



## **Wilton Park Conference 901**

### **INDONESIA: POLITICAL AND ECONOMIC PROSPECTS**

**Monday 3 – Wednesday 5 March 2008**

With support from Shell, The Hague, the British Council, Jakarta,  
the Department for International Development and  
the Foreign and Commonwealth Office, London

#### **Summary**

Indonesia has made a remarkable transformation over the last decade. Its future appears promising over the medium to longer-term, although a number of challenges need to be addressed. These include:

- greater attention needs to be given to embedding democracy and good governance, and to basic economic issues of tackling poverty and unemployment;
- decentralisation has proven key in maintaining Indonesia's unity, but leadership at the local level is often weak and low professionalism in the civil service generally is an obstacle to further progress;
- Indonesia is overall moving away from radical Islam, but continuing efforts are needed to ensure the country maintains a pluralist and tolerant path;
- Indonesia's response in combating terrorism is generally seen to have been successful, and undertaken in adherence to the rule of law; however, counter-radicalisation, changing the environment so that violent groups do not take root, is largely neglected;
- security sector reform is unfinished business and needs support;
- while there is undeniably much greater human rights protection, government leadership and political will need to be shown in pursuing further human rights reform, linked to good governance and the rule of law;
- despite a rise in foreign direct investment (FDI) in 2007, corruption, legal uncertainty, government regulation, bureaucracy and labour restrictions all impede growth and economic progress;
- Indonesia needs to project itself more confidently and vigorously on the world stage; it can play a substantial role as a bridge-builder between Muslim and other cultures.

## **Democratic progress and political challenges**

1. Ten years since it was hit by acute economic crisis, leading to the fall of the autocratic regime of President Suharto, Indonesia has undergone a remarkable transformation. Yet the reform process is incomplete, and many see Indonesia as a country of potential rather than actual achievement.

2. Political reform was carried out within a relatively short period of time after 1997, and fairly comprehensively. This included: measures for the direct election of the president and vice president; fully elected central legislatures, with a prohibition on active members of the military, police and civil service standing for elected public positions; an independent judiciary, comprising the Supreme Court and newly established Constitutional Court; ending of the dual roles of the military as both security and social-political forces, as well as separation of the military and police; some progress in instituting civilian supremacy over the military with the appointment of a civilian as Minister of Defence; ending the limitation on the number of political parties; respect for the right to freedom of expression, leading to the emergence of a lively and free media; freedom of association has provided for a strengthened and vibrant civil society; a radical decentralisation programme has vested many powers in local governments, excepting defence and foreign policy, the judiciary, fiscal and monetary issues and religion; and new independent bodies have been established to conduct functions previously controlled by government, including the General Elections Commission (KPU).

3. Indonesia may have shown exemplary commitment to the holding of elections. Yet some blame democracy for the present lacklustre economic performance of government. Its costly and sometimes disruptive elections, and seemingly inefficient and lengthy decision-making process are set unfavourably against the perceived ordered approach of the past. Democratic values need to become more deeply rooted, and greater emphasis given to substantive, rather than procedural, democracy. There should be greater transparency in decision-making processes and more open access to information, particularly at local government level on development and budgetary planning. More focus is needed on issues rather than personalities; greater attention should be paid to 'bread and butter' issues such as tackling poverty, unemployment, education and health care to show that

democracy, as a system of government, can deliver and improve the living conditions of the mass of the population. Perhaps Indonesia has adopted democracy in form, but good governance is still to be fully achieved.

4. Political parties have mostly benefited political elites which need to become accountable to constituents. Some suggest there are too many political parties in both central and local legislatures, and decision-making is based on converging interests of contending factions rather than the best interests of the public. Corruption among politicians is a continuing problem. Political parties do little to provide political education and aggregate public aspirations.

5. How can impetus for further political reform be generated? Some see this coming from greater mobilisation of civil society: media and policy think tanks need to push for better policy making; non-governmental organisations should press for greater transparency and accountability of elected parliaments. Muhammadiyah and Nahdlatul Ulama (NU), the two largest mass-based Muslim organisations with a combined membership of some 70 million, have a key role to play.

### **Decentralisation**

6. Decentralisation, and devolution of power, was introduced to maintain Indonesian unity, a process which has been vital to reaching a settlement in Aceh. No other Asian country than India has adopted such a transformation of local government, reversing three decades of central domination. Half the civil service is now under local government management, and 40% of the budget for public services is in local government control. Yet decentralisation does not constitute a universal panacea. It is said to be the primary cause of a proliferation in corruption, affecting Indonesia's ability to attract foreign direct investment (FDI); has led to the introduction of controversial shari'a by-laws in some areas; has increased militarization, through the creation of more regional territorial commands; and led to wastage, when resource rich areas, which often have small populations, cannot spend their revenue and simply bank it. Furthermore, in many parts of the country, decentralisation has so far failed to have a significant impact on local governments' capacity to manage public finances and deliver services.

7. There is a dilemma in how to improve decentralisation without recentralising: what is needed is both strong central government and dynamic and empowered regions. A further challenge lies in ensuring that decentralisation contributes substantively to the priority of the day, namely poverty reduction measures. The poor quality of the civil service, prone to corruption, collusion and nepotism, must be addressed by inculcating a new culture of the civil servant as public servant, responsive to local community needs. Investment in capacity building in local political leadership can help. Rationalisation of local government agencies, which are often bloated structures, is necessary. Improving public information and communication will introduce greater transparency, and encourage popular participation. Stakeholders' forums can articulate community aspirations. Since every line ministry is involved in decentralisation, better coordination is needed on pro-poor policies. Central government is now mapping what needs to be done. It should continue to streamline bureaucratic and complex regulations to clarify the distribution of functions between national and local governments. National minimum delivery standards were adopted in late 2007, so the government can benchmark the performance of local government. By-laws are needed to implement these national minimum standards; civil society should also press for their implementation. The Finance Ministry should reformulate how block grants are given, and redirect these to low income areas. Mechanisms for tackling corruption have to be created at local level, since national agencies no longer have the remit to audit what happens locally.

8. Some local governments have undertaken successful poverty reduction initiatives. These include: a one-stop service for local businesses to acquire permits or licences; e-procurement processes to enhance transparency and accountability; provision of free basic healthcare services or free education. There is also peer learning across districts and municipalities facilitated by local government associations. One regency adopted a local ordinance to improve government accountability to the public. While civil society is actively undertaking oversight of local parliaments; some question whether there is sufficient civil society capacity, particularly for monitoring corruption which is rife among local parliamentarians. Yet recent statistics show some 60% of incumbents lose elections, a promising development in exercising accountability over holders of public office.

## **Political Islam**

9. In the post Suharto era, Islamist political parties, or Islam-based parties, have mushroomed; for some their percentage of the vote rose between the 1999 and 2004 national elections. They encompass the spectrum of pluralist, moderate and radical Islam. The introduction of local shari'a by-laws has also contributed to a perception of growing Islamisation in Indonesia. In Aceh, for example, shari'a was initially rigorously imposed, although popular revulsion against the implementation of harsh shari'a punishments reduced its enforcement. Some feel the central government could have been bolder in providing guidance on the enactment of shari'a, since religion remains a central power, especially in areas where non-Muslim minorities live.

10. Islam is undoubtedly an important feature of Indonesian politics, although there is a gap between how Muslims vote and their numerical strength. While Muslims constitute more than 80% of the population, Islam-based parties currently receive only 50% of the vote. There is concern that Islamic rhetoric is being used by some as a political tactic, since it has resonance among constituents, and this is seen to have led to a growth in intolerance. Indonesian Islam has traditionally promoted pluralism, and Muslim leaders and organisations need to show leadership in preserving a pluralist democracy, underlining citizenship as the key rather than religious identity. Christianity has in some areas also been politicised. Some believe the persistence of corruption and inability to deliver basic services has helped to raise support for Islam-based parties. However, the closer these parties move towards power, and the need to address concretely 'bread and butter' issues, appears to have a moderating effect.

## **Islamic education**

11. Between 10 and 22% (depending on age group) of all Indonesian children are educated in Islamic schools, comprising some six to nine million children from the poorest sections of society. Although the vast majority of these schools are private, since 1994 Islamic schools must conform to the national curriculum and, more recently, national measurement standards. The schools are voluntarily integrating in the public, national education system. They have traditionally received very little government funding, although this has increased during the past decade. This

means that the quality of teaching materials and teachers themselves, in Islamic schools is low. In 2005, the government initiated two well-meaning reforms, subsidies for poor schools (known as BOS) and the Teacher Law of 2005, but these have had only limited impact for the Islamic school sector. Many private schools did not realise they were eligible for BOS, and the process of receiving and accounting for funds was highly technical, which many Islamic schools did not have the capacity to fulfil. Many of the teachers who undertake the four-year degree the Teacher Law provides are not working at Islamic schools. Despite government best efforts to modernise Islamic schools, from a service delivery standpoint, results are mixed. The success of integration into the national system has been largely a result of the Islamic schools' own accommodation and interest in seeing their students prosper. Some argue Islamic schools could benefit from 'affirmative action', and they deserve such support given the important role they can play in acting as agents of change to enable the poorest of Indonesians to improve their quality of life, and to foster a moderate and tolerant society.

12. Islamic universities, both state and private, have been at the forefront of civic education curriculum development, producing a textbook to teach civics in an Islamic context and a training programme for lecturers based on the principles of democracy so as to teach in a participative and democratic manner. Such initiatives have not been replicated in the public system. All first year students at all state Islamic colleges and universities, some 300,000 students, now undertake a mandatory civics curriculum. This process of reform began at the tertiary level, partly because this is where the decentralisation regulations allowed a point of entry, but also because of the vision of the Rector of the State Islamic University (UIN). Institutions affiliated with UIN adapted this civics material to secondary school contexts, and in two years have trained civics teachers in some 300 Islamic schools. Muhammadiyah and NU have played an important role in maintaining an emphasis on education, ensuring materials and schools prepare children to contribute to a democratic Indonesia with requisite skills for twenty-first century life. The donor community's support in modernising Islamic schools is helpful, though it takes time to build trust and establish the credibility to provide such assistance.

## Indonesia's response to violent extremism

13. Terrorist, or jihadi, groups are not felt to threaten Indonesia's stability. The major jihadi group, *Jemaah Islamiyah* (JI), responsible for bombings in Bali and elsewhere in Indonesia, has been substantially weakened in the last five years. It is geographically reduced, has less funding and a smaller membership, though it is not insignificant. Some new organisations, or realignments, have emerged, but these are generally small and locally confined.

14. Most agree the Indonesian Government's response to violent extremism, approached as a law enforcement programme undertaken by the police, has been relatively good. It adhered to the rule of law, with no arbitrary arrests or preventive detention, trials took place in public and prisoners have been released after serving their sentences. To have acted otherwise would almost certainly have created a backlash and aided recruitment to radical groups. Yet there are some grey areas with ill-defined responsibilities between police and military in countering terrorism.

15. A deradicalisation programme, again under the police, is aimed at prisoners, ex-prisoners and their families. While there is some religious counselling, the focus is more on economic aid, providing school fees, for example, and post-release assistance to start in business. Viewed as broadly useful, the programme would benefit from establishing criteria for 'success' and from strategic planning to deploy those deradicalised in furthering the programme. All finances of the deradicalisation programme are off the budget line, so there is no accountability.

16. Deradicalisation is conducted in police command centres, not prisons, which still constitute a major problem. In jails, jihadis have been allowed to achieve status among other prisoners, so may even attract new recruits; there is little effort to prevent the circulation of subversive literature, CDs and website materials, and there is little control over visitors. The government is discussing whether isolation or integration of such prisoners would be the best approach; some believe no general policy can work. Efforts to train prison officials in deradicalisation have begun.

17. In addition to deradicalising soon-to-be-released prisoners, the government needs to provide options other than jihadi membership to children in vulnerable areas who are in their early teens. Counter-radicalisation, changing the environment so

that violent groups will not take root, is a largely neglected area. There is a need to tackle schools where JI recruits are concentrated. There is little understanding of the sophistication of jihadi literature. The biggest single step, arguably, to ensure that jihadis do not prosper, is to manage communal tensions. *Pemekaran*, administrative fragmentation as a result of decentralisation, is an unnecessary process to some which creates divisive new boundaries. It has had a major impact in parts of the country, inflaming grievances between Muslim and Christian or other communities. The government's response includes adopting community policing and improving conflict sensitive planning processes from the bottom up. Donor assistance is important to both approaches.

### **Security sector reform**

18. While there has been considerable progress in disengaging the military from the political sphere, there is a strong sense that security sector reform (SSR) remains unfinished. At the present time there is no impetus, or intellectual leadership, in the police or military to carry this forward. Moreover, SSR needs to encompass more than military and police reform and include all elements of the criminal justice system such as the prosecution and prison services. In relation to the military, some of the outstanding issues include: absence of development in doctrinal reform and a plan to phase out the territorial command structure; the role and conduct of the special force *Resimen Pelopor Brigade Mobil* (BRIMOB); the winding down of the military's role in business as envisaged under legislation passed in 2004; poor professionalism, especially among the rank and file; the tendency of civilian elites to defer to the military on security and, some feel, even on some political matters (suggesting civilian supremacy over the military is still problematic); continuing impunity for military personnel, with no progress made in addressing past military violations of human rights such as in East Timor and Aceh; and continuing special treatment under the law, with a reluctance to subject military personnel to civilian courts for non-military offences. Neither military nor police can function effectively on the basis of their current budgetary resources. Some suggest more bilateral assistance should be directed to SSR, and in particular strengthening civilian capacity in the Ministry of Defence.



## **Human rights**

19. Post-Suharto there has been undeniable progress in human rights protection: this includes the exercise of freedom of expression, assembly and association; the repeal of repressive legislation; and the ratification of international human rights treaties. But much of this progress occurred very shortly after 1998, and there is currently a perceived loss of momentum. Efforts to promote justice and accountability for past human rights violations, including in Aceh, East Timor and more recently in Papua, have been largely ineffective; both permanent and ad hoc human rights courts have not performed well, partly through weak prosecutions. With the military continuing to hold business interests, and its unreformed territorial structure, conflict of interests and human rights violations continue. Failure to address human rights and justice in Papua will impede efforts by the government to improve the political climate there and to adopt new measures. Conditions in prisons, and accusations of police torture, limitations in religious freedom, economic rights and indigenous land rights, and intensifying inter-ethnic conflicts, exacerbated by economic incentives resulting from decentralisation, should be addressed.

20. At the national level, there is an absence of political will and leadership to pursue meaningful human rights reform. Some suggest with power going local, so too human rights monitoring and enforcement needs to do the same. Human rights progress should be linked to good governance. Human rights groups need to make a better case why human rights progress is an essential pillar of the rule of law, not only to resolve past violations and create strong institutions per se. Indonesia is a hugely diverse and complex society; even putting aside past violations, some officials may continue to abuse their authority, and economic, ethnic and religious groups may clash. Human rights reform is essential because it will create mechanisms for peaceful resolution of such disputes and abuses of power which continue to hinder good governance.

## **Economic prospects**

21. Ten years after the Asian financial crisis, Indonesia has much better economic fundamentals. Yet some feel that after a first raft of reforms Indonesia is only 'muddling through' and the government needs to take decisive action to achieve the country's unfulfilled potential. Legal uncertainty, linked to corruption, weak courts

and conflicting regulations is considered the biggest problem. There is a lack of transparency and accountability. Labour rigidity is also an impediment, with restrictions on firing employees and large severance payments. It is expensive to do business in Indonesia, and takes a long time to start up. The tax system is rigid and there is a weak tax refund process. While the decentralisation process can be seen as positive in the medium to long-term, since it will lead to development throughout the country not just Jakarta-based, local governments have capacity problems and essentially do not know what to do with their income. Regional governments may create 'illegal' local rules. Subsidies benefit disproportionately the richest in society. Infrastructure is weak. There is little long-term planning in government, and a lack of clarity on who is running the economy. Tourism, which should be the biggest growing sector, is badly handled. The economy will not work satisfactorily unless ministries such as health, education and agriculture, among the most incompetent, function adequately.

22. The weak investment climate constitutes the biggest challenge. The government knows that investor-friendly policy reforms are crucial, including new labour and taxation laws, but it lacks the parliamentary majority for such reforms. Central government needs to give more incentives and guidance to local government to attract FDI. Growth will only come through the government showing leadership in tackling excessive regulation, creaking infrastructure and corruption. Yet despite these difficulties FDI increased substantially in 2007, and it was not all 'hot' money from hedge funds. The government should aim to raise its credit risk rating, from which investment will follow, and develop a strategy for promoting Indonesia more effectively. Over the longer-term, Indonesia's prospects could be promising.

### **Managing resources and vulnerability**

22. Some see energy as the Achilles heel of economic development; resources have been undervalued and used inefficiently. If consumption proceeds at current rates oil reserves will be exhausted in some 10 years, gas in 30 and coal only a little later. There is an urgent need to diversify energy sources, though this will not happen while fuel subsidies remain. Hydro-power, natural gas, light oil and geothermal are relatively cheap, convenient and clean. More investment is needed and energy use should become more efficient. Renewable energy such as solar and

bio fuels could also become much more important; but these are not currently cost competitive and need to be developed with a long-term investment time frame, and government financial support. In short, there is a need to develop as many different energies as possible in tandem. The government is seen to lack vision, and to be failing in raising awareness of energy issues.

23. Two decades of rapid economic development, significant population expansion and regulatory neglect have placed much of Indonesia's environment in jeopardy. The government faces the challenge of enacting and enforcing stricter environmental legislation. Indonesia's huge forests function as one of the world's main 'carbon sinks' and their preservation is crucial to mitigating climate change. Climate change has led to various natural disasters in recent years, and as a result disaster management has become a government priority.

24. To provide a strong policy and institutional framework for implementing climate change adaptation and a disaster risk reduction programme, the government needs to ensure the policy, legal and regulatory framework for this is integrated with the development decision-making process at national, provincial and district levels, with supporting legislation, policies, procedures, budgets, regulations, incentives, disincentives and enforcement processes. Institutional systems to support this could include strengthened institutional partnerships, crisis management systems, knowledge sharing networks and education programmes. Education and awareness programmes are needed to make the linkage between disasters and climate change adaptation better understood, as well as information on what preparedness entails and how to respond to early warnings. Community-based or sectoral development, as well as hazard specific development programmes and projects, should be established.

### **Is Indonesia's presence felt on the international stage?**

25. While Indonesia is perhaps inevitably dwarfed by the two Asian giants, China and India, many feel it has yet to realise its full potential on the world scene. Indonesia's role at the UN is increasing with its current membership of the Security Council and recent deployment of its armed forces in several UN peacekeeping operations. It is the largest member of the Association of South East Asian States (ASEAN) and, since its establishment 40 years ago, ASEAN has been the

cornerstone of Indonesia's foreign policy. Yet ASEAN's credibility has come into question, with the slow pace of its economic integration, arguably weak showing on promoting security with unending conflicts in southern Thailand and South Mindanao, and apparent inability, or unwillingness, to influence Burma/Myanmar to advance democratic reform in a systematic and sustained manner. Indonesia is often seen as peripheral to the Muslim world. Arab countries, some suggest, do not take Indonesia seriously. Indonesian Islam is not seen as entirely authentic, it has no recognised centre of learning or 'glorious Islamic past' represented in Islamic architecture or monuments; Indonesians are followers and consumers, rather than initiators; Indonesian migrant workers in the Gulf are regarded as inferiors; and Indonesian Muslim intellectuals lack confidence in Arab circles.

26. Indonesia should endeavour to project itself more effectively and earn a larger international profile. There is a good case to make. It can be done through bilateral diplomatic efforts. Indonesia's foreign policy should reflect its democratic transition by supporting human rights initiatives. There is perceived to be a gap between the aspirations of the President's Office, and the pragmatism of the Ministry of Foreign Affairs (MFA). Greater resources are needed for the MFA to be able to play a more active role. But political efforts alone are insufficient; Indonesia must do more in intellectual and cultural fields.

27. There is a niche for Indonesia to carve in relation to the Muslim world: underlining the contemporary importance of inter-faith and inter-cultural dialogue, Indonesia can act as a bridge-builder between Islam and the West, and other faiths than Christianity, promoting a moderate Islam. Indonesia can also illustrate much more effectively to the Middle East that democracy works, and the key role Muslim organisations can play in building democracy and a strong civil society. Creating the position of a special government envoy to the Muslim world, who could for example promote investment, tourism and Indonesians' contributions to Islamic learning and education, would enhance Indonesia's global standing.

28. Indonesia must show strong leadership in ASEAN: ASEAN will be eclipsed in a globalised world unless it speeds up economic integration among its member states and manages its relations with China effectively to prevent Chinese economic domination of the region. Despite the reluctance among some ASEAN members,

due to their own internal reasons, to press the government of Burma/Myanmar to change, Indonesia demonstrates how a military dominated government can be transformed. Military to military contacts with Burma/Myanmar could provide encouragement. Continuing and increased pressure from all components of Indonesian civil society for promoting democratic values and human rights should aim to influence Indonesia's policy towards Burma/Myanmar.

### **Indonesia rising?**

29. Many see President Susilo Bambang Yudhoyono winning a second term in the 2009 elections, although it is as yet unclear who will be the Vice Presidential running mate. Will there be bold initiatives during a second term? Some are sceptical: the President has political capital, but does he maximise it? Leadership is vitally important. A political strategy is also needed to make democracy irreversible, with investment in democratic institutions and capacity building in human resources. The strategy should aim to create centres of excellence throughout Indonesia, changing the Jakarta-centric mindset. Indonesia's strength lies in its diversity. Civil society, including Muslim organisations, must maintain pressure for greater reform.

**Isobelle Jaques**  
**May 2008**

*Wilton Park Reports are brief summaries of the main points and conclusions of a conference. The reports reflect rapporteurs' personal interpretations of the proceedings – as such they do not constitute any institutional policy of Wilton Park nor do they necessarily represent the views of rapporteurs.*