

Corruption scandal rattles Indonesian government

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A major corruption scandal in Indonesia has put the government of President Susilo Bambang Yudhoyono under considerable pressure. At the centre is 32-year-old Muhammad Nazaruddin, who until May was the treasurer of Yudhoyono's Democrat Party and a member of the parliamentary lower house, the House of Representatives.

Nazaruddin is currently sitting tight-lipped in the National Police Mobile Brigade detention centre in Depot, West Java. He is under investigation by the country's Corruption Eradication Commission (KPK), over bribes related to the construction of the athletes' village for this year's South East Asian Games. He is alleged to have skimmed off \$US3 million, or 20 percent of contract funds for "political fees" in that instance, and \$US706 million from more than 30 other government projects.

Nazaruddin had fled Indonesia in May just before the KPK sought an order to have him banned from leaving the country. He was eventually tracked down in Colombia, where he was arrested and extradited back to Jakarta on August 13.

During his time on the run, Nazaruddin did not lie low. Instead, using mobile phones and Skype, he spoke to the media, accusing senior politicians, government officials, and KPK members of corruption. All have denied the allegations, and accused Nazaruddin of trying to deflect attention from his own corrupt activities.

Among those named by Nazaruddin were Democrat Party chairman Anas Urbaningrum, House of Representatives speaker Marzuki Alie, and Youth and

Sports Minister Andi Mallarangeng. Like Nazaruddin, these are younger Democrat Party figures closely associated with Yudhoyono and his pledges to reform government. Anas was widely regarded as a possible presidential candidate to replace Yudhoyono, who must retire at the 2014 election.

Yudhoyono, a former Suharto-era general, formed the Democrat Party in 2001 after falling out with then president Megawati Sukarnoputri and her Democratic Party of Struggle (PDI-P). He won the first-ever direct election for the presidency in 2004 and was re-elected in 2009. His promises to clean up corruption were central to his election campaigns.

Yudhoyono established the KPK during his first term of office. Its successful record of corruption prosecutions was largely based on targeting lower level officials, politicians and businessmen. When it began to turn its attention to the police in 2009, top KPK officials found themselves the subject of police investigations and serious charges. The move backfired when defence attorneys revealed tapes of conversations involving top police and attorney-general department officials colluding in implicating the KPK.

The government's "clean" image took a battering last year in a scandal involving the 2008 bailout of Bank Century. Allegations were made implicating Vice President Boediono, Finance Minister Sri Mulyani Indrawati, and the president himself in improperly injecting government funds to prop up the bank to assist high-profile and politically connected owners and depositors. In May last year, Mulyani quit her post as finance minister amid mounting opposition, becoming a World Bank general manager.

The latest scandal involving Nazaruddin has further damaged Yudhoyono's standing, particularly as it has involved young Democrats that helped promote his anti-corruption drive. A poll by the Indonesian Survey Institute shows that Yudhoyono's popularity fell from 56 percent in January to 47 percent in June as the scandal began to unfold.

Nazaruddin was vocal while on the run internationally, but has since refused to speak to KPK officials about his allegations. A USB drive on which he claimed to have stored proof of his accusations has not been found. Nazaruddin could well be keeping his silence as a bargaining chip in any future legal proceedings. He might also fear for his life.

The country's endemic corruption under the Suharto dictatorship has continued after his ousting in 1998. Corruption scandals, however, are often the means by which the ruling elites settle their political differences and factional feuds.

It is significant that top KPK officials, then finance minister Mulyani, and now a group of rising, young Democrat reformers have all come under the spotlight. Whatever they may or may not have done, all of them have been identified to some extent with the pro-market agenda demanded by international finance capital.

Powerful sections of the political and corporate establishment in Jakarta are hostile to the opening up of the Indonesian economy to foreign investors and the disruption of longstanding ties between government and business. Yudhoyono's ruling coalition includes Golkar, the political instrument of Suharto's rule, which has long been associated with cronyism and nepotism and has close links to the state apparatus.

At the same time, Yudhoyono is under pressure to push ahead with pro-market restructuring. The Indonesian economy grew at 6.5 percent in the second quarter on the back of high prices for its commodity exports. Amid the European debt crisis and recession in the US, the country is viewed by some investors as providing profitable opportunities. Moody's, Standard & Poor's and Fitch Ratings have all upgraded

Indonesia's sovereign debt rating to BB+ or the equivalent, and a further upgrade to investment-grade is expected.

Putting a question mark over the Yudhoyono government, *Asia Sentinel* remarked that the "increasingly murky Nazaruddin affair does not augur well for international investors who may have hoped that the country's economic prowess would result in an equally rational political and governmental environment." It warned against a return to "money politics" and noted that Yudhoyono had provided only "a brief interregnum in which [he] allowed the ousted finance minister, Sri Mulyani Indrawati, the opportunity to try to clean up the government."

The *Straits Times Indonesia* on August 20 highlighted the continuing obstacles to investors. It noted the government's failure to procure land for infrastructure projects and that the total expenditure on infrastructure was less than "populist" fuel and electricity subsidies. "Indonesia's leaders," it declared, "seem short on speed and political will."

A political challenge to Yudhoyono and the Democrats is being mounted through the formation of a new party, the Union of Independent People (SRI). It has already announced its intention to back Sri Mulyani for the presidency in 2014. While currently having a membership of 390, the SRI must have considerable financial backing as Indonesian electoral law requires a registered party to set up offices in 30 of the country's 33 provinces.

Many questions remain to be answered about the Nazaruddin affair. However it has already highlighted the sharp tensions within the ruling elites in Jakarta as they confront growing uncertainty and instability as a result of the worsening global economic crisis.



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