

GOVERNANCE in INDONESIA



Challenges Facing the Megawati Presidency

Edited by

Hadi Soesastro • Anthony L. Smith
Han Mui Ling

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**Challenges Facing the
Megawati Presidency**

The **Institute of Southeast Asian Studies** (ISEAS) in Singapore was established as an autonomous organization in 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia, particularly the many-faceted problems of stability and security, economic development, and political and social change.

The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

The Institute is governed by a twenty-two-member Board of Trustees comprising nominees from the Singapore Government, the National University of Singapore, the various Chambers of Commerce, and professional and civic organizations. An Executive Committee oversees day-to-day operations; it is chaired by the Director, the Institute's chief academic and administrative officer.

Preface

Indonesia faces challenges on many fronts, or, as it is commonly said in Indonesia itself, the country continues to face a “multi-dimensional crisis”. Paralysis gripped the political structure from early 2001, as the Abdurrahman Wahid administration became virtually moribund and was unable to provide leadership on any issue. When Megawati Sukarnoputri acceded to the presidency, speculation was rife about what sort of government she would lead. Her strong Cabinet line-up immediately raised expectations that this would be an executive that would face up to the myriad problems facing Indonesia, and this was evident from the dramatic strengthening of the rupiah immediately after the announcement. However, within months disillusionment with the leadership of the executive was evident once more. To make matters worse, the recent Bali bombing dramatically demonstrated that international terrorism had come to Indonesia. Not only does terrorism add to an already overcrowded agenda, it could very well be the greatest challenge for Megawati’s government.

This volume features a series of chapters that explore some of the major issues that confront the Megawati administration. This book largely stems from a public forum entitled “The First 100 Days of President Megawati: Political and Economic Perspectives”, jointly hosted in Singapore by the Institute of Southeast Asian Studies (ISEAS) and the Centre for Strategic and International Studies (CSIS) on 1 November 2001. Addresses given at this forum by Todung Mulya Lubis, Jusuf Wanandi, Azyumardi Azra, Mohammad Sadli, Anggito Abimanyu, and J. Soedradjad Djiwandono are included in this volume. New chapters have also been added to supplement the original seminar papers. The forum brought together a group of individuals who can claim to be

academics and practitioners. The idea behind the forum on 1 November 2001 was to assess the general direction, and the prospects, of the Megawati administration after its first 100 days. It was generally agreed that this time period is too short in which to evaluate any administration, although some broad trends may be discernible. Rather than an assessment of the presidency itself, the chapters in this volume all assess some of the key issues that will confront the Megawati administration.

Megawati started off with an enormous groundswell of practical and popular support after her predecessor quickly became unpopular with most political factions and the country at large. With this tangible advantage, **Hadi Soesastro** argues in the introductory chapter that Megawati will prove to be more able than Wahid to maintain political stability in Indonesia. While he predicts that Megawati will remain in power until the 2004 election, he is skeptical that she will abandon her inert political style and decisively implement thorny economic and judicial reforms. In other words, progress in structural reforms under Megawati is expected to be slow.

Paulo Gorjão's chapter on the failures of the Abdurrahman Wahid presidency gives the reader insights into the formidable challenges faced by the Megawati administration. Wahid's inability to co-opt the political elite in Jakarta's multi-party environment stands out as a sobering lesson for future administrations. Wahid also failed to tackle Aceh's and Irian Jaya's secessionist claims, deal with accountability demands concerning Soeharto's regime and East Timor human rights violations, as well as manage civil-military relations in a consistent manner. He was also unable to deal with the accusations of corruption that tarnished his administration. These very same challenges that crippled Wahid's presidency continue to remain issues to be confronted by the Megawati administration. Will Megawati succeed where her predecessor Wahid had failed? This is the very question the other contributors have tried to grapple with.

The subsequent chapters in this book are structured around two critical challenges of the Megawati administration: institutional and economic reforms. In these two arenas, many felt that Megawati's presidency could precipitate a stronger and radicalized

challenge from political Islam, especially in the light of the 11 September terrorist attacks. Her gender and lack of Islamic credentials, under some scenarios, would give her Muslim political rivals an added edge. **Azyumardi Azra**, however, allays these fears by highlighting the largely tolerant nature of Indonesian Islam. He argues that the more radical Islamic groups do not pose a real threat to Megawati's political position, given their fragmentary nature and lack of mass support.

Some analysts suspect that Megawati may establish a *modus vivendi* with opposing political forces and the military. If so, she is less likely to implement key reforms affecting the armed forces, such as establishing an institutional basis for civilian political supremacy over the military, and dismantling the army's politically oppressive territorial structure. **Jusuf Wanandi** argues that Megawati, being a more assertively nationalist leader, would probably be more reliant on the military to deal with the independence movements in Aceh and Irian Jaya. This reliance could slow down urgently needed reforms in the TNI (Indonesian Armed Forces). But he believes that Megawati has the ability to address this challenge, given her credibility with the military leadership and her belief that overhauling the military would boost her popularity significantly.

Human rights activist **Todung Mulya Lubis** identifies the 1945 Indonesian Constitution as the main structural obstacle to peaceful democratization in Indonesia. He feels that the 1945 Constitution, a historical product of the political forces at the time, is no longer relevant to modern Indonesia. Several constitutional amendments were made, but these changes, in his view, were done without a clear vision of the future political structure of Indonesia. Ambiguity inherent in the 1945 Constitution has only contributed to higher levels of political conflict in the post-Soeharto years. Unless there is a new Constitution in place, Lubis argues, Indonesia's political instability is likely to persist even under the Megawati administration.

Contributions by **Kumiko Mizuno** and **Rizal Sukma** approach institutional reforms from a different angle. In order to improve political governance, Megawati needs to first address the issue of justice. Mizuno believes that East Timor is a critical test case for

Indonesia. However, there is little in terms of a driving force that would push the Megawati government to end the legal impunity for human rights violations in East Timor. Instead, the issue of justice has become a political commodity between the various domestic political forces and the military. If the Megawati administration fails to settle human rights violations in East Timor, she is unlikely to be able to succeed in managing a similar challenge in another restive province — Aceh. In this sense Sukma shares Mizuno's pessimism. He feels that the prospect for a peaceful resolution to the Aceh conflict under Megawati is increasingly uncertain.

The chapter by **Dewi Fortuna Anwar** outlines the foreign policy challenges of the Megawati administration. While the international community, particularly Indonesia's Southeast Asian neighbours, welcomed the appointment of Megawati, she feels that there is little chance that Indonesia under Megawati will resume the leading role it once exercised within the Association of Southeast Asian Nations (ASEAN). She notes, however, that Megawati has taken the first positive step by restoring normal dealings with international financial institutions such as the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB).

The initial positive market response to the Megawati administration was very short-lived. Today many see Megawati's economic performance during the first 100 days of her administration as anything but good. Why is that so? **Mohammad Sadli**, a former Cabinet minister, influential policy-maker, and professor of economics, offers a rare "insider" perspective on the politics of economic policy-making in Indonesia. Specifically, he attributes Megawati's poor showing to the "politics and personalities" of her economic Cabinet team and the effects on her government's relationship with the IMF, the ADB, and the World Bank. His analysis complements the chapter penned by former Bank Indonesia governor, **J. Soedradjad Djiwandono**. In Soedradjad's contribution he discusses, in greater detail, the nature of the IMF's involvement with Indonesia since the 1997 crisis. He suggests that policy inconsistencies by both the IMF and the post-Soeharto Indonesian governments were partly responsible for delaying economic

recovery in the country. The Megawati government, which made a sensible start by amending ties with the IMF, has been unable to follow up on the good start by accelerating the pace of economic reforms. The events of 11 September and the slow-down in the global economy have made her task even more daunting.

The next few chapters on economic governance focus on issues of debt, fiscal policy, and government budget. **Tubagus Feridhanusetyawan** provides a comprehensive overview of the foreign debt problem in Indonesia. He warns of a pending debt crisis if the Megawati administration fails to negotiate for the third round of the Paris Club debt rescheduling. In fact, he sees a compelling need for Megawati to adopt a comprehensive and integrated debt-resolution approach (including a centralized debt management unit and a solid institutional and legal framework) in order to achieve some headway towards resolving Indonesia's debt crisis.

The contribution by **Anggito Abimanyu**, who holds the position of Expert Staff at the Ministry of Finance, presents a practitioner's perspective on the issue of fiscal sustainability in Indonesia. His step-by-step description of the formulation and implementation of the financial year 2001 budget allows the reader to understand the conflicting demands placed on the limited finances of the Indonesian Government. The outcome of the 2001 budget and the preparation of the 2002 budget are crucial for the Megawati administration as they will help to ensure the soundness of her government's fiscal position in the succeeding years.

Bambang Brodjonegoro's chapter discusses one of the Megawati government's key challenges — fiscal decentralization. Bambang argues that the fiscal decentralization programme, a direct outcome of regional autonomy demands, has been implemented in an extremely haphazard fashion. Little thought is given to establishing a proper legal and financial infrastructure for local empowerment. To ensure good relations between the central and local governments and to prevent a widening regional disparity between resource-rich and -poor provinces, the Megawati administration has the unenviable task of coming up with an efficient, equitable, and politically acceptable intergovernment fiscal transfer formula.

Anthony L. Smith's epilogue discusses what the bomb blast in Bali means for Indonesia in the context of the emergence of political Islam and the administration's hesitation in meeting head-on the challenge of Islamist radicalism. This final chapter posits the argument that current political trends indicate that Indonesia is not headed towards the establishment of an Islamic state, and that secularism is accepted by the overwhelming majority of the population — Muslims and non-Muslims. Radical versions of Islamism, employing terrorism as a political tool, do not enjoy any support in Indonesia except within a tiny segment of the population. The great difficulty is that the Indonesian Government, and its security forces, have proved unable, or unwilling, to prosecute such groups, even when they are in clear violation of the law. Megawati has proved vulnerable to opponents using identity politics to attack her — with Megawati not wishing to demonstrate that she is against Muslim interests. Nonetheless, the Megawati administration has now taken steps, in the wake of the Bali blast, to rein in terrorist groups. Unfortunately, a perception is growing that Megawati has not provided the kind of leadership needed in this time of national crisis, and this weakens her in the run-up to the 2004 election.

Generally, there is a sense from the contributors that the Megawati administration faces a formidable array of challenges. In a 2001 report for international donors titled *The Imperative For Reform*, the World Bank says: "In the 100 days since assuming office, the new [Megawati] administration has made little progress on structural and governance reforms — renewing nervousness in markets and worrying external markets and creditors." This assessment might be unduly harsh given the magnitude of the problems plaguing Indonesia and it remains to be seen whether the Megawati administration can accelerate Indonesia's protracted transition to democracy.

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Contents

<i>Preface</i>		vii
<i>Contributors</i>		xiv
Chapter 1	Introduction: Indonesia under Megawati <i>Hadi Soesastro</i>	1
Chapter 2	Abdurrahman Wahid's Presidency: What Went Wrong? <i>Paulo Gorjão</i>	13
Chapter 3	The Megawati Presidency: Challenge of Political Islam <i>Azyumardi Azra</i>	44
Chapter 4	Megawati's Search for an Effective Foreign Policy <i>Dewi Fortuna Anwar</i>	70
Chapter 5	Challenge of the TNI and Its Role in Indonesia's Future <i>Jusuf Wanandi</i>	91
Chapter 6	Constitutional Reforms <i>Todung Mulya Lubis</i>	106
Chapter 7	Indonesian Politics and the Issue of Justice in East Timor <i>Kumiko Mizuno</i>	114

Chapter 8	Secessionist Challenge in Aceh: Problems and Prospects <i>Rizal Sukma</i>	165
Chapter 9	Economic Overview <i>Mohammad Sadli</i>	182
Chapter 10	Role of the IMF in Indonesia's Financial Crisis <i>J. Soedradjad Djiwandono</i>	196
Chapter 11	Escaping the Debt Trap <i>Tubagus Feridhanusetyawan</i>	229
Chapter 12	Challenge of Fiscal Sustainability for the Megawati Government <i>Anggito Abimanyu</i>	269
Chapter 13	Fiscal Decentralization in Indonesia <i>Bambang Brodjonegoro</i>	282
Chapter 14	Epilogue: The Bali Bombing and Responses to International Terrorism <i>Anthony L. Smith</i>	305
	<i>Index</i>	323
	<i>The Editors</i>	336

1

Introduction

Indonesia under Megawati

Hadi Soesastro

Introduction

The Megawati government was only about five months old at the time of writing. It seems rather unfair to pass judgment on the performance of a new government within a year. This is particularly so in the case of Indonesia, a large country and one rather difficult to govern, one that is faced with huge problems in almost every aspect of life. Megawati inherited difficult and complex problems that she must try to resolve within a political environment that is fragile, experimental, uncertain, and often bordering on anarchy. But the performance of the government should not be measured only by what it has delivered. The informed public does not expect Megawati to perform miracles. In fact, the general expectation has been rather modest in terms of what this government can deliver.

Megawati's first hundred days almost coincided with the annual session of the People's Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR), held from 1 to 9 November 2001. The MPR is the highest political body that elects the President (and Vice-President) and formulates the broad outlines of state