Chapter 7

The Tasks and Future of the Abdurrahman Wahid Government

7. 1 Characteristics of the New Government

After president incumbent Habibie declared he would not stand as a candidate for the presidency, the People's Consultative Assembly (MPR) on October 20, 1999, elected Abdurrahman Wahid alias Gus Dur as the new president. This came as a surprise to the Indonesia public. Shocked by this unexpected outcome, the exchange and securities markets nose-dived. But the markets bounced back the following day as Megawati Soekarnoputri, leader of the Indonesian Democratic Party of Struggle (PDI-P), was elected vice-president. With this, the public felt assured of stability and placed hope in the new government. The Gus Dur government got off to a celebrated start. On October 26, the member list of the new cabinet, which was called a "cabinet of national unity," was announced. Precisely because this cabinet had to prioritize national unity, it failed to wipe out the legacies of the preceding Soeharto and Habibie governments. Coming as a result of compromise and conciliation of existing political forces, this ruling coalition could not afford to carry out thorough democratic reform and loud critical voices were raised in some quarters pointing to this limitation. Therefore, it is true to say that the Gus Dur government was not necessarily launched into calm waters. Furthermore, rumors of a coup d'etat and a major reshuffle of the cabinet in January 2000 followed.

The very nature of the new government defines its tasks. First of all, the new government mirrored the Indonesian people's opinion expressed through the June 1999 general elections about how a new Indonesia should look. Though the PDI-P won 34% of the votes cast and thus topped the voting list, the Golkar Party also did quite well with a vote share of 22%. However, the parliamentary seat allocation was not proportional to the votes cast, the differential in seats between the two parties being much smaller than the voting share differential: the Golkar Party won 120 and the PDI-P 153 seats. All this indicated that the people did not favor drastic democratic reform. In the presidential election, Gus Dur obtained 373 votes against Megawati's 313. Gus Dur won more votes than Megawati as Golkar, uneasy about Megawati's ability and posture, voted for him together with Islamic parties and military representatives. Preceding the presidential election, Habibie made an accountability speech. The MPR rejected this speech by a bare margin as the military representatives joined the opposition. This being the case, the Gus Dur government, as a product of compromise, can hardly eliminate the heritage of the "New Order" or "*Orde Baru*" regime of Soeharto and the successor Habibie. This means that the demand for total democratic reform which radical political forces and the student movement were demanding after Soeharto stepped down was not to be fully met by the new government. But the establishment of the new government was generally welcomed by the Indonesian public and foreign governments. The new government has succeeded in assuring political stability, the major concern of the whole country. Having done so, the government has certainly laid the foundation for economic reconstruction.

Secondly, by examining the names of the ministers, we need to measure the new government's capability to make and implement proper policies. The market at first did not highly appreciate it. For a week or so after the cabinet was organized, the securities and currency exchange markets were assuming a wait-and-see attitude. The reason was that the cabinet failed to present a clear policy package for social and economic reconstruction. The administrative abilities of the new cabinet members, especially those in charge of economic affairs, were unknown. None of them had proven their capabilities through past achievement. Moreover, according to Gus Dur, three cabinet members were suspected of corruption. This was a visible flaw in the formation of the new cabinet. The first crack in the new cabinets makeup came almost immediately when Coordination Minister Hamzah Haz resigned toward the end of November 1999. Coordination Minister Kwik Kian Gie in charge of general economic policy, an ethnic Chinese who is the brain trust of the PDI-P, is a business administration specialist, and his ability in macroeconomic administration is completely unknown. In fact, there is no macro-economy specialist in the cabinet. It is also noted that members of the so-called "Berkley Mafia", that is, the technocrat group, consisting mostly of graduates from the Faculty of Economics of the Indonesia University, headed by Widjojo Nitisastoro and Ali Wardhana, were all purged from commanding government positions. They were the ones who, during the Soeharto period, made and carried out macroeconomic policies in close collaboration with the IMF and the World Bank. But they were withdrawn from the front-line activities facing the new government. Before the new cabinet was organized, rumors had it that Sri Mulyani Indrawati of the University of Indonesia and other young economists in their late-thirties would be appointed as cabinet ministers, but none actually were. It is unclear whether by excluding technocrats from his cabinet President Gus Dur wanted to demonstrate his denial of Soeharto-era economic policy. The president is examining a plan to set up a National Economic Council (DEN) as a neutral body and said he wanted to listen to economic policy recommendations from this independent body. But Widjojo and Wardhana politely declined the president's invitation to join DEN. What this gesture means is unclear.

In the third place, the on-going reform in administrative organizations is not thorough and radical. This makes it unclear where the government is headed in policy orientation. The ministries of information, state planning, social affairs, food, land as well as the public housing were abolished. The coordination minister in charge of development and administrative reform, the minister of public works, the minister of tourism, culture and art, and the minister of cooperatives and medium/small enterprises were demoted to the status of state ministers without portfolio. Instead, the posts of minister of ocean development and minister of regional autonomy were newly created, reflecting the new government's priorities. Of special note is the reorganization of the National Development Planning Agency (Bappenas) and the Ministry of Public Works. As the post of the minister in charge of national development planning, who concurrently assumes the directorship of the Bappenas agency, has been abolished, it is doubted if the agency itself can survive. In fact, given the current economic situation, Bappenas is losing its reason to exist. Bappenas is in charge of budgeting on the basis of foreign aid and government savings (current fiscal surplus) for public works and other development projects. But now Bappenas has few functions to perform as repayment of the principal and interest of foreign loans exceeds the sum of arriving aid money. Bappenas director Boediono was dismissed when he left the cabinet and deputy director Djunaedi Hadisumarto has already been promoted to the directorship. Though Bappenas is still under direct presidential control, its status has been lowered to an ordinary administrative agency as its director is no longer a cabinet minister. Its function is now limited to the drafting of macroeconomic policies and presenting them to the president for consideration. It has lost the dominant administrative powers it used to wield in making individual development projects, screening project applications, and allocating the development budget to the government agencies concerned. The Ministry of Public Works will transfer its policy implementation responsibilities to local agencies in line with the new government's decentralization policy and engage mainly in supervising how its policies are being implemented. While Bappenas and the Ministry of Public Works were reorganized, and the Ministry of Social Affairs and the Ministry of Information abolished, other independent administrative agencies too will have to undergo drastic reorganization including abolition. In this process, the new government's basic strategy of national reconstruction will gradually take shape for all to see. But at the moment, a clear vision of national reconstruction has not been seen. This is why the new government is receiving criticism from various quarters.

Fourthly, it is obvious that the new government's overall policy is oriented toward reform and democratization though details are still to be clarified. In the political arena, the social and political system that produced collusion, corruption, and nepotism (KKN) particularly in the last period of the Soeharto regime, will be critically reviewed. In the economic arena, the government will respect open market economy on the basis of international rules maintaining the consistency of policy discipline. But in the absence of conditions enabling it to fully implement this policy, the new government will have to act flexibly adapting its action to the existing realities. It is necessary for the new government to avoid taking arbitrary and dictatorial action and to listen to critical groups and the international community. President Gus Dur has already stated that he would like to listen to criticisms from abroad as well as extra-governmental circles. By following this process, the new government will be able to formulate its new policy line and strengthen public trust in it.

7. 2 Short-term Policy Tasks Requiring Urgent Solutions

Indonesian political unrest and social disorder were swiftly quelled as the president and the vice-president were duly elected. But the new government still faces the task of removing sources of smoldering social unrest. It is necessary to introduce a new system that will help wipe out corruption and other irregularities. The Bank Bali scandal is one of the blatant cases of corruption in which Habibie's involvement is suspected. Bank Bali illegally got the recovery of its $130 million non-operating loans from the Indonesian Bank Restructuring Agency (IBRA). For services facilitating this underhanded transaction, the Bank Bali reportedly paid $80 million to Golkar leaders and others. Auditing company, Price Waterhouse Coopers, investigated this case and made a report, part of which was leaked to the public. Learning about this scandal, the IMF suspended disbursement of aid money on the grounds of improper use of public funds supported by foreign aid. President Gus Dur ordered disclosure of the full text of the auditing report and decided to open investigations into the personages involved. But this is certainly not an isolated case. Even more flagrant scandals involving Pertamina and other state entities are likely to be exposed soon if rumors can be believed. It should be recalled that Habibie, when he was president, was predicting scandals in early 2000. Moreover, investigation has been slow to proceed into the Soeharto family's embezzlement of public money. However, with the establishment of the new government, the scalpel is now being sunk into past corruption cases. But an even more urgent task facing the new government is the introduction of a corruption-prevention social and political system at the earliest possible time.

The immediate task in the economic area is reform of the financial and banking sector. Indonesia faces the urgent task of rebuilding its financial system that collapsed under the impact of the Asian currency crisis. Indonesia's overseas debt already exceeds $130 billion, accounting for 120% of its 1998 GDP. Of this debt, $80 billion is public debt, $25 billion of which is due for repayment in July 2000. Indonesian economists are loudly demanding that the government ask for debt reduction and/or rescheduling at the Paris Club. It would be desirable for Indonesia not to ask for such measures, but the options open to the country are limited. The new government is required to do its best to avoid the easy-going option of debt rescheduling.

Major Indonesia banks, including state-owned banks, have gone bankrupt one after another. So far, 54 have been placed under IBRA management, of which seven have been nationalized and 38 liquidated. Banking sector restructuring costs, including public fund infusion, is estimated at a staggering 570 trillion rupiah, 2.6 times the 1999 national budget. It is obvious that reconstructing the banking sector in a short period is extremely difficult but the government is being urged to pump funds into banks anyway, and for this purpose it is required to issue bonds with the backing of foreign aid money including funds provided under the "new Miyazawa plan". Also urgent is the settlement of private firms' non-operating loans. Private debts outstanding totaled $75.1 billion as of the beginning of 1999, $69.1 billion of which involved private companies (Figures by Bappenas). The government set up the Indonesian Debt Restructuring Agency (INDRA) in June 1998 to help reschedule private firms' loans for eight years but few companies participated in the INDRA scheme. No solution of the debt issue is in sight. In September of the same year, the government announced a new scheme called the Jakarta Initiative. This scheme makes it possible for insolvent firms to carry out debt settlement and reorganization without going thorough court procedures for bankruptcy. As of November 1999, 284 firms participated in this scheme, 27 of which have succeeded in coming to terms with their claimants. These firms' debts are said to total $22 billion or more. Not a few of them reportedly have concealed funds and refuse to repay debts. The government should take a resolute stand against such firms in order to avoid the spread of moral hazard.

Following the establishment of the new government, ethnic Chinese capital that had fled overseas is coming back. Of the $80 billion of funds that had been transferred to Singapore, $16 billion are ready to be repatriated, according to *the*

Business Times of Singapore (November 2,1999). The Salim group and Sinar Mas group have brought their money back, and smaller business groups are expected to follow suit. Considering that the amount of loans the IMF itself promised to provide for financial crisis remedy is $14 billion, the ethnic Chinese enterprises' contribution to economic reconstruction could be great indeed. But no measures have yet been taken to reform the financial market. It is thought that the reconstruction of the Indonesian economy, like that of Thailand and South Korea, may skip over necessary financial reform, if so, the reform will remain half-baked at best.

7. 3 Tasks of Medium-term Economic Reconstruction

In parallel with the solution of short-term problems, the Indonesian government should work out a long- and medium-term grand design for national reconstruction and put it into practice. Though the Gus Dur government has shown no concrete reconstruction plan as yet, it will have to put some concrete policies on the table during negotiations with the IMF. Negotiations on the resumption of IMF loans began in November 2000. As President Gus Dur is pledged to collaboration with the IMF, his reform policy can be formulated only within the framework of international standards. In this sense, his position will not be greatly different from Soeharto-Habibie policy. Nonetheless, the new government must differentiate its policy from that of Soeharto-Habibie, the policy that prioritized high economic growth and ignored social problems that arose in the process of growth.

Indonesia's economic growth rate continued at a staggering annual average of 6.7% for 25 years until 1997. The World Bank in its report titled *The East Asian Miracle* highly appreciated Indonesia as one of the countries having worked this miracle. But a few years later, the Indonesian economy was drawn back to the 1970s-level in the storm of the Asian currency crisis. The country is now in search of rehabilitation under the Gus Dur administration. As in the Soeharto period, Indonesia again must look for ways to achieve rapid economic growth. An internal document of Beppanas, titled "*Menatap ke depan Perekonomian Nasional, 1999*" (the future of the national economy), states that the debt issue would not be resolved without an annual 5% economic growth rate. The report predicts that the growth rate will recover to 4 to 5% in 2000 at the earliest. But the task of the new administration is not just to bring back rapid growth but to build a society and economy that ensures social justice. This is the mission of the new government.

Coming first among the failures of the Soeharto regime was the fact that the government did not bother to remedy the widening gap between rich and poor. Though exact statistics are not available, the income of the upper few percent of the population as well as the sales of the largest 10 business groups used to represent more than 60% of GDP excluding the agricultural and mining sector. While a sizable middle class was supposed to be produced as the result of rapid economic growth, it amounted only to a modest 12-14 million, or 6-7% of the country's 200 million population (The figures are obtained from the number of privately owned cars). The National Mandate Party (PAN) headed by Amien Rais, now chairman of the People's Consultative Assembly (MPR), hammered out a total democratic reform policy to address its middle class constituency but won only 7% of the votes cast in the June 1999 general election. The middle class was not large or mature enough to give the party a solid base. The widening gap between rich and poor is consequential of the distorted pattern of economic development that did not lead to the creation of a sizable middle class. This also was the social background against which riots exploded throughout the country in May 1998. The new government is charged with the task of achieving economic growth while rectifying this structural distortion. For this to happen, shifting investment priority is essential. In the Soeharto era, especially in the 1990s, both the public and private sectors favored and implemented a strategy of preferentially investing in large projects. This strategy obviously caused the social gap to enlarge and aggravated the structural KKN practice. IMF Asia-Pacific Bureau director Hubert Neiss, visiting Jakarta in early November 1999, met with Coordinating Minister Kwik Kian Gie. The IMF officer made it plain that IMF support would go to the agricultural sector and medium and small business. To remedy the income disparity, the IMF will have to respect President Gus Dur's emphasis on micro-economy, rather than macro-economy. As an honors student of the IMF and World Bank, Indonesia followed a policy of macroeconomic growth throughout the 1990s, but this rapid macro growth policy will have to be modified under the new government. It is also important for the country to carry out reform of the tax system to facilitate income redistribution. Tax system reform has been talked about but not effectively implemented so far.

The second failure of the Soeharto era was the increasing development gap between Java, particularly Jakarta and its neighborhood called Jabotabek, and the outer islands. For instance, 70% of the country's financial assets and currency in circulation are said to be concentrated on Jabotabek. President Gus Dur and Vice President Megawati as well as former President Habibie recognize the narrowing of regional disparities as one of the major national tasks. But because of the glaring disparities inherited from the past, inter-regional political conflicts are still tense and serious. Independence of East Timor was agreed on as the result of the August 1999 referendum. Spurred by this, moves for independence in Aceh and Irian Jaya are gaining momentum and a movement has arisen for the establishment of the independent state of East Indonesia. All these threaten the integrity of the Republic of Indonesia. Following up his predecessor's regional autonomy policy, President Gus Dur has gone to the extent of proposing a federated Indonesia, but these policy proposals are still at the debating stage. It is also clear that regional autonomy does not automatically eliminate regional economic disparities.

The regional development issue does not only concern institutional measures encouraging self-reliance of regional societies and administration. It also entails how capital investment can be induced to far-flung regions. Even Aceh and Irian Jaya provinces, rich in mineral resources, cannot hope to develop autonomously unless local manufacturing and other productive activities are developed. For acceleration of regional development, it is necessary for the central government to reduce to a minimum restriction on regional economic activities and to encourage development of region-specific industries with comparative advantage. For instance, the government so far has not allowed local ports to be used for foreign trade. Local businesses thus have to ship their export products through Jakarta, Surabaya, or Singapore. If this restriction is lifted, local businesses will be able to have direct access to foreign markets through their regional ports. To make it possible, it is necessary for each region to equip itself with proper infrastructure, secure capable human resources, and resolve technological problems. These are fairly high hurdles that the regions have to jump over. The government must set a medium-term goal and consistently help the regions overcome these hurdles. Allowing regions to engage in free economic activities will also help reduce smuggling. It will also make meaningless the Singaporean policy of not disclosing Singapore-Indonesia trade statistics, a policy Singapore adopted out of political consideration. Regional autonomy requires the abolition of the traditional policy that binds regions to subordination to Java and discourages horizontal relationships with neighboring regions. In other words, each region should be allowed to develop broader horizontal linkages with neighboring areas for its development. For this to happen, regional governments should be given more powers of autonomy and encouraged to act with greater spontaneity.

The third problem relates to the need for the introduction of an economic structure for sustainable growth. The first step in this direction would be the establishment of clearly defined legal systems and their effective implementation. The Habibie government did venture to enact an anti-monopoly law and a bankruptcy law. But instituted within the legal framework of the Soeharto regime, the efficacy of these laws is questionable. As judicature and legislature are subjected to administration under the old regime, the legal system cannot function effectively. Fair law enforcement was not at all assured as KKN was rampant in the judiciary, too. The Habibie government's attorney general himself was forced to be non-active for receiving bribes. Private sector debts are not being properly settled partly because the legal basis is flimsy for this kind of procedure. As most of the problems were usually "solved" through negotiation and outside, of the legal framework, KKN became widespread, undermining the ethical basis of society. The indispensable task to make institutional reforms functional is information disclosure. This task should not be subjected to negotiation under the table among diverse political forces as happened over the composition of the new cabinet. To prevent decisions being made through underhand dealings, monitoring mechanisms should be strengthened, administrative agencies encouraged to make self-cleansing efforts, and public awareness enhanced.

What is needed, in fact, is the re-education of all the people. The Gus Dur government should set an example of transparency in front of the public. Public awareness building is in fact a premise to carry out down-to-earth reform. Groups merely crying empty democratization slogans will be excluded if public awareness becomes high enough. Changes in this direction in the public mindset and attitude will certainly enable Indonesia to build a fair society and resolve environmental issues which are expected to become very acute in the future.

7. 4 Scenarios for Economic Reconstruction

In 1998 the Indonesian economy declined by 13% from the previous year. In 1999, however, it is estimated to grow 1.5% from the previous year's level, a slight improvement. Optimistic and pessimistic views are being expressed as to the future in and after 2000, but many observers are expecting the growth rate to come back to between 4 to 6% around 2004, pointing to the positive market reaction to the Gus Dur government. Understandably, as the national planning agency Bappenas has the most optimistic view of all. The Five-Year National Development Plan (Repelita), made during the Soeharto period, is going to be abolished. To make a Five-Year National Development Program (Propelita) as its replacement, the government needs to map out a more or less roseate perspective of the future. An internally circulated report of Bappenas predicts a 2 to 4% growth rate in 1999-2000 and 6 to 7% growth in 2004 to 2005. Total public and private investment, according to Bappenas, will decline 0.5% but then grow 3.4%, in the two periods, respectively. Indonesia's exports will grow 1.5% and 2.6%, respectively, in the same periods. These figures assume an exchange rate of 6,000 to 8,000 rupiah to the dollar. In real terms, the rupiah exchange index will improve from 138.5 to 118.7 against 100 in 1996-97. The external debts to GDP ratio will lower from 96.6 to 55.2% in the same period. The crude oil export price is assumed to be $15 per barrel.

Though these are not target figures, they will certainly be taken into account in drafting the Propelita. It should, however, be understood that a "program" does not mean planning in the Indonesian context. The economic indicators used in the program are not goals to be achieved by all means. They are flexible and changeable. For macroeconomic growth to take place the first requirement is to reduce the degree of uncertainty about the national economy. Of particular importance is the elimination of distrust in the value of rupiah. Fortunately, political unrest has been quenched. Now it is necessary for Indonesia to secure independence of financial policy from political deals, establish clarity of policies, and disclose accurate information about financial transactions on the basis of strict monitoring. In this context, the Central Bank, whose independence from administration was guaranteed under the Habibie government, has an important role to play.

Secondly, it is necessary that safety nets be introduced to prevent another economic disorder. The capital market should be strengthened for this purpose. In this context, Bappenas proposes that a reliable reporting system on capital transactions be introduced together with clear transaction standards, that an economic effect measurement system be established, and that a clear and transparent decision of political will about economic reform be made and disclosed to the public.

Thirdly, it is important to maintain the fiscal continuity of the government. There are circumstances making it difficult for the government to maintain its fiscal consistency. Counted as such impediments are the central government's fund shortage in the wake of expansion of regional autonomy and the accompanying enforcement of a law for the balancing of central and regional finances, the net outflow of foreign exchange due to growing external debt service burdens, and the increasing need to subsidize social policy programs. The government must concentrate on efficient implementation of fiscal policies while avoiding flattering the masses with populist slogans. It is also necessary to increase government revenue. Required are not only a tax reform but also heightened efficiency and transparency of tax collecting mechanisms. Also, in order to rationalize the public sector, the government should speedily privatize state-owned enterprises. Though the government cannot expect much revenue by privatizing them, this is a crucial step to enhance the efficiency of the Indonesian economy. The state-owned enterprises sector grew only by an annual average of 1% compared with the 6.7% annual average growth rate in Soeharto-era attained by the whole economy.

Fourthly, it is necessary for the government to improve coordination among different government agencies in charge of economic affairs in the making and implementation of economic policies. The Soeharto government in its last period had no cabinet minister capable of integrated economic management. The Habibie government basically inherited this deficiency. Habibie had little control on the separate economic policies implemented by his various ministries. The Gus Dur government has as its key economic official coordinating minister in charge of economic affairs, Kwik Kian Gie. But given the heterogeneous nature of the political coalition on which it is based, whether this government can competently practice an integrated economic policy is doubtful. Aware of this weakness or not, President Gus Dur asked former Singapore Prime Minister Lee Kwan Yew to help as an economic advisor to his government.

Also urgent along with macroeconomic policy is the adoption of industry-fostering policies as a way to strengthen the country's real economy. With many manufacturing firms going bankrupt in the economic crisis, the plant operation rate of the manufacturing industry plummeted from 75% to 50%. For the recovery of productive activities, attention should be paid not only to the supply side but also to the demand side. The rupiah devaluation has not brought about the expected rise in price competitiveness overseas and failed to visibly increase exports. It is therefore important to increase domestic demand for manufactured goods. To facilitate this, ethnic Chinese capital should be encouraged to come back and foreign direct investment invigorated. For market development, regulations on retail business, foreign investment share, and domestically produced component ratios should be lifted. Measures are also required to restore confidence in the market. The government agencies in charge of economic affairs should be reformed and KKN wiped out in order to carry out this policy successfully. It should, however, be admitted that Indonesia cannot afford to fully open its market to the rest of the world. A serious search should be made to find out Indonesian ways toward reconstruction, not necessarily within the framework of IMF-recommended economic liberalization. For this, it is necessary for the government to identify industrial branches with comparative advantage and adopt policies to promote their development. This will enable the economy to grow on a sustained basis. This policy is clearly distinguished from the Soeharto regime's policy of prioritizing mega-projects that devour foreign exchange but have little ripple effects on the rest of the national economy. It should be noted, however, that even if mega-projects are struck off, the state must still apply certain protectionist policies for the upbringing of specific industrial sectors. On this matter, the Indonesian government should seek to harmonize its industrial policies with IMF guidelines.

7. 5 Nationalistic Policies and International Support

External factors have a considerable impact on Indonesia's medium- and long-term reconstruction program. In fact, it was the contagious financial collapse of Thailand that triggered the economic crisis of Indonesia. In other words, the destructive waves of globalized financial transactions rushed to Indonesian shores. Now restrictions on international financial transactions are being discussed by G7, WTO, APEC, and other international financial bodies. The outcome of these discussions will have a bearing on Indonesia's economic reconstruction. But what is basic to Indonesia's economic reconstruction, of course, is for the country to achieve sound enough economic fundamentals to enable the country to withstand negative economic influences.

To improve fundamentals, Indonesia is required not only to bring about macroeconomic growth, stabilize the international balance of payments, and achieve fiscal equilibrium, but also to carry out a structural reform that would constantly raise the international competitive capacity of its real economy. As Professor Paul Krugman pointed out with regard to the East Asian economy as a whole, Indonesia of the Soeharto period concentrated too much on quantitative expansion at the cost of enhancement of productivity and other qualitative improvements. In the 1990s, in particular, Indonesia undertook a number of mega-projects requiring massive imports of capital goods and raw materials causing rapid increases in the inflow of short-term foreign currency. Also speculative investment in real estate burgeoned in that period. Neither of these contributed toward raising the productivity of the national economy. From now on, Indonesia's economic development strategy should shift its emphasis to effective investment that can raise capital and labor productivity. Support to medium and small businesses, promotion of supporting industries, and development of agribusiness may be some of the hopeful areas in this context.

Indonesia is asked to strengthen its economic fundamentals simultaneously with further market orientation of its economy. But as the new government has a possibly nationalistic tendency that justifies government intervention in the economy and attaches importance to closer economic relations with neighboring Asian countries, it may come up with a policy package that may thwart sound development of market orientation. The new government will soon present a letter of intent on the basis of its November consultations with the IMF. With this, the IMF will resume provision of loans to Indonesia. The content of the letter of intent may be a sensitive one, though. Oil products and foods subsidization and high import customs on rice, to be proposed in the letter of intent, are matters politically sensitive and may conflict with IMF policies. But if the IMF takes a high-handed attitude toward the Gus Dur government, it may provoke an even greater nationalistic policy response from the government. Should rifts occur on this score within the cabinet, the only remedy would be a stronger nationalist policy. It should not be forgotten that the Gus Dur government represents a grand coalition set up for the purpose of reconciliation. It is anything but monolithic. It must also be pointed out that already the majority of the Indonesian economic policymakers are critical of, and discontented with, IMF policies.

The Consultative Group for Indonesia, consisting of the IMF, World Bank, Japan, the United States, and other governments, has an important role to play for the reconstruction of Indonesia's economy. The CGI is not only in a position to provide political support for Indonesia's reconstruction program but also is the major aid provider. The CGI's role is to advise Indonesia not to go too far toward nationalism. Indonesia holds in high expectation the role of Japan as its largest donor country. It seems that President Gus Dur is convinced that Japan is not fully on the side of the IMF and is going to provide aid to Indonesia in a more flexible way than the IMF. Indonesia seems to be expecting Japan to take its own initiative, like the founding of an Asian Monetary Fund, a proposal that is unacceptable to the IMF and the United States. If so, Japan is bound to be enmeshed in a delicate diplomatic relationship with the United States and IMF. Already, at the ASEAN summit held in November 1999 in Manila, voices were raised calling for the institutionalization of the "New Miyazawa Plan." With regard to aid to Indonesia, Japan is now urged to search for its own strategy in the general global setting.

The Japanese aid policy toward Indonesia should be modified. In the area of financial aid, Japan should not flatly reject Indonesia's request for debt reduction and rescheduling, but develop new solutions. Japan is Indonesia's largest aid provider and largest creditor. Considering this, Japan has the duty to contrive new ways to support Indonesia. In providing economic cooperation, Japan should not increase new burdens on Indonesia too rapidly. Aid should not go to mega-projects and the like whose economic efficiency is low. The aid Indonesia wants is such as will strengthen the country's economic robustness. The Japanese government in this context already made clear a change of the aid policy that aid should go into soft areas rather than hard areas. It is also noted that during the Soeharto era Japanese economic cooperation had something to do with the Indonesia's widespread KKN practice. It is essential that a spirit of cooperation free from KKN is developed. President Gus Dur certainly wants such a spirit to prevail.

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