Situation Surrounding the Indonesian Presidential Election

The odds are high that a reformist candidate will be elected and move to improve the country’s investment environment

< Summary >

◆ The next Indonesian presidential election will be held in July 2014. With the stepping down of incumbent Susilo Bambang Yudhoyono, who has spearheaded reform so far, the outcome of the election will be crucial in forecasting the future of the country’s economy.

◆ With the election just over six months away, polls suggest that reformist candidates such as Joko Widodo and Prabowo Subianto stand a good chance of winning.

◆ Assuming a reformist will be elected, we expect to see moves to improve the investment environment toward or in 2015, when the new administration has established itself, such as making government approval processes more transparent, boosting infrastructure improvement and attracting foreign businesses more actively.
1. Introduction

Indonesia's next presidential election is set to take place in July 2014. Incumbent Susilo Bambang Yudhoyono, since he was first elected in 2004, has emphasized economic reform, and his efforts have led to an improved investment environment in the country, resulting in high levels of economic growth driven by investment. (Chart 1)\(^1\) However, the Indonesian Constitution currently forbids a president from serving more than two five-year terms due to its experience with the long dictatorial rule of former president Suharto\(^2\), so Yudhoyono must step down in October 2014 and make way for a new administration. Therefore, in order to predict whether economic reform—the key to future growth—will continue, the outcome of the presidential election and, as a prelude, that of the parliamentary election (described below) will be crucial.

In this report, I would like to look into the current status of the election campaigns and their outlook based on the available information, though the situation is fluid and contains numerous uncertainties.

![Chart 1: Real GDP Growth Rate](image)

(Y-o-y % change)

Source: Statistics Indonesia

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\(^1\) Refer to Shinobu Kikuchi, “Did the Indonesian Investment Environment Improve under the Yudhoyono Administration?” (in Japanese) in the February 14, 2013 issue of Mizuho Insight, Mizuho Research Institute.

\(^2\) Former President Suharto stayed in authoritarian power for over three decades from 1968 till 1998 and propelled the country's industrialization, but resigned under pressure amid mounting political and social unrest in the wake of the Asian financial crisis.
2. Leading Candidates and their Political Stances

I will take a detailed look at each of the candidates that appear high on numerous polls\(^3\) from the perspective of whether they belong to the reformist camp or the conservative side in order of support ratings.

The frontrunner is Joko Widodo (currently the governor of Jakarta) of the Indonesian Democratic Party-Struggle (PDI-P). (Chart 2) The governor has not made his intention clear, but given his overwhelming ratings, and the fact that he commands the highest expectations by the public to become the next president, he is largely seen as the most prominent candidate. Joko Widodo is hardly influenced by such vested interest groups as the military or business conglomerates, and is known to have fought corruption as Jakarta's governor. Given this track record, he is expected to promote transparency in such procedures as granting approval to foreign companies while working to eliminate intervention by vested interests.

The runner-up is Prabowo Subianto, the head of Gerindra Party. He has announced interest in running for president and issued an election manifesto. In it, he stresses his resolve to forge ahead with potentially painful measures such as clamping down on corruption and eliminating ineffectual government spending including various subsidies, and all this gives him a reformist color. Prabowo is also keen on attracting more foreign businesses.

Third in line is Aburizal Bakrie, former chairman of the Bakrie and Brothers business conglomerate and the head of the Golkar Party. He has already formally proclaimed his intention to run in the presidential election. Due to suspicion of his involvement in tax evasion and misuse of public funds while serving in the Yudhoyono government, his ratings are low among urban constituents, but he can expect nationwide organized support of the Golkar Party. Also, he is making use of the Bakrie conglomerate’s broadcasting arm and airing his campaign commercials to boost support.

Fourth is Jusuf Kalla, former vice president. He has a good track record as a businessman and is largely seen as an able, practical-minded person for having proficiently managed negotiations with ethnic minorities while serving as vice president during the first Yudhoyono administration. However, since his Golkar party has already endorsed Bakrie, Jusuf Kalla is moving to approach other parties such as PDI-P.

The fifth candidate, Dahlan Iskan, once spearheaded reform of the State Electricity Company (PLN), and was recognized for the work and picked as minister for

\(^3\) At this point the candidates are not formally decided. A final list of candidates is likely to emerge at some point following the parliamentary election.
state-owned enterprises under the Yudhoyono administration. He can be said to belong to the reformist camp. There is speculation that he will run as a candidate for Yudhoyono’s Democratic Party.

Sixth is former president Megawati Sukarnoputri, who has a record of being criticized for lack of speed in making decisions and taking too weak a stance against the military as president, and does not enjoy widespread public support. She appears to be an advocate of conservative policies such as proposing protectionist trade policies.

### Chart 2: Leading Candidates, their Backgrounds and Political Stances

<table>
<thead>
<tr>
<th>Name</th>
<th>Party</th>
<th>Approval ratings</th>
<th>Background</th>
<th>Stance on the presidential election</th>
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</thead>
</table>
| Joko Widodo          | PDI-P              | 36.1%            | - Businessman who ran a furniture store.  
- Mayor of Surakarta between 2005 and 2012.  
- As a reformist governor of Jakarta since 2012, he has focused on eradicating corruption most markedly by making administrative procedures transparent. | Has so far been non-committal, with statements to the effect that he would like to serve out his term as governor, and that it is up to Megawati who will run as a presidential candidate for PDI-P. |
| Prabowo Subianto      | Gerindra           | 11.4%            | - Commander-in-chief of Army Strategic Reserve Command (Kostrad) under the Suharto government.  
- Self-imposed exile in Jordan from 2002 to 2004 and after that established Gerindra Party.  
- Ran for president in 2009 on a ticket with Megawati in alliance with PDI-P but lost to the ticket of the incumbent Yudhoyono. | Has announced intention to run as a candidate for Gerindra with the following planks:  
- Improvement of infrastructure  
- High-quality medical and educational services  
- Eradication of corruption  
- Attracting more foreign businesses  
- Eliminating ineffectual subsidies. |
| Aburizal Bakrie       | Golkar             | 9.0%             | - Former chairman of a resource and agribusiness conglomerate.  
- Head of Golkar Party.  
- Has served as coordinating minister for economy and in other offices under the Yudhoyono government. | Has announced intention to run representing his party, but has not made his stance on economic policy clear. |
| Jusuf Kalla           | Golkar             | 5.8%             | - Businessman running export-import and other businesses.  
- Served as vice president to Yudhoyono between 2004-2009  
- Ran on a ticket with Wiranto in 2009 but lost to the Yudhoyono ticket. | Has shown interest in running but Golkar has officially endorsed Bakrie. Kalla is working to approach other parties like PDI-P. |
| Dahlan Iskan          | Unknown            | 5.5%             | - Started out as a local newspaper reporter and went on to start a broadcasting company.  
- Director of State Electricity Company (PLN) from 2009 and worked to expand generating capacity.  
- Minister for state-owned enterprises under the Yudhoyono government since 2011. | There is speculation that he will run as a candidate for the Democratic Party. Has shown interest in running but has not made his political stance public. |
| Megawati Sukarnoputri| PDI-P              | 4.4%             | - Daughter of the first president Sukarno. Head of PDI-P.  
- Served as president between 2001 and 2004. She was criticized for her weak stance on the military and Islamic radicals and for lack of speed in making decisions. | Has not publicly stated intent to run. Has advocated protectionist measures such as import substitution policy. |

Notes: 1. Approval rating numbers are averages of the outcomes of several major polls conducted between August and November 2013.

2. The candidates are listed in order of their ratings.

Source: Compiled by Mizuho Research Institute based on various press reports
3. The Structure of the Presidential Election and Major Political Parties

While the reformer Joko enjoys by far the highest approval ratings, not everyone is allowed to run for presidential elections in Indonesia. Based on the country’s presidential election law\(^4\), only a political party or a coalition that garners 20 percent or more of legislative seats or 25 percent or more of the popular vote in the April 2014 parliamentary election is eligible to contest the presidential election\(^5\). Therefore, it will be very important to watch the outcome of the parliamentary election in April 2014.

At this point, PDI-P and Golkar, which command the top and the second approval ratings, are seen to be able to back candidates independently. Other parties such as the Democratic Party and Gerindra will not likely be able to field candidates on their own but will need to form alliances with other leading or minority parties. (Chart 3)

![Chart 3: Approval Ratings of Major Parties](chart3.png)

**Notes:**
1. The bars are coded by color of each party.
2. The ratings are average figures from the major polls between August and November 2013.
3. Source: Compiled by Mizuho Research Institute from various press reports

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\(^4\) Unless new legislation regarding presidential elections is enacted, the 2008 presidential election law will be applied in the 2014 election. As of February 6, 2014, no bill dictating the process of selecting presidential candidates in the next election has been made into law.

\(^5\) Due to the possible occurrence of wasted votes, a party’s share in total votes could exceed that in total parliamentary seats.
4. Outlook of the Presidential Election

Based on the above, I would like to make a prediction about the upcoming presidential election. (Chart 4) If PDI-P chooses to endorse Joko Widodo, he is likely to win by a landslide no matter how other parties make alliances. We believe this is the most likely scenario.

Chart 4: Simulation of the Outcome of the Next Presidential Election

- **PDI-P backs Joko**
  - Yes → Joko will be the next president (Scenario 1)
  - No → Joko runs for another party → Joko will be the next president (Scenario 2)
- **Joko does not run for president**
  - Gerindra teams up with a leading party and backs Prabowo → Prabowo will be the next president (Scenario 3)
  - Gerindra fails to form alliance → Democratic Party teams up with Golkar and backs Bakrie or another candidate → Bakrie or another Democratic Party candidate will be the next president (Scenario 4)

Note: The scenarios boxed with dotted lines are more likely. Source: Created by Mizuho Research Institute

Then, what will likely happen if PDI-P decides to back its party chairman Megawati? As stated, Megawati is the least popular of the six candidates listed above. The move would likely be met with disappointment by voters, and the chances of Megawati's winning the election are low. In this case, as shown in Scenario 2 in Chart 4, Joko could run for a different party, but several experts have said that such a course is unlikely\(^6\). Therefore, a campaign would revolve around Prabowo, making Scenario 3, in which he wins the election with the joint support of the Democratic Party and Golkar or Islamic

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\(^6\) According to “With Joko’s Stock Rising, Few See 2014 Front-Runner Abandoning His Party”, in the September 20, 2013 issue of Jakarta Globe, a researcher at an Indonesian polling firm LSI, Adjie Alfaraby, said that if Joko ran as a presidential candidate for another party, his electability would not be as high as if he was running for his native PDI-P, commenting, “I think Joko is a loyal politician with political ethics. It’s also clear that he is not the type to carry out underhanded political maneuvers.” The article also quotes Lucius Karus of an electoral watchdog: “He (Joko’s) not the kind to jump ship just to gain power.” The article also says, “Joko has insisted that he will stick with the PDI-P, even if it does not give him the ticket next year.”
minority parties most likely.

Based on the above, the most likely outcome is that either Joko or Prabowo, both of whom are reformists, will win the election. Assuming that a reformist becomes the next president, the movement toward economic reform will likely take off in earnest in or toward 2015, when the new administration has firmly established itself. As part of the reform initiative, actions to improve the investment environment would likely be taken. They include making the process of granting government approval transparent, improving infrastructure and strengthening efforts to attract foreign businesses. However, the election is still over five months away, and there is room for major shifts in the circumstances. The outcome of the election is of significant importance to foreign businesses including Japanese companies, and we must keep a close look at the situation surrounding the presidential election.