

# **Indonesia Presidential Election Results 2009: An Analysis**

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## THE RESULTS

Although the General Election Commission's (KPU) official result will not be confirmed until July 27 - 29<sup>1</sup>, quick count results of Indonesia's presidential election are clear: incumbent Susilo Bambang Yudhoyono (SBY) won by a decisive margin over his rivals, former-President Megawati Soekarnoputri and incumbent Vice President Jusuf Kalla. With early KPU results mirroring the quick count figures, President SBY and his running mate, former head of the central bank, Boediono, appear to be well above the required 50 percent threshold needed for a first-round victory.

Candidates	Average Quick Count Result <sup>2</sup>	Running KPU Result <sup>3</sup>
Megawati Prabowo	27.33%	28.57%
SBY - Boediono	60.09%	61.66%
JK - Wiranto	12.58%	9.77%

The result was hardly unexpected due to the strong polling of the former general in the months preceding the election, an accomplishment that is largely attributed to the resilience of the economy during his tenure and his corruption-free image. That he was the only candidate able to select a running mate without recourse to the need to build a coalition also aided his campaign together with a higher threshold requirement for parties to field

candidates. Although the results were not a surprise, they were significant for at least three reasons.

First, SBY and Boediono overcame two pairings that both enjoyed the implicit backing of the country's traditional power brokers. SBY appears to have won in spite of apparent financial and legacy disadvantages by transcending traditional political allegiances. SBY's ability to deliver tangible reform and progress on anti-corruption uprooted these long-embedded interests with formidable effectiveness. These achievements combined with sustained economic growth ensured SBY carried favor among the country's elite while balancing the interests of the middle and lower income groups.

<sup>1</sup> If the results are legally challenged by either of the other two running presidential pairings, the final results will be announced between August 1-12, 2009.

<sup>2</sup> Average of seven quick counts, including: LSI (1), LSI (2), LP3ES, Puskaptis, CIRUS, LRI and MetroTV.

<sup>3</sup> KPU result as of July 17, 2009.

Second, Islamic mass organizations such as Muhammadiyah, Majelis Ulama Indonesia (MUI) and Nahdatul Ulama (NU) failed to mobilize voters to support the JK- Wiranto pairing, who they officially endorsed. Indonesia’s growing economy seems to have whetted voters’ appetite for continuing economic gains causing them largely to disregard endorsements by clerics. Their failure to galvanize significant support for the losing candidates will require these groups to reassess their future stance towards the widely popular SBY.

Third, the economic nationalism and populist rhetoric echoed on the campaign trail by the Mega-Prabowo and JK-Wiranto camps failed to convince voters that anything but the current economic path was best for the country. Their messages did not resonate with the majority of Indonesians whose per capita GDP is steadily increasing and poverty levels are declining. Attempts by both of these campaigns to promise higher growth rates than Indonesia had ever previously achieved while scaling back foreign investment, lacked credibility. Such attempts to out score the president on GDP growth implied their recognition that the 2009 presidential election was indeed one in which voters would be casting their ballots based primarily on economic considerations.

### 2009 Political Timeline

**July 27 – 29:** KPU to announce official national election results

**July 29 – 31:** KPU to allow legal challenges to the results

**August 1 – 12:** KPU to announce the final results of any legal challenges

**October 1:** New parliament instated

**October 20:** President and vice president-elect will be sworn in by the head of the Supreme Court

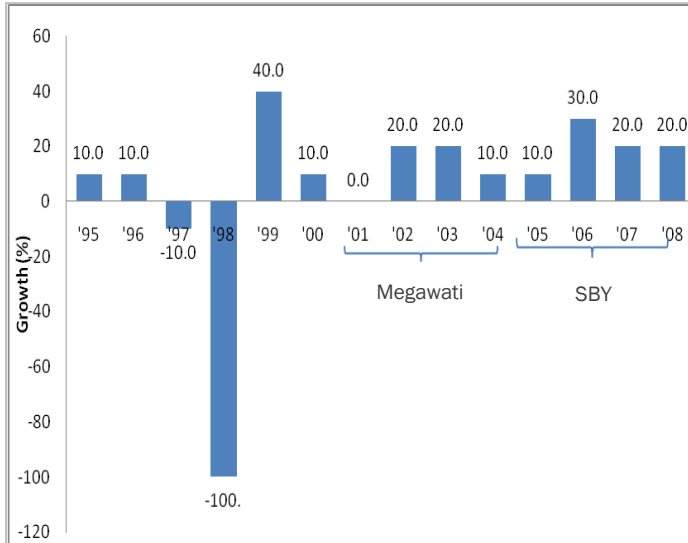
**October 21 – November 3:** SBY to announce his cabinet

## FIVE KEY SUCCESSES AND FAILURES DURING SBY’S FIRST ADMINISTRATION

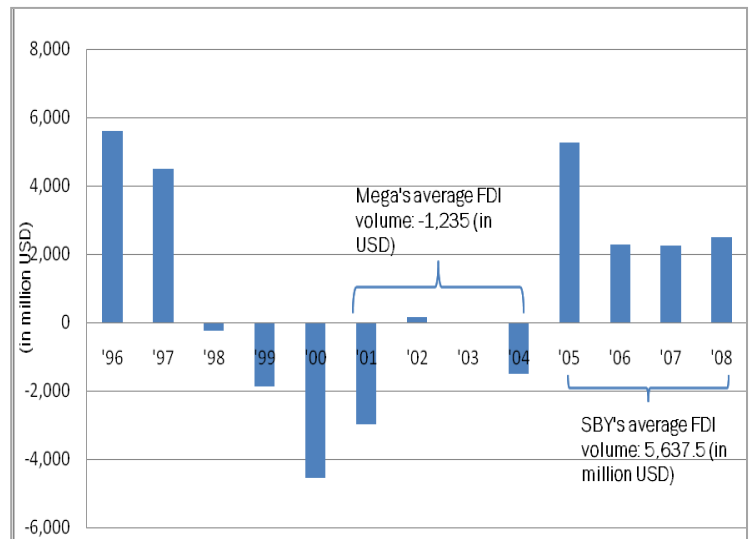
### Key Achievements

- I. **Five years of economic growth** – Perhaps more than anything, SBY’s re-election illustrated the imperative of economic growth for political survival in Indonesia. Most observers agree that economic accomplishments of Indonesia over the past five years were central to SBY’s re-election and his Partai Demokrat’s strong performance in the parliamentary elections. The global recession presented the opposition party a window to chip away at SBY and his party’s achievements. Despite the global recession, Indonesia’s economic indicators remained relatively strong compared to other Southeast Asian economies. Indonesia’s per capita GDP growth remained robust during SBY’s first term (see figure 1); government debt as a percentage of GDP was reduced from 30 percent to 60 percent; foreign direct investment increased more in volume under SBY than under Megawati’s government (see figure 2); and fuel price hikes were managed effectively.

**Figure 1: Indonesia Average Per Capita GDP Growth**



**Figure 2: Comparison of FDI Volume**



Source: Economist Intelligence Unit

**II. Political stability despite internal shocks** – Internal political instability and natural disasters prior to and throughout SBY’s first term posed immense challenges to his administration. The SBY administration is credited with effectively responding to numerous natural disasters including the 2004 Tsunami and 2006 Yogyakarta earthquake, which killed 283,106 and 5,749 respectively and resulted in massive physical destruction of property and displacement of survivors. Responding to terrorist bombings in Bali, the Marriott Hotel in Jakarta and the Australian Embassy that occurred on Megawati’s watch, the SBY administration steadily rounded up terrorists and broke up terrorist cells linked to al Qaeda and Jemaah Islamiyah. The bombing of the Marriott and Ritz Carlton hotels in Jakarta on July 17, however, has demonstrated that the threat of terrorism has not been eliminated. In 2005, SBY also successfully concluded a peace settlement with the Aceh separatist group, thus ending 30 years of separatist-based war.

**III. Bureaucratic reforms** – SBY’s reform of the bureaucracy in his first term was a mixed picture. SBY’s appointment of Sri Mulyani Indrawati as minister of finance after a midterm cabinet reshuffle resulted in significant reforms of the tax and customs departments. Indrawati’s reforms involved improving tax collection, reducing graft in the tax and customs agencies, and simplifying tax and customs regulations. These reforms led to immediate gains in revenue collection previously likely lost to lax tax collection and graft.

In January 2007, SBY announced that Indonesia would no longer seek credits through the Consultative Group on Indonesia (CGI) and would begin issuing its own treasury bonds, including sukuk bonds complying with Islamic Shariah law. SBY's effort to reduce bureaucracy by supporting a one-stop business licensing center and to expedite the customs process with a national single window was well received by the business community.

- IV. Fighting corruption** – Running on a reform platform, SBY pledged to reduce corruption during his first term. During SBY's term, there was unprecedented progress in prosecuting corruption by the Corruption Eradication Commission (KPK) with high-profile senior politicians, former central bank governors and SBY's elder son's father-in-law landing in jail. SBY pledged to continue fighting corruption in his second term, but it remains to be seen whether he has the political will to take on the special interests that may have supported his re-election. SBY's recent statement that the KPK's power "should not go unchecked... [that] KPK already has extraordinary powers. It seems its responsibility is only to God," caused a stir in the media. The statement raised suspicion over his commitment to continue prosecuting corruption so energetically in his second term. The KPK has been under attack and its future cannot be assumed.
- V. International emergence** – By hosting the Bali Climate Change Conference in December 2007 and the World Ocean Conference in May 2009 Indonesia has taken a more prominent role in international climate change initiatives. Indonesia's international standing was boosted by the invitation to join the G-20 meeting in London in March 2009. Subsequently, the international community extended its invitation to Indonesia to join the G-8 meetings in July 2009. Indonesia's profile has grown to the point of being recognized as part of the "triangle of growth" along with that of China and India. Analysts estimate that this grouping has the potential to generate \$10 trillion of wealth for investors by 2015. There are also calls for Indonesia to be included as a member of the BRIC nations (Brazil, Russia, India and China).

### ***Missed Opportunities***

- I. Uncertain investment climate** – In SBY's first term, he pledged to overhaul the investment climate and reform the regulatory regime in order to stimulate FDI. While FDI did recover from the Asian Financial Crisis, FDI volume was unable to maintain or grow beyond the levels seen during the pre-Asian Financial Crisis years. The 2007 Investment Law, intended to promote FDI growth, instead created confusion and uncertainty for the business community both in the substance of the law and how the

law and regulations would be implemented. Additionally, few, if any, outside the relevant ministries know how the pending negative list will take shape or what stage it is at in the policy-making process. Similarly no implementation regulation to the new mining law has been issued since its passage six months ago.

Further, the SBY administration has done little to assure the business community that it is working to recognize much less address their concerns. Controversies involving Newmont, Temasek and ExxonMobil have done little to encourage foreign investors that legal certainty is ensured or that they will be able to count on impartial government support when they experience difficulties. The uncertain investment climate has continued to dampen FDI and reduced Indonesia's attractiveness compared to other emerging markets.

**II. Failure to respond adequately to the needs of key industries** – SBY's first term established economic fundamentals, but fell short of being business friendly. In 2005 he pledged to hold an informal President's Investors Forum every four months to canvass major companies on issues affecting their businesses. Despite this consultative approach, his administration has failed to address adequately the concerns of key industries, including energy and mining which have both underperformed against their potential and whose attractiveness to major overseas investors has declined. Indonesia became a net oil importer during SBY's first term and ceased to be a member of OPEC. There have been no significant new mining investments for many years and a poorly received new mining law enacted in late 2008 is not thought likely to restore confidence. The government has also failed to reform the anti-business labor legislation passed during Megawati's previous administration. While foreign investors have welcomed SBY's re-election win, key industries are waiting to receive tangible overtures for better relations in his second term.

**III. Failure to intervene to resolve politically sensitive issues** – Despite some initially strong public statements, SBY has failed to find an acceptable solution for the victims of the Lapindo mudflow disaster that has so far displaced over 10,000 people in Sidoarjo, East Java. This failure has exposed him to public criticism of being unwilling to take action that would be potentially embarrassing to Aburizal Bakrie, the current coordinating minister for People's Welfare. Sidoarjo victims have frequently organized public demonstrations to pressure SBY to win them improved and speedier compensation. Absent greater political pressure the Sidoarjo mudflow is likely to remain unresolved throughout SBY's second term.

Minister of Health, Siti Fadilah Supari, a political appointee has taken an ultra nationalistic position on a number of key issues variously attacking foreign pharmaceutical companies, the WHO and the U.S. government. Her refusal to share

data with the WHO re the bird flu virus on the grounds that the data would be used to develop germ warfare by the U.S. to attack Indonesia was viewed by most as bizarre. Despite her stridently anti foreign position on many issues, she was not reined in by SBY.

SBY has also been criticized for his perceived reluctance to intervene over the extended suspension of the listing of Bumi Resources, the largest company listed on the Indonesian Stock Exchange. Bakrie & Brothers faced possible insolvency with the collapse of the value of its investment in Bumi Resources, both companies being substantially owned by his coordinating minister Aburizal Bakrie. SBY was embarrassed by the threatened resignation of the minister of finance had he not acted to restore the listing of the Bumi Resources shares. Further criticism occurred when PT Bumi Resources made several large investments in companies perceived to be related, at seemingly inflated prices and without consulting minority shareholders.

- IV. Unfulfilled 2004 campaign promises** – SBY has been slow in creating a regulatory framework to guide infrastructure development and to push through public projects. Many identified infrastructure projects for roads, railways, shipping, aviation, telecommunications, and water supply and sanitation facilities have failed to progress. The rush to accelerate infrastructure development through public/private partnerships without adequate planning proved to be ill founded. There has now been some regulatory reform that could provide a basis for developing new projects during the second. A fast track power generation program is under way though it will not end power outages for some time yet.
- V. Significantly reduce poverty** – Under SBY’s first term, the percentage of the population in poverty steadily decreased, but hardly enough to raise Indonesia among middle-income economies. On the campaign trail, Boediono pledged to reform and modernize the Indonesian health and education system. Indonesia is on track to achieve the Millennium Development Goals (MDG) of providing universal primary education, promoting gender equality and womens’ empowerment, and reducing child mortality. However, Indonesia lags in other MDG measures like eradicating extreme poverty and hunger, combating HIV/AIDS and other diseases, ensuring environmental sustainability, and developing a global partnership for development.

## STRONG POLITICAL MANDATE FOR BOLD ACTION

### **Crucial Cabinet Picks: So Far, So Good**

SBY was criticized during his first term for selecting an eclectic group of sometimes mediocre ministers to satisfy the demands of a fragile coalition. The unprecedented political mandate this election has afforded SBY suggests his second cabinet choices will be based upon competence and loyalty more than political obligations or favors. The President made this unequivocally clear when he selected Boediono as his running mate. The move was potentially risky as Boediono is perceived as a political lightweight, but it indicated SBY's commitment to delivering pledged reforms during his second administration.

Despite uncertainty about the functional role Boediono will assume, his selection indicates that SBY will form a team based primarily on merit rather than political affiliation. A further subsequent surprise has been the reversal of what appeared to be the likely departure of Sri Mulyani Indrawati from the Ministry of Finance to become Governor of Bank Indonesia (BI). The move indicates that bureaucratic reforms, anti-corruption measures and high growth rates will continue to be a central feature of the agenda ahead. It will also assuage any investors' fears over an alternate nominee less committed to the reforms that Indonesia desperately needs. Continuation of the reform initiatives is a pre-condition for Indonesia to be able to entertain thoughts of India or China level economic growth rates.

Retaining Sri Mulyani as minister of finance also prevents "overloading" BI with too much competence. Darmin Nasution, the well regarded director general of taxation had only recently been made a deputy governor of the Central Bank and will now step up to become governor, subject to approval by Parliament. Nasution is known as a key finance sector reformer.

To date, SBY's unofficially announced cabinet picks may be seen as a first installment of what the president vowed on the campaign trail; that more technocrats will hold ministerial

### **Boediono**

*vice president-elect*

**Education:** Ph.D., The Wharton School of the University of Pennsylvania

#### **Previous Government Positions:**

- *deputy governor, Bank Indonesia*  
1997 - 1998
- *state minister of planning and national development*  
1998 - 1999
- *minister of finance*  
2001 - 2004
- *coordinating minister for economy*  
2005 - 2008
- *governor, Bank Indonesia*  
2008 - 2009

#### **Attributes:**

- Strong commitment to reform
- Good working relationship with other key reformers

positions. Leaks and speculation point to further key positions being taken by technocrats who are well regarded by the business community. During the campaign SBY also pledged that five cabinet positions would be taken by women, a net increase of one. In addition to Sri Mulyani, it is likely that the minister of trade Mari Pangestu will be retained, possibly heading a unified department of trade and industry. The ministers of health and womens' empowerment are less likely to keep their jobs. If so, SBY will be introducing three new women into the cabinet. Probably these will also be technocrats.

#### ***Four Key Positions for Continued Reform***

The president has announced that the current cabinet will fulfill their full term, risking a lame duck administration until the inauguration on October 20. In the interim the president will select a new cabinet. With his reform agenda in mind, the following four positions may be seen as critical indicators of where reform is most likely to be focused:

- I. **Energy and mining.** Purnomo Yusgiantoro, the present minister is one of the longest serving members of the cabinet and is likely to move on. He is viewed as an SBY loyalist and is a technocrat. However, his department has been blighted by unsolved problems. Indonesia has become a net importer of oil during his tenure and there has been little significant new investment in mineral mining. The long awaited law on mining, enacted in 2008, is viewed as unlikely to encourage new foreign investment in that sector.

In the upstream oil and gas sector delays on key projects such as the Cepu oil field in East Java and the Tangguh gas field in Papua have been embarrassing when Indonesia has been desperate for new sources of energy and foreign exchange earnings and has sales contract obligations to fulfill. The high profile cancellation of ExxonMobil's production sharing contract for the Natuna D - Alpha block has also generated negative perceptions for the industry. Contract terms are both uncertain and uncompetitive. High level accusations that foreign oil companies habitually abuse the cost recovery mechanism embedded in the production sharing contract model has scared many investors. Downstream, Indonesia has been suffering power outages due to lack of investment in new power plants and distribution going back many years. Reform is critically necessary in the power generation and distribution sectors to close the energy gap and ensure that investors in other sectors don't continue to suffer outages.

Some reform has been achieved in fuel marketing and distribution, but the market remains a virtual monopoly of Pertamina, the state owned oil company. Allowing independent distributors to sell subsidized fuel is critical to developing a level playing field for foreign investors. Pertamina is gradually being reformed and has lost its role

as regulator, but there is still far to go before it will be a globally competitive oil company. Indonesia espouses the development of renewable energy but does not have in place an enabling environment that can reasonably offer investors attractive economic returns. Indonesia is well endowed with hydrocarbons and alternative energy sources and has the potential to produce enough energy to be both self sufficient and to export. Whoever can find solutions to the many challenges of the industry will have gone far towards unlocking the nation's vast economic potential.

- II. Public works.** This department holds the key to the development of Indonesia's inadequate infrastructure, but during SBY's first term, achievements have fallen far short of hopes and expectations. Indonesia is decades behind some of its ASEAN competitors. It has contributed only about 3 percent of GDP to infrastructure development against almost 6 percent before the 1997 Asian financial crisis. Addressing the country's neglected infrastructure must be among SBY's top priorities and a new minister must understand the central role his ministry will play in Indonesia's future development. He or she will need to completely retool the way the ministry operates in order to launch what should be the most aggressive infrastructure development Indonesia has ever seen. Coordination with other ministers to resolve conflicting policies and remove road blocks to advancing key projects will be critical.
- III. State-owned enterprises.** The day before the election, SBY stated that state owned enterprise reform will be a focus over the next five years. The state still owns more than 100 enterprises that operate with varying degrees of efficiency but all of which are prone to political interference. Sofian Djalal, the present minister's stated goal has been to create an investment holding company that would shelter SOEs from political interference and enable them to operate more efficiently for the benefit of customers and tax payers. The minister has vowed to work himself out of a job but there still appears much to be done before that will be possible. It would probably make good sense for him to complete the task he previously set himself.
- IV. National education.** Education in Indonesia has continued to under-perform compared with neighboring countries. Despite a constitutional amendment that requires 20 percent of the state budget to be spent on education, actual expenditure has fallen far short. Per capita expenditure on education has even declined. Only a top-tier appointee stands any chance of tackling successfully the immense task of reforming the education system including a fundamental overhaul of the curriculum and a marked reduction in the corruption that bedevils procurement.

Reform is needed still across all ministries, but if SBY manages to install committed, capable and effective ministers at least in these four posts, Indonesia may be poised to attain the level of growth it is capable of. Once the new cabinet is installed and operational,

SBY's political mandate increases the likelihood that promises made on the campaign trail will be realized. Indonesia has the potential for 2009-2014 to be a period of strong sustained economic growth. With a broadly popular president committed to installing more capable and reform-minded ministers, solid macroeconomic fundamentals, continued bureaucratic reforms and a large consumer base whose purchasing power will only increase, the country may yet rival India and China. Despite the critical challenges the current global economic climate presents, we expect Indonesia to maintain its resilience and growth momentum.

**APPENDIX: SBY – BOEDIONO CAMPAIGN PROMISES**

	<b>Campaign Promises</b>	<b>Challenges</b>
<b>Economic Growth</b>	Increase economic growth to 7 percent	Indonesia's economic growth during the first quarter of 2009 was 4.4 percent
<b>People's Welfare</b>	Maintain food security; support housing and wage increase; reform education and health systems; create jobs; increase public safety; end discrimination; protect civil freedom and human rights; and preserve environment	Production of rice paddies during first quarter of 2008 was 58,269 (in thousand tons-BPS). The unemployment rate in August 2008 was 8.93 percent. The average unemployment rate was 9.8 percent from 2004-2008.
<b>Worker's Wage</b>	Increase workers' wages. Increase farmer harvest prices. Continue cash assistance (BLT) program.	In 3 <sup>rd</sup> quarter of 2008, the average annual wage of workers was IDR 1,095,790, whereas in 2 <sup>nd</sup> quarter of 2008 it was IDR 1,200.772.
<b>Energy Policy</b>	Increase national production, efficiency, distribution improvement and develop renewable energy resources.	In the 2009 budget plan includes a IDR 60.53 trillion for energy needs, consisting of IDR 55.24 trillion for electricity subsidies and IDR 5.29 trillion prepared if coal supply to PLN is not achieved.
<b>Budget for Defense</b>	Increase budget for national defense to a minimum of IDR 120 trillion	In the 2009 budget plan, Ministry of Defense and the armed forces were given IDR 33.7 trillion, but IDR 460 billion is needed to cover TNI's operation expenses.
<b>Government Governance</b>	Bureaucracy reform; continue anti-corruption effort and capacity building for government officials	The draft corruption law has not been completed by DPR and legislative deliberation on the law is not expected to be completed until December 2009.

<p><b>Legal Supremacy</b></p>	<p>Legal reform; promote transparent, fair and equal treatment under the law; promote ethical standards in legal system</p>	<p>DPR approved the draft Supreme Court law in December 2008. The draft of the law mixes priorities of the blueprint for constitutional reform and eliminating surveillance of judges.</p>
<p><b>Human Rights</b></p>	<p>Protect women and children against discrimination; enforce human rights</p>	<p>Protection of human rights is dependent on political ties even though the National Commission for the Protection of Human Rights is supposed to have the authority to investigate and prosecute violations of such rights.</p>
<p><b>Agriculture and Livestock</b></p>	<p>Stabilize prices; create balance between consumer and producers; and create balance between import duties and consumption prices</p>	<p>Inflation rate in 2009 is estimated to be below 5 percent following the prices of goods and services which have relatively stabilized from January to May 2009.</p>

Source: Kompas

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