

# Indonesia: Challenges for the New Government

Indonesia is on its way to assuming importance beyond Southeast Asia. The world's fourth-largest country enjoyed a period of economic and political stability under the outgoing president, but left much-needed reforms to the next government. Challenges include managing relations with the regions, improving structural weaknesses in the economy, and defining Indonesia's role on the international stage.

By Valerie Sticher

On 9 July 2014, the world's third-largest democracy elects a new president. The contrast in choice will be stark: Will voters trust Joko Widodo, a businessman-turned-politician who has risen to stardom with a humble and pragmatic approach? Or does a majority still believe that only a man with a military background can lead this diverse nation, and vote for Prabowo Subianto?

Whoever is elected will lead a country with big opportunities: Indonesia, Southeast Asia's largest economy, is the region's only member of the G20 and features consistently high growth rates. With a population of 253 million – the world's fourth-largest – the country has a large and growing middle class that boosts the consumer market. Located between the Indian and Pacific Oceans and straddling one of the world's busiest shipping lanes, Indonesia is a strategic partner for any country with geopolitical ambitions in the region. Since 2005, Jakarta has established strategic partnerships with the United States, China, and India and has deepened its cooperation with Australia. It also plays a leading role in the Association of Southeast Asian Nations (ASEAN) and is a member of the East Asia Summit and the Asia-Pacific Economic Cooperation forum.

For more than three decades, Indonesia was ruled by General Suharto's military



A man prepares carpets for Muslim worshippers outside a mosque in Banda Aceh. Indonesia is the world's most populous Muslim nation. *Damir Sagolj / Reuters*

dictatorship, and the military remains an important pillar in today's consolidating democracy. But with all its imperfections and remaining challenges, Indonesia's overall successful transition from an authoritarian regime to a democratic political system could offer important lessons learned for countries in the Arab world and beyond. Following the country's economic melt-down after the 1997 Asian financial crisis

and the fall of Suharto a year later, only the most optimistic observers expected Indonesia to do so well within such a short period of time. For it to continue its trajectory economically and politically, a number of important reforms will be needed.

## The President's Mixed Record

Hope in those striving for reforms was high when Susilo Bambang Yudhoyono

## Presidential Candidates

Joko Widodo (Democratic Party of Struggle, PDI-P) and Prabowo Subianto (Great Indonesia Movement Party, Gerindra) are the two sole contesters in Indonesia's 9 July 2014 presidential election. Following the results of the April 2014 legislative elections, both candidates need support from outside their own parties.

**Joko Widodo's** rise to the national political scene is hard to top: the former furniture dealer was elected mayor of Solo in 2005 and quickly gained reformist credentials by introducing a number of successful healthcare and education schemes for the poor. Shortly after being elected as governor of Jakarta in 2012, his name started circulating as Indonesia's possible next president, but he only announced his candidacy in March 2014 after receiving the formal blessing of the PDI-P's influential chairman Megawati Sukarnoputri (herself a former president and daughter of the revered late Sukarno). Widodo, ubiquitously known as Jokowi, is running together with Jusuf Kalla, who was vice president from 2004 to 2009 and is a former chairman of Suharto's old party Golkar. Their pluralist four-party alliance is led by the nationalist secular party PDI-P.

**Prabowo Subianto** was one of the top generals under Suharto and was married to one of his daughters. He has been accused of serious human rights violations during his time with the military. Prabowo went into self-imposed exile after being dismissed from the military in 1998. Following his return to Indonesia, he entered politics, became the chairman of the Indonesian farmer's association in 2004, and, with financial help from his billionaire brother, established his own political party in 2008. He has since adopted a populist and highly nationalist rhetoric. The polarizing figure has teamed up with Hatta Rajasa, a long-term cabinet minister who most recently served as coordinating minister of economic affairs. Their six-party coalition consists of Prabowo's own Gerindra party, four Islamic parties, and Golkar.

was elected president in 2004 and reelected in 2009. The retired army general was able to mobilize the masses, winning a popular mandate of over 60 per cent in both elections. However, looking back, many former supporters are disillusioned. They see an indecisive president who has not stood up for his principles. Strongly consensus-oriented and with the weak backing of an often-divided six-party coalition, Yudhoyono did not manage to embark on any major political or economic reform. For example, despite a period of economic growth and stability, he was unable to cut fuel subsidies drastically, a step considered crucial for Indonesia to achieve fiscal sustainability. Expenditures to keep fuel prices artificially low continue to place a heavy burden on the state budget: in 2014, the money set aside for fuel subsidies amounts to the budgets of the ministries of defense, health, and education and culture combined.

One of Yudhoyono's main election promises was to fight corruption, and many are disappointed with the level of progress achieved in this area. Corruption remains endemic, and Yudhoyono's government and his Democratic Party (PD) have both been tainted by scandals. Indeed, the Corruption Eradication Commission, set up as a government agency in 2002, faces a Sisyphean task. But its achievements are impressive, given the obstacles it faced. The commission has managed to remove several top officials and politicians, and cases against the head of the constitutional court or the reli-

gious affairs minister are proof of its determination to tackle corruption at the highest level. There has been a clear change in attitude: it is no longer possible to be caught for corruption and get away with it.

In contrast, the president's track record in religious affairs is rather bleak. Most Indonesians are tolerant and moderate practitioners of their faith, but instances of religious intolerance and sectarian violence have risen in recent years, taking their toll on the tissues of this multicultural society. Violence is not only directed against (and by) non-Muslims, but also increasingly targeted toward non-Sunni Muslims. The president did little to condemn past attacks, let alone work towards consensus on the importance of peaceful interreligious co-existence. He stood idly by while some regions of the country introduced local rules that violate the constitutional guarantee of religious freedom, such as regulations that effectively ban the Muslim Ahmadiyah sect. Yudhoyono also appointed a religious affairs minister who at times added fuel to the fire instead of extinguishing it, not least by issuing controversial statements targeted at religious minorities.

In Aceh, the devastating tsunami of 2004 and the ensuing presence of the international community opened up a window of opportunity for a peace deal in 2005 that ended one of the longest-running conflicts

in Asia. As a result, Aceh is the only province where local parties can compete for legislative seats at the provincial and district levels, and regional power is firmly held by former members of the rebel movement (GAM). Yudhoyono wanted to finish his two terms with the resolution of Indonesia's other main separatist conflict, in Papua. But although support for dialog between Papua and Jakarta has gained some momentum on both sides, Yudhoyono was too cautious to move the process forward decisively. The situation in Papua and the reluctance to engage in a genuine dialog with the Papuans illustrates the weight of the old elite, especially from military circles. Although the military has lost its official role in politics and abolished its dual role of civil and military affairs, its influence remains strong, and there is a lack of civilian oversight.

Although Yudhoyono's record is mixed, Indonesia has enjoyed a long period of political and economic stability under the first Indonesian president who served two full terms as a result of free and fair elections. Many of the remaining challenges are indeed rooted in Indonesia's as-yet unfinished political transition.

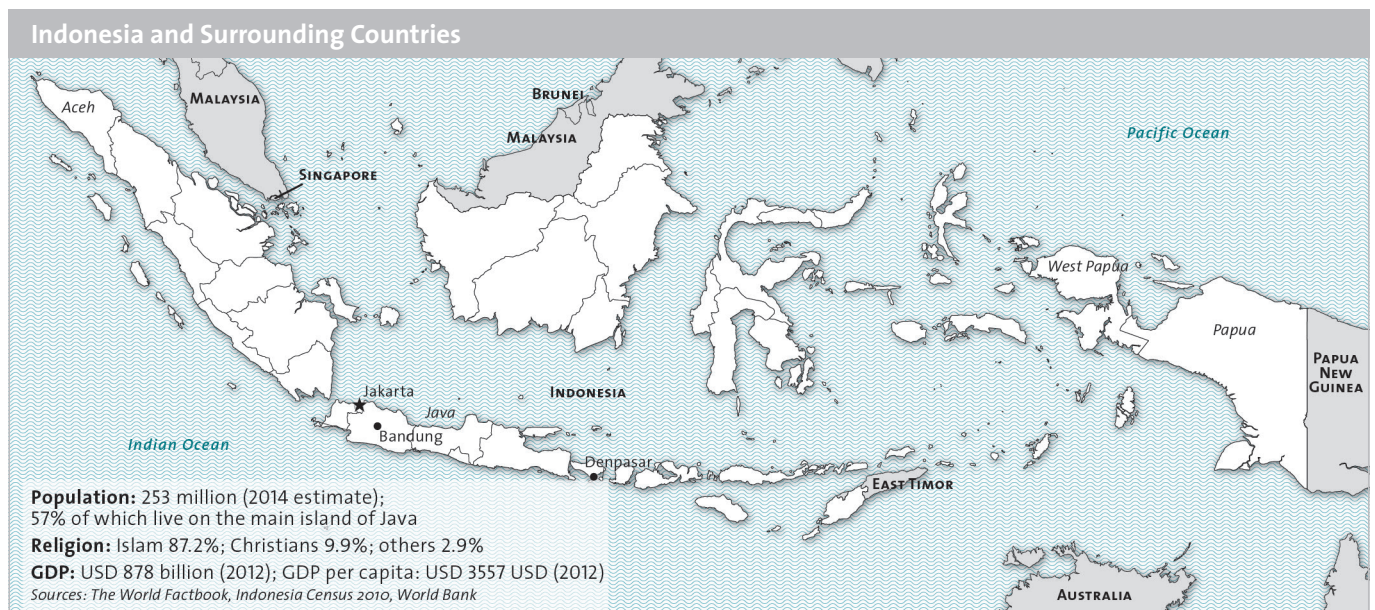
## Managing Relations with the Regions

In 1999, shortly after the fall of strongman Suharto, Indonesia engaged in an ambitious decentralization program, transforming the country from a highly centralized one to one with substantive competencies devolved to the regions. The trend of decentralization has since continued. By anticipating the demands of regions for more autonomy, decentralization has been a major factor in ensuring that fears of a balkanization of the archipelago in the aftermath of democratization never materialized. However, the massive devolution of political authority and decisionmaking without proper preparation or a clear and

## President Yudhoyono's track record in religious affairs is rather bleak.

consistent legal framework also brought a variety of problems, and often genuine confusion with regard to where power lies. Consequences included a lack of capacity in most regions to manage the new competencies, a "decentralization of corruption" related to the new resource allocation, and provincial bylaws that by and large escaped scrutiny in terms of their compatibility





with norms at the national level. From an environmental perspective, regional autonomy in the area of forestry and mining has contributed to Indonesia's rapid rate of deforestation and depletion of natural resources.

A major challenge for the new government will be to supervise and actively manage relations with the regions. This requires a clarification of institutional competencies, consistency in the legal framework, and strong and competent leadership – not only in the presidency, but also in key positions such as the Ministry of Home Affairs. It also requires efforts at building judiciary authority. The Constitutional Court in particular needs to be strengthened and regain public trust in order to ensure that its decisions are implemented in the regions.

### The Demographic Dividend

With steadily declining fertility rates, Indonesia has been enjoying the fruits of a demographic dividend – increases in the productive workforce compared to dependents – over a long period of time. This is expected to change in five to ten years, when the ratio of dependents will start rising again as the population grows older. The government should use this closing window of opportunity to improve structural weaknesses. Ensuring that economic gains trickle down to the poorest remains a main challenge. Approximately half of all

households remain clustered around the national poverty line, and the gap between rich and poor is widening. This threatens to affect social cohesion. Policies aimed at the redistribution of wealth, including a reform of the tax system, and affordable health care for the poor will be needed to alleviate the effects of economic inequality. But this will not be enough. With around two million young Indonesians entering the workforce annually for the next decade, economic growth must result in more jobs.

### Indonesia's strategic position between China and India makes it an interesting potential ally for both of Asia's leading powers.

Most of the workforce currently operates in the informal sector. Thus, policies are needed to create jobs in the formal sector, which provides employees with security and additional benefits such as healthcare coverage.

Indonesia is extremely rich in resources, but most of its exports are at the lower end of the value chain. The new government must find ways to increase the value chain, without resorting to the ad-hoc protectionist measures the incumbent government recently introduced. A qualified workforce is key to achieving this, and reforms of and long-term investments in the country's education sector will be needed to get there. In the mid-term, heavy invest-

ment in infrastructure – mainly in electricity, roads, and ports – and a restructuring of the bureaucracy with clear competencies is necessary to spur domestic and foreign investment. Leaner and more transparent bureaucratic structures with adequate salaries for staff will also reduce opportunities and incentives for corruption, another major obstacle to investment.

### Emerging Regional Power

Both candidates in the forthcoming presidential election are running on a predominantly domestic platform – for good reasons: most Indonesians care little about Indonesia's foreign policy. Issues like the treatment of migrant workers abroad generate far more interest than Indonesia's role in regional and international affairs. This does not, of course, alleviate the need for Jakarta to position itself actively on the international stage. Australia, which has had an often ambiguous relationship with its largest neighbor, has recognized Indonesia as its most important regional partner. The two countries agreed in 2012 to enhance cooperation to combat illegal immigration to Australia. Indonesia's strategic position between China and India makes it an interesting potential ally for both of Asia's leading powers, and the US with its much-hyped "pivot to Asia" is also increasingly paying attention. As the largest Muslim-majority democracy, Indonesia is also seen as a potential moderating voice in the relations between the West and the Muslim world – although it often seems uninterested in engaging in this position of influence.

## Bilateral Relations between Switzerland and Indonesia

Indonesia's economic potential makes it an interesting trading partner and investment destination. Annual trade between Indonesia and Switzerland currently amounts to CHF 698 million, a rise of 65 per cent since 2000. Indonesia is Switzerland's **fourth-largest investment destination in Asia**. More than **70 Swiss companies** are active in Indonesia, creating an estimated 43,000 jobs. The country's growing middle class and expected investments in infrastructure projects create opportunities for expanded activities of Swiss companies. Indonesia is a priority country for the State Secretariat for Economic Affairs' economic development cooperation, and negotiations for a **free trade agreement** are underway under the auspices of the European Free Trade Association.

Development cooperation and humanitarian aid are mainly focused on dealing with natural disasters, most importantly in the aftermath of the devastating tsunami of 2004. In addition to CHF 12.5 million channeled through the Swiss Agency for Development and Cooperation, private donations from the Swiss public for reconstruction in Aceh amounted to almost **CHF 76 million**.

The Swiss embassy in Jakarta and the Indonesian Department of Justice and Human Rights have been holding a local **human rights dialog since 2005**.

Unlike most countries in the region, Jakarta refuses to take sides and adheres to its tradition of non-alignment and its vague mantra of an "independent and active" foreign policy. It is forging closer economic ties with a number of regional and international powers and has in recent years established strategic cooperation agreements with the US, China, and India, particularly in the area of maritime security, where Indonesia would like to expand its power. But to become a key security partner, Indonesia will have to professionalize its military, which has been notoriously underfunded and preoccupied with domestic concerns. As it stands, the world's biggest archipelagic country lacks the maritime capabilities for adequate littoral defense, let alone to play a critical role in the security management of the region.

Whereas bilateral relations with its immediate neighbors are at times strained, Indonesia assumes a leading position within

ASEAN. ASEAN has had some quiet successes in liberalizing intra-regional trade and moving toward an economic community, and Jakarta has enjoyed its self-assigned role as an intermediary within the association. Tensions between some of the members and problems domestically, especially in Thailand, continue to test the ability of ASEAN to promote peace and security in the region. But the main challenge comes from outside: China's extensive territorial claims in the South China Sea are at odds with the claims of a number of ASEAN states (Indonesia has recently added itself to the list). Those member states would like to use ASEAN's diplomatic clout to increase their influence vis-à-vis China. Other members, such as Cambodia, Myanmar, and Laos, are closer to China and more dependent on good relations with the giant in the north. These internal differences leave the group divided and unable to speak with one (soft-spoken) voice. Indonesia's tradition of non-align-

ment and its sensitivities to national sovereignty would put it in a good place to deal with those challenges and prevent the political dimension of ASEAN from sinking into near-oblivion. However, to play that role, Jakarta will need to develop a clear and consistent foreign policy vision, and decide whether it wants to be viewed primarily as an ASEAN heavyweight, or as a strong middle power in its own right.

Indonesia remains a mainly inward-looking country and is at times ambivalent about its international ambitions. However, as the country's economic weight grows, its international profile as a significant regional actor is likely to become more accentuated as well. Indonesia's next government will have to build the institutional capacity to accommodate such changes, and to ensure that economic and human development go hand in hand.

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