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Indonesian National Election: Implications for Political and Economic Future & Investment Climate

with
Dr. Shireen T. Hunter
Director, Islamic Studies, CSIS

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Summary

The first truly democratic elections in over four decades were held in Indonesia on June 7, 1999. Observers are now cautiously hopeful that the political situation will remain stable. The campaign and voting stages proceeded far more smoothly than expected, and the violence that accompanied the 1997 elections in which over 1000 people died was not repeated. Notwithstanding, the economic, political, and social problems that have troubled Indonesia since the "Asian Crisis" have not yet been resolved. Dr. Shireen Hunter used this setting as a starting point for her discussion of the implications of the upcoming results of the Indonesian National Election.

The causes of the current crisis in Indonesia are deep and long-standing. Dr. Hunter feels that a crisis had been simmering since the 1980's, due to the transitional dynamics of attempted reforms of the system. Economic mismanagement and political repression by the ruling elite continue to widen the socio-economic rift between the upper and lower classes. Opinions differ on what form of state structure would be best for Indonesia, as the centralized system that has been in place since independence has created grievances in the provinces. Many groups have pushed for decentralization of power, and in some cases complete autonomy, such as in Indonesian-occupied East Timor.

The key challenge that will face the new government is how to maintain the precarious balance of implementing economic reforms while satisfying the social needs of the people. Economic growth has helped the majority of Indonesians, yet disparities in both between the very rich and the rest of the population and among religions have also emerged and have become a source of tension, especially that some of the very rich belong to the country's Chinese minority. Indonesia's Muslim majority wants a more equitable distribution of wealth. Regions, too, no longer remain passive while their resources are used to fund the development of other areas. Therefore a major task for any government is to develop a more equitable system of distribution of national income.

Unemployment is another major problem, especially among the youth. In 1990 the official unemployment figure was 4.4%. However, the World Bank estimates that 40% of the population works only 30-35 hours a week, categorizing them as "underemployed." It is therefore critical that the new government create more jobs and educate the population. One plan that has been

considered is an 'economic affirmative action' policy that would favor indigenous Indonesians over ethnic Chinese. Malaysia's system of partiality towards the "bumi putra" ('sons of the soil') was successful in improving the condition of native Malays in this manner.

However, a policy of this sort is certain to stir ethnic and religious discontent. Although an estimated 66%-75% of business is controlled by ethnic Chinese, up until now they have been given negligible political power. If a system favoring the indigenous Indonesian population were to be implemented, it would surely alarm the Chinese population since the Chinese were already victimized during the riots of 1998. Indonesia cannot afford to cause conflict with such a vital constituent of the economy, nor put investment and entrepreneurship at risk. But it also cannot afford to ignore the grievances and frustrations of its Muslim population. Here, too, the challenge is how to strike a balance, and find a way that responds to both these imperatives.

Despite the acuteness of these problems, no political contender offered a solution as part of his platform. In fact, the election was run more on personalities than policy. Notwithstanding the inevitable disagreements on political issues to be faced in the future, all candidates have stuck to the same line when faced with the question of economic reform. A consensus exists to stand by the IMF agreements and keep the economy open; it would be too costly for Indonesia to do otherwise. Still, the nuances of what this would entail remain to be discussed.

Megawati Sukarnoputri, daughter of Sukarno and leader of the Indonesian Democratic Party of Struggle (PDI-P), is now the frontrunner in the election, although only a fraction of the votes have been counted. Her wide margin of 35-40% of the total votes makes it likely that the PDI-P will defeat the other 48 parties that contested the election. However, the margin of victory is crucial, and Golkar and its leader, B.J. Habibie, may still be able to maintain control over the government. Habibie is in a head-to-head tussle with Megawati for the presidency, which is to be decided by a special 700-member assembly later this year. With Golkar's history of rigging elections, many voters expect it to cheat again, and with the delays in counting, there is the concern that the results will be tarnished.

Much of Megawati's popularity is based on name recognition, and many commentators feel that she does not have the political skill or the sophistication to walk the tightrope of politics in Indonesia. Like her father, known for his policies of anti-colonialism and nation building, she is very nationalistic and not inclined to compromise. This will be a hindrance in an atmosphere that demands the ability to follow the ebb and flow of opinion, especially as Indonesia navigates its way from authoritarian to democratic rule. Moreover, there is a fear that under her control Indonesia may recidivate into a policy of centralism instead of expanding the power of the provinces. This would certainly hurt East Timor's attempts at gaining independence.

Another concern is the role of the military, a potent force in Indonesian politics. Dr. Hunter feels that the military is not likely to intervene if Golkar continues to deteriorate in the polls. The high turnout (over 90% of eligible voters cast their ballots) reflects the popular faith in the new electoral mechanisms that Golkar agreed to. There is a slight chance that the military could ignore the results of the popular vote and cast it's vote with Golkar, but this is not likely as it would cause a great amount of conflict and civil unrest. General Wirianto, the leader of the military, can be both good and bad in the process of reform, and will remain important in the time to come. It is most likely that the military will stay out of day to day political affairs, and will remain behind the scenes as a last resort to prevent chaos. If the leadership is weak and fails to bring together a national consensus, the military will be the only viable force in the country to maintain control and prevent ethnic and religious turmoil. Under such circumstances, inevitably the military acquires more power.

Nonetheless, the final prognosis is still undeterminable. Only when the election results are turned in, and the Presidency has been decided can we begin to make judgements as to Indonesia's economic and political future.