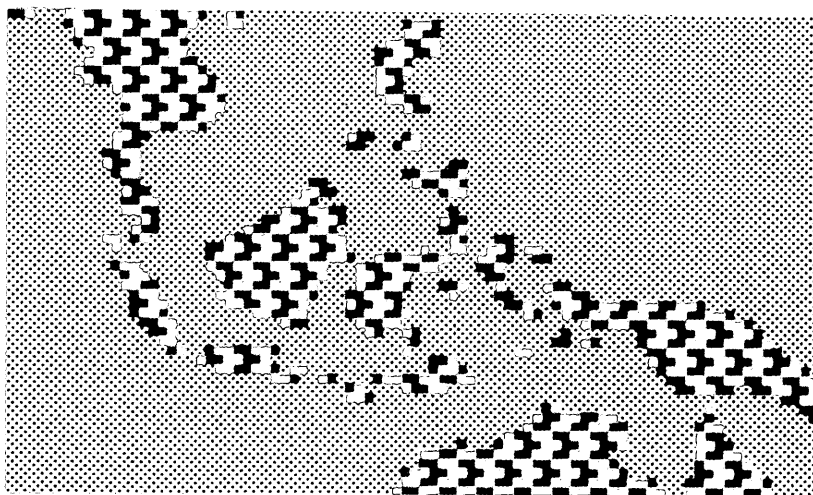


IDE Spot Survey

Indonesia Entering a New Era

*Abdurrahman Wahid Government
and Its Challenge*

March 2000



Edited by Yuri Sato

INSTITUTE OF DEVELOPING ECONOMIES

IDE-JETRO

The aim of the Institute of Developing Economies (Aija Keizai Kenkyusho) is to conduct basic and comprehensive research on economic and related affairs in Asia and other areas which are on the road to development. It, thereby, contributes to the promotion of economic cooperation and the improvement of trade relations between Japan and these areas and, ultimately, toward the prosperity and welfare of developing countries.

The Institute was founded in December 1958 as a nonprofit organization. In July 1960, it was recognized by law as a semi-governmental body. The Institute merged with JETRO on July 1, 1998 to strengthen trade and economic cooperation with the Asia Pacific and other regions.

As of March 1, 1999, the number of staff members was 252, of whom about two-thirds are engaged in research (including 30 stationed overseas), with the rest employed as librarians, statisticians, or secretarial personnel.

*IDE Spot Survey intends to respond to public demand by offering prompt and proper analysis of emerging problems in developing countries. Previous issues include **Examining Asia's Tigers—Nine Economies Challenging Common Structural Problems—**, July 1997, **Economic Outlook for East Asian Economies over the Next Decade—Is Continuous High Growth Possible?**, October 1997, **From Storm to Thunder—Unfinished Showdown Between Iraq and U.S.**, March 1998, **Deepening Industrial Linkages Among East Asian Countries—In the Light of International Input-Output Analysis**, March 1998, **China's Roadmap as Seen in the 15th Party Congress**, March 1998, and **The Caspian Basin Oil and Its Impact on Eurasian Power Games**, June 1998, **Asian Economic Crisis 97/98 – Issues in Macroeconomic Imbalances, Capita Outflows and Financial Crises**, March, 1999, **Economic Crisis and Korea/Taiwan**, March, 1999*

3-2-2, Wakaba, Mihama-ku,
Chiba-shi, Chiba,
261-8545, Japan
Telephone: 81-43-299-9521
(Direct, Research Project Division)
Fax: 81-43-299-9724
Homepage: <http://www.ide.go.jp>

IDE Spot Survey

Indonesia Entering a New Era
Abdurrahman Wahid Government
and Its Challenge

March, 2000

Edited by Yuri Sato

INSTITUTE OF DEVELOPING ECONOMIES

Contributors

- Yuri SATO** Senior Research Fellow, Economic Development Research Department, Institute of Developing Economies (Executive Summary, Chapter 1)
- Koichi KAWAMURA** Researcher, Area Studies Department I, Institute of Developing Economies (Chapter 2, Appendix)
- Jun HONNA** Indonesian Political Analyst (Chapter 3)
- Kazuhisa MATSUI** Japan International Cooperation Agency (JICA) Expert in Makassar (loaned out from the Institute of Developing Economies) (Chapter 4)
- Miki TAKEDA** Researcher, Economic Development Research Department, Institute of Developing Economies (Chapter 5, Appendix)
- Masami ISHIDA** Overseas Senior Research Fellow in Jakarta, Institute of Developing Economies (Chapter 6)
- Keiji OMURA** Director-General, Economic Cooperation Studies Department, Institute of Developing Economies (Chapter 7)

Contents

Executive Summary

Chapter 1

Yuri SATO

Birth of New Government: Background, Features and Tasks	1
1. 1 How the Gus Dur/Megawati Government Came About	2
1. 2 Characteristics of the New Government	7
1. 3 Priority Issues the New Government Has to Tackle	11

Chapter 2

Koichi KAWAMURA

Political Reform in the Post-Soeharto Era	14
2. 1 Democratization and Reform of Political Institutions	14
2. 2 Democratization and General Elections in June 1999	19
2. 3 Tasks to Be Tackled by the Abdurrahman Wahid Government toward Further Democratization	22

Chapter 3

Jun HONNA

The Military in Transition: Between Reform and Power Struggle	26
3. 1 Confronting the Lost Credibility (May to December 1998)	26
3. 2 Flowering of Wiranto Politics (January to March 1999)	28
3. 3 The Escalation of Civilian Politics and Intra-Military Rivalry (April to October 1999)	30
3. 4 The Military in the Presidential Election	33
3. 5 The Place of the Military in the Abdurrahman Wahid Government	34

Chapter 4

Kazuhisa MATSUI

Decentralization: Seeking A New Central-Regional Relationship	37
4. 1 Politicized Concept of Region: Eastern Area of Indonesia (EAI)	37
4. 2 Enactment of Two Decentralization Bills	39
4. 3 Future Developments Concerning Decentralization	43

Chapter 5

Miki TAKEDA

Indonesia's Economic Reform: Restructuring of the Banking Sector	48
Introduction	48
5. 1 Outbreak of Problems	48
5. 2 Indonesia's Debt Problems	49
5. 3 Restructuring of the Banking Sector	53
5. 4 Problems in the Indonesian Economy	59
Conclusions	60

Chapter 6

Masami ISHIDA

The Prospect of and Challenges Facing the Recovery of the Real Sector	62
6. 1 The Analytical Framework and the Periodization of the Economic Crisis	62
6. 2 Pressures of Increased Import Prices, Intermediary Goods and Increased Debt Servicing Costs	63
6. 3 The Domestic Market Became Downsized	65
6. 4 The Depreciation of the Rupiah's Value and an Export Drive	69
6. 5 Production Levels of Various Industries	70
6. 6 Summary and Challenges to be Tackled	75

Chapter 7

Keiji Omura

The Tasks and Future of the Abdurrahman Wahid Government	82
7. 1 Characteristics of the New Government	82
7. 2 Short-term Policy Tasks Requiring Urgent Solutions	84
7. 3 Tasks of Medium-term Economic Reconstruction	85
7. 4 Scenarios for Economic Reconstruction	87
7. 5 Nationalistic Policies and International Support	88

Appendix	I. Members of the Abdurrahman Wahid's "National Unity Cabinet"	92
	II. Indonesian National Military's Leadership	94
	III. Results of the 1999 General Elections and Voting	96
	IV. Distribution of Seats among Political Parties in the House of Representatives (DPR)	97
	V. Political Parties Which Gained Seats in the General Elections	98
	VI. Major Economic Indicators for Indonesia	99
	VII. Chronology of Major Events (1998 to 1999)	100