

December 2009 security summary:

On Terrorism:

Indonesia is to set up a new agency to coordinate counter-terrorism between several agencies. The *Badan Koordinasi Pemberantasan Terrorisme* or Counter-Terrorism Coordinating Agency is to be established in January 2010. Ansyad Mbai, head of the anti-terror desk at the Coordinating Ministry for Political, Legal and Security Affairs a senior counterterrorist official at the security ministry, said the new agency will put greater emphasis on prevention while rooting out terrorists and rooting out their cells would prioritize preventative counterterrorism. He also said the agency will run 'deradicalization schemes' aimed at facilitating former terrorists' re-entry into normal life. The new agency is to be an upgrade of Mr. Mbai's office, the anti-terror desk, set up a month after the first Bali bombing that killed 200 people in October 2002. The new agency will include representatives from several government agencies. The agency is to be headed by a coordinating security minister, but day-to-day operations are to be run by an executive director. The actual powers of the new agency remain to be seen. A widening of the scope of the anti-terror desk could in theory help the counter-terrorism effort, which in practice has been successful due to a two-fold strategy. The tactical and operational side has depended on the efforts of an elite group of operatives, including Detachment 88, the police counter-terrorist unit. The military, however, who have felt sidelined by the police in terrorism matters, are likely to welcome the new agency. The writing was on the wall for change with the appointment of the former chief of police General Sutanto as the new head of the National Security Service BIN. The multi service structure and the incorporation of civilians will create the opportunity for the new agency to build on the work done in the past by the police and to expand and add not only new personnel but also a new direction and impetus.

The father-in-law of the slain Malaysian terrorist leader Noordin Mohammed Top was arrested in a raid in late December. Tito Karnavian, head of Detachment 88, the police counter-terror squad said Top's accomplice Baharudin Latif was arrested in the West Java district of South Garut after months of evading police. Mr. Latif, alias Baridin, escaped from a police raid in July from his home in Cilacap, Central Java. The raid came weeks after the bombing of two major tourist hotels in Jakarta. Police, acting on leads from the investigation into the blast, said they found bomb-making materials in the yard. Mr. Karnavian told media police had scoured South Garut to see "if there were any explosive materials on site." Baharudin, alias Baridin, had blended in easily in West Java. He had worked as a fisherman at the Pamalayan village, Cikelat district, Garut. Top and Baharudin were linked by marriage. Top had married Baharudin's daughter Arina Rahmah in 2006 and the couple had two children. Top, who was killed in a bloody raid by police in September, was believed to have orchestrated the July suicide bombings of the JW

Marriot and Ritz-Carlton hotels in Jakarta. Seven people were killed in the blasts. Top was also blamed for a 2003 attack on the Marriott that killed 12 people as well as the 2004 bombing of the Australian embassy in Jakarta and 2005 attacks on tourist restaurants in Bali. Detachment 88 warned in late December that terrorist cells across the country were actively recruiting members and planning future attacks. Mr. Karnavian told reporters on December 2, "Our investigations show his [Top's] remaining cells are still active today." In particular, Mr. Karnavian warned that conflict-prone zones such as Poso in Sulawesi were vulnerable to infiltration by terrorists. Police had also traced the funding back to foreign organizations.

A major challenge for 2010 will be avoiding the complacency that set in before the July hotel attacks in Jakarta. Many security analysts had discounted or dismissed the offensive capabilities of the violent wing of Mr. Top's organization, Jemaah Islamiah (JI). Detachment 88's warning should therefore be taken seriously. Although the loss of Top is a major set back for the violent splinter faction of JI, he certainly would have been able to pass on some of his skills and it is known that highly experienced JI terrorists Dulmatin and Umar Patek are active in the south of the Philippines and could well return to continue the fight in Indonesia in the absence of Top. New information from the most recent arrest may help to shed further light on the current state of readiness of JI. However welcome as the arrest is it is in effect the mopping up of the last of the cell that was responsible for the July twin hotel bombings. The danger is that JI may have other cells staffed by new terrorists unknown to the police who will become active in the months to come. The danger has therefore not dissipated and further attacks cannot be ruled out. The attempted attack on a Delta Airlines aircraft over the holiday period should serve to illustrate that al Qaeda continue to be active particularly against the United States of America. It should also be kept in mind that the idea of attacks against US aircraft was born here in South East Asia with the Bojinka plot which was hatched in Manila by Khalid Sheik Mohammad and Hambali. The latest attack is likely to result in enhanced security checks particularly in relation to flights to the United States and readers traveling to the US are reminded to allow sufficient time for enhanced security checks. That said the standard of security checks at Indonesian airports is far from international standards and continues to provide cause for concern.

On the evening of the last day of 2009 the Bali Tourism Board widely distributed the following message: "The Governor of Bali Mr. Mangku Pastika wishes to share a message with all of us: 'There is an indication of an attack to Bali tonight,' but please don't panic, but put your security system to full alert." As a result the US, United Kingdom and Australian Embassies issued special advisories which caused considerable alarm amongst those spending the New Year's Eve in Bali. Although it is not yet clear whether the embassies overreacted or the Governor was misquoted the apparent retraction or denial of the statement by Governor Pastika suggests that the danger was not credible or was at least overrated.

On issues that might cause public disruption or demonstrations:

At the end of the first week of December it was agreed that both Parliament and the anti-corruption commission would conduct investigations into the politically-charged Bank Century case. Aside from those directly implicated in the scandal, the immediate loser appeared to be Finance Minister Sri Mulyani Indrawati, who along with Vice President Boediono had been most mentioned in the media in connection with the scandal. Ms. Indrawati, one of Indonesia's leading technocrats, has so far dealt with the case with typical cool. Parliament's largest party Golkar will chair the house inquiry into the Bank Century affair, pledging that the President and Vice President would be protected but potentially exposing Finance Minister Sri Mulyani Indrawati. Parliament speaker Marzuki Ali said the special committee would probe the decision to save the bank and track down the flow of funds out of the bank. SBY's political opponents have claimed the bailout funds may have helped him finance his election campaign earlier this year. SBY has denied the claims, while supporting the probe into what happened to the bailout money. Head of the state audit agency, Hadi Purnomo, has said around Rp.4.7 trillion of the bailout funds are unaccounted for and that the decision to save Bank Century was based on a subjective judgment. Mr. Purnomo was sacked by Finance Minister Sri Mulyani Indrawati from his former position as a senior tax official. Mr. Purnomo claims the process violates Bank Indonesia's regulations. By the middle of the month the long-brewing conflict between the Finance Minister and the powerful Golkar party emerged into the open. Aburizal Bakrie, chairman of the Golkar party, hit back at Finance Minister Sri Mulyani Indrawati's media comments in the media that he and Golkar were using a parliamentary investigation into a bank scandal to discredit her. Ms. Indrawati had earlier told the Wall Street Journal that, "Aburizal Bakrie is not happy with me. I'm not expecting anyone in Golkar to be fair or kind to me (during the inquiry)." In comments to the media, Mr. Bakrie said he "had no personal problems," with Ms. Indrawati. His spokesman Lalu Mara told Singapore's Straits Times newspaper, "Dr. Sri Mulyani should not turn the probe into a personal issue," adding that, "If Sri Mulyani thinks she has done nothing wrong, then please make the explanation to the House inquiry committee, not to the media." The panel is expected to consult hearings in the next two months, presenting its findings in February. Ms. Indrawati and Mr. Bakrie often clashed over economic policy during SBY's first five-year term from 2004-2009. For part of that term, Mr. Bakrie, whose family controls one of Indonesia's biggest business groups, was the senior economics minister. He was later demoted to the post of social welfare minister. Towards the end of the month a parliamentary committee called on Mr. Boediono and Ms. Indrawati to resign over the issue of parliament's inquiry into the politically controversial bailout of Bank Century. The committee argued the suspension of the two was necessary to allow the inquiry process into their role in the case. President Susilo Bambang Yudhoyono (SBY) spoke out in defense of two embattled ministers saying it was "unnecessary" for them to step down while legislators probed a controversial bank bailout. He said the constitution did not recognize the suspension

of a president or vice president. Showing a typical adherence to legal protocol, he also said the 2008 state ministry law gave no grounds for the suspension of Ms. Indrawati. Both Boediono and Ms. Indrawati said they could still take on the parliamentary inquiry process without having to neglect their duties as ministers. SBY added that the government was running its first 100 day programs, which were important for the next five years of government and national prosperity.

The year-end holiday offered no public relations respite for Indonesia's President Susilo Bambang Yudhoyono (SBY), with a controversial book implicating him in campaign finance scams hitting the shelves. A book by a Suharto-era dissident, George Aditjondro created ripples suggesting SBY had used four social foundations to mobilize political and financial support for his re-election. In his book, "Membongkar Gurita Cikeas: Di Balik Skandal Bank Century (Uncovering the Tentacles of Cikeas: Behind the Bank Century Scandal)," Aditjondro claimed SBY had numerous links to the scandal. The book claimed one of SBY's campaign financiers deposited money in Bank Century and funded a newspaper that became the President's reelection mouthpiece. The book has not been banned, but several bookshops in Jakarta, Yogyakarta and Surabaya have removed copies from their shelves. The Attorney-General's Office said it is studying the book but has not decided whether or not to ban it. The allegations in the book are incendiary as they compare the democratically-elected SBY with former President Suharto who ruled through authoritarian means for 32 years. SBY himself expressed concern over the book's publication, making an oblique reference to it and urging the public to reject "slander and lies" being spread in Indonesia. The book implies that four charity foundations linked to SBY were used to gain political and financial support. In the Suharto era charities or Yayasanans were major conduits of graft and patronage. SBY spokespeople deny any wrongdoing by the current President. Presidential spokesman said a team was "questioning the techniques and methods used by the author to come to the conclusion that the President and his foundations are involved in the Bank Century scandal and other cases mentioned in the book." The publication certainly comes at an inconvenient time for SBY. Parliament is gearing up for a major investigation into the Rp.6.7 trillion bailout of Bank Century. SBY has also drawn major criticism over the framing of two anti-corruption agency leaders. SBY's deputy, Boediono, at least did a good job fending off aggressive questioning from legislators during the later part of the month. Vice President Boediono told legislators that Bank Century was bailed out to avoid a wider financial panic. Mr. Boediono, governor of Bank Indonesia (BI) when the Rp. 6.76 trillion (\$710 million) bailout went ahead, said the country's financial system was facing possible collapse. He said capital outflow had risen sharply, which had caused the Rupiah to fall against the dollar in late 2008. Banks had also fallen short of liquidity, interbank currency exchange markets did not work and there were rumors circulating about Indonesia's bad banking conditions. He said policy makers had a similar feeling to that of the 1997 economic crisis. Finance Minister Sri Mulyani Indrawati will face a similar grilling early in the New Year. It is too early to make predictions about the outcome of the Bank Century inquiries. Mr. Aditjondro's book, however, does not

seem likely to change the course of the probe. Mr. Aditjondro, despite his qualifications as an academic sociologist has typically relied on press clippings, sometimes from Indonesia's most scurrilous newspapers, to support his campaigns. Ms. Indrawati has a rougher manner than Mr. Boediono, but has a far greater technical grasp of finance and policy details than any of the legislators questioning her. The unfolding drama of the Bank Century investigation will likely become a major theme of 2010.

On issues that affect the Security Forces in Indonesia:

Mid month the Police in South Sumatra were obliged to send reinforcements to protect the assets of a state plantation company following a riot that left 11 people dead and company property damaged. The incident, between state plantation company PTPN and local villagers is the latest example of a land conflict gone bad and a failed community relations strategy. During the riot, sparked by a land dispute, police opened fire on angry residents after they had set fire to office buildings, employee houses and vehicles. A Police spokesman defended the shooting, saying standard procedures had been followed. Legislators said local residents stabbed three employees of the PTPN Company with knives, claiming the company had pulled down border markers and demolished huts that belonged to the villagers. Witnesses said dozens of people argued with the security guards and the police before the shooting took place. Another witness said violence erupted after the security guards detained a villager attempting to stop the demolition of border markers.

As Christmas approached Kelly Kwalik, 60, a senior commander, and likely chief leader of the Free Papua Movement, was shot dead in a raid on his hideout. Police shot Kwalik based on intelligence gleaned from his followers that implicated Kwalik in a string of attacks on followers. Up to 500 mourners began throwing stones at security forces after a local tribal leader made a speech near parliament. Clashes erupted as a coffin carrying the body of Kelly Kwalik, the former rebel leader, draped in the flag of Papuan independence, was publicly displayed outside parliament in the southern Papuan town of Timika. Local media reported Nerius Katagame, a leader of Kwalik's Amugme tribe, angered Kwalik's supporters by telling them to express their anger in writing to the Indonesian government rather than through street rallies. Hundreds of demonstrators brandishing banners demanding Papuan independence rallied as they mourned Kwalik's death. Kwalik was the probable leader of the Organisasi Papua Merdeka (OPM), a separatist group that has since the 1970s, waged a low-level insurgency against Indonesia. The OPM has many factions, and is loosely defined. No single figure has control over the whole organization, though Kwalik was probably one of the most influential in terms of military raids. The OPM has often used bows, arrows and World War II era explosives in its stand against the Indonesian state. In 1986, Kwalik's group

supposedly killed and kidnapped eight Javanese students. The Indonesian military later in 1996 accused Kwalik of kidnapping 11 scientists, including four Indonesians, four Britons, one German and two Dutch. The UNHCR acted as intermediaries and negotiated with Kwalik for two and a half months but when the negotiations broke down a military operation planned by former Special Forces commander and vice presidential contender Prabowo Subianto was mounted and most of the hostages were freed but one Indonesian hostage was hacked to death with a Stone Age axe. The Police have linked Kwalik to a string of ambushes near Timika in the past six months, which targeted the operations of U.S. mining company Freeport McMoran Copper & Gold. An Australian mining consultant and technician was killed in one of the attacks in July. In 2002, two US Freeport employees were killed in similar circumstances.

Religious feelings were stirred as some extremist groups continue to misuse the freedoms of democracy in Indonesia. A group of white-clad Islamists attacked a half-built Church in Harapah Indah residential complex, Bekasi, West Java. No one was injured, but the incident served to highlight ongoing religious tensions in Indonesia. International media accounts tend to focus on dramatic incidents, such as terrorist attacks, that highlight conflict between Islamism and globalization. Attacks on Churches by Islamist groups have had their fair share of attention too. That said, the recent Bekasi clash sheds light on a deeper cultural struggle going on: the power of secularism in public life. Groups such as the mob last week, which refused to be identified with any organized group, are challenging the secular vision for Indonesia set out by the founding President Soekarno in 1945. This recent white-clad mob, like the Islamic Defenders' Front, or any of two dozen replicas across the country, reject an inclusive state, which treats Christians, Hindus, and other non-Muslims as equal before the law. Whatever President Susilo Bambang Yudhoyono says to the United Nations, democracy in recent years here has revived such a debate. Decentralization has revived old conflicts about what sort of state Indonesia should be. Such conflicts often overlap with local economic rivalries – such as jealousies of the Indonesian Chinese who make up the bulk of such Church memberships. It's not just a matter of academic speculation as the attacks show. Such tensions can be expected to continue in the New Year.

On issues that may affect business in Indonesia:

Inflation is forecast to pick up in the middle of next year according to the central bank, reinforcing investor expectations of a rate rise as soon as the first quarter of next year. Darmin Nasution, acting governor of Bank Indonesia (BI), the central bank, said there was no need to raise the central bank's key interest rate if inflation was still in the target range of 4-6 percent. Consumer prices dropped month-on-month in November, driving inflation down to 2.41 percent, its lowest in nine years. The rise in inflation, "depends on when the global economy starts to improve," according to Mr. Nasution, "when the demand for commodity exports from

developing countries such as Indonesia starts to pick up, then prices will begin to increase,” he said. Bi said it would keep key interest rates at a record low of 6.5 percent as long as inflation stays within an expected target range of 4-6 percent in 2010. Many private sector economists, however, are more bearish than BI about the inflation outlook, therefore expecting a sooner rather than later tightening of monetary policy.

A BI deputy governor separately said Indonesia was likely to see a surplus in the balance of payments next year, reflecting an improving trade outlook and strong capital inflows. The dollar is expected to continue depreciating and the balance of payments to continue improving, according to BI officials. Indonesia reported a balance of payments deficit of \$1.945 billion in 2008. Indonesia has seen strong capital inflows this year, with investors moving into stocks, bonds and the Rupiah, attracted by political stability and economic growth. The stronger capital inflows have presented challenges for BI, the central bank, due to the cost of sterilization and concerns of ‘hot money.’ The Asian financial crisis of 1997-98 is still very much in the mind of Indonesian policy makers – as last year’s bailout of Bank Century showed. Automotive sales – a key indicator of business sentiment – rose in November in a further sign the economy is recovering from the global financial crisis. An automotives industry association (Gaikindo) said 48,329 private cars and commercial vehicles were sold in November, up 4.8 percent on the previous year. Sales of new vehicles in the year to November, however, were still 22.9 percent lower than in the same period a year earlier. Month-on-month, November sales were 7.5 percent lower than in October, when demand peaked for the year with 52,226 vehicles purchased, excluding motorbikes, according to Gaikindo (which does not count them). The lower central bank interest rate – which fell to 6.5 percent from 9.5 percent in November last year, helped lower borrowing rates, helping consumers borrow money for automobiles. Interest rates on automobiles have fallen to an average of 10 percent to 12 percent per annum, compared with 20 percent to 22 percent last year, when the BI rate was still above 9 percent.

On Crime:

A group of teenagers stabbed a high school student to death on a busway lane, in a warning of the random nature of urban violence. Such attacks are relatively rare in Jakarta. In this case, around 15 teenagers stabbed Erik Fernando, a late teen student. He later died of his injuries. Such attacks are far more common in cities such as Manila and Bangkok, which have higher crime rates in general. But the Fernando tragedy is a sign that Jakarta is no stranger to such random cases of violence. Observers apparently did nothing. Observer apathy is common around the world, particularly where weapons are involved. Secondly, no motive was apparent. The murder is the second such case in a week as according to media reports, another high-school student was killed after he was attacked by a group of teenagers on a busway lane in central Jakarta. The teenagers attacked him with swords. He later died from his injuries.

In late December Police arrested two Indonesian men in Bali over the murder of a 43 year old Japanese woman, Hiromi Shimada, who had been found dead after being stabbed repeatedly in the stomach. Ms. Shimada's murder followed that of 33-year old Rika Sano, whose partially decomposed body was found near her scattered belongings in the same area.

It is not clear what the motive for the murders was, although the victims and perpetrators were known to each other. The local Police chief said the victim had known both of the killers well, adding that they had probably killed the woman for "personal" reasons. The murders are not indicative of a wider pattern in Bali. Police comments indicate both cases were personal and possibly "crimes of passion." It is a well known fact that some single Japanese women visiting Bali spend time in the company of "beach boys" and such relationships are known to occasionally go wrong with fatal consequences.

By the way...

A fire at a karaoke bar in Medan that left 20 dead was a reminder of poor safety and fire safety standards in parts of Indonesia. The blaze broke out on the third floor of a club in the M City entertainment complex in the city of Medan, North Sumatra province. The fire spread quickly to other floors, raging for an hour before firefighters were able to douse the flames. Police said the victims were trapped on the third floor in the karaoke lounges. The lounges were near a kitchen (and) the third floor was sound-proofed, meaning there was little ventilation, police said. Most of the victims died of smoke inhalation. Initially police blamed the fire on a short circuit, which appeared to have started the fire. Further investigations however pointed to a cleaner who had tried to tidy the area by burning excess material. Medan Fire officials told the media firemen had difficulty evacuating the building because most of the karaoke lounges were locked when the fire broke out. Medan media quoted local officials as saying there would be a probe into safety standards at the entertainment complex. Accidents like the Medan fire are part of the ambient risk of being in Indonesia. Ultimately poor safety procedures, including staff training, are likely to have been the root cause. Such poor standards are the result of poor regulation, which in turn stems from the generally poor functioning of government. Clearly, improvements will take a long time. In the meantime, we must rely on personal inspections of buildings to determine how safe they are. Of the media reports on fatal deaths in fires in Indonesia, many have been at nightclubs or entertainment venues with inadequate exits. This cavalier attitude to fire safety is endemic throughout the country including Jakarta. In well regulated societies the golden rule is that when safety and security are in conflict safety should always have priority. Sadly that is not the case in much of Asia including Indonesia and time upon number we discover fire escape doors that have been locked for "security"



purposes and the tampering of locking mechanisms of fire escape doors for reasons of staff convenience. These problems are common in entertainment venues throughout Asia but they are not confined to such venues and hotels, apartment blocks and office accommodation are also affected.

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