

Supporting Democratic Indonesia: British and European Options

Summary: Susilo Bambang Yudhoyono's landslide win in the 20 October run-off presidential election has lifted local and foreign hopes that Indonesia's nascent democracy will finally be in safe hands. Yet, his administration faces a fractured parliament and a challenging array of long-delayed economic and administrative reform challenges. As the world's most populous Islamic country, as a political leader of the developing world, and as the world's largest exporter of liquid natural gas, Indonesia is of considerable importance to Britain and Europe. Britain and Europe can help Indonesia consolidate its democracy. To do this effectively though, they must take into consideration the growing role of Islamic parties and the problems the new President will face in working with the parliament and addressing popular alienation. British and European aid programmes should shift to strengthening Indonesia's political parties in a neutral manner, supporting more substantial administrative reform and championing institutional leaders of reform, such as the National Economic Council.

A Policy Brief from the Foreign Policy Centre provides commentary and practical policy recommendations on topical problems confronting the international community. The views are not necessarily those of the Foreign Policy Centre. The author of this Policy Brief is Dr Malcolm Cook., Programme Director Asia & the Pacific for the Lowy Institute in Sydney (www.lowyinstitute.org). Before joining the Institute in November 2003, Malcolm ran his own consulting practice on Southeast Asian political and economic policy reform and risk analysis and successfully completed his doctorate on the politics of banking liberalization in Southeast Asia at the Australian National University. He was born in Canada and has lived and worked in 6 different countries.

Introduction

Since 1997, Indonesia has captured the world's attention as the worst casualty of the Asian financial crisis, as the largest new democracy, and as both victim and source of Islamist terrorism. These faces of Indonesia are intimately related and will decide the future of the world's most populous Islamic democracy (235 million). Indonesia's rapid and smooth reintroduction of democracy after a 44-year absence has turned it into a powerful symbol in the global contest between secular and religious views of democratic political order.

Malaysia's new Prime Minister Abdullah Badawi recognised this when, in his first meeting with Indonesia's new President Susilo Bambang Yudhoyono (SBY), he called on the two countries to form an alliance to promote progressive Islam and to counter entrenched fears over Islam and democracy globally. International agencies and bilateral donors also have strongly supported Indonesia's return to democracy and its expanding civil society. The EU and the UK have both targeted a substantial share of their aid to Indonesia towards supporting elections and political governance. Britain and Europe have a high stake in the consolidation of the new-found democracy. Moreover, Indonesia is important as a leader among developing countries, and as the world's largest exporter of liquid natural gas.¹

If Indonesia successfully moves from its present state of democratic ferment to consolidation, Indonesia's political system can turn its attention to the country's serious structural problems. These economic and social problems triggered the toppling of President Suharto and led to the triumph of the *reformasi* movement in 1998 on the back of the Asian financial crisis. Endemic corruption, administrative paralysis, rising unemployment and the drying up of foreign direct investment continue to undermine Indonesia's internal stability. To the extent that these domestic Indonesian problems feed into terrorist motivations or contribute to trans-border environmental damage, they also affect regional and global security. Indonesia's democracy will be judged by its own people and the outside world primarily by its ability to address these festering issues. If successful, Indonesia will be able to fulfil the role of a cultural and religious bridge of understanding between the Islamic world and the non-Islamic world, as foreshadowed by British Foreign Minister Jack Straw in his 2003 visit to Jakarta.

Although SBY draws primarily on secular support, Indonesia's Islamic identity and popular frustration with the country's economic and governance malaise are the most

¹ According to a US Department of Energy report, *The Global Liquefied Natural Gas Market: Status and Outlook* (December 2003), the 'combination of higher natural gas prices, lower LNG costs, rising gas import demand, and the desire of gas producers to monetize their gas reserves is setting the stage for increased global LNG trade'. It goes on to note that in addition to expansions by existing importers, the United Kingdom, like China and India is poised to become an LNG importing country. The Report notes that 'World natural gas reserves are abundant, estimated at about 5,500 trillion cubic feet, or 60 times the volume of natural gas used in 2003. Much of this gas is considered "stranded" because it is located in regions distant from consuming markets. Russia, Iran, and Qatar combined hold natural gas reserves representing more than 50 percent of the world total. The 12 countries that currently export LNG have approximately 28 percent of world natural gas reserves'.

powerful forces shaping its new democracy. After years of being repressed by Sukarno's and Suharto's secular nationalism, Indonesia's politics are 'greening' (as discussed below in a section devoted to this rubric). SBY's administration will have to honour its promises to quickly address corruption and the flagging economy, or risk political and social alienation and its consequent instability. Indonesia's elections this year showcased new, powerful forces in Indonesian democracy and some of the problems it must quickly address to consolidate its impressive gains. The untested nature of this new political system means we have little idea if it can overcome these hurdles. It will be important that SBY serves out his full five-year term.

Foreign assistance to Indonesia must take into consideration the new forces shaping Indonesian politics and the new strains in its nascent political system. Foreign assistance can serve an important if limited supportive function in democratic consolidation. Indonesia's political opening has made it more receptive to a more diverse range of foreign linkages. This has created new opportunities for foreign agencies to tailor their approaches to Indonesia to their strengths and minimise counterproductive duplication.

The New President

On 20 October, SBY was sworn in as Indonesia's first directly elected president. SBY won an impressive 60.62 per cent of the vote in the run-off presidential election against incumbent Megawati Sukarnoputri. Megawati is the daughter of Indonesia's iconic first leader, Sukarno, and came to power in 2001 on the back of widespread popular support, especially from those worse off. Her party, the Indonesian Democratic party of Struggle (PDI-P) won the most seats in the 1999 legislative elections largely due to her popularity. Her rule though was marked by extreme inertia and the feeling that Megawati was not committed to reforming Indonesia. SBY won the vote in 28 of 32 provinces providing him a truly national mandate while showing how much popular support Megawati had lost.

SBY is a retired general from the "reformist" wing of Indonesia's powerful military. He served as the Coordinating Minister for Security in the last two governments as a non-partisan appointment, resigning just before this year's election from Megawati's cabinet after being sidelined. The Javanese SBY's charisma, reformist military background, and clean image made him an attractive candidate for the first direct presidential elections. SBY was the only national figure with a military background that appeals to voters looking for a strong leader and a clean image that insulates him from the military's tarnished image of repression and corruption. Before choosing to run as the candidate for the untested *Partai Demokrat*, SBY had been actively courted by other parties including Golkar, Suharto's party that ran Indonesia unopposed for decades.

His election ended Indonesia's seven-month election season that started with legislative elections on 5 April. The 5 April legislative elections were the world's largest ever single day elections with over 100,000 candidates vying for over 17,000 seats of government

from the municipal to the national level. SBY's inauguration ushered in the first administration under the new political and party systems established by a series of constitutional and electoral law reforms from 1999 to 2003. During this period of democratic ferment, the 1945 Constitution has been comprehensively amended, a new chamber to represent regional interests, the DPD, was added, President Abdurrahman Wahid was impeached, and voters have cast ballots four times.

SBY is only Indonesia's sixth President since Independence but the fourth since the fall of Suharto in May 1998. The political parties formed during the Suharto period have seen their fortunes slide. New, smaller parties like SBY's *Partai Demokrat* and its closest ally the Welfare and Justice Party (PKS) have only risen to national prominence since 2001. *Partai Demokrat* is largely an electoral vehicle for SBY. Indonesian voters are turning their backs on traditional parties tied to the Suharto era and Indonesia's deepening economic and social problems they have failed to address. Strong personalities promising stable change like SBY are now stronger than the political machines of the traditional parties.

International observers were very impressed by the peaceful nature of Indonesia's three elections this year and the state's ability to overcome the huge logistical challenges democracy faces in Indonesia. After such a flurry of activity, Indonesia and the countries and organisations that have actively supported its democratisation hope that the process will consolidate during SBY's first five-year term. His victory has brought him and Indonesia unprecedented goodwill but he faces the burden of great expectations.

Greening of politics

Approximately 90 per cent of Indonesia's 235 million people are Muslims. Indonesia's democratic ferment has allowed the country's Islamic identity to freely express itself politically for the first time in Indonesia's modern history. Indonesia's *reformasi* movement that toppled Suharto and pushed hard for democratic reforms was supported by the country's two largest Islamic organisations, the traditionalist *Nahdlatul Ulama* and the modernist *Muhammadiyah*, and smaller student movements. These organisations are behind the rise of new parties like PKS, the National Mandate Party (PAN), led by former *Muhammadiyah* head Amien Rais, and the National Awakening Party (PKB), led by *Nahdlatul Ulama's* eminence grise, Abdurrahman Wahid.

Indonesia's main parties can be divided into two groups. The three secularist nationalist parties are still the largest group and have the widest voter appeal, but not the deepest. Two of these, Golkar and the PDI-P, have suffered the sharpest decline in seats and vote tallies. The Islamic parties are the most diverse group, featuring six parties that won over ten seats on 5 April. This group can be, with reservations, sub-divided into moderate parties like PAN and PKB, and *syariah*-based parties like the PPP (whose leader Hamzah Haz was Megawati's vice-president), and its spin-offs the PBR and PBB.

The PKS, one of the big winners on 5 April, has explicitly supported the introduction of *syariah* law nationally in the past but has recently muted this position. The final important party is the Christian PDS party that is particularly strong in Maluku where religious tensions are very high. Secularist-nationalist parties now control 53 per cent of the seats in parliament, down from 59 per cent in 1999. Major Islamic parties now control 42 per cent, up from 28 per cent in 1999. Table 1 compares the levels for support for the various political parties.

Table 1: Political fortunes

Party *	% vote 1999	Seats 1999	% vote 2004	Seats 2004
Golkar (s-n)	22.44	120	21.58	128
PDI-P (s-n)	33.74	154	18.53	109
PPP (I)	10.71	39	8.15	58
<i>Partai Demokrat</i> (s-n)	---	---	7.45	57
PKB (I)	12.61	51	10.57	52
PAN (I)	7.12	35	6.44	52
PKS (I)	1.01 (as PK)	6	7.34	45
PBR (I)	---	---	2.44	13
PDS (C)	---	---	2.13	12
PBB (I)	1.94	2	2.62	11
Others	10.37	55	12.75	13
Total		462		550

* s-n = statist-nationalist, I=Islamic, C= Christian Source: www.ifes.org

Religion is now one of most potent voting demographic in Indonesia. According to an LSI poll, in the run-up to the 20 September presidential run-off election over 57 per cent of Christians and close to 80 per cent of Hindus expressed support for Megawati. In contrast, less than 20 per cent of Muslims polled expressed support for her. The four provinces that voted for Megawati on 20 October, including Bali and Maluku, all have large non-Muslim populations.

In the first round of the presidential election, the three leading presidential tickets who each got over 20 per cent of the vote were led by the candidates from the three secular-nationalist parties. Both Megawati from PDI-P and Golkar's retired general Wiranto chose running mates from *Nahdlatul Ulama* to enhance their Islamic credentials and tap into this large voting block. SBY during the campaign highlighted his own Islamic beliefs and chose Golkar's Jusuf Kalla from Sulawesi as his running mate. Kalla serves as an adviser to *Nahdlatul Ulama's* South Sulawesi chapter. The traditional secular-nationalist/Islamist divide in Indonesian politics is blurring with the traditionally dominant secular-nationalist parties seeking to burnish their Islamic credentials and expand their constituencies.

The major Islamic parties have gradually migrated towards SBY and now with *Partai Demokrat* form the People's Coalition, one of the two loose coalitions in parliament. This coalition was instrumental in getting the head of the PKS, Hidayat Nur Wahid, elected as the head of the joint assembly of the legislature, the MPR, which approves Constitutional amendments and presidential impeachments. Seven of SBY's 36-member cabinet are sitting members from the major Islamic party. PKS is the Islamic party to watch. It is the best organised, has seen its membership more than double in 2004 and is expressing plans to run its own presidential candidate in 2009. Many of PKS' young leaders, including their chief foreign spokesperson Zulkieflimansyah, have been educated overseas. Zulkieflimansyah was educated in the United Kingdom. Islamic parties are a significant new force in Indonesian politics and countries with interests in Indonesia must include them in their engagement strategies.

Tense cohabitation

SBY's greatest challenge will be managing relations with the parliament (DPR) where his party only has 57 of 550 seats and his untested People's Coalition does not control a majority of seats. The opposition National Coalition headed by Golkar and PDI-P triumphed in the DPR, winning the speakership and 6 of the 11 committees, the key law-making bodies. It received a further boost recently when the National Awakening Party (PKB) defected from the People's Coalition. As a result, the National Coalition, which also includes the PBR and its 13 seats, now controls 60 per cent of the Parliament and all its committees. The National Coalition represents the traditional political forces in Indonesian politics, while the People's Coalition represents the new. The National Coalition benefits from fewer parties and more seats. Together Golkar, PDI-P, PKB and PBR control 302 seats: the largest party in the People's Coalition, the *syariah* PPP, controls 58 seats. It was the last party to join this coalition and only gained an outer cabinet portfolio.

SBY will have to rely on the traditional weakness of parties to stitch together "coalitions of the willing" (and buyable) to pass individual reform bills. This is an uncertain process that slows down legislative reform and forces it to be responsive to more special interests. The National Coalition has promised to act as an opposition coalition and is spurred on by the anger of the two major parties over their lost power. Golkar dominated party politics until 1999 and is still the largest party. The PDI-P's standard-bearer Megawati has still yet to officially admit defeat and many of the party's elected members were absent from SBY's inauguration. PKB is rumoured to have left after being disappointed that it only gained control of one minor parliamentary committee. The party's defection clearly shows the governance risks of cohabitation given the parties' rancorous relations and fluid loyalties. If SBY is unable to convince members of the National Coalition to support his ambitious goals for reform, then SBY's regime will falter as his predecessors have.

To address this, SBY's 36-member cabinet includes members from each major party except PDI-P. He appointed Golkar's Aburizal Bakrie as Coordinating Minister for the

Economy. Both Megawati and Abdurrahman Wahid had appointed multi-party cabinets to help their administrations overcome the fractured parliament, but found them little help. Reflecting these concerns, SBY's "Unity Cabinet" was received badly by the markets largely due to its political party compromises. Many feel it reaffirms SBY's long-standing reputation as indecisive and compromising. However, the small size of his party and the minority status of his coalition left him little choice.

The main reason SBY chose Golkar's Jusuf Kalla as a running mate was to split Golkar. Up to 70 per cent of Golkar supporters voted for SBY in the run-off election despite the party's formal support for Megawati and the National Coalition. SBY has also announced that he will revive the Suharto-era National Security Council and National Economic Council that will report directly to the President. This move may limit SBY's need to consult or compromise with parliament. While splits within Golkar and PDI-P will benefit SBY's administration, relying on the weakness of opposition parties is not healthy for democratic consolidation. Few parties ran platform-oriented campaigns, while SBY has been short on policy ideas and detail. Advice from countries with relevant experience in cohabitation like France may be very useful to Indonesia. European and UK support for Indonesian democracy should shift from support for elections to support for the institutional strengthening of political parties.

Economic revival

Indonesia has recovered from the searing 1997-1998 Asian financial crisis but the long-term structural problems that made it vulnerable to this crisis are deepening. Since 1998, politicians have repeatedly promised to address the triple curse of corruption, collusion and nepotism known locally as **KKN** that flourished during the later Suharto years. So far, little progress has been made. Today, close to half of the Indonesian households live on less than one pound a day. Transparency International's latest corruption perceptions index ranks Indonesia as the fifth most corrupt country surveyed. In a recent World Bank report on national business environments, Indonesia ranked in the bottom quartile. Its neighbours Singapore, Malaysia and Thailand finished in the top quartile. Indonesia needs to grow 7 per cent a year for the next decade simply to productively absorb its expanding labour force but its growth rate is stuck in the 4-5 per cent range. Last year, Indonesia suffered a net outflow of foreign direct investment and this year it became a net oil importer. Megawati lost because of her inability to address these problems. If SBY fails too, then Indonesia's democracy will be at risk.

SBY's campaign presented him as a clean political outsider upholding *reformasi's* hopes and better able than the traditional parties to weed out corruption, overcome vested interests and improve Indonesia's parlous investment climate. SBY's minority position in the DPR and the close ties between Golkar and many of the stalled high-level corruption cases present him with an immediate challenge. While the appointment of the unaffiliated Supreme Court Justice Abdul Rahman Saleh as Attorney General has raised hopes, the appointment of a retired police general from **Partai Demokrat** to the

public service reform portfolio has raised eyebrows. Indonesia's dysfunctional public service is at the core of its economic malaise.

UK and EU Policy Options

To enhance the role of the UK and EU in supporting Indonesia, existing policy settings and approaches should be tweaked to better address Indonesia's new political situation and entrenched administrative and economic weaknesses. Looking at the political challenges facing SBY and Indonesia, advice from countries with relevant experience in cohabitation like France and Italy may be very useful to Indonesia. Advice could address both how to establish effective executive-legislative procedures and how to alter the policy process to limit the drag of parliamentary gridlock.

European and UK support for Indonesian democracy also should shift from their successful support for elections to support for the institutional strengthening of political parties. Golkar and PDI-P have the largest national bases, but both are declining forces. No other party is deeply rooted in society. To minimise political backlash at home and in Indonesia, this support could be filtered through UK or EU-based secular or ecumenical NGOs with regional experience and should be open to all major parties and the KPU, Indonesia's General Elections Committee.

The EU is Indonesia's second largest trading partner, yet the EU has a small aid presence in Indonesia, contributing less than 10 per cent of Indonesia's total bilateral aid. Similarly, Indonesia is a low priority for the UK's Department for International development. In the last quarter century, the EU has distributed 300 million euros in aid, with one-third of it going to forest sustainability. The volume of aid is increasing, with the EU's 2002-2006 programme for Indonesia alone valued at 216 million euros. Following on from the EU ministerial visit with SBY on 27-28 October, the EU should consider increasing its aid to Indonesia again in line with its interests in closer relations with East Asia and its interests in an eventual EU-ASEAN Free Trade Agreement.

Given the limited amount of EU aid, the EU and its member countries should focus more attention on public sector capacity-building that incorporates long-term recurrent funding to match the long time-frames required for public service reform. Indonesia takes a much larger share of total aid from bigger donors like Japan (which provides 40 per cent of Indonesia's bilateral aid) and Australia, making it harder for their agencies either to be nimble in identifying new priorities or to commit to recurrent funding. Recurrent funding challenges some of the core assumptions of these countries' aid programmes, especially the idea that one aim of such assistance is to develop recipient country capacity in the medium term in a way that obviates the need for continuing assistance.

The EU's and UK's aid programmes should be rationalised to focus more on areas of current reform needs. The present focus on education reform and counter-terrorism

threatens to duplicate Australian and American programmes. Educational reform has a long gestation period before producing benefits, whereas Indonesia's needs are current. Strong relations with the new National Economic Council will be important as it may take over the policy strategy and planning. Effective cabinet members like Sri Mulyani should be supported in their efforts to encourage reform. More controversially, the EU should consider opening up the "Everything but Arms" Initiative to Indonesia to boost Indonesian labour-intensive exports and much-needed investment. This initiative expands the scope of the EU's General System of Preferences (GSP) of tariff waivers to "everything but arms" for selected developing countries. The key to Indonesia's democratic consolidation is to align the political system with its current economic needs and their long-term, incremental character. SBY's administration will be judged on whether it can consolidate Indonesia's democratic ferment by reviving its economy.