

## IN BRIEF: POLITICAL

Critics of the Jakarta MRT say that bringing 270,000 riders each day, which would cover the day-to-day costs, will be difficult. Andi Ramlah, a transportation expert at the Pelangi Indonesia Foundation in Jakarta, told the *Jakarta Post* he thinks such a number is unrealistic. The paper also reported that in Kuala Lumpur the MRT started out with 80,000 passengers a day before dropping off to half that within three months.

The system in Bangkok is too expensive for many and transportation analysts here are saying the MRT ticket, which will be roughly three times what it costs now for a bus or *ojek*, will also be out of reach for much of Jakarta.

There seems to be some evidence to support the skeptics' claims here in Indonesia. The bank in Dubai, which might fund the MRT, said that it would only put forward a US\$500 million loan if the Indonesian government guaranteed to pay it in the event of local investors defaulting. The government has apparently agreed to do so. There seems to be a great risk of moral hazard with such an agreement in place, as some high-ranking political figures are set to see some huge cash windfalls if much of the content indeed comes from Indonesian companies. By socialising the risk and privatising the profits, there seems to be a lot of incentive for these investors to move forward with the project.

### The costs and benefits of black gold

The sleepy district of Bojonegoro is an unremarkable area of East Java, with little distinguishing it from the rest of rural Indonesia. Engaged mostly in farming and petty trading, its 2 million residents are among the poorest in East Java, averaging just Rp 400,000 per month in income, well below the area's official minimum wage.

But things are set to change in a big way because Bojonegoro sits atop the biggest oil reserves in Indonesia, known as the Cepu block. As the subject of intense debate since the discovery was first made in 2001, earlier this year the rights to this oil block were eventually awarded to a consortium led by the American oil giant ExxonMobil in partnership with the Indonesian state oil company Pertamina.

As the DPR has withdrawn its right of enquiry to question the appointment of ExxonMobil and the state oil regulator, BPMigas, has finally approved the plan of development submitted by Exxon, the *Report* details the impact that this multi-billion dollar project is having on the local community.

In these first stages of preparation for the project, the local government has been busy planning the development of supporting infrastructure. A Rp 1.4 trillion plan to build a much needed toll road, the allocation of zones for industrial and residential development, and proposals for the construction of "international standard" hospitals as well as shopping and recreation areas have all been submitted.

But the question of who will fund these projects has proven extremely contentious. While some are advocating that Exxon should foot the bill, there

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seems to be a consensus among local officials that additional private investors in partnership with the local government will provide the funds. The question of who the private investors should be and on what terms they should participate has run into some controversy, however.

In 2003 local administrators and parliament members approved a partnership between a private company called Surya Energi Raya (SER) and the local government. With the local government awarded 10 percent of the output from the oil field as part of Exxon's contract, SER is to "help manage" this 10 percent. But in recent weeks many parliament members seem to have changed their minds about the terms of the agreement, which sees SER taking 75 percent of any profits in exchange for taking care of the investments.

SER is owned by media mogul Surya Paloh who has a long history of close links with political power-holders from Soeharto's days through to President Yudhoyono. Using his *MetroTV* news channel and newspaper *Media Indonesia*, Paloh tried to become presidential candidate for Golkar in 2004, but when defeated by Wiranto he quickly turned to Yudhoyono, as it became clear that the latter was likely to win the presidency. Now, as the chairperson for Golkar's board of advisors, Paloh is considered to be part of Yudhoyono's and Jusuf Kalla's inner circle. So far, the deal remains in place, but heavy criticism from local NGOs and residents has instigated a movement within parliament to cancel it.

With local government income set to increase from around Rp 50 billion per year to an estimated Rp 1.6 trillion once the oil field goes into production, the risk of local government being involved in questionable business deals has risen inexorably. In accordance, there has been a sudden boom in the creation of new NGOs, many of which intend to act as watchdogs on the government's activities.

Joko Purwanto, a member of the long-established Bojonegoro Institute near Cepu, estimates that there is now some 100 new NGOs operating in the area. While some have plans to oversee the government, many others have been formed to gain a piece of the action when funds from Exxon's planned community development programme come on tap. Interestingly, there are also others that have been created by pensioned or active government officials because of the feeling that NGOs have more bargaining power with Exxon than does the local government.

Another effect of the project is the sky-rocketing prices of land in the area immediately surrounding the oil fields. While the local government has formed a team with Exxon to buy land from smallholders in the area, many are adamant that they will only sell if assurances are given that local people will receive preference for jobs at the new project. Community development projects are all well and good, according to some residents, but the key to ensuring that the proceeds of the oil production are shared equitably is their access to jobs.

In this regard Exxon has a fairly positive record, especially when compared to similar projects run by Pertamina. The model that Exxon used for their

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operations in Aceh, where they trained local people living in the area, might be used again in Bojonegoro. Indeed, there is already an Exxon-funded NGO operating in Bojonegoro supplying free computer training, at present 500 people are on the waiting list to join.

While many challenges still lay ahead for the people and government of Bojonegoro to optimise their windfall, it is also incumbent on the investors to make sure that the region does not experience a two-tier development where many of its poorest inhabitants are left out in the cold.

### PSI signing in doubt

US attempts to garner Indonesia's support for its Proliferation Security Initiative (PSI) have been in the news in recent weeks after US Defense Secretary Donald Rumsfeld broached the topic during his June visit. He is the second State Department official to do so this year following Condoleezza Rice's March visit to Jakarta where the subject was also raised.

The initiative has prompted a number of reactions and concerns from Indonesians and has at times highlighted the country's evolving relationship with Washington. Officials in Jakarta say that the PSI is difficult for Indonesia to agree to because it is in contravention of the 1982 UN Convention on the Law of the Sea, to which Indonesia is a signatory. The PSI has also stirred nationalist sentiments in some corners, citing the risk that the US would use it to enter Indonesian waters.

It has also been described as the latest attempt by the US to offset China's growing hegemony in the region. Critics of the PSI argue that if Indonesia agreed the initiative, the country would be nothing more than a pawn to allow the US to have an increased presence in Southeast Asia.

US President Bush announced the creation of the PSI on May 31, 2003, to be used as a mechanism to seize illegally transported weapons of mass destruction through better intelligence sharing among member countries. When there is ample intelligence suggesting a ship is indeed in possession of illicit WMDs, the country whose internal waters the ship was passing through would then be able to board the ship and search it. Thus the PSI would theoretically give Indonesia and other member countries better information upon which to base their decisions.

Support for the initiative among Indonesian officials has largely received a lukewarm response. One member of Commission I on foreign affairs at the Indonesian House of Representatives told the *Report* that the merits of the PSI need to be explained if they are to come out in support of it, adding that, as things stand there is little chance they would agree to it. That is roughly the same view offered by Indonesian Defense Minister Juwono Sudarsono, who said "perhaps we can agree on a limited framework of cooperation" but implied multilateral agreements like the PSI were unlikely.

One US-based source who studies security in the Straits of Malacca told the *Report* that there is "no hope of Indonesia signing on to the PSI," adding that