

ARGO ASSOCIATES

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Indonesia – what will next year's elections mean for business?

A country divided; social media campaigns and fake news; the threat of protectionism and nationalism; democracy under pressure – sounds familiar? The forthcoming Indonesian elections seem to share some of the negative aspects of recent elections in democracies around the world. But here, when the crowd cries for politicians to be locked up it is more likely to happen, as can be seen by the imprisonment for two years on blasphemy charges of Jakarta's Christian governor Basuki Tjahaja Purnama (colloquially known as Ahok) in May last year, following a series of protests that drew hundreds of thousands on to the streets of the capital Jakarta. At first sight many of the dividing lines in Indonesian politics seem to be between a more liberal and progressive vision of the country and those who wish to impose an increasingly conservative version of Islam. Yet this is to overlook the complexities of politics on the ground, in which Islam is often used as a weapon to gain political advantage. What may ultimately be more relevant to foreign investors in Indonesia is the degree to which protectionism and politicisation of Islam prevents them from competing on a level playing-field, the continuing problems with the legal system, and the longstanding challenge of dealing with entrenched corruption.

Jokowi's response to a changing climate

Ahok – the Jakarta governor who was convicted of blasphemy – is a close ally of the president Joko Widodo (colloquially referred to as Jokowi) and had been his deputy when Jokowi was himself governor of Jakarta (2012-14). Jokowi's close relationship with Ahok, his moderate opinions and – most importantly – the success of his political opponents in capitalising on the growing dissatisfaction of the low-income, largely Muslim, sections of the population, have left Jokowi vulnerable to criticism that he has not paid enough attention to the needs of the Muslim majority and that his political programme has been insufficiently Islamic. Jokowi was therefore compelled to counter those allegations and to boost his Islamic credentials by appointing a prominent Islamic cleric as his running-mate, Ma'ruf Amin (who, ironically, played a key role in the movement that brought down Ahok). This seems tactically astute, although it may be strategically risky as it shows Jokowi allowing his opponents to define the terms of the debate.

Some critics are worried that in the likely event that Jokowi and his vice-presidential candidate Ma'ruf win the forthcoming elections in April his second-term administration would be more conservative and less tolerant. Ma'ruf, however, is an older man (he is now seventy-five) and has little experience of areas such as his economic policy, foreign affairs, and defense. His own agenda seems to revolve around a "middle way" of Islam that is defined as being conservative but not fundamentalist. Of most relevance to foreign investors, he will likely focus on Islamic-related issues such as increasing regulation of halal certification – for example, he recently spoke at an event in which he stated that halal products were not limited to food and beverage products, but that Indonesia should implement the halal concept in areas such as fashion, style, culinary, education, and finance. For foreign companies, this may mean a tightening regulatory climate for certain products and services, but it is unlikely to be overly onerous. Nonetheless, the food and beverage, pharmaceutical and cosmetic sectors will be most vulnerable to such regulatory and operational risks.

Jokowi's main opponent, Prabowo Subianto, a former special forces general and the son-in-law of the former dictator Suharto, is running against him for a second time, having been defeated in the 2014 election. Although Prabowo has been adept at using the Islamic vote against his opponents, his own family was in fact protestant Christian. More to the point, the role of religion in the run-up to the next election is gradually becoming less important. The economy will likely dominate the election, with Prabowo expected to focus on undermining Jokowi's infrastructure development and accusing him of "economic

mismanagement” (as he has been in recent weeks), particularly because Jokowi has not achieved the growth of 7% per year he promised in 2014; the current GDP growth continues to stay around 5%.

Economic nationalism and the anti-Chinese vote

Ahok was imprisoned on blasphemy charges but it is relevant that he was not just a Christian but also ethnically Chinese, making him politically doubly vulnerable given anti-Chinese sentiment. A key part of Prabowo’s programme is focused around economic nationalism, which remains popular in Indonesia. Mirroring the criticism and subsequent cancellation of various Chinese “belt and road” projects in Malaysia after Mahathir Mohamad won the country’s May 2018 General Election, Prabowo has sought to emulate Mahathir and has suggested that Indonesia could become:

...a nation of errand boys, slaves, a weak nation and a nation that can be bought and a nation that can be bribed.

An attack on foreign investment could reveal another vulnerability of Jokowi, one linked to his greatest success as president – infrastructure. Jakarta’s new mass rapid transit (MRT) rail system is due to start operating in March next year, just one month ahead of the presidential and legislative elections. Anyone visiting Jakarta will be fully aware of the necessity of this long-delayed transportation service, given the gridlocked traffic in the world’s most congested city. Jokowi’s infrastructure plan does not come without controversies, however; several key – particularly Chinese-led – projects have relied heavily on significant Chinese labour and imported materials, opening him up to attacks based on anti-Chinese sentiment. In addition, he has been widely criticised for failing to curb the numbers of Chinese workers (legal and illegal) within the country. Although the actual numbers are likely to be widely exaggerated for political mileage, the impression rather than reality is what counts in Indonesian politics (and elsewhere in the world as the last few years have shown).

Jokowi himself has not been free from playing the nationalist and populist card in his treatment of foreign investments to boost his electoral prospects, whether in pushing state-owned oil company Pertamina to take greater ownership in domestic oil and gas blocks from foreign companies operating for decades in Indonesia or by taking a tough stance on Freeport McMoRan’s closely-watched divestment of its 51% majority stake in Papua province’s Grasberg mine (the world’s largest operating gold mine). Nonetheless, a campaign focused on economic nationalism is likely to lead to the two main candidates competing to raise the pressure on foreign investors in Indonesia. It could also inflame tensions within the country, where ethnically Chinese business families – who are perceived of as doing business and profiting at the expense of the largely poor Muslim majority – have often been targeted for abuse and even violence. It could even spill over into other South-East Asian countries given that prejudice against Chinese communities across the region remains common.

Corruption remains a problem

It will surprise no one that corruption remains pervasive and entrenched in Indonesia. Recently, a leading investigator at the Anti-Corruption Commission (KPK), Novel Baswedan, who was partially blinded in an acid attack two years ago, lamented that “nothing has happened to reduce corruption” during the period of Jokowi’s presidency. Jokowi himself is regarded as clean and has made considerable efforts to reduce red-tape and corruption for businesses. However, August saw the first member of his cabinet indicted for corruption. The Social Affairs Minister, Idrus Marham, was linked to corruption relating to a Sumatran

power station PLTU Riau-1 (the environment is another area on which Jokowi faces criticism, albeit it does not seem to be a particularly important electoral issue). Jokowi's opponents have been unable to politicise Idrus's arrest and use it to attack Jokowi (especially as Jokowi himself has not been directly implicated in any such scandal). Nonetheless, corruption remains a key challenge for all foreign investors looking to operate in Indonesia.

Judicial System

The sentence imposed upon Ahok, the former governor of Jakarta, re-ignited long-running concerns about the Indonesian judicial system. Corrupt judges and the lack of an independent judiciary, especially when political and national interests are involved (such as Ahok's blasphemy conviction) has led to a widespread distrust of the system among foreign investors and companies (and a boom in arbitration cases regarding Indonesian matters in neighbouring Singapore). This public distrust of the local judiciary could also become an issue in the unlikely event that the presidential election is once again closely contested between Jokowi and Prabowo (as was the case in 2014) and the outcome were to be determined by the Constitutional Court, which has been unable to restore its reputation since its chief Akil Mochtar was in 2014 convicted in a high-profile corruption scandal. During Jokowi's first term in office, judicial reform has not really been on the agenda and it is unlikely to be a key part of his second term (should the polls be correct in predicting his re-election).

At the time of writing, Jokowi's re-election still remains the most likely outcome, but much can change between now and the April elections. In addition, even if Jokowi wins a second term it is possible that the election campaign may itself be bitterly divisive and also produce a series of discriminatory policy pronouncements against foreign investors and businesses. Nonetheless, many of these issues will be relatively familiar to those who have already operated in the country and predictions that the election will be dominated by religion and a growing intolerance of minorities are likely to prove unfounded.

About Argo Associates

We seek to provide our clients with the information and intelligence that will allow them to navigate acquisitions, investments, disputes, or frauds in a clear-sighted and rational way, minimizing risk and maximizing opportunities.

Information gathered may clarify the profile and background of key business people and managers; it could illuminate the operations of a company or demonstrate a history of fraud or mismanagement; or it could help our clients to assess the political situation in a given jurisdiction and how it may affect their investments or business operations.

Headquartered in Hong Kong, Argo Associates assists clients across Asia and – through international partners – globally.

Intelligence Gathering

“Intelligence” is central to making sense of the world and to decision-making. Argo Associates has developed a network of well-placed human sources across Asia and – through our partners outside Asia – globally. This network provides insights beyond what is available publicly – into leadership, operations, strategy, corruption, red flags, political connections and so on - and is supplemented by extensive research and analysis of publicly available sources – corporate filings, litigation filings, regulatory communications, media articles, social media postings and so on. In a world in which information is increasingly commoditized, high-level intelligence and analysis provides the insights that give our clients an edge over their competitors.

Fraud, Corruption and Disputes

Our intelligence-gathering techniques and in-depth research and analysis have also helped our clients uncover frauds within their operations or in those of a portfolio company or recent acquisition. Our professionals have provided numerous reports for arbitration or legal proceedings to recover the proceeds of fraud. We have also assisted clients in tracing assets globally when bringing a high-value claim against a company or individual. In high-profile disputes we have assisted top law firms in gathering information, evidence and intelligence in support of their clients’ cases.

Political Risk

Our political risk work has developed naturally out of our intelligence and investigative capabilities. We see political risk as an important part of the evaluation of many investments, mergers and acquisitions, as well as a key element of commercial disputes in many markets. We have helped our clients look at political risk in a new way, not just in terms of the broad outline of potential political developments in various countries, but with a focus on the impact on their businesses. For example, will growing frictions between two countries lead to tariffs that could impact the specific sector in which a portfolio company operates? Or, how will rising protectionism in a country alter the possibility of a fair result in an ongoing commercial dispute? Frequently, politics is local as much as national and we understand the importance of drilling beneath the widely-circulated opinions to a real understanding of what is happening.



Jason Wright, Managing Director of Argo Associates

Prior to founding Argo, Jason was a Managing Director in Hong Kong for Kroll. Before moving to Asia in 2011 he worked for Kroll in Italy for five years and then briefly in London.

In addition to assisting clients on numerous transactions, investigations and disputes in Asia and Europe, - particularly private equity funds, banks, hedge funds and special situations investors - Jason has also specialized in the analysis of political risk, whether that has involved examining the role of local politicians, regulators and other stakeholders, or broader geopolitical concerns.

Although he has managed projects across the whole Asia-Pacific region he has been particularly focused on China, Korea, and Southeast Asia, especially Indonesia, Vietnam, Malaysia and Thailand.

Jason is a scholar of St. Catherine's College, Oxford, having been awarded a Master of Arts (Oxon) in English Language and Literature, as well as a Master in State Management and Humanitarian Studies from La Sapienza University in Rome, Italy.

Lina Gautama, Director

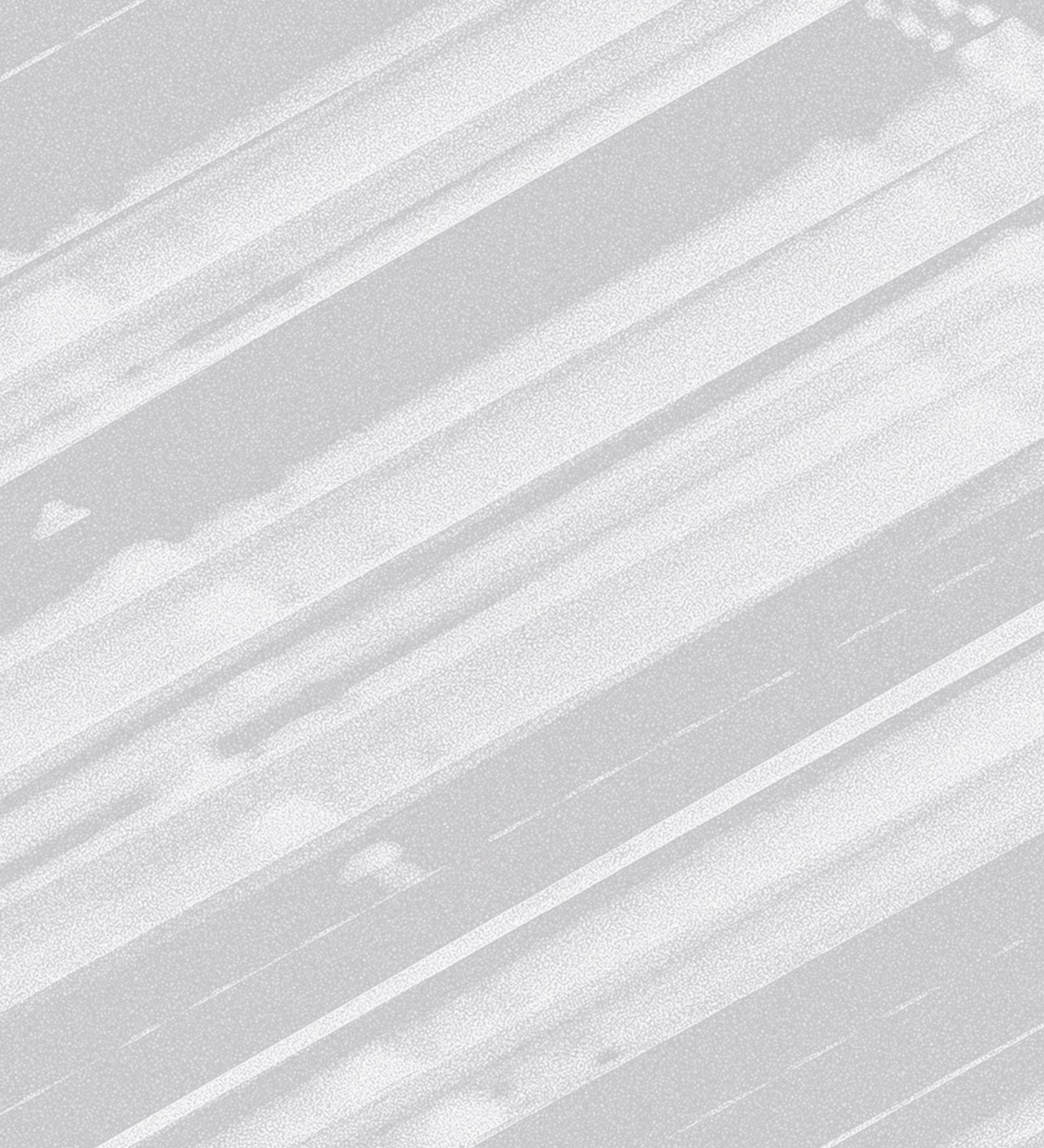
Lina Gautama is a South-East Asia expert, focusing particularly on Indonesia, Malaysia and Thailand. An Indonesian national, she has advised clients on political, commercial and integrity risks across the region.

As well as handling complex investigations in sectors such as mining, oil and gas, and the automotive industry, Lina has also delivered anti-bribery and anti-corruption assessments for foreign investors and overseen pre-transaction investigative due diligence projects across the region.

Prior to joining Argo Associates, Lina worked with Control Risks, Keppel and ConocoPhillips. She holds a bachelor's degree in Business from Singapore Management University. Lina is fluent in Bahasa Indonesia, Bahasa Melayu and Mandarin, and speaks some French, Spanish and Thai.



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