



# INNOVATIONS FOR SUCCESSFUL SOCIETIES

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Interviewee: Hadi Soesastro

Interviewer: Andrew Schalkwyk

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SCHALKWYK: Today is the 7<sup>th</sup> of July, 2009. I am with Hadi Soesastro at the CSIS (Centre for Strategic and International Studies) offices at the Jakarta Post Building in Jakarta. Before we start the interview, can I ask if you've given your consent for this interview?

SOESASTRO: *Certainly.*

SCHALKWYK: All right, thank you very much. I'd like to start this interview with just talking about and asking you questions about what you've done in the past and what has led you up to your current position and then what you're currently involved in, what your current responsibilities are.

SOESASTRO: *I have been with CSIS now for 38 years, and I've always been with this institution doing different things over the years, but after 38 years that I have been here, I have in total been the executive director for about twenty years until January this year. So I am now a Senior Fellow, basically doing just research, which I wanted to do, and my main field of research is in the area of international trade, a little bit of international finance, but also regional economic cooperation and some aspects of the domestic economy, which includes also decentralization.*

SCHALKWYK: Okay, what does CSIS do?

SOESASTRO: *Basically, it is a nonprofit research institution doing policy analysis of both domestic and international regional issues. The purpose is to provide some input and encourage debate in the country in order to improve public policy making.*

SCHALKWYK: Does it have any particular focuses in terms of its area?

SOESASTRO: *No, it has a very broad research agenda. We are organized in two different research departments now, initially three: economics department and political and international relations. It used to be economics, political and social change and international relations, but the two departments are now merged into one.*

SCHALKWYK: Have you had any involvement with the government in any of the reforms that have taken place in Indonesia?

SOESASTRO: *In fact, through CSIS, during the height of the reforms in the latter half of the 1980s, we had a lot of sort of interactions with the government. In fact, what we did mostly was to provide information to the public at large as to why it was important to undertake the various reforms. At that time the word used was basically deregulation. In effect, it was aimed at liberalizing the economy, but we didn't use the word liberalization. It was still, even in the late 1980s, considered to be a dirty word in Indonesia. So it was deregulation, basically. So that's how it began.*

*At the time of the reforms since 1998, we continued to be very active in terms of reforming the economy, and I happened to be a member of the National Economic Council under President Abdurrahman Wahid.*

SCHALKWYK: That was in the late '90s?

SOESASTRO: *Yes, until 2002.*

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SCHALKWYK: Could you briefly describe the reforms that made up the deregulation, what sort of reforms were they?

SOEASTRO: *The reforms—maybe a little bit of background. The Indonesian economy over the years then had become too dependent on revenues from one major source, namely oil and gas. I can't give you the exact figures any more, but it used to be that about 40% of total exports came from oil and 60% of total government revenues came from oil. So during the oil boom years, we were very happy, but then forgot that in fact there is a serious implication for the economy of this sudden increase in revenues from natural resources, which is known as the Dutch disease causing your exchange rate to appreciate and all that, but basically you know, everybody became too complacent that we had all these resources. So with exchange rates appreciating, the economy became less and less internationally competitive. So in the late 1970s, we found out when all of a sudden the price of oil declined, that our revenues sank, and it became very serious, including the balance of payments was severely affected.*

*That let the government and the economic managers of the country to in fact institute the reforms, the deregulation to make the economy more competitive because there was a lot—the external sector was very protected. Many things, like import licensing and so on. They were dismantled gradually beginning in 1986 with the first deregulation package in October of that year and then followed every few months with additional what we call packages of reforms or deregulation packages, removing one by one the different constraints and barriers to the economy.*

*It didn't follow a particular sequencing. We know that in the literature there is this sequencing. You know what is it that you need to do first, but in fact it was done purely pragmatically. Whatever opportunity there was, it was being tackled. You have to understand that deregulation was possible because the economic management of this country at the time was still very much left to a group of economic technocrats. They were rather insulated from the political processes. So they could in fact introduce and institute these reforms. Of course in the end, with the blessing of the president, with the agreement of the president.*

*This was possible because of a situation of crisis and not because of ideological reasons; it was purely pragmatic that we needed to do that.*

SCHALKWYK: So why 1986? What was the crisis that prompted these reforms?

SOEASTRO: *The drop in oil prices from about \$30 per barrel to \$9 per barrel. There was a major impact on the economy.*

SCHALKWYK: And the main drivers of reform were the—?

SOEASTRO: *Economic technocrats. What we had to face then was the very entrenched interest groups in industry, in trade, in various areas.*

SCHALKWYK: So what sort of interest groups were those?

SOEASTRO: *Industry groups who wanted to maintain high tariff protections but also traders who wanted to keep their import licensing, very elaborate import licensing system, basically those are all monopolies. So the government began to open up in those sectors.*

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SCHALKWYK: What was included in that first round of reforms in October of 1986?

SOEASTRO: *Of course, the one that was tackled first was the export sector, how to make them competitive. The reason why they have become less competitive were not only the exchange rate, but also because they had been forced to use local inputs, even though it is much more costly, like plastics, iron and steel. They had to use the ones produced locally even though the cost is so much higher.*

SCHALKWYK: That was by legislation or by policy?

SOEASTRO: *By policy. In fact, the policy was instituted to protect the local industries. So that was dismantled and saying that if your product was going to be exported, you have the choice now to purchase your inputs from abroad.*

SCHALKWYK: Presumably those companies, those industries that were providing those local inputs that were required resisted this change.

SOEASTRO: Yes.

SCHALKWYK: What did they do to resist this, and how did the government get around that sort of resistance?

SOEASTRO: *Oh they tried all kinds of means. Iron and steel were in fact state-owned enterprises, so they had to follow, although they tried, they used a lot of lobbying power and so on. But in the end, they had to accept—the private sector ones, there it was a little bit more tricky because by then there was this growing cronyism in the country that these big industries were all related to—were owned by those close to the president. So it was a big struggle between the technocrats and this. So it is an ongoing struggle.*

SCHALKWYK: Why do you think the technocrats were successful in the late '80s?

SOEASTRO: *Because I believe the public supported the deregulation measures. In fact, I don't want to boast, but in fact, the academics, including us in this institution, as well as the faculty of economics at the University of Indonesia, and so on trying to explain to the public why we had to do this, because it is against the grain of thinking in this country. We have a Constitution which we regarded as sacred, cannot change, an in-depth Constitution.*

*In fact, the management of the economy was based on a paradigm which was there from the '40s, the 1940s, very much influenced by thinking in Europe at that time, socialist, democratic, socialist ideas which became our Constitution, and we haven't changed it.*

SCHALKWYK: The president obviously had different people wanting different things from him.

SOEASTRO: Yes.

SCHALKWYK: How was he persuaded to go along with the technocrats or along with his friends?

SOEASTRO: *Because of the crisis. You know by then he was already in power for about twenty years, and he knew that in the previous twenty years there were many crises, several times, and each time we were able to overcome this because the team that was still there is the same economic team, basically, had been able to*

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*maintain macroeconomic stability. So they used the same formula, saying we have to do this because once we let this go, it will be very difficult. So he supported this. In fact, the president in the end agreed to postpone big projects and so on. In fact, also to some extent allowed some of the companies that were owned by people close to him to change, they had to change also.*

SCHALKWYK: Was there any international pressure?

SOEASTRO: *Not at that time. The story was repeated later on in '97, '98 during the crisis with totally different results.*

SCHALKWYK: I'd like to talk to you about that, but we'll get to that a little bit later. What was the subsequent sequence then after 1986 once the export sector was deregulated?

SOEASTRO: *Then it became trade first and then investment and industrial reform. Because the industrial sector related to foreign investment and all were very much regulated in that each year, the government would produce what they called a negative investment list. At the end of each year, the government will then decide which industrial, manufacturing sectors can be opened up and by how much. This is—and the argument was that we have to protect the existing industries from the entrance of new ones. They can only do so if the demand for the prospective product is known to have increased significantly, and the existing industries cannot meet the demand. That's the only reason for opening up.*

*You know, you are an existing investor. You want to increase your line, in the same line of product but increase your output; you also had to then ask for permission. That's how regulated the economy was. It was also dismantled in the course of several years from '86 all the way to '91–'92.*

SCHALKWYK: Why was it spread out over six or seven years?

SOEASTRO: *That's the political economy. Each time there is opportunity, then they tackle one thing and so on. The deregulation of the financial sector came only in the late 1980s, '88, '89. In fact, it moved very fast, because that is the sector where the technocrats had full control because the Central Bank, the Ministry of Finance, are all people from that same economic group.*

SCHALKWYK: You said that you didn't follow a particular sequence, and instead it was a pragmatic approach to try and take advantage of opportunities. What sort of opportunities are you talking about?

SOEASTRO: *My example is usually the financial sector reform would come at the very end, and the argument is that once you complete your real sector reforms, only then should you go into this because otherwise, you already deregulate the financial sectors. But if the real sector continues to be regulated, then you create a lot of distortions in resource allocation. But we could not afford to do so.*

*So as soon as in 1988, two years after we began with the reforms, there was the opportunity to move into financial sector reform swiftly. The government did that—or the technocrats did that at the risk of—.*

SCHALKWYK: What was that opportunity? Why did they feel they could do it in 1988?

SOEASTRO: *What they did was, you know initially, state-owned enterprises were forced to use only state banks, state-owned banks. I think that was the first thing that was*

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*tackled, saying no, now they can also go into—use private-sector banks. Now that you ask me about it, I have never looked into this more closely. But I think because one of the larger, by then, the larger private sector bank is owned by somebody who has very close relations to the president. Now that I think of it.*

SCHALKWYK: So at some points the cronyism slows down reform and at other times—.

SOEASTRO: *Yes, yes, I can give you other examples of that. Namely, the building of toll roads. The main toll roads that we have now originated during that period, otherwise we wouldn't be able to do that. The other one is the opening up of the information sector. We have so many private TV channels now was also because of cronyism then. Something that was totally closed before; it was only the state-owned television, TVRI (Televisi Republik Indonesia) that was there before. That changed during the time, because Suharto's children want to go in there.*

SCHALKWYK: What difference did the political setup make to the reform attempt in the late '80s and early '90s, the fact that Suharto had a lot of control over the country? How did that affect the way reform happened as opposed to a more democratic country doing some of the reforms?

SOEASTRO: *It depends very much on his mood also. By the early, by '92, '93, '94, because you have already deregulation, many of the sectors there were possible. There were a few remaining sectors, it is the tough ones, and those are the ones that are very closely related to him.*

SCHALKWYK: Which areas are those?

SOEASTRO: *Steel still, a few plastics, chemicals.*

SCHALKWYK: So he kept those areas.

SOEASTRO: *And then also the big strategic industries like the aircraft industry and so on. That, you know, he protected.*

SCHALKWYK: So he kept the industries that he was involved in regulated.

SOEASTRO: *Yes, so we began to see a slowing down of the deregulation process around '93, '94. People were talking about deregulation fatigue in the country. Then the crisis happened in '97. And if we can jump to that part. The '97 crisis came. Initially we thought we were going to be safe from it, because the macroeconomic situation of Indonesia was so much better than our neighbors. Malaysia and Thailand experienced a balance of payment—the current account deficit of about 6-8% already then; we didn't. I think about 2% only. Our budget was in surplus and so on. But then you never know about what was later on contagion, the contagion effect which was something that hit Indonesia hard.*

*Once we felt the impact of this crisis, the technocrats thought, well, you know, there is a crisis coming up. We will have to use the same argument as before to re-open the whole reform process in '97, '98, not knowing that by then, it was already a different Suharto from the one before. This time Suharto was very combative. He really wanted to save the industries and the business activities of his cronies, his children, and also the strategic industries.*

*Initially we invited the IMF (International Monetary Fund) to come, only to provide us with advice, because we did all these things that needed to be done as soon*

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*as we felt the crisis. We floated the exchange rate, not knowing that people reacted over-reacted to it. The budget was cut and so on. Yet it didn't help because of the contagious effect. Each time Mahathir bin Mohamad in Malaysia opened his mouth the stock market there fell. It affected our stock market and so on. So that happened. So we brought in the IMF. During the time of this process of consultation, it was felt that perhaps we do need to negotiate a package with the IMF. Once this was negotiated, the structural reform programs that got stuck were included in the package.*

*Often from the outside, it was seen as the mistake of the Fund. In fact, I knew the process. They were very reluctant at the beginning to do so, the Fund, the International Monetary Fund, saying that this is not the area of our competence. We know nothing about structural reforms, reform of the manufacturing sector, trade and so on, it is only the financial sector that we wanted to include in the package, including fiscal and so on, but not structural policies. It was the World Bank that said you have to. The Indonesian ministers also said we have to put it in. In fact, even outsiders like us said it is important. Because the package has to be credible that we are going to change. It is only a credible package that will help us so, you have to include that. We misjudged the whole thing.*

*Once we included the structural reform programs in the big IMF package, it became the source of the big mistakes for two reasons. One is that we could not fulfill what we pledged to do because domestically, there was limited support for it, especially the president was very combative, and he did not agree to it.*

SCHALKWYK: That was because he was trying to maintain control over industries controlled by friends and family.

SOEASTRO: *Yes, and also his favorite minister, Minister (Bacharuddin Jusuf) Habibie, the Science and Technology Minister who is in charge of all the strategic industries, who later became his vice president and then president. So that he wanted to save also. But they were brought into the package. Then later on in January, when they re-issued the package, it was made very explicit.*

SCHALKWYK: What year?

SOEASTRO: *'98, January '98. The first package was October '97 and then January '98 they were renegotiated, and Suharto himself was the one that negotiated with the managing director of the IMF. Now the problem why it became not credible was that after they signed this document, each one went to a different room to give a press interview, and it was in that press interview that people immediately observed that they have a totally different understanding of what they have signed. Essentially, Suharto did not agree to what the IMF thought the agreement was. So market confidence was lost.*

SCHALKWYK: So Suharto didn't last much longer after that, right?

SOEASTRO: *Yes, just a few months more.*

SCHALKWYK: There have been a number of reforms attempted since that across the country and particularly in the Ministry of Finance. Could you tell me a little bit about those reforms?

SOEASTRO: *Oh, the reforms in the Ministry of Finance came much later, 2004 on. From '98 to 2004, we still, well, let me back up a little bit. We had these reform packages*

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*under the IMF, continuously. I don't have the numbers now, but we renegotiated a new package every time we changed governments because we had three or four presidents within a short period of time. Some of the reforms were in fact undertaken. Certainly in the financial sector there was a lot happening.*

SCHALKWYK: Why were those undertaken but others weren't?

SOEASTRO: *Because in the financial sector again, you know, once the government agrees to do it, they can. The financial sector was very much an area that is under the full control of the state-owned banks. The big banks were all in trouble already, taken over by the government. So it was easier to do it. It was in the manufacturing sector that things were very difficult to continue. Also the other reforms, the more important reforms instituted under the IMF packages were institutional reforms, governance basically, good governance. So the introduction of independent institutions including an independent central bank from what used to be seen as being the cashier for the government changed into an independent institution with a clear mission and task to do and so on. So those were rather more successful.*

*The introduction of the Competition Commission and the Competition Law. A bankruptcy procedure including Bankruptcy Court and so on. They were all introduced within the period from 1999 or 2000 to about 2003. Then in 2004, I think, we decided to end the program with the IMF. We paid all the debt we had to the IMF, and it was then that a new reform package was introduced which was 100% indigenous. So it was crafted by the government to replace the IMF package.*

SCHALKWYK: Before we go into that can I ask you about the reforms from 1998 until 2004?

SOEASTRO: Yes.

SCHALKWYK: Why do you think they were successful?

SOEASTRO: *My interpretation was because there was the IMF.*

SCHALKWYK: So there was a lot of international pressure?

SOEASTRO: *Oh yes, basically the IMF. You know, we had these changes in government, and without the IMF, there was no way that you could institute this because the nature of the political changes was a device of the reemergence of political parties in this country and the assertiveness of the parliament who wanted to be more populist and all these things. There was no way they could institute those reforms because it was all against the ideas that political parties had. So it was only because the IMF was there.*

SCHALKWYK: Was there any problem trying to continue the reforms over political change?

SOEASTRO: Yes.

SCHALKWYK: How were those problems overcome, and what sort of things were those problems bringing up?

SOEASTRO: *It varies from time to time under different presidents and so on. I'll give you just one example, because I sat on the National Economic Council under President Wahid.*

SCHALKWYK: How long was Wahid President for?

SOEASTRO: *It was less than two years only, less than two years. It was in his first year that he set up this National Economic Council, and his argument was that I needed a second opinion, because he had his own economic team, but he didn't know the people. For some reason, I don't know why, but I have to do some more research again on this. He instituted the National Economic Council, and we thought our task was to educate him on economic matters. He had no idea about economics. So we tried to educate him. We were not successful. But what we were successful I think in doing was to save the reform programs. Abdurrahman Wahid's ministers were all against it. The coordinating minister for the economy in fact sabotaged.*

SCHALKWYK: Why did he do that?

SOEASTRO: *Because he came from a political party, PDIP (Partai Demokrasi Indonesia Perjuangan), that is totally against the involvement of the IMF.*

SCHALKWYK: So the involvement of the IMF was the main concern, not necessarily the content of the reforms?

SOEASTRO: *Yes, for some groups that was the main argument.*

SCHALKWYK: It didn't matter what the reforms were, if the IMF was involved—

SOEASTRO: *Yes.*

SCHALKWYK: Then they were bad.

SOEASTRO: *Yes.*

SCHALKWYK: So why did Wahid choose this minister if he knew that he was going to—?

SOEASTRO: *He didn't know. I thought he should know, because we know this person, we know the background, we know the political party. For some reason initially, it was not an important thing for Wahid, the economy. He didn't pay much attention to the economy.*

SCHALKWYK: What was his focus on?

SOEASTRO: *Domestic political issues, trying to go through the reform, the political reforms. Of course his strength was maintaining pluralism and so on.*

SCHALKWYK: He was from a religious party?

SOEASTRO: *Oh, yes. He is a Muslim leader. He was the one that fought against Muslim fanaticism. He was very strong. In fact, that's where he was a great man, but nothing else. All were very disastrous, the way he managed the country was very disastrous.*

SCHALKWYK: Was that also the time during which the decentralization program was started?

SOEASTRO: *No, earlier. The decentralization law was introduced in 1999 under Habibie, but it was only implemented in 2001 under him.*

SCHALKWYK: What was the reason for that delay?

SOEASTRO: *You know, it takes time. Once you pass the law, you have to have implementing regulations and all that for things to begin to move. But you know in fact, the law was passed like in May or June 1999, by January 1<sup>st</sup>, 2001, it was already implemented. So it was less than two years, and it was in fact in a hurry, and therefore some of the problems.*

SCHALKWYK: I want to ask you a couple of questions about that. But before we go onto the decentralization program, I wanted to ask in which way did the Minister for Economic Coordination sabotage the reforms? What were some of the things that he did or that other people did to try and stall the reforms?

SOEASTRO: *Well, I have to tell you a lot of confidential stories here, but basically it's this. He is the coordinating minister who is in charge of this. When they negotiate a package with the IMF—in fact, he didn't want to participate and said, "It is totally yours." So the IMF was very frustrated, and they came to see members of the National Economic Council and said, "We can't work like this. It has to be your package, not ours." So we had a discussion with Stanley Fischer all the time from the IMF. In fact, the members of the National Economic Council which was chaired by Professor Emil Salim, Professor Emil Salim and Sri Mulyani (Indrawati), who is now first the Secretary to it.*

SCHALKWYK: Is now the Finance Minister.

SOEASTRO: *Yes, she was the Secretary to it. We were all trying to save the program and make it an Indonesian program by agreeing with Stanley Fischer, we are going to draft the program. The next program we are going to draft. So in that meeting we called the coordinating minister and said, "We have had the discussion with the IMF. The IMF agrees that this time the package should be written by us. We should do it. We make ourselves available to help you do it." What he said is "No thank you. Let them do it themselves so that we can blame all the mistakes to them." That's one example.*

SCHALKWYK: Who was ultimately responsible for most of the reforms? Was it the president? Were they cabinet ministers? Was there a separate—?

SOEASTRO: *Of course, you noted the structure of the reforms. The reforms will always identify this task has to be done by whom, who is responsible, and then what they should deliver; it is all made clear. But the problem was that the coordinating minister was not coordinating this, so there was no sense of ownership on the part of the different ministries. The package was signed by him also, but nobody felt like they're committed, so that was the big problem with the reforms then. So only those that are immediately managed by the members of the group who really wanted to do the reform made use of it, made use of the package to get the reform done.*

SCHALKWYK: Like?

SOEASTRO: *With some successes.*

SCHALKWYK: What group was this?

SOEASTRO: *It was also the technocrats, still the technocrats that did it.*

SCHALKWYK: Working within vary ministries.

SOESASTRO: *Yes. But those that did not want to bother about it will do nothing.*

SCHALKWYK: And the high-level political support was elsewhere? How much political pressure was there on these people to get reforms done?

SOESASTRO: *Not much, not from the inside, it was all from external. In fact, it was the IMF, who became very unpopular because of this. Nobody in the country, except for the few academics and so on, but we don't count. Political parties are not interested because it is an IMF program, why should we do it. So it depends on the individual ministers. One of the, I think the credit has to be given to Boediono for getting the reform through during the period of 2002 through 2004 when he was Finance Minister under Megawati (Sukarnoputri). That's where he did a lot. And Megawati didn't understand a thing, but she gave full carte blanche, a blank check to Boediono to do it. In fact supported him 100%.*

SCHALKWYK: So between 2002 and 2004, they did develop some political support?

SOESASTRO: *Yes. It's from the inside, not from the outside. It was only because Megawati supported Boediono, gave full support to Boediono.*

SCHALKWYK: All right. What had happened to the people that had large commercial and industrial interests in the country, the people who had been Suharto's cronies? What was their involvement during early 2000?

SOESASTRO: *Well, they all tried to make deals of course. It became already with Habibie, the big deals of this, what you call it. But it was also under the IMF program, because the IMF program said you have to make an end to this. So you have to settle. If you studied the history of these things, there was this Mutual Settlement Agreement, something like that between the government and the big conglomerates, that they had to surrender some of their assets to the government in exchange for their debt to the government that they received during the emergency funds to the big banks that experienced the bank runs. The BLBI case, which is until now not settled. But there was the attempt to settle it then. It was an emergency; they were given the funding from the central bank to settle it. Whoever had assets, they were valued at the time and then they had to surrender to the government and then it was supposed to be settled. But then each time there was a new government, they reopened the case.*

SCHALKWYK: So what reform did you think—at the time, what reform did you think was least likely to happen that was eventually implemented? Were there any particularly difficult reforms that eventually managed to get through?

SOESASTRO: *It was the political reforms. In fact, I'm not sure that it would not have happened because it was a reaction to what people thought were the abuses of the previous government.*

SCHALKWYK: The Suharto government?

SOESASTRO: *The Suharto government, like staying in power for too long and so on. It became the basis for amending the Constitution. Also it became very difficult in the process because you had groups in the society that didn't want to amend the Constitution, saying that it was something sacred, it was given, it was created at*

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*the time of our independence, we should stick to it. But our Constitution gave too much power to the presidency so we had to change it, and it did happen.*

*The decentralization would not have happened had we not had this crisis and because of the weakening of the central government. That was the only way we were able to maintain the unity of the country by devolving power, otherwise certain provinces were going to just separate if you continue with the governance structure.*

SCHALKWYK: So it was separatist threats that were the driving force behind decentralization?

SOEASTRO: *Yes, but it went a little bit too far. One of the problems that we're facing now is that the power was devolved to the second level of government rather than to the provinces; it went one level down. The argument that Habibie had then is that if you give it to the provinces, they will have sufficient critical mass to separate, but if you give down to the district level, they won't have the power.*

SCHALKWYK: So districts are too small to separate, whereas the provinces would have been large enough.

SOEASTRO: *Yes, that is why we went all the way down to the second level and created 500 kingdoms in the country as a result.*

SCHALKWYK: Who was mainly involved in designing the decentralization process?

SOEASTRO: *A group of young people. What is his name who then became the minister for a while? His name slipped. Ryaas Rashid was the architect of the decentralization. In fact, he was supported by people like Andi Mallarangeng and so on. These very young people.*

SCHALKWYK: So after Suharto stepped down or was pushed out, what happened to his political allies in the political system that replaced him and how did that affect the political reform that took place afterwards?

SOEASTRO: *Compared to some other countries, like in particular Korea and maybe to some extent Thailand, where there was a total change in the political setup, it was not the case of Indonesia. So Suharto's allies continued to be there even under Habibie, so the change was very gradual, the political change was very gradual, not abrupt.*

SCHALKWYK: What effect did that have on the governance, the changes, and the economic changes?

SOEASTRO: *It was very slow because of that.*

SCHALKWYK: So they provided resistance. What sort of positions did they stay in? Ministers?

SOEASTRO: *Some still ministers, yes. The real change, I think, only happened when Megawati became President.*

SCHALKWYK: In 2004.

SOEASTRO: *She totally changed the people there.*

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SCHALKWYK: So to go back to the decentralization, you said that it happened very, very quickly, and I understand that they've moved two and a half million staff members in a very short period of time.

SOESASTRO: Yes.

SCHALKWYK: Why did it happen so quickly? I understand that the Act says that there should have been analysis done and planning and that much of this wasn't done. Why was that the case?

SOESASTRO: *The pressures from the local regions were very strong from the people.*

SCHALKWYK: So they wanted it to happen as soon as possible.

SOESASTRO: *Right.*

SCHALKWYK: And who was responsible for organizing and managing that program in 2001?

SOESASTRO: *I think this group of people including Ryaas Rashid.*

SCHALKWYK: In what official capacity were they working?

SOESASTRO: *He was a minister. He was the minister in charge. In addition to this group of people, we got a lot of external support for the implementation of decentralization, which helped. There was a lot of capacity building and so on given at that time. The people were very enthusiastic basically. Like CSIS was involved in establishing this, what is now called the Regional Autonomy Watch, KPPOD. We started very early, immediately, to also sort of try to help to ensure the success of the decentralization.*

SCHALKWYK: What were the most difficult of the governance changes, the political changes that happened after Suharto's reign, the changes in the political system?

SOESASTRO: *The changes in the political system or governance?*

SCHALKWYK: Focus on governance?

SOESASTRO: *Of course, now you're going to the big civil service reform, the bureaucratic reform. In terms of the political system, of course, political party reform and all that. Those are very difficult things, and even until now, not completed. In fact, it is the civil service reform which I think continues to be lacking behind.*

SCHALKWYK: Why do you think that's the case?

SOESASTRO: *Why has it been the case? If I look back it is because they put very incompetent people in those posts who are supposed to be in charge.*

SCHALKWYK: Is it the president assigning poor cabinet ministers?

SOESASTRO: Yes.

SCHALKWYK: Is it cabinet ministers assigning—?

SOESASTRO: *No. It is the minister in charge to administer these reforms. They're no longer—they were all given to political parties rather than technocrats. During the time of*

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*Suharto's period, they were strong ministers they put in place of administrative reform line, like (J.B.) Sumarlin, in the past, the economic technocrats were in charge of administrative reform and no longer have been. Even now you have a very weak minister in charge.*

SCHALKWYK: Do you think this is true because the senior politicians don't want civil service reform to happen, or they're just not interested in making sure that it happens? Are they against it, or is it just not a priority?

SOESASTRO: *Maybe not a priority. But also, you know, I think because it is given to the wrong people, I believe. If you have the right person in the job, he will do it even though the president does not put high priority on it. But if you have the right people, I think things would be different. The reason why, I think you have the wrong people in those positions was that they were given to political parties of the president. They want to make sure that the bureaucracy continued to be somewhat under their control in terms of promoting people and so on.*

SCHALKWYK: What were the goals of the civil service reform, or what have been the goals of the civil service reform as they've been stated?

SOESASTRO: *Of course, they have been changing over the years. In the past, number one, they should be loyal, and not necessarily efficiency, but it was loyalty that has been important. Now, you know, on paper it should become a modern administration and so on, but of course, it has become very much regimented because the structures of the ministries and agencies are all very rigid. But having said that, you have a person like Sri Mulyani in the Finance Ministry, it is the largest department in the country with the largest number of civil servants, who is determined to do the reforms. She can do it even though the minister in charge of administrative reform is not doing anything. She does it on her own and in fact can show some successes. Not fully, but I think she did something. Very few ministers have been able to do it.*

SCHALKWYK: So why has she been able to do it and other people haven't?

SOESASTRO: *I think because she put a lot of priority in it, number one. She believes in the importance of doing it. Then she got the support from within to do the reforms.*

SCHALKWYK: From the president?

SOESASTRO: *Well, the president, yes, in the end of course.*

SCHALKWYK: What have her goals in terms of the reform been within the Finance Ministry?

SOESASTRO: *Number one, to eliminate corruption. She was very strong on it.*

SCHALKWYK: What sort of corruption?

SOESASTRO: *All kinds of corruption, all kinds of corruption. You know, the Director-General of Taxation is under her. That is one of the most corrupt in the past, because you can just negotiate how much taxes you pay. That's the biggest source of corruption. The second one is Customs, also under her. She had been able to put the reforms in both.*

SCHALKWYK: Did she encounter any resistance in those?

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SOESASTRO: Yes.

SCHALKWYK: Where did that come from?

SOESASTRO: *Of course, from the people who were going to be removed.*

SCHALKWYK: Right. And how did she get around that? I mean presumably those are fairly powerful people. Why had they been able to stay in the past, but she had been able to remove them?

SOESASTRO: *It's just her guts, I think, number one, but I believe the support that she got, she got it from use of Jusuf Kalla and not from the president. I understand that is the wrong perception because I was in Singapore until Sunday, and I saw on Singapore television somebody was interviewed and said, "The president was very much interested in bureaucratic reform, but the vice president was not." I thought that's wrong, because I know the case of the Finance Ministry. The Finance Minister, without the support of the vice president, would not have been able to do this.*

SCHALKWYK: Okay. What has her relationship been with the Minister for Administrative Reform?

SOESASTRO: *Let me tell you a story. This is because I am a member of Sri Mulyani's expert group. She confided in us one day saying that she was the one that took the initiative to report to the Minister for Administrative Reform what she had done and planned to do because she did this on her own. Other ministers would not dare. They would ask for permission from the ministry, but I think she didn't. So she just introduced the reforms, and then she reported to the minister. She came to the minister and said, "This is what I have done." She made a presentation, and what she told me is that at the end of the presentation, this is just for you, this minister told her, "Ah, that's exactly what needs to be done." That's all his comment to her.*

SCHALKWYK: What have some successful reforms been since she took over at the Finance Ministry, apart from the anticorruption? What else has she done?

SOESASTRO: *Oh, but that is a major thing. You know streamlining the bureaucracy. That's the major thing. Customs, what happens in the ports had been horrible before. In the past, what we did was just replace the customs with SGS (Société Générale de Surveillance, a Swiss-based inspection company), a foreign company, to do all the things for us. You can't do it here. For a big country like Indonesia it is an insult. Smaller countries, in fact in Africa, do use SGS to do the customs for them, but Indonesia should not do that. So we have been able to overcome that now. And then taxation, everybody knew how corrupt it was.*

*So the beginning, of course, was again an IMF reform package of introducing these large taxpayer offices so you know who the large taxpayers are. They now have to go into a particular office where everything is computerized, and where the face-to-face meetings with tax officials are minimized. So that began with an IMF program, but it was continued throughout. Of course, the important thing was to be able to replace the people and put the right people in the right place.*

SCHALKWYK: So I understand that most of the control over personnel happens at MenPAN, the ministry for administrative reform, but has Sri Mulyani been able to take over that, and how did she get that responsibility and that power?

SOEASTRO: *I think she just did it. It was a gamble, must be a gamble. She just did that.*

SCHALKWYK: How was she able to change the way tax and customs were done to reduce corruption?

SOEASTRO: *By putting people in it that she trusted, and they were very clean people afterwards. So selecting the right people, in the end, in a country like Indonesia, you give the right example—. That's my thesis. If the top gives an example, but also institutes—of course, you have to institute a mechanism to control, but you can do it.*

SCHALKWYK: I understand she has also developed this bureaucracy reform working group out of the reforms that she has done in the Finance Ministry. What is their responsibility and what are they doing?

SOEASTRO: *I'm not sure I know about it.*

SCHALKWYK: That's fine. What are the major challenges facing the civil service in Indonesia at the moment as you understand them?

SOEASTRO: *Oh, I think the challenges, they operate in a situation where they no longer, I think, feel like there is certainty in what they do. This is talking in general. I think the civil service has been at a loss at the moment because of the changes over the past ten years. Each time there is a change in the minister, you change these things in terms of personnel. They bring in people and so on. It is not clear what the criteria is for people to be promoted and so on, because you have political people now in as ministers. They bring their political people in and that created a lot of—it has some demoralizing effect inside many of the ministries. But the other thing is also with this very serious effort at curbing corruption, and you know corruption is everywhere. Nobody dares to do anything now in the bureaucracy.*

*So it is very hard to get things moving these days, because nobody wants to be responsible for anything for which they can't have full control. So, for instance, if you become a project leader, you're fully responsible for what you are doing, but you don't have full control over the implementation and the bureaucracy that is in charge, because the mechanisms are not there. So civil servants become very hesitant to become project leaders. Anecdotally, I understand from some of my colleagues in the government saying that each time they will have to go through a test at the planning point. The [Indecipherable] is the one that administers this test for civil servants who would be promoted to become project leaders. Many of them try to fail the exams so that they would not be given the responsibility to become project leaders, because they are so concerned about their ability to have full control over a project. Once they don't, they will easily now, they can easily be caught by the corruption commission. Once you are there it is hard.*

SCHALKWYK: Apart from the civil service, what other reforms have been attempted but have failed?

SOEASTRO: *Judicial reform, which is even a greater priority, the judicial reform.*

SCHALKWYK: Why has that failed?

SOEASTRO: *Corruption is so entrenched. You ask me, I don't know.*

SCHALKWYK: The main reform in the judiciary is to reduce corruption?

SOEASTRO: *Yes, yes, corruption in the sense that justice has become a commodity in this country. If you are able to pay, then you get justice, but if you can't pay, you can't have justice. That is the biggest problem in this country. So don't get into trouble, so that you don't have to face the courts. Then you are okay, but once you're in there, if you don't have enough money, you can't bribe your way out, then you're in big trouble. That's what the central bankers who are in jail have tried to do, because they were forced to bribe them.*

SCHALKWYK: You don't know, you can't think of why the reforms have failed? What do you think the problem is that makes it difficult to do, to reform that sort of system?

SOEASTRO: *It is so entrenched; you don't know where to start. We believed initially that you change the Supreme Court, you change them, you get really good people, then you could—. We thought we had the right people there. It turns out not to be the case. So I really don't know where to start.*

*When I was on the National Economic Council, we invited a few consultants from the outside to provide us with ideas of how to reform the judicial system. Some came, in the end, their suggestion was replace all the judges. Bring in new people from universities to occupy those positions. It didn't work. They said this was successful in, I don't know, Estonia or Latvia.*

SCHALKWYK: But Estonia and Latvia are very different country from Indonesia.

SOEASTRO: *Of course, it's so much smaller. So we were told to do the same here. Since I don't know what else.*

SCHALKWYK: What is the public's attitude toward the reform? Is the public very much behind them? Does the public understand what the reforms are doing? Does it make a difference between whether it is the rural public or the urban public and how does that—?

SOEASTRO: *Yes, I mean of course the urban public are more, not necessarily, well, I'm not quite sure to tell you frankly, but they want to see corruption eliminated. I think that is the main reason why they would support this, better service given to them, that they don't have to pay their way out and so on. It is something the public understands. They do understand this. There is a lot of support for this.*

SCHALKWYK: Does that drive the reforms through the democratic process?

SOEASTRO: *I think so.*

SCHALKWYK: I'm thinking about the election tomorrow. Is that, is the effect of reform going to influence the election?

SOEASTRO: *Yes, yes. Of the very few factors in the various polls on election, voting behavior and so on. Of course dealing with corruption is seen as very important thing for the voters, how they perceive somebody to be a competent person or a political party in terms by their policies on corruption and so on. Of course, economic well-being and all that is number one, but afterwards it is corruption.*

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SCHALKWYK: One of the last questions, what are the major impediments to reform in Indonesia? What do you think the major obstacles are?

SOESASTRO: *To have a mechanism that can really follow it through. You know we have, since 2004, when we ended our program with the International Monetary Fund, we have basically adopted the same method, namely have this reform policy package. Now it is called Presidential Instructions. In 2004 there was one, in 2005 there was one. I think in 2007, 2008 and now 2009 there is Presidential Decree number five this year, which is in fact—. Put everything under this Presidential Instruction very clearly what needs to be done including our commitments that we made in original arrangements like ASEAN Economic Community Blueprint, further integrating with the region and so on. The few steps that we have committed ourselves to do in ASEAN were integrated into the reform package with clear timetables and so on. But then it is a mechanism of monitoring and so on. That is very big.*

SCHALKWYK: Continuing through with your reforms and monitoring them.

SOESASTRO: Yes.

SCHALKWYK: Is there anything you'd like to add before I finish the interview?

SOESASTRO: *No, I think that's basically how I would like to describe the process of reform in Indonesia. You have pressures sometimes coming from the outside, but also more and more coming from the inside even themselves for the government to undertake these pressures. In the government, you do have people who champion them, and it just so happens that they would be the one in charge of formulating the policies and they are there. Then in the end, you have problems in implementing them. That is in part because a few ministers do not feel like they are committed to it, and they are mostly ministers that are representing political parties compared to the ones that are appointed directly by the president as professionals. These political people are not.*

*Second, even if you have ministers who are very eager to implement them, they can't implement because the capacity of the bureaucracy is so low.*

SCHALKWYK: Okay, thank you very much for your time.

SOESASTRO: *You are most welcome.*