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## Indonesia: Ambling on with the Status Quo

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## Indonesia: Ambling on with the Status Quo?

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As Megawati Sukarnoputri approaches the end of the second year of her Presidency in July 2003, doubt lingers as regards to her administration's commitment to political and economic reform. Urgently needed fundamental reforms have yet to materialise and the prognosis is not positive in the short-term.

On the economic front, the Indonesian Bank Restructuring Agency (IBRA), established in 1998, is perhaps the centrepiece of Indonesia's corporate restructuring efforts. It is the only part of the haphazard economic plan that still seems to be on track, albeit only recently making substantive progress. To date, the IBRA has sold stakes in Bank Central Asia, Bank Niaga and, most recently, a 51 per cent stake in Bank Danamon to a Singapore-led consortium.

This follows another Singapore government-linked company (GLC), ST Telemedia, gaining a 42 per cent stake in Indonesia's leading overseas-call operator, Indosat. Another Singapore GLC, Singapore Telecommunications, owns a 35 per cent stake in PT Telkomsel, a key player in the mobile phone industry. The IBRA is likely to hasten its plans to sell majority stakes in Bank Lippo and Bank Internasional Indonesia this year before its mandate runs out in September 2003. While these divestments signal the tentative intent to engender investor confidence, nationalistic sentiments can be easily egged on by xenophobic politicians, if more of Indonesia's assets become foreign owned.

Indonesia's Extended Fund Facility arrangement with the IMF expires on 31 December 2003 and the indications are that Indonesia might pull out of the programme. Nationalistic considerations could play a part, but the impact on foreign investor confidence caused by Indonesia's withdrawal cannot be ignored.

Corruption remains pervasive. Decentralisation has generated multiple avenues for graft at all levels of the administration. Of greater concern is that corruption is the soft underbelly of Indonesia's anti-terrorist efforts, where security breaches can be induced through corrupt practices. This impinges directly on investor confidence as well.

With politicians having an eye to the 2004 national, and first-ever direct presidential, elections political paralysis is likely to be the order of the day, as upsetting the status quo can be a dangerous venture. The 2003 Pew Global Attitudes Project report revealed a marked rise in Indonesian-Muslim hostility to, and distrust of, the United States. American influence on developments in Indonesia is, however, declining. The influence of the Indonesian military is certain to increase as jockeying by

politicians for support and influence gains momentum. Political Islam, in its various shades, will exert a marginal influence on the electoral process, but may play a role in tipping the balance in a situation where every available vote counts. The military campaign in Aceh is likely to be long and drawn out, despite the military's "shock and awe" tactics.

The above confluence of factors makes for a somewhat dismal future for Indonesia. A vicious cycle of political and economic quagmire, poverty and underdevelopment leading to violence presents a foreboding prospect both for Indonesia and her ASEAN neighbours.

**WATCHPOINT:** Expect the status quo to persist in the lead up to the elections. Indonesia will amble on but the opportunity to make fundamental changes in the post-Suharto years are rapidly fading, as the reformasi drive currently seems directionless.