran's coordination," the source said.

However, a source close to the Palace said Gibran will also focus on the free nutritious meal program. "Gibran has been actively reviewing the trial of the nutritious meal program in several regions," he said.

National Police rise to the challenge of corruption

The recent formation of the National Police's Corruption Eradication Corps (Kortas) by then president Joko "Jokowi" Widodo a few days before he stepped down on Oct. 20 has sparked a discourse about its potential to reshape the country's antigraft campaign.

With the Corruption Eradication Commission (KPK) facing declining public trust and accusations of political interference, this new anti-corruption unit within the National Police could signal a shift in the balance of power in the fight against corruption. As the KPK's credibility wanes, concerns arise over whether the police's graft busters unit will strengthen efforts to combat deep-rooted corruption or complicate law enforcement against corruption, which is also performed by the KPK and the Attorney General's Office (AGO).

The formation of Kortas was made official on Oct. 15 through Presidential Regulation No. 122/2024 on the organizational structure and working procedures of the National Police. Kortas is a development of the Directorate of Corruption Crimes (Dittipidkor), which was previously under the National Police's Criminal Investigation Agency (Bareskrim). According to Article 20A paragraph (1) of the presidential regulation, Kortas is no longer under Bareskrim but will operate as a separate entity answering to the National Police chief.

The new corps is also tasked with prevention efforts, investigating and prosecuting corruption and money laundering cases, as well as tracking and recovering assets linked to corruption. It will be led by a two-star general and assisted by a deputy with the rank of one-star general.

National Police chief Gen. Listyo Sigit Prabowo said the new corps will consist of up to three directorates focusing on prevention, investigation and prosecution, and cooperation. Listyo unveiled the idea of forming the new unit after recruiting 44 former KPK employees as civil servants within the National Police, including prominent investigator Novel Baswedan, in early 2022.

A spokesman for the National Police, Insp. Gen. Sandi Nugroho, said that as part of the new unit formation the police are harmonizing with relevant ministries and agencies such as the Administrative and Bureaucratic Reform Ministry as well as the Finance Ministry before defining the new corps' work mechanism.

The Indonesian Anti-Corruption Society (MAKI) welcomed the formation of the Kortas, saying it will significantly boost the fight against corruption. MAKI added that the prospects of combatting

corruption should improve due to the collective efforts of various law enforcement institutions. However, the KPK still needs reinforcement for a unified approach to combat corruption.

Gadjah Mada University Anti-Corruption Studies (Pukat UGM) believes that Kortas may not necessarily perform well, as it depends on the law enforcement practices of the personnel involved. The National Police's role in combating corruption has historically been subordinate to that of the KPK and the AGO. Furthermore, as an institution the National Police have been mired in corrupt practices, suggesting that Kortas should focus on investigating corruption cases involving police officers first.

As of late, the KPK has been seen to take a back seat while other agencies actively pursue corruption cases. For example, the AGO has been gaining attention for uncovering high-profile cases involving substantial financial losses to the state. Meanwhile, the KPK has fallen behind as seen in the decline in sting operations and arrests.

Although some activists fear that the formation of Kortas will overlap in authority and duties with the KPK, many have come to the latter's defense stating that the KPK is still spearheading the fight against corruption as stated in Law No. 31/1999 on corruption eradication and the KPK Law. Additionally, the KPK also serves as the coordinating actor in the fight against corruption, including supervising cases handled by the police and the AGO.

KPK commissioner Johanis Tanak believes Kortas' authority and duties will not overlap with those of the KPK, nor will it diminish the latter's efforts to combat corruption.

What we've heard

A government source said the establishment of the National Police Corruption Eradication Corps (Kortas) was motivated by the back-and-forth over control of the Corruption Eradication Commission (KPK). According to this source, Jokowi wanted to be involved in the selection of the KPK leaders for the 2024-2029 period. "However, this intention could not be fully accommodated," said the source.

A source said Jokowi initially backed a former member of the House of Representatives as a candidate for KPK leadership. However, Prabowo Subianto's camp rejected him because he was affiliated to a political party. The selection of KPK leadership candidates then became entirely under President Prabowo's authority.

Jokowi then decided to form this Corps because one of his close associates, Listyo Sigit Prabowo, remains serving as the National Police chief. "He [Jokowi] wanted to build an organization where he could still control," the source said.

Some former KPK members who came from the police force did not fully agree to the formation of the anticorruption corps. They believe that corruption eradication should be performed by the KPK.

According to the source, the corps will be manned by police officers who have previously served at the KPK.

BUSINESS & ECONOMIC POLICY

Sri Mulyani's reappointment sparks excitement and compromise

Sri Mulyani Indrawati was once again appointed finance minister under newly inaugurated President Prabowo Subianto, making her the first to serve under three different presidents, despite her and Prabowo's initial reluctance. As Sri Mulyani remains in her position, Prabowo will have to compromise and delay his plan to establish a national revenue collection agency.

Prabowo also reappointed two deputy finance ministers, Thomas Djiwandono and Suahasil Nazara, and appointed Anggito Abimanyu as a third deputy finance minister. Sources say Anggito will eventually be appointed head of the National Revenue Agency (BPN), when the agency is established.

Given Sri Mulyani's reputation, international and local businesses say they are happy with her reappointment as finance minister. Her appointment is also important to attract foreign investment in government bonds, as Prabowo's administration will require a hefty budget to finance his signature programs, including the free nutritious lunch program.

Analysts predict that the market will welcome Sri Mulyani's reappointment. When the market learned that she was among the ministerial candidates summoned by Prabowo to his home on Jl. Kartanegara, it reacted positively, with the Jakarta Composite Index (IHSG) rising by 0.32 percent, or 240 points, to reach 7,760 at the close of Friday trading, up from 7,520 the week before.

In the past, Sri Mulyani and then-defense minister Prabowo had disagreements over defense spending. But after Prabowo won the presidential election, their relationship steadily got better, as seen by Sri Mulyani's approval of the signature free nutritious lunch program and the appointment of Prabowo's nephew Thomas Djiwandono as her deputy minister.

However, Prabowo's appointment of Sri Mulyani means that he has to shelve his plan to establish a national revenue agency, which has been included in Prabowo's Asta Cita vision and mission as one of eight priority programs. The establishment of the revenue agency is to achieve Prabowo's target of increasing the tax ratio from 10.21 percent in 2023 to 23 percent in 2029.

Just two weeks before the presidential inauguration, Prabowo's brother Hashim Djojohadikusumo said he would consolidate the tax office and the customs and excise office into the revenue agency. Through the revenue agency, Hashim claimed, the government would increase state revenue by improving tax administration and addressing potential tax and non-tax losses. At the same time, the government would lower the income tax rate from 22 percent to 20 percent.

Sri Mulyani, nevertheless, has expressed her disapproval of the separation between revenue and fiscal spending. She will have to bear a bigger responsibility for increasing tax revenue, as Indonesia's tax ratio of 10.21 is much lower than the majority of Southeast Asian countries, except Myanmar, Laos and Brunei.

Besides the ambitious tax ratio, Prabowo also aims to reach 8 percent economic growth, higher than Joko "Jokowi" Widodo's target of 7 percent. This ambitious target is rolling despite economic growth remaining stagnant in the past 10 years, at an average of 4.2 percent. Since the Asian financial crisis in the late 1990s, Indonesia recorded its highest economic growth of 6.6 percent in 2007, when Sri Mulyani was finance minister under president Susilo Bambang Yudhoyono.

What we've heard

Sources have mentioned that several people suggested to Prabowo that Sri Mulyani be reappointed as finance minister, including President Jokowi and former president Susilo Bambang Yudhoyono (SBY). The same sources added that Sri Mulyani would serve as a bridge to improve Prabowo's relations with the United States.

She will also be tasked with, among other things, funding Prabowo's programs by issuing new government bonds. One of Prabowo's flagship programs, the free meals, struggles with budget constraints. Which is why Sri Mulyani has to seek alternative financing sources to realize this program.

On the other hand, Prabowo has become more realistic than before. The presence of his nephew, Thomas Djiwandono, at the Finance Ministry has made Prabowo, who had often been frustrated with Sri Mulyani's stance on tightening the Defense Ministry's budget, begin to realize the complexity of budget formulation.

Several sources indicate that Sri Mulyani is willing to become the Finance Minister as long as the Customs and Excise Directorate General and the Taxes Directorate General remain under the Finance Ministry. From the beginning, she has been less than enthusiastic about the establishment of the State Revenue Agency. As a result, the establishment of the BPN has been postponed. "It will not be formed in the near future," said the aforementioned source.

Market players believe it is unlikely that the new government can increase state revenue through the establishment of a new agency, especially if the preparations are not well thought out. They reminded those around Prabowo to be cautious in realizing that campaign promise. The IMF has also conveyed the same message to the Indonesian government. The IMF suggested that the formation of a new agency is contradictory and needs to be carefully considered. Ultimately, a sort of compromise was reached, with a special Finance Minister Deputy appointed to handle state revenue, namely Anggito Abimanyu.

Furthermore, a source within Gerindra's inner circle said that the inclusion of Anggito Abimanyu signals that Prabowo is continuing to explore the establishment of a national revenue agency (BPN). The formulation and discussion of a BPN are being led by Burhanuddin Abdullah, a former governor of Bank Indonesia. Nearly every week, he meets with Prabowo in Hambalang.

According to the source, Anggito will eventually be appointed head of the BPN. "The national revenue agency won't be established just yet," he said. "At the earliest, by the end of the year or early 2025. We are still waiting for the issuance of a presidential regulation to formalize the BPN." In the meantime, Anggito will serve as a deputy finance minister.

The delay in the establishment of the State Revenue Agency reportedly made Burhanuddin Abdullah disappointed. He had been working on the concept of the BPN for six months—including traveling abroad for comparative studies. Moreover, this agency is part of Prabowo's campaign promise to increase the tax ratio through its establishment.

Two institutions with one task: Establishing an SOEs super-holding

President Prabowo Subianto's appointment of Muliaman Hadad as the head of the newly established Daya Anagata Nusantara (Danantara) investment management agency has confused the public following the reappointment of Erick Thohir as state-owned enterprises (SOEs) minister. Both Muliaman and Erick are to manage 41 SOEs, with a single aim of establishing an SOEs super-holding company similar to Singapore's Temasek Holdings.

Muliaman, former chairman of the Financial Services Authority (OJK) from 2012-2017, noted that the role and authority of Danantara would differ from that of the SOEs Ministry led by Erick Thohir. Danantara would be more similar to Indonesia's existing sovereign wealth fund, the Indonesia Investment Authority (INA), but with a larger fund. Danantara would manage government investments outside of the state budget.

The creation of Danantara is intended to enhance SOEs' leverage once their scattered assets are consolidated. Muliaman reiterated that the SOEs Ministry would continue to operate alongside Danantara but could not offer certainty about the future relationship between the two institutions. With the establishment of Danantara, the future of the INA is unclear. Muliaman only noted that Singapore also operated two separate sovereign wealth funds, Temasek and GIC, which worked in different sectors.

Restructuring the SOEs Ministry is a key part of Prabowo's plan to achieve an 8 percent growth rate in the next five years. Prabowo sees that SOEs have the potential to contribute more to the government's revenue if they are managed professionally, like Singaporean SOEs under Temasek.

However, questions remain regarding how SOEs will deliver their public service obligations (PSO). The Prabowo government aims to streamline the operations of SOEs by differentiating between those with PSO and those that focus on maximizing profits. Profit-oriented SOEs will be placed directly under the super holding company to improve their competitiveness, market value and performance, as well as enhance their dividend contributions to the government.

It is unclear at present whether the super holding company will also comprise PSO SOEs such as PT PLN, which distributes subsidized electricity to low-income households; PT Pertamina, which distributes subsidized fuels; and PT Pupuk Indonesia, which produces subsidized fertilizers. There is talk that the internal units at PLN and Pertamina that handle subsidized products will be separated from their profit-oriented business line, while the fertilizer subsidy will be distributed directly to farmers instead of via Pupuk Indonesia.

To encourage better professional management of SOEs, Prabowo's economic team aims to adopt a governance structure inspired by Temasek. In addition to referring to Temasek's model, Prabowo's team plans to learn from China's State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and its successful strategies for managing and reforming SOEs.

Despite having substantial assets of Rp 10.4 quadrillion (US\$670 billion), Indonesian SOEs still do not contribute enough to the economy. Last year, SOEs made dividend payments to the government totaling Rp 82 trillion, the highest ever contribution but representing less than a 1 percent return on assets.

Some problems inherent to SOEs have contributed to their consistently low performance: Most SOEs, if not all, are market-oriented domestic companies, while they are considered weak in product innovations. Only a few SOEs have gone public, leaving the rest subject to political intervention. Worse, there are still many money-losing SOEs that burden the state budget.

What we've heard

Several sources in the State-Owned Enterprises (SOE) Ministry and the House of Representatives mentioned that the formation of the Investment Management Agency Daya Anagata Nusantara is part of the preparations to establish a super holding. This agency will be the forerunner of the SOE super holding. That is why, even though President Prabowo has already appointed Erick Thohir as SOE Minister, the study team for the SOE Agency – one of whose tasks is to close the SOE Ministry – is still instructed to work until the end of this year.

The existence of this new Investment Management Agency reportedly makes Erick unhappy. Moreover, Prabowo is said to have given a target to the Investment Management Agency Daya Anagata Nusantara Chairman Muliaman Hadad, to transform this agency into a super holding of SOEs within at least six months. This strategic maneuver is chosen to avoid violating the law. To dissolve the SOE Ministry, the government must revise many laws, which will certainly take a long time.

Other sources indicate that Erick is reportedly trying to prevent the new agency from becoming a super holding. He wants state-owned enterprises to remain under the SOE Ministry. Erick will work to lobby the House of Representatives to prevent the formation of a super holding. If a super holding is established, neither Erick nor politicians in the House of Representatives will be able to control or interfere with state-owned enterprises anymore.

Prabowo appoints Luhut as head of revived National Economic Council

General (Hn.) (Ret.) Luhut Binsar Pandjaitan, the former Coordinating Minister for Maritime Affairs and Investment under President Joko “Jokowi” Widodo, was sworn in by President Prabowo Subianto on Oct. 21, 2024, alongside over 100 ministers, deputy ministers, and minister-level officials in the newly expanded cabinet. A fellow retired honorary general, Luhut has been named head of the National Economic Council (DEN) in Prabowo's administration, as well as presidential adviser on digitalization and governance technology. This appointment reinforces Luhut's continued influence over Indonesia's economic development.

The DEN, originally established by President Abdurrahman “Gus Dur” Wahid in 1999 under Presidential Decree (Keppres) No. 144/1999, was created to guide the country's recovery from the 1997–1998 Asian Financial Crisis. Operating under direct presidential oversight, the council was later dissolved in 2000 after being deemed to have fulfilled its mandate. Luhut now emphasizes that the revived DEN will advise the president on implementing his priority economic programs, serving as a public sector think tank staffed by economic experts.

The Advanced Indonesia National Young Entrepreneurs Volunteers (REPNAS), which supported the Prabowo-Gibran presidential ticket, described the revival of DEN as a strategic move to address economic challenges such as the global economic slowdown and Indonesia's budget deficit. Prabowo aims to foster sustainable growth through targeted, comprehensive policies, including his campaign promise to raise the country's annual economic growth rate to 8%, lifting Indonesia out of the middle-income trap.

Luhut further outlined DEN's role in supporting the digitalization of national economic systems to enhance efficiency, aligning with his advisory position on digitalization and governance technology. Key areas of focus for DEN will include the government's procurement e-catalog and critical

ministry-level information systems, such as the Mineral and Coal Information System (SIMBARA). Luhut stated that these digitalization efforts are targeted for completion within the next one to two years.

Luhut's appointment signals the continuity of key economic policies from Jokowi's administration to Prabowo's Red & White Cabinet. In addition to Luhut, several ministers from the Jokowi era have retained their positions, including Coordinating Economic Minister Airlangga Hartato, Industry Minister Gumiwang Kartasasmita, Energy and Mineral Minister Sri Mulyani Indrawati.

While DEN could significantly impact Indonesia's economic policy by coordinating cabinet efforts and shaping presidential instructions, it faces two key limitations. First, DEN lacks the authority to issue its own regulations, as it cannot derive such power from legislation. Second, the risk of inefficiencies may arise from overlapping responsibilities with coordinating ministries, which could hinder its effectiveness.

What we've heard

A source within Prabowo Subianto's inner circle mentioned that Prabowo has placed a lot of trust into Luhut Binsar Pandjaitan. This is why Prabowo appointed Luhut as a special presidential advisor on investment affairs, in addition to naming him Chairman of the National Economic Council (DEN). Prabowo needs a discussion partner who would balance Bahlil Lahadalia and other economic sector ministers in the Merah Putih Cabinet—especially regarding mining permits and energy policies.

Bahlil and Luhut are reportedly at odds over the granting of mining business permits. Bahlil is viewed as selective, favoring the distribution of mining concessions to his close associates while blocking permits for other companies. Prabowo does not want any more disputes over mining permits.

Previously, Prabowo and Luhut met frequently. Prabowo often sought Luhut's advice on many matters, including ministerial selections and what actions to take in the early days of the administration. In his new position, Luhut is said to have brought along his core trusted team from the Coordinating Ministry for Maritime Affairs and Investment.

Prabowo's promises self-sufficiency amid energy trilemma

President Prabowo Subianto has vowed to achieve energy self-sufficiency amid ongoing geopolitical tensions while emphasizing the country's abundance of renewable energy sources to develop greener power, such as biodiesel. However, Prabowo's aim could be overoptimistic, oversimplifying the real issues in Indonesia's energy sector.

In his inauguration speech on Sunday, President Prabowo said Indonesia would be able to achieve energy self-sufficiency to maintain its sovereignty, referring to a plan outlined in his Asta Cita vision to boost production of biofuels, a blend of fossil fuel and fuels derived from agricultural biomass such as crude palm oil (CPO), cassava, corn and sugarcane. This may sound promising but in reality, the country faces the energy trilemma of energy security, affordability and sustainability.

Prabowo's ambitious plan faces many challenges, as the country is still dependent on fossil fuels and worse, it imports the bulk of the fuel it needs to meet domestic demand. Meanwhile, Indonesia's oil lifting has been declining for a long time, from 900,000 barrels per day (bpd) in 2000 to 576,000 bpd

in the first half of 2024, or 91 percent of the government's full-year target as set in the 2024 state budget. According to Statistics Indonesia (BPS), oil and gas imports in the January-September period, reached US\$26.7 billion (Rp 417.9 trillion), slightly higher than the \$25.76 billion recorded over the same period last year.

Indonesia launched its biofuel program in 2005 due to surging oil prices and aims to reduce the fiscal burden by introducing palm oil-based biodiesel. As biodiesel adoption grows, it will also absorb the country's CPO oversupply. But critics say increasing biodiesel production will only benefit large businesses and contribute to deforestation, the issue over which the European Union has banned Indonesian biodiesel.

Between 2015 and 2023, the Oil Palm Plantation Fund Management Agency (BPDPKS) has spent a total of Rp 176.1 trillion, of which 91.3 percent was channeled to biodiesel producers as part of an incentive to offset the difference between the market prices of biodiesel and diesel. The remaining funds were used for oil palm replanting and other purposes. A study shows that the government's mandatory B30 program, a biodiesel blend containing 30 percent palm oil, could cause a land shortage of 5.25 million hectares, meaning that the government's B50 program to increase the palm oil content to 50 percent could lead to a land shortage of 9.29 million hectares.

Aside from biofuel development, Prabowo also mentioned using renewable energy sources like geothermal and hydropower. Home to 13 percent of active volcanoes in the world, Indonesia is the second-largest producer of geothermal energy. However, its installed capacity reaches only 11 percent of a total potential of 24,000 megawatts. Increasing installed geothermal energy capacity will not be easy, as the investment costs of geothermal plants are six to seven times higher than coal-fired power plants. At the same time, permits for geothermal plants are difficult to obtain, with construction typically starting six years after obtaining the first permit. Geothermal plants are generally located far from urban centers, making it more costly to supply power to consumers.

As for hydropower as a means to achieve energy security, the challenges include maintaining stably supply during the dry season and adverse environmental impacts. With 11 percent of electricity generated by hydropower, South Sulawesi experienced frequent power outages during a prolonged dry season in 2023. This also has occurred globally, such as in China and North America.

Indonesia is actually blessed with abundant solar energy, with an estimated potential of over 3,000 gigawatts. However, the government and state electricity company PLN does not like solar because of its intermittency.

The country's underutilization of its renewable potentials has led to renewables' underperformance in the national energy share, reaching just 13.1 percent compared to the target to reach 23 percent by 2025. Meanwhile, coal and oil together still make up the majority of the energy share at respectively 40.46 percent and 30.18 percent.

Indonesia needs a hefty investment of \$1.1 trillion, or \$28.5 billion per year, to develop renewable energy toward achieving net-zero emissions by 2060. The country therefore needs funding from developed countries, and signed an agreement with the Group of Seven (G7) in November 2022 to fund its energy transition through the Just Energy Transition Partnership (JETP). The JETP promises \$20 billion from developed countries, but most of the fund is to come from commercial loans, making for a less progressive program than expected.

To align with the JETP's requirements, the government and PLN need to revise PLN's 2021-2030 long-term electricity procurement plan (RUPTL) to accelerate decarbonization by increasing the renewables targets. However, the new RUPTL has not been released to date.

What we've heard

A number of renewable energy practitioners doubt that Prabowo's administration will prioritize environmentally friendly energy to achieve energy self-sufficiency. This is because Indonesia's national energy mix until 2050 is projected to still rely on oil and gas, with a share of 34-44 percent. Meanwhile, for the provision of green electricity, business players are still waiting for the latest RUPTL to be published, which is still being formulated.

Regarding the outlook for new and renewable energy, several practitioners mentioned that hydropower plants (PLTA) will become the backbone of energy transition in the future. However, in the draft RUPTL currently being prepared by PLN, the energy transition through hydropower may be delayed due to miscalculations. A complicating factor is that the new RUPTL is planned to set a plan until 2040, which will need an additional 20-30 GW of hydropower capacity. Of that 20 GW provision, around 2 GW should have a commercial operation date (COD) by 2028. "If 2 GW of hydropower is planned for 2028, the tender should have been completed by now," said a market player. "In fact, the tender should have been finalized last year." This statement was made with the assumption that building a hydropower plant takes 5 to 8 years.

The energy transition using hydropower must also run in parallel with the provision of gas power plants of around 20 GW. One gigawatt is equivalent to 25 LNG cargos. Assuming all schedules are on time, PLN will need around 500 LNG cargos. So if the plan is delayed, for example, if 2 GW is not available by 2028, PLN will have to top up with about 50 additional cargos.

The problem is that by 2028, it is still unclear whether gas supply can be met from domestic fields, such as the Masela Block, Abadi Field, and the Andaman Block in Aceh. This means that PLN may face an LNG cargo deficit. As of today, it is still unclear where PLN will import LNG from.

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.



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