

### ***Research Focus***

#### ***Indonesia as a normal country: implications for Australia***

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Conceptions of Indonesia as a country struggling economically, dysfunctional politically, in turmoil socially, and reeling from a series of man-made and natural calamities, are now misleading. Indonesia in 2008 is a stable, competitive electoral democracy, with a highly decentralised system of governance, achieving solid rates of economic growth, under competent national leadership, and playing a constructive role in the regional and broader international community. We need to start seeing it as a normal country, grappling with the range of economic, human development, infrastructure, and governance challenges common to other large middle-income developing democracies—not unlike India, Mexico or Brazil.

At the time of the Bali Bombing in October 2002, Indonesia was seen, at best, as a 'messy' state, either balkanising in the aftermath of Soeharto's authoritarian New Order, or on the verge of being engulfed in radical Islam. Yet Indonesia today has one of the world's most successful track records in combating terrorism. Moreover, Islamist parties have failed to attract votes, with the overwhelming majority of voters rewarding centre-nationalist, mainstream, generally 'secular' parties in the hundreds of local elections conducted since 2005. Radical agendas generally find little support in Indonesia, the national focus having settled on poverty, jobs, the economy and, of course, politics—the 2009 national elections loom increasingly large and campaigning is already well underway.

Considering the economic devastation wrought by the Asian financial crisis of 1997–98, Indonesia's re-emergence as an anchor of economic and political stability in Southeast Asia is remarkable. Annual economic growth remains above 6 per cent, one of ASEAN's highest. In its latest annual report, Freedom House designated Indonesia for the first time

as the only fully free and democratic state in Southeast Asia. Indonesia's success in hosting the United Nations Climate Conference in Bali in December 2007 speaks volumes for the normalcy of Indonesia today.

To think of Indonesia as a normal country is to see it as a country that is not in a deep state of flux, or verging on crisis, but that is a stable, middle-income country making steady developmental progress. It also sets aside notions of Indonesian exceptionalism—of a country with uniquely complex circumstances and problems. As Indonesia progresses, the structure and dynamics of its politics and society are increasingly recognisable, and indeed accessible: with reliable opinion poll data becoming more common, we have a clearer window into how Indonesians think and feel on a broad range of issues.

While it is time to move beyond notions of Indonesia being in a precarious condition, there should be no exaggerated optimism about a transforming Indonesia. Like other large developing countries in the middle income bracket, it faces myriad major challenges. Inadequately managed, these could see Indonesia sliding backwards rather than advancing average economic welfare of its citizens and consolidating democratic governance. But the quality of governance, and the country's overall developmental trajectory, will see continued, though only modest, piecemeal, evolutionary gains in the foreseeable future. This is a sobering prospect given the scale of the developmental challenges ahead and the natural tendency to wish for much faster progress. Indeed, for Indonesia, and for countries like as Australia seeking to engage constructively with it, this may well be 'as good as it gets' for some time—in terms of the pace of internal progress and receptiveness to international engagement. Seeing Indonesia as becoming a normal country implies recognising its progress in reforming the way it operates, while maintaining a clear-eyed realism about what a very large, middle-income, developing democracy can do.

*Sustained economic improvement:* Indonesia's economy now has considerable momentum. Optimism can also be drawn from its success in keeping inflation at a reasonable level and from its progress in reducing government debt as a proportion of GDP to a manageable level. Particularly encouraging is the fact that it seems to have turned a corner in terms of investor confidence. Investment was slow to recover in Indonesia, and investors inside and outside Indonesia remained wary of sinking new capital in there. The results of Indonesia's sustained policy effort at promoting investment are now becoming apparent with annual investment growth running at 7–8 per cent since mid 2006 and increased spending on machinery and equipment, rather than just construction since 2007. According to the World Bank, investment as a percentage of GDP is around 24 per cent—placing Indonesia midway between the Philippines (15%) and Vietnam, Korea and Thailand (about 30%).

*The great challenge of poverty:* It is also encouraging that Indonesia has begun to see some modest gains in reducing unemployment and poverty. In 2007 unemployment fell for three successive quarters and the absolute number of people living in poverty fell by 2.1 million. However, Indonesia continues to face profound problems with poverty. For a middle-income country, the proportion of the population living in poverty is high, and standard poverty numbers do not capture the full extent of the problem. On a range of key indicators, Indonesia performs markedly worse than it should: in health, the maternal mortality rate is three times that of Vietnam and six times that of China; in education, flow on rates from primary to secondary school are low; and in sanitation, less than 1 per cent of Indonesians have access to piped sewage. The World Bank says conditions are typically worse in outlying areas, particularly Eastern Indonesia, and while the relative incidence of poverty is lower on Java and Bali, nearly 60 per cent of Indonesia's poor live there.

Major efforts to address the poverty problem over the past 1–2 years have seen some improvement. But the scale of the challenge

is great, and some aspects of current policy—most notably, fuel price subsidies and rice import controls—are exacerbating things. It is of overriding importance that the Indonesian government continue to make progress in reducing the poverty problem. Particularly given the country's new open political environment, prolonged failure on this front increases the dangers of serious social tensions and political instability.

*Current vulnerabilities:* In the short-term, four specific vulnerabilities could jeopardise continued progress: infrastructure and service-delivery, major fiscal blindspots, ongoing problems of labour market competitiveness, and risks from global financial instability. Arguably, the most acute vulnerability confronting the economy is the slow progress in tackling infrastructural bottlenecks and failings in the delivery of key social services. Investment in a wide array of infrastructure and services—transportation, communications, energy, education, public health and safety, water and sanitation—has been inadequate although the government recently increased infrastructure spending.

*Religious Pluralism:* Pluralism is alive and relatively well in Indonesia. Citizens generally support an inclusive, tolerant national ideology and religious dynamism is shared by most faiths, with Christian charismatic and Chinese religion undergoing a resurgence. The popularity of Christian evangelical cable television stations in Jakarta is one startling manifestation of pluralism in Indonesia today. Differences between and amongst Indonesian

Muslims today are also less stark than at any time in recent history and interfaith relations are generally sound. Government is increasingly willing to protect religious and ethnic minorities and has begun to crack down, albeit unevenly, on intra-religious violence. So the real realm of religious conflict in Indonesia remains, between and amongst followers of the same faith, rather than between religions. While worrying incidents of intolerance and the occasional legal sanctioning of peaceable expressions of unorthodox faith occur, these are localised events rather than a national trend of growing support for intolerance or discriminatory policies, regulations or laws.

*Aceh:* Ensuring good governance and long term development in Aceh, is now, the main and in some ways, more difficult challenge for Aceh, and for Indonesia more generally. Aceh now must cope with massive economic distortions caused by the drawdown in disaster recovery assistance and the political imperative of providing jobs to the former separatist fighters. But so far the Aceh local government has been unable to attract significant investment to the province. The potential political flashpoint for Aceh is the lack of jobs for former GAM members, since part of the peace process involved commitments to reintegrate thousands of former GAM members into Acehnese society. Not only has this not yet happened, employment is not being generated for anyone in Aceh, much less former GAM fighters, many of whom have less employable skills than the general workforce.

*Conclusions:* The most fundamental long-term priority for Indonesia is to maximise economic growth so as to maximise poverty-reduction. The single most important factor is the policy settings adopted by the Indonesian government itself. Mostly part-particularly on core macroeconomic policy settings—the Indonesian government does a reasonably good job. But if we move beyond policies and policy management to some of the broader institutional arrangements that underpin economic policy and economic activity, there are areas of pressing need where Australia could make a significant and welcome contribution. Three in particular stand out: continued governance reform; education sector reform; and services sector reform.

The death of former president Soeharto, which had little impact in Indonesia, was a reminder of how much it has changed. Indonesia's democracy is by no means completely secure, though it is in reasonably good shape. The likelihood that Indonesia will experience no major problems over the next decade is low, but as its institutional framework evolves and takes root, the magnitude of any swings is likely to be smaller. This too, is part of becoming a normal country.

Note: This article is an extract from a paper 'Indonesia as a Normal Country: Implications For Australia' for the Australian Security Policy Institute (ASPI), April/May 2008. Full paper available at: [www.aspi.org.au](http://www.aspi.org.au)

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<u>Events</u>	<u>Crawford Seminars*</u>	<u>New Books from Asia Pacific Press</u>
3-4 April, <i>Micro-Economic Foundations of Economic Policy Performance in Asia</i> , conference, New Delhi	*Seminars are held at 12.30pm in Seminar Room 4, Crawford Building	Pacific Economic Bulletin Volume 23 Number 1 Special issue on Papua New Guinea Subscriptions available at A\$60 per year (3 issues)
8 April, <i>The Warwick Commission Report: The future of multilateral trade</i> , Executive seminar, Canberra	1 April, <i>From Alan Greenspan to Iraq and Tibet: systematic causes of the first-world debt, and the case for financial restructuring</i> , Robert Wade, London School of Economics	<a href="http://peb.anu.edu.au">http://peb.anu.edu.au</a>
8 April, <i>Papua New Guinea Update</i> , Goroka	3 April, <i>Data collection in less developed countries (household water use)</i> , Celine Nauges, University of Toulouse	Asia Pacific Press publications can be ordered online at <a href="http://www.asiapacificpress.com">http://www.asiapacificpress.com</a> , or by contacting Landmark Educational Supplies, Ph: 03 5625 4290, Fax: 03 5625 3756, <a href="mailto:book.distribution@elandmark.com.au">book.distribution@elandmark.com.au</a>
10 April, <i>Papua New Guinea Executive Update</i> , Port Moresby	<u>Publications</u>	APEC Economies newsletter mailing list Enquiries: Australia-Japan Research Centre Tel: (61-2) 6125 3780 Fax: (61-2) 6125 0767 Email: <a href="mailto:ajrc@anu.edu.au">ajrc@anu.edu.au</a>
11 April, <i>Papua New Guinea Update</i> , Port Moresby	<u>Asia Pacific Economic Papers</u> 370, <i>The response of firms to eligibility thresholds: evidence from the Japanese value-added tax</i> , Kazuki Onji	
29 April, <i>Thirty years of structural reform in China in regional and global perspective</i> , Roundtable, Beijing		
30 May, <i>Papua New Guinea Update</i> , Sydney		