

# Impact of domestic politics to the business

Government



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Political risk is worth considering because an action or a change in policy in one country can have a big impact on the financial sector and the economy of that country. Political risks are generally associated closely with the government as well as political and security situation in a country. If the political situation is stable, generally business runs smoothly. In terms of the stock market, a conducive political situation would make the stock price go up.

Conversely, if the political situation is uncertain, it would cause the element of uncertainty in the business. In Indonesia, after the fall of the New Order, changes in politics and governance was characterized by a significant change in the political system (a process of demagnification) which had opened new opportunities and also new threats to the business community this country. For years, during New Order, political parties in Indonesia were only 3 parties: Golkar, PDI, and PDP.

After New Order fell (Reformation Era), the number of political parties involved in general election increased significantly. The 1999 general election, the first general election in Reformation Era, was followed by 48 parties. Despite the number of political parties are always changing during the Reformation Era, political situation was relatively stable. The stability also continued under President Joko Widodo. However, in most current general election, few months ago, there were some instabilities in Indonesian politics.

This paper will describe these conditions (the last general election) and their impacts on the industry, particularly palm oil industry, using the case of

Golden Agric Resources Ltd, one of the biggest palm oil producer in Indonesia. 2. POLITICAL TURMOIL IN 2014 GENERAL ELECTION General election in Indonesia is run in phases, legislative election and presidential election. In 2014 general election, the legislative election was relatively conducive There were 15 political parties participated in the election, including 3 local political parties in Aceh.

This election was won by PAID with the total vote 18. 95% (whom. Penile. Com), followed by Global and Grainier on the second and third place. It was predicted that since the legislative election was held successfully and the situation was very conducive, reflected by there was no substantial protests or objections from he participants, the presidential election (which had two competing candidates, Parabola Substation-Hat Raja and Joke Widow-USAF Kali) would also run smoothly. However, the facts were totally different.

Here are some events or facts that showed the unstable political conditions in Indonesia after presidential election in 2014: Different quick count results In quick count, both parties (Parabola-Hat and Kiowa-Kali) claimed as the winner Of the presidential election. There were some survey organizations stated that the election was won by Parabola-Hat, while the others stated he opposite. ISIS (Center for Strategic & International Studies) through senior researcher, Philip Vermont, stated that there were advantages in Kiowa-Kaki.

The figure reached 51. 9 percent, while Parabola-Hat gained 48. 1 percent. There were also some other survey organizations published similar results, stated that the winner was Kiowa-Kali, such as R & D Compass, ISMS (Useful Musician Research and Consulting), and RI. Meanwhile, some other survey

organizations indicated otherwise. A quick count conducted by Upstairs (Center for Policy Studies and Development Strategy) cleared that Parabola-Hat won the election by 52. 05%, whereabouts-J gained 47. 95 percent.

Other survey organizations that declared Parabola- Hat as the winner were National Survey Institute (LSI) and the Indonesian Voice Network (SSI). These different quick count results were followed by announcement of victory by both candidates, which was the first time in Indonesia history, both competing candidates claimed as the winner. Moreover, supporters of both camps had celebrated their victories in separated places. Parabola's withdrawal from election process Another surprising event happened on July 22, 2014, when General Elections Commission was announcing the recapitulation of the presidential election results.

While the recapitulation was still ongoing, Parabola announced that he had withdrawn his presidential candidacy after denouncing the election process as undemocratic. The consolidation of political parties supporting Parabola and their actions in Parliament Competition between Parabola and Kiowa did not stop when the General Elections Commission stated that Kiowa-Koala was the winner of the presidential election. Parabola along with his supporting parties filed an election disputes to Constitutional Court, though the court finally rejected their petition.

In parliament, the parties that were supporting Parabola also took several actions that made Indonesian politics became unstable. They asked the Parliament legalize the draft of a Law regarding the local elections. In this new law, direct elections for provincial governors, district chiefs and mayors

were eliminated, replaced by appointment by local elected legislatures.

There were many opinions from local or international institutions aid that this was a big hit for Indonesian democracy. Indonesian democracy that had been growing in SUB era, was experiencing a substantial setback.

The most noticeable effects might be the impacts on the price of stock in Indonesian Stock Exchange. Just after those events happened, the market responded. The responses can be reflected on the chart of Composite Index (JOKE) for the last 6 months. Figure 1 . Composite Index (JOKE) Source: finance. Yahoo. Com Just after the presidential election day, the index was increasing, from 4, 800 to more than 5, 050. Some analysts argued that it was one of Kiosk's effects. Despite there were some quick counts that stated that the winner was

Parabola, since the reputation and credibility of those survey organizations were questionable, market believed that Kiowa would win the presidential election. On the day when General Elections Commission was announcing the recapitulation of the presidential election results, the index was slightly decreasing. It might be influenced by Parabola's statement that he had withdrawn from the election process. This statement was perceived as sign of the upcoming political instability in Indonesia. Moreover, on that day, Parabola clearly stated that there was systematic violation of democracy inducted by General Elections Commission.

The clearest evident how market reacted to the political condition might be reflected on the price of stock following what happened in the Parliament in the first week of October. After the Parliament passed the law regarding local

elections, which automatically eliminated direct elections for local governments, the stocks dropped significantly. Many political analysts stated that by eliminating direct elections, Indonesian democracy had moved backwards. Golden Agric Resources stock, seemed to follow the market price in general.

Its price also creased after what happened in Parliament in early October.

Figure 2. Golden Agric Resources Stock Price Source: Source: finance. Yahoo.

Com 4. CONCLUSION Political conditions in a country is an important factor in industry. The influence is channeled through the expectation of business players in the market. When the condition in a country is stable, investors are likely to be willing to invest their money in that country. On the other hand, political instability might frighten investors to put their money in a country, resulting "sell-actions" that eventually pushes the stock price.

This condition happened in Indonesia recently, following the presidential elections that was won by Kiowa-Koala, resulted in the decreasing Of most stock price in Indonesian Stock Exchange, including the stock price of Golden Agric Resources. However, there is still optimism about political condition in the future. Kiowa; Kali have an important role to stabilize the political condition and create supporting environment for business. On the other hand, industry might also have to adapt with the changes happen.