

ARTICLE NO.

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ELECTION SPECIAL

# And now the real work begins

## What to expect after Indonesia's presidential elections

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While the final “mop-up” of Indonesia's post-election contestation unfolds, the presidential election has been won by Joko Widodo (Jokowi) and his vice-presidential partner Jusuf Kalla (former VP in the first Yudhoyono presidency from 2004 to 2009). The scale of victory for Jokowi, 53% versus the 47% obtained by his competitors Prabowo Subianto and his vice-presidential running mate Hatta Rajasa, was by far the closest in Indonesia's history. Now the country, and the oil and gas industry, await Jokowi's early actions as president and their impacts on Indonesia's economy and energy industry.



## The new president

What kind of president will Jokowi make? A unique one on many levels. Unlike all former presidents of Indonesia, Jokowi does not originate from any of the traditional elites, be that from an aristocratic, wealthy corporate or military background.

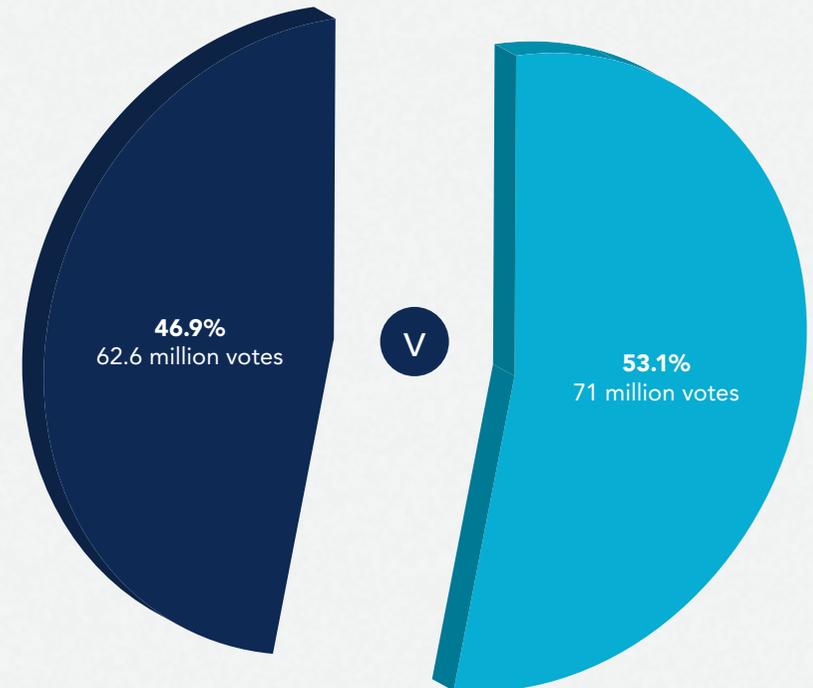
Arguably more important is that he is the first national-level leader to emerge since Indonesia's transition to presidential democracy at the turn of the century. His political experiences are therefore very different to those of his predecessors, all of whom believed they needed a "majority" on the floor of the Parliament to be effective. Given Indonesia's natural political pluralism, this has translated into multi-party presidential cabinets that traditionally deliver little coherence and no guarantee of parliamentary support when needed. As governor, Jokowi led the Region of Jakarta with only 20% party support in the Provincial Council but managed to make

progress on critical issues in less than two years where even former strongman President Soeharto failed to effect change. While Jokowi's Jakarta-insider detractors may denigrate his lack of familiarity with national politics, I believe they are severely underestimating him. He has shown himself to be an effective mobiliser of political capital, adept at making an often lethargic and risk-adverse bureaucracy move forward.

Jokowi will be supported by his vice-presidential partner, a man already seen as a successful and can-do former vice president and the relationship between them will be an important dynamic during the next five years. Jokowi's leadership model as mayor and governor has been to enjoy close, effective and mutually supportive relationships with his deputies, engendering loyalty and support for him and his programs.

Presidential election results declaration by KPU

Jokowi scored 53.1%  
**71.0m**  
of the popular votes



Prabowo Subianto's 46.9%  
**62.6m**  
of the popular votes

“Many members of both parties appear happy to align with the new president, but replacing their party leaders looks set to be a messy affair.”

## The next steps

The new president will be inaugurated around 20th October with a new Cabinet announced within the following week. As the inauguration approaches, Jokowi will focus on putting together a parliamentary support coalition, developing a “kitchen cabinet” to prepare for the transition, and identifying possible Cabinet ministers. Among the usually annoying distractions at the time of the inauguration of a new president is the clamour for instant results. No president since President Soeharto has managed to disregard this pressure so we should expect the incoming government to submit to demands for a 100 day program of initiatives.

At this stage critical components of the incoming coalition include Jokowi’s party PDIP, still led by former President Megawati, the National Democratic Party (a new party led by former Golkar heavyweight Surya Paloh) and the National Awakening Party founded by former President Wahid and now led by the current Minister of Manpower, Muhaimin Iskandar. Developments in parties that did not support Jokowi’s campaign will also be important.

Particular attention should be focused on the Golkar Party, currently led by big businessman, Aburizal Bakrie. His humiliating failure to launch his own presidential (or even vice-presidential)

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candidacy, his party’s loss of 15 seats in the April legislative elections and his failure to align Golkar with the winning presidential candidate will not fall easy on this party that has enjoyed a place in every Cabinet since its foundation 50 years ago. The Islamist United Development Party, PPP, will also face great stress as its current leader has been named a suspect in a corruption case. Many members of both parties appear happy to align with the new president, but replacing their party leaders looks set to be a messy affair.

## Early impacts for oil and gas

Based on positive experiences as Jakarta's governor, Jokowi may look to place his stamp on the national bureaucracy early to make clear that a number of comfortable old practices are to be left behind. His firmly declared vision that Indonesia recall its maritime identity indicates an early and sustained focus on improvements in port and sea transport and related infrastructure.

One potential development that has particular relevance to Indonesia's oil and gas industry, and significant impact on the country's economy, is early action to slash fuel subsidies. Incoming Vice President Jusuf Kalla spearheaded the most daring program to redress the fiscal hole created by the fuel subsidies in 2005 when the government literally doubled the price of fuel. To head off the destabilising demonstrations that normally accompany fuel price rises, the government implemented an historic new move with direct cash payments to poor citizens.

The result was, in many respects, a revolution nobody noticed. It was an historic breakthrough in a country where poverty had always been defined collectively. For the first time in history

poor citizens were provided with cash payments for an adjustment period with the country's extensive and trusted post office network providing the backbone for delivery. The roll out of price increases late in the Fasting Month certainly dented public enthusiasm for wild demonstrations while the payments to poor citizens cushioned the impact of fuel cost rises.

**“It was an historic breakthrough in a country where poverty had always been defined collectively.”**

A major increase in fuel prices, even with targeted support for poor citizens, would certainly create space in the tight budget for the new government to look at other medium-term initiatives. Indirect impacts would also see the exchange rate improve (which in itself would be a net positive for the budget) although 1% to 2% would likely be added to inflation during the next year.



## Wider oil and gas prospects

President-elect Jokowi recognises Indonesia's need to prioritise energy self-sufficiency. In addition to addressing fuel pricing, his platform proposes to redress the long-term decline in national oil and gas production. Recognising that national oil production has halved over the past 20 years, Jokowi proposes a number of measures including accelerating the switch from oil to gas in the transport sector, promoting enhanced oil recovery in existing sites and implementing a major overhaul of the existing Oil and Gas Law. To kick-start the process he proposes an emergency government regulation in lieu of a law to redress some of the weaknesses in the existing legal regime that have created legal uncertainty.

While these moves look promising, a number of issues could unhinge efforts. Even an emergency government regulation requires initial in-principle acceptance from the Speakership of the Parliament and must then be endorsed by the Parliament as normal legislation by the end of the existing session. Failure to do so means the emergency regulation is deemed rejected and is abandoned in favour of the previous legislation. While this is rare, it is not impossible, and

may be used by a parliament seeking to impose its authority on a new president. Questions over the security of the passage of legislative changes will add to the legal uncertainty in the sector, certainly in the short term.

**“Even an emergency government regulation requires initial in-principle acceptance from the Speakership of the Parliament.”**

The role of foreign capital in the oil and gas sector is another issue. The recent rise of natural resource nationalism, while most aggressively felt in the mining sector, has also impacted the oil and gas sector. The president-elect has issued statements reflecting a view that foreign capital and expertise will help Indonesia boost its production. The countervailing view from those more closely aligned with his political opponents, suggests that Jokowi may need to expend some political capital to push back against these nationalist sentiments.

## Where policy making discretion is criminalised

One further dynamic for the president-elect to face is his call for more “calibration” of the risks between reward and investment by private and state investments. This includes a call to update the fiscal payments and royalties system to take into account issues such as the realities of each oil field, net present value, internal rates of return, payback period, profitability ratio as well as geological factors.

Complicating the effective implementation of these very progressive breakthroughs relates, ironically, to another key and positive development in Indonesia over the past few years – the fight against corruption. In practical terms, the proposal to provide flexibility in determining conditions for revenue extraction from different production sites would fill almost all rational Indonesian policy makers these days with dread.

Any decision made using discretion in determining rates of royalties or production cuts, could be argued as a “corrupt” deal even where there was no evidence that either party misappropriated funds or resources for personal benefit. The simple assertion that the “state lost revenue”, arguing the state could have secured more money from the deal, could warrant the launch of a legitimate anti-corruption investigation.

The very broad interpretation of what amounts to corruption in Indonesia, while clearly designed to reduce the “wobble room” for the corrupt, has also made it difficult for honest public servants and political leaders to make use of the policy-making discretion necessary to make good, fast and secure decisions.

## Capital “frenemies”

Given the capital and technology intensity of operations in the oil and gas sector, it is almost impossible to imagine how expansion or transformation of the oil and gas sector can take place in Indonesia without foreign capital. While economic nationalists may dream

the oil and gas sector and other nationalist groups that argue the country can have its cake (expand domestic production) and eat it too (do so without external capital and technology).

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of using state funds to support the sector’s growth, the reality of tight fiscal conditions and the battle for these funds from other sectors limit this. Embracing reality means recognition that boosting national levels of production requires investments of capital and technology that the domestic market simply lacks. This is often easier said than done. Even so, as noted above, the president-elect does enjoy some autonomy from the national commercial vested interests associated with

In many respects, the heaviest cloud over the Indonesian sky for investors is not new laws, adjustments in revenue sharing or the size of the fuel subsidy. Given experiences over the past few years, certainly in the mining sector, the key question facing foreign investors is whether the new president will be setting a welcome mat or a “keep out” sign in front of all these potentially positive Indonesian developments. While recent history might suggest the latter, the president-elect’s reputation as a problem solver may well come to the fore in dealing with a problem like long-term declines in production. I believe there is finally reason for quiet optimism that a welcome mat may unfold within a couple of years.

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An aerial photograph of an oil rig on a paved surface. The rig is red and black, with the text 'S21 LADO TIERRA' and 'SWL SINGLE TWIN' visible. Two workers in red shirts and white hard hats are visible: one is pushing a red traffic cone, and the other is pushing a wooden crate filled with black equipment. The scene is set on a grey asphalt surface with white lane markings.

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