

Highlights of the week



Voter turnout: How low can it get?

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Military restructure a political maneuvering?

The recent plan to restructure the Indonesian Military (TNI) has raised both speculation and concern among the public. The plan to raise the retirement age of low-ranking military officers, as well as promote and create new jobs for numerous officers is feared to sway the TNI back to its infamous *dwi fungsi* (dual function) doctrine, which allowed soldiers to play both military and political roles.



Japanese domination hangs over electric car policy

The government’s ambition to establish an electric vehicle industry has sparked greater competition among three great Asian car manufacturers: Japan, South Korea and China. With China having successfully sealed multiple partnerships with the government in the upstream electric battery production and nickel processing sectors, Japanese automotive supremacy in Indonesia is slowly being eroded.



Fiscal policy alone not enough

Similar to 2018, President Jokowi will rely on populist economic policy – that includes a more restrictive import policy – and expansionary fiscal policy in 2019 for two reasons. First, to stimulate the economy in 2019 regardless of IMF’s predicted global economic slow down, and to secure his re-election bid. Nonetheless, challenges remain since the economy still needs more realistic stimulus like a boost in investment and higher export growth.

POLITICS

Voter turnout: How low can it get?

The General Elections Commission (KPU) has launched a massive campaign appealing to people to come out and vote on April 17, amid signs that more and more are planning to boycott the elections altogether. Going by social media posts, the largest number of disenchanted voters are those who would have supported the incumbent, President Joko “Jokowi” Widodo. Challenger Prabowo Subianto is struggling as it is to shore up his electability and is not likely to capitalize on the situation. A low turnout would not only determine the quality of the election, it could well affect the outcome of the presidential race.

Takeaway:

- The recent anticommunist and bookstore raids indicate that the incumbent presidential candidate might run short of strategies to woo voters or dissuade rival supporters to vote.
- While they could potentially sway Prabowo-Sandiaga’s traditional voters on the center-right of the political spectrum (conservatives and military sympathizers), it consequently disillusioned many of Jokowi’s traditional voters on the center-left of the spectrum.
- The Prabowo-Sandiaga camp, whose candidates do not have much to counter their rival’s more established policies, lack alternatives to gain the upper hand in the electoral contest besides Sandi’s appeal to millennials and the hope that enough voters would stay away during election day on April 17.

Background: The rank of disenchanted voters is growing into a movement on social media. Spurring the movement was the December launch of the third pair of candidates for president and vice president, in the name of Nurhadi and Aldo, and appropriately shortened to “Dildo”, to challenge the two official candidates, Jokowi with running mate Ma’ruf Amin, and Prabowo with Sandiaga Uno. The Dildo pair, campaigning on several social media platforms, is gaining followers by posting satire about the election, campaign themes and their competition.

Many others have since openly declared they will be joining the ranks of Golput, an Indonesian term for voters who will vote with their feet. The term *Golongan Putih* (white group) is a throwback from the Soeharto years to refer to protest votes at the electoral system blatantly designed to ensure victory for Golkar, Soeharto’s political machine, and his election and reelections for more than three decades. In those days, people would go to polling stations, register and then destroy their ballots to prevent electoral officials from casting votes on their behalf.

With election day declared a national holiday to encourage people to go out and vote, many people decided long ago to take advantage and leave town. They feel their vote would not have mattered that much and would accept the results. But they are now being joined by many who would vote but are too disillusioned by the lack of real choice of candidates and lack of substance in the campaign; some feel that neither pair of candidates, nor the political parties supporting them, represent their interests.

Apathy, particularly among millennial voters, and the growing disenchantment at the electoral system, could turn into a significant movement in the run up to the April election.

Insight: Campaign workers in the Jokowi camp are scrambling for ideas to arrest the number of people declaring themselves to be Golput. Opinion polls show that Jokowi is weakest among millennials and the educated urban elite. Although Jokowi still leads in most surveys, political analysts say that up to 20 percent of undecided voters, and another 10 percent who are still wavering, could still tip the balance against the incumbent.

A series of policy mishaps on the part of Jokowi has disillusioned many of his traditional supporters, particularly those on the center-left of the political spectrum. They see that since the election campaign began, the incumbent has been shifting further to the right, coddling with Muslim conservatives and the military.

Running mate Ma'ruf was the chair of the Indonesian Ulema Council who helped send then-Jakarta governor Basuki "Ahok" Tjahaja Purnama to jail in 2017 by testifying in court that the Christian governor of Chinese descent had blasphemed against Islam. In January, Jokowi gave unconditional parole to Abu Bakar Basyir, the spiritual leader of the terrorist organisation responsible for a series of deadly attacks in the first decade of the millenium. The decision was annulled within 24 hours following protests, but the impression it left on voters would likely linger on.

Jokowi has been granting more concessions to the military to return to the political arena and reassume the lead in internal security measures, including in counterterrorism and counterinsurgency, which had been the domain of the police. Plans are now underway to allow active military officers to serve in top civil service jobs. This, coupled with Jokowi's failure to address serious human rights issues and persecution against minorities, has further alienated his traditional supporters.

Jokowi faces growing disenchantment in Bali, a stronghold for him and his Indonesian Democratic Party of Struggle (PDI-P). Civil society organizations fighting against a massive land reclamation project are dismayed that the president has given the green light for the project to go on. They too are considering to vote with their feet.

The Prabowo camp is unable to cash in on disillusioned voters as he is perceived to be even further to the right of the political spectrum. His running mate Sandiaga, being the youngest of the four candidates, could still appeal to millennial voters.

But with no track record in government to show for — and his military record is not exactly stellar either — Prabowo has little to offer in terms of an alternative to Jokowi's policies. His only hope is that enough voters would stay away on April 17 to give him victory.

In 2014, the Jokowi camp succeeded in instilling fear among voters about the consequences of giving the presidency to Prabowo, considering his poor military record that includes human rights abuses. This time, such a campaign line would be less effective.

For the KPU, this is all about key performance indicators. A low turnout would reflect badly on the commissioners. As voting is not compulsory, they have to make sure as many voters as possible cast their vote on April 17.

They are trying to make it as easy as possible for voters, declaring voting day a national holiday. By limiting the number of registered voters to not more than 300 for each polling station, the queues for voting will be short, and voters can vote between 7 am and 12 pm. Officially, there is

no cash incentive, but it is public knowledge that many candidates, or their campaign workers, would give money out on the day to voters to vote for them in a practice known as the “dawn raid”.

Since voting is not compulsory, nothing can stop people from skipping the elections. It is a crime to incite people not to vote, just as it is a crime to force people to vote, but so far no one has been convicted for calling on boycotting the election, in spite of the Golput movement on social media.

Voter turnout in the last two elections has been slightly above 70 percent, a healthy level for an open democracy where voting is not obligatory. Some local elections held in 2017 and 2018 veered toward the 50 percent level.

Voter turnout in 2019 is not likely to go much lower than the level in 2014, so it is not likely to impact the quality of democracy. But a low enough turnout could impact Jokowi’s standing, and possibly even decide the election outcome.

What we’ve heard: The Jokowi-Ma’ruf camp perceives Golput as a major threat. A source who is close with Jokowi said the issue surrounding undecided and swing voters is deemed the direst, particularly for the incumbent. The question posed by the source was, “If the voters have decided to vote, why are they still undecided?”

In regard to swing voters, it is reported that 20 percent of Jokowi-Ma’ruf voters belong to this category. This number was confirmed in an off-the-record meeting by a survey agency that had earlier published its findings on Jokowi’s electability. Meanwhile, among Prabowo’s voters, only 3 to 4 percent are swing voters.

The survey agency found that Jokowi’s electability was down while Prabowo’s was up. This was reportedly caused by the said swing voters. The number of abstainers, on the other hand, was only 1 percent of voters, according to the survey agency.

Unlike in the 2014 election when Jokowi’s hardline voters were many, the lack of hardline voters among Jokowi-Ma’ruf supporters in this year’s election has worried the incumbent’s camp. It is feared that the swing voters will decide to abstain or worse switch to the Prabowo-Sandiaga camp. If this happens, the election results will be too close to call.

Recent campaigns aimed at Golput, as conducted by Presidential Chief of Staff Moeldoko, have become a Jokowi-Ma’ruf camp strategy in tackling this problem, although they have yet to show any immediate effect. Making matters worse is the prank presidential campaign of fictional ticket Nurhadi-Aldo, whose funny and catchy slogans have drawn the public’s attention from the real presidential candidates, particularly among the upper-middle class. This is worrying because Jokowi-Ma’ruf supporters comprise mostly the upper-middle class, unlike Prabowo-Sandiaga whose campaign mostly target the lower classes.

One primary cause behind the large number of swing voters among Jokowi-Ma’ruf supporters is the misstatements made by the pair in the past.

According to a source who is close to Prabowo-Sandiaga, 60 to 65 percent of voters have decided they will vote, while the rest are still undecided. Thus, if combined, the number of undecided and swing voters is considerably large. This figure may expand if presidential

candidates fail to employ an effective campaign strategy to woo undecided and swing voters as soon as possible.

The source said the Prabowo-Sandiaga pair has now closed in on Jokowi-Ma'ruf, with only 5 to 6 percent separating them, excluding swing voters, as of January. This is reminiscent of the 2014 election, when Jokowi beat Prabowo by merely 7 to 8 percent.

Currently, the Prabowo-Sandiaga camp is formulating a campaign strategy that aims to effectively deliver their message both in debates and rallies. Their main objective is to woo the support of swing voters coming from the middle to upper class who remain undecided on whether to vote or not. "We may lure 60 to 70 percent, even 80 percent if we're lucky, of the swing voters. This will make the gap between the tickets even smaller," said one source.

Meanwhile, a clear pattern of abstention can be seen among activists in certain areas. These nonvoters are deemed difficult to sway; hence, candidates, both Jokowi-Ma'ruf and Prabowo-Sandiaga, are likely to just let them be.

Another military restructure: Political maneuvering or pure mismanagement?

The recent plan to restructure the Indonesian Military (TNI) has raised both speculation and concern among the public. The plan to raise the retirement age of low-ranking military officers, as well as promote and create new jobs for numerous officers is feared to sway the TNI back to its infamous *dwi fungsi* (dual function) doctrine, which allowed soldiers to play both military and political roles. Some, however, speculate that the plan did not come out of nowhere, but rather was politically determined.

Takeaway:

- Rather than being politically motivated, the plan to restructure the Indonesian Military might be intended to address internal mismanagement, which has led to a surplus of personnel and idleness. The plan, however, does not address the crux of the management problem.
- The high number of idle "non-job" military officers could have prompted the plan to allow military personnel to hold civil posts. The plan, however, could revive the New Order's dual function doctrine and lead to military-civilian conflict, much to public's chagrin.
- The plan to increase the retirement age of military personnel could potentially exacerbate idleness in the military as it could fill the military with older personnel.
- The plan to introduce new posts for high-ranking and middle-ranking personnel does not solve the underlying issue of mismanagement either. Rather, it appears the plan is merely expected to appease middle-ranking personnel who are desperate for a promotion.

Background: Three major announcements relating to military restructure have been recently made. First, President Joko "Jokowi" Widodo announced his plan to introduce 60 new additional military posts for brigadier, major and lieutenant generals, with a number of colonels having the opportunity to get promoted and fill the posts left vacant. Second, the President revealed his plan to increase the retirement age of Tamtama (enlisted officers) and Bintara

(noncommissioned officers) to 58 from 53. Lastly, TNI commander Air Chief Marshal Hadi Tjahjanto demanded more civilian posts for active military officers in ministries and other government institutions.

In order to realize the plans, substantial legal measures are needed. In regard to the retirement age and civilian posts, for instance, Law No. 34/2004 on the military must be amended. President Jokowi has ordered Law and Human Rights Minister Yasonna Laoly to do so. Meanwhile, in introducing new military posts, the President issued Decree No. 62/2016, which promoted 21 type B military command posts (Korem) into type A. This promotion automatically raises the military ranks of the respective commanders.

The restructure has sparked fears of a revival of militarism in the country, especially because of Jokowi's close ties with the military. The fact that the restructure plan surfaced months before the 2019 presidential election exacerbates speculation of the political motives behind it.

Regardless, looking at the history of the TNI, the constant issue surrounding military management indicates that the recent restructure might have genuinely stemmed from internal problems, rather than external reasons.

Insight: The latest development concerning the TNI shows a vicious circle: from the New Order's military to "reformed military" and, potentially, back to the New Order's military. House of Representatives Commission III overseeing law deputy chairman Herman Khaeron, for instance, says the plan to install military officers in civilian posts may revive the politicization of the military and *dwi fungsi*.¹ The New Order was characterized by the president's control of the country with support from the armed forces, which was then called the Armed Forces of the Republic of Indonesia (ABRI). Under Suharto's New Order, the ABRI's role was not limited to military operations, but also in political, social, ideological and economic life, making its presence omnipotent in civilian life.

Now, the planned military restructure hints at a return of not only the New Order's military, but also the prevailing "New Order mentality" among military officers and political elite to maximize and mechanize the military vehicle for political means. On the other hand, among the military officers themselves, there is also a desire to occupy nonmilitary posts.

Regarding the new posts for high-ranking and middle-ranking officers, the move reportedly is aimed at reducing the number of the hundreds of idle colonels. There will be numerous colonels promoted to brigadier generals by, among other policies, expanding type B military commands (Korem) to type A based on geostrategic considerations. The massive promotion of colonels signifies the prevailing New Order mentality that is the desire for higher military ranks given the privileges and powers that they entail. During the New Order, governor posts were reserved for major generals, while mayor and regent posts for lieutenant colonels or colonels.²

Nevertheless, it is feared that such a plan will only lead to inefficiency and idle officers. A 2017 study by the Centre for Strategic and International Studies found that since 1998, the TNI has had a surplus of more than 100 officers per year, which mostly comprised colonels and brigadier generals. Hence, the collective promotion of colonels will not solve the underlying issue, but shift the logjam to another group of officers.

¹ CNNIndonesia.com, "DPR: Wacana TNI Duduki Kementerian Kembalikan Dwifungsi ABRI" 4 February 2019 <https://tinyurl.com/y78g6gvd>

² Tirto.id, "Cerita Orde Baru Mendudukkan Kepala Daerah" 15 January 2018 <https://tinyurl.com/y8zs873p>

The plan to increase the retirement age is equally problematic. Jokowi said that at 53 years old, lower ranking military officers remained “physically fit” and “productive”.³ While some may doubt the physical fitness of 58-year-olds in military operations, the TNI commander has confirmed that older officers would hold organizational posts such as in machinery maintenance.⁴

Nevertheless, considering the existing stockpile of officers of certain rank, increasing the retirement age will cramp the military with older officers, especially because the current surplus of colonels is allegedly due to the limited number of positions for brigadier generals. Reportedly, around 70 high-ranking officers and 400 middle-ranking officers are currently nonjobbers.⁵ Even four-star general Budiman was left without a job for two months until he retired after he was dismissed as Army chief in 2014.⁶ His successor Gatot Nurmantyo followed suit. He was parked at the TNI headquarters for about three months without a job after Jokowi replaced him as TNI chief in December 2017.

The government’s failure to address the surplus of officers might have caused the final, and probably the most complex, plan to allow active military officers to hold civilian posts. Hadi has admitted that the plan was to ease the matter of idle officers.⁷ The proposed measure, however, does not address the crux of the problem, which is prevalent mismanagement inside the military.

This mismanagement may originate from the decision to recruit more Military Academy cadets about two decades ago. The number of recruits has not changed although the regime has crumbled. During the New Order, military officers could be reassigned to many civilian posts, but when the winds of reform began in the late 1990s thousands of military officers had to relinquish their civilian jobs and return to the barracks. This stiffened competition among officers as jobs were limited while the supply of officers kept increasing. If Army Staff and Command College (Seskoad) does not decrease its number of graduates to 150, reportedly there may be a surplus of 600 officers by 2027.⁸

The return of active military officers to nonmilitary roles surely marks a setback. Not only will this diminish the required apolitical nature of the military, it will create a military-civilian conflict as well. Competition for jobs will not only brew among military officers, but also with civil servants. It should be noted, however, that the limited number of military posts is not an isolated phenomenon typifying Indonesia. The end of the Cold War marked the demise of classic industrial warfare, which is the traditional means of war where interstate militaries engaged in battles with decisive victory as the main objective. The end of industrial warfare consequently diminished the relevance of a standing army. Russia, for instance, considerably cut military spending after the Cold War, leaving millions of officers unemployed.

Regardless, creative and innovative measures are needed for the TNI, as a professional institution, to settle the surplus of officers sooner rather than later. Close neighbor Singapore is

³ CNNIndonesia.com, “Jokowi Ubah Usia Pensiun TNI Golongan Tamtama Jadi 58 Tahun” 29 January 2019 <https://tinyurl.com/ycjqt6g>

⁴ Kompas.com, “Masa Pensiun Diperpanjang, Tamtama dan Bintara TNI Akan Berdinas di Sini” 29 January 2019 <https://tinyurl.com/y8hwna52>

⁵ Tempo.co, “Bintang Redup di Markas Tentara” 1 February 2019 <https://tinyurl.com/y7rebq57>

⁶ Kompas.com, “Ketika Jenderal Bintang Empat Tak Punya Jabatan” 25 July 2014 <https://tinyurl.com/ycbm6fs3>

⁷ Tirto.id, “Panglima TNI Ingin Perwira Aktif Ditempatkan di Kementerian/Lembaga” 31 January 2019 <https://tinyurl.com/ya7k8s4k>

⁸ Laksmana, Evan, “Military personnel problems need more than quick fixes” 1 February 2019 <https://tinyurl.com/y7wxno47>

living proof that the TNI can learn from. In the city-state, most officers choose early retirement in their late 40s as colonels and many go to the private sector and do well because they are well prepared and have much-needed skills, leadership and discipline. Officers here and elsewhere should be entitled to four stars if they fight in real wars. The TNI is bloated with colonels and generals and no wars to fight to earn their rank.

BUSINESS & ECONOMIC POLICY

Electric cars may challenge Japanese domination in Indonesia

The government's ambition to establish an electric vehicle industry has sparked greater competition among three great Asian car manufacturers: Japan, South Korea and China. With China having successfully sealed multiple partnerships with the government in the upstream electric battery production and nickel processing sectors, Japanese automotive supremacy in Indonesia is slowly being eroded. This also follows South Korean car manufacturer Hyundai's announcement it will establish an electric car manufacturing plant in West Java, while China's Sokon Group is also considering building its electric cars in Indonesia.

Takeaway:

- The government's decision to push for the development of electric vehicles has attracted the interest of Korean and Chinese manufacturers and could erode Japanese manufacturers' domination of Indonesia's automotive industry.
- Japanese manufacturers, with their domination of the distribution network and after-sales services, may pose serious barriers for the new challengers that enter the electric vehicle industry.
- Consumer preference and charging infrastructure could become barriers to the development of electric vehicles in Indonesia
- The falling cost of lithium battery production and global manufacturers' big investments in electric vehicles will lead to increasing sales of electric vehicles.
- Indonesia is in good position to produce lithium batteries and attract investment for electric vehicles.

Background: Coordinating Maritime Affairs Minister Luhut Binsar Pandjaitan revealed recently that South Korean car manufacturer Hyundai had committed to invest up to \$1 billion (Rp 14.1 trillion) to create an electric car manufacturing plant and electric car assembly plant in Bekapur (Bekasi-Purwakarta) Industrial Complex in Karawang, West Java. Luhut explained that the plan was intended to form a bigger value chain by benefiting from locally produced batteries from Morowali, Central Sulawesi, or Weda Bay in Halmahera, North Maluku, and port and airport facilities located close to the plants, namely Patimban Deep Sea Port and Kertajati Airport.⁹

The government has reportedly also encouraged transport companies and ride-hailing app providers to use electric vehicles. Leading publicly listed taxi company Blue Bird has responded positively, by preparing a new electric car fleet, with the help of state-owned electricity company

⁹ Detik.com, "Hyundai Mau Bangun Pabrik Mobil Listrik Senilai Rp 14.1T," Jan. 14, 2019 <https://tinyurl.com/y9vwd3kl>

PLN to provide charging facilities. Blue Bird is reportedly partnering with BYD Auto of China – one of the world’s largest plug-in car manufacturers – to supply the electric vehicles. PLN engineering and procurement planning head Zainal Arifin confirmed that PLN was involved in a three-party agreement with Blue Bird and BYD, in which PLN would provide several charging stations in locations around Jakarta and Bali.¹⁰ Meanwhile, one source revealed that ride-hailing app provider Grab had agreed to use electric vehicles for its driver partners. Grab is said to be planning to adopt Hyundai’s locally produced electric cars.

President Joko “Jokowi” Widodo surprised the automotive industry earlier this year by announcing that the government was preparing a number of regulations and incentives to encourage investment in the domestic electric vehicle industry. The decision was taken following the groundbreaking of a lithium battery plant development at a sprawling nickel-based industrial complex in Morowali in April last year, and the development of a special economic zone, designated exclusively for nickel processing and the electric battery industry in Halmahera in August last year, which is directly supervised by the Office of Coordinating Maritime Affairs Minister and the Industry Ministry.

Government’s electric vehicle implementation targets

	2025	2050
Charging stations (SPLU)	1,000	Around 10,000
Electric car ownership (unit)	2,200	4.2 million
Hybrid car ownership (unit)	711,900	8.05 million
Electric motorcycle ownership (unit)	2.13 million	13.3 million

Source: Investor Daily, Energy and Mineral Resources Ministry

Insight: The government’s decision to speed up the development of the electric vehicle industry in Indonesia could potentially erode Japanese automakers’ supremacy in Indonesia. Japan, through Astra International, has successfully dominated Indonesia’s automotive market for more than five decades. Toyota, Mitsubishi, Honda and Nissan are Japanese automotive brands with overwhelming market shares in comparison to other automotive brands.

Korean manufacturers, especially Hyundai and Kia Motors, have tried to challenge Japanese domination through various means, including a national car program, but to no avail. Now, with Hyundai’s commitment to invest heavily – of up to US\$1 billion – to build electric vehicles in West Java, it looks like it has a chance. The government’s decision to allow Hyundai’s future operation to use the Patimban Deep Sea Port, however, may further irk Japanese players. The Patimban Deep Sea Port, the development of which began in August 2018, was the product of the Japanese and Indonesian governments’ joint venture investments.¹¹

Japanese domination has already met with a serious challenge from Chinese automakers. Wuling Motors’ expansion into Indonesia over the last few years has demonstrated how a new player could easily disrupt Japanese domination in the industry. Sales of Wuling’s featured car

¹⁰ CNBC Indonesia, “Diam-diam, Blue Bird akan punya armada mobil listrik,” Feb. 7, 2019 <https://tinyurl.com/y97yt9dt>

¹¹ Tirto.id, “Jepang-RI bahas Blok Masela hingga Pelabuhan Patimban,” Jan. 16, 2017 <https://tinyurl.com/yauceqzi>

“Cortez” were reported to rival the sales of Toyota, Honda, Mitsubishi and Nissan last year.¹² Another Chinese manufacturer Dongfeng Sokon, through its Hong Kong subsidiary, has targeted the Indonesian market by building a car assembling plant in Banten, which will start production in 2019.¹³ Our source said that Sokon was now considering investing heavily in electric vehicles.

The government has actually tried to court Japanese car manufacturers, which have long dominated Indonesia’s automotive industry, to invest in electric vehicles. But, Japanese manufacturers have yet to make any commitment to invest heavily in electric vehicles. The only news we have received so far is as follows: Toyota reportedly agreed to begin producing electric vehicle components¹⁴, while Mitsubishi has agreed to cooperate with the Industry Ministry to conduct a joint study into electric vehicle development in the next four to five years.¹⁵

Japanese car manufacturers have invested heavily in internal combustion engines in Indonesia, which has made them unbeatable. Therefore, it is not easy for them to invest in electric vehicles. Therefore, it is understandable that Japanese manufacturers – through the Association of Indonesian Automotive Manufacturers (Gaikindo) – have lashed out against the government’s planned significant preferential treatment toward electric vehicles. Yohanes Nangoi of Gaikindo argued that a non-gradual transition to electrified vehicle manufacturing could jeopardize the lives of 1.2 million workers in the conventional automotive industry and trade account stability. Why? Because electric vehicles only use 10 percent of the total components found in conventional combustion vehicles.¹⁶

The domination of Japanese manufacturers in the domestic auto market, especially their domination of the distribution network and after-sales services, could become a stumbling block for the government’s ambitious plan to build an electric vehicle industry. Car dealerships would likely be reluctant to sell electric models, which often require less maintenance and are less profitable for their service departments.

Another barrier for the development of this electric vehicle industry would be charging infrastructure and the time it takes to power a depleted battery. In countries where charging infrastructure has been developed, people’s adoption of electric vehicles has been slow because it still takes longer to charge an electric vehicle than it does to refuel a conventional car with a combustion engine at a gas station.

Consumers may remain wary of vehicles with limited range that can take hours to charge. Although battery electric vehicles now have sufficient range for people’s daily commuting habits, consumer psychology is still difficult to predict. Over the last decade, more developed countries like Australia, China, India, Japan, the United States and more than 20 nations in Europe have been incentivizing electric car businesses. Nonetheless, electric car sales growth has not been fruitful. For example, in Japan, market growth has hit a ceiling of only 8 percent after 10 years of continuous promotion.

But this situation may change soon. Global car manufacturers are now making big investments in electric vehicles. They anticipate electric vehicles playing a big role in the near future. Mercedes-Benz, for example, has said it plans to invest US\$11 billion in electric vehicles by 2022, which suggests the production of electric vehicles could be on the horizon.¹⁷ Volkswagen and Tesla each have plans to produce more than 1 million electric vehicles per year by 2025. All

¹² Motoris, “Sejarah baru, merek Cina berhasil injak Jepang di Indonesia,” Jan. 27, 2019 <https://tinyurl.com/y9tkca4d>

¹³ Xinhua, “China’s Sokon group launches its Indonesian plant operation,” Nov. 28, 2017 <http://tinyurl.com/y8ef2tys>

¹⁴ DetikOto, “Ancang-Ancang Toyota Bangun Pabrik Mobil Listrik di Indonesia,” Jan. 26, 2018 <https://tinyurl.com/yabl5q9f>

¹⁵ Liputan 6, “Kembangkan Mobil Listrik, Kemenperin Gandeng Mitsubishi,” Feb. 12, 2018 <https://tinyurl.com/y7e7e4lu>

¹⁶ Kumparan.com, “Mobil Listrik Mengancam Industri Otomotif Indonesia,” May 23, 2018 <https://tinyurl.com/ycm95lvt>

¹⁷ Business Insider, “32 electric cars you’ll see on the road by 2025,” Nov. 28, 2018. <http://tinyurl.com/y87ubddf>

new cars launched by Volvo from 2019 onwards will be partially or completely battery powered, in what the company called a “historic end” to building models that only have an internal combustion engine.¹⁸

A report from research group Bloomberg New Energy Finance (BNEF) projects that plug-in hybrids and all-electric vehicles will make up 54 percent of new light-duty sales globally by 2040, outselling their combustion engine counterparts. The reason is batteries. Since 2010, the average cost of lithium-ion battery packs has plunged by two-thirds, to around US\$300 per kilowatt-hour. The Bloomberg report sees that falling to \$73 by 2030 without any significant technological breakthroughs. More power packs are expected to be installed in electric vehicles in 2018 than in consumer electronics. China, where subsidy-toting drivers own a third of the world’s passenger electric vehicles, is doing the most to fuel the boom. For the next decade, the report notes, electric vehicle production will remain reliant on government incentives and sales mandates in places like Europe and China. But as automakers introduce a greater variety of models and lower costs, electric cars will reach a point where they can stand on their own.¹⁹

Global trends in the surge of electric vehicles may eventually affect Indonesia. As one of the world’s biggest nickel reserves, Indonesia has realized its potential in lithium battery production and has now embarked on the development of a domestic electric car industry. It is all in the early stages. The success of this endeavor will hinge on the response of the existing car manufacturers, and most importantly from the ever-demanding consumers.

What we’ve head: The Hyundai Motor Company was initially hesitant about investing in electric vehicles in Indonesia because it was unsure about the supply of lithium batteries, the availability of charging stations, worker capabilities, project location and the rupiah’s volatility. Hyundai was also waiting for the issuance of a presidential regulation on electric vehicles for the land public transportation acceleration program.

One government official who knew about Hyundai’s investment plan in electric cars said that the South Korean automaker had asked LG Chem to invest in lithium battery production in Indonesia. LG Chem was interested in establishing production plants in Indonesia, if there was stable domestic demand. The commitment was stated when Coordinating Maritime Affairs Minister Luhut Binsar Panjaitan visited South Korea last December.

In a later development, Hyundai decided to build an electric car production center in Indonesia – with or without LG Chem. It intends to use 50 percent of the production for the domestic market, and the rest for exports. Hyundai has agreed to provide Singaporean ride-hailing app provider Grab with electric cars. As a start, Hyundai will supply around 200 electric cars to Grab in Singapore this year. The plan will then be replicated in Grab’s operations in the Southeast Asian region including in Indonesia.

In addition to Hyundai, Chinese automaker Sokon Group is reportedly also interested in investing in electric vehicles. Nevertheless, it is still waiting for the presidential regulation on electric vehicles to be issued and will look into the incentives offered for electric cars.

Hyundai and Sokon’s plans coincide with the government’s ambition to develop a domestic electric vehicle industry. Indonesia has promoted electric vehicle adoption in order to reduce fuel consumption and imports. Last year, Indonesia suffered a record trade deficit of \$8.57 billion,

¹⁸ New York Times, “When Will Electric Cars Go Mainstream? It May Be Sooner Than You Think”, Jul. 8, 2017.

<http://tinyurl.com/y77p9tyh>

¹⁹ Japan Times, “Battery boom: The future of cars rests with firms that predate the Model T”, Oct. 28, 2018.

<http://tinyurl.com/yd9feulr>

resulting from an oil and gas deficit of \$12.4 billion and a non-oil trade surplus of a mere \$3.84 billion.

Meanwhile, the discussion of the draft presidential regulation among government ministries has stalled. According to a government official, the Energy and Mineral Resources Ministry and the Industry Ministry could not agree on the definition of an electric vehicle. The former believes that electric vehicles are battery powered, while the latter insisted that those with electric motors are electric vehicles. If the government decides to follow the Industry Ministry's definition, hybrid cars could be categorized as electric vehicles and receive the same incentives as electric cars.

According to the source, one of the main points in the regulation stipulates that the more domestic components are used in the product, the greater the incentives that will be given to the producers. The regulation is said to emphasize electric battery down-streaming and electric cars, not hybrid, and is intended to become the founding regulation for electric cars. Currently, the draft regulation is being reviewed by the Law and Human Rights Ministry for legal harmonization.

The government will assign state-owned utility company PLN, in partnership with private investors, to build charging stations. Simultaneously, the government also plans to provide more incentives for consumers such as free electrical power upgrades for households with in-house charging facilities.

The government hopes that conventional automotive manufacturers will join the government's program and invest in electric vehicles.

Macroeconomic Update: Fiscal policy alone not enough

On Feb. 6, Statistics Indonesia (BPS) reported that the Indonesian economy grew by 5.18 percent in the fourth quarter of 2018 and 5.17 percent in the full year.

Takeaway:

- Like 2018, President Jokowi will rely on populist economic policy and expansionary fiscal policy to stimulate the economy in 2019.
- But, fiscal policy alone is not enough. To achieve higher economic growth, Indonesia needs a boost in investment and higher export growth.
- Based on the IMF's global economic projection, Indonesia's export growth will slow down. The government might respond with a more restrictive import policy that would derail the BKPM's effort to boost foreign investment

Background: The Indonesian economy in 2018 was driven by three economic cycles. First is the political business cycle. Ahead of the upcoming 2019 presidential election, President Joko "Jokowi" Widodo tried to stimulate the economy through energy subsidies and various populist policies, like increasing civil servant salaries, doubling the social assistance funds (*Bansos*) for poor families as well as expanding the village funds by including subdistricts (*kelurahan*) in

urban areas as eligible recipients.²⁰ As a result, government expenditure in 2018 grew by 4.8 percent, faster than in the previous years, except for 2015.

Second is the investment cycle. One of President Jokowi's main macroeconomic challenges is low investment growth. Since 2013, investment growth in Indonesia has been below 7 percent. To boost investment growth, Bank Indonesia (BI) pursued an expansionary monetary policy. The policy began in January 2016 with the lowering of the BI rate from 7.5 percent to 7.25 percent and continued with the lowering of the 7-day reverse repo rate (7DRRR).

Because of the usual time lag, BI's expansionary monetary policy only showed effect in the third quarter of 2017, when domestic investment growth exceeded the 7 percent level. Unfortunately, the US Federal Reserve's decision to tighten its monetary policy has caused capital outflow from emerging markets like Indonesia. In response to this, BI decided to abandon its expansionary monetary policy and increase the 7DRRR to maintain macroeconomic stability.

BI's decision shocked investors. Because of this shock, investment growth fell to 5.86 percent in the second quarter of 2018. Although the slump was followed by growth of 6.96 percent in the third quarter, a lukewarm 6 percent investment growth in the fourth quarter raises the question as to whether the recovery in investment growth will continue in the near future.

Last is the international trade cycle. The Indonesian economy is highly dependent on international trade, particularly the export of extractive commodities, such as palm oil, coal, and various industrial metals. Following the end of the global commodity price boom that began in 2012, Indonesia's export and import growth rates fell from double-digit to single-digit rates, and then continued into negative territory in 2015 and 2016.

Indonesia's export and import growth started to recover in the fourth quarter of 2016. In the third quarter of 2017, Indonesia's export and import growth reached double-digit rates again. But, this recovery did not last long. In 2018, export growth dropped below 8 percent. Meanwhile, imports continued to grow at double-digit rates. In response to this, the Indonesian government adopted various import restrictions policies, such as an import levy,²¹ replacing the import of 500 consumer goods with local substitutes²² as well as postponing – if not cancelling – various infrastructure projects²³.

Real Growth Rate of Annual Government Expenditure, 2014-2018

2014	1.16%
2015	5.31%
2016	-0.14%
2017	2.13%
2018	4.80%

Source: BPS

Insight: In 2018, the Indonesian economy grew at a rate of 5.17 percent, the fastest growth rate since 2014. The main question is whether this upward trend will continue in 2019. Basically, the upward trend will continue under three conditions: (a) continuing expansionary fiscal policy, (b) improvement in domestic investment growth and (c) sustained recovery in export and import growths.

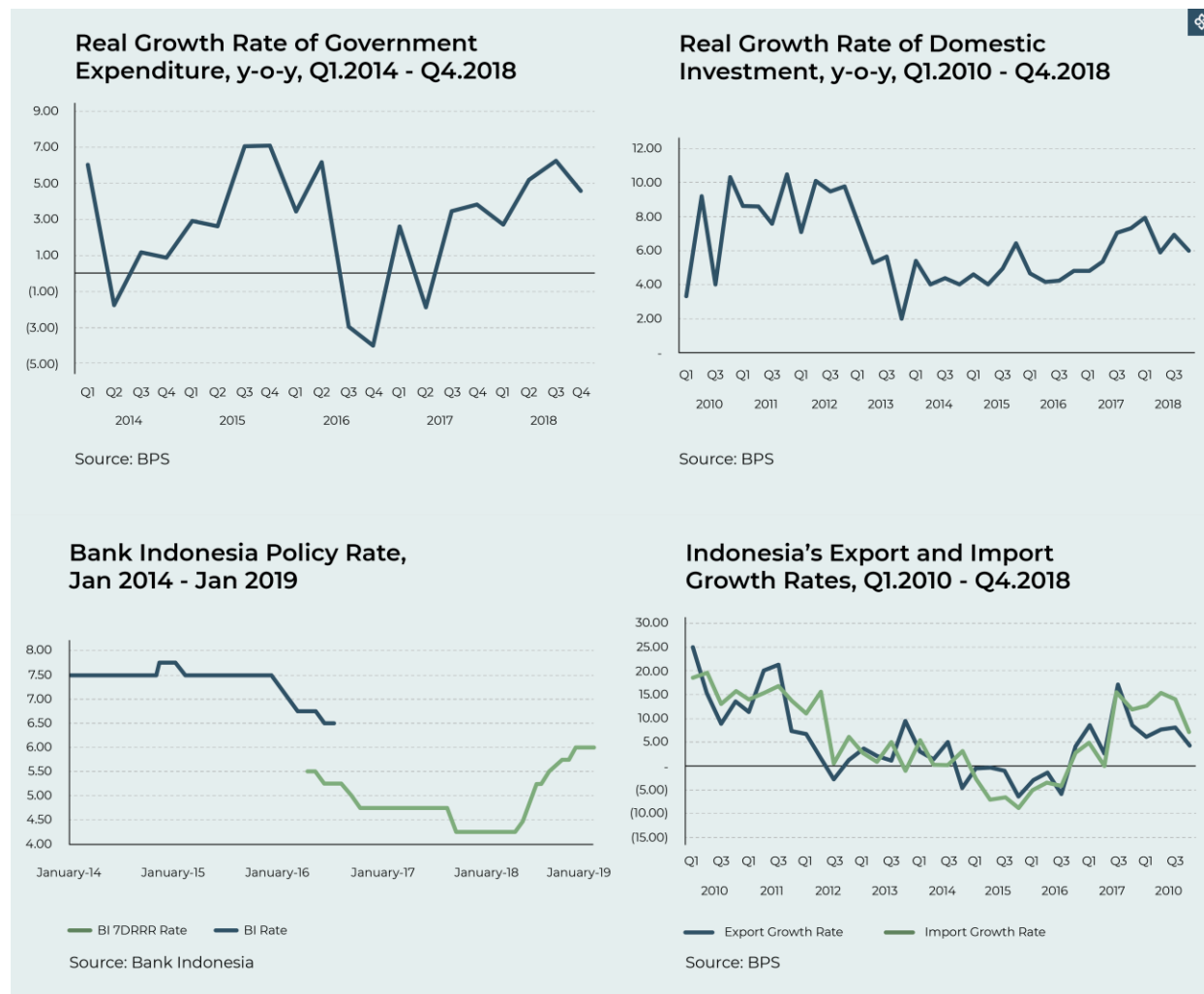
²⁰ Kompas.com, "Kebijakan populis Jokowi jelang 2019, naikan gaji PNS hingga gratiskan tol Suramadu." 30 October 2018 <https://tinyurl.com/yc7tu4hu>

²¹ TheJakartaPost.com, "New import tariff policy to be issued within two days." 4 September 2018 <https://tinyurl.com/yb5l27h2>

²² TheJakartaPost.com, "Indonesia considers reducing imports of 500 consumer goods." <https://tinyurl.com/y7vl7cd6>

²³ TheJakartaPost.com, "Government may postpone infrastructure projects for up to six years." <https://tinyurl.com/y7a5pcy5>

Based on the statement from Jokowi's campaign team spokesman Arief Budimanta, President Jokowi will continue with his populist economic policies, maintaining electricity and fuel subsidies with the possibility of expanding the subsidy into fertilizer, health and education.²⁴ Besides the subsidies policy, the President will also proceed with his plan to increase civil servant salaries by 5 percent on average, the first increase since 2015.²⁵



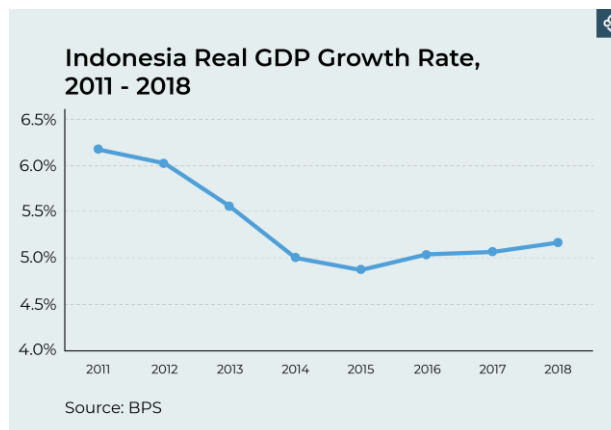
Regarding investment, Finance Minister Sri Mulyani Indrawati has reiterated the government's commitment to boost investment growth above 7 percent. The Office of the Coordinating Economic Minister's deputy head for macroeconomic and finance Iskandar Simorangkir has cited the implementation of the controversial online single submission (OSS) and the plan to relax the negative investment list (DNI) as the government's main economic policies to boost investment.²⁶ Given their past track records, it is very unlikely that these policies would affect investment growth in 2019. Moreover, Bank Indonesia (BI) is occupied with maintaining the rupiah's stability that makes stimulating investment growth through expansionary monetary policy highly unlikely.

²⁴ Kontan.co.id, "Jokowi-Ma'ruf pastikan subsidi energi tetap, tapi pengembangan SDM prioritas." 6 February 2019 <https://tinyurl.com/yabxqfkf>

²⁵ Detik.com, "Aturan PNS untuk naik gaji ditarget rampung akhir Januari." 17 January 2019 <https://tinyurl.com/yc3o4jap>

²⁶ Tempo.co, "IMF turunkan proyeksi ekonomi dunia, RI bergantung pada investasi." 23 January 2019 <https://tinyurl.com/yd5k2eqh>

The International Monetary Fund's (IMF) 0.2 percent downward revision of its 2019 global growth projection to 3.5 percent²⁷ suggests that Indonesia's export growth would slow down further. Statistics Indonesia (BPS) reported that 2018's export growth was 6.48 percent, lower than 2017 at 8.91 percent. Given the IMF's downward projection, Indonesia's export growth might decline further. The government might respond to this condition with a more restrictive import policy, which would hurt the Indonesia Investment Coordinating Board's (BKPM) effort to stimulate foreign direct investment by relaxing capital goods import.²⁸



²⁷ IMF.org, "A weakening global expansion." 13 January 2019 <https://tinyurl.com/yd6sp3pt>

²⁸ Tirto.id, "Genjot investasi 2019, BKPM dorong kemudahan impor barang modal." 7 February 2019 <https://tinyurl.com/ybrk4dk2>

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PT Trisaka Wahana Tenggara

The Jakarta Post Building
Jl. Palmerah Barat 142-143
Jakarta 10270

+62 21 5300476/8 ext. 2009

info@tenggara.id

www.tenggara.id

Board of Commissioners:

Jusuf Wanandi, Djisman S. Simandjuntak, Endy M. Bayuni

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Researchers & Writers:

Angeline Callista, Astria Zahra Nabila, Adinova Fauri,
Benni Yusriza, Dwi Atmanta, Frans Surdiasis, Stella
Kusumawardhani, Lionel Priyadi, Vincent Lingga,
Yesaya Christianto, Yessy Rizky

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