Indonesia's dangerous gamble with defactualization of public life

Insight

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Every economy runs on a currency, and Indonesia these days runs on two. One is the rupiah, which spent early 2026 sliding toward 18,000 to the United States dollar even as the economy expanded at a healthy clip above 5.5 percent. The other is discretion: the power to grant a coal quota, waive a tax audit, seize a plantation or quietly reclassify a corruption suspect as a "witness". The second currency is thriving. The first, as markets have keenly noticed, is paying for it.

Hannah Arendt had a term for this phenomenon. In "Lying in Politics", her 1971 essay on the *Pentagon Papers*, she described what occurs when a government stops answering to facts and begins answering strictly to its own narrative model. She called it the defactualization of public life.

The modern political lie, she argued, is not merely the hiding of a secret; it is the deliberate manufacture of a substitute reality, run by problem-solvers so enamored with their models that stubborn facts become mere nuisances to be managed. Her villains were not cynics—they were believers, Robert McNamara's "clever men", who deceived themselves long before they set about deceiving the public.

Consider the scenario currently playing out in Jakarta. In this version of reality, Indonesia grows at 8 percent, food security flourishes from a million-hectare estate in Papua and patriotic capital flows precisely where the palace points. The leading man is Andi Syamsuddin Arsyad—better known as Haji Isam—a coal magnate from Kalimantan who, as Bloomberg reported, funneled several hundred million dollars into President Prabowo Subianto's 2024 campaign.

You will not find that figure in any public filing. Indonesian election law conveniently keeps donor identities confidential; thus, the single most consequential fact about the presidency—who financed it—is not technically a fact at all.

Haji Isam's rewards have been remarkably generous: a vast national food estate to oversee, a requested coal quota nearly double that of the previous year, a license to operate the country's second cryptocurrency exchange (the first was awarded to the President's brother) and the second-highest civilian honor in the land.

Indonesia's established, largely ethnic-Chinese conglomerates are enduring a markedly different year. They face aggressive land seizures, back-tax demands and "warm invitations" to purchase Patriot bonds at below-market yields—an instrument that is neither particularly patriotic nor truly a bond, but rather functions like a tithe with a coupon attached.

Call it management by scenario. The underlying problem is that financial markets do not attend palace dinners and feel no obligation to applaud. Arendt's single consolation was that factual truth remains inherently stubborn: You can bury it, but you cannot abolish it. In economics, those stubborn facts are called prices, and the prices have begun to speak loudly.

Net foreign direct investment fell 26 percent year-on-year in early 2026. Foreign investors dumped roughly Rp 26 trillion (US$1.5 billion) in equities and another Rp 25 trillion in government bonds in the first quarter alone.

Meanwhile, Transparency International's *Corruption Perceptions Index* score for Indonesia dropped from 37 to 34, sinking the country from 99th place to 109th—behind both Vietnam and Timor-Leste.

The government's response to this crisis of confidence? Forcing resource exporters to park 100 percent of their earnings in state banks for a full year. When trust leaves the room, coercion is asked to cover the shift. Arendt foresaw this exact spiral half a century ago: A defactualized regime inevitably resorts to forcing what it can no longer persuade.

The most Arendtian figure of all, however, is a gap. The corruption index collapsed during the very same period the President's domestic approval rating hovered near 79 percent. At home, the scenario holds. Abroad, it is marked to market every single morning.

"A defactualised regime always ends up forcing what it can no longer persuade."

This dynamic extends directly into the legal sphere, where the narrative has required exceptional creative accounting. In July, police seized 74 kilograms of gold and hundreds of billions of rupiah from a residence linked to Febrie Adriansyah, former assistant attorney-general for special crimes—a stubborn fact if ever one glittered. What followed was less an investigation than a theatrical staging of Arendt's essay with Indonesian subtitles. At midnight, the case was handed back to the suspect's own institution, where his status was promptly reborn as a "witness", albeit only for a few hours. A lawyer was arrested with maximum fanfare to serve as the scapegoat, after which the police chief and the attorney-general hugged for the cameras.

A day after the gold was discovered, prosecutors abruptly halted their probe into systemic graft within the state's free nutritious meal program—a case that already involved seven suspects, including active officers. It is worth noting where loyal capital is routinely invited to invest: the selfsame state programs.

The cycle is complete: tycoons finance the presidency, state programs absorb the capital, those programs leak and investigating the leak requires auditing the ruling coalition itself. The probe was never meant to reach a conclusion; it was engineered to evaporate—procedurally flawed to the point where a pre-trial judge could invalidate the entire proceeding under the guise of legal process.

Arendt's most harrowing insight was not that people ultimately believe the lies, but that organized deception eventually produces a citizenry that believes in nothing at all. A public that believes in nothing does not quietly submit—it turns feral. Mahfud MD, a former senior minister, has already warned of vigilante justice once formal law loses its legitimacy. The markets simply arrived at that conclusion first. A record-low currency in a growing economy is nothing less than cynicism translated into a ticker symbol.

The remedy is unglamorous, and Arendt stated it clearly: institutions that operate outside the direct orbit of power and remain answerable to facts. An antigraft commission with genuine jurisdiction; campaign donors whose names are public record; journalists who can document land grabs without fear of detention. Indonesia already possesses this machinery. What is lacking is a political scenario in which switching it back on is deemed advantageous.

Arendt concluded her 1971 essay by observing that reality has a persistent way of prevailing over even the most expertly managed image. Written over 50 years ago regarding Vietnam, her words describe Jakarta in 2026 with uncomfortable precision. The declining rupiah is simply reality filing its dissent ahead of schedule.

Wave of grafts tests regional retreat program

Maretha Uli

The Jakarta Post/Jakarta

A string of corruption cases involving regional heads this year has renewed questions over whether the government's leadership retreat for local readers has done enough to instill integrity, after another active regent was named a graft suspect this week.

The Corruption Eradication Commission (KPK) on Tuesday named West Lombok Regent Lalu Ahmad Zaini of West Nusa Tenggara a suspect in an alleged bribery case linked to a clean water management project.

His arrest makes Lalu the 11th sitting regional head implicated in corruption cases so far this year, all of them regents or mayors elected in the 2024 regional elections. The figure adds to five regional heads arrested last year, including one governor and four regents.

Acting KPK deputy for investigation Achmad Taufik Husein said in Tuesday's briefing that Lalu's arrest should serve as a warning to public officials against "gnawing at the region's wealth".

Meanwhile, KPK spokesperson Budi Prasetyo said recurring cases suggested many regional leaders had yet to uphold the integrity expected of public officials.

"We consistently urge regional heads and local government officials to make integrity the foundation of their work, so governance remains transparent, accountable and free from conflicts of interest," he said.

The latest case has also prompted fresh scrutiny of the Home Ministry's leadership retreat, a program aimed at strengthening governance and integrity among regional leaders.

Antara/Indrianto Eko Suwarso

Under investigation: West Lombok Regent Lalu Ahmad Zaini (*center*) walks toward a detention vehicle after undergoing a questioning on Tuesday at the Corruption Eradication Commission (KPK) headquarters in Jakarta.

Responding to Lalu's arrest, Home Minister Tito Karnavian acknowledged the setback, noting that the implicated officials had already undergone orientation and ethics training.

"These regional heads have attended the retreat and orientation," Tito was quoted by *kompas.com* as saying on Tuesday.

"We've also introduced a more transparent financial system, provided guidance and they have even met with the President, yet [corruption cases] still occur."

Still, the minister maintained that corruption ultimately comes down to personal integrity, urging regional heads to be responsible and refrain from abusing authority entrusted to them.

The weeklong retreat, held in Magelang, Central Java, shortly after the inauguration of around 500 regional heads in February, combined military-style discipline with lectures from President Prabowo Subianto, the KPK, the National Police and other state institutions. Tito has repeatedly argued that the program was designed to strengthen integrity, nationalism and accountability among local leaders.

The program, however, drew criticism over its Rp 11 billion (US$676,000) price tag at a time when the government was enforcing sweeping budget cuts across ministries, state agencies and regional administrations.

For Indonesia Corruption Watch (ICW), the growing number of graft cases involving regional leaders raises serious questions about whether the retreat program has delivered on its stated objective.

ICW advocacy head Egi Primayogha said corruption could not be addressed through "quick-fix" programs but instead required sustained preventive measures and institutional reforms.

"There should be improvement in political party recruitment, stronger safeguards against conflict of interest and efforts to reduce the high cost of elections," he said.

University of Indonesia political analyst Aditya Perdana echoed the view, arguing that a short leadership retreat was unlikely to deter corruption without broader reforms to Indonesia's political and legal systems.

He also pointed to the country's weak deterrence effect, noting that some corruption convicts had reoffended after serving prison sentences.

Instead, Aditya said, the more realistic long-term solution was to strengthen public political awareness so voters could make more informed choices and reject candidates with questionable integrity.

"I hope what changes is the public, the voters. They should remember that they don't have to vote for candidates with a poor track record," he said, stressing that the electorate ultimately determines who holds public office.

He added that the KPK could support those efforts by encouraging stronger social sanctions against public officials implicated in corruption.

BI holds rate but banks on other way to help rupiah

Rate held at 5.75%, US Fed rate hike expected in Q4

Deni Ghifari

The Jakarta Post/Jakarta

Bank Indonesia (BI) has kept the benchmark interest rate unchanged while resorting to an alternative strategy to buttress the rupiah through foreign capital inflows.

Following the central bank's monthly two-day policy meeting, BI Governor Perry Warjiyo announced in a press conference on Wednesday that the BI Rate was kept at 5.75 percent, where it has been since the last rate decision.

The central bank "believes that the rupiah exchange rate will stabilize and tend to strengthen" moving forward, he said.

The decision marks the end of a hiking streak that began with a 50 basis point (bps) increase in May and was followed by two more hikes of 25 bps each in June.

The monetary tightening was aimed at halting a slide of the rupiah that accelerated since the Iran war began in late February and sent the currency to new all-time lows in the following months.

The rapid weakening only stopped when BI announced a 25 bps rate hike on June 8, outside of its monthly schedule, which was followed by another hike at the board meeting the following week.

The rupiah has been moving between the high end of 17,800 per US dollar and topped out at 18,100 late last month. It flatlined around 17,900 per dollar on Wednesday, still far weaker than the 16,500 level assumed in the state budget as the average for this year.

With the recent rupiah movement in mind, Perry said BI had two options in the meeting: increase or hold the rate.

The central bank opted for holding, but Perry noted that decision came with another strategy to strengthen the rupiah, which he said was "more efficient" than another 25 bps hike in attracting capital inflows.

Perry said the plan was to "increase and expand" incentives for hedging in rupiah-dollar transactions involving BI Rupiah Securities (SRBI), the central bank's short-term debt instruments issued in three-month, six-month and 12-month tenors.

Hedging is a risk management strategy used to limit potential losses that acts like an insurance policy, whereby an investor takes an opposing position against related assets to offset unfavorable price movements.

Investors can use hedging to reduce exchange rate risks that may otherwise deter them from investing in rupiah-denominated assets.

The incentive for transactions in the swap market, where hedging instruments are bought, was increased from 10 percent to 12.5 percent, and BI also introduced a new one in the domestic nondeliverable forward market, set at 15 percent.

There is a cost investors have to pay to BI for hedging, and these incentives act as a "sort of discount" on that cost, BCA chief economist David Sumual explained to *The Jakarta Post* on Wednesday.

The hedging instruments generated revenue for the central bank, and introducing the incentives meant BI would receive less income from that source, explained David.

Whether or not the plan would succeed in attracting more inflows, however, would depend also on the overall Indonesian economy and hence investment prospects, said the economist.

"For them, all they do is compare the returns. They will compare [returns from Indonesian assets] with other instruments, such as those from Latin America [or from other] emerging markets," said David.

Permata Bank chief economist Josua Pardede wrote in an analysis on Wednesday that Perry's address signaled that the monetary authority deemed the 100 bps hike sufficient to safeguard rupiah stability "for now".

He noted that the exchange rate going forward would be subject to "global and domestic conditions", given the intensifying pressures from the escalation in the Iran war, which had pushed crude prices back up.

Josua noted that domestic conditions had improved recently thanks to the latest assessment from S&P Global, which affirmed Indonesia's credit rating last week, and the state's "relatively prudent" fiscal position with a budget deficit that "remains well under control".

However, he noted that the fiscal position might change due to fluctuating global oil prices and the rupiah exchange rate. Josua predicted that BI would keep the rate unchanged for the remainder of the year but did not "rule out" further tightening.

BI's projection foresees the United States Federal Reserve hiking its federal funds rate in the fourth quarter, "earlier" than initially anticipated, said Perry.

Hormuz, Malacca, other key straits spawn tensions through history

Isabel Malsang

Agence France-Presse/Paris

Hormuz and a handful of maritime straits around the world have served as the linchpin of global trade since the 16th century and fueled geopolitical rivalries throughout history.

As Iran tightens its grip on the Strait of Hormuz, its Yemeni allies, the Houthi rebels, want to disrupt shipping in the Red Sea to and from Saudi ports and could possibly disturb traffic in another strait, Bab el-Mandeb, which ships must cross to reach the Suez Canal, experts say.

These two passages, which lock access to the Gulf and to the Red Sea, are among the dozen or so straits considered vital to international trade. Oil and gas tankers, bulk carriers and container ships loaded with raw materials and goods pass through these narrow, natural corridors.

The United Nations Convention on the Law of the Sea (UNCLOS), a kind of constitution for the oceans signed in Montego Bay on Dec. 10, 1982, "formalizes the fact that a strait is a natural feature that must not be subject to tolls" and where "the principle of free navigation" was guaranteed, Sylvain Domergue, a lecturer at Sciences Po Bordeaux and author of *Geopolitics of Maritime Spaces*, told AFP.

Reuters/Stringer/File Photo

Unrestricted sailing: A flock of birds flies near a vessel on Monday at the Strait of Hormuz, off Musandam, Oman.

By contrast, canals such as the Panama or Suez, which are man-made waterways, may be subject to tolls levied by the states that control them.

In Hormuz, Iran, which "has not ratified the Montego Bay Convention, had until now respected it under customary law", Domergue said.

Portugal, whose navigators were the first to open the sea route to the Indies, tried as early as 1507 to establish control over Hormuz to secure a monopoly on access to spices and the riches of the Orient, he said.

'Sea belongs to none'

But after a famous controversy, the "Mare Liberum" (Free Sea) thesis of Dutch jurist and philosopher Hugo Grotius prevailed in the early 17th century. Straits were then seen as essential to long-distance international trade because "the sea belongs to no one".

"To guarantee freedom of navigation, one had to start by guaranteeing freedom of passage through the straits," Domergue said.

The Netherlands adopted this doctrine and defended freedom of the seas, followed by Britain and later the United States, which to this day respected "almost all of the Montego Bay Convention" despite not having ratified it either, he said.

Yet the principle of free navigation "did not prevent the British from guiding their colonization, in part, according to the geography of straits", Domergue said.

Britain's key military footholds were established along strategic waterways. Its great colonial naval base in Asia was in Singapore and allowed control of the Malacca Strait, through which the largest share of global maritime traffic from China now passes.

London would also establish bases on the island of Socotra, near Bab el-Mandeb and the entrance to the Red Sea.

In Europe, the Danish straits Oresund and Kattegat, which close off the Baltic, "were of great importance in the 19th century because they enabled the Danes, for a very long time, to collect a toll" and were strategic because they "block access to the Atlantic for the Baltic powers, particularly the Russians", the geographer said.