

February 2010 security summary:

On Terrorism:

At the end of January Malaysian Police arrested a number of suspected terrorists following a raid on a religious study group led by Aiman Al Dakkak, a Syrian academic who has lived in Malaysia since 2003. All those present were arrested but most were released the following morning after five hours of questioning. At least ten were not released and are being held under the Internal Security Act which allows for detention without trial for an indefinite period (Singapore and Malaysia inherited this draconian legislation from their British former Colonial rulers). They included at least one Malaysian, four Syrians, one Yemeni, one Jordanian and two Nigerians. It was reported that the arrests were part of a broader international terrorist investigation and there are unconfirmed reports that they were members of a group connected to Umar Farouk Abdulmutallab, the 23-year-old Nigerian who allegedly attempted to detonate explosives on a flight to Detroit. The Malaysian Home Minister, Hishammuddin Hussein, insisted that the detained men were “a serious security threat to the country...We were working with other international anti-terrorism agencies and nabbed the ten suspects who are on the international wanted list ...I think this is a very good wake-up call because the playground for the terrorist is no longer one location. In this borderless world that we live in now, the whole world is their playground.” The alleged links to the Yemen in these latest arrests is disturbing as there have been reports that there was a Yemeni connection to the attacks on the J W Marriott and Ritz Carlton Hotels in Jakarta in July of last year. The Yemen is without doubt a new base for al Qaeda operations and the lack of effective government control by the Yemeni government makes it an attractive operating hub.

In the third week of the month a major figure in the twin bombings of Jakarta hotels in July last year went on trial. Prosecutors claimed Mohammed Jibril was linked to Saifuddin Jaelani, a key planner of the July 17 bombings of the JW Marriott and Ritz-Carlton hotels that killed seven and had received funds from a retired Saudi teacher named Al Khelaw Ali Abdullah which he then passed on to Jibril to open an internet café in 2008. Ahead of the bombings, Jibril was known for publishing a popular Islamist website and glossy magazine called Jihadmagz.

The son in law of Abdullah Sungkar the joint founder of JI, Syawal Yasin, has been elected as the new head of the Greater Jakarta branch of The Indonesian Mujahedeen Council (MMI) the organization that was set up and led by Abu Bakar Bashir who left the organization in 2008 following internal disputes. Following his election Abu Jibril (the father of Mohammad Jibril - see above) said “It is our obligation to implement Sharia Law based on the Koran... including waging a holy war against Islam’s enemies. Only Sharia Law matters. We must work towards its

implementation even if it means sacrificing ourselves” He added that Sharia law outweighed obligations to the State and that his experiences gained as a Mujahedeen fighter in Afghanistan for 10 years would prove useful in leading the MMI in Jakarta. This is in effect a generation change and is no doubt designed to sideline Bashir. It is also likely to be seen as a show of force by the Jibril clan whilst the trial of Mohammad Jibril is underway and also implies that MMI will take a harder line in the future. The links between the new leadership of MMI and JI is a worrying development and will no doubt be the subject of investigation by the Indonesian National Police Counter Terrorist Group.

Indonesian airports will continue to use body scanners, a recent innovation, despite complaints from the Islamic community. Islamic leaders have complained that the full body scanners in airports were a violation of human rights and Islamic law or Sharia law. Chairman of the Indonesian Council of Islamic Scholars said, “Don’t use it in Indonesia. We are not a paranoid or frightened country,” adding, “we are afraid... the scanner [will be used to] violate human rights and be used as a toy to abuse women.” These objections notwithstanding the scanners will likely continue to be used for flights to both the US and Europe, especially as Garuda will have a high publicity launch of its return to Europe with flights to Amsterdam commencing on 1 June this year.

Indonesian police raided an alleged terrorist training camp in a remote part of Aceh province late in the month and were pursuing dozens who escaped. Aceh Police Chief said some 50 militants were using the camp and were ‘strongly suspected’ of being part of the regional terror group Jemaah Islamiah (JI), blamed for numerous attacks across Indonesia. More than 100 heavily-armed police took part in the raid just before midnight in a forested part of Greater Aceh district, about 70 kilometers (40 miles) east of the provincial capital of Banda Aceh. The police chief said the militants were conducting military-style training, including using firearms. The Police Chief said that he had received information that there were training activities comprising 50 people from a group suspected to be related to Jemaah Islamiyah (JI). Police confiscated commando knives, video recordings, books on jihad, and cash. Police also seized Malaysian style military uniforms, rifles and 8,000 rounds of ammunition. Police said the suspects detained included several who had received training in militant camps overseas. Indonesian police had a series of clashes with suspected Islamist militants in deadly gun battles in Aceh province after announcing that 14 prisoners in the province had been charged with planning terrorist attacks. As the clashes developed specialist police officers from the Mobile Brigade and Bomb squad were joined by Counter Terrorism experts in what was turning out to be a huge manhunt in the province. The Governor of the province Irwandi Yusuf was involved on the ground and President SBY was prompted to warn that a “terrorist group” was planning to launch attacks from a training camp in Aceh. Information suggests that the trainer of the group is a subordinate of Dulmatin the vastly experienced JI operator who is currently working with the Abu Sayaf group in the south of the Philippines. There is even a suggestion that the trainer may have come

down especially from the Philippines in order to conduct the training. Dulmatin was involved in the 2002 Bali Bombing but fled to the Philippines shortly thereafter. He is known to be an explosives expert and the US government has put a reward of USD 10 million for his capture under the Rewards for Justice Program.

Meanwhile the Indonesian Police have announced that a blog on an al Qaeda web site run by a group calling themselves “Tandzim Al-Qoidah Indonesia Serambi Makkah” has claimed that the clashes with the police in Aceh were part of a war against the enemies of Islam, namely Jews and Christians. It called on support from all Muslims for their Jihad. There is currently no evidence that this group has any direct links to the Aceh terrorists and it may be no more than a propaganda ploy. What is clear however is that this is not a ragged band of gangsters but a well armed and apparently well trained group who have shown an ability to cause the police massive problems. The indications from the field are that the police have been outgunned by these terrorists who are using automatic weapons. Current indications are that the weapons which include AK 47s and M16s may have come from the South of the Philippines, the south of Thailand and perhaps some are ex GAM weapons. Worryingly some police sources have also suggested that the group may also have rocket propelled grenades but this is yet to be confirmed. The police have commented that the terrorists would appear to be familiar with the territory in which they are operating which suggests that they have been there for some time. They have shown good battle craft and have used the terrain to their advantage. Sources in Aceh have commented that the initial police deployment was overwhelmed and many of them have been withdrawn and replaced with fresh officers who have more experience and better training. Police helicopters have been used and there have been reports that the terrorists have even fired at the helicopters. All of this suggests that they are a well trained and dedicated group that presents a serious threat to security. Further police reinforcements are likely to be deployed. So far there have been no indications that the Acehnese secessionist group GAM were behind these incidents.

In the last week of the month Indonesia, Malaysia and Singapore increased maritime and air patrols in the Malacca Strait after receiving warnings that a terrorist group was planning attacks on oil tankers in the waters. The Head of the International Maritime Bureau’s anti-piracy center in Kuala Lumpur said the IMB had received the warning from a government agency two and had passed it on to authorities in Indonesia, Malaysia and Singapore. The Singapore government had issued an unspecified advisory warning of terrorist attacks on oil tankers, but did not specify the group suspected. The navy advisory from Singapore said a terrorist group was planning attacks on oil tankers and may also target other vessels in the shipping lane off Malaysia’s east coast. The Malacca Strait is a favorite route for oil shippers between the Persian Gulf and Asian pacific markets. The strait, which is almost 1,000 kilometers long is just 1.7 miles (2.7 kilometers) at its thinnest point and is the world’s second-busiest lane of crude oil, with around 15 million barrels a day passing through it. Joint operations by security forces of the countries around the Strait have

significantly reduced the incidence of piracy attacks in the Strait. Sea-piracy attacks, which peaked in 2004, have fallen steadily since then. If a terror group were to hijack and cripple a large bulk carrier in the strait the economic effects would be severe resulting in shippers having to take a much longer route and insurance premiums would rise substantially. The Japanese and South East Asian economies would be badly affected and even trade with the US would feel a knock on effect. In the past both the US and Japanese governments have lobbied the governments of Indonesia, Singapore and Malaysia for the right to patrol the strait but the littoral states have so far steadfastly refused such requests and patrols are currently limited to the Indonesian, Malaysian, Singaporean and Thai Navies. The background to the terror warning has been kept under wraps and there is no hard information at the moment on who might be involved with statements referring to “an international terror group”. What is clear however is that the main thrust of the warning is not an anti piracy matter but rather terror related.

On issues that might cause public disruption or demonstrations:

In the last week of January Indonesia’s President Susilo Bambang Yudhoyono (SBY) fended off criticisms his government had failed its first 100 days as his popularity fell in the polls. However out of an expected 40,000 turning up to protest the government’s alleged failures they were only able to muster 7,000 despite paying for attendance plus a tee shirt and lunch box!. Surveys by the Indonesian Survey Institute (LSI) and others blamed the political controversy surrounding the Bank Century bailout for SBY’s falling popularity. It may also be that voters are adjusting to the prosaic realities of governing as opposed to the hype and hope of a presidential campaign. Predictably, anti-corruption groups, civil society organizations and opposition groups lambasted the government’s performance. It is true that cases such as the Bank Century bailout and alleged framing of the anti-corruption team leaders have presented SBY with his first real political scandals. But while his popularity has fallen, it is still relatively high. Many political leaders who win on landslide votes, such as the U.S. President Barack Obama see their popularity fall in the first years of the campaign.

President SBY’s Democrat Party, the largest in parliament officially called on him to reshuffle the cabinet and replace ministers from disloyal coalition partners. The request came after weeks of rumors of a reshuffle and rising dissatisfaction in Democrat ranks over the loyalty of partner parties in the ruling coalition, including Golkar. Senior Democrats are disgruntled with several of their coalition partners, Golkar and the Islamist Justice Party in particular, over their support for an inquiry into the controversial bailout of Bank Century. The parliamentary inquiry, which has dominated media headlines, has seen senior cabinet members Vice President Boediono and Finance Minister Sri Mulyani Indrawati summoned before legislators to explain the bailout. There is clearly a political push to link the bailout to the

financing of the Democrat Party's campaign in 2009. A cabinet reshuffle would be a reprimand to the cabinet allies.

The two main allies of Indonesian President Susilo Bambang Yudhoyono's (SBY) ruling party eventually named members of his economic team as responsible for alleged abuses of power over the 2008 bailout of Bank Century. After a three-month parliamentary inquiry, legislators from Golkar and the Justice and Prosperity Party, or PKS, sided with the opposition in blaming Finance Minister Sri Mulyani Indrawati and Vice President Boediono over their roles in the rescue. Mr. Boediono was central bank governor at the time. The attack presents a key choice to the President as to whether or not to maintain the alliance with the PKS and Golkar. Both Mr. Boediono and Ms. Indrawati said the 2008 bailout was necessary to prevent a repeat of the 1997-1998 currency and banking crisis in Indonesia that forced it to seek a \$43 billion rescue package from the International Monetary Fund (IMF). All parties have accused the bank's management of abusing the bailout funds. Former bank owner Robert Tantular was jailed last year for embezzlement. Ms. Mulyani recently told the Wall Street Journal in an interview she thinks the investigation is an attempt to target her by Aburizal Bakrie, a former welfare minister and current chairman of the Golkar political party. Mr. Bakrie has denied the accusation and said he does not have a problem with Ms. Mulyani. Losing the support of Golkar and the PKS could hinder SBY's abilities to push through policies aimed at fighting corruption and boosting economic growth. The two parties account for nearly 30 percent of the seats in the 560-member legislature. SBY's coalition holds 75 percent of the parliament. SBY has already rejected a request by a parliamentary commission – supported by Bakrie – to suspend Ms. Indrawati and Mr. Boediono. SBY has also indicated he doesn't believe the two acted improperly.

On issues that may affect business in Indonesia:

Indonesian authorities are considering proposals to block Internet sites deemed to violate “public decency” and privacy, provoking a slew of criticism from bloggers and internet users. The Justice and Prosperity Party (PKS), a conservative Islamist group, supported the anti-pornography law and now controls the communications ministry in the multi-party coalition that was sworn in late last year after voters in Indonesia re-elected SBY for a second five-year term. Indonesia's censorship board recently banned the Australian movie “Balibo,” which depicts alleged war crimes by Indonesian forces in East Timor. Several books dealing with sensitive historical and political subjects have also been banned. Indonesia's blasphemy law has been used by Muslim groups to silence critics and intimidate followers of minority faiths. Defamation remains a criminal offense instead of a civil one as it is in most democratic countries. Almost 8,000 people have joined a Facebook group opposed to the Internet restrictions. Some media carried alarming warnings that under provisions of the draft regulations, Facebook users or even Facebook itself could be blocked. The new rules would also make it illegal to distribute or provide access to

pornography or gambling services. The new regulations are to take the form of a decree from the PKS Communications Minister Tifatul Sembiring. The President has already indicated his opposition to regulating multimedia. SBY last week warned Sembiring against regulating the multimedia content. Although SBY did not specify Mr. Sembiring's name, he made the implication clear. Facebook has become a useful tool for "people power" groups and in the recent past has been used to support victims of perceived injustice. The growth of Facebook in Indonesia has been phenomenal and it could well soon overtake Turkey to become the 3rd biggest user in the world and could even overtake the UK to become the world No.2 after the USA. The figures are correct as at 31 December 2009.

| Rank | Country | Number of Facebook users | 12 month growth % | 6 month growth % |
|------|-----------|--------------------------|-------------------|------------------|
| 1 | USA | 101,303,240 | 140.8% | 46.0% |
| 2 | UK | 22,625,300 | 51.5% | 20.9% |
| 3 | Turkey | 16,943,780 | 113.6% | 36.8% |
| 4 | Indonesia | 14,681,580 | 1536.7% | 126% |

The showdown between Facebook users and supporters of the bill will prove a telling barometer of the political landscape. The Justice and Prosperity Party may well have pushed for the bill to be passed now as the President's focus is on dealing with the political fallout from the Bank Century case. Islamicization by stealth has long been a tactic of sections of the PKS. However President SBY fired a shot over their bows when he voiced concern about the sensitivity of the draft regulation and asked Ministers to exercise caution before making public statements on delicate issues. This has had the effect of painting Tifatul into a corner and he is already back pedaling and has stressed that it is only a draft. Time will tell just how much SBY will take heed of public opinions and ensure that the legislation is not allowed to impinge upon freedom of speech.

At the end of January SBY promised the power crisis would end this year. He said he had taken steps including signing a presidential decree and supporting regulations to encourage state power utility PLN and private power companies to boost production. SBY said PLN would buy surplus power from factories, expand its transmission network and encourage private producers to develop more power plants. He also said the government was preparing a new regulation to provide more incentives for independent power producers to generate power. That said the situation is dire. PLN reported in October 2009 that 11 of Indonesia's 24 electricity systems were suffering a power deficit and 11 others were on alert status with no surplus capacity. The government has set a deadline of October to end the power shortages that hit Java and Bali in recent years. Many in the industry consider the deadlines to be unrealistic. PLN's new President Director Dahlan Iskan, appointed last year, said "it would be extremely hard," to meet the deadline. The government is boosting PLN's budget this year by about \$1 billion in a bid to help it reach its

*A special word of thanks to Assessment Group International (AGI)
For their input in the preparation of this summary*

targets. In the 2010 state budget, the government has allocated a subsidy of Rp.35.3 trillion to PLN as well as Rp.2.5 trillion carried over from the 2009 budget. The figure is still well below the figure of Rp.50 billion (around \$5.1 billion) PLN asked for.

During the month Fitch ratings, the international ratings agency, upgraded Indonesia's sovereign credit rating to a notch below investment grade. The upgrade reflected Indonesia's resilience to the global financial crisis, but warned the economy is still vulnerable to sudden outflows of 'hot' money. Fitch raised Indonesia's long-term foreign and local currency issuer default ratings a notch to BB+ from BB. The outlooks on ratings are stable. Ai Ling Ngiam, a director in Fitch's sovereign ratings team said that the upgrade reflected Indonesia's resilience to the severe global financial stresses of 2008-2009. Improvements in Indonesia's public finances, a fundamental sovereign rating strength, also helped Ms. Ngiam said. Indonesia's public debt ratios continued to fall throughout 2009, falling to 30 percent of gross domestic product and international reserves, including gold rose 28 percent to \$66 billion. Indonesia's economy last year saw the 8th highest growth rate amongst all Fitch-rated sovereigns at 4.6 percent. Indonesia's public debt-to-GDP ratio looks to continue to fall and Fitch said the government had the fiscal flexibility to embark on an ambitious agenda to tackle longer-term developmental issues, such as improving the poor infrastructure and investment promotion as well as raising industrial and export competitiveness. They added that longer-term developmental priorities risked being sidelined if fiscal-expenditure inefficiencies went unresolved due to delays in power tariff and fuel-price adjustments forecast Indonesia's gross external financing requirement, including short-term external debt at 43 percent of foreign reserves in 2010. Indonesia's stock market humped over 80 percent last year and bonds posted equity-like returns as investors put funds into the market here on expectations of relatively stable politics and healthy economic growth. Recently, Templeton, a local investment fund said growth could push the country into investment-grade status in a few years, alongside the 'BRIC' countries, or Brazil, Russia, India and China.

Meanwhile the mining industry is facing further regulatory uncertainty, under a new and confusing land use regulation. The Public Works minister has issued a new regulation attached to the 2007 spatial planning law to provide guidelines on zoning of areas used for different purposes, such as conservation, housing and industry. In theory, companies that have set up in areas not approved under the regulation can have their permit revoked under the law. According to officials, the regulation has discouraged the forestry ministry from issuing land-use permits and extending permits for mining firms over concerns of being penalized for awarding improper permits. The conflicting and confusing regulation is one reason inward mining investment in Indonesia has been at a standstill for nearly a decade. In some cases some areas have been designated as conservation areas even though they have existing mining projects. The media reported a local unit of Thailand's top coal

miner Banpu PCL had to stop operations at its Jorong coal mine in Kalimantan on Indonesia's Borneo Island due to a land permit problem. The company has requested the forestry ministry extend its permit, but none has been issued. The Indonesian Mining Association has complained the regulation could mean some new mining projects currently at the exploration stage may be unable to advance into the production stage. The association identified a number of new mining projects currently in progress worth a total of \$10 billion, including a nickel project by Eramet, a nickel project by global miner Rio Tinto and an alumina smelter project by state miner Aneka Tambang.

Carrefour Indonesia, the local unit of the French retail giant Carrefour, won its appeal against an order by the anti-monopoly commission to sell its stake in a local firm, an Indonesian court ruled. The Indonesian anti-trust agency KPPU ruled on November 3 last year Carrefour had breached competition laws by using its large market position to extract bigger discounts from suppliers. Carrefour's market share expanded in early 2008 after it acquired the local mini-mart business Alfa Retailindo. The KPPU had ordered Carrefour to sell its 79.89 stake in Alfa and pay a 25 billion Rupiah (\$2.7 million) fine. A court in South Jakarta last week, however, revoked the KPPU's decision. Carrefour's local competitors include Hypermart, owned by the Lippo group and Giant hypermarket, owned by Hero Supermarket.

On Crime:

Police in Bali said they were monitoring and had moved against gangs targeting foreigners' residences on the island. Local news media reported that police had shot and wounded members of the gang as they tried to escape after their latest robbery. The gang members, police said, were from Palembang, South Sumatra and often operated in Bali before returning home. The suspects told police they had been in Bali for three days and robbed seven houses, mostly occupied or leased by foreigners. Many foreign residences in Bali make attractive targets. Such houses are often used as part-time or holiday homes and either not occupied or not diligently monitored by local communities. Foreigners are perceived to be relatively wealthy and such targets hold the promise of cash or easy to sell goods. In this case, police confiscated gold jewelry, watches, and cash. The criminal gang inspected and conducted surveillance before committing the robberies, observing each target during the day and committing the robberies at night. Such robberies are quite risky as local Banjar or communities in Bali often do not hesitate to simply lynch thieves, especially those from off the island, on sight.