

Chapter 2: Dawn of a New Era

The East Asian financial crisis was a watershed moment in Indonesian history. Many never expected that a seemingly innocuous currency devaluation in Thailand would escalate into regional financial contagion, one that would put Indonesia into the region's worst economic tailspin, and ultimately spark the chain of events leading to Suharto's resignation and place Indonesia as a people on the path of democratization. To understand Indonesia today and to be able to say meaningful things about Indonesia tomorrow, it is essential to know and understand the historical events that are unfolding in the post-crisis period, for these are the origins of many of the forces that are transforming the nation today.

This chapter is divided into three sections.

On the Road to Democracy traces the challenges and achievements of the Habibie period. Habibie started his presidency with the country in deep political turmoil. While most observers now associate him with the bloody independence of Timor, various financial scandals, and a beleaguered claim to the office, his presidency marked not only success in stabilizing the economy, but most importantly, the initiation of significant and sustained democratic reform. The chapter will explore the challenges and the implications of these achievements.

Democratic Consolidation follows the presidencies of Abdurrahman Wahid and Megawati who followed in Habibie's wake. For the first time in five decades, Indonesians participated in an election relatively free from political distortions to elect their assembly, and this post-Suharto assembly would soon deliver the unlikely pair of Abdurrahman Wahid and Megawati Soekarnoputri to the pinnacle of power. It was a fragile coalition that could easily break when the common interest was no longer maintained, and this, as the chapter would argue, was one of the key impediments undermining the effectiveness of the Wahid presidency that had been installed to high expectations. In all the Wahid period was marked less by positive progress than political confusion, which Megawati's ascension has remedied to some extent.

Constitutional Amendments focuses on what are perhaps the most significant outcome of the democratization phenomenon: the four Constitutional Amendments ratified between 1999 and 2003. The *Reformasi* movement had spurred widespread introspection on the failings of the New Order specifically and of Indonesian democracy in general, and weaknesses in the 1945 Constitution has been identified as a contributing factor. The chapter outlines the amendment

process and highlights the most significant of the changes, as well as the main controversies behind the process.

On the Road to Democracy

Writing in June 1998, R. William Liddle, in *Indonesia's Unexpected Failure of Leadership in The Politics of Post-Suharto Indonesia*, noted the strength of the armed forces and the weakness of civil society in Indonesia (the complex of non-state political and social organisations). Liddle saw two plausible scenarios: a return to military rule, and or democratisation. With the fortune of hindsight, we now see that despite the very real power of the military, and the certain weakness and underdevelopment of civil society, Indonesia is in fact on the road to democracy, albeit a bumpy road with uncertain signs. For this, much credit should go to Habibie and to the reformists, within and outside the Habibie's government, who ensured that Indonesia began the post-Suharto era with a democratic set of institutions. It was also under Habibie that the economy had survived the worst of the crisis and was put and when he left office was on the way to recovery.

Habibie started his presidency amidst widespread misgivings. The country was in deep political turmoil. His claim to presidency was questioned. The resignation of Suharto had not halted the demonstrations and protests. Many opponents of the New Order shifted their targets attacks to target to Habibie. His biographer, Bilveer Singh (2000, 155), admits acknowledges that Habibie brought with him many negative images a negative record, "including his penchant for 'wasteful 'wasteful mega-projects', his poor or lack of understanding about the workings of the economy, his lack of acceptance by ABRI (the Indonesian military), of being a front or tool for

Islamic fundamentalism, and probably worst of all, of being nothing more than a pawn and puppet of Suharto.”

The Development Reform Cabinet

The day after his swearing in as the new President, Habibie announced his cabinet, which he called the dubbing it the Development Reform Cabinet. In forming it the cabinet, Habibie consulted the former coordinating ministers of the last Suharto’s government—whom he asked to serve in the new government on at the same jobs--—and Akbar Tanjung, whom he wanted to appoint as the State Secretary. They agreed that the cabinet had to meet certain objectives: a) as the country was deep in crisis, a continuation of policies, especially in the economy, should be maintained; b) it had to be rid of those the characters whom people saw as the personification of nepotism; c) it should reflect the spirit of reform, and d) to be broadly representative of Indonesia’sing various shades of interests and political aspirations.

The Habibie’s cabinet consisted of 36 ministers, 20 were recruited from the last cabinet of Suharto. Those whom he retained were mostly in the economic portfolios, and most of them professionals with advanced academic degrees or credentials (Singh, 2000: 159-163). Two important changes to the economic portfolio were the Minister of Finance and the Minister of Planning. Habibie recruited ministers from the existing political parties, from Golkar and—in a marked departure from past practices--—from the PPP and PDI, and as well as some former governors to represent the regional interests. Included in the cabinet were leader of factions in the MPR and parliament, including some from the military. Habibie also recruited some prominent figures from ICMI to the cabinet. On the 25th of May, Habibie, after the first plenary cabinet meeting, unveiled his government’s economic recovery and political reform programs. Foremost in the political agenda was the repeal of the much-reviled political laws that were the foundation of the New Order political system —such as the laws on political parties, elections, and the representative assemblies. On the economy, the priority was to alleviate the impact of the crisis on the populace, especially those who were economically weak, and to get the economy on its feet and moving again (see Singh, 2000: 159-169).

The cabinet was received with met a mixed reaction. Although a few applauded it because of the professionalism reflected by the line up, many saw it as just a continuation of the New Order and questioned the new government’s commitment to reform and its ability to lead the country through the deepening economic and

political crisis. However, undeterred by the *a priori* negative judgmentreception, the cabinet immediately set itself in motion and moved to tackle the country’s problem.

The legitimacy dilemma

Habibie’s problem at the outset of his presidency was not only the right composition of his cabinet. More seriously, Habibie’s presidency from the beginning was plagued with by doubters about of its legitimacy. One argument against Habibie’s legitimacy was based more on a technicality:, on the way by which the transfer of the presidency was performed. Based on the constitution and MPR decree, upon taking office the president should take his oath before an MPR session, or in the case when the MPR is not in session, before the parliament. Since his installation to office of the president was conducted in front of neither institution, his taking over of the presidency was regarded as invalid. An opposing argument took the view that as it was an extraordinary situation, since with the MPR was not in session, and the parliament unable to could not effectively function as its building was occupied by students, the oath of office performed by the Chief Justice was legal.

Other more serious arguments against Habibie taking over the presidency were based on legal and constitutional grounds. According to one argument, in line with the message of the constitution the President received his mandate from the MPR, and therefore if he resigned, he had to return the mandate to the same institution—, the MPR, which would then withdraw the mandate and gave it to a new President. Others argued that Suharto and Habibie was a “package” elected by the MPR— and Habibie was Suharto’s choice for Vice President---so when Suharto resigned, Habibie should also go, and the MPR should appoint a new President (and Vice President). For that purpose a special or an extraordinary session of the MPR should be convened. On the other hand supporters of Habibie pointed to Article 8 of the Constitution stipulating that should the president died or resigned, be removed or disabled to from execute executing the duty of the presidency, the Vice President should replace him until the expiry of his (the President’s) term. That should mean that Habibie had the constitutional right to hold to his the presidency until 2003.

The early days of Habibie’s presidency was thus marked by the continuous debates of on whether Habibie was a legitimate president or only a transitional one, until the MPR could be convened to decide who should get the mandate to rule. Within the government, among the

cabinet ministers, there were also some doubts of as to whether the government should continue until the former president's term ended. The Coordinating Minister for the Economy was the first to come out suggesting that the present government was only "transitional" and a fresh general election should be undertaken to establish a new mandate from the people. He made the statement on the second day of Habibie's presidency, given to the press after a meeting with fellow economic ministers. The idea reflected the views of many economic ministers under his coordination. It was based not on the question of constitutional legitimacy because the message of the constitution was very clear, but more on political and moral grounds. The next day Amien Rais made a statement demanding new parliamentary elections, to be held within six months to be followed by an MPR general session to elect a new president (Forum Keadilan, *Laporan akhir para Seteru*, November 30, 1998: 88-89).

To many of his critics it was difficult to separate the figure of Habibie and Suharto, and the ascension of Habibie to presidency could only happen because of that particular relationship. For Habibie to be able to claim political and moral legitimacy, he had to get the mandate for himself. Therefore within and outside the government Habibie's presidency was viewed as transitional, *de facto* if not *de jure*. Many saw the existing MPR as lacking the legitimacy to decide on who should be the next President, as it was the same MPR that elected Suharto unanimously less than three months before. Therefore, they argued, a new election should be held as early as possible. After an intensive behind-the-screen political consultation, a consensus within the government emerged that an early general election should be called. Habibie himself finally embraced the idea and together with Harmoko, the Speaker of the Parliament announced—just a week after Habibie took office as President—that in principle the government and parliament had agreed on an earlier general election to be held in 1999.

The decision to call for an early election however had to overcome a legal hurdle. The MPR had decreed in the March 1998 general session that in accordance with the five-year presidential term, a general election should be held in 2002 to elect a new president in 2003. And only the MPR could revoke and amend an MPR decree. Hence, a special session of the MPR had to be convened, at least to revise the decree on the general election and set a new timetable. After some high level discussions, the government and parliament at the end of May agreed that the special session of the MPR would meet later in 1998. The call for an early general election satisfied many reformists, but there were also those who kept maintaining that Habibie should step down, even before the new

election. Some anti-Habibie activists proposed the idea of setting up a presidium to replace Habibie and lead the government temporarily, with the main task to organize the general election.¹ Habibie's opponents organized street demonstrations and issued public statements demanding the immediate convening of the special MPR session, during which the MPR should revoke the mandate given to Suharto and by implication to Habibie, and thus also replace Habibie.² After the announcement of the plan to hold an MPR special session Habibie's political opponents shifted their attention to the planned MPR special session to be held in November, and geared their efforts to pressure the MPR to replace Habibie.

As many as for all its detractors, Habibie's political agenda also had its supporters especially among—but not only limited to—the Muslim community and the emerging forces of political Islam outside the formal party PPP. Many were appalled at the spectre of a potential anarchical outcome of an unruly government transition. The leading non-governmental figures such as Amien Rais, Megawati and Abdurachman Wahid were not in favour of bringing down Habibie right away. Some analysts speculated that they were motivated by the need for time to form their own political parties before they could face a general election. Although sentiment against Habibie continuing the presidency was strong among his opponents, at the end of the day the argument decision to hold a special session in November to in order to revise its decree on the election and other related decisions, so that an early election could be held as soon as possible, while—not to trying Suharto and unseating Habibie—finally emerged as a consensus among the political elite.

The Political Conundrum

It was finally decided that the MPR would convene in a special session on November 10-13, 1998. The special session of the MPR met amidst a tense political atmosphere, as students, encouraged by die-hard opponents of Habibie among the political elite, were

¹ Their choice to head the presidium was Try Sutrisno, a former adjutant to Suharto who quickly rose in rank to become Commander of the Armed Forces, and from that position was chosen as Vice President (before Habibie).

² Significantly, the hard-line position was taken by people who had been among the elite who had been in Suharto's side during the heyday of the New Order, either in the military, the party or the government such as Kemal Idris who was Suharto's Chief of Staff at the Army Strategic Command, and Subroto and Emil Salim, who had served in Suharto's government for many years in various cabinet post.

demanding that Habibie should be brought down.³ In the days leading to the special session the capital was transformed into a military complex, with security apparatus manning strategic sections of the city. To support the military efforts the Commander of the Armed Force, Wiranto decided to recruit civilians as volunteers.⁴ Unavoidably these groups of vigilantes would clash with students in various parts of the city, making the situation even more tensed.

The MPR deliberated on draft resolutions prepared by its Working Committee (*Badan Pekerja*).⁵ At the end of its deliberations, the MPR issued decrees on the rescheduling of the elections as well several as other decrees that would open the way for further political reforms sanctioned by the constitution. In this regard, very important was the decree to revoke the 1983 MPR decree, requiring a national referendum to amend the constitution, was of prime importance---in the past it was a taboo subject, and even discussing it would risk being charged with treason or subversion. With the new decree, constitutional change that was needed as the legal foundation for political reforms had been made now possible. The MPR also issued decrees, among others withdrawing the extraordinary powers given to the President, on human rights, on corruption, collusion and nepotism---in which the former President was singled out---and also on revoking the guidance for the propagation and implementation of *Pancasila* or *P4*. An important decision was taken to limit the Presidential terms of office---of which in the unamended constitution there was no limitation---to a maximum of

³At one point just one day before the MPR session was scheduled to open, the students managed to persuade the main opposition leaders, Amien Rais, Megawati and Abdurrahman Wahid to meet, joined by the Sultan of Jogjakarta, Hamengkubuwono X (who owed his prominence to his late father, a highly regarded aristocrat and political leader). They met at the house of Abdurrahman Wahid in the outskirts of Jakarta. From the meeting they emerged with a communiqué that called for national unity, a new government that should take over no later than three months after the election in May 1999, disbanding the paramilitary unit that had clashed with students, investigation of KKN beginning with Suharto and the withdrawal of the military from politics. The agreement among the four known as the Ciganjur Declaration or Agreement, fell short of student demands, which heavily emphasized the unseating of Habibie.

⁴They were named *Pasukan Pengamanan Swakarsa* (voluntary security guards) known by the acronym *Pamswakarsa*.

⁵ Among the issues that dominated the discussions were the elimination of the military representatives in the electoral assemblies and the investigation of former President Suharto for alleged corruption, collusion and nepotism.

two terms. On the economic field the MPR issued a new guideline on economic democracy, revising and simplifying the state guidelines for development issued in the previous general session. An important decree that would have significant and long-term effect on the country's governance was a guideline on regional autonomy and decentralization, including fiscal decentralization. On the role of the military in politics the decision was to have the gradual withdrawal of the military from politics gradually, so that for the next parliament the military would still be allotted seats, although the number would be reduced. The actual number itself was left to the law that would be worked out by the government and the parliament. The MPR decisions would serve as constitutional basis for the legislations that would constitute the foundation for democratization, improvement of governance, and protection of human rights, initiated and or enacted by the Habibie government.

The decisions of the MPR paved the road for political reforms, through a constitutional process. They were important milestones as they opened the way for the government and lawmakers to lay the foundations for the democratization of the country's political system.

The students however were not impressed by what was happening inside the MPR building. The students continued their protest and demonstrations and became get them involved in clashes with the security apparatus and its civilian vigilantes. On the final day of the MPR session things came to a head worst happened. The carnage occurred in the *Semanggi* area, in front of *Atmajaya* University, a private Catholic institution, which had been the a hotbed of anti-Habibie students.⁶ In the confrontations that took place in the afternoon of November 13, there were shots being fired and at the end of the day 13 had died, among them were four students and one military unit personnel. Hundreds were injured, many needing hospitalization.⁷ The incident, which came to be known as the *Semanggi tragedy*, left another scar on the national psyche after alongside the *Trisaksti tragedy*.⁸ Elsewhere a number of members of *Pamswakarsa* were lynched by an angry mob, many in a gruesome manner.

After the MPR session ended the opposition against Habibie had redirected its focus to the election next

⁶ Because of its strategic location on the intersection of the highways leading to the MPR and Parliament buildings about one kilometer away, the campus had been used as a meeting place for anti-Habibie students from other universities.

⁷This account was given by the Chief of Police a few days after the incident.

⁸ Both days of the incidents are annually commemorated by students in memory of their fallen comrades.

the following year. The unseating of Habibie had become the agenda of many politicians from various political spectra. Habibie himself professed to be unperturbed by the deep-seated animosity against himself. He told his close circle that his ambition now was mainly to carve a name in history as the person who turned Indonesia around from authoritarianism to democracy. At the beginning he saw his role only to guide the country during the historic time of transition to democracy, and so within the first three weeks of his presidency he announced that he would not run for president in the next election. Many applauded this move as wise and statesmanlike, assuring his place in history—delivering the birth of Indonesia's democracy. However, along the way, he changed his mind. Around the end of June 1998 he revived his position by saying that he had not yet decided to seek for re-election after the general election. Before the end of the year, Habibie was clearly preparing himself to run for re-election as president.

Habibie relied for his presidential aspirations on the support of the three political forces, the military, Golkar and the political Islam. First, the military under Wiranto seemed to be supportive of Habibie. Both of them, being very close to the former President, needed and supported each other in the ensuing political game. At the onset of his presidency Habibie had vetoed the opposition from his advisers and senior military figures to having Wiranto continued in the top military position.⁹ To the chagrin of many of Habibie's advisers Wiranto continued to hold the two military posts, Minister of Defence and Commander of the Armed Forces.¹⁰ On the first day of his presidency Habibie had also to cope with the rivalry of two generals who used to be very close to Suharto. He had to take side in the conflict between Wiranto and Prabowo, President Suharto's son law. Prabowo was, at the time of the transfer of government, the Commander of the Army Strategic Forces and formerly the Commander of its Special Forces. Prabowo had been accused of being associated with certain infamous events, such as the May

incidents, the kidnapping of activists, and in the early days of Habibie, and in of attempting to drive Wiranto out of his position as Commander of the Armed Forces. Prabowo had denied the entire allegations and insisted on his innocence. However, with Habibie's approval finally Prabowo was finally ousted from the military. and his ouster had solidified Wiranto's position in the military.¹¹

Habibie would enjoy the payoff of his unwavering support to Wiranto handsomely, with the upcoming election of the new Chairman of Golkar. After the fall of Suharto government, many criticised Harmoko who was the Chairman of Golkar and the Speaker of Parliament at that time, for his role in the events leading to Suharto's demise. Several provincial branches of Golkar demanded an extraordinary congress to unseat Harmoko and elect a new Chairman. Harmoko gave way to the pressure and agreed to hold an extraordinary congress in July 1998. He also announced that he would not seek re-election. With Harmoko out of the way, the race to win the chairmanship of Golkar began in earnest accompanied by intense political manoeuvring. The events leading up to the extraordinary congress of the party indicated that the former president—through his proxies--was very much still in the power game. In any event he was still the Chairman of the Council of elders (patrons), which by charter of the party was supposed to possess ultimate power in the party's affairs. The contest boiled down to two candidates, Edi Sudradjat and Akbar Tanjung. The former was a four star general, formerly Chief of the Army and Minister of Defence. He was supported by retired senior military officers who were politically opposed to Habibie. He himself was a well-known opponent of Habibie and a favourite of Benny Murdani, a veteran intelligence officer and Suharto's protégé who rose to become the Commander of the Armed Forces.¹² Ironically

⁹ Among them was Feisal Tanjung, he himself a former Commander of the Armed Forces, who was at time the Coordinating Minister of Political and Security Affairs. He and many other senior officers were championing Hendropriyono, a battle-hardened and much-decorated Special Forces officer and a former Commander of the Jakarta Military Regional Command. Hendropriyono made his name politically when he supported Megawati's position at the PDI against the directive from his superiors.

¹⁰ Habibie's argument in reappointing Wiranto was his close relationship with Suharto. He was of the opinion that the former president had still possessed power and influence especially in the military. By having Wiranto at his side Habibie hoped to neutralize Suharto's threat to his government.

¹¹ Prabowo came from a prominent family, whose father Sumitro Djojohadikusumo was a respected professor of economics and the guru for most senior Indonesian economists. He led a remarkable military career. He was a long time fan and supporter of Habibie, standing up even against the generally negative opinions of his brothers and sister-in-law toward Habibie. His accelerated rise in the ranks had invoked jealousy and resentment among the officer corps, but his intense rivalry with Wiranto and his role during the final days of Suharto's government and the first days of Habibie's had been subject of many speculations.

¹² Benny Murdani was Suharto's right hand man in military and security affairs for many years, and was considered as Suharto's henchman, a man who was most feared and most responsible for many of the actions taken by the New Order in matters concerning security, including the country's East Timor policy. He however fell out of grace of Suharto when the President

Suharto in his capacity of the Chairman of the Council of elders (or patrons), through his emissary, supported Edi Sudradjat, who like Benny Murdani had actually fallen out of Suharto's favour because he of his close association with Benny Murdani.

On other hand Unlike Edi Sudrajat, Akbar Tanjung was a civilian, a long time Golkar cadre, a former activist and leader of student and youth organizations. As a former Chairman of the Islamic Student Association (HMI), he was considered to belong to the Islamic political strain. On the surface the contest was between the nationalist and Muslim camps in the party, and between the military and civilian. However the political equation was not that simple. According to the party's charter only the 27 head of the provincial branches had the right to vote. , 27 of them, Tthe majority, 21 of them, were retired military officers. With that background, it was almost a sure bet that Edi Sudradjat would be elected. However it this was not going to be. Habibie put his weight behind Akbar Tanjung and instructed Wiranto and the Minister of Home Affairs, Syarwan Hamid to work on the head of the provincial branches who had military background to vote for Akbar Tanjung. Both of them worked very hard behind the screen scenes to get Akbar Tanjung elected. And the result was astonishing; Akbar Tanjung received 17 out of 27 votes, which meant that he managed to garner the support of the majority of ex-military officers who were heading the regional branches. It was a stunning victory for Habibie and Wiranto and a humiliating defeat for the alliances behind Edi Sudradjat. The result of the election of Golkar's leadership had mixed effects on Habibie. On the one hand it strengthened his grip on Golkar and was assured of having a political vehicle for the incoming upcoming presidential election. Should Edi Sudradjat won win the election he would be deprived of this vehicle. On the other hand it alienated further the nationalists and senior military officers from Habibie. When this faction was offered seats in the party board they refused and later decided to split from Golkar and establish their own party. They would become the most vocal among the elites that supported the movement by the students to bring down Habibie that culminated in the *Semanggi tragedy*. As For for Wiranto, he had shown his political mettle and skill,

began to see him growing in power and influence, and suspected him of having his own agenda for power. He was well known for his opposition to Habibie. Being a Catholic himself he was not very pleased with the policy to embrace Muslims into the New Order political mainstream, and he blamed Habibie for the rise of political Islam. He was also dissatisfied with Habibie's growing influence on military matters, including Habibie's alleged intervention –through the President—in the purchase of military hardware and some military appointments.

taking the risk of confronting his former superior and military seniors by taking sides with Habibie.¹³

Political Islam was basically sympathetic to Habibie, who was regarded as a person who had been able to turn the tide of long- time prejudice against them. His position as the Chairman of ICMI had helped improve the stature of many professionals and politicians with Islamic credentials. As ICMI gathered Muslim intellectuals from various backgrounds, Habibie's support among political Islam had become more widespread, not limited only to Golkar. The opposition to Habibie mounted by students based in the campus of a Christian university also had driven many Muslim students to support Habibie, or at least choose not participate in the movement directed against Habibie. In that sense unlike the united front against Suharto shown by the students in May, the students were no longer as united with regard to Habibie, and that had minimized reduced the effectiveness of the student movement against the Habibie.

In the meanwhile the security apparatus had to deal with communal strives strifeves in several regions of the country. Among the first occurring just weeks after Habibie took over the presidency, was a series of mysterious killings occurring on the eastern part of Java, starting from the town of Banyuwangi located in the eastern tip of Java.¹⁴ Before the murder spree stopped in November 1998 the death toll had reached somewhere between 150-180. Some observers, after having done investigations on the spot, suggested the cause as the high

¹³ The congress also took an important decision abolishing the powerful council of elders (patrons), and its similar offshoots in the provincial and district levels. To concentrate on his job as party Chairman, Akbar Tanjung resigned his post in the cabinet as State Secretary. He was replaced by Muladi, the Minister of Justice who was considered as close to both Habibe through ICMI and the former President Suharto.

¹⁴ In the beginning it started as a witch-hunt against people who were suspected of practicing sorcery and black magic (*dukun santet*). But as the killings spread to other areas of east Java, and many *ulama* (Islamic teachers and scholars) had fallen victim, there was a speculation that the killers were just not after practitioners of black magic. The killers who hid their identities behind masks were known as *ninjas*.

probability of revenge from those whose family families were the victims of the communist purge in 1996/5/66.¹⁵ But the incident, which would have a longer lasting effect, was the “Ketapang incident”, which occurred in November 1998, in which a minor incident between individuals had erupted into a sectarian conflict. The area was a “red light part” part of town in which criminal elements (*preman*) were reigning. The clash involved the local residents of Ketapang who were Muslims and the Ambonese ——— mostly Christian——— gangs protecting the ‘business activities’ in that area, that erupted into large-scale confrontation; in the melee a mosque was damaged. It resulted in provoking the anger of the Muslim population, and prompting Muslims from other areas to come to the aid of the local residents. They set fire to the gambling places, and to a church where the Ambonese took refuge from the angry Muslim crowd. The incident had spread out to other parts of North Jakarta, before the security apparatus took control of the situation. The security forces had to rescue and extricate the besieged Ambonese; who later were sent back Ambon. A week later another incident occurred in Kupang, the capital of the western part of Timor, a city with predominantly Christian population. In retaliation for the Ketapang accident a mob went on a rampage through town attacking mosques. These incidents had propelled the Muslim-non-Muslim cleavage that had been dormant for a long time under the New Order strict control and intolerance for ethnic or religious social disharmony.

The communal conflict was transmitted to Ambon, with the arrival of the *preman* who were returned to Ambon after the Ketapang incident. In January 1999 a severe conflict erupted between Christians and Muslims in Ambon, the capital of Maluku province. For a long time the Christians and Muslims population had lived peacefully side-by-side.¹⁶ The arrival of the *preman* gangs from Java at the aftermath of the Ketapang incident had

¹⁵ Many of the civilians involved in the purge against suspected communists were members of the youth organization of Nahdhatul Ulama, the leading Muslim scholars and teachers’ organization based in East Java, including young students from Muslim religious schools (*pesantren*).

¹⁶ Many families had both Christian and Muslim relatives. Through an inter village and inter religious cultural system (known as the *pela* system) the communities were peacefully bonded in their ethnic identity. The system worked well for centuries providing for mutual assistance in times of crisis, building common infrastructures, and sharing cultural events. Along the years, many of the Muslims population however were not ethnically Ambonese but Buginese and Butonese from the southern region of Sulawesi, who for many generations had migrated to many parts of the eastern regions of Indonesia.

would changed everything. Sparks of small incidents had erupted into large-scale religious and ethnic conflicts that ruptured the peace. The conflict had would taken extract enormous tolls in terms of human life and the destruction of the society, both physically and psychologically. Both sides committed gruesome atrocities that were widely reported and had ever since haunted the nation. The situation was aggravated by the arrival of volunteers from other parts of Indonesia, who came to the aid of the Muslim population. Eventually the conflict would spread out to other parts of the province, and later to the province of Centralcentral and southern area of Sulawesi. in what was to be known as the “Palu incidents”.

In another region, in West Kalimantan, earlier in 1997, violence broke out between the indigenous Dayak population and the Maduranese (an ethnic from the island of Madura in East Jawa). The conflict highlighted the feeling of injustice suffered by the indigenous Dayak population who had been driven from their homeland and sacred forest by development of the large forestry concessions and transmigration from densely populated parts of Indonesia.¹⁷ The violent violence left thousands people died dead and tens of thousand of Maduranese had to become refugees. In March 1999 the communal violence erupted again starting from Sambas a district in West Kalimantan. Although eventually the situation had been put under controlstabilised, but the incidents left a deep scar on the spirit of “unity in diversity (*bhinneka tunggal ika*)” that had been the nation’s most cherished political tenet.

Another trouble spot flared up Aceh, the westernmost province of Indonesia. Aceh had long been long simmering in conflicts between separatist elements of the population and the government forces. During the New Order the separatist movement was harshly dealt with strongly with by military action. At the end of the New Order, era the situation had been put under control and the rebel movement had become more or less dormant, although there were still remnants of rebels bearing the name of Free Aceh Movement (*Gerakan Aceh Merdeka* or GAM), led by a nominal leader in exile. In early 1999 however the situation began to heat up again.¹⁸ The

¹⁷The violence was fought mostly along ethnic line, although most Dayak are Christian and the Maduranese are Muslim. Many Muslim Dayak took the side of their Christian brethren while many non-Maduranese Muslims stayed out of the conflict

¹⁸ The vacuum caused by political uncertainty leading to the fall of the New Order could be attributed to the surge of the rebels’ activities. Many observers speculate that GAM has amassed income from drug trade——*ganja*, is widely cultivated in Aceh——to stock up their weaponry.

immediate cause of the upsurge of hostilities had been a series of kidnapping and killing of soldiers, some on their leave. The military mounted an operation to respond to the attacks, and the situation further escalated. In the process many civilians had become victims of the ensuing violence, drawing provoking outcries of brutality and human rights abuses by the military. Within the government and the ruling political elite, especially from Muslim leaders, there was sympathy for the suffering of the Acehnese and a pressure for the government to respond to the excesses of military operation. Habibie accompanied by senior members of his cabinet and the Commander of the Armed Forces in March 1999 visited the province, and initiated a dialogue with representatives of the local community, held at the grand mosque of the capital of the province, Banda Aceh. Students demanded and allowed to join the dialogue. In the course of the heated dialogue Habibie apologized for the excesses committed by the military in the past, and promised that such things would not happen again. He promised to prosecute any member of the security forces that was involved in human rights violations. He pledged that the government would pay for the reburial of the victims of the military operations; many of them had been buried in mass graves. Political prisoners would be released and funds for development in the province would be increased including for financial aid as compensation to victims of past military operation. The pledge from Habibie however could not prevent further escalation of hostilities. GAM intensified their attacks not only on military targets but also and the civilian population.¹⁹

Demand for a political solution had grown louder, including a demand for referendum to allow the Acehnese to decide their own destiny. Resisting the call for a referendum, the government responded by allowing the province to adopt the Islamic law, in accordance with the special status of the province that had been recognized since Sukarno's era, as well as establishing an independent committee of inquiry for the human rights abuses in Aceh. A series of investigations, on the reports of torture and killings during the crackdown against separatist insurgencies over the last decade, were

¹⁹ Many people who were suspected to be supporting the government—or even worse to be government informants—had become victims of vengeance. People from outside of Aceh were murdered or driven from their homes and lands, in particular the transmigrants from Java that had lived in Aceh for years. The result of the intensifying unrest was the flux of refugees that by one count had reached 150,000 by August 1999 (Van Dijk, 2001; 372).

undertaken by the government, the parliament, the military and a number of NGOs including the National Commission of Human Rights, and were undertaken. The findings of the parliamentary fact-finding team had established that the cases of human rights abuses in the province were closely related to the application of the status of "military operations area" (*daerah operasi militer* or DOM) to Aceh since 1989. Taking it into consideration the government on 7 August 1998 revoked this status that marked the end of military operations in the province.²⁰ The Commander of the Armed Forces also offered an apology, on behalf of the Armed Forces, to the people of Aceh for the hardship and abuses they suffered during the military operations. After this conciliatory gesture of the military situation in Aceh somewhat calmed down somewhat, and many refugees started to return to their homes. In September a law was passed giving Aceh a special status (Law No 44/1999).²¹ The new law on fiscal decentralization (Law No 25/1999) also would provide the province with a certain degree of authority over, and substantial returns from, their natural wealth particularly from the gas fields in Arun. Thus two of the main grievances, the demand for *syariah* law and equitable distribution of resources had been basically addressed. However the relaxation of the security situation was used by GAM to expand their control of the territory and population. And at the time Habibie left office in October 1999, the conflict in Aceh had been not resolved.

Irian Jaya was another hot spot. The province had been plagued for years by separatist movement demanding independence. As in Aceh this separatist movement was triggered by feeling of injustice suffered by the people of West Irian (*Papuans*), which being one of the naturally richest provinces of Indonesia, remained the most backward in the whole nation. The separatists were however vocal minority; most of the tribal leaders of the province were demanding autonomy and fair distribution of wealth rather than independence.²²

Among the problems Habibie inherited from the past—when anything that would be considered as

²⁰ Consequently, it was also decided to remove combat troops from the province. The police took over the responsibility for law and order. The army unit would function as reserve forces and only be deployed at the request of the police

²¹ Later a new law was passed on the special autonomy of the province, granting wide ranging autonomy, (Law No 18/2001).

²² Eventually in 2001 the province was granted the status of a special autonomy and formalizing the name of the province as *Papua* (Law No 21/2001).

threatening the national unity was dealt with strongly withby force---the biggest challenge to Habibie during his presidency was the issue of East Timor. As it would have significant repercussion to Habibie's presidency it will be taken up in the later part of this discussion.

The Economic Quagmire

The economic situation at the time Habibie came to power had grown much worse less than a year after the financial crisis hit the economy. Due to the upheavals in May the distribution networks had been seriously damaged. Supplies of the basic needs of the people were disrupted. Rice, cooking oil, sugar and other essential items became scarce and prices were rising. Rice imports had to be increased because of the prolonged drought. Due to the sudden surge of imports--- amounting to 4.1 million tons for fiscal year 1998/99--- prices in the international markets soared up. The increased cost for import meant more pressure on the government country's depleting foreign exchange reserve. To make matters worse overseas banks continued to refuse to honour Indonesia's letters of credit, meaning that all imports should be paid for by cash. Public transportation was also disrupted because of the lack of spare parts, a substantial part of which had to be imported. Ironically, Indonesia as a major exporter of palm oil had to face scarcity of cooking oil, for two reasons. With the depreciation of the rupiah exports became very alluring; the surge of exports had dried up the domestic supply of cooking oil. Second, the disruption of the distribution network caused by the May incident had deprived the vast consuming areas, Java in particular, of the continuity of supply.²³ This refusal hurt the Indonesian manufacturing industry--- including the export industry--- as import for raw materials and spare parts were affected. As a result, export of manufactured goods was disrupted at the time when, with the huge depreciation of the currency, Indonesia's exports should actually enjoy more an advantage. Public transportation was also disrupted because of the lack of spare parts, all of which had to be imported, whilst the cost of imports had gone up. Ironically, Indonesia as a major exporter of palm oil had to face scarcity of cooking oil, for two reasons. With the depreciation of the rupiah exports became very alluring; the surge for of exports had dried up the domestic market of the supply of cooking oil. Second, the disruption of the distribution network caused by the May

²³ To overcome the problems in March 1998 Bank Indonesia deposited \$ 100 million with each seven foreign banks as backing for these banks' confirmation of letter of credits issued by six state owned banks. They were later joined by three more foreign banks

incident had deprived the vast consuming areas, in Java in particular, of the continuity of supply.

The heat generated from political tension did not help the economy. Foreign investors stayed away, and instead of incoming capital what happened was a rampant capital flight took place, beginning with sparked by the closure of the 16 banks in November 1997. The capital flight intensified during the time of the confusion caused by the indecisiveness on the part of the government and the conflict with the IMF, reaching its peak in May 1998 because of the riot and the subsequent political turbulence.²⁴ In any event, by the time Habibie's government took office the economy was dried out of foreign currency. Domestic companies were struggling for survival. Many had simply stopped paying their debt, domestic as well foreign, thus aggravating the situation. The default had made the condition of the already battered banking sector even worse as the volume of their non-performing loans had suddenly jumped. The Indonesian banking and corporate sectors were both in a downward tailspin, each pulling the other further down. The amount of foreign debt owed by Indonesian companies was staggering. By March 1998 the total amount of private foreign debt had reached \$ 84 billion, around \$ 30 billion due in 1998 (Habibie, 1999: II/25; see also Van Dyk, 2001: 73; 290). Without a way out of the debt burden Indonesian domestic companies would remain paralysed.

With the steep depreciation of the rupiah, the rise in food, fuel and other commodities, inflation had surged. Between January and May 1998 inflation had reached 40%. During the same period the year before it had been less than 3 percent. By the end of August inflation had reached 70 percent. Because of the collapse of many industries and businesses, unemployment had increased, and with the high level of inflation, the number of poor families had also increased substantially. The progressive reduction of poverty, which was one of the most significant achievements of the New Order, had been set back; from 11 percent in 1996 it poverty increased again to 49.5 million or 24.2 percent of the population or 49.5 million by the end of 1998 (Habibie, 1999b: II/23). In year 1997/1998 the number of wage earners decline by 5.1 percent, while at the same time real wages sharply declined sharply, by 35 percent. Illustrating the resulting re-migration from the city back to the rural areas is the drop in the employment of the manufacturing sector by 9.8 percent, while in the agricultural sector it employment actually increased by 13.3 percent. It indicated the pressure

²⁴ Varying figures had been mentioned on the amount of capital flight, from the Central Bank figure of \$20.4 billion to some analysts' estimates reaching \$80 billions (Van Dyk, 2001: 289).

exerted on the meagre economy of the rural areas as urban employment was shrinking (World Bank, 1999: 13-14).²⁵

The impact on social and health sectors was devastating. Medicines were in shortage because of the difficulty in importing the raw materials, and those that were available had gone up in price. Infant mortality was rising. According to a report of the Minister of Health in March 1999, two million children under five years old suffered from severe malnutrition. There were reports from various regions that children were dying because of malnutrition. There were talks about a lost generation, as millions of children would grow up undernourished, thus retarding their mental and physical development in for years to come. Many school children had to leave school because their families could not afford to have them in school; many were forced to find work or other ways to help their families—many just fled to the cities to become street urchins.

The increasing unemployment and poverty had caused a steep rise in crime. Many people no longer felt safe on the streets and even in their homes.²⁶ Impoverished and hungry people looted stores and warehouses for foodstuffs. There was a rise in the theft of agriculture produce such as coca and coffee. In many areas shrimps farms were plundered. Very disturbing—not the least from the environmental protection point of view—was illegal woodcutting logging, including in protected forests. As the price of fertilizers increased, farmers raided stores and warehouses storing fertilizers. Trucks transporting goods were robbed on the highway, prompting the police to provide armed escort for them. Most damaging in the long run was theft of plantations and illegal occupation of estate lands, which often resulted in the plunder and destruction of estate crops and facilities. All the lawlessness indicated that the security apparatus faced mounting difficulties in keeping the situation under control.²⁷ The uncertain situation, and the lack of security

²⁵ In comparison, between 1993-1997 employment of wage earners increased by 7.9 percent, real wages increased by 4 percent, employment in agriculture decreased by 2.5 percent and in manufacturing increased by 6.5 percent (ibid).

²⁶ The security apparatus during the New Order dealt harshly with crime. From time to time there were reports in the media of mysterious killing and disappearance of suspected criminals and gang leaders.

²⁷ This in turn gave rise to speculation that the authority would not be able to cope with another uprising, in which the ethnic Chinese population would again become the target. Hence, many ethnic Chinese moved their families abroad and not a few bought residences in the neighboring countries like Singapore and Australia, some even went so far as Canada. But there were also those who chose a safe haven in Indonesia, mainly in Bali,

had driven up the cost of doing business in Indonesia—among others by raising the cost of insurance—making the economy less competitive especially in attracting foreign investment.

Meanwhile, the impact of the crisis on the people and the economy was multiplied by the failed harvest caused by a particularly fierce El Nino that resulted in the most severe drought in 50 years. The resulting drop in food production contributed significantly to the rate of inflation in 1998, increased pressure on dwindling foreign exchange reserves because of the necessity to import large amounts of rice, while at the same time lowering rural incomes and thus impoverishing the rural areas. The crisis had by now become countywide affecting both urban and rural population. In Sumatera and Kalimantan, rampant forest fires made worse by the drought destroyed hundreds of thousands of hectares of forests. This created an environmental and health hazard that added another dimension to the problems already faced by the country (Kartasasmita, 2001:10).

To make matter worse as the result of the rupiah depreciation, the cost for food and fuel subsidies increased substantially, while at the same time the government revenues from tax had gone down. The price of oil was at the lowest in two decades, hovering around \$10-12 per barrel. The result was more dependent on foreign aid. However, as donor governments were reluctant to risk getting involved in such a volatile situation, they “entrusted” the international institutions to take the lead in dealing with Indonesia.²⁸ Hence, although the international community had always harboured some distrust against Habibie—as displayed by the severely negative reaction to Suharto’s announcement of Habibie as his choice for Vice President—the fear that the country might disintegrate because of total economic collapse, and its impact to the regional and global economy and politics, motivated the international community to organize renewed assistance to for Indonesia after the change of government.²⁹

which up to now was spared of the convulsion that wracked Java and many other parts of Indonesia. This period saw many ethnic Chinese families buying land and buying houses in Bali.

²⁸ The industrial countries could not afford to just leave Indonesia in the cold because: a) previous foreign investments that had poured into the country during the boom needed to be salvaged, and b) the fear of further contagion if the country’s economic crisis was not contained.

²⁹ They were also encouraged by the presence of some figures in the government that they had worked with—and productively—during the previous government.

Laying the groundwork for economic recovery

Undaunted by the surrounding political controversy, the new government's economic team immediately embarked on a series of measures with the support of the international community, to halt the deterioration and restart the recovery of the economy. Basically the economic team resumed the recovery program that had been undertaken by the previous government before it was interrupted by political crisis leading to the change in government. The economic recovery agenda consisted of five main programs: i) restoring macroeconomic stability; ii) restructuring of the banking system; iii) resolution of corporate debt; iv) continuing with structural reform; v) stimulating demand and reducing the impact of the crisis on the poor through the social safety net (Kartasasmita, 2001: 11).

The economic team recognized the need to have a wide support from the political and economic elites to the government's economic recovery program. To that end the economic ministers had had frequent meetings with the Indonesian Chamber of Commerce, with representatives of foreign investors, and with leaders political parties and various parliamentary commissions. Economic reforms also need the support of the public, hence the economic ministers held press conferences and briefing with the press on a regular basis. The economic team also met regularly with, and solicited support and inputs from, leading economists and prominent figures of civil society on important policy decisions. For instance, before announcing the measures on bank restructuring the economic team had consulted the economists and received valuable advice from them.³⁰

Restoring macroeconomic stability was assigned to be the highest priority as the economy had deteriorated again after the events unfolding in May. In May in 1998, the rupiah after strengthening to a range of 7.500-8000 in April had weakened again to the January level of between 10.000-11.000 to the dollar. In June when the effect of the May riots and the change of government had sunk into the market the rupiah nosedived to 17.000, before settling to a monthly average of 15.000, the worst since the crisis began. Inflation that had started to go down in April--- after reaching the highest monthly rate of 12.7 percent in February, coming down to 4.7 percent in April--- had

gone up again to 8.6 in July. Restoring macroeconomic stability was the *sine qua non* to get the economy on its feet again. The government was confronted with the policy dilemma to cope with the "twin crisis" of the banking and corporate sector. On the one hand, high interest rates needed to support the exchange rate would weaken the corporate sector; on the other hand lowering interest rate would weaken the exchange rate and create a widespread bankruptcy, which would further weaken the financial sector. On the fiscal side, the tightening of the budget would result in constriction of the economy at the time when it needed stimulant. The government hence had to thread carefully in adapting monetary and fiscal policies and in combining the two sets of policies to restore macroeconomic stability. To achieve this objective monetary authority continued the tight monetary policy that was pursued by the previous government. It was considered as a necessary evil in light of the runaway inflation and spiralling downfall of the exchange rate. In the fiscal sector the government's concern was the pressures on the budget that had intensified with the deepening of the crisis. The depreciation of the exchange rate, through its impact on the cost of debt service and on subsidies, had substantially added to deficit. In addition, given the severity of the crisis and resulting weakening output and its disproportionate impact on the poor, there was urgent need to stimulate demand and strengthen the social safety net to alleviate the impact of higher unemployment and the greater incidence of poverty. As significant revenue measures were not feasible in the short term, given the weakness of the economy, the deficit had to be offset by additional financing from external sources.. The budget deficit was estimated to be around 8.5 percent of GDP for fiscal 1998/1999 and 6 percent for 1999/2000.

International cooperation supporting Indonesia's efforts at recovery was channelled through three multilateral venues or under the auspices of multilateral mechanism: a) IMF, b) the Consortium Group on Indonesia (CGI), and c) the Paris Club. Before the crisis the World Bank was the main multilateral channel coordinating foreign aids to Indonesia. After and during the crisis the role had shifted to the IMF.

As discussed in previous chapters, the IMF program started with the first agreement in November 1997 and would terminate at the end of year 2000. The financial support originally provided Indonesia with access to fund under a stand-by arrangement (SBA) amounting to SDR 8.3 billion or the equivalent of US\$ 11.4 billion. In August 1998 the SBA was replaced by a more concessionary Extended Fund Facility (EEF) to the amount of SDR 5.4 billion, equivalent to US \$ 7.2

³⁰ Notable among those frequently consulted was a senior economist and also leading figure of the opposition Kwik Kian Gie, and economic reformists such Sri Mulyani Indrawati and Muhammad Ikhsan from the University of Indonesia, and Anggito Abimanyu and Sri Ardiningsih from the University of Gajah Mada. A prominent lawyer and leading figure of civil society, Pradjoto was also frequently consulted.

billion³¹. The first LOI under the Habibie's government was agreed on the June 24, 1998. Due to the severity of the crisis³² the agreement was reviewed almost every month during 1998, resulting in renewed LOI.³³ It was agreed that as the situation had much improved by the end of 1998, further review would be done quarterly.

The CGI meeting was co-hosted by the Indonesia government and the World Bank. During Habibie's presidency the consortium met twice in Paris, on July 29-30, 1998 and July 27-28, 1999. Members of the CGI were Indonesia's donor countries and international organizations such as the World Bank, the Asian Development Bank, the Islamic Development, and the European Union. Two of the biggest donors were Japan and the World Bank. Japan usually provided one third of pledge coming out of the CGI meeting.³⁴ In the 1998 CGI meeting the donors pledged \$ 7.9 billion---the highest ever figure---to be disbursed in fiscal year 1998/99, and in July 1999 meeting the pledge was \$5.9 billion for fiscal year 1999/2000. Another meeting also held in Paris was to reschedule Indonesia's sovereign debt, under the aegis of the "Paris Club".³⁵ The rescheduling of debts was

essential in view of the fiscal burden that Indonesia was facing. There is but one caveat for a Paris Club debt rescheduling, : the country concerned needs to be under an IMF program. On September 23, Indonesia successfully negotiated the rescheduling of its debt due to fall in the 1998/99 and 1999/2000 to the amount of \$ 4.2 billion. It was a much-needed relief to the severe fiscal situation.³⁶

After the initial progress in tackling the problem facing the banking system in April, with because of the escalation of the political crisis reached reaching its climax in May, the condition of domestic banks had deteriorated further. The biggest and the best run private bank, the Bank Central Asia ---accounting to 12 percent of total banking sector liabilities---was under attacked because it was known to be owned partially by the Suharto's family. After receiving a substantial amount of liquidity support from Bank Indonesia, BCA was taken over by IBRA; joining the seven other banks that had been taken over earlier in April. The economic team recognized that implementing a comprehensive solution for the banking system should be given a high priority. It was an essential condition for the recovery of the corporate sector and to get the economy moving again. The objective is was to resolve the financial difficulties of the weakened banks and establish a sound functioning banking system as quickly as possible. Key elements in the strategy involved: a) measures to strengthen relatively sound banks, b) with regard to weak banks to swiftly recapitalize, merge or effectively close them, while at the same time c) maintaining the commitment to safeguard the interest of depositors and creditors. The economic team established that decisions regarding individual banks had to be based on uniform, transparent and publicly known criteria, drawing from the results of portfolio reviews done by international accounting firms. The remaining 211 banks were subjected to audit, of which all the 67 banks that were licensed to conduct foreign exchange trading were audited by the "big six" international auditing firms, and the rest were audited by Bank Indonesia. According to Enoch et.al. (2001: 16) the auditing system in Indonesia contrasted with that of Korea, where local affiliates of international firms had performed the audit, and Thailand where the banks' auditors themselves performed the audits. It led them to conclude that "the Indonesian

³¹ The amount drawn under the SBA by the end of its arrangement was SDR 3.7 billion or US \$ 4.9 billions, while the amount drawn under the EEF up to the end Habibie's presidency was SDR 3.8 billion or US 5.2 billion

³²If the macroeconomic indicators, such as the exchange rate and inflation were used as a yardstick, June 1998 was the lowest point in Indonesia's economy.

³³In 1998 the IMF program was reviewed five times: on June 24, July 29, September 11, October 19, November 13. In 1999 the first review was on March 16, and the next was May 14 and the last during abibie's government was on July 22. In a span of one year there had been eight reviews and LOI's.

³⁴In CGI's meeting the IMF usually gives the overall micro-economic picture while the World Bank gives the update of the country's state of development. Before the meeting the government together with World Bank, and during the crisis joined by the IMF, gives an estimate of the deficit that was needed to be filled by international financing, and during the meeting each delegate is approached on how much they can contribute. The ritual has been going on since the start of the consortium, at the onset of the New Order government, but at the time was under the title of Intergovernmental Group on Indonesia (IGGI), held in The Hague in which the Dutch government was the co-host.

³⁵The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. At the request of the debt stricken country Paris Club creditors would meet to consider agreeing to reschedule debts due to them.

Rescheduling is a means of providing a country with debt relief through a postponement and, in the case of concessionary rescheduling, a reduction in debt service obligations

³⁶ Japan by law is prohibited to give fresh loans to a country receiving debt relief. Therefore it did not take part in the scheme to rollover Indonesia's debt but instead promised a new concessionary loan to offset Indonesia's financial obligation.

approach was the most prudent of the three; indeed the process was arguably over prudent". Owners and management of the bank also had to go through a certain fit and proper test.

After reviewing the condition of the banks taken over (BTO) earlier by IBRA, in August the government closed three of the of the eight BTO banks.³⁷ By September 1998, with legal and regulatory requirements largely in place, the macroeconomic condition had become more stable, and better information was available on the state of the banks, the economic team— with assistance of experts from the IMF and other international banking and financial intuitions — had developed a comprehensive strategy to restore the banking system to health. In March 1999 the government announced that seventy-three banks, comprising 5 percent of banking sector assets, were strong enough to continue without government support (category A); nine banks comprising 10 percent of banking sector assets were eligible for joint recapitalization scheme with the government (B-pass category), seven banks comprising 3 percent of banking sector assets had failed the criteria for joint recapitalization, but due to their size—having more than 80,000 depositors—they were taken over by IBRA (category B); and thirty eight banks comprising 5 percent of the banking sector with below the minimum capital adequacy ration (CAR), were closed.³⁸ The decisions were based on clear and transparent criteria, and required unanimity in three interagency committees responsible for the evaluations (each including Bank Indonesia, Ministry of Finance and IBRA). The interagency committees were joined by representatives and experts from the IMF, World Bank and ADB throughout the process.³⁹ Those were the

measures dealing with private banks. On state banks as of 1998 there were seven state banks representing roughly 50 percent of the banking sector but had significantly larger contribution to share of losses. All were deeply insolvent, and were if the criteria for the private banks to be applied would have been categorized as C banks. It was decided to merge four of the banks into one bank, Bank Mandiri.⁴⁰ The remainder of the domestically owned bank were 27 seven regional (provincial) banks, comprising 2 percent of the banking sector, all were allowed to exist and join the recapitalization scheme. Although many issues still remained, the groundwork was thus set for the reestablishment of a sound banking system (see Enoch, 2000: 18; 38-41).

The efforts to establish a healthy banking system was not only limited to bank restructuring. A strong foundation was needed to prevent similar crisis in the future and to provide for sound governance in the banking sector. Strengthening regulatory and prudential framework for a sound banking system constituted another important element of the strategy to reform the banking sector. In October 1998, the parliament passed the amendment to the banking law (Law No10/1998), allowing for major improvements in areas of bank licensing and ownership, openness to foreign direct investment, bank secrecy and empowerment of IBRA. However the most far reaching was the new law on Central Bank providing for independence of Bank Indonesia passed in May 1999 (Law No 23/1999).⁴¹ The new law on the Central Bank will be intended to reduce the danger of moral hazard and prohibit

unfounded and had never been substantiated. It was not to say that there was no effort at intervention or people asking favor on behalf of a bank. Among others was Abdurrahman Wahid who asked the Coordinating Minister and the Governor of Bank Indonesia that a bank that he had just bought in, Bank Papan Sejahtera—which was C bank —be spared and not closed. The government did not accede to his request and those of others—many holding political clouts— and to the end was firm in upholding the agreed upon evaluation criteria.

⁴⁰Bank Mandiri as corporate entity was established in September 1998 and the merger took place in July 1999.

⁴¹ The Central Bank is designated as the sole authority on monetary affairs. The Governor and Deputy Governors, although appointed by the President, need to have the approval of the parliament. The Governor and Deputy Governors cannot be replaced except if convicted of crime. Bank Indonesia is required to give an accountability report to parliament thereby making its operation transparent to the public. Bank Indonesia is no longer responsible for program-credits. The government can no longer rely on Bank Indonesia to plug in budget deficit and bank Indonesia no longer functions as lender of last resort. The role of supervision of banks will be assumed by another body to be established by law.

³⁷One state bank that was also among the BTO bank (Bank Exim) was moved out of IBRA pending merger with other banks

³⁸ Category A banks with CAR above 4 percent; B below 4 percent but above minus 25 percent; and C below minus 25 percent. B-pass were banks in category B that met the eligibility criteria for recapitulation based on their business plan. The Banks that did not meet the qualification but had had a large number of deposits (over 80,000) were taken over by IBRA, and the rest of B banks (21) and C banks (17) were closed.

³⁹ After consulting the economic ministers, and the IMF and the World Bank, Habibie decided to delay he announcement for a week after receiving complains that some banks needed more time to prepare their business plan. The postponement should not have resulted in any additional cost to bank restructuring, as some political analysts have alleged, as the process of review and evaluation of the banks had been going on for months. Should there be any leakage or asset stripping that must have happened long ago even before the decision was considered. The allegation that the postponement had incurred added cost was

government interference in the banking and monetary policies. Accompanying the law on the independence of the Central Bank another law was passed to augment the authority of the Central bank to monitor the traffic of foreign currency and corporate external debt (Law No 24/1999). Enoch et al (2001, 22) concludes that by the end of Habibie's government "much had been achieved in restructuring the banking system". The largest of the state banks had been recapitalized; most of the banks taken over by IBRA were being merged into a bridge bank; the largest IBRA bank was in preparation for privatization; the private bank recapitalization scheme was underway; BI had introduced new prudential regulation; BI was now independent; and a strategy was in place for the remaining stages of restructuring.

The financial restructuring of the private sector was crucial to the economy, and an essential counterpart to the banking system restructuring, as a sound corporate sector is necessary for a sound banking system and *vice versa*. The economic team pressed ahead with a comprehensive program of measures to address the pervasive debt problems of the private sector. The private external debt team (see previous Chapter), supported by the government had collected data from corporations on their external obligations, and had taken the initiatives to hold talks with representatives of the creditors. An agreement between representative of international lenders and Indonesian companies on a framework for corporate debt rescheduling was reached in Frankfurt on June 4, 1998. Known as the "Frankfurt Agreement" the scheme through the Indonesian Debt Restructuring Agency (INDRA)---under Bank Indonesia---provided for the voluntary restructuring of the debt of corporations to foreign banks on terms that were consistent with Indonesian's overall external payment capacity, and thus gave cash flow relief to domestic corporations. The scheme was similar to that used in Mexico during its financial crisis, called the FICORCA scheme. In the scheme creditors and debtors were provided guarantee against further depreciation of the exchange rate from its value at the time the debt was restructured (see also IMF, 2003b: 78).

One important aspect of the scheme was to resolve the problem in the provision of trade financing which had been severely disrupted.⁴² Another essential part of the

corporate debt restructuring strategy was to the establishment of an effective bankruptcy system. The existing law on bankruptcy was century old having been inherited from the colonial era, and could no longer cope with the complexity of modern commerce. In April the government issue a government regulation in lieu of law to modernize the bankruptcy system and provide for the fair and expeditious resolution of commercial disputes. In July the parliament ratified the revised bankruptcy law (Law No 4/1998).⁴³ To complement the newly amended law and INDRA scheme a new initiative was launched in September 1998, called the "Jakarta Initiative". The objective was to promote voluntary restructuring of corporate debt between the creditor and the debtor, establishing guidelines for out-of-court corporate restructuring. It covered importantly the provision of interim financing during workouts, which was essential for preserving viable corporations, and the provision of adequate information by debtor corporations.⁴⁴ To make the scheme work the necessary legal provisions and regulations were put in place to overcome obstacles o corporate restructuring. They included a government regulation providing tax neutrality for mergers and other corporate reorganization, and removal of certain tax disincentives for restructuring, and obstacles to debt-to equity conversion. To facilitate restructuring negotiation and corporate debt restructuring, a framework was established on the treatments for large debtors.⁴⁵ Under the "Jakarta initiative" various measures were also undertaken to improve corporate governance.

The economic team of the new government remained committed to implementing the structural reforms that had been constituted earlier. They recognized that the issue of governance was important for reforms.⁴⁶

facilitate import and pre-shipment of export financing of exporters holding exports letter of credits.

⁴³ A Special Commercial Court was created to implement the law. The IMF, and the government of Japan and the Netherlands and Australia provided assistance for the training of judges and the procedures for the administration of the commercial court.

⁴⁴ An interdepartmental Task Force was assigned to oversee the implementation of the initiative with assistance from the World Bank and from the Asian Development Bank for small and medium size enterprises.

⁴⁵ Debtors with loans exceeding \$ 50 billion were classified into four categories (A-D) on the basis of their willingness to cooperate and financial viability. The cooperative debtors categories (A and B, depending on their business prospects) were followed up through steps leading to loan settlement agreement. The non-cooperative debtors (C and D) were subject to penalties, bankruptcy and foreclosure.

⁴⁶ In the CGI meeting in July 1999 it was designated as the special topic for that session. The Coordinating Minister for the

⁴² Aside from trade facility provided by the Frankfurt Agreement, Japanese EXIM Bank provided assistance with \$ 1 billion trade financing, as well as export financing facilities from a number of other export credit agencies. Bank Indonesia in July established a pre-shipment export credit guarantee program to www.ginandjar.com

Events leading to political change in the past months had shown clearly that good governance was necessary to ensure the legitimacy of governmental authority and the long-term health of the economy. It was becoming more evident that in the years leading up to the crisis, the Indonesian economy had become particularly ensnared in a system of special costs and privileges.⁴⁷ Therefore, an important part of the strategy for eliminating corruption was the termination of unusual privileges of the past. Tariff exemptions had been repealed, special loan arrangements had been undone, dubious contracts with public enterprises had been cancelled, excessive forest and land concessions had been revoked, and monopoly control over many markets had been dissipated/broken up. Special trade arrangements on food and other commodities have been eliminated. To replace the ban on exports of logs and sawn timber, resource rent tax and logs and sawn timber had been introduced. The clove market board (BPPC) had been dissolved. The state logistics agency (BULOG) no longer held the monopoly on importation and marketing of rice, wheat, soybean and sugar.⁴⁸ The foreign investment regime was further relaxed, eliminating restrictions such as on domestic wholesale trade by foreign investment.

Habibie government gave particular attention to public enterprises that still played an important role in the economy. To improve their efficiency and governance international auditors subjected key public companies to special audit. International auditing companies were assigned to audit the financial account of Pertamina (state oil company), PLN (the state electricity company), Bulog and the Reforestation Fund⁴⁹. The second round of special audit included the principal national airline, the port corporations, the domestic telecommunication company, and the toll road operators. A master plan on the reform of state enterprises had been devised, including the restructuring and privatization of state enterprises to

improve efficiency, profitability, and service-delivery and therefore lay the foundation for future growth.⁵⁰

In further efforts to improve governance, in early 1999 the parliament passed the law on the prohibition of monopoly practices and unfair competition (Law No 5/1999).⁵¹ The law provides legal guidelines for the prevention of corrupt practices through the granting of licenses, special treatment and monopolies to certain group of people. A law on consumer protection was also promulgated (Law No 8/1999). The role of civil society in consumer protection was constituted in the law. The parliament also passed a new law on environment protection providing for a stronger role of the community and civil society in on matters related to environment (Law number 23/1999). The 1967 law on forestry was revised establishing the principles of environmental protection, equity, justice and transparency in the forestry management and exploitation (Law No 41/1999).

Providing To provide for a stronger legal basis to define and criminalize corrupt practices, in May 1999, the parliament passed the law on Clean Government (Law No 28/999). This law includes provisions requiring fair and equal treatment from government officials for all people, as well as the right of the public to seek information about policy-related matters and to express views on those issues in a responsible manner. Another provision of this law requires that public officials ---elected as well appointed--- should report their wealth before and after taking office, subject to investigation by a special commission to ensure that government officials do not enrich themselves improperly. It was followed by another law on the Eradication of Corrupt Practices (Law No 31/1999). This law provides stronger guidelines on investigation and prosecution of corrupt practices. The new law also provides for the establishment of an independent committee to eradicate corruption. Taken together, the list of new regulations and legislations of the past year provides compelling testimony regarding the Habibie's government commitment to improving governance and laying the foundation for the establishment of a sound economic system supported by strong social and economic institutions.

Economic as the head of the Indonesian delegation gave a presentation on the government strategy for improving government and fighting corruption.

⁴⁷As the system of granting special privileges in Indonesia was widely seen as the source of poor decisions that eroded economic competitiveness, addressing the distortions created by these privileges was critical to moving the economy forward in the medium- and long-term.

⁴⁸The monopoly had been a source corruption as the rights to import were passed to preferred private enterprises.

⁴⁹The reforestation fund was another source of unaccountable use of funds extracted form forestry concessionary holders and wood processing industries.

⁵⁰ Privatization of state enterprises was pursued rigorously, with assistance from the World Bank and advice from international investment bankers. The purpose was not only to provide the government with much needed revenue but also to improve corporate governance within the state enterprises.

⁵¹The law calls for the establishment of an independent committee that will monitor and supervise business competition. The members of the committee although appointed by the President but needs to have the approval of the parliament.

The crisis of the past two years dramatically illustrated how much economic growth and stability matter to the poor. As mentioned above poverty had almost doubled between 1996 and end of 1998. Many non-poor or those who had “graduated” from poverty were pulled back to poverty. Unemployment had increased while real wages had declined substantially. Combined with soaring inflation poor families were most affected by the crisis, including in their access to education and health care. Therefore the new economic team attached a high priority on measures to protect the poor from the worst impact of the crisis. The strategy consisted of two elements: a) general economic policies that would have impact on the poor, and b) targeted policies for the benefit of the poor. Foremost in the first prong of the strategy was restoring macroeconomic stability. Improvement of the value of the currency and arresting inflation would substantially improve the economic condition of the poor, directly and indirectly as the economy began to recover. Adequate supply of food and other basic necessities would reduce the cost of those items. As an emergency measure, the government had therefore imposed a temporary ban on exports of rice, wheat and wheat flour, soybeans, sugar, kerosene, and fishmeal. A critical aspect of food security was to rehabilitate and strengthen the distribution system following the disruption caused by the recent social disturbances. The government established a special monitoring unit to identify potential shortages of foodstuffs or distribution bottlenecks to enable early corrective action.⁵² Where retailing has had been disrupted severely, the government put the efforts to reactivate the retail network through the rehabilitation and construction of traditional markets.⁵³ In some especially poor and remote regions of the country, where transport costs have risen sharply due to a shortage of spare parts, direct distribution of food was carried out by government agencies. To support the urban populace, urban transportation was subsidized including subsidies given to transportation companies to import spare-parts. A number of actions were undertaken to eliminate any remaining

⁵² The government conducted daily monitoring of all relevant aspects of food security including price developments, movements of goods including imports, stocks, and releases of commodities by BULOG. Regional governors and local authorities were instructed to mobilize support for the private retail and wholesale sector, including streamlining licensing procedures to facilitate inter-provincial trade.

⁵³ With regard to the distribution of cooking oil the government encouraged the participation of cooperatives and small businesses.

impediments to the efficient movement of supplies of basic commodities throughout the country.⁵⁴

However, due the severity on complexity of the crises the general economic policies alone were not enough to protect the poor from the worst impact of the crisis without a specifically targeted policy for the poor. The targeted policies for the poor, or the social safety net encompassed three broad areas of action: i) maintaining the availability and affordability of key commodities important to the poor; ii) generating employment and maintaining incomes; iii) preserving key social services. The most important basic commodity was rice. A program was initiated in July 1998 to provide 10 kg of rice at about one-half of the market price (Rp1,000) to low-income families first in the Jakarta area and in September extended to cover 7½ million very poor families throughout the country. In December the monthly allocations under the scheme was increased from 10 kilograms to 20 kilograms per family covering 17 million poor families nationwide.⁵⁵ To improve purchasing power in rural and urban areas, the government had set up public works projects throughout the country to boost incomes of the poor, the unemployed and the underemployed. To supplement these efforts, food-for-work programs are being implemented in drought-stricken areas of the country.⁵⁶ Preserving access to critical social services for the poor constituted an important aspect

⁵⁴ These steps included the physical protection of traders to reassure them that their business can be carried out normally; the protection of warehouses, trucks, and containers on trading routes to encourage them to build up stocks; and assistance to traders who suffered damage during the riots, to rebuild their facilities. The government also conducted daily monitoring of all relevant aspects of food security including price developments, movements of goods including imports, stocks, and releases of commodities by BULOG. Regional governors and local authorities were instructed to mobilize support for the private retail and wholesale sector, including streamlining licensing procedures to facilitate inter-provincial trade.

⁵⁵ In the implementation of the program there were reports of misuse of the scheme. To overcome this problem the government, in consultation with the World Bank had involved private voluntary organizations specializing in food assistance and bilateral donors to marshal appropriate technical expertise, and civil society for improved targeting and community monitoring and ensuring that the support for the poor reached the intended beneficiaries

⁵⁶ Among others the World Food Program had augmented the targeted rice distribution program with additional aid, including an expanded food for work program, and a supplementary feeding program for children and pregnant women.

of the social safety net. In what was considered by the World Bank as the most successful intervention, among the social safety nets had been the scholarship and grant program designed to maintain enrolments and quality of schooling at pre-crisis level. The program extended to the poorest 6 percent of students enrolled in primary schools, 17 percent in junior secondary and 10 percent in senior secondary schools. It also provided grants to the 60 percent of the poorest in each category (see World Bank, 1999). The program had reached 4 million students. In health services, the priority was given to the poor to have access to basic health services and essential medicines, and prevented malnutrition and micronutrient deficiencies. The government made available supplementary food for young children through the school system and pregnant and lactating women in poor villages. This program had reached 8.1 million pupils in 52.5 thousand schools nationwide.

On the cusp of recovery

Those economic and social policies had borne perceptible results. By the end of Habibie’s presidency,

Indonesia was emerging from the crisis. Three indicators in the economy—the exchange rate, inflation and interest rate—had responded well to the governments economic recovery policies as described above. On the exchange rate, the rupiah had gradually strengthened, regained some of its lost and finally stabilized at the level of between 6,500 to 7,000 per US\$, not a small achievement considering that in May 1998 when Habibie’s government took charge of the economy the rupiah at 17,000 per US\$ was at its lowest value. This had principally been the result of market forces, not government intervention in the market for foreign exchange. Sustained commitment to conservative monetary policies and a gradual return of capital from abroad had been attributed to the recovery of the exchange rate (see World Bank, 1999: 1.1). The appreciation of the rupiah, together with improvements in food availability as described above, helped enormously to reduce inflation. Inflation was rapidly declining, in fact in 1999 from February until September 1999 the inflation rate was negative, as illustrated in the Table below.

Table 1
Monthly Rate of Inflation (In percent)

<i>Year</i>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	7.2	12.7	5.3	4.7	5.2	4.6	8.6	6.3	3.8	-0.3	0.1	1.4
1999	3	1.3	-0.2	-0.7	-0.3	-0.3	-1.1	-0.9	-0.7			

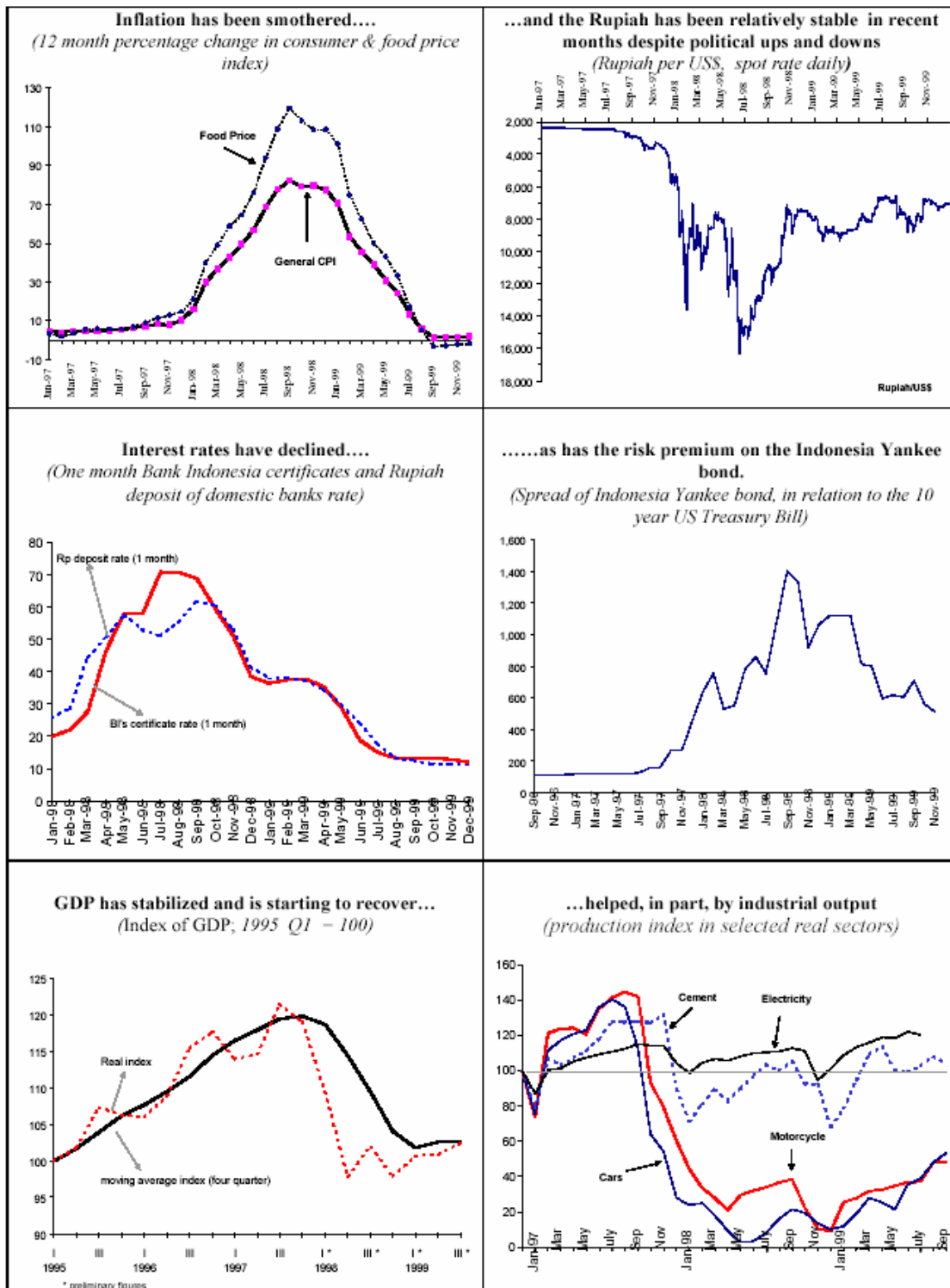
Source: *President’s Accountability Speech in front of Speech to the People’s Consultative Assembly of the Republic of Indonesia in October 1999.*⁵⁷

The deceleration drop in inflation and the gradual return of market confidence brought in its wake a steady decline in interest rate. The one-month interest had fallen from 70 percent in August 1998 to pre-crisis level of 13 percent in September 1999. There was some evidence that the domestic consumption was stirring. Consumer consumption increase had helped supporting the production in some sectors. The stock market reflected some of this activity, and in turn had buoyed consumer confidence. The composite index in the Jakarta stock market, which in September 1998 at around 250 was less than half its pre-crisis value, had rebounded and at 660 in June 1999 had reached its pre-crisis value.

GDP began to recover in 1999 posting a positive growth of 0.8 percent after a negative growth of -13.1 percent in 1998 (IMF, 2003a: 179). The graphs below presented by the World Bank for the CGI meeting on January 26, 2000 illustrates Indonesia’s economic turn around, clearly indicating that it was stabilizing and on its way to recovery (Figure 1).

⁵⁷ The high monthly inflation rates for December 1998 and January 1999 were anomalies, because of usual cycle of increased demand during end of year and end of *Ramadhan* (the Muslim fasting month).

Figure 1: The economy is stabilizing



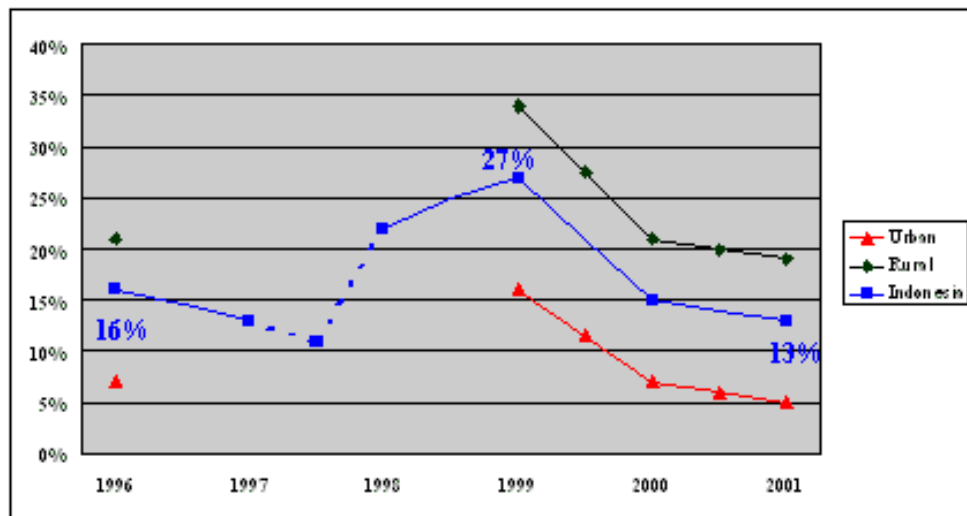
Source: BPS, Bank Indonesia.

Special attention was given to empower the small business. Because the new Central Bank law does not allow intervention of the Central Bank in credit provision including to small enterprises, the government had established a new entity to support financially the development of small and medium scale business. It was incorporated on June 1, 1999, with the name of PT Permodalan Nasional Madani (PNM), providing among others venture capital and other forms of assistance to support the development of small and medium business.

The numbers in poverty had also stopped rising. In December 1998 the number of people living under poverty line was 49,5 million or 24,2 percent of the population. By

August 1999 it had been reduced to 38 million (Habibie, 1999b:II/23). The consistently pursued prudent macroeconomic policy coupled with pro-poor policy of the Habibie government with its targeted measures to support the poor in overcoming the impact of the crisis had stopped the number of the poor from increasing and had turned around the trend, as illustrated by the figure presented by the World Bank on its latest country brief on Indonesia.

Poverty Rate Trends (February 1996-February 2001)



Source: World Bank Country Brief, October 2003

The progress toward recovery had reached the stage where in fiscal policy the government had shifted its focus from fiscal stimulus to fiscal sustainability. Monetary policy had also been relaxed allowing a greater room for the real sector to grow. The World Bank in July 1999 reported that Indonesia “appeared to have navigated the most treacherous passage of the crisis” and that “Indonesia stands on the cusp of recovery” (1999: 1.1-2.2). Although the recovery was still nascent but it could be said that there was light at the end of tunnel. If the economy continued to improve at that pace Indonesia would be able to join the other Asian countries, which at almost the same time had been inflicted by the financial crisis but had come out earlier. There was an optimism within the economic team that by the end of the IMF program (end of the year 2000) the economy would have gained enough momentum to be able to discontinue the program, as in the case of Korea and Thailand, which had ceased its program with the IMF earlier. Although the recovery in Thailand had been slower, in Korea only a year after the crisis the economy had recovered fully (to its 1997 level) in 1999.

Laying the foundation for democracy

Although many underestimated him when he assumed the presidency, it was increasingly acknowledged that Habibie was a prime mover towards democracy in Indonesia. From the first day of his presidency Habibie presided over the dismantling of the political structure that for thirty years had characterized a political system that did not meet the internationally accepted democratic norms. He put in place a free and open political system and built the infrastructure for a democratic government. He dramatically changed the political culture of the society, institutionalizing the sovereignty of the people and respect for human rights. Within five days after he took office he freed prisoners detained under political charges. The government initiated the enactment of the Law on Human Rights with a government regulation in lieu of law, which later was ratified by the parliament (Law No 39/1999). The law assured the important role of the Human Right Commission and civil society in protection of human against abuses. The Habibie government launched a five years human right action plan and ratified two UN conventions on human right. One was the convention against torture and cruelty (Law No 5 1998) and the other one was the convention on abolition of all forms of racial discriminations (Law No 29/1999),

ensuring the equality of all citizens before the law.⁵⁸ Under Habibie, Indonesia also had ratified all ILO conventions on labour related issues; such as the convention on the abolition of forced labour, on freedom of association and rights too organize, on the minimum age for admission to employment (against child labour), and against discrimination in employment and in workplace. In October 1998 the government established a national commission against violence towards women. Habibie also launched an investigation on the report of cruelty and sexual abuses against ethnic Chinese women during the May riot.

Another important step in political reform was the recognition of the basic principle of the separation of powers of the executive, legislative and judicial branches of government. Symbolically, demonstrating restraint in the exercise of “pPresidential powers”, Habibie started the process of presidential consultations and dialogues with the parliament. Habibie demonstrated the importance of the parliament as a democratic institution, calling on the parliamentary leaders in order to consult on various matters. By doing so, not only he enhanced the power and dignity of the people’s representative, but also he also indirectly circumscribed the powers of the President, which was until then almost limitless. In relation with the judiciary the law on the Supreme Court had been revised empowering it with the administration of the judicial system, which until then was administered jointly with the Department of Justice. The judges although by constitution are independent, but as the government pays their salaries they were considered as civil servant and thus fell under the administrative jurisdiction of the Department of Justice. Because of that their career and promotion depended on the Department, which rendered them un-independent of government interference. The new law (Law No 35/1999) put the administration of the whole

⁵⁸The ratification of the convention officially ended the social political division between the ethnic Chinese and the *pribumi*. Taking the lesson from the anti-ethnic Chinese riot, Habibie’s government recognized the need to diffuse the potential of future of anti-Chinese outburst. To able to do so the distinction between *pribumi* and non-*pribumi* should be abolished. The Chinese should be treated—and regard themselves— as one of so many ethnic Indonesians that characterize the diversity of the nation. Chinese Indonesians should have the same socio-political status as Sundanese, Javanese or Balinese Indonesians. One of the sticking issues was the requirement on the identity card of ethnic Chinese citizen to be identified as citizen of foreign origin (WNI: *warga negara keturunan asing*). The Habibie government eliminated this code and so there is no more distinction among citizens because of their origin.

legal system under the Supreme Court, hence making it totally independent from the government. A law was also passed (Law No 26/1999) to revoke the 1963 anti-subversive activities law, which had been the instrument of government under both Sukarno and Suharto to silence opposition. Another law that had been revised was an amendment to the Penal Code revising the stipulation on crime against the state which also had been used as an instrument against dissidents in past. Among the major decision in political reform during the Habibie era was the separation of the police from the armed forces. For a long time, since the era of Sukarno, the police had been “integrated” into the armed force, and the police chief fell under the command of the Commander of the Armed Forces. The idea behind the integration was to prevent the forces to clash with each other and to mobilize all the security resources to face the enemies; i.e. the regional and religious separatists, the western neo-colonialists, the communists. It had incapacitated the role of police in its main function to uphold law and order. Effective April 1, 1999 the police had been separated from the military. The military no long bear the name of Armed Forces (ABRI) but Indonesian National Army (TNI). The government was also preparing to establish the supremacy civilian authority over the TNI, and it was contemplated that in the next government the post of the Mminister of DDefence would be separated from the CCommander of the TNI, and would be entrusted to a civilian.

Indonesia as a large country, according to the World Bank (2000: 16-17) was “unusually centralized”. For a long time Indonesia has been plagued by regionalism and separatism because of the absence of real autonomy and the widespread dissatisfaction on the distribution of wealth among the regions. The Habibie government took the initiative to change all that by introducing two laws to the parliament, one on the decentralization of government down to the district level (Law No 22/1999) and the other providing for larger proportion of income to the regions (Law No 25/1999). The law on fiscal decentralization will over time devolve over 40 percent of spending to the lower levels of government, up from less than 20 percent before. The regions’ share of income from their natural resources is insured by the law: 80 percent in forestry, mining and fishery and 15 percent from oil and 30 percent from gas. If successful “it will put Indonesia among the most decentralized (nations) in the world” (ibid).

However important are the measures that had been undertaken in various fields to the set up a democratic system of government based on the rule of law and with respect for human rights, the road for democracy was essentially paved in two far reaching and fundamental

ways: by freeing the press and establishing a multiparty political system). By liberalizing the press and political parties, Habibie’s administration broke new ground in ensuring Indonesia’s future as a democracy. After decades of a strict censorship regime, control of the press was abolished “overnight. Publication licenses were given almost automatically. In the process of promoting freedom of the press the government had given up the right to revoke the license for publication thereby effectively giving up the power to censor and close newspapers and magazines. The same policy of liberalization also was applied to the electronic media: the radio and television. The only restriction on the electronic media was more technical such as availability of frequency and the application of technology. As the result, the number of printed media had grown five times during the 18 months of the Habibie government from 289 to 1687. There were 64 new radio stations and 5 new private television stations. Freedom of the press was constituted (in Law No 40/1999) ensuring that no political power could ever undermine it again. The liberalization of the of the press, recognized as a very important democratic institution had propelled the democratization process and sustained it during the most challenging time when there was an attempt at reversal. Earlier a law on freedom of expression, initiated by the government had been passed by the parliament that will guarantee the right to freely speak, demonstrate or strike (Law No 9/1999).

Early in his presidency Habibie had established an independent team of experts and representatives from civil society to work together with the government to change the laws governing political activities in Indonesia. The results were three laws that would form the foundation for the process of democratization in Indonesia: on political parties (Law No 2/1999), on general election (Law No 3/1999), and on the composition and status of the People’s Consultative Assembly (MPR), the parliament (DPR) and the regional representative councils (Law No 4/1999). The new political laws allow for simple requirements to form political parties, thus encouraging the emergence of a multi-party political system; elimination of restrictions such as the floating mass system thus allowing parties to operate down to village level; ensuring the neutrality of civil servants as they are forbidden to be active member of any political party; the establishment of an independent commission of general election (KPU), where all political parties participating in the election are represented; domestic and international organizations are welcome to monitor the implementation of the election; reduction in the number of MPR members from 1000 to 700, whereby 500 are member of parliaments all elected except 38

representative from TNI and the police⁵⁹. After the enactment of the new law on political parties, 141 political parties registered with the Department of Justice. After verification by a sub commission of the KPU the number of political parties eligible to participate in the election had been reduced to 48. The election was held on June 1, 1999, declared as a holiday so voters would be free from pressure. 114.5 million or 89.4 percent of eligible voters turned up in the election. The election itself was monitored by 350 thousand personnel of various non-governmental organization, domestic as well as international; from the European Commission, from the US (Carter Centre), National Assembly for Monitoring Free and Fair Election (NAMFREL) from the Philippines, University Network for Free and Fair Election (UNFREL), Independent Committee for Election Monitoring (KIPP) and others. The election was covered by 2,000 journalists from around the world. Sixteen countries gave technical assistance and financial support to the election, amounting to \$ 60., 3 million (more than one third coming from Japan). By any standard and with almost unanimous agreement among observers the election was free and fair.

Of the 48 parties, 21 received enough votes for a minimum of one seat in the parliament. Only six parties garnered more than ten representatives. Out of the six four were essentially Islamic in character. However the biggest and the runner up in the elections are non-religious parties. They are PDI-P, under the chairmanship of Megawati Sukarnoputri capturing 135 seats with 34 percent of the vote, and Golkar, the former government party during the New Order trailed second with 120 seats. They were followed by PPP (United Development Party) 58 seats, PKB (the Nation Awakening Party) the party of Abudrrahman Wahid 51 seats, PAN (Party of the National Message) the party of Amien Rais with 34 seats and PBB (the Crescent Party) with 13 seats.⁶⁰ Due to the minimum threshold ruling, the smaller parties are required to join with other parties to form fraction in the parliament. Golkar suffered a setback; from absolute dominance with 70 percent of the popular vote just two years before, it was relegated to the position of number two with only 22 percent of vote. It is clear that a significant part of its

former voters had voted for PDIP, while some might have gone to the fold of the Islamic parties.⁶¹ Overall, the election was the crowning achievement of Habibie government, assuring its historical role in the democratization process of the country.

During his Habibie's presidency the government had initiated or worked together with parliament to produce 67 laws formed forming the legal foundation for the establishment of strong political and economic institution that are essential to the development of a democratic nation with a market economy. Of the 67 laws 16 are on the economy, 32 are political laws, and 19 concerning human rights. 5 of the laws originated from the parliament, in itself a significant departure from political practices under the New Order, where the parliament played on second fiddle and was regarded as mere rubber-stamp to the government. It showed that the parliament has begun to establish itself as the legislative authority in the country. Although little had been expedited of his government at the beginning, it was apparent and

⁶¹On the surface the result of the election should be considered a blow for Golkar, however the mood within Golkar was that of relief, because many pundits had forecasted that Golkar would get no more 15 percent, many even predicted less than five percent as voters were back lashing against Golkar as the symbol of the New Order (see also Singh, 2001: 105). It was also a relief for many, because should Golkar have won again, the political situation would continue to be boiling. Many believed that with the defeat, Golkar had the golden opportunity to come to term with itself, create a new image and develop a new set of political paradigms compatible with the political culture of a democracy. In a way it was regarded as a way to pay its dues for supporting a non-democratic system of government.

⁵⁹The military and police personnel do not exercise their right to vote as citizens.

⁶⁰ Singh (2001:103-104) explained the victory of PDI-P in the election as such: 1) PDI-P, as the symbol of repression by the New Order; 2) Megawati carries the name and legacy of her father Sukarno, who still had the sympathy of many people especially in Java and Bali; 3) various groups and individuals who were anti-Suharto, anti-Habibie, anti-Golkar and anti-Islam in orientation supported her party.

increasingly acknowledged that it was during Habibie's era that the country had rapidly moved towards democracy. Such a rapid burst of liberalisation would have been highly unlikely were there was no crisis and Suharto still was President. These reforms have come from the top, which is not to say that there has been no yearning from the bottom. Yet many would agree that Indonesian civil-society engaged in democracy and human rights activism has only very recently become sufficiently organised to have a significant influence at the level of policy. It was the government----- under Habibie -----that had taken most of the initiatives that had significantly accelerated Indonesia's democratisation. The process of democratization had been in conjunction with the process of economic recovery, one reinforcing the other on the way up, in contrast with the situation when the confluence of economic and political crises had brought the country down into deeper into the abyss.

The pitfalls

Another significant performance achievement of Habibie government was on the resolution of the East Timor issue. During the decolonization process, the Portuguese left East Timor in disarray and bloody civil war between contending factions. Basically there were two large factions striving for independence from Portuguese colonialism, those who wanted an independent country and those who wanted to integrate with Indonesia. Responding to the faction that wanted to integrate with Indonesia, in 1975 the Indonesian military -----with the blessing of the Nixon administration and other western powers----- entered East Timor, covertly in the beginning covertly. A year later the former Portuguese colony joined (integrated with) Indonesia. The integration was formally incorporated by an MPR Decree in 1978, making it the 27th province of Indonesia⁶². Thus started a very difficult time period for both Indonesia and the East Timorese, as the opposition faction, led by the FRETILIN (suspected for its left leaning tendency), and continued to wage guerrilla warfare. They also waged a diplomatic campaign that gradually gained international support, especially after the Cold War was over, and human rights had taken hold as the main priority of the West after communism was no longer perceived as a global threat. The Portuguese

⁶² Small and with insignificant resources, East Timor was strategically unimportant in economic or military terms. After centuries of separation under different colonial rulers, the region had developed its own culture that was much different with the rest of Indonesia. At the time, the integration was accepted in Indonesia as the expressed wish of the East Timorese people.

launched a successful campaign to isolate Indonesia in international public opinion with the regard to the East Timorese question. East Timor had become a serious handicap for Indonesia in its international relations. International opinion had decidedly turned against Indonesia when the leaders of the East Timorese independent movement received a Nobel Prize. Near the end of New Order era the East Timor issue had become a thorn in Indonesia's foreign policy, especially after the US Congress intervened, banning continued assistance to the Indonesian military. In almost every international forum Indonesia was confronted with the East Timor issue.⁶³ Near the end of New Order era the East Timor issue had become a sticking thorn in Indonesia foreign policy, especially after the US Congress intervened, banning continued assistance to the Indonesian military. In almost every international forum Indonesia was confronted with the East Timor issue.

After taking office Habibie had decided to break the East Timor log jam (Singh, 2001: 134-140). The solution of East Timor question had become one of the government's priorities. Eventually a consensus emerged within the government to allow the East Timorese a referendum, or in the political jargon at the time "popular consultation," to choose between a greater autonomy with Indonesia or outright independence. The referendum was to be administered by the United Nations.⁶⁴ Ominously, ahead of the popular consultation there had been clashes between the pro-integration and anti-integration groups. These armed clashes had affected the civilian community resulting in people being displaced from their homes and creating a refugee situation. The referendum was held on August 30. The people of East Timor overwhelmingly chose independence. The result was very clear: 78.5 percent voted for independence. On September 4th 1999, East Timor was handed over to the UN authorities, which would help the territory to organize itself as a sovereign and independent state. The result of the referendum shocked the nation, and infuriated many in the military. After all the sacrifices and so many lives lost, it was not

⁶³ Reports of human rights abuses and the alleged plunder of the region of its only significant national resource, coffee, had eclipsed Indonesia's efforts in building the province. The Indonesian government had poured millions of dollars to provide education and health services to the people, building schools, clinics, roads, electricity and other infrastructure. For many years East Timor received the highest development fund per capita than any other part of Indonesia.

⁶⁴ For that purpose the UN Security Council mandated the UN Secretary General to establish the UN Assistance Mission in East Timor (UNAMET).

easy to accept that East Timor should be released from the fold of the Republic. But they were not the only faction to be deeply concerned by the ramifications of independence. East Timor held symbolic significance to Indonesian nationalists. If East Timor went, so goes the reasoning, this would embolden the separatists in Aceh, Irian, and a multitude others. The most alarmists warned of the balkanization Balkanization of Indonesia. In making so bold a move, it is probably fair to say that Habibie deeply alienated nationalist elements.

The referendum had resulted in the influx to the western part of the island of Timor, of refugees who were supporting the integration with Indonesia, and were afraid of their fate in the new independent country dominated by their former enemies. To make matters worse in an apparent campaign to get even with those who choose to secede, the local military unit and paramilitary forces engaged themselves in a destructive rampage, and drawing concern and criticism from the world.⁶⁵ On the one hand Habibie was praised for his courageous decision to grant the East Timorese the right to decide their own fate and honor his commitment to respect the result of the referendum. On the other hand his government was condemned because of the post-referendum carnage. Although the country would be freed of a long-standing source of domestic as well international political and economic burden, domestically his decision had been used by his political enemies to rally more opposition and to stop him from getting reelected.

Another blow came in the form of what was to be known as the Bank Bali affair. It involved the transfer of funds out of a bank considered to be one of the potential banks to survive the crisis, Bank Bali. The management of the bank was at the time desperate to free Rp904 billion in interbank claims due from a failed bank. These funds were covered by government guarantees, but much confusion and disagreement over the eligibility of the claims had left the funds tied up for months. A company named EGP offered its services to negotiate with the related parties to get the funds untied. After the agreement between Bank Bali and EGP was reached the transaction was approved by BI and IBRA, and the funds were paid out under the government guarantee scheme. For the services rendered EGP received a fee of Rp 546 billion. The revelation of the case prompted public outcry and

⁶⁵There were many speculations about who controlled the rampaging military units and the militia and who should be held responsible for the incidents. Recently members of ABRI who had been accused of complicity had been brought to trial in Indonesian court of justice.

suspicion of foul play. Subsequently an audit was conducted by the Supreme Audit Board (BPK) with assistance of PricewaterhouseCoopers (PWC) The investigation report itself became subject of controversy. The issue was whether the report should be made public in whole (the so-called long form) or only the summary (see Enoch, 2001:113-114). The IMF was insistence the long form report should be made public, while the Habibie, and supported by the Chairman of BPK, were was of the opinion that the summary of the report was sufficient for public consumption. In the meantime although part of the fund had been transferred, Bank Indonesia had taken the steps to frozen freeze the account of Bank Bali and managed to prevent the remaining fund from being transferred.

The East Timor post-referendum carnage and the Bank Bali affair had soured the relations between Habibie and the IMF and the donors, reminiscent of the situation during the final weeks of Suharto.⁶⁶ The two issues had frozen further dialogue between the Indonesian government and the IMF. The IMF decided that further review should only be done after the presidential election. It was clear in conversations between the Coordinating Minister for the Economy and the US Secretary of the Treasury Larry Summers that the US Administration was behind the decision. In the Asia Pacific Economic Conference (APEC) meeting in New Zealand in early September 1999, around the time of the carnage in East Timor following the referendum, US President Bill Clinton told the Coordinating Minister of the Economy----who was representing Indonesia in the summit meeting as Habibie could not leave the country because of the tense situation in East Timor---his concern of the situation in East Timor in the aftermath of the referendum and advised the Indonesian military to refrain from using force.⁶⁷ The same concern on the situation in East Timor were also conveyed to him by other world leaders who were present there, such as the Chinese President Jiang Chemin, the

⁶⁶The brunt of the international wrath on East Timor fell on the shoulder of Wiranto, as the Commander of the Armed Forces at the time. On Bank Bali, there was allegation that part of the funds was intended to finance Habibie' reelection. Although denying his involvement in the case, taking the responsibility personally Habibie had managed to return the money that had been transferred out, back to the Bank.

⁶⁷ The Coordinating Minister conveyed the message by telephone to both Habibie and Wiranto. At the time of the telephone call Wiranto was in East Timor presumably assessing to situation.

Japanese Prime Minister Keizo Obuchi, and the Australian Prime Minister John Howard.⁶⁸

The end of the beginning

The MPR, produced by the second democratic election in the nation's history and the first after the fall of the New Order, met on October 1, 1999. It has had 700 members composed of 500 members of parliament--462 elected and 38 appointed representing the military and the police--, 135 regional representative----five from each of the 27 provinces, still including East Timor, elected by the provincial councils, also the result of the general election----, and 65 appointed representing the functional groups. The members of MPR are organized into ten fractions reflecting the strength of the political parties in the election and the appointed members of the military and police and the functional group. The smaller political parties had to form coalitions to meet the minimum threshold. The members representing the regions were required to join the fractions of the political parties, the majority of which had joined Golkar, the rest went mostly to PDI-P, increasing the number of Golkar member of MPR to 181 and PDIP to 185, thus closing the gap between the two parties.

By the time the MPRD began its first session the contest for presidency was between Habibie and Megawati, representing the two parties with the biggest electoral vote. Habibie had been nominated by Golkar to be its presidential candidate⁶⁹. However as the election time drew closer a different political configuration had emerged. Already for some time, leaders from various Muslim organizations had been waging campaign against Megawati, and her party. They pointed out that disproportionately disproportionately the number on the list of parliamentary candidates from PDI-P were not Muslim and some of its leaders such as Theo Syafei had been of making anti anti-Muslim statements such as Theo Syafei. But the campaign against Megawati herself was particularly fierce, concentrating on the fact that she was a woman, and in their view Islam did not allow a woman to lead a nation. Another issue was her own religiousness. Pictures were distributed showing her "praying" in a Hindu temple. Some of the early supporters of Megawati had deserted her, most notably Abdurrahman Wahid, popularly known by his nickname Gus Dur, the head of the powerful Muslim organization Nahdathul Ulama (NU) and

founder of the party PKB, who saw an opportunity was opening up for himself to become a candidate. In Amidst the controversy surrounding Megawati--, the strong objection towards her from the Muslim community--, and the widespread opposition to Habibie among the populace as well among the original reform movements, leaders of the Muslim parties joined forces in an Islamic coalition. The coalition was called *Poros Tengah* or Central Axis, a loose cooperation between leaders of PPP, PBB, PAN and the Justice party, which later join PAN in the parliament and MPR as the Reform fraction (*Fraksi Reformasi*).⁷⁰ Their main objective was to prevent Megawati becoming president, as at that time most of the leaders of the Central Axis were sympathetic to Habibie. However they also considered the possibility of a third alternative (see Van Dyk, 2001: 445-448).

The decision on who would become the next president would be decided in two steps. First, the accountability report of Habibie, and following the deliberation on the report the actual presidential election itself. But in the test of strength and political acumen---- and a foreboding sign on what was going to happen in later events---- was the election of the Chairman of MPR.⁷¹ The main candidate that emerged for the chairmanship of MPR were Matori Abdul Djilil the Chairman of PKB and Amien Rais the leading figure of the reform movement and Chairman of PAN. Matori was personally close to Megawati and had openly supported her to be the next president. He received the support of both PKB and PDI-P. Amien Rais was the candidate of the Central Axis. Prior to the voting there was intense political maneuvering and bargaining, the most important was between the Central Axis and Golkar, in which it was agreed that Amien Rais would be their candidate for the chairmanship of MPR and

⁷⁰Originally they considered the name *Poros Islam*, but hoping to have a wider public support and that PKB would eventually join them, they used the more neutral name instead. With PKB the coalition would have more vote than PDI-P or Golkar in the MPR. It was unclear who took the original initiative but the leader and spokesman of the coalition that emerged was Amien Rais.

⁷¹The 1999 MPR sessions had departed from the decorum of earlier MPR sessions. When the President entered the assembly, he was not accorded the usual courtesy of its standing up, he was not even allowed to give a speech at the opening ceremony as was the practice in previous MPR meetings. The session was colored by constant interruptions and even disruptions from members, and decisions were no longer taken on consensus. After consultation failed to get a full agreement, decisions were taken by votes.

⁶⁹Habibie had chosen Wiranto, the Commander of the armed Force to be his Vice Presidential nominee. The presidential election system of the MPR calls for a separate election for Vice President.

in turn Akbar Tanjung, the Chairman of Golkar, would get their support to be the Speaker of Parliament.

The election to the chairmanship of MPR was held on October 3. Amien Rais was elected with 305 votes against 279 votes for Matori (the rest scattered to other names). The MPR elected unanimously seven Deputy Chairmen, nominated by and representing the largest fraction of the MPR: PDI-P, Golkar, PPP, PKB, PBB, the Functional Group and military/police fractions. The result of the election for the chairmanship of MPR was a blow to PDI-P and actually could already be taken as a portent of what was going to happen in the election for president. Besides its alienation from the Muslim parties, PDI-P also lacked the political skill in using their large number of votes to their advantage. In fact there was no serious effort from the party to seriously lobby the other fractions. Two days later Akbar Tanjung was elected as Speaker of the Parliament⁷²

On the October 14, Habibie delivered his accountability speech.⁷³ He reported the challenges that he

⁷² Intense lobbying was done by Golkar to get Akbar Tanjung elected the Speaker of the Parliament. The vote was taken on October 6, in a plenary session of the parliament. During the parliament session, the MPR was recessed, as most of the MPR members are members of Parliament. PDI-P had its own candidate Soetardjo Soerjogoeritno. Megawati in a private meeting with Akbar Tanjung initiated by Ginandjar Kartasasmita—who in mid-September 1999 had resigned from Habibie's cabinet to run as an MPR regional representative from the province of West Java and subsequently elected as deputy chairmen of MPR representing Golkar—had finally agreed to support Akbar Tanjung. With the support of Megawati, Akbar Tanjung was overwhelmingly elected with 411 out of 491 votes. Megawati left the meeting with the understanding that Akbar Tanjung would support her for presidency if Habibie failed to get his accountability report accepted.

⁷³ On the night after Habibie delivered his accountability report, at one o'clock (am) the Singapore Ambassador to Jakarta, Edward Lee visited the Deputy Chairman of MPR from Golkar fraction (GK) at his home, to convey an "oral message" from Prime Minister Goh Chock Tong. The message was contained in a personal letter from the Prime Minister addressed to the him informing that he just had a visit from the US Assistant Secretary of State Stanley Roth. He gave a message concerning the US position on future Indonesia's president. He indicated that if Habibie was reelected the US would cease supporting Indonesia; also the same should Wiranto become president. The US was also not in favor of Abdurrahman Wahid and hoped that Megawati would be elected, as her party had won the election. After reading the letter GK invited Akbar Tanjung (who lived just a block away) to come over so that he could also read the letter. After Akbar Tanjung read it the letter was taken back by

had to face when he took over the government and the progressed that the country had made during his stewardship. He also reported his decision to allow a referendum in East Timor and its results, and recommended that the MPR revoke the 1968 decision on the integration of East Timor with Indonesia. He also reported that investigation by the Attorney General office of former President Suharto on the alleged abuse of power by giving privileges to his foundations, did not find any indication of criminal wrong doing, and hence he had stopped further investigation of the former president.⁷⁴ On the next day each of the fractions gave their response to the Habibie's accountability speech. Most were very critical, some were more neutral (like Golkar) while others were supportive to the accountability speech. Most however took issues on with East Timor and Bank Bali and the Habibie's policy on Suharto. On the 17th, Habibie gave his reply and clarifications to responses of the fraction.

And on the 19th the MPR voted on Habibie's accountability report. With a vote of 355, more than half of the members of MPR, Habibie's accountability report was rejected (against 322 who accepted it). It was a stunning blow to Habibie, because from reports of the people who were surrounding him, he was very sure of getting the acceptance of the Assembly of his accountability report. If the vote for the chairmanship of MPR was to be used as a yardstick, then Habibie should easily get the approval of the MPR. It was obvious that the coalition between Golkar and the Central Axis that was solid at the time of the election of Amien Rais had cracked when it came to Habibie. Within the parties there were split, in particular in Golkar, but also among the Islamic parties, that were supposed to be the bastions of Habibie's supporters. Many analysts attributed East Timor and Bank Bali as the determining factor to Habibie's defeat. The tally was relatively close; a swing of 20 votes would have changed the result.⁷⁵ Although critical of Habibie's policy with

Ambassador Lee. The message illustrated the prevailing "international mood" toward Indonesia and its leaders at that time.

⁷⁴ According to his biographer, his actual motive however was that Indonesia had to come to power with its leaders. Comparing Sukarno and Suharto, he viewed Suharto's "sin as far more minor" in comparison with Sukarno. The nation had to forgive both of them for their past mistakes as they had done so much for the country (see Singh, 2001: 109).

⁷⁵ Just before the vote was taken a lady delegate representing of East Timor made an emotionally touching intervention on behalf of the East Timorese who were pro-integration and the sacrifices that they had made in the past.

regard to East Timor, the MPR issued the a decree revoking the integration of East Timor, and thus recognizing the result of the referendum and the independence of East Timor. This had lead to speculation that Habibie's opponents had only used the East Timor issue as a political ploy to find faults in his administration, as its records----- in the economic recovery and in laying the foundation for democracy a in such a short span of time----- was unassailable.⁷⁶

With his accountability report rejected Habibie was left with no choice but to withdraw from the candidacy for president.⁷⁷ In a meeting at his house attended by leaders of Golkar and also representative from the Muslim parties he announced his decision to withdraw from candidacy and initiated a discussion of who should take his place to take on Megawati. The mood was anger, and the anger was directed at Megawati, and also at some figures within Golkar who were suspected of bolting from the party's commitment to support Habibie. Hamzah Haz, the chairman of PPP----- but who also was a member of NU----- was offered the opportunity but refused as he did not want to compete with Gus DoorWahid who was the Chairman of NU. Amien Rais would only accept if Gus DurWahid did not run. After making sure that Gus DurWahid was indeed running for election, Amien Rais declined to be nominated as it would spilt the votes of the Central Axis and gave the advantage to Megawati. The meeting was left with only Gus DurWahid who had announced his candidacy. Habibie however objected to Gus Dur'sWahid's nomination because of the reason of his health.⁷⁸ In that meeting finally Akbar Tandjung was cajoled into accepting to be nominated as the candidate of both Golkar and Central Axis. However the next day supporters of Habibie reacted very badly to Akbar Tanjung who was accused of not supporting Habibie in the vote for his accountability report. Habibie himself had later

⁷⁶ Ironically also, in the case of bank Bali the case had later been taken to court, and all the persons accused of violating the law were convicted by the lower courts but on appeal all of them had been acquitted by the higher courts and in one case by the Supreme Court.

⁷⁷ Although many of his supporters and friends urged him not to give up and to continue his candidacy—as there was no legal stipulation that would prevent him from seeking re-election—as a very smart person he must have seen that the outcome of the votes would not be much different. It would be very difficult in such a short time to change to mood of the MPR and get him elected.

⁷⁸ By that time Wahid had become almost blind, and had also suffered serious stroke. Habibie questioned the appropriateness of nominating him in such a physical condition.

withdrawn his support for Tanjung's candidacy. He informed Akbar Tanjung that Wiranto was disappointed with him and would not support his candidacy. Finally the Central Axis and Golkar overcome the objection toward Gus DurAbdurrahman Wahid and agreed to nominate Gus Durhim as their candidate.⁷⁹

On the 20th the MPR took the vote for president between two candidates: Megawati and Gus Dur.Abdurrahman Wahid. The result of the vote was astonishing, Gus DurWahid received 373 against Megawati's 313 votes. Here again was an indication of how fragile was the position of PDI-P as the party that garnered the most votes ion the election. Although many doubted Gus Dur'sWahid's ability to lead the country, considering his physical condition, the vote was a reflection of a number of factors. The join forces of the Islamic parties and the Islamic faction within Golkar and the supporters of Habibie had defeated the nationalist coalition of PDI-P and nationalist faction within Golkar.⁸⁰ Although the Chairman of PKB had long been a supporter of Megawati but because Gus DurAbdurrahman Wahid was the founder of the party and Chairman of NU, the party had joined forces with the Central Axis to vote for Gus Dur.Abdurrahman Wahid. The reaction among PDI-P rank and file to the defeat of Megawati was ferocious. Riots brook out in various strongholds of PDI-P especially in Jakarta, Solo, Bali and Batam. The worst riots was were in Bali and Solo.⁸¹

⁷⁹ Amien Rais explained his support for Gus Dur despite his apparent illness, which put into the question his ability to be discharge the duties of a president, for two reasons: a) it was a historical moment for to forge cooperation between two largest Muslim organization in Indonesia, *Muhammadiyah*—of which Amien Rais was the chairman—and NU, as historically they were opposed to each other chiefly because of certain religious interpretations, and b) Gus Dur had led Amien Rais to believe that his illness was temporary and promised that it would be cured by doctors of the Mormon hospital in Salt lake City, Utah where he was going to be treated soon after the presidential election. This turned out not to be true.

⁸⁰ Within Golkar the objection to Wahid nomination was still high, thus although the official party line was to support him, many Golkar members—although not the majority—voted for Megawati, as was obvious from the votes Megawati received which was only possible with at least some votes from Golkar. The instruction was directly given by Akbar Tanjung, the Chairman of Golkar, hence damaging his relationship with Megawati who felt that she had been betrayed by him.

⁸¹ In Bali PDI-P mobs burned government buildings and Golkar regional offices. In Solo Harmoko's house was burned to ground; Amien Rais' house was also ravaged.

After the presidential election, the MPR was to decide next on who was going to be the Vice President.⁸² Megawati herself after the disappointment in the presidential election, at first disinclined declined to get herself nominated as Vice President. She was furious at her defeat and suspected that the same coalition would again defeat her again, as by the morning of the day of vice presidential election the Central Axis had come out with their candidate, Hamzah Haz from PPP. She insisted that she would only be available if she was nominated and elected unanimously thus sparing her and her party of the humiliation of again another defeat. After intensive persuasion Megawati finally agreed to run. Megawati won the election garnering 396 votes against Hamzah Haz's 284 votes. Megawati received the votes of PDI-P, PKB, the military and nationalist fractions in the MPR and a substantial number of Golkar votes. Golkar, continuing its official policy of opposing Megawati had given the instruction to its members to vote for Hamzah Haz. Clearly the majority of Golkar members did not heed the instruction and voted for Megawati, otherwise Megawati would not get the number of votes as she did.

With the president and vice president elected by the MPR through open voting, followed by million of viewers on television countrywide, with the whole world watching, the country had entered a new phase, a functioning democracy. It was all made possible due to Habibie's efforts in paving the road to democracy. Many analysts had given a prejudiced view of Habibie as anything but a democrat, casted in Suharto's mold and was only forced by events and public opinion to undertake those policies that would bring Indonesia to democracy. Closer to the truth was the fact that Habibie was educated andin had lived for two decades in a democratic society, : Germany. Although he was a favorite of Suharto, it cannot be simply incurred inferred that he wholly shared Suharto's political ideas. He had proven that he was capable to develop his own ideas and had the courage to take hard decisions. Such as when his economic team declined his request to provide funds to continue the development of a new aircraft that his state aircraft

⁸² On the evening of the 20th, on the eve of the vice presidential election, at a meeting with Akbar Tanjung and the Deputy Hairman of MPR from Golkar---in the presidential guest house where he had moved after elected presiden---Wahid discussed the possibilities of vice presidential candidates After considering Megawati and Wiranto as possible candidates he decided on Akbar Tanjung, and asked him to be his Vice President. A few hours after the meeting however he changed his mind and decided to have Megawati as his Vice President.

industry designed ---an amount of \$300 million---he did not press the matter farther. Another example was his decision to allow the East Timorese to decide their own destiny through a referendum. It was nobody's but his own decision. He did not inherit the idea from Suharto, he would never have thought of doing that. Freeing the press, establishing a multiparty political system, initiating dialogue with parliament as equals, separating the police from the military, making the Central Bank independent, were ideas that did not originate from anywhere but from him or his advisers but heartily supported by him. Nobody should take away the credit for laying the foundation for a democratic Indonesia from the Habibie government.

When the MPR sessions ended the country new leaders had been elected democratically. Democracy had taken its hold in Indonesia; the next challenge was to consolidate the gain, to make it endure and bring tangible benefit to the lives of the people.

Democratic Consolidation: The Unfinished Business

The end of Habibie's presidency marked both the end of an era and the beginning of a new one. The country had elected the new top leaders through democratic means. Yet the election of Abdurrahman Wahid to the presidency by itself created another legitimacy problem because of his party's lack of support from the electoral votes and the fragility of the coalition that put him in the presidency. The coalition was not based on "positive" consensus of having launched the best candidate for the job, but on a "negative" common platform to stop Megawati becoming president. Different elements of the coalition did so for different reasons. It was a fragile coalition that could easily break when the common interest was no longer maintained.

The election of Megawati to the vice presidency partially solved the problem of legitimacy. Having Megawati, whose party had the largest vote in the parliament, as his Vice President had provided Abdurrahman Wahid's presidency with the needed political legitimacy. From the very beginning it was clear that Abdurrahman owed and would depend a lot on Megawati's support to be able to effectively rule in a democratic political setting.

On democratic transition and consolidation

The end of the Habibie government and the election of the new government by democratic means completed the process of transition to democracy.

Transition, as proposed by O'Donnell and Schmitter (1991: 6-7) is the interval between one political regime and the other. Under this framework, transition was delimited by the launching of the process of dissolution of an authoritarian regime on the one side, and by the installation of democracy on the other. This definition of transition is wholly applicable to the period of Habibie's rule. During his period, the process of dismantling the authoritarian system and the establishment of rules and procedures for the installation of a democratic government was completed. It met with a definitional standard given by Linz and Stepan on when a democratic transition is completed. During the Habibie period there had been an agreement within the polity about the political procedures to produce an elected government; the new government had come to power as a direct result of a free and popular vote—although in this case through the MPR as the “electoral college”—the government had the authority to generate new policies; and the executive, legislative and judicial power did not have to share power with other bodies. Huntington (1991:121-163) analyzed the interaction of forces (actors and players) in the transition process, and delineated three categories: *transformations, replacements, and transplacements*. In the Indonesian case, as discussed earlier, the transition would be closer to the transformation type, where as described by Huntington those in power in the authoritarian regime take the lead and play decisive role in ending that regime and changing it into a democratic one. (Ibid: 124). The prototypical cases of transformation in Huntington's third wave of democratization were Spain and Brazil, and among former communist regimes, Hungary. Indonesia would meet Huntington's description of both Spain and Brazil as prototypical of changes coming from above, although these countries varied in their paths of transition (ibid: 126-127).

Most scholars have agreed that the completion of transition does not end the process of democratization. As Linz and Stepan (ibid: 5) point out, after democratic transition has been completed “there are still many tasks that need to be accomplished, conditions that must be established and attitudes and habits that must be cultivated before democracy could be considered consolidated.” Huntington (ibid: 208) posts these questions: after the transition is completed what then? What problems do the new democratic systems confront? Does democracy endure? Do the new systems consolidate or collapse? These questions are relevant because not all new democracies have endured; in fact many have collapsed or experienced reversals. These questions are very relevant to Indonesia as a new democracy, and the subsequent parts

of this chapter will try to analyze the unfolding events in Indonesia to find indications of what direction the new democracy is heading.

But first we should recognize what factors would influence the outcome of efforts at consolidation of democratic rule—the conditions favoring the consolidation of new democracies. And try to fit them into the way democracy is functioning in Indonesia. Although most scholars agree on the importance of consolidation and that—paraphrasing Larry Diamond (1997: xvi)—consolidation is “a vital political goal of democracies”, they differ in the approaches and hence in defining what constitutes democratic consolidation. To provide us with a theoretical framework to our discussion in this chapter we need to explore at least some of the views.

Linz and Stepan (ibid: 5) posit the concept of combined and overlapping behavioral, attitudinal and constitutional dimensions of consolidation through which democracy becomes routinized and internalized, socially, institutionally and politically. By a consolidated democracy they mean a political regime in which democracy, as a complex system of institutions, rules and patterned incentives and disincentives has become “the only game in town.” (ibid: 5). They believe that for a democracy to be consolidated there are five interconnected and mutually reinforcing conditions (“arenas”) that must exist or be crafted. They are conditions that allow and support the development of a free and lively civil society, an autonomous and valued political society, a rule of law, an effective state bureaucracy, and an institutionalized economic society (ibid: 7).⁸³ As Linz and Stepan are speaking about *behavior* and *attitude* it is also important to put forward to the discussion of democratic consolidation the focus that is given by many commentators on cultural values. Diamond (1999: 165-166) sees the development of a pattern, and ultimately a culture, “of *moderation, accommodation, cooperation, and bargaining*” among political elites has emerged as a major theme of the dynamic, process-oriented theories of democratic transition and consolidation. In earlier writing Dahl (1997: 34) advances the idea that “the consolidation of democracy requires a strong democratic culture that provides adequate emotional and cognitive support for adhering to democratic procedures.” He based his

⁸³ Accordingly, they see a modern consolidated democracy as being composed of those five major inter-relating arenas, each of which, to function properly, has its own primary organizing principle, but there should be “constant mediations between the arenas, each of which is correctly in the ‘field’ forces emanating from other arenas”(ibid: 13-15).

emphasis on the importance of democratic culture on the assumptions that all political systems, including democratic one, sooner or later will confront severe crisis, and that a robust democratic culture will help carry a democratic country through its crises. The implication is that a democratizing country without a democratic culture rooted in its polity is fragile, and could wither or even collapse in the face of severe crisis such as economic downturns, or regional or communal conflicts, or political crises caused by inept or corrupt or fractious leaders. In line with Dahl's thinking, Huntington (ibid: 258) focuses the democratic culture issues on the relation between the performance and effectiveness of new democratic governments and their legitimacy; the extent to which elites and the public believe in the value of a democratic system. Democratic culture means the understanding of the polity that democracy is not a panacea. Hence, "democracies become consolidated when people learn that democracy is a solution to the problem of tyranny but not necessarily to anything else" (ibid: 263).

Having analyzed the phenomena of consolidation in the third wave democratization, Huntington observes that new democracies would face various challenges, related to the paths of transition that they have gone through and the manner in which the post-transition democracy is being exercised. He posits that there are three types of problem faced by a democracy in its process towards consolidation: *transitional*, *contextual* and *systemic* problems (ibid: 208-279). The first set of problems, transitional, concerns mostly the dealing with the legacy of the former authoritarian regime, such as the "torturer problem" and the "praetorian problem." The contextual problem stems from the nature of the society, its economy, culture and history, which are endemic to the country regardless of its form or government (ibid: 209). Such problems are prevalent in the third world countries whether they were under democracy or authoritarian regimes. Huntington points to insurgency, communal conflict, regional antagonisms, poverty, socioeconomic inequality, inflation, external debt, low rates of economic growth as examples of contextual problems (ibid: 210). Having said that, based on his studies of third wave democratization patterns, he concludes that except for low level economic development, the severity of a country's contextual problems only modestly influences the success or failure in consolidating democracy. The systemic problems would most probably be confronted by the new democracy as it became more consolidated and achieved a certain stability, such as political stalemate, inability to reach decisions, susceptibility to demagoguery, domination of vested interests. It is important to no note

for our further discussion of Indonesia's status of democratic consolidation Huntington's remarks that the years after the first democratic government has come to power are usually characterized by the fragmentation of the democratic coalition that had produced the transition, the decline in the effectiveness of the initial leaders of the democratic governments and the realizations that democracy in itself would not and could not offer solutions to major social and economic problems facing the country. The challenge to democratic consolidation is how to overcome and not to be subdued by those problems.

The euphoria

The emergence of Abdurrahman-Megawati government was well received domestically as well as internationally. Megawati's supporters had been satisfied and even those who at the outset were opposed to Abdurrahman Wahid's election had also accepted the result of the election as the best possible under the circumstances. The country was awash with jubilation, which is a natural phenomenon following the pattern described by Huntington that "the collapse of authoritarianism generated enthusiasm and euphoria" (ibid: 255). The country came back to normal, demonstrations stopped; students returned to schools; the warring factions "lay down their arms." There was high hope for democracy and confidence in the course that the country was taking. In contrast to Habibie, Abdurrahman was endowed with significant political capital at the onset of his presidency.

At the beginning of his presidency Abdurrahman showed his understanding of the political configuration. He had marginal political support in parliament and with the polity, as was shown by the results of the election. He recognized that he needed the support of the larger parties with larger political constituents than he had. This recognition was reflected in the way he formed his first cabinet. He consulted Megawati, Akbar Tanjung, Amien Rais and even Wiranto. The cabinet line up also showed that Abdurrahman had tried to return the favor to those who had made his own election possible: eight ministers came from the Central Axis coalition, four from Golkar and three from PDI-P. Some commentators had been critical of the cabinet composition for not reflecting professional competence, but most of the elite and the public accepted the necessity for Abdurrahman to have a strong political foundation for his legitimacy. The political and economic societies were willing to give the Abdurrahman Wahid government a chance to prove itself and to lead Indonesia back to recovery and normalcy.

Although he himself had been the Chairman of the largest Muslim organization the NU, his support was particularly strong among secular and non-Islamic civil society that had long been his political habitat. He is also revered by international NGO's for his unorthodox political views; such as his moderate (for some his pro-) view on Israel. For NU members he is a source of pride; especially as his grandfather was the founder of the organization, and his father was a highly respected leader of the Indonesia revolution. His mother came from a long line of great and influential *ulama*. He belongs to the highest royalty in the traditional NU society. He is witty, well read and speaks foreign languages fluently.

His partner in office, Megawati, also held an illustrious background. Aside from being the scion of the founder and the first president of the republic—a much beloved father of the nation, a dedicated nationalist, an internationally known fighter against colonialism and oppression— she had her own credential as a political leader, the leader of the largest party, who had suffered during the previous regime. Against this auspicious background of the new leadership of the nation, Indonesia was moving on to a new phase in its process of democratization: the consolidation of democratic rule.

To the delight of his admirers---especially abroad-- early in his presidency Abdurrahman had made known his intention to forge some relations with Israel. The reason that he gave was to attract capital, taking into account the strong Jewish dominance on international finance (Van Dyk, 2001: 470). His effort to put the military under civilian control was also another move that won him accolades, in particular among international observers. He appointed a civilian to become the Minister of Defense, the first after so many years.⁸⁴ He also made a first when he appointed the Navy Chief, Admiral Widodo, to become the Commander of the TNI (ABRI minus the police), the top military post that traditionally had been reserved for the army. Abdurrahman also made attempts to break into the military hierarchy by involving himself in the appointment (and dismissal) of posts in the military. He made an attempt to advance the career of a young reformist within the military over more senior officers. Bowing to international pressures implicating Wiranto to the East Timor post-referendum carnage and suspecting his involvement in attempts to undermine his presidency,

⁸⁴ During the parliamentary democracy era in the 1950's civilians had held the post of Minister of Defense. Although the idea had been contemplated during the Habibie government, still to the public it was Abdurrahman who initiated the move toward civilian supremacy over the military.

Abdurrahman dismissed Wiranto as his Coordinating Minister for Political Security Affairs. For that move Wahid earned praise in the international arena.

His idea for a solution on the Aceh problem was to agree on the referendum that was demanded by the GAM (Independent Aceh Movement). Although it was not followed up by actual measures, due to strong opposition from the military and most of Indonesia's public as well many Acehnese themselves, his statement on the referendum strengthened his pro-democracy image especially among the international media and observers. He also made a statement allowing the raising of the rebel's flag on the anniversary of the founding of GAM on December 4 as part of the freedom of expression. Furthermore he initiated the negotiation with GAM brokered by an international NGO with a base in Geneva.⁸⁵ He had shown lenience toward the independence movement in Irian Jaya; he agreed to the use of the name Papua to replace Irian Jaya and, as in Aceh, allowed the flying of the Papuan Flag the *Bintang Kejora* (the Morning Star). He also allowed the ethnic Chinese to celebrate their holidays openly, as part of the country's holidays. In a daring move he stated that the ban on the communist party and communist teachings should be lifted. These moves had endeared him more to his admirers especially among western observers who saw in Abdurrahman a true believer in human rights and democracy. Abdurrahman also decided to help the economy and get international support on Indonesia's position viz a viz Aceh and Irian Jaya by extensively visiting foreign countries. In fact in his eighteen months in office he had visited fifty countries.⁸⁶ He used the moment when he was abroad to make policy statements and opened "secrets" about plotters, impending military coup, corrupt ministers in his cabinet, ministers that he was going to fire, and people that he was going to arrest. With him there was always exiting news and ideas being tossed around. He opened his door to people who otherwise would never set foot on the presidential palace, foremost among them *kiai*-s (religious teachers) from NU. He broadened his source of information not only from the official channels but also from various informal sources. To compensate for his physical shortcomings— his blindness and thus inability to read— he listened to inputs from all kind of sources. He regularly showed up in talk

⁸⁵ On May 2000 an MOU was signed with rebel representatives in Geneva.

⁸⁶ For his travel-mileage accomplishment, the director of the Indonesian Museum of Records in *Semarang* presented Wahid with an award, while the *Straits Times* wrote that for his extensive foreign travel Abdurrahman had earned a place in record books (Van Dyk, *ibid*: 494).

shows exchanging jokes with the host. He developed a presidential style that was unique, funny and open. Although he was the head of the largest Muslim organization and he himself an established and knowledgeable Muslim scholar, he set an example of tolerance in religious practice and behavior, including the basic ones such as the five-time daily praying and fidelity, and religious syncretism. His statements and attitude depicted a populist and liberal person who wanted to break the constraints put on the presidency and enlighten society. Early in his presidency Abdurrahman decided to reduce the magnitude of state bureaucracy. He abolished two departments, the Departments of Information and Social Affairs. Abdurrahman also liked to make statements that would make him popular. Among others when he announced that salary of the civil servants would be increased substantially—without bothering to consult the finance minister—and that 40 percent of the land belonging to large plantation estates should be distributed to the people living around it. He also promised that his government would not be exploited and seized upon by foreign interest including the IMF and the World Bank.

Van Dijk gave a picture of him as a person who saw himself as a kind of patriarch of the country, a person to whom everyone turned for advice or support in troubled times. An image was created by of his supporters of Abdurrahman as the “Father of the Nation” (*Bapak Bangsa*), and in the eyes of many of his followers “he was like a saint, who could do no wrong” (ibid: 381).

The political limbo

However good the intention was, his unorthodox approach to governance would bring him and the country a lot of trouble. His daring departure from accepted political norms while endearing him to some elites and foreign admirers had eroded his political support, which without Megawati was on thin ice any way.

Among the first public row was on the issue of opening trade and cultural relations with Israel. Although the *rationale* given was to appease the Jewish lobby that was dominant in Wall Street to get them to help the Indonesian economy, it encountered strong reaction from among political Islam and the Muslim community in general. Students from various organizations staged demonstration all over the country. They were joined by *ulama* and political leaders from the Central Axis who were his allies in the presidential election. There were other issues concerning his conduct that had damaged his credibility among many Muslims. One issue was his

participation in syncretic rituals, widely circulated in videotapes, which for devout Muslim was found to be a sacrilege. If the above issues had disillusioned the political Islam and the Muslim community, outside his own close circle, his statements on the referendum in Aceh, and allowing the raising of the rebel flag had eroded his credibility among the nationalists. His standpoint with regard to similar issue in Irian Jaya had further distanced him from the mainstream nationalists, who regarded keeping the country together as the utmost priority. But when he disclosed that he wanted to lift the ban on the communist party and the propagation of communist teaching he made enemies out of both Muslims and nationalists who could not forget that the communist had betrayed the country twice in its history. His relationship with the military had been deteriorating. His public stance on Aceh and Irian Jaya had hurt his standing with the military. His constant accusations of impending coup, of generals conspiring to bring his government down, of certain generals abetting the Muslim-Christian conflict in Maluku and his habit of blaming the military for the disturbances that happened during his presidency had distanced him from the armed forces. And the severest blow to the relations came when he tried to promote a young officers regarded as progressive reformist within the military, Agus Wirahadikusumah, into the top spot in the military.⁵ He was seen as using divide-and-rule tactics to draw the military back into politics, reversing the direction of political reform. It was an important aspect of political reform to free the military from political influence and not for it to be used again to serve the political ends of those in power. His treatment of Wiranto had created a backlash in the military. Although Wiranto could not be said as very popular among his colleagues in the military, the derogatory way Abdurrahman treated him had been regarded as an affront to the honor of the military as an institution. In particular the officer corps were unhappy with his statements given while he was traveling abroad suggesting Wiranto’s complicity in the East Timor post-election carnage, urging him to resign and finally stating his intention to fire him. They saw Abdurrahman’s attitude as motivated by his predilection to seek popularity and his need to get the approval and praise among foreign audiences, even if it was at the cost of honor and integrity of the military and the nation (more on the relations between Abdurrahman Wahid and the Indonesian military see Said, 2001: 338-352)

⁵ Agus Wirahadikusumah, as a Lieutenant Colonel studied and earned a Master Degree from the Kennedy School of Government, at Harvard University.

In the meantime the country's security had deteriorated. Abdurrahman inherited from his predecessors not only the problems in Aceh and Irian Jaya, which had been there for many years but also communal strife and trouble spots in various parts of the country, in West Kalimantan, Maluku (the Moluccas), which later spilled over into South Sulawesi, and in West Timor which saw the influx of refugees from East Timor. But during his presidency the situation in Maluku and South Sulawesi had worsened, prompting many people to "condemn the fact that at a moment when decisive action needed to be taken and a clear policy was called for to deal with the unrest in Aceh and the violence in the Moluccas, Abdurrahman Wahid was abroad" (ibid: 494). His hands-off attitude on matters of importance to the state had exasperated many people. Some analysts observed that the 'wait and see' attitude had become one of the characteristics of the way he intended to solve the problems, and that "his attitude gave rise to a special term: *biarisme*, let things run their course." (ibid). While the president traveled all over the world the country was adrift and lacking leadership. Although the government was not only the president, and there were ministers and other officials, the political system was presidential, and important decision had to be taken by the president; leadership was expected from the president; the lack of it had left the government and the political situation in limbo. There was a widespread feeling that he was thrilled by the trappings of the presidency, and seemed to be more interested in enjoying it than in discharging the responsibility that came with it. Abdurrahman was seen by many as more concerned about his image abroad than addressing the problems at home.

His penchant for conspiracy theory and creating scapegoats based on heresy and without sufficient proof created confusion not only in the public but also among his ministers. He had developed various theories of conspiracy, resulting in myopic attitudes inside the government. Among others, although he did not openly accuse the former president to be involved personally, he suggested publicly that it was members of Suharto's inner circle who were behind what had happened in Banyuwangi, Kupang and Ketapang. In private, however, he accused Suharto as "striking back" (ibid: 282). He accused his ministers of corruption without giving any proof. He eventually fired them from his cabinet, but did not follow it up with prosecution, as he should have if indeed he had proof of their corruption. The ministers whom he accused of corruption were Hamzah Has, the Coordinating Minister of Social Affairs (who would later become Vice President) and Chairman of PPP, Jusuf Kalla, the Minister of Industry and Trade and Bomer Pasaribu,

the Minister of Labor, both from Golkar, and Laksamana Sukardi the Minister of State Enterprises from PDI-P. Yusril Ihza Mahendra, the Minister of Justice and the Chairman of PBB, was initially also mentioned, but later Abdurrahman retracted his accusation. He also spoke derogatorily of his Vice President. He completely ignored Megawati in her capacity as his Vice President and disregarded her suggestions (ibid: 524). His treatment toward people who were supposed to work with him and support him—his Vice President, his ministers, his political allies and the military—would soon throw his government into disarray. Cracks in the government soon appeared. The national unity his government should have cemented failed to emerge in the day-to-day business of politics (ibid: 495).

The random firing of ministers without clear explanation, many of them political leaders, antagonized the polity. In particular, the firing of two ministers from the two biggest political parties, Laksamana Sukardi from PDI-P and Jusuf Kalla from Golkar, had triggered a reaction from parliament, which summoned the president to explain his actions. The parliament did not question his right to change his cabinet. What they demanded the president to answer for was why he publicly spoke that they were involved in corruption. The parliament demanded proof of this accusation. As expected, Abdurrahman could not substantiate his accusation against them; although the parliament did not take any action against him on this matter, by the end of December the relationship between Abdurrahman Wahid and the parliament suffered because of it. It became worse when he made a comment that would be taken as an insult to the intellectual integrity of the members of parliament, comparing them to a 'kindergarten'. He became more xenophobic, and more dependent on the so-called whisperers (*pembisik*). The government had become a one man show of Abdurrahman Wahid's, and even his ministers complained about the constraints they were experiencing. By this time he had lost almost all political capital that he had and all political support from outside his own close circle. Many observers detected that disappointment with the performance of Abdurrahman Wahid government had fast set in. The government was accused of disunity, of being riddled with internal strife, and according to some observers, "of having too many unprofessional ministers who were incapable of performing their tasks properly and who lacked leadership". (ibid: 497). The confusion, uncertainty and inconsistency were notable not only in the lack or absence of decision when decision had to be made, but also retractions and revocations of decisions when they were

made. Van Dijk gave two examples. In December 2000, Abdurrahman issued a decree assigning supervision of state-owned banks to the Minister of State Enterprises. Five days later he revoked the decree and gave the authority to the Minister of Finance. On the same day, with the decree above, Abdurrahman transferred the control of the Directorate General of Forestry from the Ministry of Forestry to the Minister of Agriculture. Again five days later the transfer was cancelled (*ibid*: 498). These kinds of policy reversals, occurring so many times during Abdurrahman Wahid's presidency, gave the impression of a government that did not know what it was doing. There were talks about his consulting various seers (*dukuns*) in making state decisions. And as one seer might see differently from another seer, his mind frequently changed. Abdurrahman had become more dependent on supernatural guidance and had shown that he was losing his grasp of reality. It could be attributed to his physical condition but also to those around him who were taking advantage of his condition for their own gain.

By the end of December 2000, barely six months into his presidency Abdurrahman was losing his political ground. Amien Rais had withdrawn his support, publicly saying that he regretted his role in getting Abdurrahman Wahid elected (*ibid*: 533). There were voices in the public demanding that the next MPR annual session should decide on the president's political future (*ibid* 518). The MPR met annually in the month of August and the 2000 session was scheduled to meet on 7 August. Prior to the session the PDI-P, Golkar, and the parties belonging to the Central Axis were maneuvering to have Abdurrahman replaced by Megawati. By this time, the opposition from the Islamic parties to Megawati assuming the presidency had subsided. However, Megawati was reluctant to take the final step, agreeing instead on a compromise solution that would allow Abdurrahman to continue to be President but for the day-to-day affairs of the government to be handed over to the Vice President. Understanding that it was the only way to save him from being ousted by the MPR, Abdurrahman in his statement indicated his acceptance of the compromise.⁸⁷ The compromise (contained in MPR Decree No VIII/2000) had given Abdurrahman a new lease of political life. The lackluster performance of Abdurrahman Wahid's cabinet was also

criticised by various representatives of the political parties in the MPR. The 2000 MPR annual session also produced two other important decrees, one: the separation of the police from the military, and the other: specifying the role of each institution, the military and the police, after they were separated. On the last decree (No VII/2000), there were stipulations that the Commander of the Indonesian National Army (TNI—the former Armed Forces minus the Police) and the Head of Police are to be appointed by the president with the approval of the parliament.

However, within days Abdurrahman indicated that he had no intention to carry out his part of the deal that had saved him his job. He announced that he would give Megawati additional tasks and not additional power. He did give the Vice President some minor tasks with limited freedom of action (*ibid*: 525). He breached further the spirit of goodwill shown in the MPR sessions when he reshuffled the cabinet brushing aside the opinion of the Vice President. He dismissed PDI-P, Golkar and Central Axis ministers, some holding important portfolios, and replaced them with people of questionable competence and background except for the fact that they had close personal relationships with Abdurrahman. Notable among those who were fired from Abdurrahman Wahid's cabinet were the Coordinating Minister for the Economy Kwik Kian Gie, from PDI-P and the Minister of Finance Bambang Sudibyo from Amien Rais' party (PAN). The Minister of Defense Juwono Sudarsono, a non-political and much respected scholar of political science from the University of Indonesia was also replaced by another Abdurrahman's stalwart.⁸⁸ Some ministers who remained in the cabinet were also dissatisfied with the new composition and were contemplating to resign, but urged by Megawati to stay on. One of them was Ryaas Rashid, the Minister of Administrative Reform, a renowned scholar of government who under Habibie had played an important role in crafting the laws on decentralization and the new political laws that had paved the road to democracy. He would eventually resign, giving another blow to the credibility of Abdurrahman Wahid government. The composition of the new cabinet had lead Amien Rais to express shock especially so in view of the ministers appointed in the economic and financial sector. Amien Rais was quoted as saying, " the new cabinet did not serve the interest of the country, composed as it was to serve the interests of Abdurrahman Wahid." He further ventured that many of

⁸⁷ A PDI-P spokesman hinted that if Abdurrahman refused this solution the annual session could be converted into an extraordinary session, implying impeachment (*ibid*: 525). Some members even said, that Abdurrahman should spend more of his time traveling abroad as the country would be better off without him around.

⁸⁸ The reason given for his dismissal was his poor health, but obviously he was in much healthier condition than the president himself.

its members had been selected because it was expected they would become 'yes men' and 'yes women' " (ibid 529).

The economic slippage

As mentioned above at the onset of Abdurrahman Wahid government, there were strong signs that the economy was recovering. In a paper titled *Indonesia: Seizing the Opportunity* prepared for the CGI meeting held in February 2000—the first after Abdurrahman took over government—the World Bank reported that “Indonesia is emerging from political and economic crisis of unprecedented magnitude.” It was not only a homage to the performance of Habibie government but a reminder that the new government had inherited a much improved economic and political condition from which they could build on further progress. The report further underlined, “fortunately, the government has inherited a stable economy displaying its first tentative signs of recovery.” The World Bank also indicated the hope attached by the international community—as well as the Indonesian public—to the democratically elected Abdurrahman Wahid government that the positive developments “present the new government with an excellent opportunity to lay the foundations for democratic practices, transparent government, and a just, open and competitive economy. This opportunity must be seized.” (World Bank, 2001: 3). The IMF also echoed the high hopes. On 20 January 2000 the first agreement between Abdurrahman Wahid government and the IMF was signed. The Memorandum of Economic and Financial Policy (MEFP), accompanying the letter of intent, opens with an optimistic note, stating that “with the completion of Indonesia’s political transition, and the election of a government with a wide popular mandate, Indonesia has an historic opportunity to join its neighbors in a strong recovery and enhance the well being of the Indonesian people.”⁸⁹ The agreement

with the IMF had opened the way for resumption of financial aid from the IMF—temporarily suspended during the last months of Habibie government due to the Bank Bali and East Timor issues—to the amount of \$5 billion up to February 2002. The February 2002 CGI meeting had also secured a pledge of \$4.7 billion to augment the 2000 budget.

In the letter of intent, as in the previous ones, the government promised certain reform measures to strengthen the recovery effort. It turned out, however, that the government did not make any visible progress in implementing the economic reform agenda. At the end March 2001, the IMF representative in Jakarta John Dodsworth announced that the IMF was suspending the disbursement of further assistance to Indonesia because of its failure to meet the targets of reforms agreed on in the January 2000 letter of intent. In “*post-mortem*” analyses, in the brief prepared for the CGI meeting in November 2001 (after the fall of Wahid government), the World Bank noted, “in early 2000, the monetary and exchange rate situation was poised to become more supportive of the economic recovery. The rupiah had strengthened from 16,000 per dollar at the peak of the crisis to around 7,000. Inflation had been brought firmly under control, and interest rates had fallen to around 12 percent from the peak of nearly 70 percent.” It was expected that the economy would further improve under Abdurrahman Wahid government. The expectation however did not materialize. The brief continued to report that instead of improving, “the environment for monetary policy deteriorated. Early slippages in reforms and an increasingly uncertain political climate raised risk premiums and contributed to renewed downward pressure on the rupiah” (World Bank, November, 2001: 1.1). The rupiah continued to weaken passing the 10,000 line to a dollar. Conflicting statements from the President and his ministers had created confusion and uncertainty, mirroring the economic limbo during the last months of Suharto's government.

Abdurrahman’s forays into economic policies were ill-advised and irresponsible, as they were not based on careful consideration and consultation with the experts, but were intended mainly to advance his political popularity at the cost of the economy. His statement that the government would increase substantially the salary of civil servants, admittedly necessary, was not supported by the financial capacity of the government at the time. His encouragement for people living around the plantation-estates to just take 40 percent of the land scared investors away, as the respect for law and of property had been violated. It also posed problems for the security and continuity of production of the very important sector in the

⁸⁹The MEFP highlighted that much has been achieved in the precious period, “when Indonesia made significant progress in restoring macroeconomic stability, dealing with the financial crisis, advancing structural reforms and assuring food security.” It went on to indicate that the macroeconomic achievements included the elimination of inflation, the stabilization of the rupiah, and recovering foreign exchange reserves. It also noted that the financial sector had begun to stabilize, interest had fallen below pre-crisis levels, and bank restructuring and recapitalization had started. However, it was recognized that much remained to be done; it was the task of the new government to continue the recovery efforts by reviving the real economy and laying down the foundation for sustained recovery (ibid).

Indonesian economy, the agribusiness sector, which during the crisis had been the remaining dependable source of foreign exchange.

Deja vu?

The political and economic limbo took a toll on the everyday life of the people. The economic, political and security conditions were deteriorating. Everywhere there were demonstrations against Abdurrahman. He responded by mobilizing his supporters to Abdurrahman, his followers attacked the newspaper office in Surabaya. To show their anger at Abdurrahman's opponents his followers in East Java had cut trees all over East Java, bringing a comment from Abdurrahman that it was better to cut trees than heads. That attitude had revealed his true nature, drawing comment from an analyst that Abdurrahman's reaction to criticisms "formed one of the indications that the president had difficulty coping with criticism" (Van Dijk, *ibid*: 495). Van Dijk compared Abdurrahman to Habibie, who was more graceful in receiving criticism although Habibie had to face much harsher and far more frequent attacks. Hefner (1999: 59) was more blunt; he observes that there were those among pro-democratic circles including many reform-minded modernists, who "insisted that Wahid's democratic credentials had always been weak and that he had always worked to promote his own interests."

Abdurrahman had also shown a preponderance towards nepotism. As discussed above he had dismissed ministers who were not readily willing to accept his wishes or represented parties that were critical to him with sycophant ministers, some previously involved in scandals or questionable activities. Abdurrahman also had his brother appointed to a top position in IBRA/BPPP although he had no background in finance or banking. Abdurrahman denied knowledge of the appointment, but Laksamana Sukardi claimed that his brother's appointment had been at the instigation of Abdurrahman Wahid (*ibid*: 519).⁹⁰ A pattern of nepotism re-emerged, causing many to be reminded of the nepotism charges against Suharto. The difference would be that Suharto had done it after thirty years in power, while Abdurrahman began within less than a year.

⁹⁰ Illustrating the aura of thinking in Abdurrahman Wahid's circles, it was reported in the media that "one PKB member of parliament, KH Nur Iskandar SQ, gave as his opinion that Hasyim Wahid had been appointed at BPPN to be able to employ *jinn* in the efforts to have bad debtors pay their debts" (Van Dijk, *Ibid*: 518-519).

The feeling of *deja vu* was not only confined to the political confusion and the resulting stagnation of the economy. Rumors flew about corruption in high places, some finding way into the media. Abuse of power for personal gains re-emerged into the spotlight: appointment to high position in government was reportedly traded for money. In particular, the high level jobs in the public enterprises were subject to negotiation. A lucrative business had developed in dealing with businessmen who had to account to the authorities their bad loans and other past business misconduct. Kwik Kian Gie, after his dismissal as the Coordinating Minister for the Economy, revealed that during a cabinet meeting Abdurrahman, insisted that certain conglomerates should be allowed to continue undisturbed as entrepreneurs (*ibid*: 528). One of them was the reason behind the sacking of Laksamana Sukardi. Sukardi revealed that Texmaco at the height of the economic crisis had received special credit from state banks to facilitate export, but part of the money was diverted to other uses. Among the bad debtors, with debts amounting to Rp 19 trillion the Texmaco group held the largest debts at the state banks under the jurisdiction of BPPN. By revealing this, Sukardi angered Abdurrahman, resulting in his dismissal. Marzuki Darusman, Abdurrahman Wahid's Attorney General—disregarding the strong indication supported by documented proof that had been submitted by Sukardi—in May 2000 terminated the investigation into Texmaco corruption case clearing it of criminal violations (*ibid*: 485, 489).⁹¹ It was a swift decision, indicating that both the President and his Attorney General were acting in tandem.

In particular Abdurrahman pursued people whom he thought were his enemies or who in the past had wronged him. One example was the case of Syahrir Sabirin.⁹² According to the new banking law, the president cannot fire the Governor of Bank Indonesia without the approval of the parliament. As the parliament would give its consent to the dismissal of the Governor, Abdurrahman had summoned Sabirin to ask him to voluntarily resign, and promised to offer him other positions. Van Dijk (*ibid*: 530), citing information from one of the deputy governor of Bank Indonesia writes that, "Abdurrahman Wahid and Marzuki Darusman had presented Syahrir a number of times with a choice of either resigning or becoming a

⁹¹ It meant that the case would not even reach the courts.

⁹² As was mentioned earlier, during Habibie's presidency Abdurrahman had pleaded with the Coordinating Minister for the Economy and the Governor of Bank Indonesia, Syahrir Sabirin, not to close a bank that he had taken over. As the bank—Bank Papan Sejahtera—was in a very bad condition the plea could not be granted. It

suspect in the Bank Bali case. Abdurrahman Wahid said that he had offered Syahrir an ambassadorship or a membership of the Supreme Advisory Council to save Syahrir's face." Even if they really believed and had proof that Sabirin had broken the law, the negotiation itself --- which was a blackmail--- was a violation of the law. However Sabirin steadfastly refused to resign and on June 2000 he was arrested on charges of complicity in the Bank Bali case because of his position as the Governor of the Bank of Indonesia. His case was taken to the court of law, but on appeal, the Higher Court cleared Sabirin of the charges. This was clearly another blatant abuse of the law for political and personal purposes, done by the very persons supposed to uphold the law. Abdurrahman exhausted all the possible use of power to achieve such personal political objectives. He gave a list of people whom he regarded as political enemies to the Director General of Taxes, with an instruction to find any fault in their tax return so that they could be prosecuted for tax evasions

Another case, involving Abdurrahman and Tommy Suharto—son of the former president— came to the surface. Tommy was charged and found guilty of corruption in a Bulog land transfer case. He sought the intervention of Abdurrahman for a pardon. Abdurrahman met Tommy on 5 October 2000 in Hotel Borobudur, a five star hotel in Jakarta (ibid: 513).⁹³ The media reported Tommy's claim that Abdurrahman promised to help, and that in exchange Tommy had given some money through an intermediary. Abdurrahman denied promising to help Tommy and receiving any money from him. Even if that was the case, that such a meeting did take place raised the question of not only appropriateness but more seriously of probity and integrity.

The final blow to the credibility of Abdurrahman Wahid government in its avowed agenda to fight corruption were two scandals involving the president himself; known as "Buloggate and Bruneigate."⁹⁴ Precipitating Buloggate, the media reported that Abdurrahman Wahid through his associates was involved

in the illegal transfer of Rp 35 billion from the Welfare Foundation of Bulog Employees (*Yanatera*) by the deputy head of Bulog, Sapuan. Sapuan was of the impression that in exchange he would be considered as a candidate of the chairman of Bulog. In his defense Sapuan had said that in January 2000 Abdurrahman had met with him and asked him to the use of the foundation fund for "humanitarian aid". Sapuan reported the discussion to the chairman of Bulog, Jusuf Kalla, who was concurrently the Minister of Industry and Trade and asked for his guidance. Kalla refused to release the money without written instructions from the president.⁹⁵ During a hearing by a parliamentary special commission, Sapuan stated that Abdurrahman Wahid had asked for half of the Rp 370 billion non-budgetary funds, but the president had refused to issue a special decree to that effect (ibid: 519-520). Bruneigate involved a donation from the Sultan of Brunei to the amount of \$ 2 million, ostensibly to be used for humanitarian aid in Aceh (ibid). Abdurrahman had never disclosed that he had received the money, as the law demanded, and had never accounted how the money was used for the humanitarian aid in Aceh.

The democratic reversal

The indirectly related scandals created such public furor that the parliament was drawn to act. The parliament created a special commission to investigate both cases. On 28 January 2001, the special commission reported its findings to the plenary session of the parliament. On Buloggate, the commission found that there was strong indication that President Abdurrahman Wahid "had a role in the release and the use of funds belonging to the welfare foundation of Bulog employees." On the contribution from the Sultan of Brunei the commission found, "there was inconsistency in President Abdurrahman Wahid statement pertaining to the question of the contribution of the Sultan of Brunei indicating that the President has given false statement to the public" (liberally translated. For more details about the investigation see Pahlevi, 2002). The conclusion of the special commission was a serious matter, because if the Parliament adopted it, according to MPR decree no III/1978, the parliament could issue a memorandum to the president warning and asking him to answer to the findings of the special commission. If the president did not provide satisfactory answers to the memorandum after three months, the parliament could issue a second memorandum. If the president again failed

⁹³It was also reported in the media that there was a second meeting.

⁹⁴ A parody to another "gate" affair involving another president of another country: Watergate. There is another affair related to the state logistics agency, Bulog, involving Akbar Tanjung who as the Chairman of Golkar had been accused of receiving money from Bulog supposedly to be used for social safety net but had allegedly had been diverted to finance Golkar's election campaign. At the time of this writing the case is on appeal with the Supreme Court.

⁹⁵Analysts speculated that it could be the real reason behind Kalla's dismissal from Wahid government.

to respond to the second memorandum, than the parliament could propose to the MPR to convene a special session to ask the president to account for his conduct. If the MPR could not accept the accountability, in accordance with the constitution the MPR could impeach the president. Some of Abdurrahman's supporters had ridiculed the whole parliamentary proceeding, claiming that in comparison to what was happening during the New Order, the money involved was peanuts. They disregarded the fact that the country was struggling with itself to establish a new way of governance that would be free from abuse of power for personal or whatever reason. Worse yet, the affairs involved a person who came to the presidency on the reputation of being a democrat and a reformist.

Abdurrahman, instead of following the constitutional procedure to defend his presidency, chose to be aggressive. One day after the special commission submitted their report to the plenary session of the parliament, Abdurrahman made a statement in a meeting with Indonesia's Islamic university presidents, threatening to issue a presidential decree to declare a state of emergency and dissolve the parliament if parliament persisted with the memoranda process. It startled the nation, and was immediately met with strong comments from politicians and the media. Since the constitution had clearly stipulated that the president could not dissolve the parliament in any situation and for any reason, it was seen as a desperate move, an unconstitutional and dictatorial response to a democratic process. The reaction itself was taken by the public as an admission that Abdurrahman could not give a credible explanation for his conduct in those cases. On 1 February, the plenary session of parliament adopted the report and the conclusion of the commission and issued the first memorandum. The memorandum states that Abdurrahman Wahid had seriously violated the constitution and his oath of office, and the 1998 MPR decree on good governance free from corruption, collusion and nepotism. The parliament gave Abdurrahman Wahid three months to respond to the memorandum. When the time had passed and he did not respond, on 30 April the parliament issued the second memorandum, and gave Abdurrahman Wahid one month to respond to it. Finally when by 30 May Abdurrahman still did not give a response, the parliament finally decided to ask the MPR to call a special session to call the president to account on the two cases. The leadership of the MPR upon receiving the Memorandum decided to convene an extraordinary session on 1 August 2001.

While the parliamentary process was ongoing, on many occasions Abdurrahman continued to state that he

would decree the dissolution of the parliament. Two days before the parliament held the plenary session to ask the MPR to call the special session, Abdurrahman issued a presidential declaration (*Maklumat Presiden*) instructing the Coordinating Minister of the Political, Social and Economic Affairs, to take the necessary measures and special action, by coordinating the functional security apparatus, to overcome the crisis and uphold order, security and law as fast as possible (Mustofa and Wahid, 2001:7). The issuance of the *Maklumat* reminded the public of the 11 March 1966 letter of instruction from Sukarno to Suharto, and from Suharto to Wiranto on 18 of May 1998. They were last-ditch attempts by falling rulers to grab hold of power while slipping down. Bambang Yudhoyono, the Coordinating Minister, gave a statement that the declaration was just a confirmation of his job as a coordinating minister and categorically expressed his refusal to support a decree (to dissolve the parliament) if it was issued (ibid: 67). Because of this stance, on 1 June 2001, five day after issuing the declaration, Abdurrahman fired Yudhoyono.

Abdurrahman understood that the decree to impose a state of emergency and to dissolve the parliament would have a meaning only if he had the power execute it and for that he needed the support of the army. However, the Chief of the Army Staff, Endriartono Sutarto had openly criticized the idea of the decree and issued a statement that the army would not support the imposition of state of emergency and the dissolution of the democratically elected parliament; he said that it would only make the situation worse (Tempo, 27 May 2001: 21). The Commander of the TNI, Widodo, and the Chief of Police Suryo Bimantoro had also refused to support the decree. The media reported that Abdurrahman was planning to replace the Chief of the Army with Agus Wirahadikusumah to secure the support of the army for the decree. (Tempo, 29 July 2001: 24). However the army brass had banded together to stave off the appointment of a "political general", who was promoted not on the basis of professionalism or in the interest of the army, but to serve a political interest. The commanders of the regional military commands issued a statement to that effect (Tempo, 27 May 2000: 21 and 23; Tempo 29 July: 24). On 19 May, the Army Chief of Staff invited senior and retired high-ranking military officers including former Commanders of the Armed Forces and Chiefs of the military services to brief them on the latest political developments. The meeting came out with full support of the army's position in rejecting the politicizing of the military and the intended decree (ibid). On 20 May, Abdurrahman summoned the military leadership and

served them an ultimatum: if they still did not support the decree by the end (midnight) of the day they would be replaced. Abdurrahman had planned to issue the decree after meeting with his cabinet on 21 May 2001 (*ibid*, and *Tempo*, 3 June 2001: 20). The military brass refused to accede to Abdurrahman's demand to support the decree. They also rejected any change in the military leadership for the moment. Those who had been offered the job by Abdurrahman of Commander of the TNI and Chiefs of the military services refused the offer of promotion (*Tempo*, 24 June 2001: 32). In fact according to the MPR decree issued in the year 2000, the president could not replace the Commander of the TNI and the Chief of Police without consulting the parliament. And he could only fire the Chief of Staff of the military services at the recommendation of the Commander of the TNI.

With the military solidly refusing to give in to his demand, Abdurrahman turned to the police. As the Chief of Police had also made clear his position opposing the decree, Abdurrahman embarked on a maneuver to replace him with somebody who would support him in his plan to dissolve the parliament. After he found an aspiring candidate among the high ranking police officers he asked Bimantoro to resign, promising him an ambassadorial job. The Police Chief refused to resign, citing that the appointment and dismissal of the Chief of Police had to have the approval of the parliament. As in the case of the army the majority of high-ranking police officers jointly issued a statement supporting the Chief of Police, urging him not to resign. They insisted that the police as a state institution should not be politicized. All former Chiefs of Police also made statements supporting the position of the serving officers. But Abdurrahman, sensing that it was his only remaining thread that would allow him to cling to power, went ahead, by creating the post of Vice Chief of Police, which in the new police structure did not exist. Abdurrahman then suspended the Chief of Police, without firing him outright, designating the newly appointed Vice Chief of Police Chaerudin Ismail as the Temporary Chief of Police (*Tempo*, 10 June 2001: 92; 19 June: 28). It was designed as a maneuver to circumvent the requirement to go to the parliament. However the majority of the fractions in the parliament, including those representing the military and police, regarded it as a serious constitutional breach. Ignoring the warning that he would violate the law, Abdurrahman went ahead with the swearing in of Ismail as the Temporary Chief of Police on 20 July 2001.⁹⁶ Within

⁹⁶After the installation of Isamil as the Temporary Chief of Police, Abdurrahman reiterated his intention to issue the decree and expected that the new police chief would act to support him.
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the Police the majority of the senior officers continued to pledge their allegiance to Bimantoro, refusing to recognize the authority of the Temporary Chief of Police. To prevent further deterioration of the political and security situation, on that same day—20 July 2000— the Chairman and Vice Chairmen of MPR, after consulting the leaders of the MPR fractions, decided to accelerate the special session that was scheduled to begin on 1 August 2001—to deliberate on the Memorandum sent by the parliament— to 21 July (*Tempo*, 29 July: 25).⁹⁷

The first day of the MPR special session was to agree on the change of the schedule from 1 August to 25 July. With two fractions not attending— Abdurrahman Wahid's party, the PKB and a small Christian sectarian party, PDKB, with a combined vote of 60 out of 700 members of MPR—the first session voted unanimously to agree on the change of schedule. Although his party boycotted the MPR session, the Chairman of PKB who was also one of the Vice Chairmen of MPR, Matori Abdul Djalil was present and voted with the rest of the members of MPR.⁹⁸ The first session also decided to schedule Abdurrahman Wahid appearance in front of the MPR on 23 July to answer to the charges of the parliament against him. Abdurrahman reacted by saying that moving the schedule of the special session ahead was illegal, and that if the MPR did not retract its decision by 31 July, he would declare a state of emergency (*Tempo*, 29 July: 20). On the evening of 21 July, Abdurrahman met with his remaining supporters. Abdurrahman did try to persuade the military and police fractions in the MPR to come around to his side, but they did not budge from their position. They would not support any abuse of power and violation of the constitution. On the eve of his scheduled appearance at the MPR, on the evening of the 22 July, a sudden announcement came out from the president's office that the President would give a statement at 10 pm. At around that time the Chairman and the Vice Chairmen of MPR were all gathered in the MPR building waiting for what

There were also rumors that a list had been prepared for people that would be arrested after the announcement of the decree.

⁹⁷Sensing the deepening political crisis caused by Abdurrahman's belligerent attitude toward the parliament and the constitution, the leaders of MPR fractions had instructed their members to come to Jakarta days ahead of the scheduled session. Therefore when it was decided to move the session ahead the members of MPR were already present in the capital.

⁹⁸The split in his party had infuriated Abdurrahman, who instructed the PKB party board to meet without its Chairman, and decided to suspend Matori as Chairman of the party and appointed Abdurrahman's loyal promoter Alwi Shibab, the Foreign Minister, as his temporary successor.

Abdurrahman was going to say. At midnight the president summoned the new Coordinating Minister for Political and Security Affairs, Agum Gumelar and the Commander of TNI, Widodo. Also present in the meeting was his Temporary Chief of Police Chairudin Ismail, and other die-hard supporters of Abdurrahman Wahid. In that meeting Abdurrahman announced his intention to issue the decree immediately.⁹⁹

At 01:10, Monday 23 July 2001 with Abdurrahman at his side, a spokesman in the president's office appeared in front of a televised press conference to read a Presidential Decree; in which he decreed the dissolution of the MPR and the parliament, the holding of a new election within one year and the dissolution of Golkar party. Although some kind of erratic decision was expected from the president, the audacity of Abdurrahman's decision and the gross violation of the constitution had astonished the nation, especially those who gathered in the MPR building. It was the ultimate of the reverse-democratization process that had been going on for the past year.

There was no turning back. It was now up to the MPR to preserve the constitution and protect the nascent democracy and keep the country united. From the theoretical perspective, as Diamond has argued, defending the constitution entails more than defense against blatant overthrow; it means defending constitutional norms, limits and procedures against subversion or encroachment. Democratic consolidation involves not only agreement on the rules for competing for power but also fundamental and self-enforcing restraints on the exercise of power (1999: 70). For democracy to be consolidated there must be a broad normative and behavioral consensus on the legitimacy of the constitutional system, however poor or unsatisfying its performance maybe at any point of time (ibid: 65).

The impeachment

After the decree was announced a flurry of activities emanated from the MPR and the parliament buildings. Immediately, the Chairman and Vice Chairmen of the MPR invited the leaders of the MPR fractions to an impromptu meeting. Due to the gravity of the situation in the meeting it was decided to move the MPR session on 23 of July an hour earlier, from 9 am to 8 am. Afterwards, at 2.45 am the leadership of the MPR met the press. In the

press conference Amien Rais denounced the presidential decree as a blatant violation of the constitution and asked the nation to stay calm and the security apparatus to ignore it. He announced that the MPR would meet at 8 am and would take the matter up. In the meantime after conferring with the leadership of the MPR, the Speaker of the Parliament sent a letter to the Chief Justice of the Supreme Court asking for a legal guidance on the constitutionality of the president's decree.

On the morning of July 23, at 8.15 the MPR opened its special session (*sidang istimewa*). The decree was the first item on the agenda. It was decided to vote on the response of the MPR to the decree. Before the vote was taken, the Secretary General of the MPR read the legal opinion of the Chief Justice of the Supreme Court that was requested by the Speaker of the Parliament. The Supreme Court gave its opinion that the Presidential Decree was unconstitutional; that the constitution explicitly stipulated that the president could not dissolve the parliament; that according to the constitution the president was elected by and accountable to the MPR; on holding of the election, the next round of election had already been decided by the MPR and only the MPR could change its decision; on the dissolution of Golkar, according to law 12/1999, only the Supreme Court had the authority to dissolve a political party and only if it was found guilty to be violating the electoral law, the president had no authority to dissolve a political party. After hearing the opinion of the Supreme Court the vote was taken, and except for the absence of the same fractions as before, the MPR with a unanimous vote decided to reject the decree and declare it as illegal (MPR Decree I/2001).

The next agenda was the presidential accountability report, scheduled for that day. Since he was not present at the pre-determined time, a vote was taken to decide: 1) that the president had violated the state guideline by his absence and refusal to give an accountability report in the special session of the MPR as determined by the constitution, and 2) to remove Abdurrahman Wahid as president. (MPR Decree NO II/2001). As there should be no vacuum in government, at the same time the MPR also decided that Vice President Megawati become the president succeeding Abdurrahman Wahid (although the decision was simultaneous with the impeachment of Abdurrahman Wahid, it was contained in another decree: No III/2001). With the absence of the two fractions the vote was again unanimous.

The next order of business was to elect the Vice President. The election for vice president was held on 25 August. There were five declared candidates who were

⁹⁹Some of those present later claimed that they had tried to dissuade Abdurrahman from taking such action.

running in the first ballot. As no candidate had the necessary of at least half of the votes, the second round of voting was taken among the highest three, Hamzah Haz, Akbar Tandjung, and Bambang Yudhoyono (in that order). Again as none of them received over half of the votes, the assembly voted for the third round to choose between the two highest. Hamzah Haz who was supported by the coalition of the Central Axis and PDIP won the election with 340 votes, against Tanjung's 237.¹⁰⁰

The proceeding was widely covered by both domestic and foreign media. The nation once again watched democracy in function, and how their national leaders had been chosen by democratic means. The young democracy had passed a severe test and proven its resilience, protecting the interest of the country and the people from a floundering and incompetent leader. Abdurrahman Wahid episode in Indonesia's political history had proven Huntington's foresight that new leaders of democracy might emerge as "*arrogant, incompetent, or corrupt*, or some combination of all three" (ibid: 256). In that sense they would come to be viewed as no different than their authoritarian predecessors, and may even be considered as worse, as they have not produced tangible performance in comparison with authoritarian regimes whose legitimacy were based on performance, on successes in producing political stability or economic benefit or both. He also argues that "democracy does not mean that problem will be solved; it does mean that rulers can be removed; and the essence of democratic behavior is doing the latter because it is impossible to do the former" (ibid 210). And in Abdurrahman Wahid's case democracy in Indonesia did just that, it removed the ruler who had betrayed the trust of the people and breached the social contract for democracy. After backtracking one or two steps, Indonesia was moving forward again in consolidating its new democracy.

The renewed hope

With Megawati Sukarnoputri becoming its fourth president, the country had come full circle. Megawati was the daughter of the country's first president, Sukarno, who

¹⁰⁰ Many analysts saw it as an alliance of strange bedfellows, as the two camps had always been at each other's throat. The more natural coalition between the two nationalist camps, PDIP and Golkar was sought after by Golkar up to the last minute but failed to materialize, adding some weight to the speculation that Megawati had developed a distrust toward Tanjung, who she felt had failed her on several occasions.

was still regarded as a hero and an idol.¹⁰¹ Megawati herself had suffered political oppression during the previous regime. When she was elected democratically as party chairman, the government subverted her political right by recognizing her rival. Her supporters were kidnapped and tortured. She herself had been interrogated by the police on political charges. All through these predicaments she had showed her perseverance. She had the capacity to be patient and waited out for the right opportunity to make a move. She was a self-made woman, dropping out of college, but had learned about politics since her childhood from a great and natural teacher, her father. She had admitted that she was not her father, but was trying to do her best to be a good leader. Like her father, she inspired loyalty and devotion among her followers, many were prepared to sacrifice and suffer for her. When she was defeated in the election for president, although she was visibly disappointed—particularly toward Golkar who she thought had betrayed her—she was angry but well composed in accepting the defeat, and finally accepted to be nominated as vice president to calm his followers and prevent continued social-political disturbances. The political cycle had come also full circle, because as the winner of the election it was expected that she be given the first chance to govern and that she had been cheated of her right. So, her ascendancy to the presidency was received with a sigh of relief. For many it had also strengthened the faith for democracy.

With regard to Abdurrahman Wahid, she always showed respect for him, regarding him as her older brother. She endured all the slights and insults by Abdurrahman Wahid. She remained loyal to Abdurrahman to the last minute, when she finally determined that he was beyond political salvation. She could have become president in August 2000 if she wanted to. But she declined the pressure from her party and other parties who wanted to end the drifting of the country under Abdurrahman Wahid presidency; she still wanted to give Abdurrahman a chance to improve his performance. But when Abdurrahman had crossed the line by violating the constitution and breaching the basic principles of democracy, she could not resist anymore. She finally relented and agreed to let Abdurrahman go and accepted the responsibility to take over the helm.

¹⁰¹ There were those who, while agreeing that he had done damage to the country's political system and economy, still referred to him as a true nationalist and patriot, who had sacrificed many years in his life for the freedom of country. He had weaknesses but had done much for his country, and had perhaps been treated unjustly in the last years of his life.

Megawati formed her cabinet taking into consideration the political equation. Although her party is the biggest in the parliament it was far short of majority, which meant that she needed to forge a coalition. But she also learned from the experience of Abdurrahman Wahid government, that political alliance alone would not suffice to lift the country out of its crisis. She needed professionals unbound by party politics. Therefore in forming her cabinet she included the representatives from the political parties, but some of the major posts were reserved to non-partisan professionals. As Coordinating Minister for the Economy he appointed a former dean of the Economic Faculty of the University of Indonesia and at the time of the appointment the Indonesian Ambassador to Washington, Dorodjatun Kuntjara-Jakti. For the Minister of Finance he appointed Boediono, a respected economic professor from the University of Gajah Mada, and who was the Minister Planning in the Habibie's cabinet. For the Minister of Foreign Affairs he appointed a career diplomat, Hassan Wirayuda. Many of the ministers who were fired by Abdurrahman, were reappointed by Megawati, such as Bambang Yudhoyono, again reappointed as the Coordinating Minister for Political and Security Affairs, Yusuf Kalla, who became the Coordinating Minister for Social Affairs, Kwik Kian Gie, appointed as the Minister of Planning, and Laksamana Sukardi reappointed as the Minister of State Enterprises. She also rewarded the breakaway chairman of PKB Matori Abdul Djilil who had stood up against Abdurrahman Wahid, appointing him the Minister of Defense. She appointed a careerist to become the Attorney General, to prevent the politicizing of the office; politicization of the office had characterized Abdurrahman Wahid government. She appointed as her Secretary of State a bureaucrat from within the State Secretariat, her former secretary when she vice president, Bambang Kesowo, a seasoned administrator who had attended a graduate study at the Harvard Law School.¹⁰² At the outset the cabinet was well received by the public and the market for its professional make-up in the important ministries.

With the return of political stability after the change of government on the macro level the economy had begun improving. The World Bank report prepared for the January 2003 CGI meeting could be used as an objective assessment of the economic performance of the new government (see World Bank, 2003: 1-10). It cited that political stability, macroeconomic policies and continued fiscal consolidation supported the market and macro-

economic stability. There was a temporary disruption to the economic improvement caused by the Bali bombing, but since then the economy has continued to improve. Banks continued their recovery, and corporate debt restructuring is progressing, albeit at a slow pace. Political stability has calmed the market, supported the financial market sentiments and restored confidence to consumers. The economy has continue its modest growth around 3.5 percent, although it is still consumer driven. Inflation has been put under control and the exchange rate of the rupiah has been more or less stable between 8,000 to 9,000 per dollar. There were encouraging signs that the new government has renewed the commitment to reforms. On the matter of structural reforms, the World Bank report writes, "the IMF supported program, which had slipped during the last year of the Gus Dur Government, was quickly brought back on track, and has, by and large, remained that way."(ibid: 11).

The Megawati government also has had to meet challenges imposed on the government by the new mood of the polity responding to the call for reforms. Among them is fiscal decentralization. Many observers, including those with the IMF and World Bank, had worried about the effect of fiscal decentralization to the still fledgling economy. However Megawati's government has managed to cope well with it. The World Bank reports, "the *Big Bang* decentralization of 2001 went much better than many had expected. The massive transfer of expenditure responsibilities, civil servants to regional governments and the introduction of a new intergovernmental fiscal system went by smoothly, although much remained to be done" (ibid: 10). Another challenge to the government was how to deal with the political decision to end the dependence on IMF. In its 2003 annual session the MPR decided to terminate the IMF program. Megawati's government, with the assistance from the IMF and the World Bank, has designed an exit strategy to cope with the post-IMF challenges. It has opted to enter into Post-Program Monitoring scheme with the IMF allowing her to maintain a close dialogue with the international community, thereby keeping the market's confidence on the Indonesian economy without having to ask for further financial assistance. Much of the credit for the sound economic policies of Megawati's government should be attributed to the Minister of Finance who has become the bedrock of Megawati's cabinet in the economic field.

Megawati's government has also succeeded in defusing the communal strife in Maluku and South Sulawesi by bringing all the conflicting parties together, and exacted from the commitments commitment to cease the violence. The volunteers who were aiding the Muslims

¹⁰² The State Secretary was equivalent to the White House Chief of Staff in the American system of government.

sides in both areas have been returned. Much of the credit to restoring the peace to these areas should be given to Yusuf Kalla, the Coordinating Minister for Social Affairs. Yusuf Kalla originated from South Sulawesi, a Buginese himself with strong Islamic credentials, but has been more nationalist in his political outlook. This background made him acceptable and helped gain the trust of both warring parties. Megawati also has shown her resoluteness in dealing with terrorism that has stretched her government. She responded decisively on Bali bombing. She has welcomed the offered of support from various government to uncover the plot behind the bombings, and within a relatively short period of time the authorities has been able to catch the perpetrators of the bombing and brought them to the court.¹⁰³

The downside

Unfortunately the picture is not all that rosy. In the first months the new government displayed inertia in making policy. Megawati had kept an aloof standoff attitude on matters that need decisions. She was reluctant to deal directly with her ministers, expecting them to go through the coordinating ministers. The ministers soon showed themselves to be fragmented. The conflicting opinions came into the open. The economic ministers specially had not been able to act as a team; coordination was very weak. For example, the Minister of Planning, Kwik Kian Gie, showed himself to be not part of the team. He did not keep his disagreements with other ministers to himself, but was fond of making them public. He questioned openly the policies of other ministers. His feuds with some ministers, notably with his fellow PDI-P the Minister of State Enterprises Laksamana Sukardi was well known to the public. He managed to get the president's approval to position him outside the sphere of coordination of the Coordinating Minister for the Economy. His populist views have made him popular but did not sit well with other ministers.

Predictably the rift in the cabinet had influenced the perception of the market on the cabinet. This too had its toll on the investment climate. Despite the optimism described above, the World Bank on the same report also pointed out that "Indonesia's investment climate is seen to be deteriorating, and now ranks among the worse in the world." It continued to report that Indonesia is facing fundamental problems in its investment climate "ranging

from increased violence and crime, to corruption and bureaucratic delay and inefficiency, uncertainty in labor relations, and excessive taxation by some local governments." Indonesia is also considered to be more risky for doing business. On corruption the World Bank observes, "Indonesia has a long-standing reputation for corruption. But more recently, the problem is getting worse"¹⁰⁴. In the 2003 MPR general session held in August, these and other governance issues have been put under spotlight by almost all fractions and had undermined the credibility of Megawati government. The public may understand that it would be impossible to eliminate or even reduce corruption in such a short time, but why was it getting worse? It was something that was not to be expected in the new political system because with democracy openness and transparency and more control of the public on governance are all expected. Yet money politics have become public knowledge; the election of governors and district chiefs (*bupati*) and mayors by the local councils are rife with allegations of vote buying. No less than Kwik Kian Gie, who himself is member of the board of PDIP in February 2003, when asked by reporters his comments about the rampant money politics told them that "PDIP is the most corrupt party" (Tempo, 24 February: 26-33). The accusation was met with strong reactions from other PDIP leaders, calling for his ouster from the party and the cabinet.¹⁰⁵

The dissatisfaction of the public on the performance of the democratic government has been manifested in many polls. One of the recent polls, done by the *Lembaga Survey Indonesia* (Indonesian Survey Institute), with financial support from the Japanese government through JICA, found that around 51.6 percent of respondents were dissatisfied with the democratic process in the country, and that 56 percent expressed their preference for the New Order because they felt it was better than the current democratic government.¹⁰⁶ Although according to the survey Megawati was still the front runner among the candidates for the next presidential election, if the election was held today, Golkar would have won the parliamentary election with 25.9 percent of the

¹⁰³The courts have passed death sentences to the accused bombers.

¹⁰⁴There were various issues that came up to public attention for alleged foul play, such as the sale of shares in the process of privatization of the public telecommunication concern, *Indosat*, and the purchase of fighter aircrafts, the *Sukhoi*, from Russia

¹⁰⁵Kwik later retracted his statement, claiming that he was misquoted by the media, but unfortunately the damage had been done.

¹⁰⁶The current democratic system of government received only 26.5 percent, with the rest of the votes undecided.

vote, trailed by PDIP with 17.6 percent—a significant decline from the number one position in the 1999 election, with 33 percent of the votes.

The unfinished business

The reversal in public opinion actually had been foretold by Huntington, based on empirical evidence from the third wave of democratization. He observes that the intractability of problems and the disillusionment of the public were pervasive characteristics of the new democracies. What he calls “authoritarian nostalgia” was an expected response to democracy at that stage (Huntington, *ibid*: 256-257).

Diamond hypothesizes that there are three generic tasks that new and fragile democracies must deal with to become consolidated: democratic deepening, political institutionalization, and regime performance. By *deepening democracy* he means making the formal structure of democracy more liberal, accountable, representative and accessible. *Political institutionalization* calls for strengthening the formal representative and governmental structures of democracy so they would become more coherent, complex, autonomous, and adaptable and thus more capable, effective, valued and binding. Democratic deepening and political institutionalization involved processes that may need sometime to accomplish. They have a lot to do with a shift in *political culture* (1999: 73-96).

Regime performance suggests that over time the democratic regime is expected to produce sufficiently positive outputs to build political legitimacy. By performance Diamond means both *economic performance* such as economic growth and stability and fair distribution or equity, and *political performance* of the democratic actors and institutions in generating liberty, constitutionalism, transparency and rule of law. The ability of the new democracy to deliver decent, open and clean government, as policy output is important to democratic consolidation. Diamond argues that there is a reciprocal relationship between legitimacy and performance. He maintains that the better the performance of a democratic regime in producing and broadly distributing improvements in living standards, the more likely it is to endure. At the same time he also admits that there are countries, which achieve consolidation even if their performance cannot be regarded as satisfactory. Having said that he maintains that most of the third wave democracies are still far from consolidation and are unlikely to achieve it unless they generate the kind of

sustainable economic growth that broadly improves incomes and reduces the high rates of poverty and unemployment (*ibid* 78).¹⁰⁷

Haggard and Kaufman make a compelling argument that economic failure can have devastating consequences for the consolidation of democracy. Sustained poor performance or economic deterioration lead to an increase in crime, strikes, riots and civil violence. While rapid social changes and downward mobility for members of the middle and working classes increase the appeal of political movements on the extreme left and right. Therefore although the role of various non-economic factors are important for economic consolidation, such as ethnicity, gender, and political institutions, economic performance is important for long-term democratic stability and consolidation. Although, as Diamond they also acknowledge that a number of new democracies have survived poor economic performance, they contend that it should not be a source of complacency; as survival is not the same as consolidation and that faltering performance could place the legitimacy of existing political institutions at risk (1995:309-334). They also warn that the erosion of support for democratic institutions could lead to the election of leaders or parties with plebiscitarian or authoritarian ambitions. More seriously the deterioration of social order and increasing social polarization might provide the justification for military intervention (*ibid*: 334).

From another perspective, Huntington holds that performance is one element that justifies the legitimacy of democratic regimes. Another was process and procedures. He distinguishes between the legitimacy of the rulers and the regime. He argues, “the legitimacy of particular rulers or governments may depend on what they can deliver; the legitimacy of the regimes derives from the electoral process by which the governments are constituted” (Huntington, *ibid*: 258). In this view, a government in a democracy may lose its legitimacy because it fails in its

¹⁰⁷ He points out to three countries in Southern Europe—Portugal, Spain and Greece—part of the third wave of democratization, which had achieved broad legitimation and consolidation in ten years despite frustration and disenchantment with economic performance. Diamond explains that the fact the countries were industrialized and were embedded in the cultural, political, and economic milieu of solidly democratic European community probably helped to detach legitimacy from perception of regime efficacy, and minimize nostalgia for the previous authoritarian regime (*ibid*).

performance, but democracy prevails if the failed government is replaced through democratic processes and procedures. Democracy fails if that government is brought down by other means than through electoral process.

The above discussions draw us to conclusion that although the transition has been completed, consolidation is still unfinished in Indonesia's democracy. It has not yet met Hall's minimum requirement for a consolidated democracy; i.e. in which the alternation of parties in power is regular and accepted (Hall, 1993: 283). In the discussions above it highlighted that electoral processes and procedures are basic elements in a democracy, and the institutionalization of democratic norms is an important task of democratic consolidation. In a constitutional democracy, the constitution is where the democratic norms, processes and procedures are to be instituted. Although a democratic constitution by itself does not guarantee the survival of a democracy, the mere existence of the constitution may inhibit any attempt to reverse the democratization process, to impose an alternative system of government, or to stray from democratic norms of governance, such as happening during Abdurrahman Wahid presidency. In that light we will discuss the amendments to the constitution that has just been completed in Indonesia.

Constitutional reform: significant beginnings

The *Reformasi* (reform movement) had spurred widespread introspection on the failings of the New Order specifically and of Indonesian democracy in general. To many intellectual circles in particular, part of the blame went to the 1945 Constitution. Academicians, university students, political parties, NGOs, and members of the domestic and western press were quick to point out weaknesses in the constitution that contributed heavily to the lack of law and order, shallow citizen representation, opacity of governance, and the high incidence of human rights abuses, all antithetical to the shared tenets of reform.

Due to common regard of the 1945 Constitution as a sacred document, suggestions to change or even question any of its provisions had always been regarded as betraying the ideals of the founding of the Republic. Those who dared to suggest a review of the Constitution were regarded as subversive elements or worse, could be accused as enemies of the state. One largely unnoticed development in 1998 however would ease the path to change: the MPR resolution VII/MPR/1998 that removed the requirement of national referendum for an amendment

to the 1945 Constitution. *Reformasi* in the post-Soeharto Indonesia created more of the right conditions for change. Habibie's term saw the MPR set into motion a 4-year period during which four major phases of constitutional amendment were carried out between 1999 and 2002.

Goals of reform

In brief, constitutional reform on a practical level meant creating mechanisms—sets of rules governing the behavior of government—that ensured better governance. Reforming the vaunted UUD '45 reflected new national aspirations which included: the ending of the military "dual functions" (*dwifungsi* ABRI), the establishment of the supremacy of law, human rights, good governance, the increase in regional and local autonomy (decentralization), and the creation of a free press. On the level of governmental institutions, this meant the retuning of the checks and balances between the branches of government, addressing the tendency for "executive heaviness", lack of democratic voice granted to political parties and civil society, lack of open and independently-verified elections, the ambiguity of the independence of the judiciary, and questions of economic equity and social justice. All these movements are congruent with the deepening and widening of democracy and human rights in Indonesia. Legislators faced the challenge of addressing all these concerns while respecting the basic tenets of *Pancasila* and the principle of Indonesia as a unitarian state, which left little room for debate. It was there a consensus in the polity not to change the preamble of the constitution which contains *Pancasila* and other basic values laid down by the founder fathers. It was also a consensus established at the onset of the amendment process not to change the presidential system of government.

The weaknesses of the original UUD '45

Broadly, *reformasi* thinkers have placed part of the blame on the failure of Indonesian democracy on the 1945 Constitution. It is hoped that with the weaknesses corrected, Indonesia may function better with a deeper and more complete democracy.

The 1945 constitution is short and concise; it consists of the preamble, the body and an annotation. The constitution was written in a very broad and general way. It has only 37 articles and 6 transitory provisions. There is strength to the way it was written that makes the Constitution flexible and easily adaptable. The weakness is

that it is so broad, general, and flexible, that it can be—and has been—interpreted in different ways.

To the incumbent president, it gives a lot of room to maneuver and can concentrate power in his or her hands, as history has shown with Indonesia's first and second presidents. Indeed, the constitution stipulates a strong presidency. In the Constitution, the president is elected not directly by the people, but by an assembly, part of which is appointed by the president himself. The presidency lasts five years, and critically, the president can be re-elected an unlimited number of times. The authority and prerogative that the president is invested with by the constitution, including many legislative powers of decree, violated the principle of the separation of powers (checks and balances) essential to a functioning democracy and reduced the barriers against authoritarianism. Both previous regimes---Guided Democracy and the New Order--- demonstrated that the UUD '45 was not a barrier to the accumulation of power in the hands of the president (see discussion in previous chapter).

Despite the allowance of the tendency for the presidency to hijack the legislature, many still felt that the MPR by itself was always endowed with too much power by the original constitution. In theory, it was the highest institution of the land, towering over the executive and judiciary. Such an institutional imbalance led to the failure of checks and balances and to a disconnect between the wishes of the people and the MPR.

The methodological model of constitutional reform

The model of reform that legislators ultimately settled upon was intended to minimize conflict and garner the most cooperation from disparate interests, from ardent reformers to the most reluctant conservatives. Two features stood out: the incremental amendment process, inspired more by the American system rather than a rewriting that would mirror the French style of constitutional reform, as well as the effort to avoid settling conflict over the most crucial clauses and language by voting as far as possible.

Reform by addendum allowed especially the more conservative and nationalist legislators to feel that a part of resistance-era history had been honoured and preserved for future generations. Such an argument especially swayed nationalists such as Megawati or those in the PDI-P with strong ideological ties to the Soekarno generation of founding figures and 1945 Constitution-writers. Incremental reform on an existing constitution would also

mean that future generations could more easily trace its evolution. Change would be slow but gradual, and one could argue, carefully and collectively considered and implemented.

The mechanics of reform and public participation

The mechanics of reform would heavily feature the MPR Working Group. The body is comprised of 90 members representing---and proportional to the membership of--- all the MPR fractions. The Working Group organized itself in Ad Hoc Committees to meet its various tasks.¹⁰⁸ The principles of the reforms as mentioned above including the incremental "Addendum" model of amendment were established by the Ad Hoc Committee. In the spirit of democracy, public participation was sought as input into the amendment process. Public meetings, regional visits by representatives soliciting feedback, and seminars were held by the Ad Hoc Committee to survey public opinion. Public TV and media were engaged to educate the public about the process.

Comparative studies of democratic models found in Germany, England, the United States, Sweden, Denmark, China, Japan, Russia, and Malaysia were also sought to further inform the committee. Constitutional commissions from Thailand, South Korea and Germany and NGO' s specializing in diffusing the idea of democratic election from the United States were invited for advice.¹⁰⁹

¹⁰⁸ For the amendments of the constitution the task was entrusted to the First Ad Hoc Committee.

¹⁰⁹ MPR Resolution I/MPR/2002 formed a constitution commission (Komisi Konstitusi) to comprehensively study the amendments to the constitution, and assigned to the Working Group of the MPR the task to formulate the composition, structure, authority, and membership of the commission. The commission was established to soothe the feelings of those opposed to the changes in the constitution, particularly the TNI/Police fraction. The ABRI fraction agreed to the amendment after the Komisi Konstitusi was accepted by the pro-amendment factions. The commission also functioned to accommodate voices in the public and from NGOs who stood on the other side of the fence or were otherwise dissatisfied. The Commission grew out of a compromise to build as wide a consensus as possible in support of the amendments.

The Constitution Commission (Komisi Konstitusi)

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Highlights: the most significant points of amendment

The First Amendment 1999

Recognizing the risk opened by the original 1945 Constitution for presidents to remain in power indefinitely, legislators in 1999 determined that the president will be eligible for reelection only once. In other words, a term limit of two consecutive five-year terms was installed.

The first amendment definitely returned the power of legislation to parliament. Instead of endowing the Presidency with “the power to formulate law with the agreement of parliament”, the constitution now states that the executive may submit bills to parliament..

Of more symbolic significance in the amendment’s reinstating of checks and balances between the executive and the legislature, the First Amendment also stipulates that ambassadors to foreign countries and from foreign countries would hence have to be confirmed by the parliament and not simply appointed by the president.

The Second Amendment 2000

The Second Amendment provided for enhanced decentralization and regional autonomy, adding statements emphasizing “maximal” autonomy of provinces, districts and cities to manage their own affairs and formulate their own regional laws, as well as reaffirming the role of regional assemblies (DPRD) in regional autonomy. The Second amendment also explicitly specified that the members of the DPR would have to be elected through public elections. This provision gives a message that there should be no more appointed members to the parliament.

It also expanded the constitutional recognition of human rights, enshrining the separation of the police from the military (TNI). Just as significantly, through a separate decree that is not part of the constitution, it was decided that the appointment of the Commander of the Armed Forces and the Chief of Police would have to be confirmed by the Parliament. This provision sent a clear signal that the military is subordinate to civilian authority.

Significantly, a new section on human rights was constituted, incorporating statements from the Universal Declaration of Human Rights.

The Third Amendment 2001

The third amendment provides for direct election by the people of the President and the Vice-President as a ticket, which may be put forward by one political party or a group of parties. 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.

The amendment also sets out rules and procedures for the impeachment of the President. 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. 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. This mechanism is intended to prevent abuse of impeachment proceedings by the legislature.

This amendment also affirms that judicial power lies with the Supreme Court and the courts beneath it, as well as the newly constituted Constitutional Court. The Constitutional Court has the authority to preside over charges against the President in an impeachment process; 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. With regard to judicial review, the Constitutional Court has the authority to review the constitutionality of laws, while the Supreme Court tests the legality of governmental rules and decrees to existing laws. The third amendment also established that appointments of the members of the Supreme Court by the President, have to be proposed by a newly constituted independent judicial commission, and approved by the parliament. The Judicial Commission is judicial watchdog

established in the constitution to uphold and safeguard the honor, integrity and conduct of judges.

In a major structural change to the legislative body, although Indonesia remains a unitarian state, the third amendment constituted a bicameral system of representation. It established the Regional Representative Council (*Dewan Perwakilan Daerah*-DPD), representing each of the provinces equally, similar to the US Senate (for more information on the DPD, see Gaffar et.al. 2003).

The third amendment also established the rule on general election. General election is to be held once every five years, to elect, the DPR and DPRD, DPD, and the President and Vice President. and DPRD. It provides that the participants in the election for members of DPR and DPRD are political parties, while for DPD are individuals. The elections are carried out by a national, permanent and independent general election commission.

The Fourth Amendment 2002

The Amendment would define that the MPR, consists of the Parliament (House of Representatives or DPR) and the Regional Representative Council (DPD).¹¹⁰ This provision also permanently bar the non-elected members of MPR, such as those representing the functional groups including the military of past.

The Fourth Amendment would specify that in a presidential election, if no ticket can achieve the 50-20% threshold, the two tickets with the most votes will run in another direct election by the people.

Clauses relating to social justice were also incorporated, among them clauses guaranteeing universal government-sponsored primary education, minimum aggregate education spending of 20 percent from the national government and regional governments budget, as well as a strengthened language on social justice and environmental-friendliness.

The “crucial clauses”

¹¹⁰ The MPR as the joint session of DPR and DPD, although no longer possesses the absolute power it had had before the amendment, still retains the authority to amend the constitution and impeach the president and elect president when both the president and vice president are simultaneously permanently incapacitated.

As would be expected from such an enterprise, controversy would surround some proposed amendments more than others. Proposed amendments that provoked the most conflict, splitting political parties along lines of interest and ideology, came to be known the “crucial clauses.” Crucial issues included the structure of the membership of the MPR, the powers of the MPR and clauses to do with direct elections for the president. Debate and discussion on such matters would proceed slowly and almost tortuously, yet the MPR in these cases displayed a pattern of choosing not to force the issue through hasty resolution by straightforward voting, thus averting much potential for greater conflict in the MPR and in society at large. The better approach, it seemed, was to allow discussion to continue in the MPR ad hoc working committee meetings for the next special session, the better to minimize fractional disputes and to maximize the chances for passing amendments by acclamation rather than voting.

Crucial clauses on the membership of the MPR (as part of the fourth amendment decided in 2002)

History

Until the end of the New Order government, the MPR had been made up of three elements: members of the DPR (house of representatives), *Utusan Golongan* (representatives of special interests or functional groups) in which in principle the military was included---although they would establish their own fraction--- and *Utusan Daerah* (regional representatives). Selection mechanisms varied across groups. Members of the DPR were elected indirectly by the people who picked a party—not a candidate—on election day.¹¹¹ *Utusan Golongan* including the military seats were allocated by the president himself, while *Utusan Daerah* were elected by the DPRD (provincial house of representatives) of each province.

Criticism

In the *Reformasi* period, this system was heavily criticized for diluting democracy and fostering patronage. Public feeling grew to favor more direct democracy: the entire house should be elected by the people, if government was to be a true reflection of the wishes of the people, if the people were indeed sovereign. Political

¹¹¹The party would present a list of candidates, in order of precedence of who would get the seat, depending of how many seats the party won in the district.

reformists and activists pointed out that the 1945 Constitution had left too much power in the hands of the president. Conflict of interest between fulfilling the wishes of the people and the wishes of the president often pushed parliament to be lenient towards the president, and being a rubber-stamp parliament it was undoing its function as a legislative check on the executive. Debate also surrounded the place of the military in the MPR, a privileged position that was rooted in the history of the country and bolstered by the *dwifungsi* doctrine.

Movement towards Reform—resistance and political military

The Working Group of the MPR for the 1999-2000 session proposed an amendment to the second clause which would ensure direct elections of DPR members and more restrictively define the scope of the special appointed representatives. At this early stage no real suggestion had been made to seriously reexamine the political role of the military. However, in the forums of the First Ad Hoc committee of the Working Group of the MPR in 2000, a significant change took place which cast serious doubt on the continued privileged role of the military. Much debate took place on whether the constitution would continue to allot seat to unelected members i.e. special interests or functional representatives, which indirectly also meant the military. Two primary alternatives emerged for the amended clause: one with the status of the *Utusan Golongan* maintained, the other without.

In 2000, the MPR passed a resolution that further reduced the prospects of the continued special status of the military in the house of representatives. It was a victory for many proponents of democracy who were critical of the powerful influence of the military establishment with respect to the civilian government. In MPR Resolution VII/MPR/2000, it is stated that the political role of the military would not continue beyond 2009.

The fractions in support of the existence of *Utusan Golongan*, and as a consequence the military/police, fractions in the MPR—who, it should be reiterated, continued to participate in the discussions that might lead to the cessation of their role—fought to have their special status retained, even backpedaling to a compromise clause that would specify that appointment of *Utusan Golongan* would not be done by the president but by the DPR.

Discussion continued without consensus until the night of 10 August 2002, when it was decided that a vote was in order given that the deadline for this amendment

was nearing. This was the first and only vote taken in the entire amendment process between 1999 and 2002. The clause without *Utusan Golongan* passed by a 475-122 majority with 3 abstaining votes. With the passing of the amendment, the Constitution now defined the MPR consisting of members of the DPR and DPD who are all elected by the people—*Utusan Golongan* had no place, and the military faction would not have a place in parliament beginning 2004. Perhaps most importantly, Indonesian democracy had in terms of mechanics become more direct than ever, with the DPR becoming purely a body of elected representatives, and the creation of a senate-type institution in the DPD, similarly of elected “senators” who crucially can not run on political party platforms—in effect the creation of a new channel of new blood into government.

Crucial clauses on the powers of the MPR (as part of the third amendment decided in 2001)

History

The original 1945 Constitution defined the MPR as the most powerful institution of the land, endowing it with powers over the constitution and the guidelines of national direction. The original Article 1 of the constitution stipulates, “Sovereignty would be in the hands of the people, to be fully executed by the MPR”. The MPR---by the old definition, the combination of the DPR and the functional and regional representatives---according to the constitution held prime of place over all other arms of government, even over the presidency, the courts, and the DPR. In practice, however, over the years the power of the MPR was in many ways undercut by the unclearly-bounded powers of the presidency. Under the guided democracy this usurpation of power was stretched further by appointing the leadership of the MPR---and DPR as well---as cabinet ministers.

Criticism

Whatever the extent of the power of the MPR, *Reformasi* called for the curtailment of its extensive powers. The 1945 Constitution had failed to provide a sufficient set of checks and balances between the legislative, judicial, and executive branches of government. In concrete terms, in the pre-democracy periods, the system had been perverted into a centralized system with powers concentrated in the presidency which resembled an authoritarian and totalitarian state.

Movement toward reform

Reform to curtail the powers of the MPR met with relatively little resistance and conflict. Article 1 clause (2) of the amended constitution would place sovereignty firmly in “the hands of the people”. On the issue of presidential selection, the MPR saw deep division and debate between those who wanted to retain the old system of MPR selection and those favoring direct elections by the people. There was also disagreement on the extent of the powers of the MPR in evaluating, impeaching and firing a president before his term. At the end of the annual session of the MPR in 2001, the MPR resolved not to remove the powers of presidential selection from itself, but in a significant move restricted its powers of impeachment by requiring the involvement of the judiciary--the Constitutional Court-- in the hope of preventing abuse of the impeachment process over political and not constitutional reasons.

The crucial clause on direct presidential elections (as part of the Fourth Amendment decided 2002)

History

In the effort to restore sovereignty to hands of Indonesian citizens, presidential elections could but be a central issue. The New Order had seen that the president could perpetuate his rule by installing his supporters in the MPR. The selection of the president by the MPR was increasingly seen as a mechanism detracting from the ideal of people’s sovereignty.

Movement towards reform

Factions in the MPR ranged from those who outright opposed the removal of such MPR powers, to those who wished to compromise and retain some influence over the final decision. One proposal was that the MPR would put forward the candidates from which the people would vote, another would allow the MPR to choose a president and vice president from the candidates put forward by the two parties with the largest number of votes in the general elections. Another proposal would require that party tickets for the presidency would have to garner at least 50% to be automatically granted the presidency and vice presidency, in the failure of which the MPR would select from among the candidates from the two parties with the largest number of votes.

By 2001, disagreement had narrowed. Direct election of presidential tickets that garner at least 50% of the popular vote—and significantly, at least 20% from every province—on party platforms had become acceptable to most parties. The rules governing contingencies were still debated, however. When the above conditions are not met (and with the flowering of multiparty democracy in such a large country, the probability would be high), should there be a run-off election (based on popular or electoral votes?), or should the MPR choose among the candidates?

The annual session of the MPR in 2001 would accept the principles and numerical specification of the popular presidential vote but left the contingency rules for the second round unsettled until the session of the following year, when the decision narrowed to either a direct run-off or appointment by the MPR. Direct run-off was chosen, setting the stage in 2004 for the nation’s first-ever direct presidential election where the MPR’s role has never been smaller.

The Jakarta Charter

Dispute over the role of Islam in the state has raged since the days before independence. In June 1945, a compromise was reached within the commission under Sukarno formed to discuss the issue (see discussion in previous chapter). In what has been known as “The Jakarta Charter”, Muslims in Indonesia are obligated to follow shariah law. In August 18, 1945 when the constitution was formally promulgated, however, the charter, originally to be one of the *Pancasila* principles, was dropped from the preamble to the 1945 Constitution. This was not the end of the story. The *Konstituante*, a constitutional assembly to redraw the constitution set up in by the 1955 general election, would again reject the Jakarta Charter in 1959 after much acrimony and deadlocked discussion. In the early 1960s groups Muslims groups would continually push for the charter’s official recognition, against the nationalist and socialist groups (tacitly supported by the military).

In recent years, the debate has surged again. During the amendment years, Islamic parties such as the United Development Party (PPP) and Moon Star Party (PBB) fought for the inclusion of the Jakarta Charter into the Article 29 of the 1945 Constitution guaranteeing religious freedom under one God. However, the MPR decided to keep the original Article 29, reaffirming the commitment of the majority on religious freedom and the

faith in one God, without prejudice in favor to or against any religion.

In closing, it maybe worthy to emphasize that the main idea behind the reforms begun in 1999 was to ensure that a newly revised constitution established 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 sought to ensure that the sovereignty of the people was reflected in the way the government was organized. The four amendments have successfully been able to conclude and reached those objectives thus laying the foundation for democracy to develop and flourish in Indonesia, as the third largest democracy in the world.