

**November 2009 security summary:**

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**On Terrorism:**

Indonesia still faces key risks of new militant attacks with Islamist radicals regenerating and regrouping in the wake the shootings and arrests in July, according to the top counter-terrorist unit. Saud Usman Nasution, head of the elite Detachment 88 counter-terrorist unit, said in mid November that new attacks could take place any time. Mr. Nasution's comments come after police had killed or captured a string of suspected militants, including the elusive fugitive Noordin Mohammad Top. The arrests followed twin suicide bombings on luxury hotels in Jakarta which shattered a four-year lull in attacks. "Many terrorists responsible for bombings in Indonesia are still at large," he said, "many of them are still preparing themselves, it seems, and many new cells have been formed". Police are also still investigating a link between militant groups in Indonesia and al Qaeda after the August arrest of a Saudi man who owns a radical Indonesian website and magazine. JI has at various times in its evolution had links to al Qaeda. Since 2000, the police have arrested 455 militants, of which 352 have been convicted. More than 200 have been released from jail, while 12 militants are still in detention and going through the legal process. Mr. Nasution also said the killing of some key militants, including Top, could encourage others to return to Indonesia. He said such figures included Umar Patek and Dulmatin, who were both accused of having a role in the 2002 Bali bombings and are believed to be in the Philippines. Mr. Nasution did not offer further details, however, claiming the information could be sensitive for police operations in the field. However it is clear that JI can and will re-invent itself and existing cells will be brought up to planning and attack mode and new cells will be formed. All too often in the past the moping up of one cell has led to speculation that JI is finished and that the danger has gone away. This is not the case and one major lesson of the July attacks was that JI remains capable of regrouping and reforming. Additionally some have questioned whether JI can replace Top, who was a charismatic figure in the violent splinter wing of JI. The same questions were asked following the death of joint founder of JI Abdullah Sungkar, the deaths of Dr. Azahari and Noordin Mohammed bin Top and the arrest of Hambali. The fact is that no sooner than these leaders had left the scene they were replaced with effective operators. The question really is not whether JI can replace Top but when will he be replaced and by whom. It is premature to write off the danger from JI terrorism and the counter terrorist police unit will no doubt be watching closely the known routes to and from the Philippines to determine whether Patek or Dulmatin will return to fill the vacuum.

**On issues that affect the Security Forces in Indonesia:**

Two more members of Indonesia's anti-corruption commission were arrested at the end of October dealing a blow to the country's top graft-fighting body. Deputy intelligence Chief Maj. Gen. Dikdik Mulyana said the commissioners were accused of accepting bribes and abusing power. Three out of five commissioners have been detained in recent months. The issue generated much heat with the police appearing to be battled into a corner. A specially set up

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page on Facebook attracted over 200,000 who have expressed support for the KPK deputies. The debate began to get heated and with claims and counter claims. Then in a hearing at the Constitutional Court, policemen, attorney general officials, and a businessman were heard in a startling wiretapped conversation discussing a plot to frame officials from the Anti-Corruption Commission (KPK). The two KPK officials deputy chairman Chandra Hamzah and Bibit Samda Rianto had already been detained. The public reacted with incredible fury and passion and by the end of the first week of October well over one million users of Facebook had signing up on the site supporting the KPK. The recording involved a businessman Anggodo Widjojo, police and prosecutors. Anggodo repeatedly mentioned the top detective of the Indonesian Police Susno Duadji and Deputy Attorney General Abdul Hakim Ritonga, as participants in the plot. The reaction was swift. The detective and AG official, Duadji and Ritonga resigned without explanation. The President launched an investigation team, dubbed Team 8 into the allegations. The tapes raise startling allegations that business interests under threat from the KPK were striking back. Anggodo, the businessman, allegedly contacted the AG's Office and senior police officials to convince them of trumped up allegations against Chandra and Bibit, the KPK officials. Anggodo's brother Anggoro Widjojo is wanted for fraud and embezzlement and is known to be at large in Singapore. On the tape aired, Anggodo is heard soliciting "help" from Ketut Sudiharsa, deputy head of the witness protection agency, the LPSK, to protect his brother. The allegations could have a dramatic impact on public approval for SBY. The President campaigned, both in 2004 and this year on promises of job creation and anti-corruption. Various polls – for what they're worth – said the anti-corruption campaign of the KPK was hugely popular with the public. In the last few years the KPK has investigated top politicians, bureaucrats and businesspeople in its mission to fight corruption in what is often called one of the world's most corrupt countries. Since its founding in 2003, the KPK has retained great independence and taken on entrenched forces in the government and bureaucracy. Parliamentarians, officials from the Central Bank, Finance Ministry, and Attorney Generals, along with senior police up to the level of a former Chief of Police, have all fallen under its withering spotlight. Uniquely amongst Indonesian law enforcement institutions, it claims a 100 percent conviction rate in the cases brought before the special Corruption Court. In recent months, it has seemed vested interests are striking back at the KPK. Parliament has attempted to curb its powers. Legislators have delayed and procrastinated a new Corruption Court bill, effectively letting the institution's mandate expire. Another move against the KPK was parliament's bid to redefine the composition of the Corruption Court in a bid to dilute the number of ad hoc judges. Parliament had proposed replacing them with career judges who have proven to be notoriously corrupt.

By the middle of the month the battle between the KPK and the police widened when a former South Jakarta police Chief giving evidence in a case involving the former head of the KPK who is on trial for murder testified he was part of a conspiracy to manufacture evidence against the KPK chief. The former police officer claimed he had been pressured by senior officers to frame the former KPK chief and said the police had offered to clear him of related charges if he agreed to make false statements implicating the KPK chief in the murder. He told the court previous testimony implicating a top anti-corruption official was all lies and that said the murder had been ordered "directly by the national police chief".

SBY has faced intense pressure to intervene to defend the commissioners. The President, however, showing his usual conservatism and caution has said he cannot interfere in the legal process. The KPK answers directly to the President, despite its independent status. SBY has been a prominent target of the anti-corruption protests on the streets.

The case is one of the biggest political challenges facing SBY so far. His response has been legal and proper until now, but politically feeble. SBY came out with a stronger response to the terrorist attack in July, airing an emotional televised broadcast to these wiretaps. In contrast, the wiretaps strike at the core of his government's promises of anti-corruption. SBY may also be squandering an immense political opportunity to further boost his reformist credentials. The case still has the potential to cause political unrest. In mid November there were demonstrations over the case – though not particularly large by Indonesian standards. But SBY's political opponents may not be above taking advantage of his perceived weakness in mobilizing supporters. Although some commentators have dubbed the case “Indonesia's Watergate” we are a long way off ministers, let alone the President resigning. Changes to the Chiefs of Staff of the three component services of the Indonesian armed forces (TNI) were announced in the middle of October. A spokesman for the President said that the reshuffle was a routine matter but some commentators have speculated that it might herald the replacement of the beleaguered chief of police and others have claimed that it is an attempt by the President to make way for the promotion of his brother in law and thereafter his son. Time will tell which is the true position.

The alleged conspiracy has shocked and captivated Indonesia. KPK wiretap recordings played in court earlier this month unveiled the alleged conspiracy and the apparent collusion of police and prosecutors with the “court mafia.” SBY is facing intense public pressure to accept the recommendations of the team presented last week. The team's findings included recommending corruption charges against the two KPK deputy leaders be dropped and sanctions placed on top police and prosecutors. A general line in media commentary has been that the longer SBY delays, the more observers, including foreign investors, civil society activists, and parliamentarians, will question his motives. A comment from Bambang Harymurti, senior editor of Tempo magazine was illustrative, “the president should understand that democratic leaders do not fall because of the scandal, but because of the attempt to cover up.” The scandal raises questions about the very reasons SBY was elected. So far, SBY has acted with legal propriety, setting up an investigation commission and letting the legal process take its due course. But such typical reserved behavior from SBY may not be enough to satisfy a public enraged at what they see as a throwback to the corrupt and devious ways of authoritarian President Suharto's New Order.

Indonesia's President Susilo Bambang Yudhoyono (SBY) has continued to face rising criticism over the graft scandal involving top law enforcement agencies and the government's bailout of the small Bank Century in 2008. A plot by police and state prosecutors to frame two anti-corruption agency officials sparked a public outcry. SBY urged the police and attorney general's office to drop the case. In a rambling televised speech he did not say if he would follow any of the other recommendations made by an independent team of experts. The Supreme Audit Agency also criticized the central bank's handling of the Bank Century bailout, saying it had caused losses to the state. Finance Minister Sri Mulyani Indrawati and Vice President Boediono,

a former central bank governor, had both supported the bailout and potentially face further investigation. For the short term, neither the Bank Century case nor the KPK-police scandal is likely to have a major impact on government policy implementation, including in the critical area of economic reform. SBY's administration has promised to boost spending on infrastructure and reform the civil service, police and courts. His cautious response, however, suggests the pace of reform is likely to be slow and piecemeal. In the longer term, the case could embroil the key ministers Ms. Indrawati and Mr. Boediono, possibly distracting them from day-to-day management.

SBY has tried to suppress rumors Bank Century was bailed out in order to protect the deposits of wealthy donors to his election campaign. If it emerges that SBY's party, the Democrat Party, did receive donations from Bank Century depositors there could be strong calls for his impeachment. There is also a risk to the reputations of Mr. Boediono and Ms. Indrawati, indirectly damaging the reputation of SBY himself. Both were high-profile appointees and seen as emblematic of his administration's attempt to empower technocrats. All have defended the bailout as essential for maintaining confidence in the financial system amidst last year's global credit crisis. Parliament could propose a censure motion, which could also damage the reputations of Ms. Indrawati and Mr. Boediono. It is not clear how seriously the public takes parliament. But the surrounding publicity and possible investigations could be perceived as damaging. Analysts and fund managers appear to be disappointed with SBY's handling of the case. The criticism in financial circles echoes that of anti-corruption activists: that SBY has squandered political capital from his landslide election in July by failing to act boldly against entrenched interests and corrupt senior officials. Even so, the presence of Kuntoro Mangkusubroto, the reformist technocrat put in charge of a special Presidential unit, still offers some hope.

Meanwhile opposing groups have demonstrated in the streets giving rise to clashes with the police endeavoring to keep order without appearing to take sides. There is evidence that some groups of demonstrators have been paid to come out on the streets and some analysts are concerned that the demonstrations could take an anti Chinese tone reviving memories of the 1998 wave of anti Chinese feelings. The security authorities will have to act with skill and sensitivity in order to avoid serious breakdowns in law and order. Most observers believe that impeachment is not likely. So far, the President has acted with complete legal, (if not political) propriety. SBY has formed a strong alliance in parliament, founded on the Democrat Party's largest share of the house. The impeachment processes surrounding Abdurrahman Wahid in 2001 were supported by a widespread consensus he had lost legitimacy. SBY however was elected by direct public vote and may have more personal legitimacy than the parliament itself. For now, the opinion in political circles is that impeachment would be a disaster. (Some, particularly the PDI-P, the party of SBY's defeated chief rival, would no doubt support impeachment). The Bank Century case will drag on and on and in the process SBY and senior members of his Government will become the subject of accusations of wrongdoing. It will be unlikely that the President will be impeached, however he may have to offer up a sacrificial lamb in order to avoid action against himself. Vice President Boediono and Finance Minister Sri Mulyani Indrawati are in the firing line and one or both could be offered up.

**On issues that may affect business in Indonesia:**

The month began with the stock market suffering in a slump. Stocks fell with the benchmark index seeing its largest single fall in a year on concerns of a slowing global economic recovery. The fall of Bumi Resources, one of the largest capitalized companies on the exchange dragged down the market. Bumi on Oct. 29 fell 8.3 percent to 2,200 Rupiah, Bloomberg reported. PT International Nickel Indonesia fell 6.3 percent to 3,700 Rupiah. Energy and mining shares make up a large proportion of the exchange. Indonesia's power supply struggled to meet demand in early November with the state power company PLN stating that supply must grow at about 5,000 megawatts (MW) a year to support an economic growth rate of six percent. Indonesia needs to invest about Rp. 80 trillion (\$8.3 billion) a year to build the required generation capacity and transmission and distribution networks to achieve its targets, said director of the state power utility PLN Fahmi Mochtar. PLN, which holds a near monopoly on domestic power generation and transmission, has struggled to keep up with rising power demand. Blackouts are common in many parts of Indonesia. The primary Java-Bali grid is overstretched, holding back production and possibly economic growth. By the middle of the month the new energy minister said that he wants to accelerate an emergency government power program aimed at boosting power capacity by 20,000 MW a month. He said his ministry planned to ensure 2,000 MW from the first of two phases of the crash program would be added to the grid in 2009 with a further 4,000 MW by next year. The government first announced the "crash" power program in 2005, a relatively fast development scheme to add 10,000 MW of coal fired power to Indonesia's overstrained power grid. The government later announced plans to add a further 10,000 MW. The second phase is to mostly use alternative fuel sources. The announcement came just before a weekend of rolling blackouts in different parts of Jakarta. PLN, the state power utility, said it was facing budget limitations in procuring new transformers to help ease capacity overload. PLN officials said last week they only had 14 percent of a budget aimed at boosting the Jakarta grid's capacity by 2012. The wave of blackouts in Jakarta hit and irritated sections of Indonesia's foreign business community. Foreign manufacturers were joining a growing list of industries upset at the blackouts. One 28-member delegation of Japanese business leaders complained about the outages to the Industry Ministry. Local industries have also complained over the power disruptions. Eddy Widjanarko, chairman of the Indonesian Footwear Association (Aprisindo), said that shoe factories were operating at only between 50 to 60 percent capacity due to the unstable power supply. PLN reported that Jakarta, Bekasi and Tangerang would continue to experience rotating four-hour power shifts for the rest of November and claimed it had been struggling to meet demand for power in Jakarta since a fire at a central facility in Cawang, East Jakarta in September. PLN's media unit claimed the blaze triggered mechanical problems with other generators on the grid as they were overloaded.

Indonesian authorities deported 11 foreign Greenpeace activists for joining an anti-deforestation protest. The activists who came from Spain, Brazil, Germany, Thailand and the Philippines were said to have violated their tourist visas and were being sent home. They had sought to draw attention to massive deforestation of peat land forests ahead of a U.N. climate conference in Denmark. The group entered territory leased by Riau Andalan Pulp and Paper, one of Indonesia's largest paper companies. Police said 44 Indonesian activists were questioned with 21 charged. The incident is a roundabout reminder of the dangers of not having one's papers in order. Many businesses operate in such a way, shipping people in and out on tourist visas,

which are the easiest to get. Granted, the activists were seeking attention and particularly provocative. But any visiting here on a tourist visa should be aware of the potential risks.

The Indonesian unit of French supermarket chain Carrefour said it would challenge a recent ruling by Indonesia's anti-trust agency that said it broke monopoly laws here. Indonesia's Business Competition Supervisory Commission (KPPU) ruled that Carrefour was in breach of anti-trust laws after it bought a 75 percent stake in a local mini-market chain Alfa Retailindo for \$70 million in 2008. The KPPU claims Carrefour misused its dominant market position to negotiate for lower prices from suppliers. Carrefour was given a year to sell its stake in Alfa and told to pay a \$2.6 million fine. Carrefour is challenging the KPPU's assertion in 2008 the combined Carrefour and Alfa had a 47 percent share of Indonesia's retail market, including sales at hypermarkets and supermarkets, but not traditional food markets. According to Nielsen Indonesia, as quoted by the Wall Street Journal, Carrefour's share of the market was 17 percent in 2008. The Journal reported that 58 percent of total goods sold by suppliers to "modern" retail outlets in Indonesia went to Carrefour, up from 46 percent before the Alfa acquisition. Carrefour is the largest foreign retailer in Indonesia with 45 stores and a turnover of \$974 million in the first nine months of 2009.

Crucial mining regulations will be delayed until at least January further dampening legislation in an ailing sector. Supporting regulations to a long-awaited December 2008 mining law would be delayed beyond their January deadline. The new mining law, passed by lawmakers last December, compelled the government to issue four implementing regulations for mining areas, coal and minerals businesses, mining supervision and finally on reclamation and mining issues. The uncertainty is likely to affect both existing contract holders and those seeking to gain mining licenses. Five mining projects already in the pipeline are on hold due to problems with license approvals from both the central and regional governments. The projects are estimated to be worth between \$8 and \$ 10 billion.

Indonesia has become less corrupt in the last year, climbing in a global ranking scale, according to Transparency International, the anti-graft NGO. Indonesia in 2009 scored 2.8 up from 2.6 last year, with 10 being the cleanest and 0 the most corrupt. According to Transparency International, Indonesia is now on par with countries such as Algeria, Djibouti, Egypt and Mali. TI's survey, however, was conducted before the arrest of three leaders of the Corruption Eradication Commission (KPK). Indonesian anti-corruption veteran Teten Masduki told the media, "It is possible Indonesia would rank lower than in earlier years if the scandal had occurred before we conducted the survey." Private consumption and an upturn in investment will continue to drive the Indonesian economy, with annual growth likely at above five percent between 2009 and 2011, according to the Organization for Economic Cooperation and Development (OECD). Indonesia is not regarded as a member of the OECD, but it is seen as an emerging G20 economy that could soon be regarded in the same leagues as the "BRICs" – Brazil, India, China. In particular, Indonesia boasts a large domestic market, bountiful resources and is increasingly appealing to investors. "Domestic demand should continue to be the main driver, supported by a recovery in credit extension and real income gains resulting from ongoing disinflation and falling unemployment," the OECD said in its semi-annual economic outlook. The OECD said annual economic growth this year would accelerate from 4.5 percent to 5.3

percent in 2010 and 5.6 percent in 2011. The government has forecast growth of 4.3 percent this year and 5.5 percent in 2010.

Foreign direct investment in Indonesia fell almost 30 percent to Rp. 89.28 trillion (\$9.4 billion) in the first ten months from a year ago, amid the global economic downturn, the state investment agency said in the last week of November. Indonesia needs investment – mostly in the labor intensive manufacturing sector – to help boost economic growth and reduce unemployment. The fall in investment is not dampening business sentiment, according to the central bank, Bank Indonesia (BI). BI raised its economic growth forecast for this year with improving investment, domestic demand and exports brightening the economic outlook. Indonesia's gross domestic product is likely to expand by between 4 percent and 4.5 percent this year before rising to between 5 and 5.5 percent in 2010, the bank said in a statement. The rise is higher than the previous prediction of growth of between 3.5 percent and 5 percent for 2009. The bank also said its current monetary stance is consistent with its inflation target for next year, mirroring previous indications from officials at the central bank it will likely keep rates even at 6.5 percent until next year as it seeks to balance growth and inflation. Rising demand among consumers is helping Indonesia to boost export shipments. Indonesia has so far weathered the global economic downturn better than most countries due to good economic management and a buffer in the form of strong domestic demand. The reelection of President Susilo Bambang Yudhoyono (SBY) earlier this year and the resilience of the economy have attracted mutual fund investment. Indonesian financial assets are currently among the best performing in the world. There are caveats to the rosy picture, however. BI warned that uncertainties over the recovery in trade, still-high unemployment levels in advanced economies and rising protectionism could hinder Indonesia's growth. In particular, "the risk of higher oil prices globally due to speculation must also be watched closely," it said. BI said its monetary policy stance is consistent with its aim of keeping inflation below 6 percent next year. Inflation is currently low due to minimal price pressures, weak global commodity prices and a gain in the Rupiah. BI has previously said consumer prices are likely to rise by four percent or less this year. Lower than the 11.1 percent rise recorded in 2008.

The sinking of an inter-island ferry in Riau last week that left 32 dead came as a reminder of the dangers of poor transport regulation, particularly in the maritime sector. Investigators are still probing the cause of the sinking of the Dumai Express on Sunday (22/11). The ship's captain claims bad weather caused it to sink. Passengers and local police say the ship could have been up to 60 percent overloaded, carrying up to 400 passengers when it should not have been carrying more than 250. Early indications were that overloading made the vessel unable to weather heavy seas. It is likely to be a long time before the government properly enforces transport safety regulations. In the meantime, we can assume overcrowding will continue. As we have seen, such practices can make sea transport dangerous. Whilst many observers dwell on terrorism as being the greatest danger facing expatriates in Indonesia the fact is that they are in more danger from accidents on the road, rail, air and sea. The poor safety record of transportation systems coupled with the questionable state of diagnosis and treatment in some local hospitals continue to give cause for concern.

## **On Crime**

Gunmen on motorcycles fired on the home of the European Union's (EU) representative in Indonesia's Aceh province mid November. According to police and media reports, no one was injured in the night attack on the home of British national John Penny, who leads the EU in the provincial capital of Banda Aceh. The attack happened when he and his wife were at home. French media AFP reported the attack took place at 10 o'clock at night. Aceh police confirmed the media reports, but said no motive had been established for the attack. "We suspect that the perpetrators are trying to create an atmosphere of terror with foreigners as the target. The recent attack on a German Red Cross worker is one example," AFP quoted one policeman as saying. Earlier this month, the Red Cross briefly suspended its operations in the province after a local representative for the German branch, Erhard Bauer, was shot and wounded by men on a motorcycle while he was in a car. Police have, however, said they would boost security for foreigners carrying out humanitarian work in the province. Such claims, however, must be considered against the institutional realities. Aceh's police are still suffering from the decades of neglect while the province was in a state of civil war, from 1976-2005. Police capability still lags behind much of Indonesia. Aceh has seen sporadic, low-level violence, including armed robberies and politically-motivated grenade and gun attacks. The armed conflict between the GAM and Indonesia's military officially ended in 2005 with the signing of a peace agreement in Helsinki. Local economic concerns are rising in Aceh with the gradual winding down of the massive post-2004 tsunami project. A large number of international organizations arrived to help in the wake of the 2004 tsunami, which killed 168,000 people. It's possible that there will be a rise in economically-driven crime, including extortion, with the winding down of foreign aid.

Gunmen fired on the home of two US teachers in Aceh province in the latest in a string of attack directed against foreigners, police said. No one was injured in the attack on the home of Michelle Ahmad and Sarah Willis in the provincial capital Banda Aceh at around 5:45 am, police and witnesses said. Ms. Ahmad, who is teaching English to local students through a fellowship program, said she heard six gunshots. The attack came less than a week after motorcycle-riding gunmen fired on the home of the European Unions local representative in the province. The representative of the German Branch of the Red Cross was also badly wounded in a shooting attack earlier in November, forcing the agency to briefly suspend operations. Police said there was a clear connection between the cases. "This wasn't done by stupid people, it was planned well," said police spokesman Farid Ahmad Saleh, adding that police would increase patrols protecting foreigners. "There is clearly a political motive behind the acts, but so far we haven't detected who is behind them. We can't level accusations yet because we don't have the evidence," he said. Mr. Saleh said police would step up security for foreigners. "They [the attackers] don't want Aceh to be safe. We will be stepping up police patrols to safeguard foreigners working in peaceful missions across Aceh," Mr. Farid said to the Jakarta Globe. "They waited for us to let our guard down, and then they attacked." A group representing former separatist rebels denied it was involved in the attacks. Kamaruddin Abubakar of the Aceh Transitional Committee, which represents former separatist rebels in post war developments, told Agence France Press the attacks were an "effort to terrorize foreign workers until they leave Aceh." Aceh has seen sporadic violence in recent years, even after the 2005 peace deal that ended the three-decade separatist war that left some 15,000 people dead. Aceh is

also home to a large number of international aid organizations that are gradually reducing their presence as the post-tsunami reconstruction projects wind down. As the police said, the attacks appear to be coordinated, well planned, and well executed. Sources close to the former GAM rebels claim that the former insurgents were not involved in the attacks. Indeed, the former GAM and much of Aceh province has benefited immensely from the economic injection of the presence of the foreigners and post-tsunami reconstruction. There was some initial speculation that the first incident involving the Red Cross official was economically motivated. Extortion and theft are still at relatively high levels in Aceh compared to the rest of the country. But the last two incidents do not appear to have an economic motivation. Other sources speculated that elements and individuals are seeking to foment chaos and unrest. Their motivations are not clear. One theory, (inevitable in post-conflict zones in Indonesia) is that clandestine elements of the security forces may be deliberately targeting the foreigners. Whatever the case, foreigners must consider themselves at risk in Aceh province now and increase security precautions. Such precautions would include reviewing security procedures and ensuring existing ones are enforced. To date there have been no reports of aid agencies accelerating their plans to withdraw from the province.