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Presidential Election and Indonesia's Economic outlook

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At this juncture, shortly after the Indonesian people had cast their votes in a historic first-ever direct presidential election in nearly 60 years after independence, the political landscape of Indonesia looks brighter and clearer.

The election was conducted smoothly, and was a resounding success considering that 130 million people cast their votes in 570,000 polling stations scattered across the archipelago. It also showed that the democratic process that started only six years ago after 32 years of Suharto's authoritarian government had taken root. Former US President, Jimmy Carter, arguably the most prominent among hundreds of foreign observers monitoring the election process confirmed this as much when he said that of 50 past elections held all over the world that were monitored by the Carter Center, he put Indonesia's recent election at a very high level of legitimacy. The success of the election has disproved many unfavorable predictions and arguments regarding the progress of democracy in Indonesia.

The political landscape is also clearer in the sense that a second round of voting in the presidential election is now almost certain to be held. From the count so far, it looks like none of the candidates have succeeded in gathering enough votes in the first round to win outright. This means that voters will have to go back to the voting booths in the run-off election to be held on 20 September to decide on the winner from the two pairs of candidates with most of the votes in the first round.

With the assumption that there would indeed be a second round, which pairs of candidates are likely to remain in the running? And what seems to be the market expectation? What kind of economic policy would the elected president and the new government pursue? And what would the economic outlook be like after the election?

The Second Round

The official result will be announced on July 26, three weeks after the election. With more than 105 million votes counted as of July 15, the results are as follows: Susilo-Kalla 33.6%, Mega-Muzadi 26.3%, Wiranto-Wahid 22.2%, Amien-Siswono 14.9% and Hamzah-Agum 3.1%. Predictions by pollsters based on a variety of quick-count techniques reflect a distribution of votes very similar to these.

Most observers agree that Susilo-Kalla are likely to proceed to the second round while Hamzah-Agum will be eliminated. In fact, Hamzah-Agum has already conceded defeat. As for Amien-Siswono, who performed much better than expected because of their grasp of the

issues debated, their clever use of television, and a late endorsement by one of the big winners in the April election, the Social Justice Party, they are not about to concede defeat. But with only about 15% of the votes received and a fourth placing overall, most observers have excluded the pair from the second round. This leaves us with either Mega-Muzadi or Wiranto-Wahid to face the leading candidates in the run-off.

What is not clear so far is who will make it to the second round. Golkar candidates still believe that what happened in the April vote counting during the parliamentary election would repeat itself, i.e., that a strong political machinery and plentiful campaign funds would enable Wiranto-Wahid to catch up with and ultimately surpass Mega-Muzadi, which would enable them to compete in the second round. On the other hand, the Mega-Muzadi camp, buoyed by a performance far exceeding the predictions of pollsters, are confident that their candidates will maintain the lead over Wiranto-Wahid to qualify for participation in the second round.

It has been reported that the candidates and the leaders of their respective parties have been busy making deals and soliciting possible coalitions to face the second round. I am afraid that the leaders of these political parties have not learnt how to gauge the voters' minds. They seem to be assuming that the members would follow the parties' leaders, including joining coalitions of their choosing. In fact, it should not be difficult to see that many members of political parties' in Indonesia do not have strong party affiliations such that voting across party lines is common. That this must be true is obvious; otherwise, how are we to explain the lead of Susilo-Kalla or the trailing of Wiranto-Wahid? However, even if party discipline is strong and members follow party lines, which of the parties' leaders should they follow considering that they have been splitting themselves up to form different coalitions? Golkar votes must have been split in several directions in the presidential election, at least between those loyal to Wiranto and those loyal to Kalla. The same goes for PKB where votes were splitted between Muzadi and Wahid. It was also the case with PDI-P during the parliamentary election which caused the party to lose votes.

Party discipline in most political parties in Indonesia is weak such that members' votes could go in different directions, whether lured by the popularity of the candidates, money politics, etc., except for the die-hards or party stalwarts. I think this streak has been confirmed in the media reports during the election. One should also not overlook the fact that many voters are enjoying the feeling of being counted in the political process; that they now could cast their votes directly to elect their president and vice president. This had been effective in the parliamentary election, albeit negatively when the PDI-P lost the election.

On that note, let us assume that Susilo-Kalla will be in the second round, and that the second pair of candidates could either be Megawati-Muzadi or Wiranto-Wahid.

Economic Outlook

It is difficult to get a clear understanding of the economic policy of the presidential candidates, since what emerged during the campaign were either targets that were not accompanied by careful discussions on how they are to be achieved, or promises that were merely good campaign rhetoric. For example, the candidates did not explain how they are to achieve the economic growth rates of 6-7% promised, how they could create enough new jobs for the two million new entrants to the work force each year let alone reduce the number of unemployed which stands at more than 30 million, or how they are to increase the

education budget to 20% of the total. Of course, it is even more difficult to know the economic policy of the successful candidate since it is anybody's guess as to who would win in the second round.

On the other hand, from surveys of voters by different institutions with respect to the issues and problems that voters would like national leaders to address, it has been very clear that economic issues and problems ranked highest. Voters are particularly concerned about high prices of goods and services of basic needs (including health services and education), the high level of unemployment, poverty and corruption which all contributed to problems of security and suffering among the people.

Meanwhile, the immediate market reaction to the election and the voting results so far has been generally positive. The Rupiah was under pressure on the eve of the election, due to the market move to buy Dollars to address the increase in uncertainties associated with the campaigning period and the election process, in addition to concerns regarding the implications of the US Fed's decision to finally raise the interest rate, and to the possibility of a hard landing of China's economy. But the smoothness of the election process and the result so far have brought market confidence back, which ultimately brought about currency appreciation. The Jakarta stock exchange index also returned back to its pre-crisis level after taking a beating on the eve of the election.

Those who had wished for the popular Susilo-Kalla pair to win in the first round must have been disappointed that – despite their leading position – they could only gather 33.6% of the votes. However, the hope of seeing Susilo lead Indonesia is still very much alive. In general, the economic reaction to the democratic process has been very positive. The surprisingly strong performance of the Democratic Party together with the Social Justice Party in the parliamentary election and the continuing strong showing of Susilo-Kalla in the presidential election must somehow be associated with voters' perception that this is the best available team to address the problems and challenges that are high in their minds.

The business community has generally been comfortable with the Susilo-Kalla combination. Professor Sadli wrote in *Business News* on July 5 that if they should win the election, economic prospects would be better because endorsement by the US, Japan, the World Bank and others, will provide a conducive environment for the new president and government to work in. The market will also not respond negatively should the Mega-Muzadi team win the election, since it has some knowledge about them from the current administration.

On the other hand, there would be more uncertainty in the market's perception should the winner be Wiranto-Wahid. Of course, in all these cases the market would be sensitive to the composition of the cabinet, especially to those appointed to the office of Attorney General and Minister for Justice, and the economic portfolios.

Judging from the economic platforms and campaign statements by candidates, none of them could be regarded as anti market outright. Apparently however, the market players have their own perceptions of which team is considered more business friendly than the others in economic policy that the candidates would pursue once in office.

All the candidates also pledged to eradicate corruption. However, it is doubtful whether the voters have the confidence that any of them would be able to deal with the problem. The long years of crisis, which had taken its toll on the peoples' well-being, had eroded their

confidence in the ability of the government and political establishments to lead the nation towards recovery. It is a fact that corruption is rampant in Indonesia. It permeates the government at all levels; no group whether by age, ethnicity, religion or education is free from it. Subject to how we define corruption, this had also been a problem in the private sector, the NGOs, etc. Individuals perceived to be clean became corrupt once they have been exposed to the temptations. In other words, we still have to wait to see whether the new administration would indeed deliver on its promise to deal with corruption.

To be realistic any expectation for the new government to start delivering has to wait until the election process completes and after the new government starts to function. One thing for sure here is that the new cabinet could only be formed sometime in late October 2004. Thus, the earliest time for the coming of a new economic policy, if any, to address economic problems and challenges is the beginning of 2005.

In the meantime, the Indonesian economy will continue to rely basically on domestic consumption as the engine of growth, with weak export performance and very limited real investments; domestic as well as foreign. The high consumption expenditures that were partly a result of the elections will continue until the second round of election on September 20.

Conclusion

Some specialists on Indonesia, including Sidney Jones (see her columns in *Time Magazine*, June 28, and *AWSJ*, July 12), remind us about the huge challenges that await the winner. Besides this, the elected president would have to work with a coalition government, which still has to obtain support from a fragmented parliament. He or she must not only be decisive but be good in building consensus as well.

The voters have conveyed their message by throwing out those perceived as non-performing or who have not kept their promises. They have also been clear in voicing their concern on different issues and problems confronting Indonesia.

In the recent elections in Malaysia, the Philippines and India, there were clear signals from those who won that they were willing to address voters' concerns. PM Abdullah Badawi has put the problems of corruption, security and economic management (by meritocracy) high on his agenda. President Gloria Arroyo spoke about setting up programmes to address poverty in her inaugural speech. And very recently, the Indian Minister of Finance, Chindambaram, submitted a budget to the Parliament that clearly reflected what was promised by the new government of PM Manmohan Singh, i.e., to further liberalise the economy in a way that would benefit the poor.

The test then for Indonesian democracy is whether the elected president and the government that he or she leads, could demonstrate their commitment to solving the many pressing issues the same way the elected leaders in these neighbouring countries have done. Although the voters are intelligent enough not to expect miracles to happen, they have every right to see some light. The question is whether the elected president and vice president and the rest of the political elites have learned their lessons.

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