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MODERN ASIA SERIES

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"Reinventing Indonesia"

12:30-2:00 PM
Friday, March 8, 2002
Seminar Room 2
Coolidge Hall

UNLESS OTHERWISE NOTED, ALL MODERN ASIA SERIES SEMINARS TAKE PLACE ON FRIDAYS FROM 12:30-2:00 PM

REINVENTING INDONESIA

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Weatherhead Centre for International Affairs Harvard University
Cambridge, March 8, 2002

Introduction

1. Dramatic changes have taken place in Indonesia in the last 4 years. Perhaps the country most severely affected by the financial crisis was Indonesia. It also is one of the slowest to recover.
2. Indonesia is a good example of economic and politics reinforce each other on the way down in time of crisis.
3. The economic crisis was the catalyst that caused the various forces that wanted the political reform to come together. Indeed there is something noble coming out of the financial crisis: the fall of an authoritarian regime and the rise of a new democratic governance. Indonesia is indeed, now the third largest democratic country in the world.
4. The democratization process is still on going. Although the people have had to pay a high price to regain their political sovereignty, the process is moving in a relatively peaceful and deliberate manner. The reason is that the transformation from a closed, autocratic nation into an open, democratic one has been undertaken within the context of the constitution.
5. And the constitution itself is undergoing changes, to better reflect and support the process of democratization in the country.
6. The discussion will cover the recent economic and political changes in Indonesia, with a focus on constitutional reform as the center of political reform.
7. Accordingly, the theme of the discourse will be “Reinventing Indonesia”.
8. The following presentation constitutes two parts:
 - Part one : Recent economic and political development.
 - Part two : The efforts at constitutional reform.

Part One: Recent Economic and Political Developments

Pre-and Post Crisis Indonesia's Economy

1. East Asian Miracle, 1993
 - The economic performance of pre-crisis Indonesia could be seen as part of a general pattern of successful economic development in Asia.
2. HPAEs are:
 - Japan (The Leader)
 - Hong Kong, the Rep. Of Korea, Singapore and Taiwan (*The Four Tigers*).

- Indonesia, Malaysia and Thailand (*Newly Industrializing Economies of Southeast Asia / NIE*).
3. Since 1960 the HPAEs have grown more than:
 - twice as fast as the rest of East Asia.
 - three times as fast as Latin America and South Asia.
 4. Characteristics:
 - High average rate of economic growth
 - Declining income inequality.
 - Rapid productivity growth.
 - High rates of growth of manufactured exports.
 - Declines in fertility.
 - High growth rates of physical capital, supported by high rates of domestic savings and investment.
 - High initial levels and growth rates of human capital.

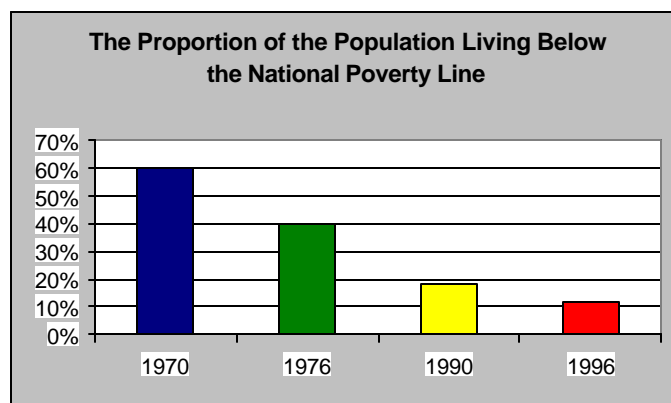
CHARACTERISTICS:	
• High average rate of economic growth	• High growth rates of physical capital, supported by high rates of domestic savings and investment.
• Declining income inequality initial	• Declines in fertility.
• Rapid productivity growth.	• High levels and growth rates of human capital.
• Promotion of high rates of growth of manufactured exports.	

Indonesia's Economic Liberalization

1. In the early stage of development, Indonesia depended on oil income and foreign assistance.
2. 1980: Indonesia embarked on various economic reforms to embrace globalization.
3. Elements of economic liberalization pre-1980.
 - Adoption of an open capital account.
 - The balanced budget policy.
 - Competitive real exchange rate with periodic adjustments.
4. Elements of economic liberalization post-1980.
 - Deregulation of foreign trade.
 - Reduction and removal of restrictions on foreign direct investment.
 - Liberalization of financial sector.
 - Adoption of a modern, simplified tax system.

The Outcomes

1. Decreasing rate of inflation. Single digit range.
2. Rising per capita income
 - 1965-95: real GDP per capita grew at an annual average rate of 6.6%.
 - In 1967 per capita income was less than \$100 and by 1995 had exceeded \$1,000, making Indonesia a middle income country.
3. Increasing food supplies and the attainment of rice self-sufficiency.
4. The share of the manufacturing sector in GDP: rose from 7.6% in 1973 to nearly 25% in 1995.



Source: Badan Pusat Statistik Indonesia

The Crisis

1. The exchange rate drops from 2,400 Rp/\$ (July 1997) to 16,000 Rp/\$ (June 1998). It is now approximately 10,200 Rp/\$.
2. 1998,
 - GDP Growth: -13.6%
 - Inflation: 77.6%.
3. Collapse of the banking system
 - Cost of restructuring the banking system: Rp. 650 trillion (US\$65 billion)
4. Total external debt (1999):
 - \$148 billion, or 104% GDP
 - Half of it private sector's
 - ± \$ 30 billion short term
5. Non-oil exports growth:
 - 1998: + 9,9%
 - 1999: - 7,2%
6. Millions of individuals lost their jobs

7. Children left school
8. Poverty increased
9. Contribution From Nature
 - Worst Draught in 50 years (El Niño)
 - Extensive Forest Fires
10. In May 1998, riots erupted against the Chinese community. This led to massive capital flight and the breakdown of the distribution system.

Indonesia: Pre and During Crisis

Indicator	Pre Crisis	Crisis
Income (US\$ Billion)	218 (1996)	120 (2000)
Income/Capita (US\$)	1,110 (1996)	570 (2000)
GDP Growth (%)	6.6 (1965-1995)	-13.6 (1998)
GDP (% Manufacturing Share)	25 (1995)	-14.2 (1998)
Inflation (%)	Single digit	78 (1998)
Exchange Rate	Rp. 2,400	16,000 (1998); 10,200 (2002)
Non Oil Export (%)	9.9 (1998)	-7.2% (1999)
Total Ext. Debt	113 billion (1996)	150 billion (104% GDP, 1999)
Poverty Line	11.9% (1996)	18.2% (1999)

Elements of Economic Liberalization

Pre-1980	Post-1980
• Adoption of an open capital account	• Deregulation of Foreign trade
• The balanced budget policy	• Reduction & removal of restrictions on FDI
• Competitive real exchange rate with periodic adjustment	• Liberalization of Financial Sector
	• Adoption a a modern, simplified tax system

Political Changes

1. While economic growth continued to be strong in pre-crisis Indonesia, there emerged a feeling that too many of the benefits of growth were accruing to a too small group of individuals.
2. The economic success of the 1980s and 1990s had led to the development of an urban middle class, with growing self confidence and a more critical mind set.
3. The emerging political elite was ready for change.
4. Indonesia has a tradition of student activism.
5. Globalization resulted in a greater understanding among the Indonesia population of political systems in the rest of the world.

The Catalyst for Change

1. The financial crisis was the catalyst that caused the various forces that wanted political reform to come together.
2. With the economic situation rapidly and drastically deteriorating, political tensions heightened.
3. The opposition to the government among the political elite gained momentum as reform movements, spearheaded by the students, gained strength.
4. On May 20, 1998, President Soeharto resigned and, in line with the Constitution, Vice President Habibie became President.

Reform Agenda of the Habibie Government

1. The new government initiated a series of policy reforms, laying down the foundation for democratization and the recovery of the economy.
2. These measures managed to stop the fall of the currency; arrested inflation; encouraged the gradual return of market and investor confidence, thus revitalizing the stock market; lowered interest rates; and restarted exports.
3. Legislation was introduced and passed:
 - On the independence of the Central Bank;
 - Regarding market structure and behavior such as monopoly and fair competition;
 - On bankruptcy and corporate governance; and
 - On decentralization and regional autonomy.
4. In the political field, the Habibie government lifted restrictions on political parties, the press, labor movements, demonstrations, and other forms of freedom of expression and association.
5. A dialogue with Parliament was initiated recognizing its emergence as a strong political force.
6. The police were separated from the military.
7. Basic human rights were given strong legal protection.
8. “Political prisoners” were released from detention.
9. East Timorese were granted a referendum to determine their own destiny.
10. In July 1999 a multiparty election was held. The election was supervised by an electoral committee of the participating political parties and watched by thousands of foreign observers.
11. It was universally agreed that the election was open, fair and clean. The result reflected the will of the people and thus heralded the re-birth of democracy in Indonesia.
12. In its General Session in October 1999, The People’s Consultative Assembly (MPR) elected:
 - Abdurrahman Wahid as President.
 - Megawati Soekarnoputri as Vice-President.
13. Ironically, President Habibie, who initiated most of the basic economic and political reforms, failed to get reelected in the presidential election.

The Problem of Consolidation

1. The Wahid–Megawati government, elected democratically, initially had overwhelming support both domestically as well as internationally.
2. However, with mounting social unrest as well as a growing threat of disintegration and disappointing economic performance, the new President slowly lost its political capital and credibility. For example, the public and the parliament questioned some deals that reminded them of the old practices.
3. In the general session of August 2000, the People’s Consultative Assembly (MPR) instructed the President to hand over coordination of routine government activities to the Vice-President.
4. In January 2001, the Parliament issued a memorandum to censure the President.
5. The confrontation between the executive and legislative branch of government created uncertainty and stagnation in government decision making.
6. In August 2001, after issuing a decree dissolving the Assembly (MPR) and the national parliament, President Wahid was impeached by the People’s Consultative Assembly.
7. Vice-President Megawati then took over as President, and Hamzah Haz, the leader of an Islamic party (PPP), was elected as Vice-President.

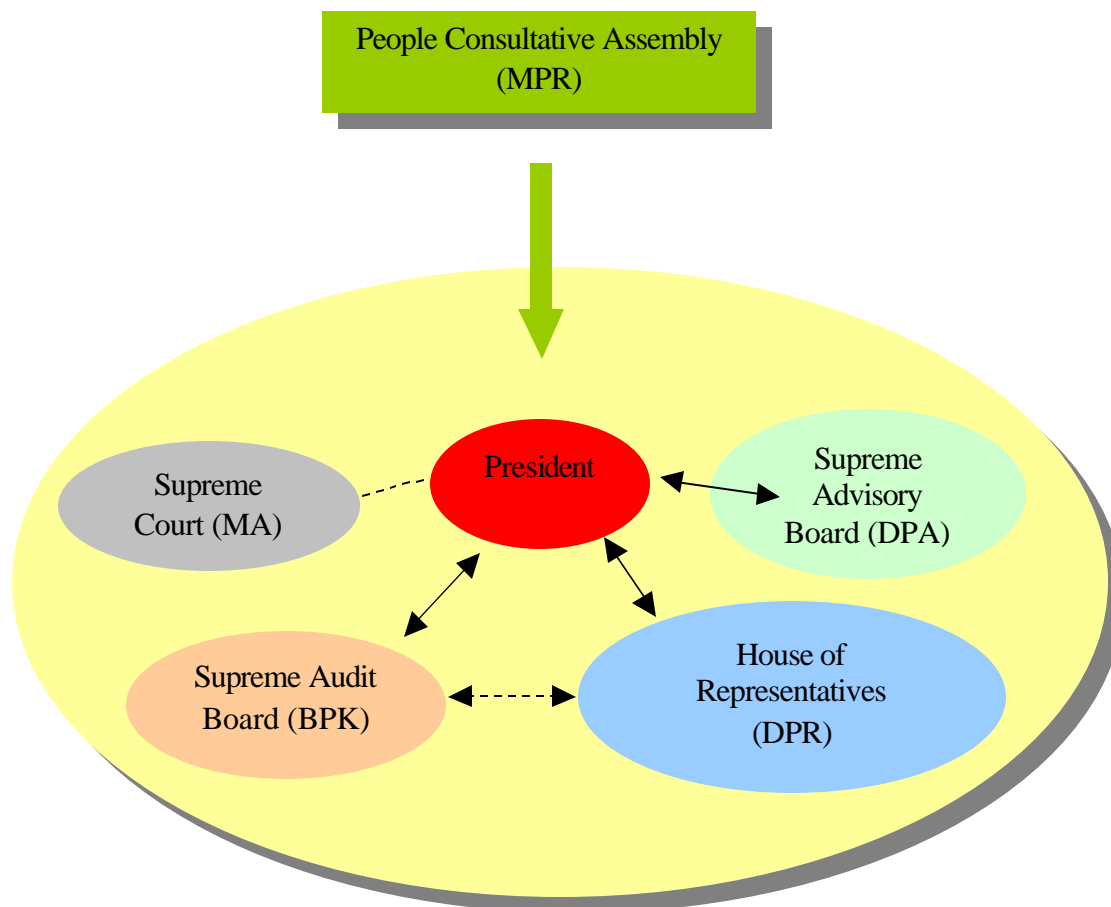
Part Two: Constitutional Reforms

The Political System

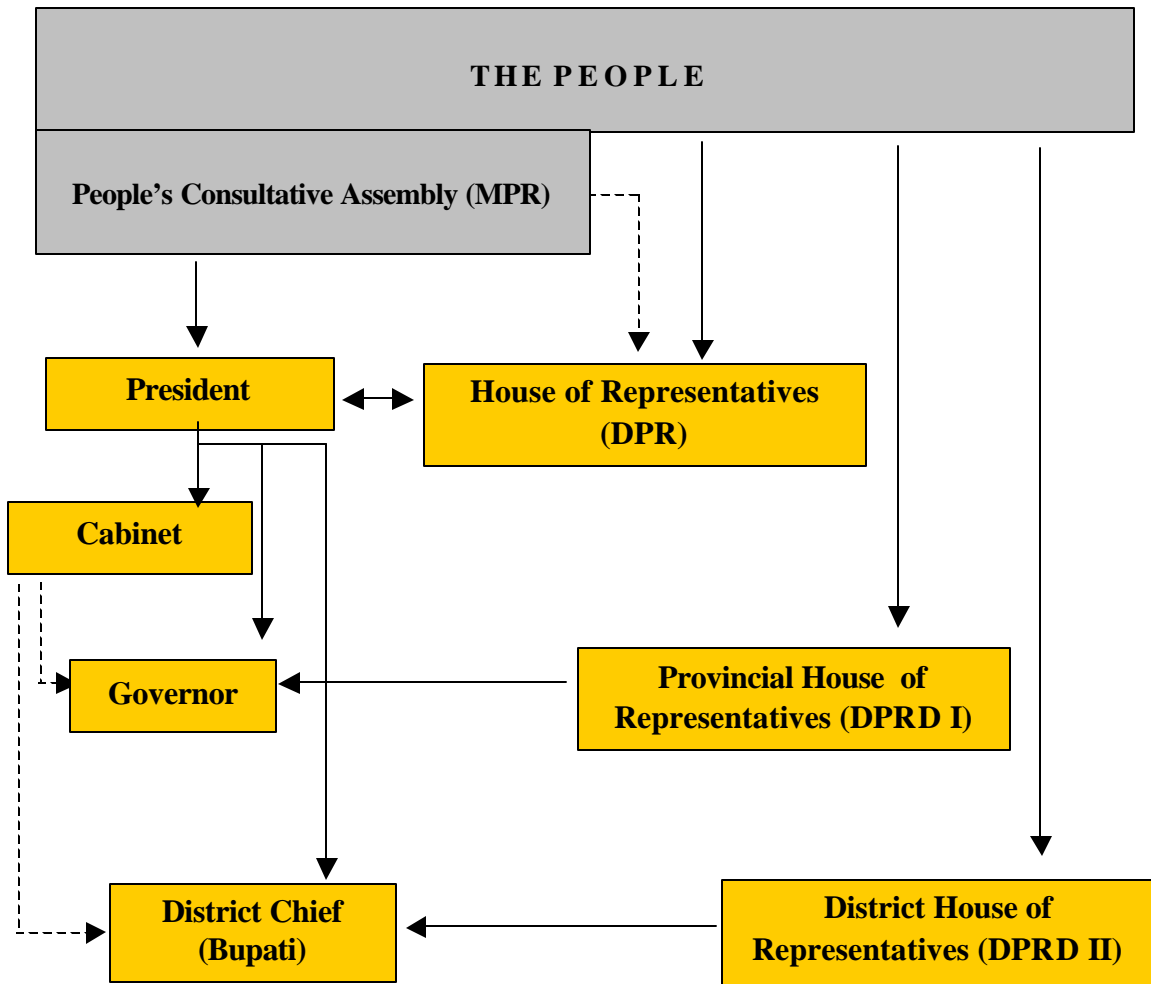
Period	Constitution	System of Government	General Situation
1945-1949	1945	Unitarian/ Presidential	<ul style="list-style-type: none"> • War for Independence • Rebellions: Communist (1948), Islamic Extremist
1950	Federal	Federal/ Parliamentary	
1950-1959	Provisional	Unitarian/ Parliamentary	<ul style="list-style-type: none"> • Functioning parliamentary democracy (1950 general election) • Political Instability • Rebellions: Regional, Islamic Extremist
1959-1966	1945	Unitarian/ Presidential	<ul style="list-style-type: none"> • Guided Democracy • Campaign to win back Irian Jaya • Confrontation with Malaysia and its allies • Deteriorating economy • Coup attempt 1965

Period	Constitution	System of Government	General Situation
1966-1998	1945	Unitarian/ Presidential	<ul style="list-style-type: none"> • New Order • Stability • Economic progress • Restrained democracy • Concentration of power • Dominant role of military in politics and governance
1998-now	1945 (amended)	Unitarian/ Presidential	<ul style="list-style-type: none"> • Political reforms • Democratization

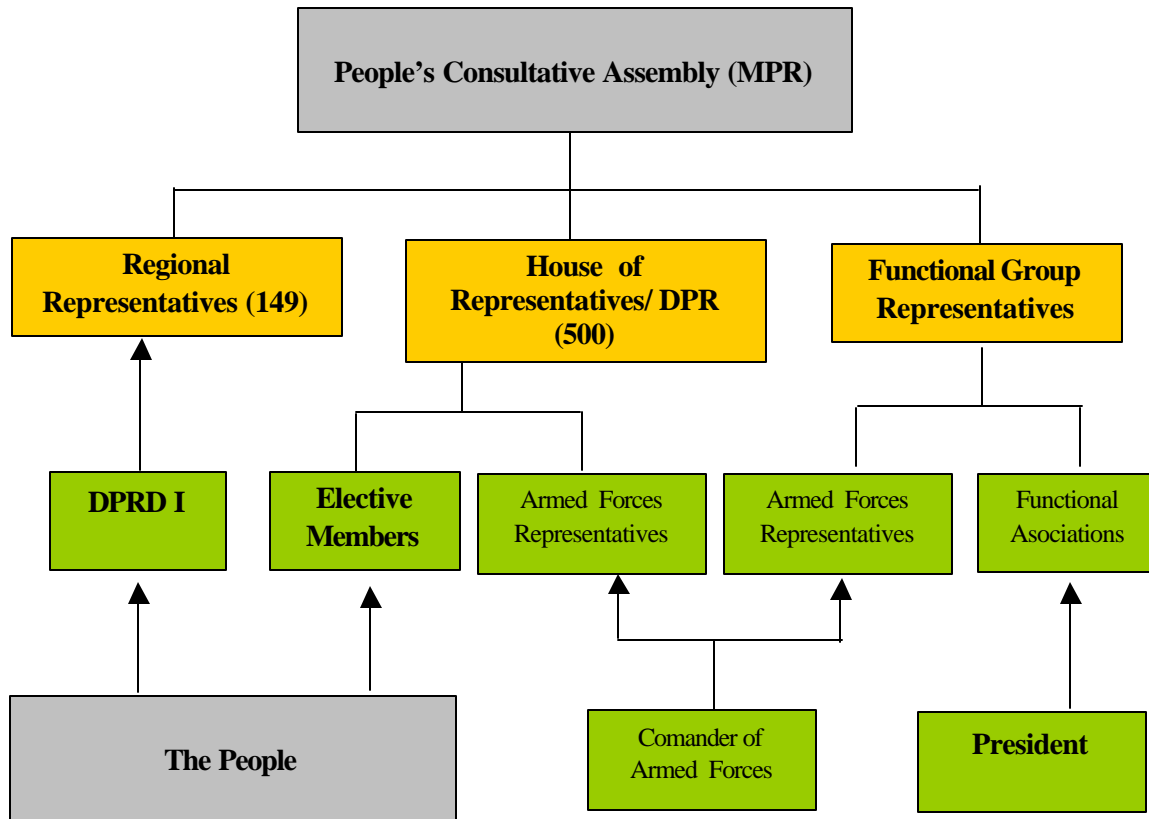
Political Institution : 1945 Constitution



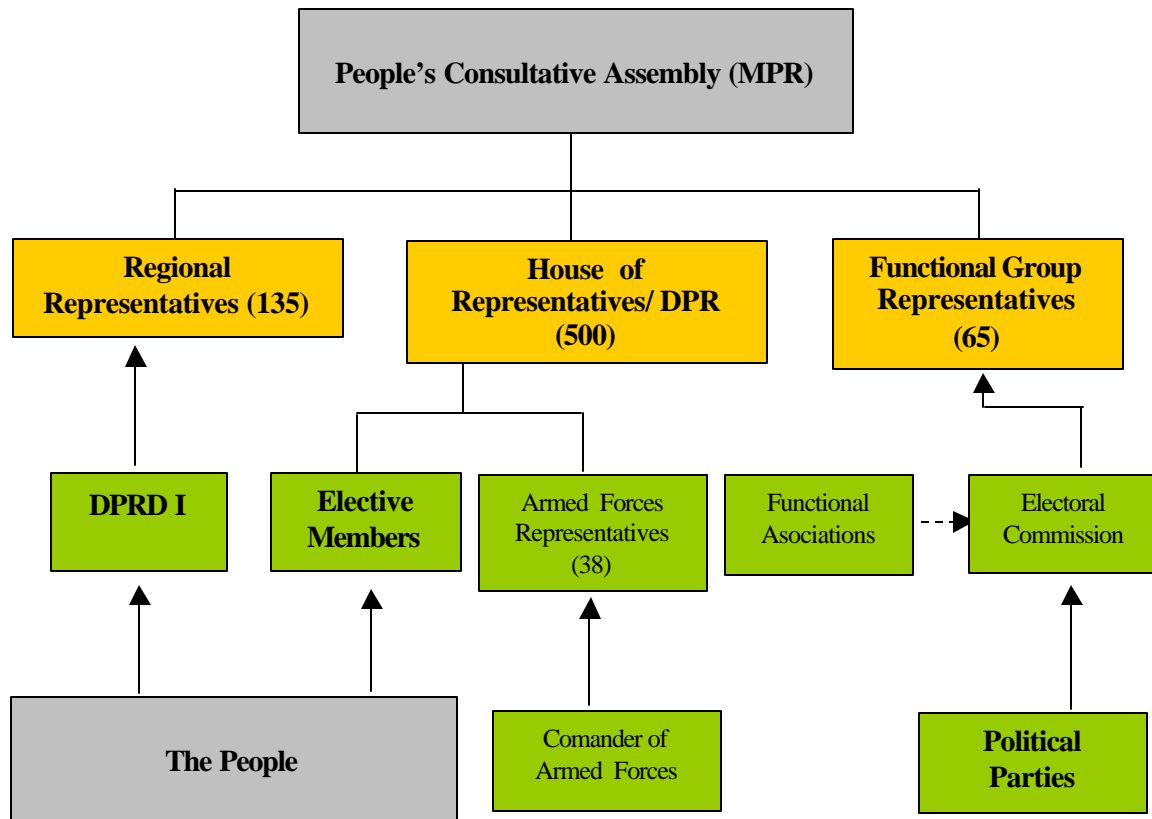
Political Institution : 1945 Constitution



Political Institutions 1966-1999



Political Institutions 1999-Now



Political Parties & General Election 1955 (1950 Constitution)

Parties	Seats	Vote (%)
PNI	57	22.32
MASYUMI	57	20.92
NU	45	18.41
PKI	39	16.36
PSII	8	2.89
PARKINDO	8	2.66
KATOLIK	6	2.04
PSII	5	1.99
IPKI	5	1.43
PERTI	4	1.28
MURBA	2	0.53
Others	23	9.17
Total	258	

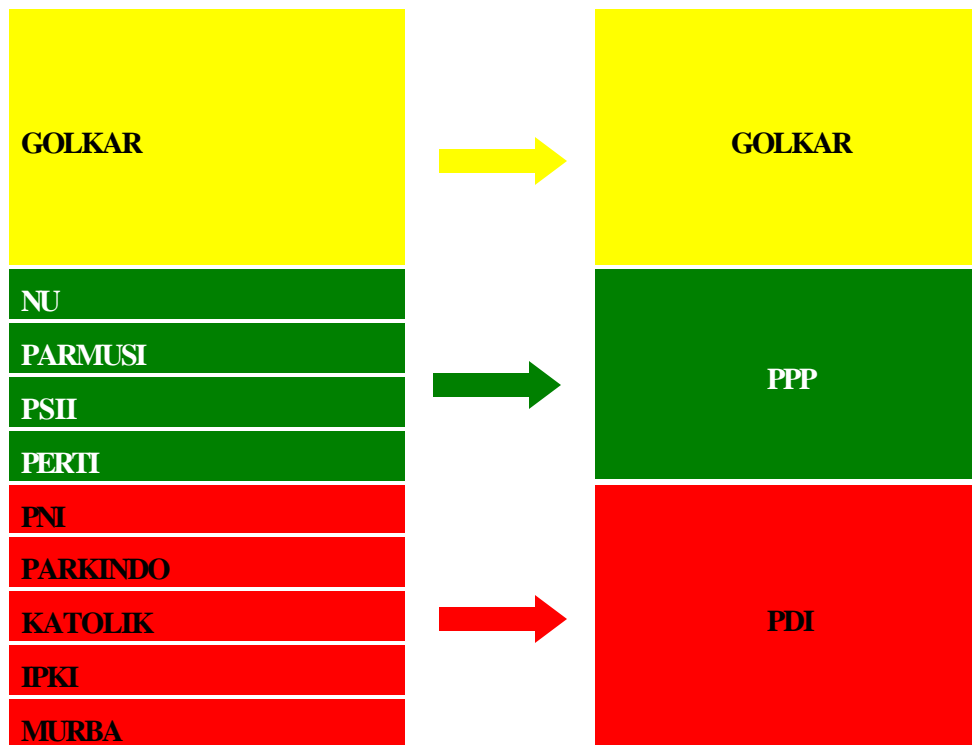
Note: 28 parties participating

Political Parties & General Election 1971 (1945 Constitution)

Parties	Seats	Vote (%)
GOLKAR	236	62.82
NU	58	18.68
PARMUSI	24	5.36
PNI	20	6.93
PSII	10	2.39
PARKINDO	7	1.34
KATOLIK	3	1.10
PERTI	2	0.69
IPKI	0	0.61
MURBA	0	0.08
Total Seats	360	

Note: 100 member appointed (Armed Forces & Functional Groups) total 460 Since 1987 total seat 500

1973: "Fusion" of Political Parties



Indonesia General Election Results, 1977-1997

	GOLKAR		PPP		PDI		Total Seats
	Seats	%	Seats	%	Seats	%	
1977	232	62.11	99	29.29	29	8.60	360
1982	242	64.34	94	27.78	24	7.88	360
1987	299	73.16	61	15.97	40	10.87	400
1992	282	68.10	62	17.01	56	14.89	400
1997	325	74.51	89	22.43	11	3.06	425

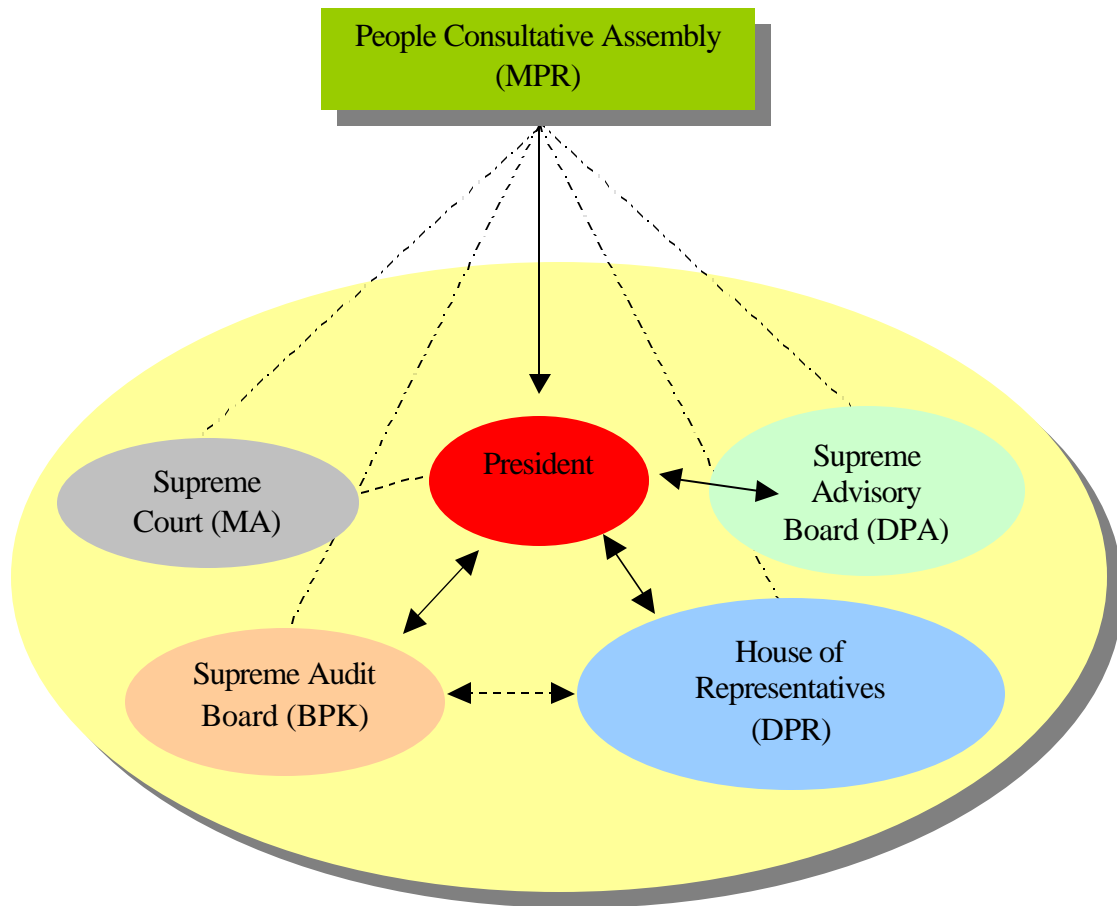
Political Parties & General Election 1999

Parties	Seats	Vote (%)
PDIP	153	34
GOLKAR	120	22
PPP	58	13
PKB	51	11
PAN	34	7
PBB	13	2
PARTAI KEADILAN	7	1
Others	26	10
Total	462*	

Note:

- From 48 political parties participating
- * 38 appointed (military/police representatives)

Political Institutions (1999-Now)



The 1945 Constitution

1. The amendments to the Constitution are a central part of political reform.
2. The 1945 Constitution is short and concise. It consists of the preamble, the body of the constitution, and an annotation.
3. The Constitution was written in a very broad and general way. It has only 37 articles.
4. There is a strength to the way it was written that makes the Constitution flexible and easily adaptable.
5. The weakness is that it is so broad, general, and flexible, that it can be and has been interpreted in different ways.
6. For the incumbent president, it gives a lot of room to manoeuvre and can concentrate power in his or her hands.
7. Indeed the constitution stipulates a strong presidency

8. The president is elected not directly by the people, but by an Assembly, part of which is appointed by the president himself.
9. The presidency runs for five years, and the president can be re-elected an unlimited number of time.
10. The 1945 Constitution has always been regarded as a sacred document.
11. Any suggestion to change or even question any of its provisions, had always been regarded as betraying the ideals of the founding of the Republic.
12. And those who dared to suggest a review of the Constitution were regarded as subversive elements or worse, enemies of the state.

The Basics of Reforms

1. The main idea behind the reforms is ensuring that the Constitution establishes an effective system of checks and balances between the various branches of the state, primarily by limiting the power of the executive branch. At the same time the reforms seek to ensure that the sovereignty of the people is reflected in the way the government is organized.
2. The Assembly (MPR) in 1999 decided that the amendments to the Constitution should be completed in the year 2002, so that the next general election in 2004 can be based in the new provisions of the constitution.
3. The amendments have been undertaken in stages. The articles that have been agreed upon by all the political parties in the Assembly, are passed in the annual session, which is usually conducted in the month of August.
4. There have been 3 sets of amendments, in 1999, 2000 and 2001. The next, and hopefully the last set of amendments will be decided in August 2002.
5. The most important aspects of the amendments concern the presidency.
6. It was generally agreed that certain basic aspects of the constitution should be maintained e.g:
 - The unitarian state.
 - The presidential system of government.

The First Amendment 1999

1. The President shall be eligible for re-election only once.
2. Ambassadors to foreign countries and from foreign countries have to be confirmed by the parliament.
3. The power of legislation lies with the parliament. The President has the right to submit bills to the parliament.

The Second Amendment 2000

1. Enhanced decentralization and regional autonomy.
2. Expanded the recognition of human rights.
3. Enshrined the separation of the Police from the Armed Forces in the Constitution.

Note:

- Through a separate decree that is not part of the constitution, the appointment of the Commander of the Armed Forces and the Chief of Police have to be confirmed by the Parliament.

The Third Amendment 2001

1. The third amendment provides that the President and the Vice-President, as a ticket, be elected directly by the people.
2. The ticket can come from one political party or a group of parties.
3. To be elected, the candidate will have to get more than 50% of the popular vote with at least 20% of the vote in at least half of all the provinces.
4. The amendment also sets out rules and procedures for the impeachment of the President.
5. The President can be impeached by the Assembly (MPR) at the recommendation of Parliament, if he is proven guilty of crime or is found no longer suitable to hold the office of the presidency.
6. The Parliament can only propose that the President be impeached after requesting that the Constitutional Court examine the charges against the President and after receiving from the Court a finding that the President is guilty as charged.
7. The judicial power lies with the Supreme Court and the multi-layer courts beneath it, and the Constitutional Court.
8. The Constitutional Court has the authority to judge the charges against the President in an impeachment process; to review the constitutionality of laws; to resolve the disputes between the various branches of the state; to order the dissolution of political parties; and to resolve disputes concerning the results of an election.
9. The amendment also established the Regional Representative Council, representing equally each of the provinces (similar to the US Senate).

Crucial Issues in Fourth Amendment in 2002

1. Presidential election: If no ticket can achieve the 50-20% threshold, the two tickets with the most votes will run in another election. There are two alternative proposals for this election:
 - » Another direct election by the people.
 - » Election by the Assembly.
2. The Assembly consists of,
 - Alt I: the Parliament (House of Representative) and the Regional Representative Council.
 - Alt II: the Parliament, the Regional Representative Council and Representative of the Functional group (to be appointed).
3. The proposal from some Muslim parties that all citizens who are Muslim should adhere to Islamic Syariah law (The Jakarta Charter).

Conclusion

- The consolidation of democratic rule has proven to be as difficult as establishing democracy itself.
- The combination of economic crisis, political uncertainty, and a murky international environment have made the task of democratic consolidation more complicated. In turn, the economic crisis has also contributed to the continuing political instability.

THREE DIMENSION OF TENSIONS

Unitarian

Deconcentration

Decentralisation

Federal

**Presidential
System**

**Strong President
Weak Parliament**

**Strong President
Strong Parliament**

**Weak President
Strong Parliament**

**Parliamentary
System**

Secular

State supporting religion

Islam