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# The Politics of Reform: Political Scandals, Elite Resistance, and Presidential Leadership in Indonesia

Christian von Luebke

**Abstract:** While Indonesia's democracy has received much acclaim for institutionalizing fair, free, and peaceful elections, many important challenges still lie ahead. The "politics of reform," which has consumed much of the government's time and energy, are a mixed blessing. Interest collisions – between those who seek change and those who resist it – have caused government paralysis and aversion and, at the same time, sparked promising forms of public participation and resilience. Meanwhile, the Yudhoyono administration has reached a critical juncture that will define political and economic trajectories for upcoming years. Now that two controversies (Bank Century and KPK debacles) have tarnished the government's credentials, the president will need to make continued efforts to sustain support in his cabinet, coalition, and electorate. In order to steer the country toward calmer political waters and higher socio-economic development, President Yudhoyono will be challenged to form flexible policy coalitions and re-instate the momentum for change.

**Keywords:** Indonesia, politics, reform, governance, leadership

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# 1 Introduction

Indonesia's recent developments offer a potpourri of reassuring and disconcerting trends. On the one hand, the country has made considerable progress in consolidating its democracy and economy during President Susilo Bambang Yudhoyono's (SBY) first administration. Since Indonesia's shift to democracy in 1999, citizens have cast votes in two presidential, three parliamentary, and hundreds of subnational elections without any notable accounts of violence or vote rigging. In light of these improvements, some observers have expressed hope that Indonesia will soon join ranks with other leading emerging markets, such as Brazil, Russia, India, and China. Sound macroeconomic fundamentals and strong domestic demand, which have steered Indonesia safely through the global economic crisis, lend themselves to this optimistic outlook.

On the other hand, some of this optimism may be premature in view of recent political scandals. Despite sweeping victories in the 2009 parliamentary and presidential elections, Yudhoyono's second administration has been paralyzed by two controversies, one concerning the government bailout of an ailing financial institution (Bank Century), the other surrounding the future of Indonesia's anti-corruption commission (KPK). Above all, these conflicts have highlighted the persistence of vested interests in status-quo conditions – both in traditional law enforcement agencies and parliament. In the eyes of many commentators, Yudhoyono's unassertive leadership encouraged politicians of various persuasions to attack leading reform figures, such as Finance Minister Sri Mulyani Indrawati and Vice President Boediono. After many months of silence, SBY has picked up the gauntlet and endorsed the two embattled reformers. At the same time, old-regime elites and opportunistic politicians are mounting new forms of resistance. Recent developments foreshadow the fact that Yudhoyono's second United Indonesia Cabinet is headed for an uphill struggle. Much will hinge upon the President's will and ability to anticipate future attacks, forge strategic alliances, and nudge the administration back onto a reformist track.

The discussion of recent political developments is divided into five parts.<sup>1</sup> Following this introduction, the second section takes a closer look at

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the Bank Century controversy. It sheds light on the bailout decision, parliamentary inquiries, and special-interest politics. The third section examines the conflict between anti-corruption investigators and established power holders – members of the national police, the Attorney General’s office, and parliament. In doing so, it provides an illustrative example of elite resistance and popular counter-resistance. Against the backdrop of these conflicts, the fourth section discusses reasons for President Yudhoyono’s disengaged leadership style. The fifth section summarizes recent developments and draws some political and economic implications.

## 2 The Bank Century Bailout

At the height of the global financial crisis, Bank Century – created by merging three ailing banks in 2004<sup>2</sup> – teetered on the brink of bankruptcy. On November 21, 2008, after the bank’s capital adequacy ratio nosedived to -36 percent,<sup>3</sup> Vice President Boediono (then Central Bank governor) classified Bank Century as a failed bank. To prevent a domino effect in the financial sector, Finance Minister Sri Mulyani, who headed the Financial System Stability Committee (Komite Stabilitas Sistem Keuangan, KSSK), initiated the government bailout.

Over the next months it became clear that the rescue consumed considerably more funds than initially anticipated. While Central Bank estimates predicted bailout expenses in the order of 0.63 trillion IDR, cumulative disbursements of Indonesia’s Deposit Insurance Cooperation (Lembaga Penjamin Simpanan, LPS) quickly added up to 5 trillion IDR at the end of 2008 and reached a total value of 6.76 trillion IDR in July 2009 (see Table 1).

Initially the bailout caused little controversy. Although LPS disbursements had already jumped ninefold over initial estimates by February 2009, the national parliament (DPR) did not voice any concerns during the last months of Yudhoyono’s first term. It was not until six months later – following SBY’s landslide victories in parliamentary and presidential elections – that the Bank Century bailout became the target of political debates. Rumors that bailout funds were purposely channeled to Yudhoyono’s

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hospitality. The author bears sole responsibility for any errors of omission and commission.

- 2 Bank Century was established in the course of the merger of Bank Danpac, Pikko, and CIC. Two of these founding banks exhibited poor security and credit records at the time of the restructuring process (Patunru and von Luebke 2010).
- 3 The Indonesian Central Bank prescribes minimum capital adequacy ratios of eight per cent.

reelection campaign and private-sector allies<sup>4</sup> were accompanied by repeated calls for the ousting of Vice President Boediono and Finance Minister Mulyani.

Table 1: LPS Disbursements for Guaranteed Bank Century Deposits in 2008-2009 (Million IDR)

Date	Disbursements	Cumulative disbursements
November 24, 2008	1,000,000	1,000,000
November 25, 2008	588,314	1,588,314
November 26, 2008	475,000	2,063,314
November 27, 2008	100,000	2,163,314
November 28, 2008	250,000	2,413,314
December 01, 2008	362,826	2,776,140
December 09, 2008	250,000	3,026,140
December 10, 2008	200,000	3,226,140
December 11, 2008	200,000	3,426,140
December 15, 2008	175,000	3,601,140
December 16, 2008	100,000	3,701,140
December 17, 2008	100,000	3,801,140
December 18, 2008	75,000	3,876,140
December 19, 2008	125,000	4,001,140
December 22, 2008	150,000	4,151,140
December 23, 2008	475,250	4,626,390
December 24, 2008	80,000	4,706,390
December 30, 2008	270,750	4,977,140
February 04, 2008	970,000	5,947,140
February 24, 2008	185,000	6,132,140
July 24, 2008	630,221	6,762,361

Source: Supreme Audit Agency (BPK 2009), Bank Century Audit Report.

4 For a summary of these allegations, see Aditjondro (2009).

A new series of political attacks against the two reform figures were triggered by the Supreme Audit Agency (BPK). In mid-November, the new BPK chairman Hadi Purnomo – a former tax chief who was dismissed by Sri Mulyani for alleged corruption (McLeod 2008) – declared that 2.9 trillion IDR of the LPS disbursements were illegal and therefore required further legal investigation (see *Jakarta Post* 2009a). Endorsed by the BPK report, opposition parties were able to garner sufficient support in parliament to set up a special inquiry committee (Panitia Khusus Hak *Angket*) to probe deeper into the Bank Century case.

Table 2: Parliamentary Vote on the Bank Century Bailout

	Option A (Affirming Bailout)	Option C (Condemning Bailout)	Total
Democratic Party (Partai Demokrat) *	148	0	148
Golkar Party (Golkar) *	0	104	104
Indonesian Democratic Party of Struggle (PDIP)	0	90	90
Prosperous Justice Party (PKS) *	0	56	56
National Mandate Party (PAN) *	39	0	39
United Development Party (PPP) *	0	32	32
National Awakening Party (PKB) *	25	1	26
Greater Indonesia Movement Party (Gerindra)	0	25	25
People's Conscience Party (Hanura)	0	17	17
Total	212	325	537

Note: Coalition parties of Yudhoyono's second 'United Indonesian Cabinet' are marked with an asterisk (\*).

Source: *Jakarta Post, Kompas*.

On March 3, after a three-month investigation, the national parliament resoundingly condemned the government bailout (see Table 2). In their final vote, a majority of 325 DPR members voted for a statement ('Option C') that criticized government authorities for 'an abuse of state powers,' identified a 'tendency of corruption,' and called on law enforcement agencies to further investigate cases of government misconduct. An alternative statement ('Option A'), which evaluated the bailout as a precautionary and legally justified measure, received only 212 votes in the 560-seat parliament (23 of the DPR members were absent). The verdict, in which three parties – GOLKAR, PKS, and PPP – defected from the grand coalition and faulted the government bailout, serves as an indicator of rising centrifugal forces and special interests.

The parliamentary vote marks the climax of a three-month media marathon, which had less to do with well-balanced analyses than with well-staged attacks against Cabinet members who challenged vested interests. Despite protracted cross-examinations, expert hearings, and media debates, the lawmakers were unable to unearth practically any signs of corruption in relation to the Bank Century bailout. Apart from banking violations made by mid-level Central Bank officials, the parliamentary inquiry revealed nothing that justified the resignation of Vice President Boediono or Finance Minister Mulyani. The lack of evidence did not prevent the majority of DPR members from launching vague corruption allegations, however.

The impression that scoring political points was more important than adding substance and clarity to the case was reinforced by the display of hypocrisy among leading committee members. Some of the most outspoken critics of the bailout had pressed for far-reaching government intervention themselves during the global financial crisis. In April 2008, Bambang Soesatyo (from Golkar), one of the initiators of the parliamentary inquiry committee, urged the government to act "not in a matter of days, but in a matter of hours, even minutes [to sustain] financial markets" (see *Kompas* 2008). His earlier statements, however, did not stop him from leveling a series of media attacks against Sri Mulyani in November 2009.<sup>5</sup> Another committee member, Maruarar Sirait (from PDI-P), appealed to the Finance Ministry in October 2008 to "take immediate action to prevent the crisis from hitting capital markets and spreading to the banking sector" (see *Suara Pembaharuan* 2008) and, only a few months later, positioned himself as an unwavering critic of the bailout decision.

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5 Soesatyo received much attention for leaking a story to the press asserting that Mulyani secretly met with Bank Century chairman Tantular before issuing the bailout directive. Although these allegations were proven false, Soesatyo refused to apologize, stressing his legal immunity during parliamentary inquiries.

What were the political agendas that motivated this opportunistic behavior? Political parties both from within and without the current coalition had clear political agendas. For Islamic parties (PKS, PAN, PPP, PKB), who were unhappy with SBY's choice of a technocratic running mate, the Bank Century probe provided a welcome platform to press demands to replace Boediono by a politician with greater Islamist credentials. For opposition parties (PDIP, Hanura, Gerindra), the inquiry offered an opportunity to tarnish the government's anti-corruption image. And for Golkar, which remains a tentative coalition partner at best, the committee provided a means to unseat Sri Mulyani, who had become a 'persona non grata' for Chairman Bakrie.

Indeed, the antagonistic relationship between Sri Mulyani and Aburizal Bakrie – one of the country's wealthiest businessmen – seems to be an important piece in the puzzle of Indonesia's political upheaval. The conflict stems from a series of policy disagreements. In October 2008, Mulyani publicly refused Aburizal's request to close Indonesia's stock exchange after Bakrie-controlled companies lost 30 per cent in value, causing Jakarta's composite index to drop by 20 per cent (Wright 2009). Tensions increased further as the Finance Minister issued travel bans on Bakrie's tax-evading executives, urged him to take responsibility for the mud-flow disaster in East Java (allegedly caused by Bakrie's gas-drilling company Lapindo), and opposed his plans to buy into one of the country's largest gold mines in Sumbawa.

A reconciliation meeting initiated by President Yudhoyono in early November 2009 failed to resolve the conflict. Shortly after the meeting, Golkar chairman Bakrie gave his blessing to the parliamentary inquiry committee, which entrapped Mulyani in long-winded hearings and media attacks (see *Jakarta Post* 2009b). At the same time, one of Mulyani's most prominent adversaries, BPK director Hadi Purnomo, released a report indicating that the bailout decision was imprudent and illegal. The sequencing of these events suggests that some of the political attacks were a direct response to Sri Mulyani's uncompromising reform drive – a payback by well-established elites that had lost face and were eager to settle scores with the finance minister.

### 3 The KPK Drama

Another episode that was at the center of public attention in 2009 was the power struggle between new and old law enforcement agencies, with Indonesia's independent Corruption Eradication Commission (KPK) on one side and established power holders – the national police, the Attorney



General's office, and the national parliament – on the other. The complex net of allegations, intrigues, and set-ups found its starting point with the arrest of KPK director Antasari Azhar. On May 2, Antasari was detained for allegedly masterminding the murder of a businessman over a triangular love affair. During his imprisonment, Antasari provided a written testimony admitting several inconsistencies in ongoing KPK investigations.<sup>6</sup> Senior police officials – who had increasingly become targets of anti-corruption probes – used this testimony as a bargaining chip to prevent KPK from interfering in police matters.

The anti-corruption commission responded by stepping up investigations into police operations, however. In a bold move, KPK officials leaked wiretappings to the press that indicated high-ranking police officers were involved in fraudulent activities. According to media reports, the recordings implicated Chief Detective Susno Duadji in attempts to manipulate parliamentarian decisions and unfreeze Bank Century accounts for well-paying entrepreneurs.<sup>7</sup> The national police refuted all allegations and went on the offensive. On September 15, based on a modified version of Antasari's testimony, national police officials declared that KPK deputy directors Chandra M. Hamzah and Bibit Samad Rianto abused investigative powers for their private gain.<sup>8</sup> Two weeks later, KPK deputies countered by filing corruption charges against Chief Detective Susno.

In October, the tide initially turned against the KPK investigators. After internal police reviews had cleared Susno of all charges, President Yudhoyono called for in-depth investigations and temporarily suspended Chandra and Bibit from their duties. On October 26, in a final attempt to restore their credibility, the KPK deputies released a second wiretapping to the media that alleged a conspiracy of transitional law enforcement agencies, involving senior police officers and attorney general officials. Three days later, Bibit and Chandra were arrested by the police on vaguely defined charges. The arrest of the two KPK leaders, who had become icons of the

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6 According to Antasari's statement, businessman Anggoro Widjojo had offered bribe payments to lower-level KPK investigators. Anggoro was under investigation for paying off Forestry department officials to secure contracts for a radio communication system and to clear protected mangrove forests for a controversial seaport project in South Sumatra (*Jakarta Post* 2009c).

7 Police officials allegedly bribed legislators to change a bill that was about to assign driver's license procedures to the Ministry of Transportation, thus stripping national police of a long-held income source (*Jakarta Globe* 2010).

8 The interview with an anonymous mid-ranking police officer suggests that Chief Detective Susno Duadji gave an order "to spin the testimony of former KPK chairman Antasari Azhar, made on May 16, from the original 'bribes paid to certain KPK employees' into 'bribes paid to KPK leaders' " (*Jakarta Post* 2009d).

anti-corruption drive in the eyes of many Indonesians, prompted large demonstrations across the country. Mass protests surfaced not only on the streets of Indonesia’s urban centers but also in virtual domains. The online networking site Facebook reported more than one million appeals for the release of the two KPK investigators.<sup>9</sup> In addition to this wave of online petitions, a number of prominent state representatives, including former President Abdurrahman Wahid and former Constitutional Court Chief Justice Jimly Ashiddiqie, put their name down in support of the anti-corruption commission. On November 3, in light of mounting public support, Bibit and Chandra were released from police custody and, one month later, reinstated as KPK deputy directors by the President. Former KPK director Antasari, however, whose love-triangle murder case engendered less popular sympathy, was sentenced to 18 years imprisonment.

**Table 3: Key Developments in the KPK Drama**

Date	Key Developments
May 2:	KPK head Antasari Azhar is arrested on charges of masterminding the murder of a Jakarta businessman.
May 16:	Antasari provides a testimony to police officials indicating that some KPK officials were involved in fraudulent practices.
June 30:	Police Chief Detective Susno Duadji accuses KPK of wiretapping his mobile phone.
August 5:	Antasari’s testimony is leaked to the media, suggesting KPK deputies had received bribes in ongoing investigations.
September 9:	KPK announces investigation of Chief Detective Susno’s involvement in various corruption cases.
September 15:	Police declare KPK deputies Chandra and Bibit are suspected of power abuse and extortion.
September 28:	Chandra and Bibit file a report against Chief Detective Susno accusing him of power abuse and corruption.
September 29:	The DPR ratifies a new anti-corruption bill which reaffirms KPK’s mandate but weakens national corruption courts.
October 5:	The police force’s internal affairs division probes Susno

9 For more information on the ‘Movement of one million facebookers to support Chandra and Bibit’ (*Gerakan 1.000.000 Facebookers Dukung Chandra & Bibit*), see <<http://www.facebook.com/group.php?gid=169178211590>>.

Date	Key Developments
	about abuse of power; later it then clears him of all charges.
October 6:	Yudhoyono issues a presidential decree appointing acting (deputy) directors in lieu of Antasari, Chandra, and Bibit.
October 26:	Wiretappings are leaked to the media revealing a plot spun by senior police officers to frame KPK leaders.
October 29:	The police arrest Bibit and Chandra on vague charges of corruption.
November 1:	Public support mounts for KPK deputies, including mass demonstrations, Facebook petitions, and high-level endorsements.
November 3:	Constitutional Court hearings suggest that KPK charges were fabricated. KPK deputies are released from police custody.
November 23:	President Yudhoyono calls for a settlement outside the courts and for organizational reform of law enforcement agencies.
December 3:	The police drop all charges against the two KPK deputies.
December 7:	Bibit and Chandra are officially reinstated by presidential decree and return to their duties.
February 11:	Former KPK director Antasari Azhar is sentenced to 18 years in jail.

Source: *Jakarta Post*, *Jakarta Globe*, *Kompas* (various editions).

In retrospect, the events in 2009 (Table 3) create the impression that KPK fell victim to its own success. During its six-year existence, the independent anti-graft agency has achieved an impressive track record. Equipped with a far-reaching investigative mandate, including the authority to wiretap conversations, freeze bank accounts, enforce travel bans, and prosecute corruption suspects, KPK’s conviction rate is 100 percent. It has successfully revealed transgressions on the part of senior parliamentarians, bureaucrats, police officials, and business people, including the Central Bank’s former deputy governor, Aulia Pohan, the father-in-law of President Yudhoyono. But efforts to target higher echelons of power were met, perhaps unsurprisingly, by increasing elite resistance. Even President Yudhoyono, who (in constitutional terms) commands the police and armed forces, expressed concerns about unchecked KPK powers, noting that the anti-graft commission had developed into a super-body that was accountable “only to Allah” (*Jakarta Post* 2009c).

The anti-corruption commission also faced growing opposition in parliament. In September 2009, DPR members drafted a new anti-corruption bill aimed at reducing KPK's investigative powers. In its original version, the draft bill abolished the ability to wiretap conversations and prosecute corruption suspects at discretion. Moreover, it stipulated replacing the national corruption court by thirty-three provincial corruption courts whose judicial panels were to be appointed by existing district courts. The proposed revisions evoked wide criticism, as they subordinated KPK operations to traditional law enforcement agencies and, in doing so, rendered the institution a toothless tiger. In the end, President Yudhoyono, who had been reelected on a strong anti-corruption platform, intervened and endorsed the independent powers of the commission. After a series of protracted debates, parliament adopted a revised version of the bill, which confirmed KPK's wiretapping and prosecution powers, but undermined the sovereignty of corruption courts.

All in all, Indonesia's anti-corruption commission has maintained most of its independent mandate. But the course of events also highlights two alarming trends. For one thing, assertive presidential leadership has been in short supply; it was the unwavering support of Indonesian citizens rather than President Yudhoyono's proactive stance that tipped the scales in favor of the two beleaguered KPK deputies. For another, established elites in lawmaking and law enforcement institutions were able to launch political attacks without incurring any penalties. Assuming that vested interests feel encouraged to spin additional political controversies to strengthen their cause, anti-corruption investigators should brace themselves for an uphill battle.

## 4 Presidential Leadership

"O Captain, my Captain. Rise up and hear the bells." Walt Whitman's plea, directed at Abraham Lincoln in 1865, resonates well with Indonesia's current dilemma. Despite his sweeping electoral victory – with him winning over 60 percent of the popular vote – President Yudhoyono has taken a surprisingly passive stance in the Bank Century and KPK controversies. In the Bank Century probe, SBY did not break his silence, even though parliamentary investigations and media debates were diverting an increasing amount of time and energy. In the standoff between KPK and the police force, the President offered a pledge to undertake organizational reform, but remained reluctant to penalize misconduct by law enforcement officials. The display of hesitation arguably signaled two things to established power holders: first, that severe, and at times fabricated, attacks against key reform-

ers – such as Vice President Boediono, Finance Minister Sri Mulyani, and the KPK deputies Bibit and Chandra – would go unpunished by the President; and second, that protracted, televised controversies (as illustrated in the Bank Century probe) would offer promising platforms with which to discredit Yudhoyono's Cabinet and score political points.

Why was President Yudhoyono reluctant to lend his support? What motivated SBY to play a waiting game that bore considerable political costs? One plausible reason for the unassertive stance is Yudhoyono's natural tendency to prioritize consensus and face-saving strategies over political confrontations. Consistent with prototypical Javanese leadership ideals, the President seems to prefer guiding political developments from 'behind the scenes' (*tut wuri bandayani* Shiraishi 1995: 171). Instead of engaging in open debates, SBY is renowned for his inclination to seek quiet solutions that allow opposing parties to maintain their dignity.

Another reason for Yudhoyono's guarded behavior may be his desire to maintain the image of a clean, reformist leader. His efforts to distance himself from political turbulences, however, have hardly improved his standing with the electorate. On the contrary, public debates are fraught with speculations on how bailout funds benefited SBY's reelection campaign. Although the Bank Century probe has found no evidence for such claims, Yudhoyono's silence has created more doubts than it has dispelled. Media reports surrounding a controversial book (Aditjondro 2009), which claims SBY's reelection was partially financed by nonprofit foundations and Century depositors with close links to the first family, have evoked skepticism about Yudhoyono's commitment to stamp out graft. Meanwhile, the President's public approval rates declined from 85 percent in July 2009 to 70 percent in January 2010 (*Jakarta Post* 2010).

A third explanation is that SBY no longer has a politician at his side who handles political 'grey areas.' Although the partnership with former Vice President Jusuf Kalla was beset with conflicts, it did offer a practical advantage: while Kalla used his political weight and connections to keep the coalition partners in line, Yudhoyono had the space to focus on general policy directions and reform initiatives. Vice President Boediono, on the other hand, does not have the political acumen to strike political deals. He brings along high levels of economic proficiency, ministerial experience, and integrity, but these assets are ineffective means to sidestep political confrontations, such as the Bank Century probe. This deficit becomes even more pronounced once political opponents are in a position to mobilize

public media sources<sup>10</sup> in support of their cause. In the absence of a politically resourceful Vice President, SBY finds himself challenged to personally attend to diverging interests within his coalition.

A final reason is Yudhoyono's complex relationship with Aburizal Bakrie. The Golkar chairman has reportedly made substantial contributions to SBY's presidential bids in 2004 and 2009, both in terms of financial assistance and media support. Moreover, considering the anti-globalization sentiments of the Islamic coalition partners, Yudhoyono may require the political backing of Golkar's politicians in order to pass market-oriented reforms. This is particularly true as long as PDIP, the second largest secular party, remains in the opposition. In view of these constellations, SBY's hesitation to publicly endorse Finance Minister Mulyani may well be colored by strategic concerns. Instead of openly choosing sides, the President merely called for informal reconciliation meetings between Mulyani and Bakrie, whose relationship had turned sour over numerous policy issues.

Recent parliamentary upheavals, however, have forced the President to reconsider his consensual strategy. By approving the Century probe, tolerating attacks against Cabinet members, and condemning the government bailout, Golkar was the first to cross the line. Two Islamist coalition partners – the Prosperous Justice Party (PKS) and United Development Party (PPP) – followed suit by demonstrating their firm opposition to Boediono and Sri Mulayani's rescue measures. In order to contain the splintering of the ruling coalition, President Yudhoyono broke the silence and went on the offensive.

In a nationally televised speech held shortly after the parliamentarian verdict, SBY endorsed the two beleaguered reformers, Boediono and Mulyani, praising them as two of the country's best and most incorruptible leaders. His speech sent a clear message to police investigators (who follow up on parliamentary findings) not to 'criminalize' key policymakers. In a second public announcement, Yudhoyono sent a clear signal to Golkar chair Aburizal Bakrie. In response to Bakrie's provocative maneuvers – which strengthened Golkar's position at the expense of the ruling coalition – SBY announced the vigorous prosecution of tax-evading firms. Considering that the finance ministry has launched tax investigations aimed at several of Bakrie's firms, this presidential statement can be interpreted as a warning to the Golkar chair not to antagonize the coalition any further. Overall, recent political confrontations served as a wake-up call. They are a reminder of the frailty of current political alliances and the risks of unassertive leadership.

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10 Golkar Chairman Bakrie controls 'TV One', which broadcasted all the Bank Century inquiry sessions. Surya Paloh, the former head of Golkar's Advisory Council, owns the newspaper 'Media Indonesia' and the news channel 'Metro TV'.

## 5 Conclusion and Implications

Since its inauguration in October 2009, Indonesia's administration has been entrapped in two scandals that have slowed the anti-corruption drive and obstructed much-needed reforms. The controversies surrounding the Bank Century and KPK cases indicate that Indonesia's democracy has reached a critical point in its consolidation process, a point where newly institutionalized norms and agencies begin to challenge preexisting ones. The coexistence of democratic and nondemocratic, reformist, and backward-looking forces is bound to accelerate political turbulences. The current maelstrom centering around vested interests in lawmaking and law enforcement institutions that vigorously defend privileges and resources is a case in point.

A failure to contain these turbulences will inflict considerable economic and social costs. Rising political instability – a defining characteristic of Indonesia's early democratic transition – will likely stall domestic and foreign investment and, ultimately, economic growth as well. If business communities were to lose trust in Yudhoyono's ability to silence political conflicts, investments in physical infrastructures and power sectors – two bottlenecks of Indonesia's development – would likely be abandoned; a scenario that would make it virtually impossible to reach targeted growth rates of 7 to 8 percent. There are already signs that political disruptions have taken their toll now. Although the Yudhoyono administration claims to have successfully completed its 'first 100-day objectives,' its progress in key policy areas, including the fight against corruption and bureaucratic inefficiency, has been slow. Reinvigorating the reform momentum will also require the President to rebuild trust with technocratic ministers, who have become increasingly averse to taking risks owing to recent political attacks.

Yet notwithstanding political and economic challenges, there is reason to believe that Yudhoyono's administration will rise to the occasion. After months of disengaged observation, the President has finally picked up the reins and weighed in on political debates. He has taken full responsibility for the Bank Century bailout and defended, albeit belatedly, the figureheads of his reform agenda: Vice President Boediono and Finance Minister Sri Mulyani. The two technocrats are likely to remain in office, as parliamentary and legal investigations have found no signs of corruption in respect to the Bank Century rescue.

In a nutshell, recent developments suggest two key lessons for the Yudhoyono administration. The first one is that much of the political quagmire could have been avoided if the President had taken more decisive measures at the beginning of the Bank Century and KPK controversies. If SBY had signaled his firm support for the finance minister and anti-corruption investigators earlier, resistance in parliamentary and police circles would

have been less pronounced. The absence of such clear positions, however, played into the hands of his political opponents; politicians who were sidelined in the 2009 elections were able to mobilize public emotions and media attention and scored political points by confronting the government.

The second lesson is that establishing a grand coalition is not as difficult as maintaining it. Yudhoyono's strategy of building a coalition around a large number of parties, with distinct political persuasions and interests, has proven unreliable. The parliamentary vote on the Bank Century bailout is an instructive example. As long as Indonesia's political parties are primarily defined by the charisma of individual leaders (who are often unpredictable) – and little by clearly defined programmatic positions – grand coalitions are unlikely to succeed. Instead of focusing on a 'fixed consensus' with a predetermined set of political allies, it may be more promising to pursue a 'fluid consensus' with a flexible set of coalition partners. Thus, in order to contain arbitrary and opportunistic behavior among political allies, President Yudhoyono may need to juggle with different coalition options. The possibility of replacing defecting coalition members by opposition parties – such as substituting PDIP for Golkar – would reduce the risk of noncompliance and unconstructive political attacks. While the President has ruled out any immediate Cabinet reshuffles, a political realignment in parliament and across government ministries is a plausible medium-term option.

While Indonesia's democracy has received much acclaim for institutionalizing fair, free, and peaceful elections, many important challenges still lie ahead. The 'politics of reform,' which has consumed much of the government's time and energy over the last year, is a mixed blessing. Interest collisions between those who seek change and those who resist it have caused government paralysis and aversion and, at the same time, sparked promising forms of public participation and resilience. Meanwhile, the Yudhoyono administration has reached a critical juncture that will define the political and economic trajectories for upcoming years. Now that the bailout and police controversies have tarnished the government's credentials, the President will need to make continued efforts to sustain support in his Cabinet, coalition, and electorate. In order to steer the country toward calmer political waters and higher socio-economic development, President Yudhoyono will be challenged to build on popular reform pressures, form flexible policy coalitions, and reinstate the momentum for change.

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