Joko Widodo 2.0: Indonesia’s Struggle to Keep Reform on Track

Ben Bland
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Kevin O’Rourke
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Indonesia Now: Missed Opportunities, Threats to Democracy

By Kevin O’Rourke

Since Indonesia’s democratic era began 20 years ago, the score card on ‘reformasi’ has been mixed, both economically and politically.

As President Joko Widodo begins his second term, the signs are not good. He has agreed to weakening the powerful Corruption Eradication Commission, given political parties key cabinet posts and been unclear on how he will deal with moves by political party elites to attack electoral democracy through constitutional amendments.

If it goes badly, writes Kevin O’Rourke, Indonesia’s democratic gains — and its economic outlook — could suffer.

AFTER 20 YEARS of democratization, Indonesia has yet to consolidate the gains of the “reformasi” movement. The imperative for reform is urgent because of a looming middle-income trap: with a shrinking demographic bonus, Indonesia risks growing old before it grows rich. Its rate of economic growth is pedestrian, given its advantages and needs, and there is reason to expect a slowdown. Nonetheless, the administration of re-elected President Joko Widodo seems complacent about undertaking structural economic reform. And the president recently exacerbated matters by backtracking on governance reform: specifically, he hobbled the independent Anti-Corruption Commission (KPK), a bastion of integrity and effective performance for over 15 years. But while missed opportunities were the hallmark of his first term, Widodo’s second term could be worse — if he permits a clutch of aides and allies to proceed with plans to unwind Indonesia’s democratization.

Economically, Indonesia’s growth compares favorably with most of the world’s major economies (GDP has increased at an average annual rate of 5 percent over the past 20 quarters, without ever exceeding 5.3 percent), but Indonesia’s potential is significantly higher, given its factor endowments and low debt. State-led development, resource nationalism and excessive regulatory interventions have hamstrung investment: since 2015, Foreign Direct Investment (FDI) has grown at a compound annual rate of only 1 percent. The manufacturing sector should be growing as a percentage of GDP, but instead it is shrinking: from 26 percent a decade ago to 20 percent in 2018. The bulk of the working-age population toils in the informal sector due to
a dearth of good jobs, and millions of Indonesians choose to leave and seek work abroad. Widodo has been focusing on boosting social services and making infrastructure projects feasible. The percentage of Indonesians living below the poverty line has fallen since the start of his presidency (from 11 percent to nine percent), and new transportation links include a subway in Jakarta, the Trans Java Tollroad and expanded airports. However, policymakers have been chronically missing opportunities to make breakthroughs. Widodo’s adherence to state-led development has crowded out opportunities for the private sector, while the nationalization of natural resource operations has depressed sentiment in mining and oil-and-gas. Overly rigid labor-market regulations tend to deter sorely-needed investment in labor-intensive manufacturing. And foreign-ownership ceilings protect influential incumbents at the expense of investment that would spur growth. Throughout the economy, businesses suffer from excessive regulatory procedures — a reflection of age-old rent-seeking practices that remain pervasive.

Widodo routinely states that he wants growth and investment — but in practice he rarely confronts the vested interests that cause inefficiency. Beneficial reforms, such as lifting foreign-ownership limits, are well within the president’s power, but he is focusing instead on revising laws in a fractious and backward-looking parliament. Specifically, he aims for a novel instrument, an Omnibus Bill, to simultaneously revise dozens of existing laws in a single stroke. But this is not a priority. Since the revision of the KPK Law term began in October.

The strategy merely reflects his own desire to foster an impression of elite solidarity, while strenuously avoiding the appearance of discord or rancor. The president’s increasingly pronounced inclination to align with elites apparently prompted him to abandon the defense of the KPK anticorruption agency. He acquiesced to demands from parliament to remove the commission’s powers to impose wiretaps or seize evidence without attaining prior government permission. The president also gave in to filling the key post of KPK chair with an active two-star general from the police — an institution that has a well-documented record of antagonism toward the KPK.

The KPK — small, under-resourced and embattled — never had realistic potential to deter all corruption on its own. But in its effective absence, corruption may flourish even more. Weakening the commission sends an unmistakable message: fighting corruption is not a priority. Since the revision of the KPK Law in September, several corruption defendants have won controversial court rulings — a sign that this message is resonating and even reaching judges. For the development of the economy, yet more rent-seeking will pose yet more obstacles.

Despite weak economic reform and backsliding on corruption, Indonesia still benefits from a “democracy premium” — whereby confidence in electoral mechanisms provides assurance that power can change hands peacefully, without the crises or strife that often afflict authoritarian states. This improves the country’s outlook and lowers the returns that investors need to offset risk. In effect, democracy helps reduce interest rates, benefiting commerce and development. Soeharto-era interest rates were far higher than reformasi-era levels. But a risk is emerging: formidable political actors are agitating for amending the Constitution to return to Soeharto-era structures, which casts doubt on Indonesia’s outlook and jeopardizes its democracy premium.

Authority to amend the Constitution resides with the People’s Consultative Assembly (MPR), an enlarged parliament. This consists of two components: the powerful lower house (DPR), comprised of nine political parties (six of which profess support for the president); and the near-powerless upper house, the Regional Representatives Assembly (DPRD). At issue are several rules: ending direct popular elections for more than 500 regional heads; re-imposing “State Policy Guidelines” (GBHN) issued by the MPR to the executive branch; repealing or altering presidential term limits; and shifting the power to elect a president from the people to the MPR, as was the case under Soeharto.

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The MPR speaker himself, a powerful figure in Golkar (the second-largest party), openly advocates a reversion to presidential elections via the MPR.
Representatives of several major parties have signaled support. Such a change would render the speaker, Bambang Soesatyo, particularly powerful: he would oversee the election process and he might even stand for president himself.

President Widodo has taken firm stances on only some of the electoral issues being debated. On term limits, he pointedly denounced those who urge a change to enable him to run a third time in 2024. But tactics may explain the stance: at the time, Golkar was preparing for a crucial party-chair election, pitting Soesatyo against the candidate Widodo favored, coordinating economy minister Airlangga Hartarto; Widodo’s denunciation of the three-term concept weakened Soesatyo, by confirming he lacked the president’s favor, and Hartarto won re-election. Indeed, Widodo showed no philosophical qualms in 2018, when a proposal arose to re-interpret the Constitution to enable Jusuf Kalla to serve a third term as vice president: Widodo countenanced the attempt to help Kalla, although it later failed.

With regard to regional-head contests, Widodo has said that he prefers direct popular elections. The question is particularly important because these elections (for 34 provincial governors and more than 500 district-level posts) provide merit-based avenues for leaders with talent to ascend into national politics, circumventing the conventional routes that typically involve patronage. But whether Widodo will show resolve remains unclear. In both 2015 and 2017, he made comparable statements defending the KPK from assault — but in 2019 he capitulated. It bodes ill that the chief opponent of direct elections for regional heads is former national police chief Tito Karnavian, whom Widodo recently appointed as home affairs minister.

On the most dramatic proposal — to re-empower the MPR, rather than the electorate, to choose the president — Widodo has been aloof. Soesatyo’s loss in the Golkar party-chair race has stemmed his political rise, at least momentarily, but he remains formidable as a vice party chair. At issue is whether leaders of top parties will vigorously pursue attacks on either regional-head or presidential elections. In either case, unrest could ensue — akin to the nationwide protests of students against Widodo’s move to curb the KPK in September (five youths died in the mayhem). If Widodo passively permits parties to make further incursions on democracy and reform, violence could recur.

Meanwhile, with regard to governance reform, the president has at least partly compensated for his stance on the KPK by appointing promising clean-governance reformers to key posts in major state enterprises: the former Jakarta Governor Basuki Tjahaja Purnama (“Ahok”) as president commissioner of the state oil company Pertamina and former Information Minister Rudiantara as president director of the State Power Company (PLN). There is room for guarded optimism that such reformers may make inroads: they may have support from the new state enterprise minister, Erick Thohir, who sensationally sacked the head of Garuda Airlines for smuggling. The new minister for the state apparatus, the seasoned operator Tjahjo Kumolo, might also spur at least some long-overdue progress on rationalizing the civil-service.

Ultimately, however, Widodo has given over much of his cabinet to party figures with scant interest in painstaking institutional reform. Consequently, dysfunctional service-provision and uncertainties in the rule-of-law will persist, complicating economic conditions. Meanwhile, Indonesia’s image as a stable democracy will be at risk if Widodo permits party elites to usurp power from the voters. Widodo could preserve the outlook by wading into debates and acting as a bulwark; alternatively, a lack of resolve could elevate risk, damage the economy and jeopardize Indonesia’s hard-won democratic gains.

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