
INDONESIA IN 2001

Restoring Stability in Jakarta

Michael S. Malley

On July 23, less than two years after electing him president, the People's Consultative Assembly (MPR) removed Abdurrahman Wahid and replaced him with his vice president, Megawati Soekarnoputri. Legislators accused Wahid of engaging in corruption, allowing economic reforms to languish, exacerbating regional political and social conflicts, and generally providing weak and incompetent leadership. Above all, legislators resented his refusal to acknowledge the House of Representatives (DPR) as his constitutional equal.

Five months later, neither legislative body shows any interest in displacing Megawati, and she is widely expected to survive until elections are held in 2004. Still, her government is dogged by many of the same issues that confronted Wahid's. Corruption remains widespread and legal action against it is limited. Economic reform has not accelerated, peaceful resolution of separatist conflicts seems even more distant, and the ill-planned implementation of radical decentralization laws continues to erode national government authority beyond the intent of their framers.

The apparent paradox of increased political stability and persistent problems reflects two prominent characteristics of the political system that has emerged since Soeharto's resignation in 1998. Both became increasingly evident during 2001. One is the government's quasi-parliamentary structure, which is unique in the world. This requires the president to maintain broad support in the legislature, an easier task for Megawati, whose Indonesian Democracy-Struggle Party holds the most seats, than for Wahid, whose National Awakening Party is only the fourth-largest. Another characteristic is the

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need to form coalitions among parties, since the country's electoral system almost guarantees that none will secure a majority. With just 31% of the seats in the House of Representatives, and 27% in the Assembly, Megawati's party cannot govern alone. However, the deep personal differences among party leaders, and ideological ones among the parties, inhibit the formation of stable coalitions. As a result, Megawati finds it difficult to translate her more stable political position into more effective policies.

Politics

The process of removing Wahid from the presidency began in mid-2000.¹ By that point his erratic leadership style had alienated the loose coalition of parties that had elected him, and in August they extracted a promise from him to transfer most of his authority to Megawati. Almost immediately, he reneged on the deal. In response, the House established a special committee to investigate his alleged involvement in two financial scandals. In one, his masseur persuaded an official at Bulog, the state logistics agency, to release Rp. 35 billion (about \$3.5 million), ostensibly to fund humanitarian relief efforts in Aceh. In another, Wahid received \$2 million from the Sultan of Brunei.

Presidential Succession

In late January 2001, the special committee reported that it was "reasonable to believe" the president had been involved in the transfer of Bulog funds, and that he had made contradictory statements about the money he received from Brunei. On February 1, the House voted overwhelmingly to approve the first of two censures required before it could call a special session of the Assembly, which in turn could remove him from office.

Wahid formally responded to the censure on March 28. He claimed that he was not personally involved in the transfer of Bulog funds, and that the funds from Brunei were a private gift and therefore did not have to be accounted for publicly. The House dismissed Wahid's response and passed a second censure motion on April 30 as soon as the legally mandated three-month presidential reply period had expired.

Wahid alternately tried to accommodate and threaten his rivals, but by the end of May these efforts had backfired. The army leadership publicly opposed a state of emergency, fearing it would be drawn back into politics, and Megawati refused to accept a power-sharing agreement. On May 30, the House asked the Assembly to begin a special session on August 1 to consider Wahid's fate. In July, Wahid called meeting of party leaders to work out a

1. The background to his removal is described well in two reports by the International Crisis Group, "Indonesia's Presidential Crisis," February 21, 2001, and "Indonesia's Presidential Crisis: The Second Round," May 21, 2001, available at <<http://www.crisisweb.org>>.

compromise, but only the leader of his own party attended. On July 20, over the House's objection, Wahid appointed an interim police chief to replace one who opposed his plan to declare a state of emergency, but this simply provoked the Assembly leadership to commence proceedings against Wahid the next day.

Early on the morning of July 23, Wahid decreed that the House and Assembly were "frozen" and called for fresh elections. Within hours the chief judge of the supreme court declared the decree unconstitutional and by evening the Assembly had removed Wahid and appointed Megawati as the country's fifth president. Three days later, it elected Hamzah Haz as her vice president. He leads the third-largest party in the House and Assembly, the Islamically oriented Development Unity Party, that had campaigned against Megawati's presidential bid in 1999.

Megawati's Cabinet

After nearly three weeks of horse-trading among the leaders of the major political parties, Megawati appointed a cabinet that rewarded her main supporters and reassured investors, but which appeared to place conservative political interests ahead of further reform.

Retired military officers gained several key positions. As coordinating minister of political and security affairs, Megawati chose Susilo Bambang Yudhoyono, whom Wahid had sacked from his own cabinet in June for refusing to support a state of emergency. As minister of home affairs, Megawati chose Hari Sabarno, who had aided her ascent to the presidency as head of the military/police faction in both legislative bodies. The transport ministry went to Agum Gumelar, whom Wahid had chosen to replace Susilo in June but who had opposed Wahid's efforts to declare a state of emergency in the wee hours of July 23. Megawati rewarded the dissident head of Wahid's party, Abdul Matori Djalil, with the post of defense minister, continuing the post-Soeharto practice of appointing a civilian.

The new president handed management of the economy to a group of economists and business professionals that observers quickly dubbed the "dream team." She chose Dorodjatun Kuntjoro-Jakti, who had been ambassador to the United States since 1998, to lead the team, and gave the finance portfolio to Boediono, a well-regarded academic economist with broad government experience. Trade and industry went to Rini Soewandi, formerly an executive with the country's largest automotive company, Astra. Senior members of Megawati's party won two economic portfolios. Laksamana Sukardi, a former banking executive, was placed in charge of state enterprises, and Kwik Kian Gie took charge of the national economic planning agency.

Although Megawati chose former labor activist Jacob Nuwa Wea as minister of manpower, she took several steps to restore key people and institutions of the Soeharto era. Most important, she named Bambang Kesowo as cabinet secretary, and placed him in charge of the State Secretariat, the main instrument of executive power under Soeharto. Kesowo had served as vice cabinet secretary from 1993 until former President B. J. Habibie fired him in 1998, allegedly for accepting a large bribe to speed the processing of a new law on taxation. As minister of administrative reform she appointed Feisal Tamin, a career official in the Ministry of Home Affairs. Together, they contributed to restoring rigid protocol and tight security at the palace, and worked to block ministers from hiring professional staff from outside the civil service.²

In contrast to the strong leadership expected from Kesowo, Megawati appointed an attorney general who was regarded as entirely unlikely to prosecute major corruption suspects. A career prosecutor in the notoriously corrupt office he now oversees, M. A. Rachman is known best as the head of a special team that looked into allegations of human rights abuses by the military in East Timor in 1999 and failed to recommend prosecution of top generals. Megawati also created a State Information Agency, and named the head of Golkar's legislative faction, Syamsul Mu'arif, as minister of information. The new agency occupies the same office as the former Department of Information, which Wahid had abolished because of its role in controlling the mass media under Soeharto. Suspicion that her presidency might attempt to revive that function surfaced in late December when Mu'arif told a group of senior media officials that the press is "out of control," a sentiment the president herself echoed in a meeting with the national Press Board when she complained about "irresponsible reporting."³

Constitutional Reform

With little fanfare or public debate, the Assembly's annual session produced the country's third constitutional amendment in three years.⁴ It requires, but does not set a timetable for, the establishment of an independent electoral commission, a constitutional court to exercise powers of judicial review over national legislation, an independent judicial commission to consider appointments to the Supreme Court, and a new legislative body known as the House of Regional Representatives (DPD). In addition, it includes a detailed impeachment procedure in which the decision to remove the president lies with

2. John McBeth, "Nothing Changes," *Far Eastern Economic Review*, November 1, 2001.

3. "Information Minister Ponders New Ways to Rein in Media," *Jakarta Post*, December 29, 2001; "Mega Pertany akan Tanggung Jawab Pers" [Mega questions responsibility of the press], *Suara Pembaruan* [Voice of Renewal], December 29, 2001.

4. A detailed analysis can be found in Andrew Ellis, "The MPR Annual Session 2001: A Constitutional Commentary," *Van Zorge Report* 3:20 (November 20, 2001).

the new constitutional court and no longer with the Assembly. Despite these changes, the session was widely regarded in Indonesia as a failure because of key issues on which the Assembly deferred action until next year's annual session.

Separatist Movements

As Wahid's power ebbed in early 2001, prospects for a peaceful resolution of the conflict in Aceh diminished, too. In March, attacks by the armed Free Aceh Movement (GAM) forced ExxonMobil to halt production of the province's major resource, natural gas, which disrupted exports to Japan and South Korea and caused some factories in Aceh to shut down. On April 11, Wahid issued a presidential instruction that outlined a six-point "comprehensive solution" to the conflict. Initially, only the single point concerning military action was implemented, and the number of people killed in the conflict rose from 256 in the four months preceding the instruction to 539 over the following four months.⁵ However, on July 19 the House passed a law that granted Aceh's provincial government a large share of revenues from natural gas exports, and rights to impose Islamic law, hold direct elections for local executives, and form its own police force. The new law won few supporters in Aceh and failed to reduce the violence there. Red Cross workers conservatively estimated that 1,500 people, mostly civilians, were killed in Aceh during 2001.

Support for independence in the province of Papua, formerly Irian Jaya, is extremely widespread, as even a 2000 study by Indonesia's home affairs ministry concluded.⁶ Although the level of violence has been increasing since the middle of 2000, it remains far below that found in Aceh, and consequently many observers believe that a peaceful resolution for Papuan demands remains possible.⁷ This possibility seemed to grow in October when the House adopted a Papuan-proposed bill on special autonomy, and Megawati made plans to sign it into law during a Christmas celebration in Papua. However, the death of a leading advocate of Papuan independence, Theys Hiyo Eluay, in a mysterious mid-November car crash increased anti-Indonesia sentiment and led Megawati to cancel her trip.

5. Reports by human rights groups, cited in "Aceh: Running out of Hope," *Van Zorge Report* 3:17 (October 1, 2001), p. 15.

6. Richard Chauvel, "The Backlash: Jakarta's Secret Strategy to Deal with Papuan Nationalism," *Inside Indonesia* 67 (July-September 2001).

7. Human Rights Watch, "Violence and Political Impasse in Papua" (July 2001), available at <<http://www.hrw.org>>, and International Crisis Group, "Ending Repression in Irian Jaya" (September 20, 2001), available at <<http://www.crisisweb.org>>.

Decentralization

Two laws took effect at the beginning of 2001 that promise sweeping changes in the structure of the Indonesian state, but poor preparation led to inconsistent implementation and widespread confusion.⁸ One grants broad political autonomy to the country's district (*kabupaten*) and city governments, which previously were answerable to provincial governments and thence the Ministry of Home Affairs. The second obliges the central government to transfer large amounts of financial resources to local governments to enable them to exercise their new political autonomy. Both laws were passed in early 1999 during Habibie's presidency to forestall more radical demands for autonomy or even independence. Distracted by other events, neither Habibie nor Wahid took steps to publicize the laws adequately or even issue the regulations needed to implement them. Local officials have accused the national government of acting inconsistently and trying to regain ceded authority.

The Economy

Economic management deteriorated during the first half of the year as Wahid struggled to retain power, and during the second half, the economy did not improve as much as many of Megawati's supporters had anticipated. As a result, inflation has risen from a rate of less than 10% in late 2000 to about 12% to 13% in late 2001. The rupiah has lost 10% of its value since the start of 2001, and gross domestic product (GDP) is expected to grow at only about 3% in 2001, down from nearly 5% in 2000.

The legacy of the 1998 economic crisis would present major challenges to any government. In response to the bankruptcy of its financial sector, the Indonesian government issued domestic bonds worth more than \$60 billion to recapitalize banks, and established the Indonesian Bank Restructuring Agency to close, sell, or restructure banks and their assets. Through the IBRA, the government now controls more than \$50 billion worth of corporate assets, whose sale by the IBRA is intended to generate income for the government. The sum of the government's foreign and domestic debt is around \$150 billion, about the same as Indonesia's annual GDP, and debt service consumes about 40% of the government's budget.⁹

Despite its dependence on foreign assistance, Wahid's government became involved in several disputes with the International Monetary Fund, which

8. Informative fortnightly reviews of the process may be found in *Decentralization News*. The bulletins are published by the Indonesian office of the German aid agency GTZ, which advises the Indonesian Ministry of Home Affairs. They are available at <<http://www.gtzsfdm.or.id>>

9. On Indonesia's public debt, see International Crisis Group, "Bad Debt: The Politics of Financial Reform in Indonesia" (March 13, 2001), available at <<http://www.crisisweb.org>>.

suspended assistance to Indonesia in December 2000. The IMF was worried by Wahid's failure to meet specific spending and revenue targets, his efforts to weaken the central bank's independence from political influence, and continual delays in the IBRA's sale of corporate assets. These concerns fed a deepening level of mistrust between the government and foreign donors.¹⁰

Megawati's government quickly signed a new agreement with the IMF, and by September the Fund had resumed disbursements from its three-year, \$5 billion aid commitment. In late August, the World Bank announced that it would provide \$420 million to finance a poverty-reduction plan. However, the unexpectedly slow pace of reform under Megawati soon made Indonesia's donors more cautious. At their annual meeting in November, they pledged only \$3.1 billion for 2002, \$1.7 billion less than they had pledged for 2001.

Regional governments have begun to exercise equally strong influence over the national government's capacity to manage the economy. In Bangka and Belitung, local authorities have condoned illegal mining on such a large scale that largely state-owned PT Timah, which accounts for 13% of world tin output, announced in October that it is nearing bankruptcy. In December, central government officials caved in to pressure from politicians in West Sumatra and Sulawesi and agreed to exclude two subsidiaries of state-owned cement maker Semen Gresik from a previously agreed sale to a Mexican company. This effectively killed a deal that would have earned \$500 million for the national government.

International Relations

Until September 11, the most important developments in Indonesia's foreign affairs occurred in its relations with Australia. Ties between the two countries soured in 1999 after Australia agreed to lead a peacekeeping force to East Timor. President Habibie, with vocal support from Wahid, then abrogated the bilateral security treaty that President Soeharto and Prime Minister Paul Keating had signed in 1995.

After becoming president later in 1999, Wahid sought to repair relations with Australia, but continuing opposition at home repeatedly forced him to postpone a proposed visit there. Only in June 2001, when power had slipped almost entirely from his grasp, did he decide to go. In Canberra he was greeted not just by Prime Minister John Howard but also by the former commander of Australian troops in East Timor, Lieutenant General Peter Cosgrove. The Australian government recognized that Wahid was too weak to make substantive agreements between the two countries, and valued his visit

10. Mari Pangestu and Miranda Swaray Goeltom, "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 37:2 (August 2001), p. 146.

more for its symbolic importance: It was the first by an Indonesian president since 1975, when Soeharto met Prime Minister Gough Whitlam, a supporter of Indonesia's policy on East Timor.

Even before she had named her cabinet, Megawati invited Howard to Jakarta. His visit, on August 12–13, made him the first head of government to meet the new president, but did little more than affirm both nations' intentions to rebuild their bilateral relationship. Less than two weeks later, these ties were strained when Canberra refused to accept 438 undocumented migrants whom a Norwegian cargo ship had picked up after the Indonesian ferry taking them to Australia had capsized. Although Australia relented after several days and allowed them ashore, the incident drew attention to the growing number of refugees, mainly from South Asia and the Middle East, who are smuggled by the hundreds to Australia through Indonesia, and to the weakness of Indonesia's civilian and military authorities, who are unable to prevent illegal immigrants from entering or leaving their territory.

After September 11, relations with the United States took center stage. Coincidentally, the groundwork for closer cooperation had been laid a month earlier when President George W. Bush announced the appointment of a career diplomat, Ralph Boyce, to replace the abrasive and controversial Robert Gelbard as ambassador. Also in mid-August, U.S. Trade Representative Robert Zoellick visited Megawati, despite a warning just ahead of his arrival that the U.S. government had 'credible evidence' that extremists might attempt to attack Americans in Indonesia. Zoellick conveyed American support for her and invited her to visit Bush in Washington the following month. He also announced that the United States was considering the resumption of military-to-military cooperation, severely restricted for much of the past decade. Advocates of renewing these ties include Paul Wolfowitz, Bush's deputy secretary of defense, and ambassador to Indonesia during 1986–89.

Bush's meeting with Megawati on September 19 was just his second with a foreign head of state since the September 11 attacks. Megawati offered assurances of Indonesia's opposition to terrorism, and in exchange Bush promised to lift the embargo on commercial sale of non-lethal defense equipment and offered a package of financial aid worth \$657 million, including \$400 million for the oil and gas sector, the major focus of American investment in Indonesia.

At the end of December, the United States moved closer to resuming military aid to Indonesia. Although Congress passed one law that increased the conditions Indonesia must meet before aid flows again, it also passed a de-

fense appropriations act that allocated \$21 million for anti-terrorism training in the region.¹¹

Conclusion

Megawati's rise undoubtedly reflects a desire among national political leaders to reestablish a modicum of stability after three years of rapid, often violent, political change. And constructing a stable national government is certainly a prerequisite to achieving the stability of Indonesia as a whole. In the absence of a stable government in Jakarta, economic and regional challenges have mounted. The principal question at the end of 2001 is whether Megawati's government will be able to translate its own stability into coordinated policies promoting constitutional reform, encourage economic growth, and resolve regional crises.

Many developments during 2001 suggest that, at the very least, Megawati is better positioned to achieve these goals than her predecessor. The legislative branch certainly is stronger than ever and continually tests the limits of its authority, yet it chose to replace Wahid through a protracted, constitutional process unaccompanied by violence. The military's most notable role during the leadership struggle was its rejection of Wahid's unconstitutional efforts to suspend the democratically elected legislatures. The Assembly has cautiously but continually amended the constitution, building broad consensus for each change. And both legislative bodies have demonstrated a willingness to accommodate regional demands by altering basic political institutions.

Unfortunately, reasons for pessimism abound. Offers of special autonomy to Aceh and Papua may be too little, too late. These were not Megawati's ideas, and her supporters in the military clearly favor a tougher approach toward both regions. Decentralization has proceeded too far for the national government even to protect its economic interests, let alone reverse the process. And the fractious legislature seems an unlikely partner for a president who needs to make difficult tradeoffs in order to achieve economic reform, all the while preparing for an election in 2004.

11. Michael Richardson, "U.S. to Aid Jakarta Army," *International Herald Tribune* (December 27, 2001).