

Terrorists unable to mess with Indonesia's remarkable trajectory

Greg Sheridan, Foreign editor | July 25, 2009

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NEITHER Indonesia's economic growth nor its political stability is likely to be knocked off course by the tragic terrorist bombings in Jakarta a week ago. This is the consensus of the best analysts. Stanford University's Don Emmerson published a paper this week pointing out that Indonesia has averaged 6 per cent economic growth a year since Susilo Bambang Yudhoyono was first elected President in 2004.

To paraphrase University of Melbourne professor Tim Lindsey: Look at this, Indonesia is Asia's third most rapidly growing economy, after China and India. Very few Australians know this. Indonesian economic growth this year is expected to be 4.3 per cent, which may seem modest until you consider that most Southeast Asian economies are contracting. In the context of the global financial crisis, it is a stellar performance.

Most analysts see every prospect of Indonesia returning to trend growth of 6 per cent or better. Monash University professor Greg Barton joins the consensus that the bombings will not seriously destabilise Indonesia's politics or economics. However, he adds the sobering rider that a second bombing, carried out soon after the first, would have a much bigger effect. If the bombings are the work of Jemaah Islamiah veteran terrorist Noordin Top, he will be all too aware of this.

Lindsey thinks Australians don't quite get Indonesia: "In terms of the threat of major social radicalisation in Indonesia, that's overblown in Australia. Indonesian newspapers and society are saturated with criticism of the bombers. People are frightened of them, they don't support them."

Barton, too, takes comfort from the low and declining support Islamist parties attract in elections. But he also cites the counter-example of Pakistan, where radical Islamists have never done well in elections but have forced concessions from weak or sympathetic leaders and ruthlessly exploited violence. Nonetheless, Lindsey and Barton are optimistic about Indonesia, and surely with good reason. The parliamentary elections in April and the presidential election in July reflect a maturing, sensible Indonesian polity that is meeting the challenges of governance.

A successful Indonesia will pose its own problems for us, which most Australians cannot conceive of now. Some forecasts put Indonesia among the world's six biggest economies by 2050. At the moment Indonesia's per capita gross domestic product, measured in real dollars, is \$US2030 (\$2490). Using the more popular, though inherently fraudulent, purchasing power parity measure, it is \$US4071.

In a nation of 240 million people, that's an awful lot of dollars. While Australia was understandably obsessing about the terrorist threat in Indonesia, the nation was quietly passing from a low to a middle-income nation.

But whatever challenges a successful Indonesia may pose to us, these are infinitely preferable to a failing, fracturing or unstable Indonesia. The two elections this year show that Indonesians have moved past the Suharto era parties. Suharto's party, Golkar, now scores less than 15 per cent of the vote in parliamentary elections, despite its vast organisational advantages. Megawati Sukarnoputri's PDI-P, the main opposition party of the Suharto years, is no longer seen as the alternative. In April, it trailed even Golkar.

But the Indonesian electorate has not turned to Islamist parties. The PKS -- the Prosperous Justice Party -- which started with such a bang, scored less than 8 per cent of the vote in April and had no presidential candidate. Instead the Indonesian electorate has backed SBY, who scored an astonishing 60 per cent of the vote in the presidential election, and his Democratic Party, which holds 27 per cent of the seats in parliament.

All this puts the President in the strongest position he has occupied in Indonesian politics. He cannot run for re-election. He has five years now to entrench economic and political development.

If he reinvigorates economic growth there will be a big process of embourgeoisement across large parts of Indonesia. I'm tempted for a moment to say forget China or the Middle East: in terms of Australia's interests, this will be the most important dynamic at play anywhere in the world.

That SBY chose Boediono, a former central bank governor and finance minister, as his vice-

presidential running mate was profoundly encouraging. It showed SBY selling his presidency on the basis of technocratic competence, and notably on non-corruption as a style and an ethos. SBY and Boediono are clear of graft. But it could also have its problems. SBY is riding high right now, but there are bound to be rough spots and Boediono, for all his virtues, cannot deliver any extra political capital for SBY.

Second, it means there is no obvious line of succession to SBY within the Democratic Party. It may seem odd to talk about this before SBY has even been inaugurated for his second term, but soon enough this will be a big and growing factor in Indonesian politics.

Hopefully SBY will be a little bolder on the policy front this term. Indonesians quite like his caution, which is part of his steadiness. But there are big challenges ahead. SBY must force through new legislation to re-establish the Anti-Corruption Commission by December. This commission has done critically important work. It leads the battle against corruption and it is a big part of why ordinary Indonesians accept SBY's moral authority.

The one weak spot in Indonesia's economic story has been foreign direct investment. About \$US2 billion in FDI went into Indonesia last year. This is a piddling amount. If SBY could liberalise investment rules, create greater legal certainty for foreign investors, reform specific sectors such as mining, improve infrastructure and maintain his overall sound macro-economic management, he could unleash a great deal of foreign investment. This in turn could lift Indonesia into truly Chinese and Indian levels of sustained high growth.

If anyone a dozen years ago had imagined this was the Indonesia we would have today, he would have been suspected of hallucinating on happy pills. The terrorists want to destroy Indonesian success. So far, thank God, they're not succeeding.