

PERSPECTIVE

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The Politics of Widodo's Prioritisation of Accelerated Infrastructure Construction

*By Max Lane**

EXECUTIVE SUMMARY

- After the initial fracas over Cabinet appointments and the tensions between the police and the Corruption Eradication Commission (KPK), President Widodo launched a programme of speaking at the commissioning ceremonies of major infrastructure projects. Achieving economic growth driven by infrastructure projects has become his key policy focus for the moment. It is also his key political project.
- This prioritisation of infrastructure projects is a continuation, repackaged, of Yudhoyono's Masterplan for the Acceleration and Expansion of Indonesia's Economic Development (MPE3I) but boosted with a major increase in government funding for infrastructure.
- President Widodo has been able to secure unanimous parliamentary support for this economic prioritisation and the concomitant changes in budget.
- The increase in government funding for infrastructure has been enabled by the ending of fuel price subsidies, the imposition of new government charges and the mobilisation of funds associated with insurance and health programs. Most of these decisions are reducing the disposable income of the lower middle class and lower income strata.



- The Red-White Coalition (KMP) opposition is concentrating criticism on minor issues aimed at generating uncertainty about the capabilities of the Widodo government while making sure it is not seen as an obstacle to any of the infrastructure plans, and is most likely waiting for failure in this area.
- The gap between Widodo's infrastructure prioritisation and a range of other service agendas which surfaced during the 2014 election campaigns is providing the context for various initiatives to start up new parties appealing to those agendas. This gap may be partly ameliorated in the coming year if there is concrete and palpable implementation of health and education reforms making these services more affordable.

* *Max Lane* is Visiting Senior Fellow with the Indonesia Studies Programme at ISEAS-Yusof Ishak Institute, and has written hundreds of articles on Indonesia for magazines and newspapers. He maintains a blog called maxlaneonline.com.

INTRODUCTION

Following the fracas created as a result of public protest against the appointment of Budi Gunawan as police chief, and despite continuing resistance by the police to civilian political authority, President Joko Widodo has been able to launch the more substantive aspects of his political campaign to win support for his presidency. These have included minor symbolic posturing on human rights in Papua, later rejected by military officials and a Minister, and statements promising action later in the year on the issuance of his “Indonesia Smart Card” (Kartu Indonesia Pintar) and “Indonesia Health Card” (Kartu Indonesia Sehat), which will be linked to as yet unspecified education and health social safety net programmes. The more primary component of his campaigning, however, has been the centrepiece of his economic programme promises, namely *accelerated infrastructure construction*.

Beginning in late April, Widodo started a programme of launching infrastructure projects. These included toll roads on Sumatra and Java, electricity generator plants, harbours, a cement factory, dams and bridges as well as a workers’ housing project.¹ Most of these projects had already been identified during the Yudhoyono period and were in the pipeline. In the early Yudhoyono years, only around 2.1% of the budget was allocated to infrastructure construction. However, infrastructure projects received a new prioritisation in the Masterplan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI 2011-2025), although still primarily to be funded by private investment through Private Public Partnerships (PPPs). It is projected that more than 70 percent of both the USD150 billion needed for the National Medium Term Development Plan (RPJMN, Rencana Pembangunan Jangka Menengah Nasional) and the USD468 billion needed for the MP3EI will be contributed by the private sector through PPPs. Approximately 45 percent of the MP3EI budget was allocated to infrastructure construction.²

In February 2015, Widodo succeeded in gaining unanimous parliamentary approval for a 53% expansion of direct government financing of infrastructure construction.³ The government is also injecting USD3 billion into state-owned companies, hoping that this will make them more attractive in seeking PPP arrangements.⁴ In so doing, Widodo can claim that he is the president who can successfully “accelerate” and expand the infrastructure programme by allocating more budget to infrastructure as well as attracting new foreign investment, aid and loans.

In a previous *Perspective*, I have talked about there being two “Jokowi campaigns” during the Presidential Election of 2014.⁵ He campaigned as the candidate of the Indonesian Democratic Party – Struggle (PDIP) but also as the candidate of the non-partisan

¹ These were well reported on TV and in a range of media. Basic information on the launches can be obtained by inspecting the website of the Sekretariat Kabinet www.setkab.gov.id

² <http://www.indonesia-investments.com/business/risks/infrastructure/item381>

³ <http://www.economist.com/news/finance-and-economics/21650586-bad-policy-much-bad-infrastructure-holding-indonesia-back-spicing-up>

⁴ <http://www.wsj.com/articles/indonesia-makes-play-for-infrastructure-investment-1425592554>

⁵ See Max Lane, “A Jokowi Party? Reflections on the State of Elite Politics in Indonesia”, *ISEAS Perspective*, 2015 #17 (31 March 2015).

“volunteers” (*relawan*) constituency, which attracted broad support from media not affiliated to political parties. This has raised two sets of competing expectations from the politically liberal white collar middle class social layers and from the apparatus and constituency of the PDIP patron-client conglomeration respectively. These two campaigns were, however, primarily relevant to image strategy, secondary policy symbolism and appointments, but not Widodo’s substantive policy orientation. Thus, we can argue that where programmes and policies are concerned, Widodo’s primary appeal is to the private business sector.

WIDODO’S PRIMARY PROGRAMMATIC OUTLOOK

Widodo, reflecting his background as a middle level manufacturer in a middle level city, has always expressed the view that the Indonesian economy (and therefore society) will progress if the government gives the correct kind of support and encouragement to the private sector. He is also clearly of the view that it requires a hands-on entrepreneur with “in-the-field” (*lapangan*) experience to understand what support and encouragement the private sector needs. He has emphasised his field experience many times as one of his key strengths. This was the central component of his programme in Solo, starting with the establishment of a one-stop centre for organising permits and fulfilling other bureaucratic requirements. Probably the most important aspect of his “populist” dialogues with the “people” was his role in securing a faster process for land acquisition for commercial development projects.

This emphasis on assisting the private sector as the framework for accelerating economic development was central to Widodo’s arguments in the nationally-televised TV debates with Prabowo Subianto, his opponent during the presidential campaign. It was also crucial to the nationally-televised dialogue he and Jusuf Kalla (Widodo’s vice-presidential candidate) had with the Indonesian Chamber of Commerce (KADIN) during the election campaign.⁶

There appear to be two major components in Widodo’s programme for supporting and encouraging the private sector. The first is to deregulate, i.e. simplify and reduce regulations and compliance frameworks, including ensuring rapid processes in terms of land acquisition. The second is based on the idea that the building of a large number of infrastructure projects will stimulate both immediate business activity as a result of the actual construction process as well as medium-term activity because of the impact of the availability of the infrastructure. In addition, reflecting his own background as a province-based export capitalist, dealing with Central Java and Kalimantan (where he sourced for timber for his furniture business), he has given some emphasis to the importance of infrastructure that facilitates logistics to the regions and direct access for the regions to international markets. His statements almost always refer to the construction of “infrastructure in the regions”.⁷ This was highlighted in his campaign as the need to build a “Maritime Toll Way” across the archipelago, i.e. a series of more developed ports and harbours.

⁶ <http://thejakartaglobe.beritasatu.com/business/jokos-plan-wins-hearts-kadin/>

⁷ <http://nasional.kompas.com/read/2015/04/28/08425511/Jokowi.Sadar.Popularitasnya.Turun> Here he asserts that the withdrawal of the fuel subsidies is being used for “infrastruktur daerah”.

This outlook is not markedly different from that developed by Hatta Rajasa, the Coordinating Minister for Economics under Yudhoyono, who formulated the MP3EI.⁸ The primary difference is in the increase of 53% in government allocation, enabled by the withdrawal of fuel subsidies from the government's expenditure. Also, immediately after the election, Widodo moved to cancel the project for a bridge linking Java with Sumatra, opting for the building of more developed harbours and wharfs instead. While this was linked to cost and source of financing factors, it also helped emphasise transport over the water, rather than land – although toll roads have been among the first projects that he has recently launched.

POLITICS: WHO IS PAYING FOR INFRASTRUCTURE DEVELOPMENT?

It is fair to say that Widodo has placed strong emphasis on infrastructure development as a mark of his presidency. This is not only reflected in his political campaign and his own statements, but also in the impetus to obtain funds for these projects as quickly as possible. The first major decision, made early on in his presidency, was the withdrawal of fuel subsidies, which had an impact on the prices of both large vehicle as well as motor bike petrol.⁹ Virtually the whole of the funds saved by this move were allocated to infrastructure in an amended Budget submitted to the parliament in February, disappointing some elements from within the “volunteers” constituency who might have hoped for these funds to be allocated to health and education. Widodo will need to reaffirm his commitment to these areas by the January 2016 Budget at the latest to retain his image as a pro-health and education president.¹⁰ The withdrawal of the fuel subsidies had had inflationary effects, especially on basic goods and services, in spite of an initial fall in fuel prices as a result of the drop in international oil prices. After the initial fall, prices were allowed to rise again in April. There has also been a 12% increase in the price of fuel for motorbikes, a major form of transport for middle and low income earners. The price of rice has also risen substantially, with some fearing the rise will be up to 30%.¹¹ At the same time, bottled gas prices have risen together with electricity prices, except for the very lowest level users, but it is expected that subsidies for these will also be ended.¹²

Funding is being raised in other ways that also impacts disproportionately on the lower middle and lower income strata. The transaction tax stamp (*bea materai*), required for all commercial transactions, even very small ones engaged in by ordinary people, has been increased from Rp 3,000 and Rp 6,000, to Rp 10,000 and Rp 18,000 respectively. The

⁸ See http://www.kemlu.go.id/rome/Documents/MP3EI_PDF.pdf

⁹ <http://www.kspi.or.id/kspi-jokowi-jk-harus-kreatif-atasi-masalah-bbm.html>; also <http://megapolitan.kompas.com/read/2014/11/18/09031771/Harga.BBM.Naik.Kenaikan.UMP.Jadi.Sama.Saja.Bohong>

¹⁰ <http://setkab.go.id/presiden-jokowi-tegaskan-anggaran-kis-kip-dan-kks-berasal-pengalihan-subsidi-bbm/>
President Widodo is claiming in June that funds saved from the ending of fuel subsidies is also being used to prepare for his health and education safety net programme.

¹¹ <http://bisniskeuangan.kompas.com/read/2015/03/31/142840626/Harga.Beras.Naik.Rp.500.Per.Kg.Pasca-kenaikan.Harga.BBM>. NGO researchers in the factory belt area around Jakarta state that prices had risen 30% by April with consequences for wage demands. See <http://solidaritas.net/2015/02/harga-beras-naik-buruh-bisa-tuntut-kenaikan-upah-lagi.html>.

¹² <http://economy.okezone.com/read/2015/06/22/19/1169525/setelah-bbm-jokowi-alihkan-subsidi-listrik-bagi-orang-miskin>

government has announced that it is considering extending this to all retail transactions, including, for example, supermarket purchases. The widening of the tax net is also targeting lower middle income earners and small businesses.

The urgency within the government regarding raising funds for infrastructure is also reflected in Widodo's orders to his ministers to examine all reservoirs of "idle" cash in government controlled bank accounts. This has resulted in a decision to use large portions of the cash holdings in the accounts of the Armed Forces Pension Scheme, the national health insurance scheme (MPJS) and the partially state-owned insurance company, Taspen.¹³ This decision has been protested by several community groups as well as an outspoken PDIP member of parliament who played a major role in campaigning for the BPJS health insurance scheme.

It is not surprising that with this series of decisions squeezing the disposable income of the lower middle and lower income strata in Indonesia, Widodo's popularity, as measured by opinion polls, has been steadily dropping. National newspaper *Kompas* has put the satisfaction rating of his government at 43% in April, down from 59% in January.¹⁴

Widodo himself appears to be aware of the risks he is taking with his eggs all in the infrastructure basket. On May 13, he was reported as acknowledging that his popularity was dropping, saying that "change requires the taking of bitter pills, requires sacrifice and patience."¹⁵ He is also reported as saying that the "common people" (*rakyat*) will eventually become angry if there are no results, but he gave the assurance that the infrastructure projects would start to bear fruit in "tahun-tahun mendatang" ("the coming years").

POLITICAL RISKS

Since April, the frequency of opportunities for Widodo to officiate at new infrastructure projects has reduced, although there have been announcements of revitalisation of traditional markets and of him visiting ports undergoing renovation. It is difficult to make infrastructure the centre of month-by-month political campaigning. This is one risk that Widodo faces: that in the absence of any other clear priorities, his programme starts to appear vague and unfocused. In such an atmosphere, the opposition – the Red and White Coalition (KMP) – can capitalise on the various minor negative issues that arise. Since April, these include: criticisms of the large number of people (4,000) Widodo is said to have invited to his son's wedding in Solo; criticisms of the extent of talk of a cabinet reshuffle without clarity; hinting at ministerial inefficiency, and of ministers saying that the president "doesn't know anything"

¹³ <http://www.tribunnews.com/bisnis/2015/04/27/taspen-siap-investasi-langsung-ke-infrastruktur> See also: <http://finance.detik.com/read/2015/03/30/172240/2873846/4/1/jokowi-minta-dana-pensiun-rp-141-t-diputar-di-sektor-infrastruktur>

¹⁴ <http://baranews.co/web/read/38612/presiden.popularitas.saya.turun.tapi.rakyat.akan.rasakan.manfaat#.VVQ3jpOYNGs>

¹⁵ <http://www.fiskal.co.id/berita/fiskal-12/5426/popularitas-turun.-jokowi-:-perubahan-pil-pahit-butuh-pengorbanan#.VVQ19pOYNGs>; <http://baranews.co/web/read/38612/presiden.popularitas.saya.turun.tapi.rakyat.akan.rasakan.manfaat#.VVQ3jpOYNGs>; <http://nasional.kompas.com/read/2015/04/28/08425511/Jokowi.Sadar.Popularitasnya.Turun>

and so on. They have also criticised the granting of work permits to around 40,000 workers from the People's Republic of China – which turned out to be misinformation that nevertheless had made its rounds on social media.¹⁶ The KMP is concentrating on minor issues that suggest that the president is incapable but without appearing to pose obstacles to his infrastructure programme. They have also made sure that they are not seen as obstructing his recommendations for senior government appointments, such as the nomination of Sutiyo, a retired general turned politician who is close to Megawati, for the head of the State Intelligence Agency (BIN).

Another risk faced by Widodo, which is perhaps more serious, relates to any failure, postponement, stalling or scandal connected to a major infrastructure project as well as a lack of funds for social programmes, if too much money had been allocated to infrastructure. Any such lapse on Widodo's part will give the KMP good grounds to adopt a more aggressive oppositional stance. If Widodo is able to make sure the infrastructure projects are completed before the end of his first term and sufficiently publicise their completion, he will have significantly strengthened his position vis-a-vis both the KMP and prominent figures within his own alliance. Widodo, described by the Jakarta Globe as being "frustrated", is clearly conscious of the danger of hold-ups, and had been launching a "charm offensive" in July by speaking directly to fund managers and potential investors.¹⁷

Delay or a severe watering down of his education or health safety net programmes will also affect popularity, but is unlikely to be taken up as a major issue by the KMP. The KMP is waiting for failures in the prioritised areas of economic policy and infrastructure, before going on the offensive. In the meantime, their criticisms will focus on "minor" issues aimed at insinuating a sense of incapability.

BROADER VACUUM AND POLITICAL RESPONSES

The Widodo government remains busy with initiatives being announced often. However, the lack of a sense of focus, apart from economic growth via infrastructure construction, remains strong. This was true also of the Yudhoyono period, except that Yudhoyono had a clear task: stabilisation and consolidation of a new post-Suharto economic and political structure. This involved striking a balance between deregulation demanded by international financial markets and institutions, and domestic commercial needs in the economic sphere. In the political sphere, it meant the implementation of elections and decentralisation, including the introduction of direct elections for the presidency and local executive positions. Both these tasks were completed. Even the last-minute threat to local direct elections was averted partly as a result of Yudhoyono's tactical employment of his presidential powers.

¹⁶ <http://pelitaonline.com/news/2015/06/30/aneh-indonesia-impor-kuli-dari-cina/> ;
<http://sp.beritasatu.com/home/tak-ada-eksodus-warga-tiongkok-ke-lebak/91086>

¹⁷ http://thejakartaglobe.beritasatu.com/news/frustrated-jokowi-launches-charm-offensive-investors/?utm_source=Daily+News+on+the+Southeast+Asian+Region+02+July+2015&utm_campaign=Info+Alert+20150702&utm_medium=email

What objective(s) should the Widodo government take on at this stage? He himself has essentially proposed that it is to maintain the GDP growth rate. This was also the task that the Yudhoyono government was aiming at via the MPE3I. However, the dynamics of the 2014 presidential campaigns indicated that there was a much broader range of concerns operating in society. Widodo's popularity was linked to the image he cultivated as a populist who was aligned with a "simple lifestyle", honest, and against political deals and corruption, rather than with commitment to GDP growth. Prabowo's popularity was linked to his populist rhetoric and nationalistic attacks on foreign businesses taking advantage of Indonesia in its various deals. From within the "volunteers" (*relawan*) constituency, anti-corruption and simple-living issues were also accompanied by some concern over human rights issues – freedom of religion, the clearing up of cases of political murders and disappearances, and the ending of political repression in Papua.

There is an emerging sense of political vacuum stemming from the gap between the broader agendas that had surfaced during the election campaigns and the narrower agenda Widodo has pursued since then. While the strategy being pursued by the KMP – harassment while waiting for a major economic foul-up – is easier to discern, it is less clear how disaffected segments among the "volunteers" constituency and at the grass-roots level will react. Some "relawan" elements have been given positions in the government or in state-owned enterprises as part of a co-option process. However, others are increasingly discontented. The drop in polls for Widodo, as referred to earlier, points to the steady drop in general support.

The existence of this discontent, and the assessment that it will increase, rather than decrease explains why there are still initiatives to start new parties. These include Perindo (Partai Persatuan Indonesia) established by Hary Tanoesoedibjo, Partai Solidaritas Indonesia (PSI)¹⁸ as well as, more recently, Partai Kita,¹⁹ headed by Eggy Sudjana. The parties were established by a tycoon, celebrities and young professionals and businessmen, and a long-term political lawyer respectively. One of the major trade unions, the All Indonesia Federation of Metal Workers' Unions (FPMSI, Federasi Pekerja Metal Seluruh Indonesia), which had aligned itself with Prabowo during the 2014 elections and later the KMP, has since also openly discussed the prospect of forming a "labour party".²⁰ If any of these can capture 4-5% of the votes needed to get 20 or more parliamentary seats in the next general election, it will be a group that some future coalition will want to attract.

¹⁸ <http://nasional.kompas.com/read/2015/03/26/21245331/Grace.Natalie.Akan.Deklarasikan.Partai.Solidaritas.Indonesia.Tahun.2016>

¹⁹ <http://partaikitayes.blogspot.com.au/2015/05/foto-ke-menkumham-pkt.html>

²⁰ <http://www.koranperdjoeangan.com/1450.html> KORAN PERJOENGAN is the official organ of the FPMSI.

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