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- *The second presidential debate on energy, food and infrastructure was held on 17 Feb.*
- *Jokowi restated his focus on infrastructure development to improve connectivity and competitiveness.*
- *He also added priority on information technology development, citing the installation of broadband network under the Palapa Ring Project.*
- *On energy, both candidates pledged to improve the use of green fuels to reduce the dependency on fossil fuels.*
- *The contender, Prabowo, focused on populist policies on food and energy, through halting imports. He also promised to cut fuel and electricity prices, reversing the earlier subsidy reforms done during Jokowi's first term.*

During a ninety-minute presidential debate on 17 February, Jokowi and Prabowo went head-to-head on issues ranging from energy, food to infrastructure.

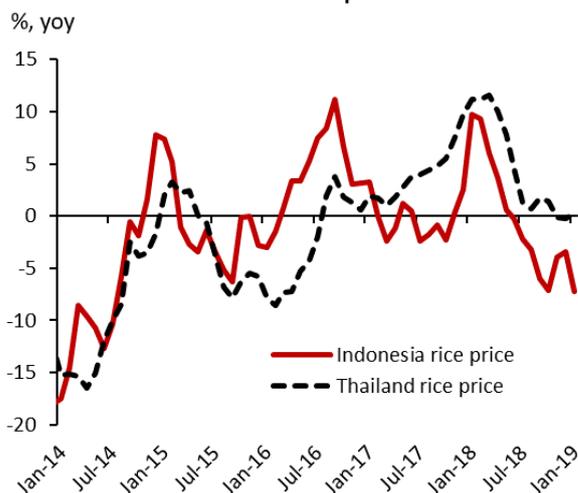
Food policy

On food policy, both candidates aim at low and stable food prices. Prabowo used a more nationalist tone of no-imports policies to support domestic food producers including farmers and fishermen. He also pledged to continue to provide fertilizer subsidies to farmers.

On this front, Jokowi mentioned that to support prices at farmers level, farmers must have access to market directly including the online market places. Hence cutting the role of middlemen in the distribution process is important. He also mentioned better access to financing for farmers, such as peer-to-peer lending.

Even though recognizing that overall annual supply of rice has exceeded domestic demand, he sees imports as a necessary stabilizer in the short run in the event of poor harvests and weather abnormalities. In fact, Indonesia has experienced significant pressure on rice prices during the poor harvests caused by El Niño between 2014-2016. The chart below shows that domestic rice prices rose faster than the prices of similar quality rice abroad (e.g., Thai rice).

Indonesia and international rice price



Does protecting farmers from imported rice really work? There are more nuances to this issue. According to the

World Bank studies (2015), households in general and farmers are net consumers of rice (see table below).

More than 25% of rice farmers are net consumer of rice and more than 65% of all type of farmers are also net consumer of rice. In fact, rice contributed 25%, quite significant, in the consumption basket of poor households. Protection in the area of rice production could hurt farmers, poor and vulnerable households in general, if it disrupts price stability.

Proportion of net consumers of rice			
	Rice farmers	All farmers	All Indonesians
Non-poor	25.6	64.8	82.7
Poor	31.8	68.0	76.5
Total	26.8	65.4	81.9

Source: World Bank, IEQ March 2015 (based on last available rice production, Susenas 2004).

Energy policy

On energy, both candidates pledged to improve the use of biofuels to reduce the country's reliance on fossil fuels. Similar with his policy on food, Prabowo also aims for energy self-sufficiency through halting imports. Jokowi has in fact started the B20 initiative which will gradually move towards the adoption of 100% biodiesel or B100. Increasing the use of biodiesels could potentially reduce the country's oil and gas trade deficit, which reached -USD12.5bn in 2018.

During his first term, Jokowi has targeted to increase the renewable energy portion to 23% in 2025 for both electricity and transportation. However, there have been several challenges to achieve this target, according to International Institute for Sustainable Development (IISD).

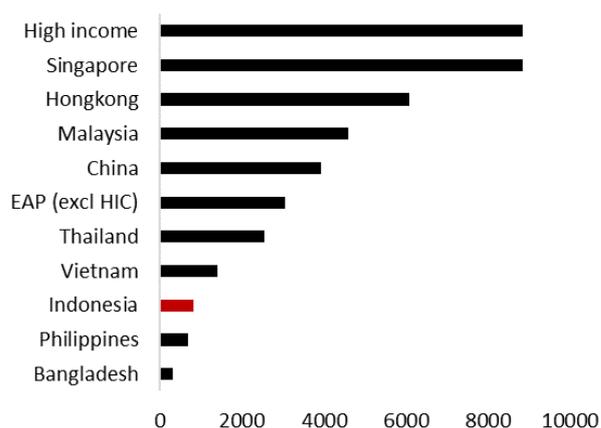
First, the price ceiling at 85% of the local average generation costs (BPP) is too low for renewable energy generation to be profitable. Second, frequent changes to policy have negatively impacted investor confidence. Third, PLN (the state-owned electricity company) as a fuel supplier to diesel generators could lose revenue stream, when diesel generators are replaced by renewable generators. Finally, non-subsidized renewable energy must face head-to-head competition with coal-based electricity, which is artificially cheaper due to

government intervention through Domestic Market Obligation for PLN (obligation to sell proportion of coal production to PLN at uncompetitive prices).

Prabowo promised to cut electricity tariffs and fuel prices, reversing Jokowi's fuel subsidy reform which has eliminated petroleum subsidies and replaced diesel subsidies to fixed-per unit (IDR2000/ltr). It was not clear from the debate on 17 Feb regarding how Prabowo would implement this plan: cutting costs further or adding subsidies through budget expansion. Currently, government still subsidizes electricity for poor households using 450 VA and around 4 million households using 900 VA.

More broadly, Indonesia's electricity used per capita is still low even compared to regional peers like Malaysia, Thailand and Vietnam (chart below). It is also low compared to East Asia Pacific (EAP) countries (excluding high-income countries, HIC). We think, beside balancing energy mix towards renewable, it is also important to improve the country's electricity per capita, regardless the election results.

Electricity used (2014, latest available year)
kWh per capita



Source: World Bank Data, accessed on Feb 18 2019

Infrastructure

Jokowi emphasized that infrastructure development will remain his priority in order to lower logistics costs and improve inter-island connectivity. Prabowo did not lay out his plan specifically on infrastructure. Yet, he pointed out the importance of inclusive infrastructure development and criticized the efficiency of the projects.

Jokowi also added another priority on information technology development, citing the broadband network under the Palapa Ring Project which is currently near completion. This project will connect Indonesia's 17,504 islands with high speed internet.

Overall, we think Indonesia infrastructure projects and government efforts to improve the ease of doing business have started to show impact. According to World Bank ease of doing business study, Indonesia's rank has improved to 73 in 2019 from 120 in 2014. On another World Bank study, Indonesia's logistics performance index has also improved to 3.15 in 2018 from 3.08 in 2014, although still below peers like Vietnam, whose score was 3.27 in 2018.

Infrastructure development will take time to have a full impact on economic growth, but it is definitely worth the efforts. We see that infrastructure development outside of Java will not only improve regional inequality, but also provide connectivity and create new urban or industrial areas that could serve as new locus of growth.

Note:

- World Bank, March 2015, Indonesia Economic Quarterly, "High Expectation"
- International Institute for Sustainable Development, Feb 2018, "Missing the 23 Per Cent Target: Roadblocks to the development of renewable energy in Indonesia"

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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