

# INDONESIA DIGEST

*Indonesia's complex Issues in a Nutshell*

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## **BREAKING NEWS:**

**FAUZI BOWO VOTED JAKARTA'S NEW GOVERNOR IN "RATIONAL" ELECTIONS**

On Wednesday, 8 August, Jakarta citizens went to the polls in the first-ever elections of the Jakarta Governor. Two pairs of Candidates for Governor and Deputy Governor were vying for the post, these were: at No. 1 Adang Daradjatun for Governor and Dani Anwar for Deputy, and at No. 2 were Fauzi Bowo for Governor with running mate Prijanto for Deputy Governor. Adang Daradjatun was supported by one political party, the PKS party, while Fauzi Bowo had the support of the remaining 20 political parties in the Jakarta Parliament.

Adang Daradjatun was formerly Deputy Chief of the National Police, while Fauzi Bowo is incumbent Vice-Governor with a track record of having served some 30 years in the Jakarta Administration. For his running mate, Fauzi Bowo chose retired Army General Prijanto.

Campaigns were started two weeks ahead and to everyone's relief, these proceeded peacefully. "Jakartans voted very rationally" was the verdict of observers. Not much emotionality was shown during this election when compared to the 2004 national parliamentary and presidential elections. In fact, throughout the campaign until D-day,

Jakarta was “business as usual”, except on the last day of campaigns on Friday, 3 August, when the evening rush hour was exacerbated by going-home campaigners.

Friday evenings Jakarta roads are normally jammed anyway with everyone rushing home for the weekend, but this time around Jakarta was brought to a complete standstill through multiple grid-locks. In some parts of the city, traffic shifted itself to driving on the right side rather than the left, leaving drivers completely confused and traffic police even more so.

But polling day on Wednesday, 8 August, was a quiet affair, since Jakarta offices were closed to allow staff members to vote. On Thursday, however, traffic was back to jams.

Voting took place in the morning from 7 am to 1 pm, after which vote-counting began in the more than 1000 stations that were spread across Jakarta’s 6 municipalities. As soon as polling closed, Quick Count centers went into action. There were four independent centers, while each of the Candidates had their own. By 3 pm, the first results were known. Although Quick Count centers results varied slightly from a 56% win for Fauzi and 44% to Adang, to 59% to Fauzi and 41% to Adang, yet all came to the conclusion that the winning team was Fauzi-Prijanto.

And indeed formal results through electronic count at the Election Committee, KPUD on Saturday, 11 August stood at: 57.8% for Fauzi Bowo-Prijanto (or a total of 2,080,606 votes) and 42.2% for Adang-Dani (or a total of 1,519,375 votes). However, formal announcements by KPUD will take place on 18 August only.

The incoming Governor will commence his duties at the end of September, when the term of office of present Governor Sutiyoso will expire. Having served two terms as Governor, Sutiyoso was no longer eligible for re-election.

The following day, after Quick Count results had made it clear that the Fauzi Bowo-Prijanto team could no longer be overtaken, the Adang Daradjatun-Dani Anwar team together with the leadership of the KPS party gallantly admitted defeat, congratulating Fauzi-Prijanto for their success. The KPS party on its part said that with this defeat, the party would not turn into an opposition party in the Jakarta provincial parliament.

The Fauzi Bowo-Prijanto team on the other hand, graciously accepted victory, at the same time conceding that the Adang-Dani team had lost with dignity making quite a close margin.

Media Indonesia has rated the recent Jakarta elections as best example in peaceful and dignified democratic process in regional elections, well worthy to be emulated by other provinces and districts.

A long list for homework is, however, already awaiting the new Governor as expressed by the general public interviewed on a number of TV stations. Top of the list are: (1) Clear the horrendous Traffic Jams, improve road management and provide better public transport.

(2) Ensure that there will be no more floods. (3) Provide Employment Opportunities and homes for the millions of Jakarta population, especially for the poor. (4) Improve Safety, Health and Education in Jakarta, and reduce crime especially against women. (5) Clear Jakarta from unsightly Garbage especially in its rivers.

Although these demands seem simple enough, their solutions are far from easy. With the capital's registered population of over 7 million, there are at least 2 million people who stream daily in and out of the capital by commuters resident in neighbouring provinces. Additionally, as Jakarta's economy improves, the more the city attracts hundreds of poor from throughout the Indonesian archipelago, in efforts to find jobs in the capital city. Most of these, however, find refuge in makeshift hovels on river banks or under bridges of express ways.

Meanwhile, thousands of newly produced cars and motorbikes add daily to congestions along the city's limited road-network. The situation is exacerbated by the fact that Jakarta's sprawling metropolis offers scarce public transport, and these are mostly in the form of creaking, dilapidated buses, although the Trans-Jakarta rapid busway has been added.

And, as to the yearly flooding, a large part of north Jakarta that faces the sea lies actually below sea-level. Latest data even indicate that Global Warming has already raised the sea level in the Jakarta Bay by 0.8 cm. Meanwhile some 13 rivers cross this metropolis on their way to the sea, carrying water and garbage from up-lying towns and villages. And, add to this the fact that many Jakartans view the river as a large garbage dump, the rivers are unsurprisingly most often than not clogged with trash, ranging from plastic bags to mattresses, exacerbating the threat of more and worse floods to come.

These will be the challenges faced by the incoming Governor and his Deputy.

We at Indonesia Digest express our heartfelt *"Congratulations"* to Bapak Fauzi Bowo and Bapak Prijanto for winning the elections. We pray for God's blessings and guidance, and strength to support you in facing these huge challenges that are already lying at your doorstep.

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**MAIN FEATURE:**

**BATAM DESIGNATED FREE TRADE ZONE,  
BINTAN AND KARIMUN ISLANDS FREE TRADE ENCLAVES**

**By Tuti Sunario  
For Indonesia Digest**

After long wrangling as to what will be the boundaries that will mark the Free Trade Zones on Batam, Bintan and Karimun islands, the Government finally decided on specifications that were equally acceptable to the National Government, the Provincial Government of the Riau Islands and investors alike.

Head of the Coordinating Board for Investments, M. Lutfi explained recently in Batam that the government will soon confirm these specifications through Government Regulations (Peraturan Pemerintah – Perpu), based on instructions mentioned in Government Regulations- in-lieu-of Law (Perpu) No. 1 of 2007 on Free Trade Zones and Free Ports.

The Perpu itself still needs to be ratified by the National Parliament, which will be debated when Parliament returns from recess after 18 August, reports Kompas on 3 August.

Meanwhile Governor of the Riau Islands, Ismeth Abdullah, explained that the entire zone covering the islands of Pulau Batam, Pulau Rempang, P. Galang, P. Galang Baru, Pulau Tonton, P. Nipah, P. Setoko and P. Karimun Kecil will together be designated one Free Trade Area.

Whereas some 50% of the island of Bintan will be designated Free Trade Enclaves, covering: the Lagoi area, the Bintan Central Business District, the Integrated Tourism Development Area, the Lobam Industrial Area, the Galang Batang Industrial Area, the Maritime Industrial Area, the Dompok area and the Senggarang Area , both latter in the City of Tanjung Pinang. While the Karimun Free trade Enclave will cover: P. Pelambung, Teluk Mesodo, Teluk Senang, Bukit Peninjau and the Sembawang area.

Despite the fact that these are Free Trade Areas, they, nonetheless, must still adhere to regulations on site planning as well as heed regulations on protected forest conservation areas.

Meanwhile, Coordinating Minister for the Economy, Boediono told the press in Batam that designating a number of the Riau Islands as one Special Economic Zone, is most important since competition to attract investors is becoming fiercer in ASEAN as well as throughout the world. Batam still continues to be attractive to investors, Minister Boediono said, especially in shipyards. The road network on Batam, Rempang and Galang is also adequate. However, the The Batam Free Trade Zone will still need infrastructure development including additional power supply as well as feeder roads to villages.

Investments on Batam are showing positive development lately, as the private sector has anticipated that Batam will continue to be designated as Free Trade Zone.

Data received from the Batam authority showed that in 2005, investments of US\$ 4.08 billion were approved, while in 2006 the amount increased by some US\$ 400 million to reach a total of US\$ 4.47 billion, of which some 60% has been realized.

On the other hand, Governor Ismeth Abdullah admitted that during 2005-2006 some 12 companies on Batam have closed down representing an investment value of US\$ 15 million.

Most importantly, Minister Boediono said that Free Trade Zones and Free Trade Areas must be consistent and strictly adhere to designated site plans, in order to avoid more illegal

settlements. Law No. 26 of 2007 now threatens violators with criminal punishments, which was not applicable earlier.

### **New Investments in Batam Bintan and Karimun Special Economic Zone**

Meantime, Indonesia's Trade and Investment News issued by the Coordinating Ministry for the Economy wrote that Investors pledged to plough almost \$1.8 billion into Indonesia's Riau islands at a memorandum of understanding (MOU) signing ceremony witnessed by Vice President Jusuf Kalla on Friday, 3 August, as reported by *Business Times*.

Twenty companies from the oil and gas, marine, logistics, hospitality and other sectors, including six Singapore firms, signed MOUs with the local governments of Batam, Bintan and Karimun.

Four other investors, including Indonesian businessman Kris Wiluan, signed MOUs to fulfil export contracts worth another \$100 million in Batam.

The combined investments, to be made over the next few years, will generate more than 50,000 jobs, said Ismeth Abdulah, governor of Riau Islands province.

Investor confidence in the islands has improved since June 2006 when the Singapore and Indonesian governments agreed to cooperate and establish a special economic zone (SEZ) on Batam, Bintan and Karimun, known collectively as BBK.

So far, there are about 1,200 foreign companies in BBK, representing more than \$8 billion of investment, said Governor Ismeth

The largest project signed on Friday is a \$500 million shipyard on Batam, to be built by Fabtech International and Dubai Drydocks World from the United Arab Emirates.

Other projects include a \$350 million investment by Vopak Asia in storage and handling work for the petrochemical sector on Karimun.

Resort builders also committed millions of dollars to Bintan. One company, PT Bintan Resort Cakrawala, plans to build a \$200 million Lagoi Bay Village Resort which is expected to generate more than 20,000 jobs.

Wiluan, whose company PT Citra Tubindo will build oil and gas vessel projects in Batam, said the Riau islands will complement Singapore and Johor's Iskandar economic zone to turn the region into an oil and gas hub.

*Source: Kompas, Indonesia's Trade and Investment News, Business Times.*

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## **NEWS AND BACKGROUND:**

### **1. Tourism and Transportation:**

- **Visitor Arrivals up 12% in First Half of 2007**

The number of foreign tourists visiting Indonesia rose 12% to 2.14 million in the first half of 2007 from a year ago, Head of the Central Bureau of Statistics (BPS), Rusman Heriawan said on Wednesday (1/8/07), led by higher arrivals at Bali, reported Indonesia's Trade and Investment News.

The government expects foreign tourist arrivals to increase by 25% to 6 million this year, bringing in around \$5.5 billion in foreign exchange earnings, up 22% from a year ago, Reuters reported.

Tourist arrivals in Bali rose 34% to 781,059 in the first half from the same period last year due to an improving security situation and political stability.

The bureau also said that a series of cultural events, including the annual Bali Arts Festival featuring traditional dance and music in June and July, also boosted tourist arrivals.

"Singapore is the biggest contributor to tourism in terms of numbers. The total figure almost reached half a million people over the course of the semester," Rusman added. He said the reason for this was because Singapore was close to Batam and Bintan islands, which they usually visit during weekends or just to shop" Rusman said.

The second biggest contributor was Malaysia, with a total of 283,000 people. "Malaysian tourist spend more time here due to cultural ties and their long relationship with Indonesia," he said.

Japanese tourists were also quality tourists, he said, with the total number of Japanese visiting Indonesia numbering around 215,000 during the first semester.

- **New Luxury Hotel Resort Investment at Nusa Dua, Bali**

The luxury *St. Regis Resort & Residence* brand will open an 81 hotel suite, 41 villa and 14 private residence property within the Nusa Dua Complex in July of 2008, reported balidiscovery.com.

Owned by the *PT Rajawali Corporation*, who also own the 271-room *Laguna Resort & Spa*, the new development is set on an 8.8 hectare lot leased from the *Bali Tourism Development Corporation (BTDC)*.

The Resort, with an investment value of US\$80 million, is owned by Indonesian businessman Peter Sondakh.

According to Edward Hotter, CEO for Hotel Operations at *PT Rajawali*, the new development is being built by *Ground Kent Architects* of Australia together with *Bensley Design Studio* from the Philippines.

Situated on a plot with direct access to the *Bali Golf & Country Club*, the published room rates will range from US\$400 to US\$3,000 per night.

Suites and residences will be available for sale with post-purchase rental management provided by *St. Regis Resorts & Residences*. Sales prices for the villas will start at US\$700,000 and from US\$1.2 million for the private residences. Press reports state that some of the top-end residences priced at US\$2.2 million have already been sold.

Purchaser-investors have been promised a guaranteed 7% return on investment for the first three years and 40% of room rentals in the years thereafter.

*St. Regis* is a luxury brand of *Starwood Hotels and Resorts Worldwide* currently operating 12 properties world-wide, with 9 new properties - including Bali, now under development.

- **Bali Update wins PATA Gold Award 2007 for Best e-Newsletter in Asia-Pacific**

Indonesia Digest congratulates most heartily the hard-working team at *Bali Discovery Tours* – and most especially John Daniels - for having been selected “the best travel e-newsletter in the Asia-Pacific, receiving the prestigious *PATA Gold Award 2007*.”

*Bali Discovery Tours* and a host of winners in other categories were granted gold status by the *Pacific Asia Travel Association (PATA)* from among a fiercely contested record total of 339 entries from 132 travel and tourism organisations.

The winners will be honoured at a special luncheon during the *PATA Travel Mart 2007* in Bali on September 28, 2007, writes [balidiscovery.com](http://balidiscovery.com).

### **Bali Update**

First published on March 02, 1998, the Bali Update has "gone to press" 568 times under the continual editorship of *Bali Discovery Tour's* President Director, John M. Daniels, or more familiarly known as Jack Daniels.

Originally sent out in response to developing situations affecting Bali tourism, *Bali Update* is dispatched every Monday to a free subscriber base exceeding 19,000 readers.

Prior to the most recent honor, *Bali Update* has been lauded as "Bali's Truth Ministry" by *TIME Magazine*; "The Accepted Voice of Bali Tourism" by *Travel Asia Magazine*; the "Respected voice of Bali's tourism industry" by *Indonesia Digest* and cited for "Marketing

Excellence" by the *PATA Indonesia Chapter*.

John M. Daniels, *Bali Update's Editor*, has spent more than 30 years in Indonesia and is the recipient of the *Adikarya Wisata* - the highest national award for service to Indonesian tourism given by the Government of Indonesia. Daniels is also a recipient of the *Karyakarana Pariwisata* award – the highest award for contributions to tourism and culture presented by the Governor of Bali.

- **Garuda Indonesia moves into the Blue**

National flag carrier Garuda Indonesia turned around to a long-awaited profit in the first semester of this year on the back of an increase in passenger numbers and higher fares, coupled with an efficiency program, reported the airline's President Director, Emirsyah Satar, as mentioned in Indonesia's Trade and Investment News.

The airline booked a net profit of Rp148 billion (\$15.93 million) in the first half of the year, compared to a net loss of about Rp361 billion in the same period last year.

"Our profit in the first half was partly the result of an increase in passenger numbers to 4.36 million from 4.07 million in the corresponding period last year," he was quoted as saying by *The Jakarta Post*.

Other factors contributing to the turnaround in the airline's balance sheet were the rise in airfares and an improvement in the utilization rate of its aircraft.

Garuda had managed to fly more passengers during the first semester despite the reduction in the size of the company's fleet to 49 aircraft from 56 previously, he said, adding that the leases on seven aircraft had not been extended.

"We managed to accommodate more passengers in fewer airplanes due to an improvement in the utilization rate of each plane from an average of 8 hours and 45 minutes to 9 hours and 17 minutes a day," he said.

In the first semester, the company booked revenues of Rp5.8 trillion, an increase of 12% from the Rp5.2 trillion it earned last year.

Garuda suffered a loss of Rp811 billion in 2004, Rp688 billion in 2005 and Rp167 billion in 2006.

He said the airline's yield -- unit price per seat per km -- rose from \$0.67 to \$0.72, up 8% year-on-year. "The seat load factor grew from 70% to 76% in the first half," he added. Garuda also reduced the number of its loss-making routes from seven to four in the first semester, said Satar.

Garuda also reported that the airline will expand its network to include the Jakarta-Palangkaraya, Central Kalimantan, service starting 15 August 2005.

As regards the audit made by the Saudi Arabia team on Garuda Indonesia in particular, Transportation Minister Jusman Syafii Djamal confirmed that Garuda has passed the audit conducted by Saudi Arabia's General Authority on Civil Aviation (GACA) on safety flight procedures and maintenance.

### **3. The Economy, Trade and Industry:**

- **Slower Palm Oil Expansion expected from 2010**

Indonesia's Trade and Investment News further reported that the country expects palm oil output to grow sharply in the next two years, in line with the statement made by executive chairman of the Indonesian Palm Oil Producers Association, Derom Bangun on Monday (30/7/07). Indonesia is set to take over from Malaysia as the world's top palm oil producer this year because of rapid expansion in the last five years.

"We expect to see output grow by 8% to 9% until 2009. But we have yet to see if we can sustain the growth beyond that period," Bangun told Reuters in an interview.

Crude palm oil output is projected to hit 17.4 million tons in 2007, up from 15.9 million tons in 2006. "Expansion plans have been hampered by uncertainties in the legal status of the available land," he said, adding that the government is now checking that existing plantations are not located inside protected forests.

"Acquiring land is getting more difficult. From 2010 onwards, output will depend on the state of (palm oil) investment in 2007 to 2008," said Bangun.

Palm oil producers have asked the government to clearly define forest areas that need conserving. Environmental groups are concerned that rapidly expanding palm oil plantations, partly due to ambitious biofuel plans, are damaging rain forests and driving out rare species.

Indonesia, which currently has 6 million hectares of palm oil plantations, may also restrict expansion by holding companies, despite record-high crude palm oil prices. "The government doesn't want holding companies to own too much land. Land has become a rare commodity," he said.

Bangun also expects the country's palm oil exports to slow down in 2007, mainly because of the growth in bio-diesel demand. Exports reached 12.1 million tons in 2006.

"We have expected output to reach 17.4 million tons this year, but part of it could be used for bio-diesel. So, we may only export 13.1 million to 13.2 million tons this year," he said.

"In 2008, output may rise to more than 18 million tons. Exports may hit around 14 million tons but it will also depend on the growth of the bio-diesel industry," he said.

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