

Highlights of the week



The forgotten election: The battle for House of Representatives seats

With the general elections just eight months to go, much of the national focus and energy has been devoted to the presidential election. Scant attention has been given to other important elections that will take place simultaneously on April 17: the race for the House of Representatives, the Regional Representatives Council (DPD) and the provincial and city/regency legislative councils.



Grasping implications of campaign teams' structure

While the drama on who's teaming up with who has passed, candidates still have long way to go to presidency. How they will stage their campaigns may be inferred from campaign teams' structures and the figures nominated for central positions in each team.



Hasty implementation of OSS creates problems

The launching of Online Single Submission (OSS) system were met with various responses from business people. Some have praised the initiative while others have complained about its failure to deliver the promised bureaucratic efficiency.



Jokowi proposes another populist budget

The announcement of the 2019 draft budget during the annual presidential address to the legislature on Aug.16 revealed that inequality alleviation and human development are becoming the next featured focuses after infrastructure development.

POLITICS

The forgotten election: The battle for House of Representative seats

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Background: With the DPD remaining a toothless institution, the composition of how the DPR seats are distributed after the April elections will determine the direction of where Indonesia is heading in the next five years. Indonesia may follow the presidential system of government, but the Constitution, following four amendments after the collapse of the Soeharto regime in 1998, has given more power to the House to provide a democratic check on the president's power. All five presidents since then have had to share power with political parties controlling the House.

Contesting the House seats this time around are 16 political parties. That's four more than in 2014.

Insight: In the past, much of the negotiations in forming a coalition government have been conducted prior to the elections. For 2019, incumbent President Joko "Jokowi" Widodo has already cut deals with nine political parties, while his sole challenger, former general Prabowo Subianto, counts on the support of four parties. Three other parties have not committed their support for either presidential candidate.

The horse trading involves promises of Cabinet seats and other key government positions after the election. The exact details are not disclosed and will only become apparent after the election when the winning presidential candidate names his Cabinet.

Jokowi, being the incumbent with an unbeatable lead in almost all surveys, has put together a formidable coalition involving the two parties with the largest number of seats: the Indonesian Democratic Party of Struggle (PDI-P) and the Golkar Party. He counts on the support of two Islamist parties: the United Development Party (PPP) and the National Awakening Party (PKB). The other members of the coalition are the National Democratic Party (NasDem), the Hanura Party, the Indonesian Justice and Unity Party (PKPI) and two newcomers: the United Indonesian Party (Perindo) and Indonesian Solidarity Party (PSI).

Challenger Prabowo is supported by his own Gerindra, the Democratic Party, the National Mandate Party (PAN) and the Islamist Prosperous Justice Party (PKS). Staying out of the presidential race are the Berkarya Party, Islamist Moon and Crescent Party (PBB) and the Garuda Party.

While most of the parties are supporting the presidential candidates, there is no doubt that their first and foremost priority is to win as many legislative seats as they can in the April election.

Many parties in the Jokowi coalition are hoping to use the incumbent's popularity to woo voters their way. The trouble with this logic is that since all nine parties are doing the same, the "Jokowi effect" would likely be minimal, if any at all. Jokowi is a member of the PDI-P, but he does not chair it. Golkar, fearing that it may lose its standing, has been at pains promoting Jokowi as their candidate.

The same can be said about the four parties nominating Prabowo. The "Prabowo effect" will woo voters to Gerindra, a party that he chairs and founded, but will likely have little impact, if any, on other parties. They may even lose votes to Gerindra.

Historically, the coalition members, including the smaller ones, have some influence over the course of government policies. How much or how little depends on their respective political strengths as well as on the negotiating skills of the president in leading or controlling the coalition.

Until last month, Jokowi had led a coalition of seven political parties that together control over 70 percent of House seats. They are the PDI-P, Golkar, NasDem, PPP, PKB, PAN and Hanura. Golkar, PAN and PPP, which supported Prabowo in 2014, subsequently joined the coalition government. PAN rejoined the Prabowo coalition in July just before the formal presidential nomination.

Commanding such a large coalition has helped Jokowi push his legislative agenda in the four years of his presidency. In return for their support, he has had to parcel out positions in the Cabinet and other key government agencies. But it is not uncommon either to see opposition or criticisms to his policies coming from the coalition, even the PDI-P.

Jokowi's predecessor Susilo Bambang Yudhoyono has also constantly negotiated with the political parties in his coalition government for his two five-year terms between 2004 and 2014.

With the exception of two Islamist parties, political parties in Indonesia are not driven by clear-cut ideologies, and more by the personality of the chair or the founder. Most are nationalist-oriented, some claim to be more so than others. Mirroring the nation, almost all verge on conservatism.

In the absence of clear-cut ideologies, voters have a hard time distinguishing between them, other than by the personality of the leaders and their history. This explains why Golkar and the PDI-P have taken turns in winning post-Soeharto elections. The PDI-P was ahead of Golkar in 1999, coming second in 2004 and 2009, beating Golkar again in 2014. Going into 2019, surveys indicate that the two leading parties will be the PDI-P and Gerindra, the latter having increased its popularity perhaps because it is viewed as credible opposition. If the surveys prove right, Golkar will be edged out of the top two for the first time.

Two parties with clear ideological differences are the PKS and PPP. Both openly campaign for the creation of some form of an Islamic state and the expansion of the use of sharia. The Islamist parties may be small in size, but as members of the coalition government, or through their House seats, they have had a role in the law and policy making process. The 2002 National Education Law and the 2008 Pornography Law are examples of where they succeeded in flexing their muscles.

In the past, the presidential election was held three months after the legislative elections. The parties had three months for horse-trading to support the presidential candidates. In 2019, the presidential election will be held simultaneously with the races for the House, DPD and local councils. This makes predictions harder as there is no precedent. In the past, voters could choose one party in the legislative election but would vote for a presidential candidate from a different party. How they vote in April is still an open question. Would they link their presidential choice with the party they would vote for?



ELECTION PARTICIPATING PARTIES



PKB or Partai Kebangkitan Bangsa (Nation Awakening Party): Founded in 1999 in the post-Soeharto era by Nahdlatul Ulama cleric Abdurrahman Wahid, who became president in 1999-2001 before he was impeached. It is now chaired by Muhaimin Iskandar, who was one of student leaders in the anti-Soeharto movement in 1998. PKB relies mostly on support from Nahdlatul Ulama, and its main base is in Java. It has always been part of the coalition governments since 1999. Although Islamic in character, PKB is not propagating an Islamic state or the sharia. In 2014, it won 9.0 percent of the vote.



Partai Gerindra is an extension of the Gerakan Indonesia Raya (Great Indonesia Movement) formed in 2008 by Prabowo Subianto, a former Army general and son-in-law of President Soeharto. He broke away from Golkar after his bid for the presidential nomination failed in 2004. Gerindra was set up to help Prabowo's presidential ambition. He contested as vice presidential running mate for Megawati Soekarnoputri in 2009. In 2014, he ran as presidential candidate and lost narrowly to Joko Widodo. Gerindra is the party of the late economist Sumitro Djojohadikusumah's clan, with Prabowo's brother and businessman Hasyim Djojohadikusumah as the main financier. Gerindra has never been in any government coalition. In 2014, it won 11.8 percent of the vote.



PDI-P or Partai Demokrasi Indonesia Perjuangan (Indonesian Democratic Party of Struggle), was founded by Megawati Soekarnoputri, daughter of Indonesia's first president Sukarno. It was established in 1999 as a breakaway from the Indonesian Democratic Party (PDI), one of the three parties allowed to contest elections under Soeharto. In spite of the PDI-P winning the 1999 election, Megawati was denied the presidency at first, and was only given the vice presidency. She became president in 2001 after Abdurrahman Wahid was impeached, but her party failed to win the election in 2004 and 2009, dashing Megawati's hopes to be reelected. The PDI-P won the 2014 race with Jokowi as candidate and is now the leading member in Jokowi's coalition government. It is seen as the Sukarno party, but with the passage of time, the Sukarno's magnet has lost its charm. The PDI-P served in opposition between 2004 and 2014. In 2014, it came on top with 18.9 percent of the vote.





Golkar or Golongan Karya (Functional Group):

The oldest party in Indonesia, founded in 1964, it served as Soeharto's political machine for more than 30 years. It won all six elections held under Soeharto since 1972. After Soeharto's departure, it succeeded in reinventing itself as a reformist party to stay at the top, although not with the huge majority it enjoyed in the past. There is no central figure in Golkar, and the chair has rotated essentially between those with political aspirations and those with access to money. Even in the post-Soeharto era, Golkar has always been in government, with the exception of 2014-2015 after it supported Prabowo in the 2014 election. In 2014, it won 14.7 percent of the vote.



Partai Nasdem, or Nasional Demokrat (National Democratic Party):

Founded in 2011 as another breakaway group from Golkar after media mogul Surya Paloh failed in his bid to chair the big party. Paloh is the owner of Metro TV and Media Indonesia, and he had used them effectively in wooing votes for his party and for Jokowi in 2014. In the 2014 elections, NasDem won 6.7 percent of the votes.



Partai Garuda, or Gerakan Perubahan Indonesia Garuda (Movement for Change Indonesia or Garuda for short).

The short name is the mythical bird that is the nation's symbol and national flag carrier. Not much is known about its chair Ahmad Ridha Sabana who founded the party in 2015.



Partai Berkarya (The Working Party). It is founded in 2016 by Hutomo Mandala Putra, or Tommy Soeharto, the youngest son of the late president. In July, all his five siblings openly declared their support and participation in the party. It is unclear whether this will be the party through which the Soeharto clans are reclaiming their place in national politics. There have been several attempts in the past, but this is the first time that the siblings joined forces.



PKS or Partai Keadilan Sejahtera (Prosperous Justice Party):

It was officially founded in 2002, but its history dates back to the 1990s, as an anti-Soeharto movement on campuses among Muslim students. It has affiliations with the Muslim Brotherhood in Egypt. It contested the first post-Soeharto election as the Justice Party in 1999 but failed to make the cut. It returned as the PKS and has become a permanent feature in Indonesian politics since 2004. It has openly campaigned for an Islamic state and expansion of sharia. The party joined the two coalition governments of Susilo Bambang Yudhoyono in 2004-2009 and 2009-2014, during which it succeeded in pushing some of its Islamist policies. In 2014, it won 6.8 percent of the vote.





Perindo, Partai Persatuan Indonesia (United Indonesian Party) was founded by another media mogul, Hary Tanoesoedibjo, in 2015. The owner of the MNC media group had joined Hanura in the 2014 elections but he fell out with its founder Wiranto as he wanted to throw the party's support behind Prabowo rather than Jokowi in the presidential race. Only this year, Perindo declared its support for Jokowi.



PSI or Partai Solidaritas Indonesia (Indonesian Solidarity Party): Founded in 2016 by former TV anchor Grace Natalie, the PSI projects itself as the party for millennials. It recruits only young people below 40 years old (anyone older is recommended to sit on the advisory board) and is fielding young candidates for the legislative race. It has declared support for Jokowi in the 2019 race.



PPP or Partai Persatuan Pembangunan (United Development Party): Founded in 1973, it was one of two opposition parties permitted under Soeharto. While Islamist in character, the PPP was never allowed to exploit Islamist issues during the Soeharto elections. In the post-Soeharto era, the PPP has openly campaigned for an Islamic state and sharia. It relies on Muslim voters, particularly those associated with Nahdlatul Ulama, putting it in direct competition with the PKB. It has always been in the ruling coalition, except for a brief period after 2014 election when it supported Prabowo. After wrestling the chairmanship, Muhammad Romahurmuziy took the party to join Jokowi in 2015. In 2014, it won 6.5 percent of the vote.



PAN or Partai Amanat Nasional (National Mandate Party): Founded in 1998 as an amalgam of nationalist and Islamist activists to contest the first election in the post-Soeharto era, it relies heavily on the support of Muhammadiyah followers. The party in recent years has been dominated by its founder Amien Rais, who continues to pull strings in the elections for chairman. PAN was part of the ruling coalition under president Megawati and Yudhoyono, and joined the Jokowi government a year after its chairman Hatta Rajasa ran against Jokowi as Prabowo's running mate. In 2019, PAN is aligning again with Prabowo. In 2014, it won 7.6 percent of the vote.



Hanura or Partai Hati Nurani Rakyat (People's Conscience Party): Founded in 2006 by former Army general Wiranto to give him a vehicle for his political ambitions. Wiranto ran as VP running mate to Jusuf Kalla in 2009. His close connections to the Soeharto clan (he was Soeharto's last military commander) raises speculation that he received his money mostly from Cendana. In 2014, it polled 5.3 percent of the vote.





Partai Demokrat (Democratic Party): Founded in 2001 by a group of activists but eventually became the political vehicle for Susilo Bambang Yudhoyono in his bid for the presidential election in 2004. Yudhoyono eventually took the leadership and has never let it go since then. The party came third in 2009 behind Golkar and the PDI-P, as Yudhoyono won the presidential election with a landslide victory, but it was demoted to fourth place in 2014 behind the PDI-P, Golkar and Gerindra. In 2014 it won 10.9 percent of the vote.



PBB or Partai Bulan Bintang (Moon and Crescent Party):

Founded in 1998 by constitutional law expert Yusril Izha Mahendra. It claims to be the heir of Masyumi, the main Islamist party with widespread support in the 1950s before it was banned by Sukarno. The PBB never reclaimed the glory of Masyumi, but Yusril continues to steal the spotlight in debates on the national constitution. In 2014, its 1.5 percent of the vote meant it failed to meet the threshold to sit in the House. It was almost excluded from the 2019 race but won on appeal.



Partai Persatuan dan Keadilan Indonesia (PKPI): The party was founded by retired military generals with political ambitions. Although it has contested three elections, it never made a dent. Now it is chaired by former general Hendropriyono. In 2014 it polled 0.9 percent of the vote and was only allowed to contest in 2019 after appeal.



Grasping implications of campaign teams' structure

The vice-presidential candidacy fiasco has passed, yet candidates still have to go down a long-winded road to the presidency. Coalitions' strategies to win the presidential seat have started to unfold days before the campaign period commences. How candidates will launch their campaigns may be inferred from the teams' structure and the figures nominated to take up central positions within them.

Background: Days before the presidential campaign begins, presidential and vice-presidential candidates have started to appoint certain figures to spearhead their campaign, yet analyzing how the appointments affect their campaign strategy is not a straightforward business.

At first glance, the campaign strategy is often devised in conjunction with voters' demands. Hence, pinpointing voters' behavior often predetermines one's campaign strategy. Regardless, due to its volatile nature, measuring voters' behavior in absolute terms is particularly difficult. Thus, solely relying on voters' behavior in formulating campaign strategies may incur substantial risk. This is why instead of establishing their campaign strategy exclusively upon speculations, candidates resist taking a gamble by employing other means, one of which is exploiting the coalitions' available assets.

What constitute as available assets of both President Joko "Jokowi" Widodo-Ma'ruf Amin's and Prabowo Subianto-Sandiaga Uno coalitions are the prominent figures whose unquestionable stature among the public can benefit the candidates. Looking at Jokowi-Ma'ruf's newly released campaign team structure and snippets of information on Prabowo-Sandiaga's team, the establishment of particular divisions and the appointments of certain figures into central positions within the teams were not based on pure coincidence but rather on strategic calculations. By analyzing and identifying these calculations, how the campaign will unravel might be predicted.

Insight: The coalitions' important role in a presidential campaign is more apparent days before the campaign officially commences. Although both coalitions have yet to fully disclose the minutiae of their campaign strategy, information on the tentative structure of the campaign team implies which particular strategy that they will enforce.

A. JOKOWI – MA'RUF

Analyzing Jokowi-Ma'ruf's calculations in forming divisions and appointing particular figures within their campaign team may assist spectators to understand the candidates' primary objectives. The presence of elites in the coalition parties is strong in Jokowi-Ma'ruf's team, with most of the party chiefs and secretaries-generals sitting on the team's advisory board or appointed as the team's deputy heads. Sitting on the team's board of advisors are some prominent figures, including Vice President Jusuf Kalla, Coordinating Human Development and Culture Minister Puan Maharani, Cabinet Secretary Pramono Anung and former vice president Try Sutrisno.

As it also occurred during Jokowi's 2014 presidential campaign, appointing seasoned veterans as this year's team's leading members is not a new strategy at all. In fact, more than five members of Jokowi-Ma'ruf's 2019 campaign team were members of the President's 2014 team. Nevertheless, quite refreshing is the emergence of a new division within Jokowi-

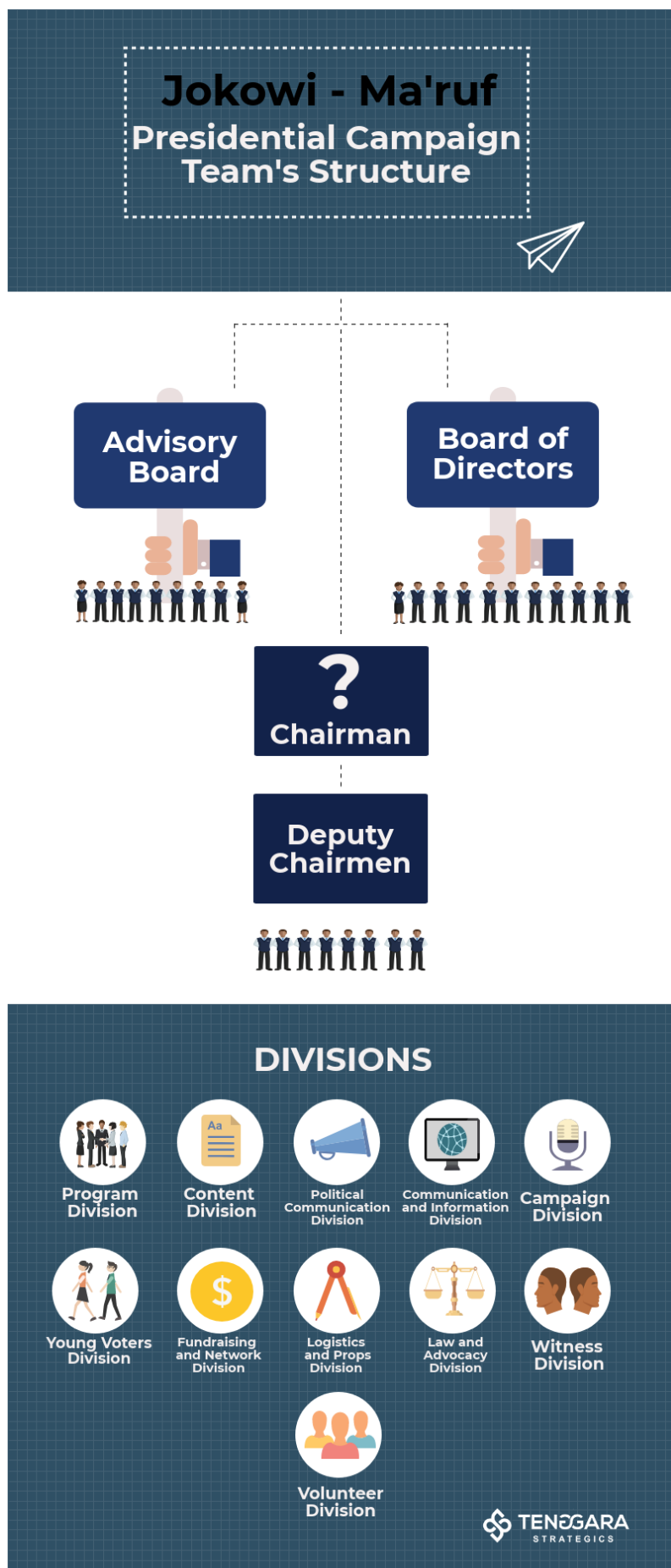
Ma'ruf's team, namely the Young Voters Division. The establishment of this new division may indicate Jokowi-Ma'ruf's awareness of the skyrocketing importance of millennial voters and how the pair is relatively weak in securing their votes.

Jokowi-Ma'ruf's seriousness in obtaining millennial votes is illustrated by their decision to bequeath the Young Voters Division to new faces, whose political stature among the younger generation is considerable, albeit their relative short experience compared to the veterans.

It is further reported that Jokowi-Ma'ruf's campaign will involve a number of governors such as West Java governor-elect Ridwan Kamil, and outgoing West Nusa Tenggara (NTB) Governor Tuan Guru Bajang (TBG) Zainul Majdi. These selected governors might be involved in Jokowi-Ma'ruf's team because Jokowi lost in these particular regions in the 2014 election and his electability rating remains low there.

Jokowi was defeated by Prabowo in the previous 2014 presidential election in 10 provinces, which included West Java and NTB. Why Jokowi and Ma'ruf decide to take an extra step in capturing these two provinces' votes may be due to their peculiarities. In regard to NTB, Jokowi suffered the heaviest loss in this province during the last presidential election, with Prabowo winning 72.45 percent of the vote. In regard to West Java, the province holds the largest number of voters, totaling more than 23 million. This, added with the fact that Jokowi lost to Prabowo in West Java, requires Jokowi and Ma'ruf to make extra efforts in their campaign.

In discerning the structure of Jokowi-Ma'ruf's campaign team, the most essential facet is the chief post which remains vacant. The absence of a chairman may put the campaign team at



risk since the position holds the most integral part of the team. It is rumored that the position was previously offered to Jusuf Kalla and former Constitutional Court chief justice Mahfud MD, yet both turned down the offer. It is speculated that the two particular figures became Jokowi-Ma'ruf's first choice of the team's chairman due to the pair's apprehension over the possibility of Kalla and Mahfud moving to the opposing camp. Considering that Kalla and Mahfud had been widely tipped as Jokowi's running mate until the President's sudden option for Ma'ruf, such apprehension is justifiable.

B. PRABOWO – SANDIAGA

The details of Prabowo-Sandiaga's team have yet to be disclosed, yet snippets of information may provide a glimpse of the team's structure. To begin with, former Indonesian Military commander and also Gerindra Party member Djoko Santoso is rumored to chair the campaign team. As stated by Gerindra executive Hashim Djojohadikusumo, the decision to appoint Djoko as the chairman of the team would not find no opposition from coalition partners. A hardened figure with a strong military background, Djoko's expertise in security is deemed relevant in combating issues surrounding ethnicity, religion and race (SARA). This aptitude is indeed necessary for Prabowo-Sandiaga's team to possess, considering that the opposition has Ma'ruf Amin whose prowess in religious matters is very strong.

It is reported as well that Prabowo-Sandiaga's team will establish a religious division which will be specifically administered by preachers and clerics. The exact names of the division's members have not yet been unveiled, yet it is rumored that the National Movement to Safeguard the Ulema Fatwa (GNPF) will be among the division's members. According to Djoko, the overriding objective of the religious division will be delivering sermons on preserving unity amidst the political brouhahas ahead of the presidential election. Regardless, what constitutes as "unity" or "preservation" remain unclear: Is it unity among citizens as a whole? Or is it unity solely among Prabowo-Sandiaga's supporters in defeating the incumbent?

Besides religious matters, Prabowo-Sandiaga's team will allegedly focus on the domestic economy, an expected move as it has been heavily speculated that there will be a shift toward economic issues during the upcoming presidential campaign. As the economy has recently become the underbelly of Jokowi's administration, scrutinizing the economy might be perceived as the most preferable path for Parbowo-Sandiaga to win votes.

Last, news that millennials are becoming Prabowo-Sandiaga's primary target audience has circulated. Sandiaga's relatively young age and charm will be employed to attract young voters. Branding Sandiaga as a fresh face of national politics does work in the pair's favor, considering that the opposition's vice presidential candidate, Ma'ruf, is deemed unattractive for the younger generation due to his old age and entrenched conservatism.

C. CONCLUSION

Both Jokowi-Ma'ruf's and Prabowo-Sandiaga's campaign teams bear a great similarity in their focus on securing millennial votes. Indeed, millennial voters reportedly comprise 40 percent of total voters in the country, making this group particularly important for candidates to cajole. How the pairs will proceed, however, may differ greatly, depending on the political branding that they choose. In addition to establishing a division specializing on millennial voters within their campaign team, Jokowi-Ma'ruf may also make use of Ma'ruf's great stature among young santri, or students of Islamic boarding schools. Meanwhile, Prabowo-Sandiaga may attempt to attract votes from progressive millennials whose aversion toward conservatism is strong.

BUSINESS & ECONOMIC POLICY

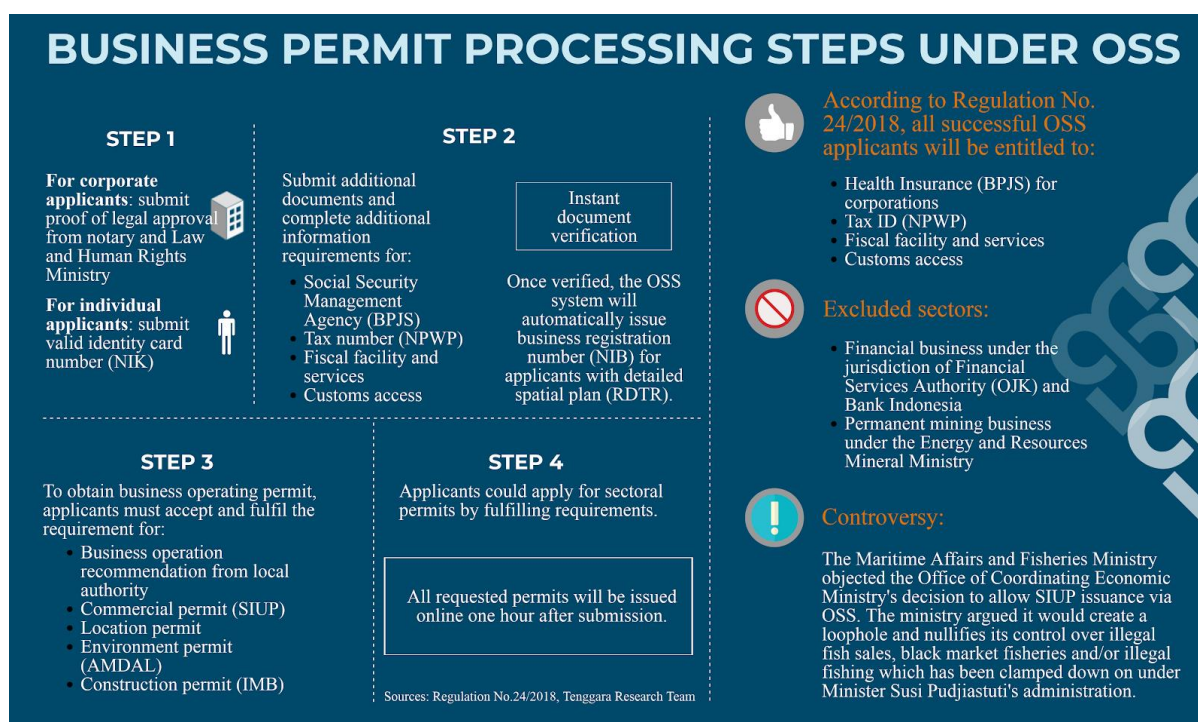
Hasty implementation of OSS creates problems

The business community has complained about the two-month-old Online Single Submission (OSS) system due to its failure to deliver the promised bureaucratic efficiency.

Background: On July 5, the Office of the Coordinating Economic Minister launched a new business licensing platform called the OSS to replace the fragmented one-stop integrated service (PTSP).

Unlike the PTSP, the efficient implementation of which varied greatly across the regions and between the national and regional governments, the OSS system has the potential to standardize business permit processing, such as the issuance of business registration numbers (NIBs), business operation permits and commercial permits (SIUPs), at all levels.

To motivate regional governments in implementing the OSS, the central government is using a carrot-and-stick approach by rewarding successful implementers with an additional budget allocation, while punishing those fail with suspension of budget disbursement or even reduction in budget allocation.



Insight: In the two months since its implementation, the OSS has processed the registration of 30,505 firms and 12,290 NIBs, in which 33 percent of the permits belong to micro, small and medium enterprises. It has also processed 7,004 business permits and 5,587 operation permits that were submitted online.

Although the numbers look promising, there has been widespread disappointment toward OSS implementation. An insufficient trial and testing period has caused confusion among

staff at various government institutions. In some institutions or regions, the staff have no standard protocol to using the OSS.¹

Besides having no standard protocol, many regional governments have trouble in connecting to the OSS, especially in remote areas where IT infrastructure is severely lacking.² Besides a lack of IT infrastructure, many local government officials and staff are confused by the process of synchronizing their own permit processing procedure with the OSS interface.

Some notable problems are:³

- ❖ OSS users cannot correct any mistakes made when filling the form online, correction only available via helpdesk
- ❖ Help desk's limited complaint handling capacity (300/day)
- ❖ Help desk does not have troubleshooting protocol
- ❖ There is no coherent inter-agencies coordination system at central government level
- ❖ OSS implementation at local government level is chaotic. For instance, 68 local governments still have no OSS task forces for transitioning from PTSP.

The confusion and chaos surrounding OSS implementation has resulted in a public relations disaster for the government. Many foreign investors have voiced frustration at the implementation of the OSS.⁴ Some legislative members have voiced disapproval in the new system and have asked the government to revert to the previous business permit process through the Investment Coordinating Board (BKPM).⁵

Indonesian Ease of Doing Business 2015-2018

Instrument	2015	2016	2017	2018
EODB Ranking	120	109	91	72
Starting Business				
Procedures (Number)	13	13	11.2	11.2
Time (Days)	52.5	47.8	24.9	23.1
Cost (% Income per capita)	21.1	19.9	19.4	10.9
Construction Permit				
Procedures (Number)	17	17	17	17
Time (Days)	210.2	210.2	200.2	200.2
Cost (% Warehouse value)	4.3	3.8	5.1	4.8

Source: World Bank

¹ Bisnis.com, "OSS diluncurkan, pengusaha masih keluhkan pengurusan perizinan" 22 July 2018

<https://tinyurl.com/yczysx79>

² Bisnis.com, "Penerapan OSS masih terkendala infrastruktur" 30 July 2018 <https://tinyurl.com/ycdm7z6t>

³ Koran Bisnis Indonesia, "Sulitnya Sistem Baru" 14 August 2018

⁴ CNBCIndonesia.com, "Investor luar negeri nilai sistem izin online RI kacau balau" 9 August 2018

<https://tinyurl.com/yd4tdw3d>

⁵ CNBCIndonesia.com, "Parlemen minta OSS dihapus, perizinan harus kembali ke BKPM!" 21 August 2018

<https://tinyurl.com/ydbytl6q>

The takeaway: The OSS implementation debacle is a missed opportunity. The government's hasty implementation has backfired and caused chaos among governmental agencies and staff. Consequently, the rushed implementation has left a bad impression of the President Joko “Jokowi” Widodo government. Rather than Jokowi coming across as a reformer, it suggests that he is just another politician who prioritizes style over substance.

What we've heard: Maritime Affairs and Fisheries Minister Susi Pudjiastuti never agreed to the inclusion of fishing sector licensing in the OSS. She expressed opposition far before the issuance of Government Regulation No. 24/2018.

According to one senior official at the Maritime Affairs and Fisheries Ministry, Minister Susi wanted fishing sector licensing be excluded from the OSS, just like licensing in the oil and gas sector. But Coordinating Economic Minister Darmin Nasution rejected Susi's initial request.

Susi argued that the OSS could be exploited by illegal and blacklisted ship brokers to obtain new operating permits that would allow them to covertly conduct illegal fish sales and illegal fishing. In fact, a number of brokers in Muara Baru in Jakarta have been issued permits through the OSS, such as location permits and fisheries business licenses (SIUPs). The problem worsened when as several regional governments issued their own permits without the ministry's approval.

Susi was disappointed and sent a letter to Darmin to politely ask once again for the exclusion of fishing activities from the OSS. This time, Darmin complied and issued a ruling that any fishery businesses that had already been issued NIBs via the OSS had to process fishing permits (SIPs) and special fishing permits (SIKPIs) through the Maritime Affairs and Fisheries Ministry.

Susi then sent a ministerial information letter to business players and governors one month after the launch of the OSS. The letter states that fishing licenses should be requested from her ministry, based on the existing Maritime Affairs and Fisheries Ministerial regulation.

Investment Coordinating Board (BKPM) head Thomas “Tom” Lembong also objected to the OSS. The Office of Coordinating Economic Minister took over the OSS from the BKPM after the board postponed the launch several times, saying it was unprepared.

One government official said Darmin had blatantly castigated Tom during a meeting when he objected to the launch of the OSS before everything was ready. The BKPM head was concerned that Darmin wanted to implement the OSS without any transitional period. He specifically voiced concern about the potential widespread effects that could result from implementing the OSS without a transitional period in spite of the good intentions of the OSS.

Jokowi proposes another populist budget

On Aug. 16, President Joko “Jokowi” Widodo announced that he will prioritize inequality and human development in his proposed 2019 budget.

Background: President Jokowi’s top priority is to reduce the poverty rate to 8.5 to 9.5 percent, lower than the 9.82 percent poverty rate for March 2018. To achieve this, the President will increase the number of Family Hope Program (PKH) beneficiaries to 15.6 million families next year, an increase of 5.6 million households. The annual assistance for each family will also be increased from Rp 1.8 million to Rp 3.1 million. As a result, the PKH budget will nearly double in 2019 to Rp 31 trillion.

Besides bolstering the PKH, Jokowi will also increase the number of National Health Insurance (JKN) subsidy recipients from 92.4 million to 96.8 million. According to *Bisnis Indonesia*’s estimate, the 2019 JKN subsidy will cost the government Rp 26.7 trillion.⁶

President Jokowi also announced a 12.3 percent proposed increase to Rp 487.9 trillion in next year’s education budget, including a Rp 17.2 trillion vocational education budget for the industry and tourism ministries.⁷

To combat inequality, Jokowi stressed the importance of developing rural areas and proposed an increase of the village fund by 21.6 percent to Rp 73 trillion. Funding per village would also be raised from Rp 800.5 million to Rp 973.9 million.

National Macroeconomic Assumption

Indicator	State Budget 2018	Economic Outlook 2018	State Budget Draft 2019
Economic Growth (%)	5.4	5.2	5.3
Inflation (%)	3.5	3.5	3.5(+/-1)
State Treasury (SPN) three monthly interest (%)	5.2	5.0	5.3
Exchange Rate (Rp/USD)	13,400	13,973	14,400
Indonesian Crude Oil (USD per barrel)	48	70	70
Oil Lifting (thousand barrels per day)	800	775	750
Gas Lifting (thousand barrels per day)	1,200	1,116	1,250

Source: Finance Ministry

⁶ Koran Bisnis Indonesia, “RAPBN lebih realistis” 18 August 2018

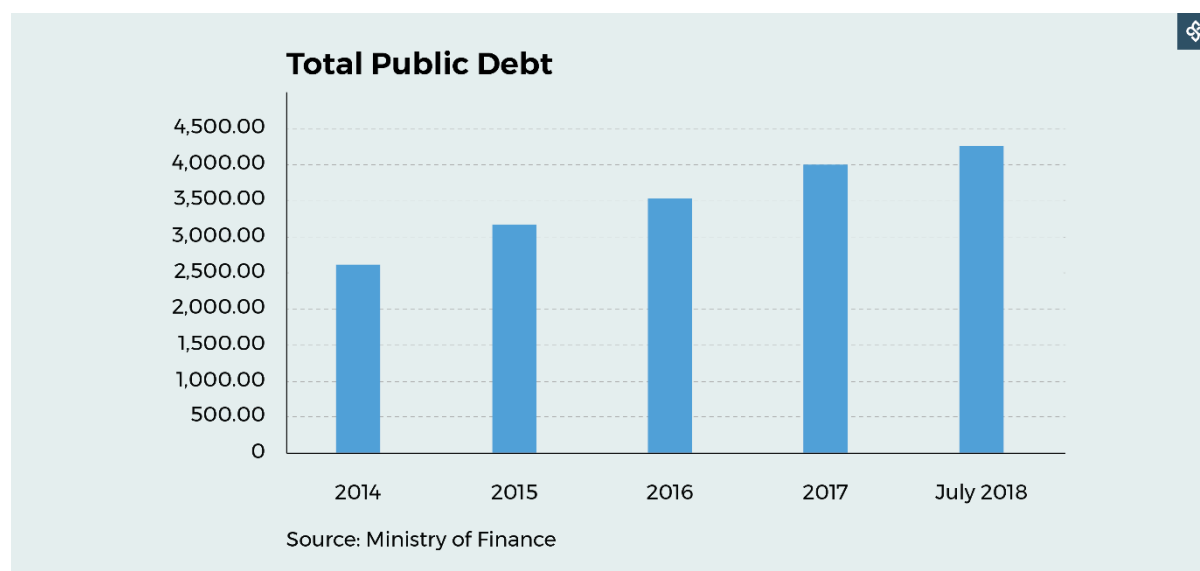
⁷ TheJakartaPost.com, “People first in Jokowi’s 2019 budget” 18 August 2018 <https://tinyurl.com/ycnws4z>

Insight: The proposed 2019 budget is another populist move, although its substance has been a relief to many people,⁸ especially after the President took his populist measures too far in the 2018 budget.⁹

Although the proposed 2019 budget needs further scrutiny, particularly on the President's energy subsidy policy¹⁰ and education policy¹¹, there are indications that Jokowi is using the budget to prepare for the upcoming presidential race against rivals Prabowo Subianto and Sandiaga "Sandi" Uno.

In his *Tempo* interview, Sandi said that the 2019 presidential election would be an economic referendum for the incumbent.¹² People's Consultative Assembly (MPR) Speaker Zulkifli Hasan, who is also the National Mandate Party (PAN) chairman, took Sandi's cue and criticized the President's economic policies in his Aug. 16 speech to open the MPR session, focusing on the three economic issues of inequality, macroeconomic stability and public debt management.¹³

With the proposed 2019 budget, it appears Jokowi is trying to amend his weak stance on public debt by tightening the budget while switching his policy priorities from infrastructure to populist economics.



⁸ Kontan.co.id, "RAPBN 2019 dinilai cukup realistis dan moderat" 23 August 2018 <https://tinyurl.com/yah34dtv>

⁹ Bisnis.com, "Strategi anggaran: dilema kebijakan yang populistis" 5 June 2018 <https://tinyurl.com/y8rtjobl>

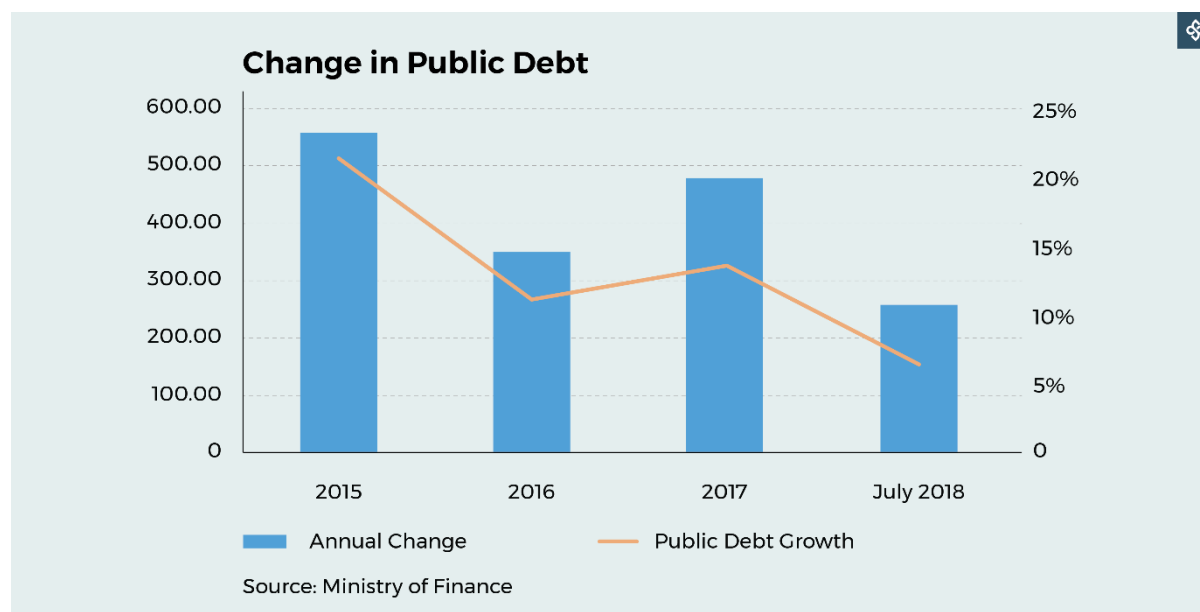
¹⁰ CNBCIndonesia.com, "Alokasi subsidi energi 2019 bengkak jadi Rp 156 T" 16 August 2018 <https://tinyurl.com/yd33wn9o>

¹¹ Detik.com, "Dana pendidikan 2019 jadi Rp 487 T, Muhadjir: di Kemdikbud dikurangi" 17 August 2018 <https://tinyurl.com/yae4ulaz>

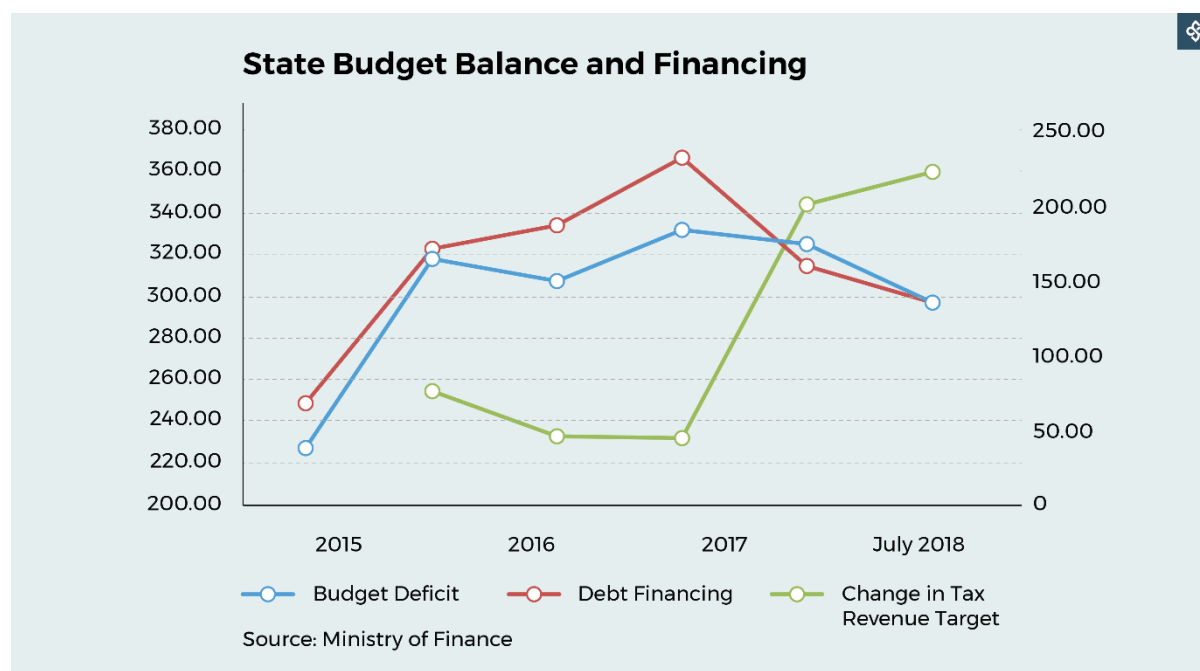
¹² Tempo Magazine, "Prabowo mewakafkan saya" 13-19 August 2018, Edition No. 4725

¹³ Tempo.co, "Tiga kritik ketua MPR Zulkifli Hasan ke pemerintahan Jokowi" 16 August 2018

As shown by the Figure above, President Jokowi has been accumulating public debt throughout his term, and the pace of the accumulation is quite alarming (see the Figure below).



Since 2018, however, there is an indication that President Jokowi has been changing its policy course. He increased the budget's revenue target aggressively while cutting on budget deficit and debt financing (see the Figure below).



The takeaway: Despite his recent policy turn toward economic populism, President Jokowi has shown an effort to amend his past mistake in managing the public debt. Now, he is rationalizing his budget policy by reducing the budget deficit and raising taxes.

What we've heard: Despite most of the 2018 budget assumptions have deviated so much to the worse, the government has never intended to propose a revision to the 2018 state budget but submitted the new budget for 2019.

Some legislators at the House of Representatives have actually demanded the government to propose a revision to the 2018 budget considering that some assumptions had gone to the worse, such as the rupiah exchange rate and the price of Indonesian crude oil.

Finance Minister Sri Mulyani Indrawati was reluctant to propose a budget revision and in April, she asked the help of Golkar politician Azis Syamsuddin, chairman of the House budget body, that the House did not request a discussion about possible revision to the 2018 budget. Sri argued that the government wanted the House to leave state budget intact in preparation for the IMF-World Bank annual meetings in Bali in October 2018, which would cost the state budget around Rp 855 billion.

One government official said Sri also declined any “additional budget request” from House’s members which often came during the discussion for budget revision since these “additional budget request” creates difficulties in allocations for ministries and other institutions. As the chairman of budget body, Azis agreed to the request.

Azis’s decision was actually challenged by other legislators at the House, including legislators from his own political party. A number of legislators even lobbied Golkar Party Chairman Airlangga Hartarto to relieve him off duty. With increasing threats from Airlangga, Azis remained firm to his decision and went to meet Aburizal “Ical” Bakrie for support. The meeting relieved Azis from Airlangga’s threat.

State Budget 2018 posture and State Budget Draft 2019 (In trillion rupiah)

No.	Indicator	State Budget 2018	State Budget 2018 Outlook	State Budget Draft 2019	Percentage Change
A	State Revenue	1,894.7	1,903	2,142.5	12.6
	Domestic Income	1,893.5	1,897.7	2,142.1	12.9
	Tax Revenue	1,618.1	1,548.5	1,781	15
	Non Tax Revenue	275.4	349.2	361.1	3.4
	Grant	1.2	5.3	0.4	-92.5
B	State Expenditure	2,220.7	2,217.3	2,439.7	10
	Central Govt. Expenditure	1,454.5	1,453.6	1,607.3	10.6
	Ministerial Expenditure	847.4	813.5	840.3	3.3
	Non-Ministerial Expenditure	607.1	640.2	767.1	19.8
	Village funds and local funds transfer	766.2	763.6	832.3	9.0
	Local funds transfer	706.2	703.6	759.3	7.9
	Village funds	60	60	73	21.7
C	Primary balance	-87.3	-64.8	-21.7	66.5
D	Budget surplus/deficit	-325.9	-314.2	-297.2	5.4
	GDP Surplus/deficit ratio (%)	-2.19	-2.12	-1.84	-
E	Financing	325.9	314.2	297.2	-5.4
	Debt financing	399.2	387.4	359.3	-7.3
	Investment financing	-65.7	-65.7	-74.8	-13.9

Source: World Bank

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