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REPORT

# ESG and Indonesian Elections

The Impact of Indonesia's 2024 Presidential Elections on deforestation and nickel mining

February 2024

Nicholas Ma & Zoe Swanwick



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## Authors

### **Nicholas Ma**

Nicholas Ma is a Research Analyst at London Politica's ESG Watch. He is currently pursuing a Bachelor's degree in Economics and Asian Studies at Rice University in Houston, Texas and currently taking a year abroad at LSE. He is also a correspondent at London Globalist, an LSE student-run international affairs journal where he mostly covers topics related to China. While in Houston, he researched the economic and social development of hydrogen technology in the Gulf region and worked for a non-profit advocating for equitable transportation development in the city of Houston.

### **Zoe Swanwick**

Zoe Swanwick is a Research Analyst at London Politica's ESG Watch. She is also a Researcher at the Coalition for Global Prosperity where she works with politicians and civil society to advocate for a strong UK foreign and international development policy. Previously, she worked as a public affairs consultant. Zoe holds an MSc in International Relations from LSE and a BA in Modern Languages from the University of Cambridge.

The report is edited by James Murphy and Lauren Chan.



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# Executive Summary

Indonesia, the world's third-largest democracy, is going to the polls on 14th February 2024. Almost 205 million registered voters will be choosing their next president, vice president, as well as around 20,000 local and national legislators in the House of Representatives. The presidential election features three candidates: Prabowo Subianto, the minister of defence, Ganjar Pranowo, the former governor of Central Java and Anies Baswedan, the former governor of Jakarta. They will be replacing the extremely popular Joko Widodo (also known as Jokowi), who is unable to run for a third term. This report focuses on the impact of each candidate's policies related to nickel mining and deforestation.

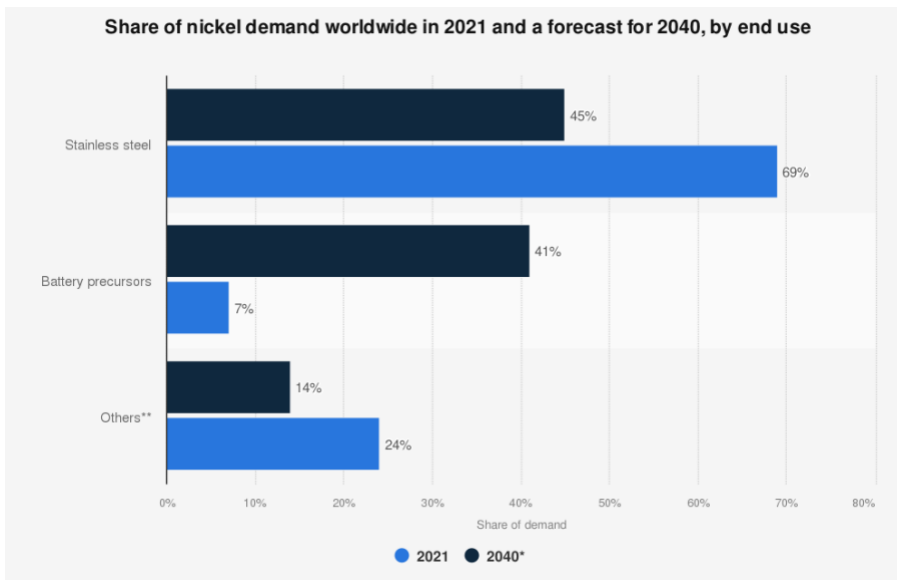
## Key takeaways

- All candidates have committed to downstreaming, which is seen as the key contributor to economic growth in Indonesia. Downstreaming policies are of high importance in sectors related to the energy transition, such as nickel mining and the palm oil industry.
- China serves as the major variable in the political landscape of nickel industry. While Indonesia still needs Chinese investment for its developmental ambitions, the future president will determine the environmental and social cost he is willing to pay.
- Little regulatory change concerning deforestation is likely, with increased risks to forests due to political momentum in furthering the economic impacts of infrastructure-led development.

## Section 1

# Nickel Mining

As the world's largest producer, Indonesia contributes about 40% of the global supply of nickel and is on track to contribute to half of the [production growth](#) from 2021 to 2025. The country's rich nickel reserves have become a strategic asset in the era of green technology, where nickel demand from batteries is expected to experience [tremendous growth](#) in the coming decades. Indonesia faces an unprecedented opportunity not only to transform its economic development but also to leverage its strategic importance for international influence.



[Source](#)

Under President Jokowi, Indonesia has pursued a strategy of [resource nationalism](#) in its nickel industry. Between 2009 and 2019, there has been a move [towards protectionism](#), culminating in the total export ban of nickel ore in January 2020. This strategy has encouraged domestic processing capacities, positioning Indonesia as a critical player in the global supply chain for electric vehicle (EV) batteries. Domestically, the country is considering [banning](#) nickel used in stainless steel production projects next year due to overcapacity, and steering investments into nickel used in EV battery production projects.

The Jokowi administration has also sought to [enhance](#) Indonesia's role in regional diplomacy and geopolitics through its considerable nickel reserves. It has negotiated investments by Chinese companies, such as through the Belt and Road Initiative, which has funnelled capital into the country's nickel processing capacity. The establishment of industrial parks, notably the Morowali Industrial Park (IMIP), with heavy Chinese investment, underscores Indonesia's ambition to reduce reliance on raw commodity exports, and its [push towards](#) becoming a global player in EV battery production.



## 1.1 What are the candidates' positions

### Prabowo Subianto

Prabowo, the frontrunner of the race, envisions transforming Indonesia into a renewable energy and bioenergy superpower. He further plans to ramp up infrastructure development under state-owned and private enterprises. This presents a dual-edged scenario for the nickel mining industry. On the one hand, the continuation of Jokowi's policy agenda ensures stability and predictability in economic and industrial policies, which is essential for long-term investment and planning. On the other hand, his emphasis on resource nationalism and infrastructure development could lead to more stringent local value-addition requirements and potentially more onerous conditions for foreign investments in the sector. This scenario could accelerate Indonesia's move up the value chain in nickel processing and battery production but may also introduce challenges related to labour rights and environmental protections, necessitating robust ESG frameworks.

### Anies Baswedan

Anies has committed to halt new coal plant constructions and support sustainable mineral and coal downstream processes. This signals a potential paradigm shift towards more progressive environmental protection standards and improved working conditions. For the nickel mining industry, this could mean stricter environmental regulations and a push towards more sustainable mining practices. The focus on climate justice, particularly in regions predominantly inhabited by the Muslim community, suggests an inclusive approach to policy-making that could enhance community engagement and social equity in mining operations. This scenario may also drive the industry towards innovations that reduce environmental impact and bolster Indonesia's position in the sustainable global supply chain.

### Ganjar Pranowo

Ganjar appears to follow a pragmatic approach to environmental policy. He has not specified a target for net-zero emissions but aims to continue and possibly expand the [Climate Village Program](#) (ProKlim), an initiative since 2012 to align local actions with national climate goals, fostering sustainable practices and climate resilience. This approach seems to be very similar to Jokowi's balanced policy agenda. It would suggest that while the nickel mining industry may not face drastically new environmental regulations, there will be an emphasis on community-based environmental management and possibly greater incentives for adopting greener practices within the industry. A Ganjar presidency could foster a conducive environment for diversifying Indonesia's economy while gradually improving the sector's environmental and social footprint, without abrupt policy shifts that could destabilise the industry.

## 2.2 ESG Impacts

### Environmental Impacts

Among the candidates, Anies is the most [committed](#) to environmental regulation and renewable energy transition. Both [Prabowo](#) and [Ganjar](#) had records of causing environmental damage and taking repressive measures in their previous role.





- Environmental damage: Questions of environmental sustainability are largely related to foreign direct investment, particularly Chinese BRI projects. Potential damages include [water pollution](#) from irresponsible mining, air pollution from [sulfur dioxide emissions](#), and environmental degradation and displacement from unregulated constructions such as [dams](#) in the Lampi River.
- Environmental effects of domestic processing: Continued resource nationalism could lead to increased domestic processing activities, necessitating stringent environmental regulations to mitigate pollution and ecosystem degradation.

### Social Impacts

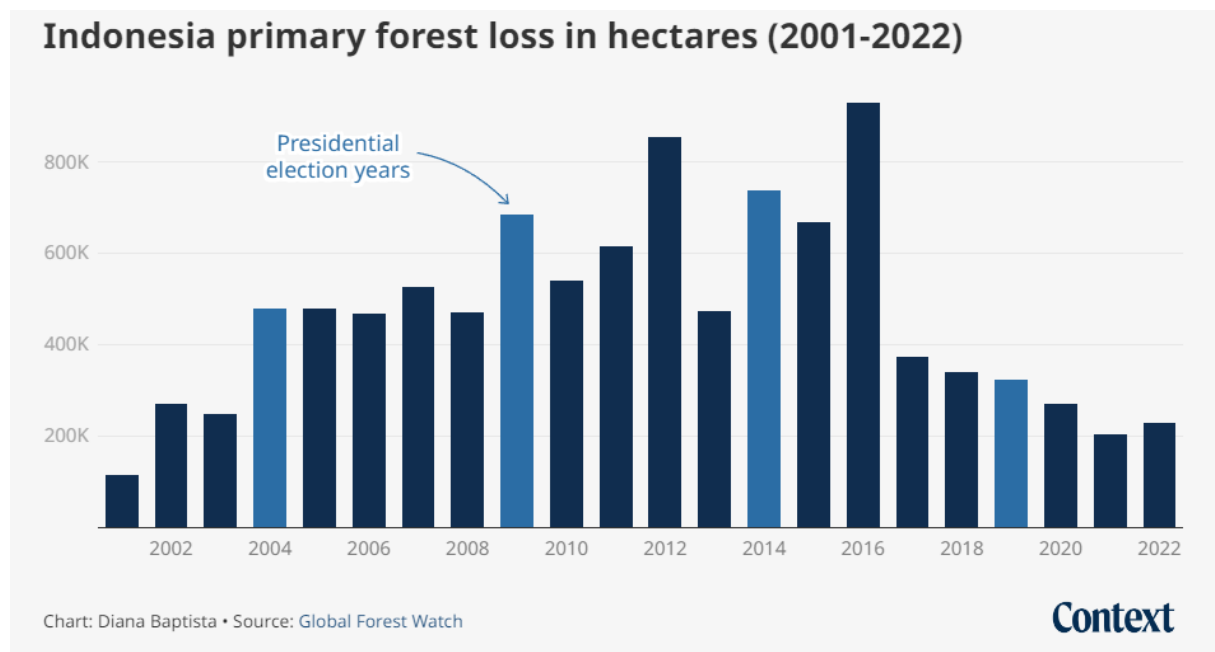
- Worker Safety and Community Relations: [Fatal incidents and injuries](#) at facilities like PT Gunbuster Nickel Industry highlight the urgent need for improved labour conditions. The emphasis on domestic processing and value creation may enhance job creation but requires improved labour standards and safety measures to prevent incidents and fatalities.
- Widespread anti-China sentiment: [Fueled by](#) cultural frictions and perceived inequalities, the sentiment underscores the social tensions within the industry. The [ongoing](#) peaceful worker demonstrations for better treatment like the one at the [PT Gunbuster Nickel Industry \(GNI\) in Morowali](#), escalated the ethnic tension, resulting in both Chinese and Indonesian workers' deaths. Prabowo is the most pro-China candidate, who [openly welcomed](#) Chinese investments and interacted with Chinese officials [repeatedly](#). Ganjar and his party also maintain a close relationship with China. Both of them would provide convenience for Chinese companies and workers in the country. Anies, being the “[pro-West](#)” candidate, had less China experience and may capitalise from the intensifying anti-China sentiment. He is also more likely to follow stringent human rights regulations, siding with the West.

### Governance Impacts

- Enforcement Efficiency: The crackdown on illegal mining had prompted Indonesia to [importat nickel ore](#) from the Philippines due to quota issuance delays, highlighting the insufficient bureaucratic efficiency.
- Financial Discipline and Corruption: All three candidates had pledged to push the passing of the Asset Forfeiture Bill to combat corruption. Prabowo, whose family [owns](#) mining companies, is [focused on](#) preventative measures in anti-corruption, instead of prosecution. Corruption and rent-seeking behaviour in the mining industry is likely to persist, which may worsen environmental and social measures but may (or not) induce further economic growth. The election itself also faces a lack of transparency in [campaign fund auditing](#), posing additional risk of candidates being financially influenced from the mining industry and not keeping their promises.

## Section 2 Deforestation

Deforestation is a particularly acute issue in Indonesia, and it is largely because of the agriculture section. In particular, the palm oil industry accounts for [one-third](#) of deforestation in Indonesia. Though Indonesia has received international acclaim for slowing the rate of deforestation during Jokowi's administration, [3.1 million hectares](#) of rainforest were lost between 2015 and 2022.



### [Source](#)

Infrastructure-led development under Jokowi (an approach labelled “Jokowinomics”) has led to tensions among certain communities, especially those local to fast-growing projects. A recent [report](#) highlights a substantial increase in land conflicts during Jokowi's administration compared to his predecessor. Between 2015 and 2023, there were 2,939 conflicts identified by the Consortium for Agrarian Reform (KPA), nearly double the number during Susilo Bambang Yudhoyono's tenure from 2005 to 2014. These conflicts mainly involve plantation companies, particularly oil palm growers known for deforestation and land grabbing. The disputes encompass 6.3 million hectares of land, predominantly occupied by Indigenous or traditional communities, but allocated by the government to plantation firms or slated for infrastructure projects. Despite Widodo's initial promises, concerns persist regarding ownership ambiguity, unfulfilled agrarian reform commitments leading to frustration, and the alarming levels of repression and violence against protestors, exacerbated by the aforementioned issues. The palm oil industry has also caused issues for Indonesia's internal markets, with the consequences felt across the globe. In 2022, the state



banned palm oil exports for just under a month to mitigate the rocketing prices of cooking oil, creating turmoil in the global vegetable oil market. All candidates have therefore committed to at least streamlining or building upon industry regulations.

## 2.1 What are the candidates' positions?

No candidate offers a fundamentally different approach to resource management. This has significant implications for deforestation. One [analysis](#) notes the increase in deforestation following an election year, linked to the candidates' increased willingness to make deals to help their platforms. Embedded within a broader agenda for the energy transition, climate and energy - though important - are [not top priorities](#) for any of the candidates. With these similar economic priorities in mind, how does each candidate address issues of deforestation in their pledges?

### Prabowo Subianto

Prabowo has been a critical voice of the European Union for its ban on palm oil imports which aims to ban imports of commodities linked to forest destruction, including palm oil, which is one of Indonesia's [leading exports](#). Prabowo emphasises maintaining "good" relations with Europe while advocating for an equal playing field. In line with other candidates' commitment to free trade, he places particular emphasis on avoiding protectionism and ensuring fair trade. Overall, he makes few specific plans for protecting the environment, including little mention of deforestation.

With this in mind, he has pledged to:

- Seek a significant raising of the palm oil component in the biodiesel mix, more bioethanol in fuel by 2029, and push for the usage of bioavtur, a sustainable aviation fuel
- Set up a palm oil body with authority to harmonise rules by various ministries that oversee the sector

### Anies Baswedan

Recognising the social and environmental dimensions of the palm oil sector and its impact on deforestation levels, Anies' main priorities lie in:

- Expanding access to the global market for palm oil farmers: Anies aims to support palm oil producers by facilitating their participation in international trade.
- Strengthening free trade agreements to enhance Indonesia's position in global markets.

### Ganjar Pranowo

Ganjar has also made significant pledges, with the protection of the palm oil sector central to this. As Indonesia's flagship product, palm oil management, he believes it should be directly under the president's purview. Though he commits to maintaining the moratorium on deforestation, his emphasis is focused on supporting farmers in the industry and social issues that have plagued the industry. If elected, Ganjar aims to

- Establish a dedicated ministry for the palm oil sector, to enhance governance and support the industry.



- Protect oil palm and rubber plantation farmers amidst the current price uncertainty of these commodities in Kalimantan, the Indonesian part of Borneo island.
- Commit to downstreaming, with the belief that infrastructure, especially in the road network within plantations, can contribute to stabilising prices and benefiting farmers and plantation owners.
- Plans to address fertiliser scarcity and palm oil supply issues.

## 2.2 ESG Impacts

### Environmental impacts

- All candidates prioritise economic growth over environmental conservation, with varying degrees of emphasis on sustainable practices, which are generally very vague. Environmental considerations are likely to take a backseat.
- As suggested by previous research, deforestation may increase in the year following the election as the winning candidates make good on pre-election commitments.

### Social impacts

- Concerns about land conflicts and the rights of indigenous communities are not adequately addressed by any candidate, particularly by the favourite, Prabowo.
- Ganjar's emphasis on supporting farmers and addressing social issues within the palm oil industry suggests a recognition of the social impacts but lacks concrete plans to address underlying issues.
- Anies acknowledges the social and environmental dimensions of the palm oil sector, but it remains to be seen how effectively these concerns will be addressed in practice.

### Governance impacts

- The lack of comprehensive plans from all candidates to address governance issues such as land ownership ambiguity and unfulfilled agrarian reform commitments raises concerns about the effectiveness of governance in the palm oil sector.
- Prabowo's proposal to establish a palm oil body to harmonise rules may improve governance but could also serve to consolidate power and influence within the industry.
- Ganjar's plan to establish a dedicated ministry for the palm oil sector may lead to more centralised governance but could also exacerbate issues of corruption and lack of accountability.



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