

Bombings are unlikely to have an impact on Indonesia's economy

On 17 July 2009, suicide bombers attacked two hotels in the heart of a Jakarta business district, killing nine and injuring more than 50. The first successful terrorist attacks in Indonesia in almost four years are unlikely to have an impact on the economy provided the Indonesian authorities will be able to arrest the main suspect, the Malaysian bomb maker Noordin Top, who leads a breakaway group from Jemaah Islamiyah (JI), the regional jihadi organisation responsible for the first Bali bombing in 2002. Noordin Top has made all the bombs for terrorist attacks in Indonesia during the last seven years.

The attack sets back Indonesia's counter-terrorism efforts, but its political and economic impact has been minor. On 23 July President Yudhoyono was declared the winner of the 8 July elections with more than 60 per cent of the vote; nothing about the bombing is likely to weaken his government or prompt a crisis. The impact on the business community, which lost four prominent members, has been devastating, but economic indicators are stable.

Thanks to the convincing victory in the presidential elections by Susilo Bambang Yudhoyono Indonesia has accomplished what was once considered an improbable feat: In less than a decade, the world's third largest Muslim majority has freed itself from authoritarian rule and established a representative democracy that is remarkably stable. One can even plausibly argue that Indonesia has become the most stable democracy in Southeast Asia. It has also become the fastest growing economy in Southeast Asia with an expected GDP growth of 4% this year. Ironically, the lack of success of its export sector shielded Indonesia from the global economic crisis. Exports account for less than a quarter of gross domestic product.

Despite the positive outlook, there is one weakness in the ongoing political transition. It all depends on one politician: Yudhoyono. He may have surrounded himself with competent technocrats, but if he comes under a bus tomorrow there is no politician in Indonesia with the same stature to implement his anti-corruption and sensible economic policies.

In the space of a decade, following the overthrow of president Suharto Indonesia has undergone a remarkable but often misunderstood transition. It not only displaced an authoritarian with a thriving democracy. The 176 million registered voters tend to go to the polling booth in much larger numbers than in more established democracies.

It successfully dealt with separatist forces in Aceh and Papua and was able to stop a virtual religious civil war the Molukku and Sulawesi and ethnic strife on Kalimantan. East Timor was the exception.

President Habibie had no choice but to free the press. Without a doubt Indonesia has now the freest media in Southeast Asia. The number of newspapers and TV stations around the country has gone through the roof. Under Suharto only trusted cronies of the president could receive a licence to publish a newspaper or own a TV station. Publications that didn't write favourably about Suharto, like the well-known weekly Tempo, were forced to close their doors.

Indonesians now directly elect their national, provincial and municipal parliaments, its president, provincial governors and mayors. As a result Indonesia has become more democratic than its erstwhile colonial power the Netherlands, where the heads of provinces and municipalities are still being appointed.

With the re-election of Yudhoyono for a second and final five year term as president we can expect Indonesia to play a more active role in international affairs. It is already a member of the G-20. It is also the natural leader of the Association of Southeast Asian Nations (ASEAN), because almost half the 550 million inhabitants of Southeast Asia live in Indonesia. However, the Javanese leaders of Indonesia traditionally haven't shown a great deal of interest in matters overseas. This is likely to change. The new cabinet Yudhoyono is likely to be full of young, overseas educated technocrats. This would be a big improvement. The previous coalition governments were stashed with political bosses, who often showed more interest in filling their own pockets than promoting the interests of the nation.

In fact, an important reason that the other candidates for president and vice-president were so unpopular was that they were viewed as not clean. Vice president (Jusuf Kalla) used his office to enlarge his business empire. It was just another wing of his business empire. Jusuf Kalla openly boasted that conflicts of interest don't exist. He doesn't view them as conflicts but as opportunities. The same applies to the husband of Megawati Sukarnoputri. The Indonesian electorate is clearly fed up with bearers of public office who spend their time rent seeking and building up their own financial fortunes.

Yudhoyono, in contrast, has an image as a clean politician, a rare commodity in Indonesia. Unlike his predecessors, he has managed to steer clear of scandals, and his administration

has clamped down on corruption throughout the country. The Finance minister Sir Mulyani has a fine record reforming two bastions of corruption: the tax department and the customs bureau. Retired ministers, governors, members of parliament and a former central banker have been brought to court on charges of corruption and, in many cases, given stiff prison sentences. This is quite a change. Until recently, public officials viewed their stay in office as an opportunity to steal from the state's coffers with impunity. Now they have to think twice before taking the risk.

The victory of Yudhoyono was so convincing that a second round in September isn't necessary. He was lucky. The other candidates for the presidency never stood a chance. Megawati, leader of the nationalistic PDI-P, and the daughter of Indonesia's first president Sukarno, had blown her chances during her time as president from 2001 to 2004. Soon after her appointment it became clear that the presidency was out of her league. Her aloofness was initially viewed as wisdom. People even tried to discover metaphors and words of wisdom in her incoherent mumblings about the weather and gardening.

Megawati took very little interest in governing. Most of her time was spent on ceremony and pomp. She viewed herself more as constitutional head of state or as a Javanese queen than as a head of government. She never forgave her former underling, general Yudhoyono, for running against her in the first direct presidential elections in 2004. And she never seemed able to forgive the Indonesian people for being so ungrateful by voting her out of office.

Fortunately for Yudhoyono the vice presidential candidates of his opponents also lacked credibility in the eyes of the voters. While he selected Boediono, a highly regarded soft-spoken economist and the previous head of the central bank, as his running mate, Megawati and Jusuf Kalla both picked former Suharto generals with tainted pasts. Wiranto is thought to be responsible for the bloodbath in East Timor, while Prabowo has admitted to being behind Operation Rose, a special forces operation ordered by Suharto in 1998 that involved abductions, torture and murder of student activists.

The platform of Megawati's running mate Prabowo, who is an ex son in law of Suharto, has remarkable parallels with Hugo Chavez. There is no role for foreign investors. State owned companies will miraculously lead the country to an economic growth of 11%. In reality,

Indonesian state-owned companies nearly all have disastrous economic track records. Many of them have been plundered by senior officials.

This election seems to have been a dry run for Prabowo. The 58-year old ex general seems to have his eyes set on the next presidential elections in 2014. The big question who will run against him. Yudhoyono is barred from running for a third term.

What happened with the religious parties? They lost badly. Not that the winning Democratic Party of Yudhoyono is “secular”. Being secular is one of the three taboos in Indonesian politics. The others are being “liberal”, in the sense of liberal economics, and “federal”. The political class in Indonesia has had the view since the Dutch tried to introduce a federal state in the final days before handing the country to the Indonesians, that federalism is a kind of conspiracy that irrevocably leads to the breakup of this vast archipelago.

In fact, normally the opposite happens when regions are given autonomy. This explains the success of the peace deal in Aceh that was given a high degree of autonomy. It is ironic that Yudhoyono scored nowhere higher in the elections than in Aceh where he received 94% of the vote, according to exit polls.

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