

INDONESIA OUTLOOK

By Daniel Patton and Mabel Sim

Indonesia's 2014 presidential election, won by Joko Widodo, popularly known as Jokowi, is a strong sign of the country's maturing democracy. The implications of a Jokowi presidency for Indonesia's investment climate, however, are more complex. Indonesia's long-term goal of moving its economy up the value chain and skepticism towards foreign investment have led to restrictions on such investments and protectionist measures. This trend is unlikely to change, but it will be balanced by Jokowi's pragmatic and pro-business approach—particularly his understanding of the importance of transparency and government clarity.

- ▶ The most dramatic recent instance of Indonesia rattling foreign investors was its aim to increase the value of its mineral exports through a ban on unprocessed ore exports, which went into effect in January 2014. Recently, the government and two prominent miners, US-based Freeport and Newmont, have compromised and reached agreements. Freeport, which had much more at stake than Newmont, settled differences with the government in July. Newmont on the other hand, initially filed for arbitration but withdrew its claim in late August. The government agreed to substantially cut the concentrate export tax for both companies in exchange for higher royalties and a down-payment for a smelter. Jokowi also has indicated that the government needs to be more cooperative in this area.
- ▶ The restrictions on foreign investment outlined in the government's "negative investment list" earlier this year reflect a protectionist trend. However, the country's need for foreign investment is apparent. In particular, Jokowi has identified priority sectors, such as manufacturing and infrastructure, for Indonesia to attract foreign investment.

A primary positive impact on the business environment will be Jokowi's focus on streamlining bureaucracy and increasing transparency. His ideology in these two areas is born from his experience as an exporter who has dealt with Indonesia's cumbersome bureaucracy as well as his humble background outside the political elite. Further, he has developed a successful record of putting this ideology into practice as both governor of Jakarta and mayor of Solo, and he has proven himself to take a hard stance on corruption. And, while Jokowi may face opposition from certain parties when he assumes office next month, he could just as likely gain their support.

- ▶ Jokowi has announced that an initial area of focus will be improving basic infrastructure, which he will aid in part by accelerating permit processing that has slowed many projects. His Jakarta deputy, Basuki Tjahaja Purnama, who will take over as governor when Jokowi assumes the presidency, has a similar reputation for streamlining bureaucracy. Both Jokowi and his deputy won plaudits for making progress on Jakarta's long-delayed rapid transit project.
- ▶ Jokowi also plans to introduce electronic platforms for several national government services to reduce bureaucratic inefficiencies and improve transparency. As governor of Jakarta he rolled out

government-procurement and tax-collection online platforms. He also requested that the Corruption Eradication Commission (KPK) monitor Jakarta's 2014 budget.

- ▶ The KPK shows no signs of slowing its pursuit of corrupt officials, and Jokowi aims to further crack down on corruption through organizations over which he has more direct control, such as the Attorney General's Office and the police. There are indications that Jokowi will seek reform-minded leaders for those organizations, which may result in even more graft investigations.
- ▶ The Indonesian opposition coalition comprises a majority in the parliament, creating the potential for Jokowi's opponent in the presidential election, Prabowo Subianto, to undermine the new administration and limit Jokowi's maneuverability. However, the cohesion of the coalition is questionable and its support may move toward Jokowi.

ABOUT THE AUTHORS

Daniel Patton leads Veracity's Asia practice and manages the firm's Singapore office. A founding Veracity team member, he has advised clients on tender processes, political developments, and due-diligence programs, and has extensive in-country experience in Myanmar and Indonesia. He focuses on the energy, mining, and telecommunications sectors. Daniel previously worked for a leading business-intelligence firm based in New York and London, and served as an economic analyst focused on the valuation of business risk. Daniel holds a BA in politics with a minor in economics from New York University and speaks French and Bahasa Indonesia.

Mabel Sim oversees a wide range of due-diligence projects and researches political issues in Asia as they relate to myriad sectors, including financial services, real estate, and telecommunications. She joined Veracity after working in Lufthansa's International Airline Professional Program, where she conducted market research across several regions globally. Mabel holds a BSocSc degree in political science and law from Singapore Management University and speaks Mandarin and German.