

## CHAPTER 3, POLITICAL ENVIRONMENT

### *A. Nature of the Political Relationship with the U.S*

The United States and Indonesia have enjoyed good relations in recent decades. The fourth most populous nation in the world and the largest by far in Southeast Asia, Indonesia has pursued cooperative relations with its neighbors, thereby contributing to peace and stability in the region. Through its membership in the Non-Aligned Movement, the Organization of Islamic Conference (OIC), the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum, and the Asia-Pacific Economic Cooperation (APEC) forum, and by virtue of its sheer size, Indonesia can wield substantial influence on a number of security and economic issues of importance to U.S. interests. However, since Suharto's fall, Indonesia has not played an active leadership role, and when it has engaged, it has usually taken decisions based on regional consensus, which at times is not consistent with U.S. objectives. On the bilateral economic front, the United States is the single largest investor in Indonesia, when natural resources and financial services are taken into account, and is a major market for Indonesia's exports.

The United States also assumed a leading role in the international community's response to the economic crisis that struck Indonesia four years ago. Working with international financial institutions, the U.S. contributed as well to Indonesian efforts to implement needed financial reforms and doubled its own economic assistance in support of social safety net programs designed to cushion the impact of the economic downturn on poorer Indonesians. Thanks in part to long-standing relationships with Indonesian non-governmental organizations, the U.S. was well placed to provide substantial technical and financial assistance to support Indonesia's June 1999 parliamentary balloting, the country's first free elections in over four decades, and to contribute to the country's democratic transition.

Promoting respect for human rights and strengthening democratic institutions, particularly the justice sector and the rule of law, are prominent features of U.S. policy toward Indonesia. It is too early to know whether or not President Megawati will be effective at promoting increased respect for human rights. Human rights advocates were pleased when she decreed that longstanding human rights cases surrounding the security forces and East Timor's independence ballot, as well as the 1984 shooting of unarmed civilians at Tanjung Priok, be heard in an ad hoc human rights tribunal, rather than in military or criminal courts. The performance of the tribunal trying the East Timor cases, however has not resulted in the conviction of any security force members to date. This process is ongoing.

The media now report developments freely and routinely publish a wide range of opinion on sensitive issues. The government has allowed new political and social organizations to form freely, and promulgated new labor union registration regulations that have permitted more than 60 new labor federations to form. Human rights concerns, however, remain, especially as these relate to the security forces, which have been implicated in serious abuses in Aceh, East Timor, and elsewhere. Inter-communal strife, often with religious overtones, has also flared up in some areas, such as Maluku, Central Sulawesi, and West and Central Kalimantan.

The United States strongly supported Indonesia's decision to permit the people of East Timor to determine their own future. East Timor voted for independence from Indonesia in an August 30, 1999, referendum. Following efforts by the United Nations' Transitional Administration in East Timor (UNTAET) to assist in the creation of a new East Timorese government, East Timor became a sovereign country on May 20, 2002.

### *B. The Political Situation in Brief*

Indonesia held its first pluralistic and competitive parliamentary elections in 44 years in June 1999, during which forty-five new parties along with the three officially sanctioned under the Suharto Government contested 462 seats in the country's House of Representatives (DPR). (The remaining 38 seats in the DPR are allotted to the military.)

The election campaign, which many predicted would see violent incidents, was generally peaceful. The actual voting process went relatively smoothly. Although there were some allegations of fraud, the results were accepted by the major parties. The Indonesian Democratic Party – Struggle (PDI-P) led by Megawati Soekarnoputri received approximately 34 percent of the popular vote and was accorded the largest number of seats in the DPR. The second largest number of seats went to the former government-sponsored party, GOLKAR.

More than twenty other parties also gained representation in the new DPR. The 500 members of the DPR, along with another 195 representatives selected from the provinces and from societal groupings (such as religious leaders, women, students, and ethnic minorities) form the People's Consultative Assembly (MPR). In a transparent balloting procedure, the MPR elected Abdurrahman Wahid as President on October 20, 1999, and Megawati Soekarnoputri as Vice President the following day. Wahid appointed a 35-member cabinet on October 26, 1999, composed of representatives of the major political parties. Over the next 19 months, however, Wahid faced dissension and opposition within his coalition government, and he repeatedly reshuffled his Cabinet. His political opponents saw him as increasingly erratic and unable to lead. Compromise proposals foundered. Political opposition to Wahid -- in the form of a parliamentary move to impeach him -- gained momentum. In the early hours of July 23, 2001, Wahid issued a decree suspending both the DPR and the MPR and announcing that there would be new elections. Twelve hours later, the MPR voted Wahid out of office and inaugurated Megawati as President. Two days later, the MPR chose Hamzah Haz, Chairman of the United Development Party (PPP) as her Vice President. On August 9, 2001, President Megawati announced her new cabinet, which was generally well-received by the international community.

President Megawati has an array of challenges. Most prominent, as she has articulated, are separatism in Aceh and Irian Jaya, social unrest and decentralization efforts, and the economic recovery. Her cabinet represents a coalition of several other major political parties.

The DPR, under the chairmanship of Akbar Tandjung of the GOLKAR Party, has vigorously asserted its constitutional prerogatives, including its right to review government-proposed legislation, to question and challenge the President and members of the cabinet, and to provide a forum for public debate and presentation of grievances. However, the DPR as of August 2002 had an enormous back-log of unpassed legislation, concerning important political and economic matters. In a departure from

past practice (in which the MPR only met once every five years), the MPR, chaired by Amien Rais of the National Mandate Party (PAN), began to hold annual sessions in August 2000. The MPR concluded a second annual session in November 2001 and third in August 2002. Each year, from 1999 up to and including 2002, the MPR adopted significant amendments to the 1945 Constitution. The Second Amendment (2000) included provisions guaranteeing a wide range of human rights. The Third (2001) and Fourth Amendments (2002) entailed a major restructuring of the government, providing for direct election of the President and Vice President by the citizenry. The Third and Fourth Amendments also made the Executive branch no longer subordinate to the MPR, thereby creating further checks and balances in the Indonesian government system. Indonesia will hold its next general elections in mid-2004.

### *C. Major Political Issues Affecting the Business Climate*

The Megawati government faces great challenges in consolidating Indonesia's democratic transition, restoring the country's economic momentum, and bringing the benefits of development to all Indonesia's citizens. Among the key political issues with economic implications are outbreaks of communal violence around the country, particularly in the Maluku and Kalimantan (Borneo); an armed separatist insurgency in Aceh and demands for greater autonomy or independence in Papua/Irian Jaya; and a rising level of lawlessness and vigilante justice throughout the country. The government succeeded in signing a cessation of hostilities agreement with separatists in Aceh in December, 2002. In January 2001, the government began an ambitious and massive decentralization of political and economic authority to the districts. While offering democratic dividends, the implementation of decentralization has been uneven and many issues involving power- and revenue-sharing between the central and local governments remain unresolved.

Continuing reports of high-level corruption, especially in the judiciary, point to the need for comprehensive reform and implementation of good governance practices. In this regard, far more effective mechanisms will be required to enforce commercial, criminal, and administrative laws.