

Chapter 3. The Economy



Kumbakarna (right), an aggressive warrior knight who fights many battles, is kept at bay in this scene by Gareng (left), a clever buffoon who, despite his human imperfections, is a deity.

BY MANY MEASURES, the Indonesian economy prospered under the New Order of President Suharto after he came to power in 1966; growing industries added the benefits of modern technology to the natural abundance of the tropics, once the mainstay of the colonial economy. In 1965, before the New Order was initiated, the Indonesian economy had virtually no industry and little more total production per capita than when controlled by Dutch colonialists (see *Colonial Economy and Society, 1870–1940*, ch. 1). However, so complete was the economic transformation under the New Order that, by the mid-1980s, the production of steel, aluminum, and cement was far more valuable than the produce of many thousands of hectares of plantations.

Perhaps the New Order's greatest asset was the resolve to alter policies when they no longer worked. For example, throughout the 1970s, tax revenues earned from oil helped fund growing government investment. In the mid-1980s, these revenues declined dramatically because of the glut on the world oil market. This decline in tax revenues as a base for economic development led, by the early 1990s, to an overhauling of the government's strategy to foster rapid industrial growth. The new strategy permitted a larger role for private businesses and featured greatly simplified government regulations.

Under Suharto's leadership, the nation seemed mesmerized by the prospects of modern technology. When tax revenues grew rapidly because of oil price increases engineered by the Organization of the Petroleum Exporting Countries (OPEC—see Glossary) in the 1970s, the government pursued ambitious investments in heavy industries such as steel and advanced technologies such as aeronautics. Petroleum exports and the increasing exploitation of other natural resources funded imports of machinery and raw materials vital to rapid industrialization. Timber from Indonesia's vast rain forests, copper and nickel from remote mining sites, and traditional agricultural products such as rubber and coffee also contributed to buoyant export earnings.

Government agricultural programs brought the benefits of modern agricultural technology to millions of peasant farmers. The Green Revolution, based on the use of high-yielding seed varieties with modern inputs of fertilizers and pesticides, transformed subsistence rice farmers into productive commercial suppliers. Furthermore, new programs in the 1980s extended the benefits of

modern agricultural techniques to other food and cash crops. This revolution created challenges in the early 1990s, however, as the greater diversity of crops other than rice and more varied conditions of cultivation made the task of increasing agricultural output more complex.

The New Order economic ideology was a departure from the former regime's brand of socialism, which was labelled by Sukarno, president from 1945 to 1967, as "socialism à la Indonesia." Under Sukarno's leadership, the government gained complete control over most private markets, including foreign trade and bank credit. The old regime was not limited by available resources: if ambitious government expenditures could not be funded by taxes, the government turned to the central bank for credit. Large budget deficits and intrusive economic controls led to mounting inflation and a stagnant economy.

Suharto learned from the mistakes of his predecessor. The hallmark of the New Order was fiscal and monetary conservatism. Budgets were balanced, and growth in the money supply was restricted to contain inflation. Still, the forces that had pushed Sukarno toward socialism remained. After several centuries of Dutch rule, no indigenous group of industrialists had the resources to move the nation toward a modern economy. The most likely candidates, the ethnic Chinese minority, were still resented by the far more numerous and less well-off *pribumi* (see Glossary) Indonesians (see Ethnic Minorities, ch. 2). Whereas the Chinese minority had prospered in commerce and small-scale industry during the colonial era, *pribumi* Indonesians were primarily small-scale peasant farmers whose activities were limited by Dutch colonial policy. As a result, after independence Indonesians were ambivalent toward foreign investors because they symbolized foreign colonial domination.

The New Order steered a course that might be labelled "capitalism à la Indonesia." The government itself assumed the role of industrialist by direct state investment, increasing regulations and offering special protection for favored industries. Although never so intrusive or so poorly funded as Sukarno's programs, this strategy became increasingly plagued by inefficiency and corruption. In addition, the modern capital-intensive industries favored by government supports offered few employment opportunities to the growing labor force. In spite of abundant and cheap labor, Indonesia's exports were still dominated by natural resources and agricultural products. These exports provided less employment and were subject to larger price swings than the manufactured exports that had led economic development in many neighboring Asian nations.

The collapse of the oil market in the mid-1980s underscored the economy's weaknesses and forced the government to take stock of its economic policies. From the mid-1980s to the early 1990s, a wave of reforms to promote manufactured exports significantly reduced the role of government in all sectors of the economy. Private businesses seemed prepared to take up the slack. From a period of slow growth in the early 1980s, when annual gross domestic product (GDP—see Glossary) growth had dropped to 2 percent in 1982 compared with an annual average of 8 percent from 1970 to 1981, the economy rebounded to a GDP growth of 7 percent in 1990. Manufactured exports grew from less than US\$1 billion in 1982 to more than US\$9 billion in 1990. Still, the new orientation was a long way from *laissez-faire*, or, as Indonesians prefer, “free-fight,” capitalism. Important government restrictions, such as a ban on timber exports, continued to affect private businesses. Several major state-owned firms, labelled strategic industries, were protected from any threat of privatization.

Ironically, the most visible beneficiaries of the growing economy during the 1970s and 1980s were the Chinese minority and members of Suharto's own family, whose business interests multiplied with lucrative government contracts. Although available evidence on income distribution suggested that income inequality declined during this period, the extreme wealth of the privileged few remained a symbol of inequity and a sensitive public issue in the early 1990s.

The vast majority of the population still lived in rural areas and earned a living from agriculture or from the informal sector of petty trade and other low-skilled services (see Population, ch. 2). The average Indonesian had only marginal contact with the modern industrial sector, through employment in the growing food market or occasional migration to urban areas for work. In the past, government largesse with oil tax revenues had strengthened these links by employing more civil servants and financing rural programs to assist *pribumi* farmers and small businesses. In the early 1990s, however, even though the government remained committed to improving the economic opportunities for *pribumi* Indonesians, the new policies relied more on a vigorous private economy to help spread the benefits of economic development.

Role of Government

In the early years of nation building, from 1950 to 1957, a variety of moderate policies were pursued to support the *pribumi* through subsidized credit from the state-owned Bank Rakyat, or People's Bank, and through limiting certain markets to *pribumi* business.

The nation's first five-year development plan (1956–60) proposed a realistic level of government investment in public infrastructure, but offered little regulation or overall guidance to the private sector. This plan was superseded by dramatic developments in the political and economic sphere, including the 1957 takeover of Dutch enterprises initiated by workers, which led ultimately to state control of this important segment of the economy. About 300 Dutch plantations and 300 firms in other areas such as mining, trade, finance, and utilities ultimately came under the control of the Indonesian government. Dutch management was replaced by Indonesian civil servants or military officers, most of whom had little managerial experience.

The de facto expansion of the state was sustained by a general policy shift to justify greater state intervention in the economy. Sukarno's Guided Economy was initiated in a new eight-year development plan begun in 1959, which entailed a twelvefold increase in government project expenditure from the previous plan, without clear sources of finance. By the mid-1960s, central bank credit to the government accounted for half of government expenditures. This deficit spending led in turn to mounting inflation, which peaked at 1,500 percent between June 1965 and June 1966. At the same time, foreign debt mounted, both from the West and increasingly from the Soviet Union. In spite of a highly visible public building campaign, the economy stagnated, and by 1966 per capita production was below the 1958 level.

Following the downfall of Sukarno, the New Order regime under Suharto pursued, with financial assistance from the International Monetary Fund (IMF—see Glossary), a variety of emergency stabilization measures to put the economy back on course (see *The State and Economic Development*, ch. 1). During the 1960s, a team of economists from the Faculty of Economics at the University of Indonesia became influential presidential advisers. Because three of the five-member team had received doctorates from the University of California at Berkeley, the group was sometimes referred to as the "Berkeley Mafia." Chief among the Berkeley group's recommended reforms was a balanced budget, although foreign assistance and foreign borrowing were included as sources of revenue. Furthermore, in a break from the socialist tenor of Sukarno's Guided Economy, Suharto's New Order heralded a return to private market development.

The New Order remained committed to a stable economic environment encouraged by responsible fiscal and monetary policy. However, concerns over foreign economic dominance, the limited national industrial base, and the need for *pribumi* economic



*A supermarket in Jakarta
Courtesy Indonesian
Department of Information*



*Fruit sellers at an outdoor
market in Yogyakarta
Courtesy Harvey Follender*

development mandated increased government regulation during the 1970s. In spite of these increasing government controls, the economy continued to prosper throughout the 1970s, with GDP growing an average 8 percent annually.

By the early 1980s, a precipitous drop in growth pointed to limits in the industrialization strategy, and a new generation of reformers advocated a more limited role for the government. Entrenched beneficiaries of protected markets and enlarged bureaucracies resisted these reforms, but when the oil market collapsed in 1986, the balance was tipped in favor of the “free-fight” advocates.

The Politics of Economic Reform

Two main forces of influence within the New Order government battled to shape economic policy: the technocrats—who favored market reforms and a limited role for the government in the economy—and economic nationalists—who argued that trade protection and direct government investment and regulation were necessary to contain foreign influence while sufficient resources were mobilized to modernize the economy. The technocrats were led by the original members of the “Berkeley Mafia,” who had gained cabinet posts in the late 1960s. Among the most influential technocrats were Ali Wardhana, initially the minister of finance in 1967 and coordinating minister of economics, finance, and industry from 1983 to 1988; and Widjojo Nitisastro, who headed the National Development Planning Board (Bappenas—for this and other acronyms, see table A), from 1967 to 1983. Although retired by 1988, both men remained influential behind-the-scenes advisers in the early 1990s. Under the tutelage of Professor Sumitro Djojohadikusumo, a prominent intellectual and cabinet member in the 1950s who founded the University of Indonesia Faculty of Economics during the 1960s, these Western-trained economists were the voice of economic liberalism. The economic nationalists included prominent officials in the Department of Industry, headed by Hartarto; offices under the minister of state for research and technology, Bacharuddin J. Habibie; and the Investment Coordinating Board (BKPM; see *The Executive*, ch. 4). The balance of power between the economic technocrats and the economic nationalists was mediated by Suharto, who skillfully channeled the energies of both groups into separate arenas.

After the New Order successfully countered the rampant inflation and financial collapse of the Sukarno era, the technocrats gained credibility and influence in the domain of financial and fiscal policy. As oil revenues grew in the 1970s, those government agencies responsible for trade and industrial policy sought to extend Indonesia’s

domestic industrial base by investing in basic industries, such as steel and concrete, and by erecting trade barriers to protect domestic producers from excessive foreign competition. Government regulations proliferated, and oil taxes fueled investment in development projects and state enterprises.

The private sector became dominated by large conglomerate corporations, often Chinese minority-owned, which had sufficient wealth and know-how to assist the government in large-scale modernization projects. Australian economist Richard Robison estimated that Chinese Indonesian capital accounted for 75 percent of private-sector investment in the 1970s. The two most prominent conglomerates, the Astra Group and the Liem Group, had substantial holdings in dozens of private firms ranging from automobile assembly to banking. The growth of these conglomerates usually hinged on close ties to government. In exchange for monopoly privileges on production and imports of key industrial products, conglomerates would undertake large-scale investment projects to help implement government industrialization goals. Political patronage became a vital component of business success in the early 1980s as government restrictions were extended to curtail imports when oil revenues began to decline.

By the mid-1980s, about 1,500 items representing 35 percent of the value of imports were either imported by licensed importers or controlled through a quota system. Such nontariff barriers affected virtually all manufactured imports, but were particularly extensive for textiles, paper and paper products, and chemical products. As a result of restrictions on imports, firms in these sectors were effectively protected from foreign competition or able to sell their products at a higher cost. Firms that obtained import licenses were also highly profitable, but costs were borne by the entire economy because imports were often key inputs for many manufacturers. Popular resentment grew as the gains from these restrictions enriched a privileged minority. To the long-standing public sensitivity toward the prominence of the Chinese minority was added dismay that members of Suharto's family were profiting from access to import monopolies.

Suharto's six children were the most visible beneficiaries of close government connections. Each child was connected with one or more conglomerates with diverse interests, and like their Chinese minority counterparts, they based their business success at least partly on lucrative government contracts. For example, son Bambang Trihatmodjo's Bimantara Citra Group, reportedly the largest family conglomerate by the 1990s and Indonesia's fifth largest company in 1992, got its start in the early 1980s selling allocations

of overseas oil to the National Oil and Natural Gas Mining Company (Pertamina)—the government oil monopoly and the nation's largest company. Lower-value Middle East oil was thus used for domestic refining and consumption while higher-grade Indonesian oil was used for export, primarily to Japan.

Two vital industries symbolized the intricate relationship between government and business: steel and plastics. In the first case, the founder of the Liem Group, Liem Sioe Liong, agreed in 1984 to invest US\$800 million to expand a government enterprise, Krakatau Steel, in Cilegon, Jawa Barat Province, to add production of cold-rolled sheet steel. In return, a company owned partly by Liem received a monopoly for the imports of cold-rolled steel. Once domestic production was underway, Liem's imports were restricted to assure demand for the Krakatau product. The World Bank (see Glossary) estimated that the scheme added 25 to 45 percent to the cost of steel sheets in Indonesia, thereby raising costs of a wide range of industrial products that used this material. In the second case, the importation of plastic raw materials was monopolized through government license by Panca Holding Limited, on whose board of directors sat Suharto's son, Bambang, and his brother, Sigit Harjojudanto. As a result, in 1986 the company earned US\$30 million on US\$320 million worth of plastics imports, adding 15 to 20 percent to the price of these materials for Indonesian users.

When oil prices plummeted in 1986, the growing dissatisfaction with the direction of trade and industrial policy became more vocal among small private businesses excluded from the benefits (see Minerals, this ch.). A number of smaller businesses organized the Chamber of Commerce and Industry in Indonesia (Kadin). These businesses became open critics of the "high-cost" economy of monopoly privilege, and in 1987 Kadin became the officially sanctioned channel of communication between business and government. Other influential groups began to pressure the government for trade reforms, including international lenders on whom Indonesia relied to assist the government with balance of payments difficulties resulting from the decline in oil revenues (see table 15, Appendix).

Several major reforms were underway before the 1986 oil crisis, but without direct effect on trade restrictions, which although valued by influential beneficiaries, had become costly to many businesses. Major trade deregulation began in 1986, but left the largest import monopolies untouched until 1988, a gradual approach to reform that influential technocrat Ali Wardhana attributed to the limitations of the government bureaucracy. He hinted at a

broader political motive, however, in acknowledging that piecemeal reforms had the advantage of progressively winning a new constituency for further reform. The financial sector was the first sector to be reformed in the 1980s, as it was in the mid-1960s, when the New Order government faced the excesses of the previous regime.

Financial Reform

The president's technocratic advisers on financial policy, who had unsuccessfully resisted growing government regulations during the 1970s, spearheaded the return to market-led development in the 1980s. The financial sector is often the most heavily regulated sector in developing countries; by controlling the activities of relatively few financial institutions, governments can determine the direction and cost of investment in all sectors of the economy. From the 1950s to the early 1980s, the Indonesian government frequently resorted to controls on bank lending and special credit programs at subsidized interest rates to promote favored groups. Toward the end of this period, the large state banks that administered government programs were often criticized as corrupt and inefficient. Sweeping reforms began in 1983 to transform Indonesia's government-controlled financial sector into a competitive source of credit at market-determined interest rates, with a much greater role for private banks and a growing stock exchange. By the early 1990s, critics were more likely to complain that deregulation had gone too far, introducing excessive risk taking among highly competitive private banks.

Like many developing countries, the Indonesian financial sector historically had been dominated by commercial banks rather than by bond and equity markets, which require a mature system of accounting and financial information. Several established Dutch banks were nationalized during the 1950s, including de Javasche Bank, or Bank of Java, which became the central bank, Bank Indonesia, in 1953. Under Sukarno's Guided Economy, the five state banks were merged into a single conglomerate, and private banking virtually ceased. One of the first acts of the New Order was to revive the legal foundation for commercial banking, restoring separate state banks and permitting the reestablishment of private commercial banks and a limited number of foreign banks.

During the 1970s, state banks benefited from supportive government policies, such as the requirement that the growing state enterprise sector bank solely with state banks. State banks were viewed as agents of development rather than profitable enterprises, and most state bank lending was in fulfillment of government-mandated and subsidized programs designed to promote various economic

activities, including state enterprises and small-scale *pribumi* businesses. State bank lending was subsidized through Bank Indonesia, which extended "liquidity credits" at very low interest rates to finance various programs. By 1983 such liquidity credits represented over 50 percent of total state bank credit. Total state bank lending in turn represented about 75 percent of all commercial bank lending. The nonstate banks—which by 1983 numbered seventy domestic banks and eleven foreign or joint-venture banks—had been curtailed during the 1970s by licensing restrictions, even though they offered competitive interest rates on deposits and service superior to that offered by the large bureaucratic state banks. Bank Indonesia also imposed credit quotas on all banks to reduce inflationary pressures generated by the oil boom (see Monetary and Exchange Rate Policy, this ch.)

The first major economic reform of the 1980s permitted a greater degree of competition between state and private banks. In June 1983, credit quotas were lifted and state banks were permitted to offer market-determined interest rates on deposits. Many of the subsidized lending programs were phased out, although certain priority lending continued to receive subsidized refinancing from Bank Indonesia. Also, important restrictions remained, including the requirement that state enterprises bank at state banks and limitations on the number of private banks. By 1988 state banks still accounted for almost 70 percent of total bank credit, and liquidity credit still accounted for about 33 percent of total state bank credit.

In October 1988, further financial deregulation essentially eliminated the remaining restrictions on bank competition. Limitations on licenses for private and foreign joint-venture banks were lifted. By 1990 there were ninety-one private banks—an increase of twenty-eight in a single year—and twelve new foreign joint-venture banks, bringing the total foreign and joint-venture banks to twenty-three. State enterprises were permitted to hold up to 50 percent of their total deposits in private banks. Later, in January 1990, many of the remaining subsidized credit programs were eliminated.

The extensive bank deregulations promoted a rapid growth in rupiah-denominated bank deposits, reaching 35 percent per year when controlled for inflation in the two years following the October 1988 reforms (for value of the rupiah—Rp—see Glossary). This rapid growth led to concerns that competition had become excessive; concern was heightened by the near failure of the nation's second largest private bank, Bank Duta. The bank announced in October 1990 that it had lost more than US\$400 million, twice the amount of its shareholders' capital, in foreign exchange dealings. The bank was saved by an infusion of capital from its shareholders,

which included several charitable foundations chaired by Suharto himself. The spectacular crash of Bank Summa in November 1992 was not protected by Bank Indonesia. Its owner, a highly respected wealthy businessman, was forced to liquidate other assets to cover depositors' losses.

Unrestricted transactions in foreign exchange by Indonesian residents had been a unique feature of the financial sector since the early 1970s. Although many developing countries attempt to outlaw such so-called capital flight, the New Order continued to permit Indonesian residents to invest in foreign financial assets and to acquire the foreign exchange necessary for investments through Bank Indonesia without limit. Commercial banks in Indonesia, including state banks, had also been permitted since the late 1960s to offer foreign currency—usually United States dollar—deposits, giving rise to the so-called Jakarta dollar market. By 1990 20 percent of total bank deposits were denominated in foreign currency. This freedom to invest in foreign exchange served the financial institutions well. During the 1970s, when banks' domestic credit activities were heavily restricted, most banks found it profitable to hold assets abroad, often well in excess of their foreign exchange deposits. When demand for domestic credit was high, banks resorted to international borrowing to finance expanding domestic loans. To control the domestic supply of credit by plugging the offshore leak, in March 1990, Bank Indonesia issued a new regulation that limited the net foreign position of a bank (the difference between foreign assets and liabilities) to 25 percent of the bank's capital.

Prior to bank reforms in October 1988, some private banks were essentially the financial arm of large business conglomerates and consequently did not make loans to businesses outside those connected with the bank's owners. The 1988 bank reforms limited loans to businesses owned by bank shareholders. When many of the government-subsidized credit programs targeted to small businesses were eliminated in January 1990, the government required banks to lend a 20 percent share of their loan portfolio to small businesses, defined as those businesses with assets, excluding land, worth less than Rp600 million (about US\$300,000). This aspect of financial reform ran counter to the overall effort to improve bank efficiency because the rule applied to all banks regardless of their expertise in small-scale lending. However, the policy reflected the government's persistent concern that the public might perceive the benefits of economic growth as limited to the wealthy few.

One of the most striking outcomes of financial reform was the revival of the Jakarta stock market in the late 1980s. Established in 1977, the stock market had become lifeless during the early 1980s

because of extensive regulation of stock issues and price movements. In conjunction with substantial bank reforms, many restrictions on the Jakarta Stock Exchange were lifted in the mid-1980s, broadening the range of firms that could issue equity and permitting stock prices to reflect market supply and demand. To tap the growing international interest in Asian investments, foreign ownership was permitted for up to 49 percent of an Indonesian firm's issued capital. The market's response to these reforms was dramatic. The number of firms listed on the exchange rose from 24 in 1988 to 125 in January 1991, and the market capitalization—the total market value of issued stocks—reached more than Rp12 billion. Although this amount of market capitalization was less than 15 percent of the volume of bank credit to private firms, the stock market promised to become an increasingly important source of finance.

Trade and Industrial Reform

Indonesia's industrialization during the 1970s and early 1980s was accompanied by a growing web of trade restrictions and government regulations that made private businesses the hostage of government approval or protection. The dictates of the market had little bearing on profitability, and even the most inefficient firms could prosper with the right government connections. As a consequence, almost all of Indonesia's industrial production was sold on domestic markets, leaving exports dominated by oil and agricultural products.

Major trade policy reforms, introduced in the mid-1980s, went a long way toward disentangling the government from the marketplace. These reforms proved very successful in promoting the growth of new export industries. Still, the large conglomerates that had emerged under heavy regulations also had the resources to benefit most in the more competitive environment. By the early 1990s, the government still confronted widespread popular concern over the distribution of gains from economic development.

The industrial and trade policy favored by government through the early 1980s was characterized by development economists as import-substitution industrialization. As illustrated by the steel industry example discussed above, the typical pattern was to encourage domestic producers to invest in a priority sector, selected by the Department of Industry, that could substitute domestic production for products previously imported (see *The Politics of Economic Reform*, this ch.). The enticement offered to the domestic investor often included sole license to import the product and restrictions on other potential domestic producers. The Department

of Trade issued import licenses, and BKPM, which had jurisdiction over investment by all foreign firms and most large domestic firms, provided the constraints to potential domestic competitors. The overall direction of industrialization was framed in five-year development plans, but political influence often led to a more capricious pattern of benefits. In addition to almost 1,500 nontariff restrictions, such as import license requirements, tariffs ranging up to 200 percent of the value of an import were in place on those imports not affected by licensing.

The inefficiencies that plagued this strategy were documented by Department of Finance economists who were preparing for a major tax reform implemented in 1985 (see Government Finance, this ch.). Case studies of firms in import substitute sectors showed they generated 25 percent of employment opportunities that investment in potential exports would have supplied, and that shifting investment from an import substitute to an export product would generate four times the foreign-exchange earnings. Indonesia thus was left out of the substantial regional growth in manufactured exports during the early 1980s. In Thailand and Malaysia, manufactured exports accounted for 25 and 18 percent of exports, respectively, by 1980, whereas manufactured exports generated only about 2 percent of total Indonesian exports that year.

The complexity of trade regulations provided a rich opportunity for corruption within the Customs Bureau, which administered policies and assessed the value of imports to determine the appropriate tariffs. In April 1985, the Customs Bureau was released from its responsibilities, and a Swiss firm, Société Générale de Surveillance, was contracted to process all imports valued over US\$5,000. Société Générale de Surveillance determined the value of imports into Indonesia at their port of origin and shipped the products in sealed crates to the Indonesian destination. Importers within Indonesia reported that their import costs fell by over 20 percent within months of the reform.

The first measure to directly curtail high trade barriers came in the form of an export certification program designed to offset the high costs for exporters who purchased imported inputs. This was abandoned, however, when the United States threatened to curtail textile imports from Indonesia because of the alleged subsidy from the certification scheme. In response, Indonesia agreed to sign the General Agreement on Tariffs and Trade (GATT—see Glossary) Export Subsidy Accord in 1985. This agreement provided a further impetus for more substantial trade reform because the agreement prohibited government compensation for export costs created by nontariff barriers to imported inputs.

In May 1986, the first in a series of more substantial trade reforms was announced. The reform package provided duty refunds for tariffs paid on the imports of domestic producers who exported a substantial share of their products. To overcome the problem of nontariff barriers, such as licensing restrictions on imports, exporters were granted the right to import their own inputs, even if another firm previously had had exclusive privilege to import the product. Restrictions on foreign investment were reduced, particularly to stimulate production for export (see Industry, this ch.).

Although these reforms improved profits of exporting firms, they did not help to encourage exports from firms that preferred to supply the protected domestic market. In November 1988, a major trade reform began to dismantle the extensive nontariff barriers and to lower and simplify tariff rates. By eliminating the influential plastics and steel import monopolies, government indicated the seriousness of the new policy direction. The 1988 reforms brought the share of domestic manufacturing protected by nontariff barriers to 35 percent from 50 percent in 1986.

Deregulation continued in a series of reform packages affecting both direct trade barriers and government regulations that indirectly influenced the "high-cost" business climate. By 1990 nontariff barriers affected only 660 import items, compared with 1,500 items two years earlier. Tariffs, still charged on almost 2,500 different imported items, had a maximum rate of 40 percent. BKPM adopted a new policy in 1989 to list only those economic sectors in which investment was restricted; the negative list replaced a complex Priority Scale List that had controlled investment in virtually all sectors. In 1991 the contract with Société Générale de Surveillance was renewed under new provisions mandating that the Customs Bureau be trained to eventually replace the foreign firm.

Most of the substantial reforms that began in the mid-1980s and continued through the early 1990s reflected a new orientation to market-led economic development. In some cases, however, important new policies reflected the longstanding government concern that the private marketplace could not be trusted to ensure politically desirable outcomes. This was particularly true of policies concerning the processing of Indonesia's valuable natural resources and the sensitive area of *pribumi* business development.

Indonesia was the world's leading exporter of tropical logs in 1979, accounting for 41 percent of the world market. Concerns about environmental degradation and the lack of domestic log processing capacity led to restrictions on log exports beginning in 1980, culminating in a complete ban on log exports in 1985 (see Forestry, this ch.). The intent was primarily to foster the

nascent plywood and sawmill industry, which could in turn export its output and expand employment and industry within the country. By 1988 Indonesia supplied almost 30 percent of world exports of plywood. The success of this policy led to other similar initiatives, including a ban on raw rattan exports in 1988 to foster the domestic rattan furniture industry and a substantial export tax on sawn timber in 1990 to promote the domestic wood furniture industry.

Many benefits that fostered the growth of large conglomerates were reduced or eliminated, but the conglomerates adapted quickly to the new environment. For example, the Bimantara Citra Group, operated by Suharto's son Bambang, lost its plastics import license held through Panca Holdings in 1988 but gained new interests in sectors that had previously been closed to private investment. The group became the first Indonesian company permitted to establish a privately owned television station—Rajawali Citra Televisi Indonesia (RCTI)—and, in the early 1990s, was poised to invest in petrochemical plants, long a government stronghold (see Post and Telecommunications, this ch.). Another son, Tommy Suharto, had a major holding in Sempati Air Services, the first private Indonesian airline permitted to offer international jet service in competition with the government airline monopoly, Garuda Indonesia (see Transportation, this ch.). An extensive review of Suharto family holdings published in the *Far Eastern Economic Review* in April 1992 noted that public resentment of family business gains was growing, although government officials and businessmen refused to voice their concern openly.

The government took some measures to curtail the continued dominance of large conglomerates. In 1990 Suharto himself publicly called for large business conglomerates to sell up to 25 percent of their corporate shares to employee-owned cooperatives on credit supplied by the conglomerates themselves, to be repaid with future stock dividends. The request was not legally mandated, but the attendant publicity that clearly identified the major Chinese minority firms involved was viewed as pressure to comply. Within a year, 105 companies had sold much smaller shares of stocks, diluted by special nonvoting provisions, to the cooperatives. A further initiative in 1991 called for large firms to become the “foster fathers” of smaller *pribumi* businesses, which would serve as their suppliers, retailers, and subcontractors.

Large, state-owned enterprises faced greater competition, but privatization of these operations did not seem likely in the early 1990s. During the late 1980s, however, several measures were undertaken to prepare for possible eventual privatization, including

a thorough independent assessment of the profitability of each enterprise and a review of management compensation in relation to performance criteria. In 1988 the Department of Finance issued a new regulation outlining measures that could be taken to improve the performance of state-owned enterprises. The measures included management contracts with the private sector, issuing private ownership shares on capital markets or direct sale to private owners, and liquidation.

Another government policy initiated in 1989 suggested that at least some state-owned industries would be protected from possible privatization. A Council for the Development of Strategic Industries was established, headed by Minister of State for Research and Technology Habibie. The council gained control of ten major state enterprises, including several munitions plants, the state aircraft firm Archipelago Aircraft Industry (IPTN), and Krakatau Steel. Under Habibie the industries' long-term development would be coordinated with continued government funding. This policy, viewed as a concession to the economic nationalists in the midst of government cutbacks, assured a major role for state-owned industries in Indonesia's most technologically sophisticated sectors.

Government Finance

Central Government Budget

In addition to regulating many aspects of economic activity, the government plays a direct role in the economy through its implementation of the central government budget. Early each year, the president presents to the House of People's Representatives (DPR) the proposed annual budget prepared by the Department of Finance for the upcoming fiscal year (see Legislative Bodies, ch. 4). Total government expenditures, including both routine expenditures and development projects, averaged about 22 percent of GDP during the 1980s (see table 16; table 17, Appendix). The broad outlines of government spending were framed in five-year plans prepared by Bappenas. The five-year development plan, or Repelita (see Glossary), described overall economic objectives, including the desired growth rates to be achieved in major economic sectors such as agriculture, mining, and industry, and more detailed proposals for selected activities that were of particular concern during the planning period. Repelita V (fiscal years 1989 to 1993; fiscal year—FY—see Glossary) emphasized the objective of continued export diversification and the reduction of foreign aid and foreign borrowing as sources of government revenue. However, the annual

central government budget provided a more concrete set of priorities than the broad Repelita guidelines and allowed for adjustments in total spending to meet unforeseen changes in revenue.

Government finance in developing countries is often constrained by the ability to collect taxes; tax collection in these countries is often hindered by the lack of accounting information on many informal businesses, the difficulty in imposing income tax withholdings among the millions of self-employed in agriculture and services, and extensive corruption. Indonesia was no exception to this rule, but during the 1970s the government was able to compensate for the limited domestic tax base by relying on taxes from the formal corporate sector, especially from foreign oil and gas operations. From 1979 to 1983, tax revenues from the oil and gas sector accounted for about 56 percent of total government revenues. Unfortunately, this bountiful resource undermined efforts to address serious problems in domestic tax laws and collection efforts (see table 18, Appendix).

The prospect of declining oil sector taxes because of the oil market collapse in the mid-1980s, together with a growing recognition of the flaws in domestic tax laws, motivated a comprehensive tax reform in 1984. The cornerstone of the 1984 tax reform was a simple value-added tax (see Glossary) to be levied on domestic manufacturing and imports to replace the previous sales tax that encompassed eight different tax rates and many types of exemptions. The new value-added sales tax applied a uniform tax rate to all manufacturing firms and importers; the rate was initially set at 10 percent, but the tax law permitted the rate to be altered within the range of 5 to 15 percent if revenue needs were to change. The tax was not applied to basic staples such as unprocessed foods, and so did not rely heavily on taxing poorer income groups who spent a large share of their income on such nonmanufactured products. The tax reform included a new income tax that imposed a three-tier rate of 14, 25, and 35 percent on both business and personal income. However, around 85 percent of households fell below the minimum income subject to tax, equivalent to US\$3,000 in 1984.

The government also maintained its commitment to a balanced central government budget in part by counting foreign borrowing and foreign aid as part of government revenues, labeled as development funds. During Repelita III (FY 1979-83), development funds accounted for about 15 percent of total government revenues and for about 30 percent of total development expenditures. When oil tax revenues declined by 15 percent per year when controlled for inflation from 1984 to 1986, the government responded by both

curtailing expenditures and increasing the reliance on foreign borrowing.

During this adjustment period, total government expenditures did not increase, compared with an average annual increase of 9 percent during Repelita III, but development funds continued to grow at 10 percent per year. In the late 1980s, the effects of the tax reform began to be felt, and a combination of increased domestic non-oil tax revenues, the restoration of oil tax revenue growth as the oil market slowly improved, and continued growth in foreign borrowing permitted the restoration of a 10 percent annual growth in government expenditures from 1987 to 1990.

The structure of the government budget was greatly altered by these adjustments. During Repelita IV (FY 1984-88), non-oil domestic tax revenues accounted for 38 percent of total revenue, compared with 28 percent in Repelita III. However, development funds came to account for 57 percent of development expenditures. This increasing reliance on foreign funds contributed to a sharp rise in government debt service obligations, which rose to account for 24 percent of government expenditures, compared with about 9 percent under Repelita III. The budgetary concerns of the 1990s reflected these dramatic developments.

The proposed budget for FY 1992 highlighted the government's efforts to manage the foreign debt and to increase reliance on non-oil domestic tax revenues. Overall, government expenditures were not expected to increase when adjusted for the anticipated inflation of about 10 percent. The value-added tax on manufacturing activity was to be extended to apply to retailers with annual turnover of more than Rp1 billion. The interest earnings on bank deposits owned by corporations were to be taxed as normal income at a higher rate than the previous 15 percent tax on interest earnings introduced in 1988, and luxury taxes on some items would be increased. Although development expenditure was to increase somewhat, the increase was to be funded entirely by the anticipated higher domestic tax revenues.

These specific measures embodied in the FY 1992 budget reflect the continued effort to meet the Repelita V guidelines. Repelita V predicted a decline in the nation's debt service ratio (total debt service as a percent of merchandise export earnings) from the 35 percent level prevailing in 1989 to 25 percent by 1994. This drop was to be achieved both by the decline in government foreign debt and by a decline in foreign funds to finance private sector investment. Overall, Repelita V targeted almost 94 percent of total investment to be funded by domestic sources, compared with 81 percent in the previous plan. The plan's overall level of investment

remained the same, about 26 percent of GDP, as in Repelita IV. Repelita V also targeted inflation-adjusted GDP growth at 5 percent per year; the same target was achieved during Repelita IV.

Monetary and Exchange Rate Policy

In the early 1990s, Bank Indonesia, the central bank of Indonesia, was formally under the guidance of the central government through the Monetary Board. This board was composed of the minister of finance, several other cabinet members, and the governor of Bank Indonesia. New Order monetary policy reflected the resolve of the government to maintain stable prices and a balanced central budget to prevent the high inflation of the previous decades. This priority was stated in 1991 by the governor of Bank Indonesia, who announced a departure from the central bank's goal of inflationary rates below 20 percent a year. Henceforth, the goal would be to reduce inflation to a maximum of 6 percent a year.

High inflation had been a major problem since the mid-1960s. During the Sukarno regime's final years, the increasing government deficit was financed by Bank Indonesia in compliance with instructions from the Monetary Board—a practice that violated Bank Indonesia's own charter, which limited central bank credit to 20 percent of gold and foreign exchange reserves. Although this lack of financial discipline was a major cause of severe inflation during the mid-1960s, the New Order regime was unwilling to dismantle the time-tested Monetary Board. Whereas, during the 1970s and 1980s, the central bank contained inflation below 20 percent per year with few exceptions, in 1991 the governor of Bank Indonesia pledged to reduce inflation by limiting the amount of bank credit available in the economy. After the 1983 reforms, Bank Indonesia faced the problem of controlling bank credit while permitting all banks, including the then-dominant state banks, to operate on a commercial basis. In many industrialized countries, indirect control of bank credit is achieved by central bank transactions in government securities that expand or contract the supply of reserves available to banks to meet required reserves on bank liabilities. Because the Indonesian government maintained a balanced budget, no government securities were issued. Instead, Bank Indonesia began to issue its own debt in the form of Sertifikat Bank Indonesia (SBI), beginning in 1984. The intent was to encourage banks to invest their short-term funds in SBIs and, as the market deepened, permit Bank Indonesia to buy and sell SBIs to influence the quantity of bank reserves. Bank Indonesia also encouraged the development of other privately issued short-term debt instruments. A sophisticated market in short-term securities offered banks more

flexible management of their total assets and encouraged them to hold short-term funds in rupiah rather than in overseas dollar deposits, which had become a common practice.

In the 1990s, Bank Indonesia also managed the exchange rate between the rupiah and foreign currencies, a responsibility that sometimes conflicted with the objective of controlling the amount of bank credit. Following a period of floating the rupiah from 1966 to 1971 to permit the market to set its value in foreign currency, Bank Indonesia pegged the exchange rate at Rp415 per US\$1 and lifted most restrictions on international transactions that were heavily regulated during the Sukarno era. To maintain the exchange rate, the central bank was obliged to buy or sell as much foreign currency as was demanded at the predetermined rate.

When oil revenues surged in 1974, the bank found itself in essence printing rupiah currency in exchange for the oil-generated dollar revenues. Bank credit rose precipitously once the currency was deposited in domestic banks. Inflation surged to over 40 percent that same year, the highest rate experienced in the New Order era as of 1992. Bank Indonesia responded aggressively by imposing direct controls on the amount of credit issued by individual banks, a policy that also contributed to the lack of competition with the favored state banks (see *Financial Reform*, this ch.). By 1978 inflation had been reduced to less than 10 percent per year, but four years of double-digit inflation had seriously undermined Indonesia's exporters, whose costs rose with inflation even though revenues still translated into rupiah at the rate of Rp415 per US\$1.

To address the eroding profits of exporters, Bank Indonesia was compelled to devalue the rupiah by 50 percent in 1978, bringing the exchange rate to Rp625 per US\$1. Bank Indonesia announced its intent to permit more gradual adjustments in the exchange rate in line with the industrial world's abandonment of fixed exchange rate regimes in the mid-1970s. However, inflation in Indonesia continued at an average of 14 percent per year, which was low by the standards of many developing countries but above that in many of Indonesia's industrialized trade partners. In 1983 a second major devaluation brought the rupiah exchange rate to Rp970 per US\$1. This devaluation was accompanied by a major financial reform that eliminated the direct controls Bank Indonesia had relied on in the past to manage the growth in bank credit.

Although these markets began to develop gradually, Bank Indonesia continued to confront periodic financial crises that required a more drastic response. The third major devaluation since 1971 was undertaken in September 1986, primarily in response to the decline in foreign exchange earnings through oil exports. The exchange rate

rose from Rp1,134 per US\$1 to Rp1,641 per US\$1. Moreover, the uncertain oil market, together with the history of major devaluations, combined to make financial markets highly susceptible to rumors of further devaluations. Once anticipation of a possible devaluation spread, the response by banks and businesses alike was to borrow rupiah funds to acquire dollars to profit from the anticipated devaluation, thereby depleting the dollar reserves of Bank Indonesia. Ideally, such runs could be discouraged by paying a high rate of interest on SBIs, but occasionally the crisis was so severe that banks were unwilling to purchase SBIs. On two occasions, in late 1987 and February 1991, Bank Indonesia instead required state-owned corporations to withdraw large sums from their bank deposits (around Rp800 million in 1987 and Rp8 trillion in 1991) to purchase SBIs, which deprived banks of a major source of rupiah funds to use for speculation, thwarting the outflow of dollar funds.

The efforts to manage inflation and contain speculation against the rupiah resulted in high interest rates on bank credit following 1983 interest rate deregulations. In 1991 interest rates on commercial loans soared to 28 percent per year from 20 percent in 1990, whereas inflation was around 9 percent per year. One Indonesian economist from the private Institute for Economic and Financial Research observed that many businesses would be unable to find investment projects that could generate such a high rate of return. The *Asian Wall Street Journal* noted in February 1991 that the high interest rates on bank deposits were partly responsible for the substantial decline in the average stock share prices listed on the Jakarta Stock Exchange in 1991, which dropped over 50 percent from the previous year as financial investors found bank deposits a more lucrative investment. In spite of these adverse consequences, the government remained steadfast in its efforts to control inflation in the hope that improvements in bank efficiency and increased economic growth would help lower interest rates. In addition, Bank Indonesia permitted a more gradual rate of rupiah depreciation (about 5 percent per year) from 1987 through 1992 to avoid further major devaluations.

Foreign Aid, Trade, and Payments

Aid and Trade Policies

Indonesia's exports were vital to its economic development, as exports earned the foreign exchange that permitted Indonesia to purchase raw materials and machinery necessary for industrial production and growth. During the 1980s, about 25 percent of

domestic production, or GDP, was exported. Although petroleum was the most important export, other exports included agricultural products such as rubber and coffee and a growing share of manufactured exports. In the late 1980s, the government classified about 70 percent of imports as raw materials or auxiliary goods for industry, about 25 percent of imports as capital goods, primarily transportation equipment, and only around 5 percent of imports as consumer goods (see table 19, Appendix).

Export earnings also contributed to Indonesia's ability to borrow from world financial markets and international development agencies. On average, about US\$3 billion per year was borrowed during the 1980s. These borrowings primarily financed government-sponsored development projects. However, increasing interest payment obligations in the late 1980s helped bring more restraint to government borrowing.

Indonesian exports were traditionally based on the country's rich natural resources and agricultural productivity, making the economy vulnerable to the vicissitudes of changing world prices for these types of products. For example, the Dutch colonial economy suffered when world sugar prices collapsed during the Great Depression, and fifty years later, the New Order endured the dramatic oil market collapse in the mid-1980s. Manufactured exports offered the prospect of more stable export markets during the 1980s, but even these products were threatened by increased trade protection among industrial countries. To avoid heavy reliance on a few trade partners, the government pursued several measures to diversify export markets, especially to other developing nations such as China and Indonesia's fellow members of the Association of Southeast Asian Nations (ASEAN—see Glossary).

Substantial trade reforms during the 1980s contributed to the surge in manufactured exports from Indonesia. The most important manufactured export was plywood, whose domestic production was facilitated by the ban on log exports in the early 1980s. In 1990 plywood accounted for over 10 percent of total merchandise exports. Although not yet significant individually, a wide range of manufactured products, including electrical machinery, paper products, cement, tires, and chemical products, helped bring overall manufactured exports to 35 percent of merchandise exports, or a total of US\$9 billion in 1990, up from less than US\$2 billion in 1984 (see table 20, Appendix).

The growth in non-oil exports helped Indonesia maintain a positive trade balance throughout the 1980s in spite of the oil market collapse. However, increases in imports, service costs such as foreign shipping, and interest payments on outstanding foreign debt

all contributed to a worsening current account deficit in the late 1980s. The deficit more than doubled from US\$1.1 billion in 1989 to US\$2.4 billion in 1990. The 1991 current account deficit was predicted to reach as high as US\$6 billion.

The government had successfully avoided a debt crisis in the early 1980s when many developing countries, including the neighboring Philippines, were forced to temporarily halt debt repayments. In a comparative study of Indonesia and other debtor nations, economists Wing Thye Woo and Anwar Nasution argue that Indonesia's success stemmed from two main factors: heavy reliance on long-term concessional loans and sustained high exports because of a willingness to devalue the exchange rate even when oil export revenues were buoyant (see Monetary and Exchange Rate Policy, this ch.). When dollar interest rates soared in the early 1980s, Indonesia's average interest rate on long-term debt was 16 percent compared with over 20 percent paid by Brazil and Mexico.

By 1990 Indonesia's total outstanding foreign debt had reached US\$54 billion, more than double the amount in 1983. Over 80 percent of this debt was either lent directly to the government or guaranteed by the government. Measures to reduce foreign borrowing, together with the rise in export earnings, brought the debt service ratio from 35 percent in 1989 to 30 percent in 1990 (see Government Finance, this ch.). Indonesia continued to rely heavily on borrowing from official creditors rather than private sources such as commercial banks or bond issues. In 1990 US\$33 billion, or 75 percent, of government debt was from official creditors; of this amount, US\$18.5 billion was at concessional terms. In 1990 US\$5 billion in new loan commitments from official creditors were secured at an average interest rate of 5.7 percent, with an average maturity of twenty-three years, whereas US\$1 billion in new commitments from private creditors entailed a 7.4 percent interest rate and an average of fifteen years maturity.

The mounting government concern over foreign debt led to the establishment of a Foreign Debt Coordinating Committee in 1991, which included ten cabinet ministers chaired by the coordinating minister for economics, finance, industry, and development supervision. The committee was given broad powers to document and coordinate all foreign borrowing that was related to either the central government budget or the state enterprise sector. Although in theory this debt excluded private-sector foreign borrowing, such borrowing could be included if the investment project received any state financing or supply contracts from state enterprises. The power of this committee was made apparent in its first initiative in 1991,

which postponed until 1995 four major energy and petrochemical projects representing a total investment of US\$10 billion.

Multilateral aid to Indonesia was long an area of international interest, particularly with the Netherlands, the former colonial manager of Indonesia's economy. Starting in 1967, the bulk of Indonesia's multilateral aid was coordinated by an international group of foreign governments and international financial organizations, the Inter-Governmental Group on Indonesia (IGGI—see Glossary). The IGGI was established by the government of the Netherlands and continued to meet annually under Dutch leadership, although Dutch aid accounted for less than 2 percent of the US\$4.75 billion total lending arranged through the IGGI for FY 1991.

The Netherlands, together with Denmark and Canada, suspended aid to Indonesia following the Indonesian army shootings of at least fifty demonstrators in Dili, Timor Timur Province, in November 1991 (see *Political Dynamics*, ch. 4). The shootings led to international protests against government policy in the former colony of Portuguese Timor (East Timor), which had been forcefully incorporated into the Indonesian nation in 1976 without international recognition. Indonesian minister of foreign affairs Ali Alatas announced in March 1992 that the Indonesian government would decline all future aid from the Netherlands as part of a blanket refusal to link foreign assistance to human rights issues, and requested that the IGGI be disbanded and replaced by the Consultative Group on Indonesia (CGI—see Glossary) formed by the World Bank.

Indonesia's major aid donors—Japan, the World Bank, and the Asian Development Bank (see Glossary)—contributed about 80 percent of IGGI-coordinated assistance, and were willing to continue assistance outside the IGGI framework. Other donors, however, such as the European Community, had charter clauses refusing financial assistance to governments that violated human rights. Although the European Community did not sever its aid ties to Indonesia following the 1991 events in East Timor, human rights concerns were expected to affect subsequent negotiations (see *Human Rights and Foreign Policy*, ch. 4).

Direction of Trade

In the early 1990s, Indonesia's trade partners included dozens of countries throughout the world. Imported goods came from markets as near as Singapore, one of the newly industrializing economies (NIEs) of Asia, and as far as Europe and the Middle East (see table 21, Appendix). Japan and the United States were the most important suppliers, together accounting for 37 percent of imports in the late 1980s. The growth in Indonesia's manufactured

products contributed to a growing diversity of export markets. However, the importance of oil and liquefied natural gas in total exports gave Japan, the major market for these natural resources, predominance among export destinations (see table 22, Appendix).

In 1990 more than 70 percent of exports to Japan were crude petroleum, petroleum products, and natural gas, which represented 67 percent of all petroleum exports and 75 percent of all natural gas exports from Indonesia. Although Japan was also an important market for agricultural and manufactured goods, the markets for these products were more diversified among Indonesia's many trade partners. Half of Indonesia's natural rubber and one-third of its clothing exports were exported to the United States. One-third of Indonesia's plywood products was exported to Japan, but significant shares also were exported to the United States, the Republic of Korea (South Korea), Taiwan, and several European nations.

The government participated in several initiatives to expand and diversify export markets. In 1991 the Department of Trade organized a mission to China, a country with which economic ties had been effectively severed from 1965 until the late 1980s. Recorded exports to China were 3.2 percent of Indonesia's total exports in 1990 (although this measure may not have indicated a genuine increase in trade because before 1990 Indonesian products were shipped to China via Singapore and Hong Kong). When compared with trade with other trade-partner nations, the 3.2 percent figure ranked the China trade close to that with countries such as the Netherlands and the Federal Republic of Germany (then West Germany) but ahead of all ASEAN partners except Singapore. Relations with China warmed after the trade mission, and greater overall trade was anticipated.

ASEAN was founded in 1967 to promote economic integration among the nations of Indonesia, Singapore, Thailand, Malaysia, and the Philippines, and later Brunei. Early efforts of this group included an industrial projects agreement signed in 1976 to establish several large-scale industrial projects jointly owned by member governments, and the 1981 Industrial Complementation Scheme designed to coordinate the production of components for manufactured products, such as automobiles, among ASEAN members. In 1992 a major trade accord—the Common Effective Preferential Tariff—proclaimed that an ASEAN Free Trade Area (AFTA) was to be established in January 1993 and result in a gradual reduction in tariffs on manufactured goods to a maximum of 5 percent by 2008. The initial measures listed fifteen categories of manufactured goods, including plastics, fertilizer, wood pulp,

glass products, electronics, and wooden furniture, that would have a uniform tariff of no more than 20 percent within eight years. The *Asian Wall Street Journal* reported in early 1992 that significant loopholes in the trade accord, such as permission for individual countries to exclude certain products from tariff cuts, could dilute its impact. In addition, Indonesia won a delay of fifteen years in implementation.

Employment and Income

Many developing nations face a similar dilemma: although growth in the modern industrial sector is critical for increasing GDP, it can provide only a small share of total employment opportunities. Indonesia's employment pattern illustrated this dilemma: the industrial sector employed about 6.5 million workers in 1989—only about 9 percent of the total labor force—whereas the agricultural sector still employed 41 million workers—56 percent of the total labor force (services accounted for the remaining 26 million employed workers—35 percent of the work force). The distribution of benefits from economic growth depended largely on how government policies affected employment opportunities nationwide and earnings in agricultural and service sectors. Because the population was still predominantly rural, the benefits of economic growth also depended on the opportunities available in rural areas.

Another major concern of government planners in the early 1990s was the rapid increase in the labor force. Repelita V estimated that the labor force would grow at a rate of 2.4 million workers per year, bringing the total to 86 million in 1993, up from 73.5 million in 1989. (The labor force in the early 1990s was usually slightly larger than the total number of employed workers because of unemployment.) The rapid rate of growth reflected both the increase in the working age population, estimated at 2.7 percent per year, and the increasing rate of labor force participation among women. The rate of increase of the female labor force was predicted to be 3.9 percent per year, compared with 2.4 percent per year for the male labor force.

Unemployment in 1989 was estimated at only about 3 percent of the total labor force. However, this figure ignored the high degree of underemployment—or workers employed in low-skill, informal-sector jobs because of the lack of better opportunities (see *Infrastructure and Services*, this ch.). Repelita V expressed government concern over the mismatch between the education and skills of workers and the available job opportunities. The plan noted that government employment policy should shift away from the public

works employment programs of the past that had generated low-skill rural jobs, in favor of vocational training and greater assistance to small-scale enterprises.

Information on wages in Indonesia was frequently difficult to interpret because of imprecise definitions of job categories and different measures of labor. In his study of the Indonesian industrial sector, Australian economist Hal Hill reviewed the available data on employee compensation among medium and large firms. In the highest paid industry—basic chemicals—labor earnings averaged Rp260,000 (about US\$234) per month in 1985. In the lowest paid industry—clay products—earnings were Rp32,000 per month (about US\$29). The industrial earnings average was Rp84,000 per month (about US\$76). The considerable interindustry variation presumably reflected different skill levels, but no information was available on the number of hours worked or the skills and education of the workers. Compared with wage levels in 1974, these earnings reflected an average increase of 5.6 percent per year when controlled for inflation.

These average figures disguised to some degree the low wages paid to the least skilled and most numerous employees in industry. Although Indonesia in 1992 had minimum wage legislation, outside observers, including representatives of United States labor unions, observed that the minimum wage law and other labor protection were frequently violated. The American Federation of Labor filed three unsuccessful petitions with the United States government from 1987 to 1990 to eliminate Indonesian tariff concessions under the Generalized System of Preferences because of labor law violations. The only officially sanctioned trade union in Indonesia, the All Indonesian Workers Union (SPSI), was tightly controlled by the government, and, until 1990, all strikes were illegal. The government relied on the army to help quell a rash of strikes during September 1991 in the industrial area of Tangerang in Jawa Barat Province, about thirty-two kilometers west of Jakarta. Workers were protesting wages below the minimum level, set at the equivalent of US\$1.07 per day in that area.

Earnings outside the industrial sector were typically lower, with the exception of earnings in some services such as finance and banking. The Department of Manpower reported the average minimum monthly wages in several economic sectors for 1989, which ranged from about Rp67,000 (about US\$38) in the plantation sector to Rp213,000 (about US\$120) in banking and insurance. According to this source, the average minimum monthly wage in manufacturing was Rp130,000 (about US\$73).

Many scholars have researched changes in income distribution under the New Order. The conspicuous consumption of the wealthy Chinese minority and Suharto family members, a stark contrast to the very modest means of most Indonesians, underscored concern about whether the average Indonesian was better off after two decades of growth in GDP. The Central Bureau of Statistics (BPS) provided extensive data for investigation, including decennial population and agricultural censuses, ten national socioeconomic surveys between 1963 and 1987, and two major labor force surveys in 1976 and 1986. In spite of the wealth of information, disagreements and uncertainties abounded, often because of changing definitions and incomparable data among different surveys, and concerns about the quality of data collected by the Central Bureau of Statistics. Nevertheless, a consensus emerged among many scholars, including economists at the World Bank and the contributors to a major economic review entitled *The Oil Boom and After*, edited by Anne Booth, that income actually became slightly more equally distributed from the 1960s to the 1980s.

The series of national socioeconomic surveys, known by the Indonesian acronym Susenas, were the most frequently used source for nationwide studies of income distribution and poverty. However, Susenas, based on a representative sample of 50,000 households, reported only household expenditures, not household income. To the extent that richer households saved more in addition to spending more, the surveys may have distorted income distribution. Based on Susenas data, the World Bank reported that when ranked by expenditure, the bottom 20 percent of population accounted for about 9 percent of total national expenditure in 1987, while the top 20 percent accounted for a little over 40 percent of total national expenditure.

A study in *The Oil Boom and After* summarized Indonesian income distribution from Susenas data with the Gini coefficient, a measure of concentration showing the relationship between the cumulative percentage of some groups of items (for example, households) and the cumulative percentage of the total amount of some variable (for example, income) frequently employed by economists. A smaller Gini coefficient, which ranges from 0.2 to 0.6 for most countries, indicates a more evenly distributed income. The Gini coefficient for Indonesian urban dwellers fell slightly from 0.33 in 1969 to 0.32 in 1987; for the rural population the decline was more pronounced—from 0.34 to 0.26. Although income was becoming more evenly distributed in rural areas, urban areas appeared to be benefiting relatively more from economic growth. The ratio of

average urban household expenditures to average rural household expenditures increased from about 1.4 in 1970 to 1.8 in 1987.

The incidence of poverty, or the number of households living under a specified poverty level of expenditure, is also an important indicator of the benefits from economic growth. The World Bank conducted an extensive analysis of poverty trends during the 1980s based on the 1984 and 1987 Susenas surveys. The study concluded that both the percentage of the population and the absolute number of the poor declined during this period. By 1987, 30 million Indonesians, or 17 percent of the population, lived in absolute poverty, while many more lived above but near the poverty line. The poverty line was estimated on the basis of the expenditure necessary to maintain a daily intake of 2,100 calories and to meet other basic needs. In 1987 the necessary expenditures amounted to Rp17,381 per month per person in urban areas and Rp10,294 per month per person in rural areas.

The World Bank study applauded the overall success of the New Order regime in poverty reduction. The earliest reliable estimates of poverty in 1970 showed that 60 percent of the population then lived in absolute poverty. Because most of the poor earned a living in the agricultural sector, this success was attributed to improvements in agricultural productivity, in part the result of direct government investments and appropriate macroeconomic policies such as moderate inflation and a generally realistic exchange rate. The government sustained the decline in poverty in the 1980s by avoiding major budget cuts in programs that directly affected agricultural and rural development.

Agriculture

Development Trends

During the 1970s and 1980s, Indonesia followed a well-recognized trend among developing nations: a decline in agricultural production as a share of GDP. The agricultural sector, however, was still vital for several reasons. The vast majority of people lived and worked in rural areas, and most of their income was from agricultural activities. Rice, which dominated agricultural production in Indonesia, was the staple food for most households, urban and rural alike. The government considered adequate supplies of affordable rice necessary to avoid political instability. The New Order's most striking accomplishment in agriculture was the introduction of so-called Green Revolution rice technology, which moved Indonesia from being a major rice importer in the 1970s to self-sufficiency by the mid-1980s.

The 1980 population census indicated that 78 percent of the population was located in rural areas (see Population, ch. 2). This share continued to decline during the 1980s, but for a country at Indonesia's level of development, urbanization proceeded slowly. Although agriculture contributed a decreasing share of GDP—falling from 25 percent in 1978 to 20.6 percent in 1989—about 41 million workers, or 56 percent of the total labor force in 1989, still found employment in the agricultural sector. Within the agriculture sector, food crops accounted for 62 percent of the value of production, tree crops for 16 percent, livestock for 10 percent, and fisheries and forestry equally for the remaining 12 percent of agricultural production in 1988 (see fig. 7; table 23; table 24, Appendix).

Land Use and Ownership

Roughly 20 million hectares, or nearly 10 percent of Indonesia's total land area, were cultivated in the 1980s. There was an additional 40 million hectares of potentially cultivatable land, primarily in Sumatra and Kalimantan. Smallholder cultivation of both food and estate crops predominated, accounting for about 87 percent of total land under cultivation; large plantations accounted for the remaining 13 percent. The pattern of cultivation and landholding in modern Indonesia reflected the distinctive natural ecosystems of Java and the Outer Islands (see Glossary), and the profound impact of colonial agricultural practices.

Java was the center of intensive rice cultivation on *sawah* or flooded cropland. This cultivation, which demanded rich volcanic soils and a fairly low gradient to permit water control, supported a dense sedentary population. The Outer Islands ecosystem of *swidden*, a type of dryland agriculture known also as slash-and-burn agriculture, was practiced on the less fertile forested land with a diverse range of crops such as cassava, corn, yams, dry rice, other vegetables, and fruits. Small forest plots were cleared, harvested for a few seasons, and then permitted to return to forest. Because of the far lower productivity per hectare of land than *sawah*, *swidden* cultivation could support only low population densities. However, *swidden* farmers were also able to adopt commercial tree crops such as rubber and coffee and were the major suppliers of these important agricultural exports (see Estate Crops, this ch.) Java supplied most rice and, through intercropping on *sawah* and cultivation on unirrigated land, most other major food crops.

In his classic study *Agricultural Involution*, anthropologist Clifford Geertz has given the most eloquent interpretation of the impact of colonial agricultural practices. In the late nineteenth century, agricultural "involution"—a reduction to former size—was centered

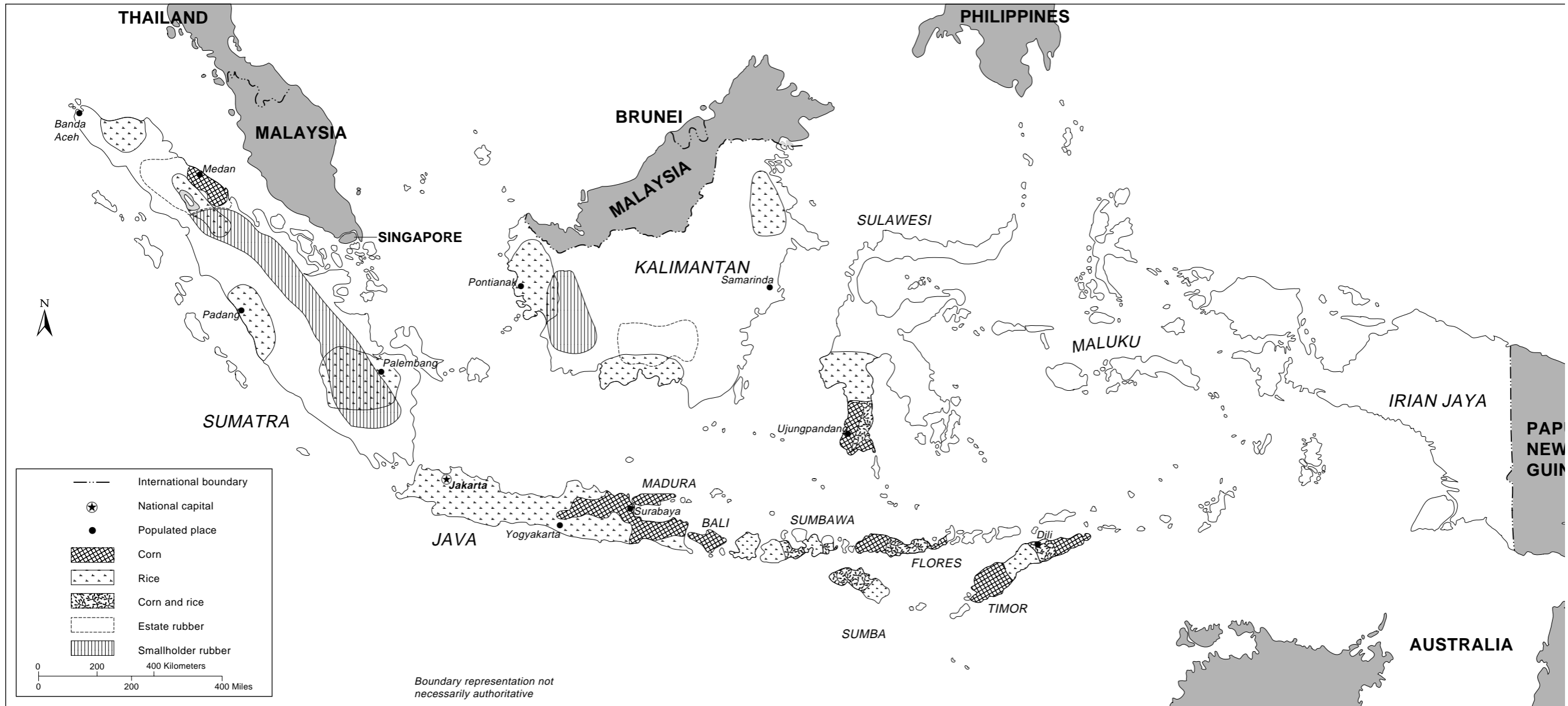


Figure 7. Major Crop Production, 1992

in areas of Dutch sugar cultivation, primarily in Central and East Java. Here, the dense population supplied seasonal labor for sugar fields and mills and was still able to grow sufficient rice, even though the most fertile land was devoted to sugar cultivation. The village economy provided an equitable if marginal subsistence for all villagers through such labor-intensive techniques as double cropping, improved terracing, careful weeding, and harvesting with small finger-held blades rather than sickles. These practices continued through the early 1900s, a time when many rice-based agricultural economies such as Japan's were increasing labor productivity in rice farming, a practice that released peasant labor for employment in more rapidly growing industries. On Java, the village rice-based economy experienced "involution," the absorption of a rapidly growing population that had limited outside opportunities in the foreign-controlled plantation economy.

On the Outer Islands, the Dutch plantation economy was far less intrusive, coexisting as an enclave among the small-scale swidden cultivators. As a result of the sparse local populations, foreign planters had to import workers, usually Javanese or Chinese. The government of independent Indonesia confronted the task of agricultural modernization with this difficult inheritance. Densely populated Java was far behind in rice technology, yet improvements in rice productivity per worker could have pushed millions of households out of their only source of livelihood. Vast expanses of land remained uncultivated on the Outer Islands, but increasing cultivation there was limited by the natural characteristics of the tropical forest.

Under Sukarno's leadership in the early 1960s, these problems were tackled with a highly visible yet ultimately ineffective land reform. The land reform was part of a larger and more successful effort to modernize the colonial legal system of landownership. Under the Dutch, a dual system of land laws permitted non-Indonesians to register and obtain title for lands on the basis of Western civil law principles, whereas Indonesian ownership was governed by *adat* (custom), based on unwritten village practices (see Tradition and Multiethnicity, ch. 2). The dual system was intended to protect peasants from the alienation of their land. However, the more flexible, communal-based *adat* system also permitted the Dutch to rent communal village lands for sugar cultivation by contracting only with the village headman (*penghula*). In 1960 the proportion of settled land still recognized under only the *adat* system, and having no formal survey or title, was 95 percent.

The Basic Agrarian Law, enacted in 1960, was a comprehensive legal effort to modernize Indonesian landownership. The law

recognized previous ownership rights under both *adat* and Western systems, but provided a new certification process under which land was to be surveyed, mapped, and registered. All unclaimed land reverted to government ownership. Land certification, however, was not compulsory, and registration was still far from complete by the end of the 1980s. The law also set limits on the size of land-ownership, depending on the population density of the region and the type of land. In areas with over 401 people per square kilometer, rice fields were limited to a maximum of five hectares and a minimum of two hectares. Absentee ownership was forbidden.

Some concentration of landownership had followed the collapse of the colonial sugar cultivation system on Java, but in essence the problem was one of land shortage, not distribution. By the standards of *sawah* cultivation, a wealthy landholder possessed three to five hectares, so the maximum of five hectares left very little surplus land. Only a small amount of land was redistributed before Suharto's New Order shifted the emphasis of agricultural policy away from land reform towards increasing production. The 1983 agricultural census showed that about 44 percent of all farm households were either landless or operated holdings too small to meet more than subsistence requirements. The average landholding on Java was 0.66 hectares and ranged from about 1.5 to 3 hectares in other parts of the archipelago.

By the 1980s, the New Order had achieved undisputed success in expanding rice production, but the distribution of benefits among villagers was still debated. Some observers suggested that only already prosperous farmers benefited from the new technology. Disputes continued in part because conditions varied in different parts of Java, yielding different results in village-level studies. However, by the late 1980s, sufficient evidence had been gathered to show that the benefits from increased rice production, together with growing employment opportunities outside agriculture, had reached even the landless or near landless population (see *Employment and Income*, this ch.).

Economic Benefits and the Transmigration Program

A study by economist Chris Manning points to several trends that helped to spread the benefits of economic growth throughout the rural population in the 1970s and 1980s. The demand for agricultural workers declined less dramatically than that in other nations during similar technological changes, even as the supply of agricultural labor in more densely populated areas was reduced by the central government's Transmigration Program (*transmigrasi*; see Glossary). Rice production was increased in part by expanding

irrigation, which permitted more frequent rice crops per year. More frequent crops in turn required more labor to seed and harvest. With tiny Javanese rice plots rendering mechanical techniques such as handheld tractors impractical, mechanization did not rapidly replace farm laborers. Improvements in transportation and general economic growth permitted poorer rural households to migrate to urban areas in offpeak seasons, where these workers often labored in the informal sector for higher wages than offpeak farm employment could offer. In 1985 BPS surveys indicated that 36 percent of rural households earned a major share of income from nonagricultural work, and more than 50 percent of rural households reported some income from work outside agriculture. Other evidence suggested an increasing share of this income came from urban-based employment.

Nevertheless, poverty in Indonesia remained largely a rural problem. In the late 1980s, 35 percent of the rural population on Java lived below the poverty line, compared with 25 percent in rural areas in the Outer Islands and only 8 percent in urban areas. The most innovative and controversial government response to these conditions was an extensive Transmigration Program that financed the relocation of poor rural families from Java, Madura, and Bali to locations primarily on Sumatra, but also to Kalimantan, Sulawesi, and Irian Jaya. The sponsored migrants were required to be married, of good character, and to have farming experience. Migrant families received a small house and about one hectare of rain-fed cropland. A village center with public facilities such as schools and health clinics was provided by the government. Most settlements engaged in food cultivation and were expected to be self-sufficient at the end of five years; some migrants participated in the Nucleus Estate Programs.

During Repelita I through III, FY 1969–83, almost 500,000 families had been moved under officially sponsored programs. An ambitious expansion to 400,000 sponsored families and an additional 350,000 unsponsored migrants was targeted during Repelita IV. Because of severe budget cutbacks beginning in FY 1986, only around 230,000 families were successfully sponsored during Repelita IV. Repelita V targets were substantially lower; in FY 1989, only about 10,000 of a targeted 27,000 households were resettled. However, spontaneous migration without government assistance continued to be significant. The 1980 population census showed that the population of spontaneous migrants in Outer Island rural areas was more than twice that of sponsored migrants, although it is likely that spontaneous migration was facilitated by the government-sponsored programs. The problems confronted by the

government Transmigration Program included land disputes with the local population and environmental concerns over the suitability of land for settled agriculture (see Forestry, this ch.).

Food Crops

Rice

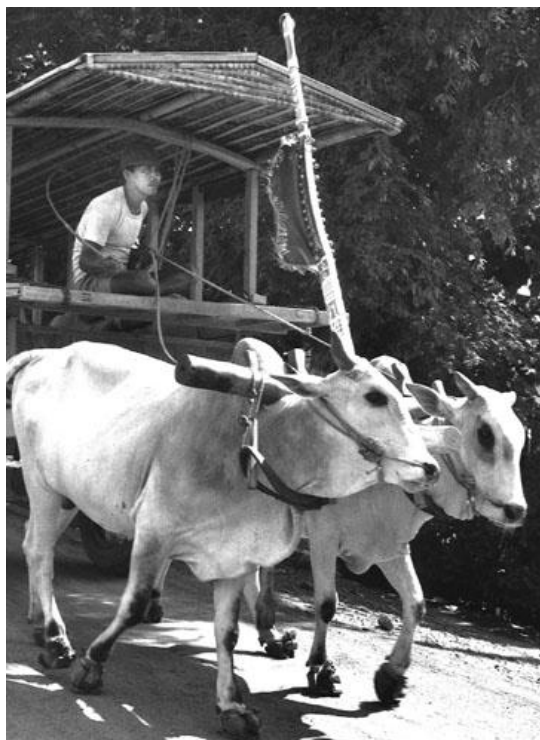
Rice was the staple food in the Indonesian diet, accounting for more than half of the calories in the average diet, and the source of livelihood for about 20 million households, or about 100 million people, in the late 1980s. Rice cultivation covered a total of around 10 million hectares throughout the archipelago, primarily on *sawah*. The supply and control of water are crucial to the productivity of rice land, especially when planted with high-yield seed varieties. In 1987 irrigated *sawah* covered 58 percent of the total cultivated area, rainfed *sawah* accounted for 20 percent, and *ladang*, or dryland cultivation, together with swamp or tidal cultivation, covered the remaining 22 percent of rice cropland.

The government was intensely involved in the rice economy, both to stabilize prices for urban consumers and to expand domestic output to achieve national self-sufficiency in rice production. Various governmental policies included the dissemination of high-yield seed varieties through government-sponsored extension programs, direct investment in irrigation facilities, and control of the domestic price of rice through the National Logistical Supply Organization (Bulog), the government rice-trading monopoly. In the 1970s, Indonesia was a major rice importer, but by 1985 self-sufficiency had been achieved after six years of annual growth rates in excess of 7 percent per year. From 1968 to 1989, annual rice production had increased from 12 million to 29 million tons, and yields had increased from 2.14 tons of padi (wet rice growing) per hectare to 4.23 tons per hectare.

The most significant factor in this impressive increase in output and productivity was the spread of high-yield rice varieties. By the mid-1980s, 85 percent of rice farmers used high-yield variety seeds, compared with 50 percent in 1975. High-yield varieties were promoted, together with subsidized fertilizer, pesticides, and credit through the "mass guidance" or Bimas rice intensification program. This extension program also offered technical assistance to farmers unfamiliar with the new cultivation techniques. The new technology was not without its own problems, however. Several major infestations of the brown planthopper, whose natural predators were eliminated by the heavy use of subsidized pesticides,



*A farmer on Bali taking his
load to the threshing ground
Courtesy Martie B. Lisowski
Collection, Library of Congress*



*An ox cart (gerobak),
Jawa Timur Province
Courtesy Hermine L. Dreyfuss
and Festival of Indonesia*

led to a new strategy in 1988 of applying the techniques of integrated pest management, relying on a variety of methods aside from pesticide to control insects and rodents. To help reduce pesticide use, in 1989 the subsidy on pesticides was eliminated.

Government investments in irrigation had also made a significant contribution to increased rice production. From FY 1969 to FY 1989, 2.5 million hectares of existing irrigated land were rehabilitated, and irrigation was expanded to cover about 1.2 million hectares.

Because the government objective of price stability for urban consumers could potentially undermine efforts to increase production by reducing the profitability of the rice crop, Bulog's operations evolved to take into consideration producer incentives as well as consumer costs. Domestic rice prices were permitted to rise gradually during the 1970s, although they were generally held below world rice prices. However, domestic prices were kept above world prices in several periods during the 1980s. Bulog influenced the domestic rice price by operating a buffer stock on the order of 2 million tons during the 1980s. When domestic prices fell, Bulog purchased rice through village cooperatives, and when prices rose above the price ceiling, Bulog released buffer supplies. The margin between the producer floor price and urban ceiling price was sufficient to permit private traders to operate profitably, and Bulog's distribution of rice was limited to under 15 percent of total rice consumed domestically in a given year.

Corn and Other Food Crops

Although rice was by far the most important food crop, corn was the major source of calories for about 18 million people, especially in Jawa Timur and Jawa Tengah provinces. About 75 percent of corn production was consumed as a staple food source. Corn cultivation was concentrated on Java and Madura under a variety of conditions, but most frequently on *tegalan*, or rain-fed land without the system of dikes characteristic of floodable *sawah*. Other food crops included cassava, sweet potatoes, peanuts, and soybeans.

Estate Crops

Spice crops first attracted Europeans to the East Indies, but the tropical climate and rich volcanic soils offered a fertile laboratory for the introduction of new commercial crops such as sugar, coffee, and rubber. Large private plantations controlled by European and American interests became the backbone of the colonial economy in the late nineteenth century, when the Dutch colonial government began to limit the practice of tax collection by forced crop

cultivation on village land (see *Colonial Economy and Society, 1870–1940*, ch. 1). Even at the height of the plantation economy, however, small-scale peasant cultivators were competitive suppliers of a variety of commercial crops. In 1929, just before the world market collapse in the Great Depression, agricultural products were 75 percent of total Netherlands Indies exports, and about one-third of agricultural exports were from small-scale indigenous producers. Although sugar, then the single most important export crop, was entirely a plantation crop, a large share of rubber, next in export value to sugar, was supplied by smallholders; and coconut, then the third largest agricultural export, was produced almost exclusively by smallholders.

Although far less important in the overall economy, the estate crops were a significant share of exports and a vital source of income in the rural economy throughout the 1970s and 1980s. Smallholders continued to cultivate many estate crops grown on a large scale on government and privately owned plantations. Government-owned plantations were largely the legacy of nationalization of foreign estates during the 1950s, and restrictions on ownership still limited foreign participation, although joint ventures were not uncommon.

Rubber was generally the most valuable export crop, followed by coffee and oil palm (see table 25, Appendix). Exports of palm oil and coconut were periodically restricted to ensure adequate domestic supplies. A variety of other estate crops, including tobacco, pepper, tea, and cocoa, were also exported. Sugarcane was still cultivated but never regained its prominence after the collapse of the sugar industry during the Great Depression.

During the mid-1980s, the government initiated an ambitious plan to improve the technology and plant stock of small-scale producers. One of the Nucleus Estate Programs was a smallholder scheme that provided small plots of high-yielding tree crops to participating farmers in a determined location who shared the benefits of centralized technological and managerial assistance. A variety of difficulties were encountered with this strategy, and the planting area and productivity targets were rarely achieved. Outside observers criticized the nucleus-estate smallholder approach because only a small number of cultivators participated, leaving the majority of smallholders outside the nucleus estates without access to more productive hybrid tree stocks.

Rubber was cultivated on 3 million hectares of land in 1988, and about 80 percent of that area was owned by smallholders with holdings of two hectares or less. Smallholder cultivation was concentrated in Sumatra, especially in the provinces of Sumatera Utara,

Riau, Jambi, and Sumatera Selatan. Some smallholder cultivation was found on Kalimantan, but less than 2 percent was outside Sumatra and Kalimantan. Government and private estates cultivated roughly equal areas, although private estates were subject to a legal maximum size varying by province, and so were smaller and more numerous than government estates. About 12 government-owned and more than 800 private rubber estates were concentrated in Sumatera Utara, Jawa Barat, Jawa Timur, and Kalimantan Tengah provinces.

Oil palm (*Elaeis guineensis*, Arecaceae) was the newest and fastest growing tree crop in the 1980s. Ten government estates—primarily in Sumatera Utara Province—were the major producers, although eighteen private estates accounted for about 25 percent of the total 655,000 hectares devoted to oil palm in 1988. Smallholder cultivation of oil palm was insignificant. Exports of palm oil also expanded rapidly in the late 1980s, making Indonesia a major supplier, with 10 percent of the world market in 1988.

Coconuts were cultivated almost exclusively by smallholders. In 1983 about 3 million hectares were devoted to coconut production throughout the archipelago, although a large share was on Java. In the early 1980s, the World Bank estimated that as much as 60 percent of coconut products were not sent to the market but instead consumed by the cultivators, in part because of low producer prices reflecting government administration of the domestic coconut trade. Indonesia was the second largest producer of coconuts in the world after the Philippines, but remained an insignificant exporter because of government restrictions and inadequate processing facilities.

Coffee also was cultivated almost entirely by smallholders but, in contrast, remained an important export crop throughout the 1970s and 1980s. Processing and marketing of coffee was undertaken by the private sector with little government intervention. Most Indonesian coffee trees were of the Robusta variety, which is more hardy but of lower quality than Arabica coffee. Cultivation was concentrated on Sumatra, especially Lampung Province, which accounted for almost 25 percent of the estimated 500,000 hectares of smallholder cultivation in 1978.

Livestock

Smallholders, who owned nearly all of the livestock in the country, used their animals for draft power, manure, meat, and for future sale. Most livestock, including some 16 million goats and sheep, were simply tethered near the home or put out to pasture on communal grazing land. Beef cattle numbered over 10 million in 1989.

The water buffalo, the most common draft animal, numbered 3.3 million. Several government-sponsored programs to increase livestock productivity through better extension services to livestock farmers and the expansion of ranching were in operation on the Outer Islands in the early 1990s. Since 1978 the government has provided technical assistance to poultry farmers, particularly in or near urban areas. The government also made great efforts to improve the dissemination of superior breeds and modern medicines. Chickens were the fastest growing commercial livestock, numbering 508 million in 1989, an increase of 65 percent since 1984.

Fishing

Fish was the main source of animal protein in the average diet, with a per capita availability of 12.76 kilograms per year in 1988, compared with a total of 3.8 kilograms from all other meats combined. The fishing industry continued to rely on traditional methods and equipment, although the government was attempting to promote motorization for traditional fishing boats. About 14 percent of the 270,000 coastal vessels were motorized in 1980, compared with 2 percent of the total in 1970. Inland fish landings were estimated at 761,000 tons in 1989, an increase of almost 40 percent since 1984; sea fish landings were estimated to be 2.2 million tons in 1989, an increase of 31 percent since 1984. Foreign fishing vessels operating under license contributed to the growing fish exports, which reached 54,000 tons by 1988, an increase of 70 percent since 1980. Most fish exports were shrimp and tuna caught for the Japanese market. The supply of fish in Indonesian waters was threatened by illegal fishing from foreign vessels and in some areas by severe environmental degradation (see Environmental Concerns, ch. 2).

Forestry

Seventy-five percent of Indonesia's total land area of 191 million hectares was classified as forest land, and tropical rain forests made up the vast majority of forest cover, particularly in Kalimantan, Sumatra, and Irian Jaya. Estimates of the rate of forest depletion varied but ranged from 700,000 to more than 1 million hectares per year during the mid-1980s. In a critical evaluation of Indonesian forestry policy, economist Malcolm Gillis argued that deforestation could not be blamed on a single major factor but was instead caused by a complicated interplay commercial logging, Transmigration Program activities, and shifting or swidden cultivation, still practiced largely on Kalimantan. Gillis argued that the most immediate threat to Indonesia's forests was the government promotion

of domestic timber processing, whereas the Transmigration Program was the greatest long-term threat.

The government had ownership rights to all natural forest, as provided for in the 1945 constitution (see *The Constitutional Framework*, ch. 4). Ownership could be temporarily reassigned in the form of timber concessions, known as Forest Exploitation Rights (*Hak Pengusahaan Hutan*), or permanently transferred, as in the case of land titles granted to transmigration families. The average concession size was 98,000 hectares, and the usual duration was twenty years. Foreign timber concessions were curtailed to conserve resources in the 1970s, and by the 1980s, of more than 500 active forest concessions, only 9 were operated by foreign firms. Log production peaked in 1979 at 25 million cubic meters, of which about 18 million cubic meters were exported as unprocessed logs. Restrictions on unprocessed exports in the early 1980s contributed to a decline in total log production, which fell to 13 million tons in 1982. However, increasing demand for sawn timber and plywood began to boost production again, bringing it up to 26 million cubic meters by 1987. In that year, about half of total log production was exported in the form of sawn timber and plywood, the rest going into domestic consumption. Log production again dropped at the end of the 1980s, falling to 20 million cubic meters by 1989. The government attributed this decline to policies designed to preserve the natural forest. One such policy was the increase in a levy imposed on loggers for reforestation, which was raised from US\$4 to US\$7 for every cubic meter of cut log.

Industry

New Order Developments

After coming to power, the New Order government supervised the rapid industrialization of the Indonesian economy. Industrial production, as a share of total GDP, grew from 13 percent in 1965 to 37 percent in 1989. The protective trade policies of the 1970s contributed to the changing composition of industry, away from light manufacturing such as food processing and toward heavy industries such as petroleum refining, steel, and cement. These industries were often dominated by government enterprises. Although these large-scale, capital-intensive firms offered few employment opportunities to the rapidly growing labor force, the surge in manufacturing exports begun in the mid-1980s promised to increase employment and the role of private investment in the 1990s.

Despite its increasing significance, the industrial sector employed only about 9 percent of the work force. The BPS conducted a

comprehensive economic census roughly every ten years beginning in 1964. The 1986 economic census provided detailed information on approximately 13,000 firms with more than twenty employees in all industrial sectors except oil and natural gas processing. Economist Hal Hill analyzed in detail Indonesian industrial growth based on census data, combined with national income account data on the oil and gas sector. The most important industrial sector, according to these studies, was oil and natural gas processing, which accounted for more than 25 percent of total value-added in industrial output. The second major industrial activity was the production of *kretek* cigarettes, the popular traditional Indonesian cigarette made from tobacco blended with cloves. Cigarette production accounted for 12 percent of total industrial value-added. A diverse range of almost thirty major industrial sectors, from food processing to basic metals, accounted for the remaining production (see fig. 8; table 26, Appendix).

Hill identified seven ownership categories of industrial firms, including privately owned, government owned, foreign owned, and a variety of joint-venture combinations among government, the private sector, and foreign investors. Almost 12,000 firms from the total number of 12,909 firms surveyed were privately owned. Some 350 private-foreign joint ventures and 400 private-foreign-government joint ventures accounted for most of the remainder. The private firms were much smaller than the joint ventures; compared with government joint ventures, private firms were less than one-tenth the size and employed on average one-sixth the number of workers. Although far less numerous, government joint-venture firms still accounted for 25 percent of the total value of industrial production.

Government enterprises controlled all oil and natural gas processing and were important in other heavy industries, such as basic metals, cement, paper products, fertilizer, and transportation equipment. The improved economic climate for private investors following the trade deregulations is indicated in the importance of private ownership among the exporting manufacturing industries. Based on data from 1983, Hill estimated that the major manufacturing export industries, including plywood, clothing, and textiles, had over 60 percent of private Indonesian ownership.

The growing export manufacturing industries also offered many more employment opportunities than the heavy industries dominated by government and foreign joint ventures. Taken together, wood products, textiles, and garment industries accounted for 32 percent of the 1986 industrial labor force employed in large and medium size firms. Oil and natural gas processing, whose total

production was equal in value to these three labor-intensive industries, employed only about 1 percent of the labor force. Basic metals industries also employed only 1 percent of the labor force, although they accounted for 6 percent of industrial production.

Foreign Inputs

The predominance of joint ventures with foreign firms as opposed to entirely foreign-owned firms, which numbered around fifty, reflected increasing limitations on foreign investment during the 1970s, following a liberal policy from 1967 to 1974. One of the first legislative acts of the New Order was to pass the Foreign Investment Law of 1967, which encouraged foreign investment with tax incentives and few limitations on equity ownership and employment of foreign personnel. Popular discontent with foreign economic domination, voiced in widespread protests during the 1974 visit of the Japanese prime minister Tanaka Kakuei, contributed to greater restrictions on foreign investment. New provisions required that all foreign investment be in joint ventures with Indonesian nationals, whose equity share should reach 51 percent within ten years. Enforcement of these provisions was somewhat arbitrary, however, and the greatest deterrent to foreign investment may have been the complex and sluggish bureaucracy implementing the ever-changing regulations.

In the mid-1980s, foreign investment policy was again liberalized as part of the general reform movement. Administration of foreign investment was simplified, and the Investment Coordinating Board (BKPM) was required to approve projects within six weeks of initial application. In special cases, domestic equity could be as low as 5 percent for the initial investment, and licenses were subject to renewal for up to thirty years, altering an earlier policy under which all foreign investment licenses expired in 1997. The minimum investment amount of US\$1 million was also lifted for special cases.

Overall, government and private ventures with foreign partners accounted for more than 40 percent of industrial production, according to the 1986 economic census. Japan was the major foreign investor in industry from 1967 to 1988, followed by Hong Kong and South Korea. The United States was the source of less than 1 percent of foreign investment in industry. This figure excluded the major United States investments in crude oil and gas exploration and production, considered part of the mining sector (see Petroleum, Liquefied Natural Gas, and Coal, this ch.).

Foreign investment was often crucial for the development of capital-intensive heavy industries. A prime example was the Asahan

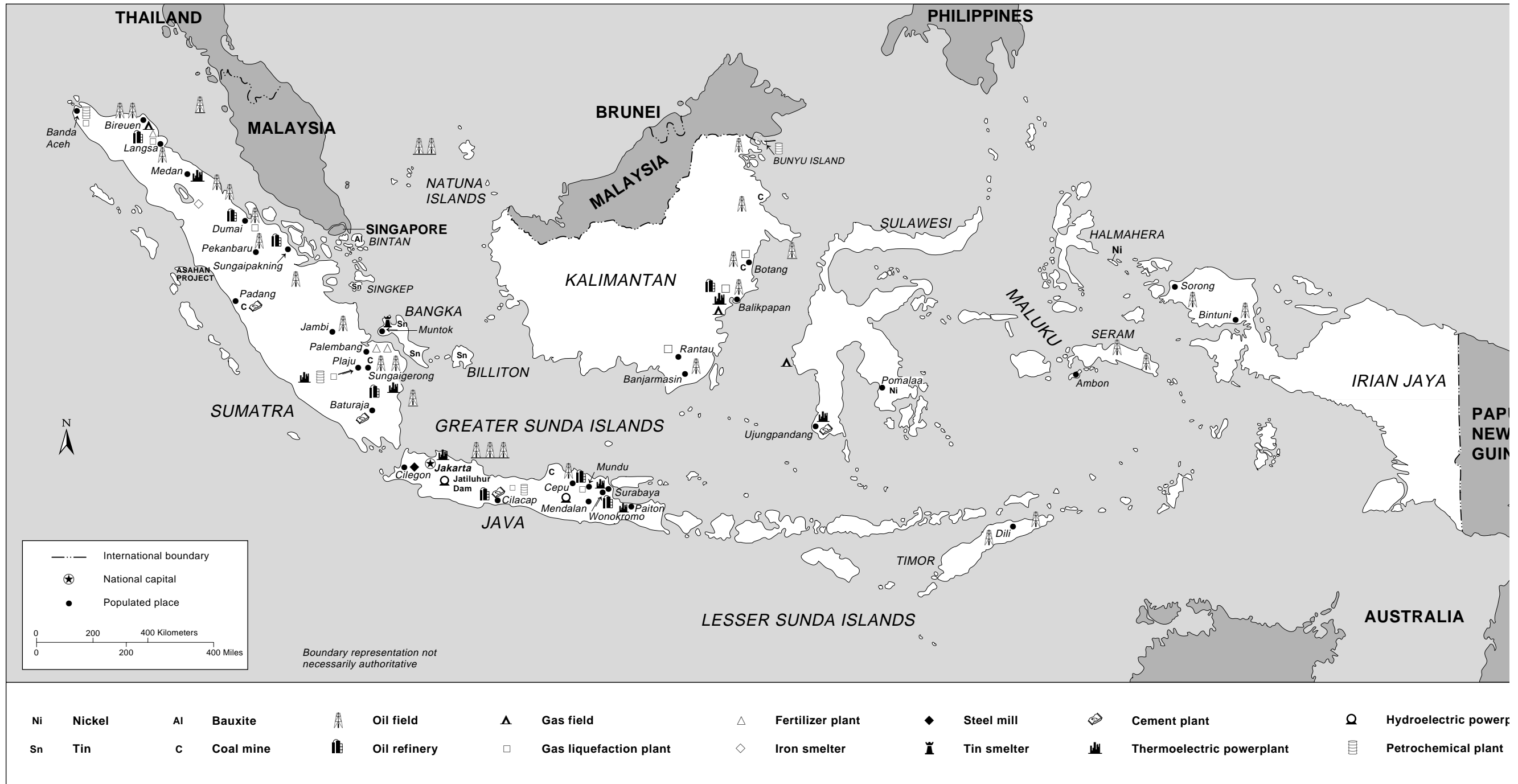


Figure 8. Selected Industrial Activity, 1992

Aluminum Project, a government joint venture with a consortium of Japanese companies that formed Nippon Asahan Aluminum Company. The aluminum smelter plant and two hydroelectric power stations, located in Sumatera Utara Province, were completed in 1984 with a capacity to produce 225,000 tons of aluminum ingots per year. The US\$2.2 billion project became the focus of controversy when unforeseen difficulties in power generation and a decline in aluminum prices forced a major financial restructuring. The government equity share was increased from 25 percent to 41 percent, and in 1989 a provisional agreement was reached to allocate 51 percent of the plant's production to Indonesia, with the remainder exported to Japan.

Singapore joined Indonesia's manufactured export drive by assisting in the development of an industrial park on the island of Batam, located in Riau Province only nineteen kilometers offshore from Singapore. The 485-hectare facility, built by a state-owned company from Singapore and two private Indonesian firms, began operations in 1991. The Indonesian government hoped to attract foreign investment to the park by permitting full foreign ownership of export-oriented industries for five years. Singapore viewed the project as part of a "growth triangle" linking Singapore, Malaysia, and Indonesia that would permit Singaporean investors to take advantage of more ample land and cheaper labor available in the neighboring countries.

In many industries, foreign firms supplied technical assistance and arranged for domestic production under licensing agreements, without direct equity participation in the domestic firm. For example, automobile assembly plants in Indonesia produced about twenty international brand name automobiles, from Fiat to Toyota, primarily under license agreements. The automotive assembly industry grew amidst heavily protected markets. The capacity of domestic firms in 1991 to produce about 250,000 units per year of as many as eighty different types and makes of vehicles meant that it would be difficult for the industry to achieve low-cost, large-scale production for export. By international standards, a firm must produce at least 100,000 units of a particular vehicle to be competitive.

Under the leadership of the minister of state for research and technology, Bacharuddin J. Habibie, the government attempted to move into aeronautics with foreign technological assistance. The Archipelago Aircraft Industry (IPTN) was established in 1976 to assemble aircraft under license from Construcción Aeronáutica of Spain and helicopters under license from Aérospatiale of France and Messerschmitt of Germany. By 1986 IPTN had delivered 194

aircraft, almost entirely to domestic buyers. A critical review of IPTN by two foreign economists argued that the endeavor was a premature leap into advanced technology and could only hope to be profitable by mandating continued domestic purchases of its aircraft. The government justified the US\$3 billion investment on broader criteria than financial profitability, including the potential stimulus to domestic suppliers of aircraft parts and the training of highly skilled workers. Among the 12,000 employees, 2,000 were university graduates, many of whom were trained abroad. However, most aircraft parts were still imported in 1986.

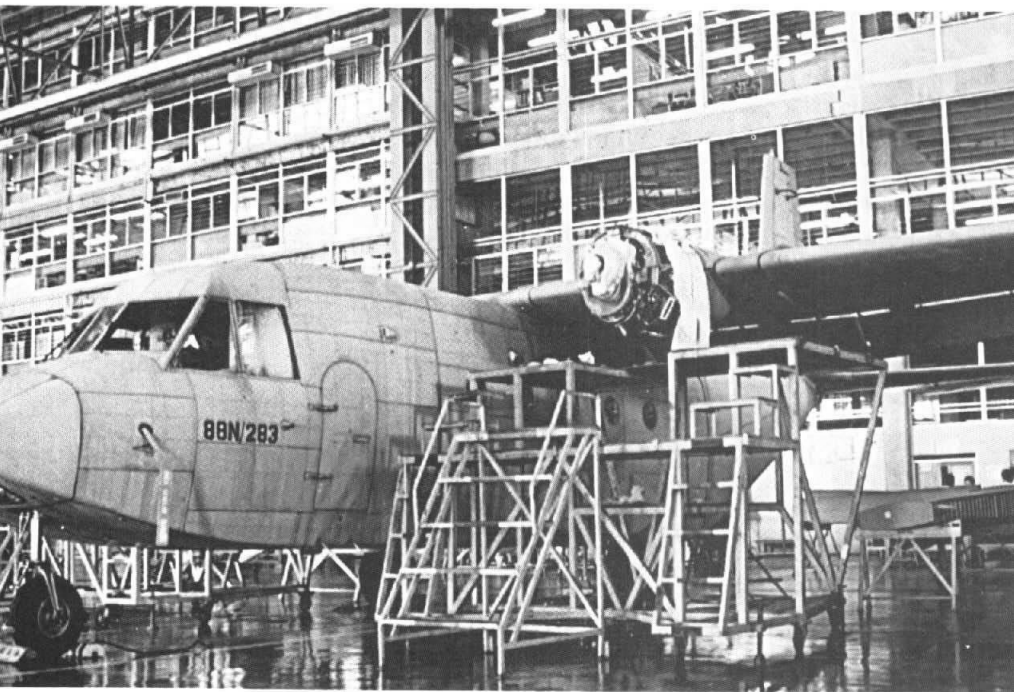
Small-scale Industry

The modern sector of medium and large firms was the focus of government policy, but small-scale factories that employed from five to nineteen workers and cottage industries that employed up to four workers—usually family members—were far more numerous and supplied the majority of jobs. Small-scale establishments engaged in a wide range of activities, from traditional bamboo weaving to metal and leather working. Many of these industries offered parttime employment to rural workers during offpeak seasons. Statistics on these activities were tenuous because of the seasonal patterns and interviewing difficulties. A review of the available BPS data by economist Tulus Tambunan showed that small-scale industries employed 3.9 million workers in 1986, compared with 1.7 million employees of medium- and large-scale firms. Still, this figure reflected a significant decline from small industries' share of employment in 1974, which was about 86 percent of total industrial employment, or 4.2 million employees compared with only about 700,000 in medium and large industries.

Regional Industrial Development

The pattern of regional development in Indonesia mirrored the diversity of natural resources among the Outer Islands and the historical dominance of Java as the densely populated agrarian center. Java remained the economic center of the nation, producing about 50 percent of total GDP in the 1980s. Sumatra, the heart of the nation's oil and rubber production, ranked second with 32 percent of GDP. Half of total foreign investment, excluding the oil sector, from 1967 to 1985 was in Java, with the remainder dispersed widely throughout the nation.

In spite of this regional imbalance, there were important and more-or-less uniform features of economic development. By 1983 agricultural production, including nonfood crops such as rubber and forestry and fishing, had declined to less than half of total



*The P.T. Multi Astra automobile assembly line, Jakarta
Nusantara Aircraft Company, Bandung, Jawa Barat Province
Courtesy Indonesian Department of Information*

production in almost all twenty-seven provincial-level administrative units. The majority of the labor force still found employment in these activities, however. Almost all provinces shared in the rapid growth rates of the 1970s, and most attained annual growth rates between 4 and 8 percent per year. Specific industries usually reflected local resource endowments; for example, sawmills and plywood factories dominated manufacturing in Kalimantan, whereas Sumatran manufacturing was more diverse, including rubber processing, cement, and plywood. Major industries on Java included motor vehicle assembly in Jakarta, weaving in Jawa Barat Province and Yogyakarta, *kretek* cigarette production in Jawa Timur Province, and sugar refining in Jawa Tengah Province.

Minerals

Indonesia's mineral resources were dominated by crude petroleum and natural gas but included significant reserves of coal, tin, nickel, copper, gold, and bauxite. Much industrial development was based on increased domestic processing of oil and natural gas. Most mineral production was exported after some degree of domestic processing to industrial nations, primarily Japan. In some cases, Indonesia's own mineral intensive industries, such as steel and aluminum, relied on imports of raw materials. Krakatau Steel imported about 2 million tons of high-grade iron ore in 1989, and P. T. Indonesia Asahan Aluminum imported 360,000 tons of alumina from Australia. On balance, however, Indonesia was a net exporter of minerals in large part because of petroleum exports. In 1989 the total value of mineral exports was US\$10 billion, almost 90 percent of which was oil or liquefied natural gas; mineral imports were only US\$1.4 billion (see table 27, Appendix).

Petroleum, Liquefied Natural Gas, and Coal

Petroleum

Indonesia's oil production was formally governed by a quota allocation from OPEC. At the March 1991 OPEC ministerial meeting, Indonesia's quota was set at 1.445 million barrels per day, below the country's estimated production capacity of 1.7 million barrels per day. Indonesia's quota represented about 6 percent of total OPEC production. About 70 percent of Indonesia's annual oil production was exported on average during the late 1980s, but domestic consumption was increasing steadily and reached half of annual oil production by 1990.

Indonesia's oil industry is one of the oldest in the world. Oil in commercial quantities was discovered in northern Sumatra in 1883,

leading to the establishment of the Koninklijke Nederlandsche Maatschappij tot Exploitatie van Petroleum-bronnen in Nederlandsch-Indië (Royal Dutch Company for Exploration of Petroleum Sources in the Netherlands Indies) in 1890, which was merged in 1907 with the Shell Transport and Trading Company, a British concern that had been drilling in Kalimantan since 1891, to form Royal Dutch Shell. Royal Dutch Shell dominated colonial oil exploration for more than thirty years. By 1911 Royal Dutch Shell operated concessions in Sumatra, Java, and Kalimantan (then called Borneo), and Indonesian oil was almost 4 percent of total world production. Indonesia's most important oil fields, the Duri and Minas fields in the central Sumatran basin, were discovered just prior to World War II by Caltex, a joint venture between the American companies Chevron and Texaco, although production did not begin until the 1950s. By 1963 the Duri and Minas oil fields, located in Riau Province near the town of Dumai, accounted for 50 percent of oil production.

The postindependence government increased its control over the oil sector during the 1950s and 1960s by increasing operations of several government-owned oil companies and by stiffening the terms of contracts with foreign oil firms. In 1968 the government companies—Indonesian Oil Mining company (Pertamin), National Oil Mining Company (Permina), and the National Oil and Gas Company (Permigan)—were consolidated into a single operation, the National Oil and Natural Gas Mining Company (Pertamina). At this time, a new form of contract—the production-sharing contract—was introduced. A production-sharing contract split total oil production between the contractor and the government, represented by Pertamina, and allowed the government to assume ownership of structures and equipment used for exploration and production within Indonesia. Indonesia's contract terms were considered among the toughest in the world, with the government in most cases receiving 85 percent of oil produced once the foreign company recovered costs.

Annual oil production in Indonesia peaked in 1977 at over 600 million barrels. The official price of Minas crude was then about US\$14 per barrel, a substantial rise from the 1973 price of about US\$4 per barrel as a result of OPEC's successful market manipulations. Prices continued to soar in 1981, reaching US\$35 per barrel, and oil exports peaked at US\$15 billion, or about 70 percent of total export earnings. In 1982, however, production declined, reaching a low of 460 million barrels, and the oil market began to weaken that same year, when Indonesia's Minas crude was priced at US\$29. The market collapsed in 1986, bringing the Minas price to below

US\$10 per barrel. Recovery of oil prices began slowly, and by 1989 Minas was priced at about US\$18 per barrel. Total production in 1989 was almost 500 million barrels, and oil exports were valued at US\$6 billion.

Indonesia had proven oil reserves in 1990 equal to 5.14 billion barrels, with probable reserves of an additional 5.79 billion barrels. Throughout the archipelago, there were sixty known basins with oil potential; only thirty-six basins had been explored and only fourteen were producing. The majority of unexplored areas were more than 200 meters beneath the surface of the sea. Indonesia's oil reserves were usually found in medium-and small-sized fields, so that continued exploration was vital to maintain production and known reserves.

In 1989 and 1990, the government loosened some provisions for new contracts to stimulate exploration, particularly in frontier areas. Improved oil market conditions in the late 1980s also contributed to a surge in production-sharing contracts. Fifty-seven of the 100 contracts active in 1992 were signed from 1987 to 1991. The newer contracts committed US\$2.8 billion in exploration during the 1990s. Production from existing oil fields was still dominated by Caltex's operations in Sumatra, which accounted for 47 percent of Indonesian oil production in 1990. Twenty foreign oil companies, primarily United States-based, were active producers in 1990.

Pertamina operated eight petroleum refineries with a total capacity to produce 400,000 barrels per day of a variety of distilled products for domestic use and export. The Indonesian government subsidized the domestic prices of distillates, and in spite of several price increases during the 1980s, prices in Indonesia were well below international market prices by 1990. For example, kerosene, used primarily for cooking, was priced at Rp190 per liter following a 15 percent price hike in May 1990; the price of kerosene in Singapore was then equivalent to Rp643 per liter and in the Philippines, Rp512 per liter. The total cost of fuel subsidies amounted to Rp2.6 trillion (US\$1.3 billion) in FY 1990. Pertamina forecast an increase in domestic demand for distilled products of 7 percent per year and hoped to meet this demand and, simultaneously, to expand exports. Four new refineries with a total capacity of 500,000 barrels per day intended entirely for export were in various stages of planning in 1990.

Liquefied Natural Gas

In the early 1990s, Indonesia was the world's largest producer and exporter of liquefied natural gas. Two major facilities, P.T. Arun at Lhokseumawe, Special Region of Aceh, and P.T. Badak,

in Bontang, Kalimantan Timur Province, condensed natural gas through refrigeration to one-six hundredth of its volume for shipment in tankers. Both facilities were built in the late 1970s under supply contracts to Japan, although excess production was shipped to other destinations. After several expansions, the total capacity had reached 22.6 million tons per year by 1990. Exports of liquefied natural gas in 1990 were 20.6 million tons, valued at US\$3.7 billion.

Although most of Indonesia's natural gas was supplied to liquefying plants for export in the early 1990s, about 20 percent was used for domestic consumption, primarily in fertilizer plants, where it was processed into ammonia and urea. Natural gas reserves were estimated in 1990 at 67.5 trillion standard cubic feet of proven reserves and 12 trillion standard cubic feet of probable reserves. Growing domestic and export demand encouraged plans for the development of the Natuna gas field, the nation's largest field, located in the South China Sea northeast of the Natuna Islands. The high carbon dioxide content of this field had previously deterred investment, but Esso Indonesia indicated willingness to invest US\$12 billion to US\$15 billion to treat and market the gas. Pertamina authorized further negotiations with Esso after reviewing the proposal in 1991.

Coal

Coal production declined in the 1970s because of increasing use of subsidized petroleum fuels. However, in the late 1970s Suharto announced a new effort to increase domestic coal use, especially in cement and electric power plants. Total coal production rose steadily in the 1980s to reach 11 million tons in 1990. Most coal reserves were located in southern Sumatra and eastern and southern Kalimantan. Total measured reserves were 4.2 billion tons, with an additional 12.9 billion tons classified as inferred reserves and 15 billion tons of hypothetical reserves. A government mining company, P.T. Tambang Batubara Bukit, produced the majority of coal in 1991, but ten coal cooperation contracts signed between 1981 and 1987 with foreign investors were expected to produce a total of 20 to 25 million tons per year by 1994.

Other Minerals

Tin

Indonesia was one of the world's four major tin producers, behind Brazil but close in ore production to Malaysia and China in the late 1980s. Tin ore production was centered on Bangka Island, part of Sumatera Selatan Province. New exploration was planned

in 1989 on Sumatra and offshore Bangka Island. Indonesia is a member of the Association of Tin Producing Countries and was required in FY 1989 to restrict tin exports to no more than 31,500 tons as part of the association's Supply Rationalization Scheme. The government enterprise P.T. Timah controlled the majority of tin mining and, together with an Australian mining firm, operated a tin smelter in Muntok, located in northwestern Bangka Island. In 1989 the smelter, which had a capacity of 32,500 tons per year, produced 29,900 tons of refined tin from local ore. In the late 1980s, Indonesia exported 80 percent of its tin production. Some tin ore was shipped to Malaysia for processing, although tin metal was shipped primarily to Singapore. Most of the growing domestic tin consumption was used in tin plating and for solder. Official proven reserves of tin were 740 million tons.

Nickel

Indonesia was among the world's top five producers of nickel ore in 1989, although Canada and the then-Soviet Union produced much greater quantities. The major nickel mining operations were run by P.T. Aneka Tambang (also known by the abbreviated P.T. Antam); the Indonesian government mining firm; and by P.T. Inco, an international firm owned primarily by the Canadian firm Inco Limited, with a minority share owned by Sumitomo Metal Mining Company of Japan. At its integrated nickel complex at the Soroako Concession in Sumatera Selatan Province, P.T. Inco processed ore into nickel matte, which was then exported to Japan. Plans were underway in 1989 to expand the capacity of the complex from 35,000 tons to 47,630 tons capacity. P.T. Inco also planned to issue from US\$300 million to US\$400 million in stock shares on the Jakarta Stock Exchange in 1990 to meet the 20 percent domestic equity ownership requirement mandated in its 1967 contract with the Indonesian government. P.T. Aneka Tambang had mine operations in the Pomalaa area of Sulawesi Selatan Province and on Gebe Island, Maluku Province. A joint venture between P.T. Aneka Tambang and Australian Queensland Nickel planned to open a new nickel mine on Gag Island, Irian Jaya Province, in 1991. P.T. Aneka Tambang also operated a ferronickel processing plant in Sumatera Selatan Province with a capacity of 4,800 tons per year of contained nickel. Total nickel ore reserves in Indonesia represented 12 percent of world reserves, or 367 million tons with a nickel content between 1.5 to 2 percent.

Copper

Copper mining in the late 1980s was dominated by the Freeport-McMoRan Copper and Gold Company, a United States firm, which, through its joint venture subsidiary Freeport Indonesia, had operated the Ertsberg Mountain mine in the Jayawijaya Mountains of Irian Jaya Province since the early 1970s. The mined ore was milled and then sent 115 kilometers by pipeline to Freeport's Amamapare port. The mine produced 32 million tons before becoming depleted. To expand its operations, in 1989 Freeport Indonesia was granted an exploration license by the Indonesian government that added 2.5 million hectares to its original 10,000-hectare concession. A major new discovery on Grasberg Mountain, three kilometers north of the Ertsberg Mountain site, was expected to come under production in 1990 and to produce around 270,000 tons annually by the end of 1992. It was projected to become the world's largest open-cast mine, and at one of the lowest costs in the world. Total proven and probable reserves of copper, centered in the Ertsberg and Grasberg areas of Irian Jaya, were 15 billion tons. In a related joint venture, Freeport Indonesia, Nippon Mining (Japan), Metallgesellschaft (Germany), and a private Indonesian investor had plans to start construction of a 150,000-ton annual production capacity, US\$600 million copper smelter in Gresik, Jawa Timur Province. Given its 10 percent ownership of Freeport Indonesia, the Indonesia government had high profits at stake.

Gold

Most gold production officially reported in government statistics was a byproduct of Freeport Indonesia's copper mining. In 1989 total official gold production was about 6,000 kilograms, of which about 4,000 kilograms was extracted by Freeport Indonesia with a 15,000 kilogram production expected by the end of 1992. However, a large number of small-scale mining operations in Kalimantan may have produced as much as 18,000 kilograms of gold in 1989. Many of these small mines were operated illegally on foreign concessions. In 1989 there were approximately eighty foreign contractors with concessions for gold exploration, primarily in Kalimantan, but only a small number had producing mines.

Bauxite

Bauxite was being mined in the early 1990s by P.T. Aneka Tambang on Bintan Island and three neighboring islands, and most bauxite was exported to Japan. Total bauxite reserves of 396 million

tons were found in the Bintan Island area and in Kalimantan Barat Province. Reserves of commercially exportable bauxite were much more limited, although on-site processing into alumina had the potential to be commercially feasible with below export grade reserves. Bauxite, the demand for which had increased during Repelita V after having slowed down during Repelita IV, is a primary input in the production of aluminum. It must first be refined into alumina. Plans were underway in 1991 for an alumina refinery, and the Department of Mining and Energy had been seeking an interested foreign partner to develop a US\$600 million facility on Bintan Island since the late 1980s. Alumina input for P. T. Indonesia Asahan Aluminum was imported from Australia.

Infrastructure and Services

The services sector in Indonesia in the early 1990s was a heterogeneous mix of modern government-operated utilities such as gas and electricity, sophisticated and well-paid private services such as finance and insurance, and millions of self-employed traders earning a marginal living in what is often called the informal sector. Although there was little threat of privatizing the often inefficient government monopolies, the deregulation trend in the late 1980s encouraged more private participation in many services formerly reserved exclusively for the public sector. For example, a private airline—Sempati Air Services—was permitted for the first time to provide international jet service in competition with the government-owned airline, Garuda Indonesia, and the massive state-owned National Electric Company (PLN) began negotiations to purchase electricity from privately owned generators.

In an archipelagic setting, transportation infrastructure is crucial to a modern integrated economy. The effort to boost non-oil exports also demanded more efficient transportation both among islands and to international ports. Repelita V (FY 1989–93) increased transportation investment to almost 20 percent of development expenditures from around 12 percent in Repelita IV. An extensive reform of shipping regulations increased competition and access to Indonesia's ports.

Services provided 26 million jobs, about 35 percent of the employed work force in 1989 (see *Employment and Income*, this ch.). Growth in service employment was over 4 percent per year during the 1970s and 1980s, faster than total labor force growth, which averaged about 3 percent per year. One of the fastest growing sources of employment in services was the government civil service, which grew at a rate of almost 6 percent per year in these two decades. By 1990 there were 3.8 million civil servants employed

in all levels of government and in public institutions such as schools and hospitals. (This number excluded employees of state enterprises.) Government civil servants were typically more educated than average. In 1990 over 16 percent of civil servants had some university education, compared with about 1 percent for the labor force as a whole.

Employment in trade or commerce was the largest source of employment in the services sector, accounting for almost 11 million workers in 1989. This number included about half of all women employed in nonagricultural occupations. A wide range of enterprises were involved in commerce, from large incorporated firms to unincorporated establishments operating without fixed premises. However, the unincorporated establishments were much more numerous and probably accounted for about 90 percent of employment in trade. These ubiquitous small-scale traders, usually self-employed or employing only family labor, could be found plying their wares in the colorful village *pasar* (market) and in urban streets.

Petty traders made up the majority of the informal sector (small establishments outside the agricultural sector that employed only unpaid family labor). By this definition, about 17 million workers (around 23 percent of the labor force) in 1989 were employed in the informal sector in activities that usually required little skill or capital. Most informal activities provided household consumption services, like the popular *kaki lima* (five-leg) food stalls found throughout Javanese cities, so named for the three-legged food stall together with the two legs of the attendant. The informal sector also accounted for an important share of industrial employment (see Small-scale Industry, this ch.)

The government had an ambivalent attitude toward the informal sector. On one hand, the sector was recognized as an important source of employment that should be supported as part of the overall effort to promote *pribumi* economic development. Throughout the 1970s and 1980s, a variety of credit and training programs were geared to informal services and industry, although success was often tenuous because of the large and diverse target population. On the other hand, many policies, often on a municipal level, thwarted informal sector activities. For example, repeated efforts were made to centralize petty traders and food stalls into government-provided facilities in less-desirable locations with high rents. The once common *becak* (pedicab) was restricted to small side streets in many urban areas to reduce traffic congestion. In Jakarta, the *becak* was to be phased out entirely by denying new licenses after 1985.

Specific programs designed to assist the informal sector may have been less important than general, unrestricted economic growth. In spite of its symbolic "backwardness," the *becak*, like many informal activities, offered a vital service to urban dwellers at a low cost. The benefits of increasing manufacturing employment in the 1990s, which should have increased incomes of factory workers who had a high demand for inexpensive informal services, possibly offered the best program to assist this sector. The extensive investment in transportation infrastructure during the 1970s and 1980s, which facilitated urban-rural migration and eased rural travel, already enabled many rural households to supplement their income with informal employment in more prosperous urban areas (see Agriculture, this ch.).

Transportation

Roads

Road travel was the most important form of travel for both passengers and freight in the early 1990s and was given the highest priority for government transportation expenditures. From Repelita I (FY 1969-73) and Repelita II (FY 1974-78) through Repelita IV (FY 1984-88), about 55 percent of expenditures on transportation infrastructure was allocated to the extension and maintenance of roads, while 20 percent went to marine transportation, 15 percent to railroads, and 10 percent to air and river transportation (see fig. 9).

In 1989 a total of 250,000 kilometers of national, provincial, and district roads were reported in various states of repair, with 65 percent reported in good to moderate condition and 43 percent of the total reported as paved with asphalt. This was an increase of about 167,000 kilometers from 1967. Of this total, about 32 percent was classified as highways. Road density varied greatly throughout the archipelago, however; in Java there was 0.5 kilometer of road for every square kilometer in area; comparable values were 0.23 in Sulawesi, 0.16 in Sumatra, and only 0.04 in Kalimantan. The numbers of vehicles also increased dramatically—at a rate of about 14 percent per year from 1967 to 1989. By 1989 there were 8.3 million motor vehicles: 5.7 million motorcycles, 1.2 million automobiles, 1 million trucks, and 400,000 buses and smaller public transit vehicles. Jakarta alone accounted for 37 percent of all automobiles and 34 percent of all buses but only 18 percent of trucks and 13 percent of motorcycles.

Urban transit became increasingly dominated by motor vehicles, and in major cities the policy was to increase the role of public

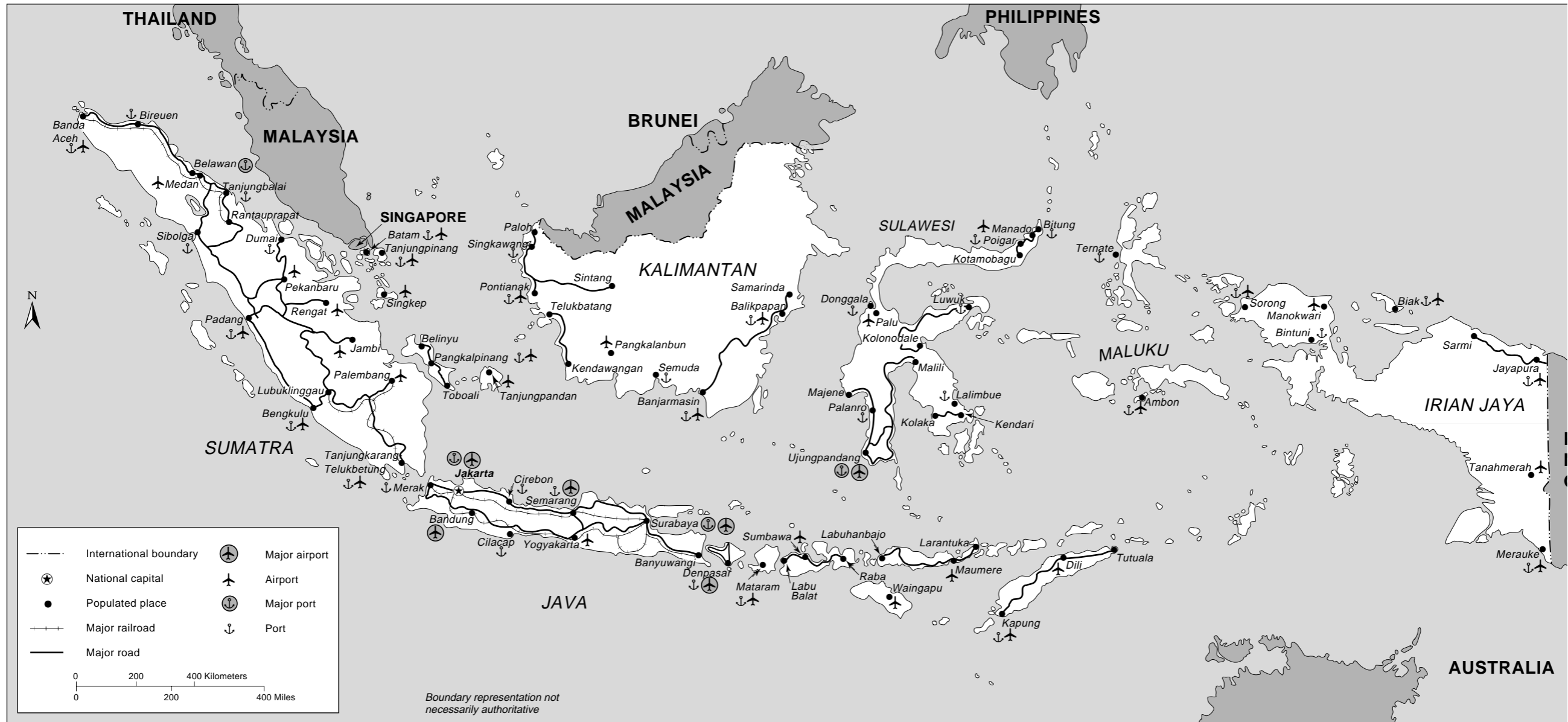


Figure 9. Transportation System, 1992

buses over privately owned, smaller-capacity vehicles such as the nine-seat microbus or *opelet* and the six-seat *bemo*. In the 1980s, the once ubiquitous *becak* was being replaced by the motorized *bajaj*, or three-wheeled passenger motorcycle. Private automobiles remained largely a middle-class form of transportation but were still a major contributor to road congestion, a serious problem in most major cities. The expansion of major urban roads to reduce congestion was usually at the expense of pedestrian traffic. In Jakarta the increased road capacity contributed to urban sprawl and even greater traffic congestion as more families moved to surrounding suburbs. A flat-rate fare structure subsidized long bus commutes, but buses were overcrowded in the 1990s despite the increases in their numbers.

Shipping

Maritime transportation became the focus of a major investment program and a series of regulatory reforms during the 1980s because of its importance in international trade. Like many areas of government policy, shipping and port policies had become increasingly restrictive and bureaucratic during the 1970s and early 1980s, before being dramatically liberalized during the mid- and late 1980s. The Indonesian National Shipping Company (Pelni) was established in 1952, and by 1965 with eighty-four ships accounted for 50 percent of the tonnage of the interisland domestic merchant fleet. Penli's share began to erode thereafter, declining to around 18 percent of interisland capacity by 1982, although it maintained a virtual monopoly on passenger travel.

Government policy also required that shipping companies established after 1974 be majority-owned by *pribumi* businesses and mandated firm size and freight charges. Restrictions on new entrants were imposed through five classes of shipping license: interisland shipping, with a minimum capacity of 175 gross tons; local shipping, with 35 to 175 gross tons; traditional shipping, which included *perahu pinisi*, the two-masted sailing vessels originating among the Buginese in Sulawesi Selatan Province, and small motorized craft; ships chartered by the government to serve remote ports; and special vehicles engaged in carrying bulk freight such as crude oil, fertilizer, and other industrial cargos. Foreign vessels were required to obtain a special license to enter Indonesian ports, and a policy to reduce transshipment through Singapore designated four gateway ports for international shipments from Indonesia. A US\$4 billion investment plan was launched in 1983 to expand the domestic shipping industry and port facilities. Almost US\$1 billion was earmarked for upgrading the four gateway ports—Tanjung Priok

(Tanjungperiuk) Subdistrict in North Jakarta (Jakarta Utara), Surabaya in Jawa Timur Province, Belawan near Medan in Sumatera Utara Province, and Ujungpandang in Sulawesi Selatan Province—together with forty-three collector ports and trunk ports that fed the gateway ports in a routing hierarchy.

In 1985 a major deregulation that included the suspension of local customs operations greatly simplified shipping regulations, permitted market-determined freight charges, and abolished the special license for foreign vessels, which were by then permitted to dock at about 100 of Indonesia's approximately 300 registered ports if they had a local Indonesian agent (see Aid and Trade Policies, this ch.). In 1988 the five licensing categories were simplified into two—oceangoing and regional shipping and interisland shipping. New entrants, including foreign joint ventures, were permitted with no restrictions on size of fleets, and some categories of commercial businesses were permitted to operate their own fleets with no additional license. The investment program to expand the domestic fleet, which since 1984 had mandated the elimination of vessels older than thirty years, was suspended indefinitely, and the gateway hierarchy was effectively undermined by more liberal route permits, although investment in port infrastructure still centered on the four gateway ports.

By 1989 the entire domestic merchant fleet included 35 oceangoing vessels with a capacity of 447,000 deadweight tons; by the earlier licensing categories there were 259 interisland vessels with a capacity of 466,000 deadweight tons, over 1,000 modernized local ships with a capacity of 158,000 deadweight tons, almost 4,000 traditional ships with a capacity of 200,000 deadweight tons, and 1,900 special bulk carriers with a capacity of more than 2 million deadweight tons. About 60 percent of the total cargo shipped was on special bulk carriers, dominated by crude oil and natural gas; of the general cargo carried by ship, which in FY 1989 totaled about 40 million tons, about 80 percent was carried on oceangoing or interisland class vehicles, with the remainder split evenly between local and traditional craft. The importance of the traditional craft may have been underestimated by official figures, since independent estimates ranged up to 10,000 such craft, although sailing vessels had been largely replaced by motorized craft. Additionally, there were some 21,600 kilometers of inland waterways on which goods might be carried, 48 percent of which were in Kalimantan and 25 percent in Sumatra.

Civil Aviation

The government-operated airline, Garuda Indonesian Airways,



*Several perahu pinisi—indigenous trading vessels—moored in the old harbor of Sunda Kelapa, Jakarta
Courtesy Harvey Follender*

concentrated on international jet service; about 80 percent of Garuda's revenue was generated by international flights in the early 1990s. In 1988 Garuda's fleet totaled seventy-three aircraft. Domestic service was provided by several smaller firms, including Merpati Nusantara Airlines, a subsidiary of Garuda, and Sempati Air Services, the first private firm that was permitted to provide international jet service in the early 1990s. A total fleet of 102 propeller-driven aircraft offered scheduled domestic services in FY 1988, although about 600 additional aircraft were in commercial nonscheduled operation.

The major Sukarno-Hatta International Airport in Cengkareng Subdistrict, West Jakarta (Jakarta Barat), opened in 1985. Other major airports were being expanded in the early 1990s, including airports located in Denpasar, Medan, and Surabaya, and on Batam Island. An agreement reached between Indonesia and Singapore in 1992 for the first time permitted direct flights to and from Singapore from other major Indonesian cities, including Surabaya and Denpasar. In total, in the early 1990s, Indonesia had 470 airports, 436 of which were categorized as usable and 111 of which had permanent-surface runways. Only six of the airports could handle Boeing-747-type aircraft.

Railroads

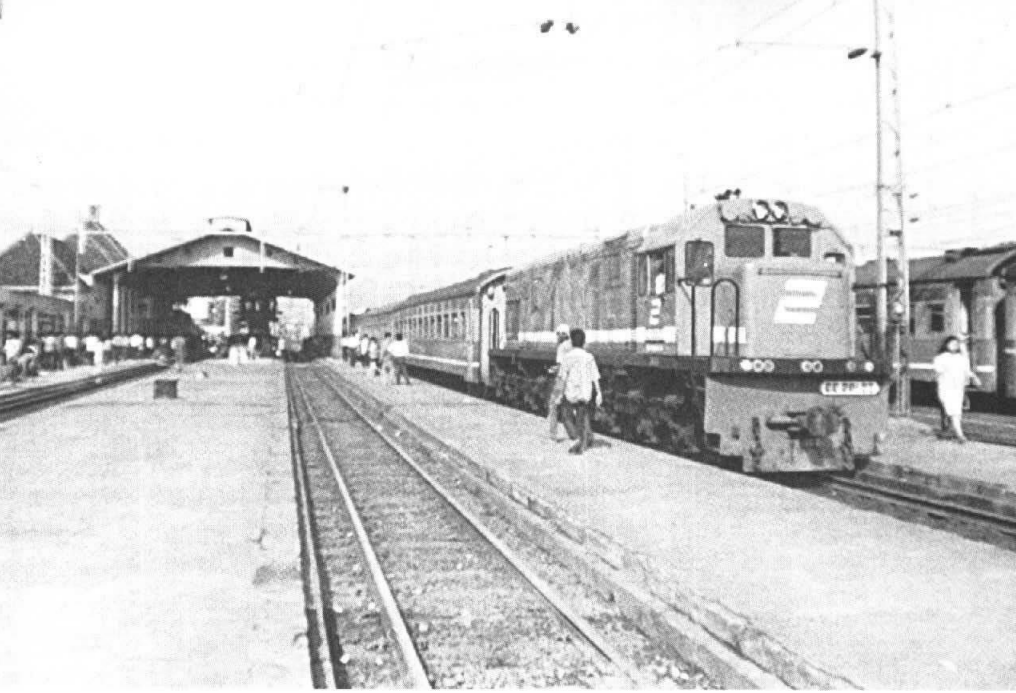
In the early 1990s, Indonesia had 6,964 kilometers of railroad track, all of it government-owned and -operated under the authority of the Department of Communications' Indonesian State Railways (PJKA). Some 211 kilometers of the roadbeds were laid in double tracks, and 125 kilometers—all in Java—were electrified. There were plans to expand the electrified system to 220 kilometers and nine cities in the 1990s. Of total track, 92 percent was 1.067-meter gauge, whereas 7 percent was 0.750-meter gauge, and the rest was 0.600-meter gauge. The rail network was largely on Java, where about 75 percent of the total track was located. PJKA's traction and rolling stock in 1990 included 546 diesel locomotives, 30 four-car electric multiple unit sets, 164 diesel railcars, 1,262 passenger cars, and 13,039 freight cars with plans for further acquisition of locomotives, passenger cars, and freight cars. Some thirty-five steam locomotives had been retired from the main inventory in the late 1980s.

Although trains were used mostly for passenger transportation, freight hauling had made significant increases in the 1980s, increasing from 800 million tons per kilometer annually in the early 1980s to around 3 billion tons per kilometer by the start of the 1990s. This increase reflected the rapid economic development taking place in Indonesia. The railways were most suited to hauling bulk items such as fertilizer, cement, and coal, since freight hauling was far more profitable than passenger traffic. Because of the improvements in road transport, passenger trips on railways were primarily for longer trips, especially in excess of 100 kilometers. Starting in the 1980s, railroads provided important links for carrying maritime containers to and from inland locations.

Much of the railroad network, however, was built before World War II, overburdened by users, and in need of substantial overhaul. Maintenance of railroad rolling stock thus was given special attention in FY 1989 and FY 1990 through a US\$28 million World Bank loan. More than 50 locomotives, 140 passenger cars, and 2,000 freight cars were scheduled for repair and rehabilitation. Government funds also were provided under Repelita V for 15 new foreign-made diesel locomotives (mostly from Canada and Japan) and 265 Indonesian-made freight cars designed for hauling coal, cement, fertilizer, and palm oil. Funds also included purchases of foreign-made signal equipment and automatic crossing gates.

Post and Telecommunications

The national postal system was the most important means of



*A passenger train at the Jakarta Railway Station
Courtesy M. Rachmana Achmad
Rural bridge construction in Jawa Barat Province
Courtesy Indonesian Department of Defense and Security*

communication for the majority of citizens. By the late 1980s, postal services were available in all subdistricts and in 844 transmigration areas. A substantial increase in the total number of post offices from about 2,800 in 1980 to 4,800 in 1989 improved the capacity and quality of this extensive communication network.

Indonesia had a sophisticated telecommunications system as a result of early investments in satellite communications. The first Indonesian Palapa satellite was launched in 1976 and was replaced in 1987 (Palapa was named for a vow of abstinence made by fourteenth-century prime minister Gajah Mada). A total of 130 earth stations supported long-distance direct dialing among 147 cities, and permitted international direct dialing to 147 countries. A total of 266 automatic telephone exchanges and 480 manual exchanges had a capacity of 1 million telephone lines, which was 80 percent utilized in 1990. New regulations in the late 1980s permitted secondary communications services, such as fax and cellular phone operations, to be supplied by private businesses in cooperation with the government's Directorate General of Radio, Television, and Film.

Television and radio communications were dominated by the government networks, Radio of the Republic of Indonesia (RRI) and Television Network of the Republic of Indonesia (TVRI). The satellite communication system brought television signals to every village in the country. In the early 1990s, there were some 11 million television sets or an average of 56 per 1,000 people nationwide. Broadcasting was received from eighteen government-owned stations in major cities throughout the country and foreign cable news broadcasts and television programming via satellite. Starting in 1988, a private commercial television channel, Rajawali Citra Televisi Indonesia (RCTI), was permitted to operate in the Jakarta area, where it offered ninety hours of pay programs per week. In 1991 a second private television station started in Surabaya, and in 1992 the government permitted six more stations to operate, expanding service in Central Java, southern Sumatra, Batam, and northern Sulawesi.

Radio broadcast stations and radio sets were numerous in Indonesia in the early 1990s. There were some 530 medium-wave, around 140 short-wave, and 28 FM privately owned stations and some 22 million sets or 112 sets per 1,000 people. Government-owned RRI, from its central station in Jakarta, offered national, metropolitan, and FM stereo domestic programming and daily foreign programs—The Voice of Indonesia—in Arabic, Chinese, English, French, German, Indonesian, Japanese, Malay, Spanish,

and Thai. These programs were broadcast from stations in Jakarta and Padangcermin in Lampung Province.

Electric Power

The government-owned National Electric Company (PLN) supplied virtually all the electricity in the nation. At the end of 1989, total capacity for electricity generation from PLN was just under 9,000 megawatts, most of which was from steam-powered generators. Total supply of electricity in FY 1989 was 29,500 million kilowatts, and about one-third of villages throughout Indonesia had electricity. In spite of consistent growth in PLN capacity—at a rate of about 15 percent per year since 1969—there was concern that demand would outstrip supply as businesses sought to expand manufacturing output. Industry used about 45 percent of total power generated. PLN began negotiations with private suppliers for the first time in 1992 to build power generators to sell electricity to PLN distribution lines. The negotiations, which involved two international consortiums, could result in up to four 600-megawatt coal-fired facilities at Paiton, Jawa Timur Province, an increase in Java's total generating capacity of 37 percent. The Paiton facilities were slated to come online in the 1995–97 period. Additionally, two other 1,200-megawatt coal-fired generator facilities were scheduled for completion in FY 1997 and FY 1999 in Sumatera Selatan and Jawa Barat, respectively.

In summary, Indonesia's entire economy, like the infrastructure and services sector, had been transformed by a government determined to reap the benefits of modern industry and technology. Long a predominantly agrarian nation, by 1989 Indonesia saw agriculture accounting for only 20.6 percent of GDP. In some respects, continued economic growth in the 1990s offered more challenges than were confronted in earlier decades. The vast rural population generally had benefited from rapid industrialization but remained poor by international standards. At around US\$500, Indonesia's GDP per capita still ranked among low income nations such as China and India. With the growth in its manufactured exports, the nation entered a highly competitive world economy. The goal of rice self-sufficiency was achieved, but further improvements in agriculture faced more complex environmental and technological constraints. As the mid-1990s approached, private business appeared able to continue the record of growth set by the government-led economy in the 1970s. The government's task evolved into ensuring that private business success was based on efficiency, not political connections, and providing the public services and infrastructure vital to an island archipelago.

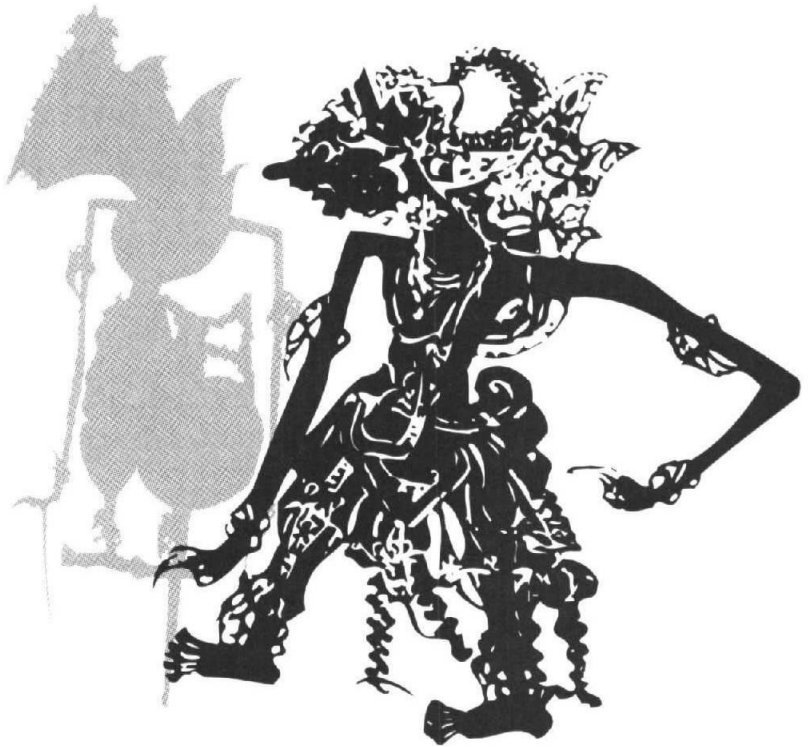
* * *

A classic survey of the Indonesian economy under Suharto, *The Indonesian Economy During the Soeharto Era*, edited by Anne Booth and Peter McCawley, has been thoroughly updated in *The Oil Boom and After: Indonesian Economic Policy and Performance in the Soeharto Era*, also edited by Anne Booth. Many of the contributors to this volume also write for the Australian quarterly, *Bulletin of Indonesian Economic Studies* [Canberra], an excellent source of current scholarly analysis of the economy. The regular feature, "Survey of Recent Developments," by different authors in each issue of the bulletin, gives a thorough review of new government policy and the most recent factual information on economic developments. An annual review of the economy, *Indonesian Assessment*, is also published by Australian National University.

Rice Policy in Indonesia, by Scott Pearson and others, and *Reforming Economic Systems in Developing Countries*, edited by Dwight H. Perkins and Michael Roemer, are valuable reviews of Indonesian policy making by university economic advisers who were often on the scene. A more political view of policy making can be found in the writings of Richard Robison, especially his *Indonesia: The Rise of Capital*.

The weekly *Far Eastern Economic Review* and the daily *Asian Wall Street Journal*, both published in Hong Kong, offer less scholarly but more up-to-date information. The Indonesian economic press is improving rapidly with such specialized publications as *The Monthly Report* by the Center for Policy Studies and the *Indonesian Capital Market Journal*, both English publications from Jakarta that regularly review economic developments. The latter publication is geared to potential investors in Indonesian stocks. Statistical sources on the economy are plentiful. They include publications from the Indonesian Central Bureau of Statistics; Bank Indonesia, whose annual *Report for the Financial Year* gives a thorough picture of economic developments from the government viewpoint; and reports by the World Bank and the IMF. (For further information and complete citations, see Bibliography.)

Chapter 4. Government and Politics



The young Prince Rama (left), the chief figure in the epic drama Ramayana and the seventh incarnation of Wisnu; Indrajit (right), who is disguised as Gutukatja, the heroic son of Bima, is really the commander in chief for Rama's enemy, the giant Dasamuka, who kidnapped Rama's wife, Dewi Sinta.

AFTER 1965 AND THE DESTRUCTION of the Indonesian Communist Party (PKI; for this and other acronyms, see table A), the military dominated Indonesian politics. By exploiting existing constitutional structures and mobilizing civilian political support through a quasipolitical party of functional groups (Golkar—see Glossary), Indonesia's leaders concentrated power and authority in a small military and bureaucratic elite. At the elite's head was President Suharto, a former army general who was instrumental in the forcible termination of the Guided Democracy of his predecessor, Sukarno. To emphasize the discontinuity with the failed and discredited policies of the Sukarno era—what the new regime called the Old Order—Suharto's government called itself the New Order. The policy priority of the New Order was economic development based on security, stability, and consensus. Although only a handful of top leaders in the 1980s and early 1990s participated in the New Order decision-making process, pressure for greater access by nonofficially recognized interests and even opposition parties defined the contemporary political debate. The New Order appeared in the early 1990s to have the broad support of a majority of Indonesians. Its legitimacy rested not only on real economic development but also in appeals to traditional values, including, but not limited to, the Javanese values with which Suharto himself was imbued.

In 1992 Indonesia was a unitary state with a highly centralized governmental administration. This centralization was seen by Indonesia's leaders as necessary in a fragmented geographical and highly plural ethnic setting with a history of regional and ethnic rebellion. Problems of integration remained in East Timor (Timor Timur Province), Irian Jaya Province, and to a lesser extent the Special Region of Aceh (see fig. 1). After independence was declared in 1945, ideological consensus had been sought through the vigorous propagation of a national ideology called the Pancasila (see Glossary): belief in one Supreme God, humanitarianism, nationalism, democracy, and social justice. The government claimed the exclusive right to give content to these broad general principles, and by law all organizations were required to have the Pancasila as a common organizing principle, a single national commitment that took precedence over their individual programs.

The post-1965 political party system was simplified with the institution of Golongan Karya, or Golkar, the de facto government

party organized around functional groups in society. Golkar vied in quinquennial elections with the United Development Party (PPP) and the Indonesian Democratic Party (PDI), themselves coalitions of formerly competitive parties. Because of a built-in advantage of massive government support and highly restrictive campaign rules, Golkar had emerged victorious in all national elections since 1971. The two constitutional legislative bodies, dominated by Golkar and the Armed Forces of the Republic of Indonesia (ABRI), were often little more than rubber stamps for government policy in a strong presidential system. The latitude of action the government enjoyed also was enhanced by a judicial system in which the rule of law often seemed bent to the will of the government. Moreover, the media in the early 1990s were enmeshed in a web of formal and informal controls that made them relatively ineffective as a check on government.

By 1992 Suharto had been inaugurated five times as president, and a central political question since his fourth term had been that of succession. The succession issue could be resolved only with interplay among the leading political forces and institutions: ABRI, the bureaucracy, Islam, business groups, and the presidency. As of late 1992, however, a sixth term for Suharto seemed likely to many observers who instead watched more avidly the selection of a vice president. With the exception of the presidency, none of these groups or institutions was monolithic. They all had factions, dividing not only on issues of interest but also on religion, race, and ethnicity. Issues of interest included economic equity, corruption, the role of ABRI in society, environmental concerns, and democratization.

Foreign policy was not a significant issue in domestic politics. Although there was bureaucratic infighting in the New Order era over foreign policy on a range of issues—including normalization of relations with China, policy toward Vietnam's incursion into Cambodia, and handling of the East Timor problem—the president's word was final. In a break with Sukarno's confrontational foreign policy, Suharto's government restored Indonesia's international image as a peaceful and cooperative member of the international community. A founding member of the Association of Southeast Asian Nations (ASEAN—see Glossary), Indonesia was an important actor in ASEAN's diplomacy ending the Third Indochina War (1978–91). In the 1980s, Indonesia began to project a more assertive presence in the international arena corresponding to its huge population, natural resources, economic success, and growing nationalism. These international efforts were capped by Suharto's succession in 1992 to the chairmanship of the Nonaligned

Movement (see Glossary). Indonesia's international image continued to suffer, however, from international criticism of its human rights record, particularly its suppression of an independence movement in East Timor.

The Political Debate

Since independence was declared in 1945, Indonesia has been a magnet for students of comparative politics as well as foreign diplomats and policy makers. Fascination with Indonesia stemmed in part from its population size (estimated to reach more than 210 million population by the year 2000), its strategic location, its economic potential, its great cultural and ethnic diversity, and its fragmented archipelagic shape confounding centralized administration. Equally compelling was Indonesia's tumultuous political history, from Indianization and Islamization to Dutch colonialism and the violence of the decolonization process.

Contemporary Indonesian political history can be segmented into three periods, each defined by a central issue. First, during the 1950s, there was the question of the political integrity of the state itself, beset as it was by religious, regionalist, and ethnic revolts and rebellions. Second, and of great concern to United States policy makers, there was the drift that became a rush to the left and the PKI during the period of Sukarno's Guided Democracy (1959-65). Finally, since 1966, there has been the continuing authoritarianism of Suharto's army-dominated New Order. A critical concern of many foreign policy observers on the international scene has been Indonesia's failure or unwillingness to embrace liberal democracy either structurally or procedurally. This concern has led to sometimes heated debates among policy analysts about the nature of the Indonesian state and political system.

Some observers condemned the Indonesian government for its authoritarianism, corruption, human- and civil-rights violations, and ethnic suppression. Such criticisms were frequently leveled by Western academics, human rights advocates, and journalists. To the contrary, other observers argued that the Suharto government enjoyed the support of a majority of Indonesians; that as the New Order had become institutionalized, its roles and structures would survive Suharto's presidency; and that there was no real alternative leadership. In the view of these observers, the apparent inconsistency between the image of a repressive regime and its success in gaining popular acceptance was explained by the simple fact that the Suharto government delivered on its economic promises. Some observers argued that real economic growth and its "trickle down" impact in improving the standard of living of many Indonesians

offset grievances about a closed political system. As a result, these analysts described the New Order's economic success as a direct challenge to conventional Western developmentalist theory that economic growth could only occur simultaneously with democratization. In fact, in Indonesia's case, economic development and widespread increases in the nation's standard of living consolidated the support of a government that was viewed as fundamentally undemocratic (see *The Politics of Economic Reform*, ch. 3). At the same time, most observers agreed that the complexity, the number, and the interdependence of various social, cultural, economic, and political factors are so great that no single answer suffices.

Given the background of Suharto's ascent to power and the ultimate coercive authority of ABRI behind the New Order, many observers attributed the government's ability to sustain popular support to the role of the military in Indonesia. In fact, the dominance of the military in Indonesian politics was apparent early in postindependence Indonesia. By 1958 army chief of staff General Abdul Haris Nasution had enunciated a policy that he called the "middle way." According to this strategy, military officers participated in the affairs of government. By 1965 this policy had expanded into the notion of *dwifungsi*, or dual function, according to which the military had two roles: a traditional defense and security role and a new social and national development role (see *The Armed Forces in the National Life*, ch. 5). Despite misgivings from some civilian quarters, *dwifungsi* became law in 1982, constitutionally legitimizing what had been military ideology.

Thus, because Indonesia in the early 1990s was and had been since 1966 a military-dominated system, many observers considered discussion of the military's role integral to the debate on Indonesia's government and politics. Furthermore, these analysts called for a more sophisticated level of discussion than one based on concepts such as military dictatorship or military oligarchy. At one time, the "bureaucratic polity" model was popular among scholars as a way of describing the role of Indonesia's armed forces. "Bureaucratic polity" defines a system in which a limited group of senior bureaucrats, technocrats, and military officers participate in authoritative decision making. The policy outcome tends to reflect the interests and values of this relatively closed elite group. According to this view, competition for real political power in Jakarta was restricted to the top bureaucratic and military echelons. The value of the "bureaucratic polity" model lessened, however, as nonbureaucratic classes, structures, and decision centers emerged in the developmental process and began articulating autonomous interests. The "political economy" model came to seem more relevant

to discussions of the Indonesian political system because it relied on crucial linkages among the state, economy, and society. This emphasis reflected more accurately, in the view of many observers, the congruence of economic interests between Indonesia's ruling and entrepreneurial elites, in both equity sharing and corruption. In addition, an in-depth understanding of the Indonesian political system during the early 1990s required the understanding of the ethnic dimension, that is, the role of Chinese Indonesians in the political economy.

The authoritarian aspects of the Indonesian state provoked the most nuanced debate among scholars, who used numerous models to explain its political system. Some Western scholars termed Indonesia's political system "soft authoritarianism" to distinguish it from overtly repressive regimes. "Soft authoritarianism" implied the existence of an institution-building ruling elite that, although limiting choices that might challenge its control over the nation's social, political, and economic resources, was still committed to bettering the life of its citizens. Only the most adamant critics have argued that the Suharto government ruled by fear and terror. What was it, then, these scholars asked, that has allowed a military counter coup to evolve into institutionalized "soft authoritarianism"? One explanation framed Indonesian authoritarianism in terms of "corporatism," that is, the funneling of political forces and interests into government-sponsored and -controlled organizations. Under this theory, Golkar, the government's political base that attracts mass support, was seen as an example of "corporatist" politics. Similarly, the All Indonesian Workers Union (SPSI) in 1992 was a government-controlled umbrella under which the trade union movement became centralized. Even the media had a responsibility to promote national goals.

Another scholarly approach cast contemporary Indonesian "authoritarianism" into a historical mold, fitting it squarely into the indigenous pattern of patrimonial politics: Suharto as a Javanese king. Proponents of this approach speculated that these patrimonial tendencies grew stronger in the colonial period and were replicated in the modern state (see *Colonial Economy and Society, 1870-1940*, ch. 1). Whatever the approach used to describe and analyze Indonesian government and politics, in the 1990s it required an understanding of the legal basis and institutional structures of the system.

The Constitutional Framework

The legal basis of the Indonesian state is the 1945 constitution, promulgated the day after the August 17, 1945, proclamation of independence. The constitution was essentially a draft instrument

hurriedly crafted by the Independence Preparatory Committee in the last weeks before the Japanese surrender (see *The Japanese Occupation, 1942–45*; ch. 1). According to George McTurnan Kahin, whose 1952 book *Nationalism and Revolution in Indonesia* was the pioneering study of modern Indonesian politics, the constitution was considered “definitely provisional.” Provisional or not, the constitution provided structural continuity in a period of political discontinuity. Beginning with the preamble, which invokes the principles of the Pancasila, the thirty-seven articles of the constitution—ambiguous though they are—set forth the boundaries of both Sukarno’s Old Order and Suharto’s New Order.

The 1945 constitution was the product of a unitary republic struggling to emerge in the face of Dutch efforts to reestablish sovereignty and Islamic appeals for a religion-centered state. The constitution was not fully implemented when the transfer of sovereignty from the Netherlands went into effect on December 27, 1949. The 1949 agreement called for the establishment of the federal Republic of the United States of Indonesia (RUSI). Subsequently, a provisional constitution adopted in February 1950 provided for the election of a Constituent Assembly to write a permanent constitution (see *The National Revolution, 1945–49*, ch. 1). A rising tide of more radical nationalism, driven partly by perceptions that the RUSI was a Dutch scheme to divide and conquer, rapidly moved controlling political elites in the direction of a unitary republic. A Committee for the Preparation of the Constitution of the Unitary State was established on May 19, 1950, and on August 14 a new constitution (technically an amendment to the RUSI constitution) was ratified, to be in force until an elected Constituent Assembly completed its work. The new, interim constitution provided for a cabinet system of government, with the cabinet and prime minister being responsible to a unicameral legislature. The president was to be head of state but without real executive power except as a cabinet *formateur*.

As the political parties wrestled ineffectually in the parliamentary forum, dissident ethnic politicians and army officers joined in resisting central authority and even engaged in armed rebellions, such as those occurring in 1950, 1956, and 1958–59 (see *Independence: The First Phases, 1950–65*, ch. 1). Sukarno assumed an extraconstitutional position from which he wielded paramount authority in imposing his concept of Guided Democracy in 1959. This move was backed by senior military leaders, whose revolutionary experiences had already made them suspicious, even contemptuous, of civilian politicians, and who were now dismayed by

the disintegrative forces at work in the nation. The military moved to the political forefront, where they remained in 1992.

Sukarno sought to legitimize his authority by returning to the 1945 constitution. He would have preferred to accomplish this goal constitutionally by having the 402-member Constituent Assembly formally adopt the 1945 constitution. However, the Constituent Assembly, elected in 1955 and divided along secular and religious lines, could not muster the required two-thirds majority necessary to approve new constitutional provisions. According to political scientist Daniel S. Lev, the body deadlocked on two fundamental issues: the role of Islam in the state and the question of federalism. Furthermore, division on these issues meant that ideological consensus among the anticommunist parties could not be translated into effective political cooperation. As long as the Constituent Assembly failed to agree on a new constitutional form, the interim constitution with its weak presidency continued in force. Backed by ABRI and a large part of the public, which was impatient with the political impasse and failure to implement the promises of independence, Sukarno decreed on July 5, 1959, the dissolution of the Constituent Assembly and the return to the 1945 constitution. Martial law had already been proclaimed on March 14, 1957, and Sukarno claimed that under martial law his legal authority stemmed from his position as supreme commander of ABRI.

As a provisional legal framework for a modern state, the 1945 constitution has proved to be extremely elastic, subject to broad interpretation depending upon the constellation of political forces in control at any given time. Other than outlining the major state structures, the document contains few specifics about relations between the citizen and the government, and leaves open basic questions about rights and responsibilities of citizen and state (see *The Structure of Government*, this ch.). For example, Article 29 states that "Freedom of assembly and the right to form unions, freedom of speech and of the press, and similar freedoms shall be provided by law." Subsequent laws enacted, however, did not fully carry out the fundamental rights of the individual citizen stipulated by the constitution. On the other hand, the document is an expression of revolutionary expectations about social and economic justice. Article 33 states that the economy shall be organized cooperatively, that important branches of production affecting the lives of most people shall be controlled by the state, and that the state shall control natural resources for exploitation for the general welfare of the people.

The political struggle from 1945 to 1959 over the constitutional framework of the state stemmed not from the ambiguities of the

1945 document or its heavy weighing of executive power, but over deep disagreements about the nature of the state itself, particularly the issue of federalism and the role of Islam. Once the common battle against Dutch imperialism had been won, the passionate differences dividing various nationalist groups about the future of Indonesia surfaced. The possibility of a federation of loosely knit regions was denied by the use of force—first in the crushing of the Republic of South Maluku (RMS) in 1950 and then the Revolutionary Government of the Indonesian Republic (PRRI)-Universal Struggle Charter (Permesta) regional rebellions of 1957 to 1962. Although in subsequent decades the government was almost always sensitive to the issue of separatism, the existence of a unitary republic, expressed through a primary “Indonesian” national identity, seemed secure. However, the difficulty of integrating an Islamic political identity with the Indonesian Pancasila identity remained in force in the early 1990s (see Pancasila: The State Ideology, this ch.).

The Structure of Government

According to the constitution, there are six organs of state. Sovereignty in Indonesia is vested in the people, who exercise their will through the People’s Consultative Assembly (MPR). Full executive authority is vested in the president, who is elected by and responsible to the MPR. Legislative power is shared with the House of People’s Representatives (DPR). The president is advised by the Supreme Advisory Council, whereas the State Audit Board exercises financial oversight. At the apex of the judicial system is the Supreme Court (see fig. 10).

Legislative Bodies

People’s Consultative Assembly (MPR)

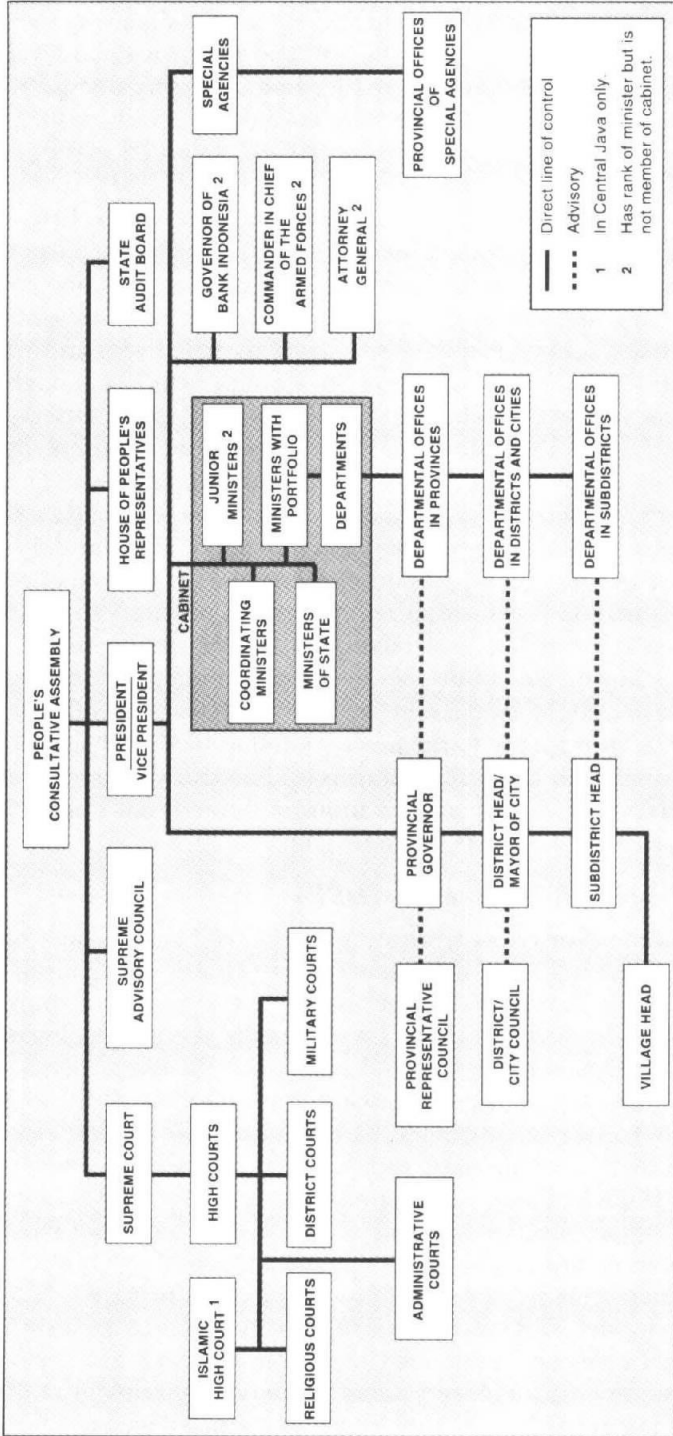
The highest constitutional body is the People’s Consultative Assembly (MPR), which meets every five years in the year following the elections to the parliament—the House of People’s Representatives (DPR). The MPR has 1,000 seats, 500 of which are assigned to the members of the DPR. Of the other 500 seats, 100 are reserved for representatives of professional groups, including ABRI, appointed by the president; as of 1992, 147 seats were held by delegates elected by provincial-level legislative assemblies. The balance of seats—253 in 1992—were assigned after the 1987 DPR elections on a proportional basis to representatives of the political parties, depending on their respective membership in the DPR. Golkar took the largest number of these seats based on its 1987 winning of 299 of the 400 elected DPR seats. This election resulted

in a total of 540 Golkar seats in the MPR, an absolute majority even without counting the ABRI faction and the provincial-level representatives. The Muslim-based PPP had only sixty-one DPR seats and ninety-three MPR seats, whereas the PDI, with its forty DPR seats, was at the bottom of the MPR list (see Political Parties, this ch.).

The principal legislative task of the MPR is to approve the Broad Outlines of State Policy, a document that theoretically establishes policy guidelines for the next five years. The draft is prepared by a government task force and is expected to be approved by consensus. In 1988, however, the PPP forced a recorded vote on two amendments to the Broad Outlines of State Policy, which, although the government won overwhelmingly, was taken by some observers as an indication that automatic adherence to the requirement for consensus was no longer a given in Indonesian politics. The first issue advanced by the PPP had to do with the legal status of Javanese mysticism (*aliran kepercayaan*) as a recognized religion. *Aliran kepercayaan* is the formal expression of *kebatinan* (see Glossary) or religiously syncretic Javanism, a set of religious practices that the PPP rejected as heterodoxy (see Islam, ch. 2). The second amendment had to do with a commitment to cleaner and fairer elections. This issue reflected the PPP's experiences in the 1987 general election. In 1992, in response to the perception that the MPR was no longer satisfied with a rubber-stamp role, Suharto declared that the 1993 MPR would have greater input into the initial stages of drafting the Broad Outlines of State Policy.

House of People's Representatives (DPR)

Legislative authority is constitutionally vested in the House of People's Representatives (often shortened to House of Representatives or DPR). This 500-member body meets annually, opening on August 16, the eve of National Day when the president delivers his National Day speech. Four hundred of the DPR seats are electorally contested by the three political parties (Golkar, PPP, and PDI) in provincial constituencies, which in the 1987 general election were based on a population ratio of approximately 1 representative per 400,000 people. Each administrative territorial district (*kabupaten*) is guaranteed at least one representative no matter what its population. A further 100 seats are allocated to military representatives who are appointed on the recommendation of ABRI. The justification for the ABRI faction is that since members of the armed forces cannot take part in elections, their political rights as a socio-political and defense force were served through guaranteed DPR seats. Faced with civilian resentment about the privileged position



Source: Based on information from Indonesia, Department of Information, *Indonesia 1992: An Official Handbook*, Jakarta, 1991, 45-51.

Figure 10. Structure of the Government, 1992

of ABRI in the parliamentary bodies, Suharto warned that denying the military legitimate input into the legislative process could lead to a coup. However, in his 1992 National Day speech, Suharto conceded that the number of guaranteed ABRI seats could be adjusted.

The DPR is led by a speaker elected from the membership. From 1988 to 1992, this position was filled by Lieutenant General (retired) Kharis Suhud, who in the previous session was leader of the ABRI faction. Work is organized through eleven permanent committees, each with a specific functional area of governmental affairs. The legislative process begins with the submission by the government of a bill to the DPR. Although members can initiate a bill, it must be accompanied by an explanatory memorandum signed by at least thirty legislators. Before a bill is approved, it must have four readings unless excepted by the DPR Steering Committee. The first reading is its introduction in an open plenary session. This reading is followed by a general debate in open plenary session with the government's right of reply. The bill is then discussed in committee with the government or initiating members. The final discussion of the draft legislation takes place in open plenary session, after which the DPR makes its decision. The deliberations of the DPR are designed to produce consensus. It is the political preference of the leadership to avoid overt expressions of less than complete support. This position is justified by the claim of a cultural predisposition to avoid, if possible, votes in which majority-minority opposing positions are recorded. If votes are necessary, however, a quorum requires a two-thirds majority. On issues of nomination and appointment, voting is by secret ballot but on all other matters by show of hands.

With the built-in Golkar-ABRI faction absolute majority, the DPR has routinely approved government legislation. During Suharto's fifth term (1988-93), however, with the appearance of many younger DPR members, there was a new willingness to use the forum for fuller and more forthright discussions of public issues and policies, even by Golkar members. This openness paralleled a similar trend, seemingly with government encouragement, toward greater openness in nonlegislative elite circles. Part of the discussion inside and outside of the DPR had to do with increasing the role and institutional capability of the parliament in order to enhance political participation.

The Executive

The President

Indonesia's government has a strong presidential system. The

president is elected for a five-year term by a majority vote of the MPR, and he may be reelected when his term expires. The only constitutional qualification for office is that the president be a native-born Indonesian citizen. In carrying out his duties, the president is the Mandatory of the MPR, responsible to the MPR for the execution of state policy. In addition to his executive authority, the president is vested with legislative power, acting in concurrence with the DPR. The president also serves as the supreme commander of ABRI. He is aided in his executive role by a presidentially appointed cabinet.

Between 1945 and 1992, Indonesia had two presidents: Sukarno from 1945 to 1967, and Suharto from 1967. Suharto became president in a process that, while ostensibly claiming to be constitutional, had as its main instrument ABRI's coercive force. The drama of Indonesia's first presidential succession was angrily played out against the dangers and murders of the months following the abortive 1965 coup d'état as the military and their civilian allies rooted out the PKI and began the dismantling of Sukarno's Guided Democracy. On March 11, 1966, under great pressure, Sukarno signed an order popularly known as Supersemar (Executive Order of March 11, 1966), that de facto transferred presidential authority, although not the office, to then General Suharto. A year later, on March 12, 1967, a special session of the Provisional People's Consultative Assembly (MPR(S)) unanimously lifted its mandate from Sukarno and named Suharto acting president. At its March 1968 regular session, the MPR confirmed Suharto as its Mandatory, electing him Indonesia's second president. He was unanimously reelected in 1973, 1978, 1983, and 1988. Toward the end of Suharto's fourth term of office, the question of possible term limitation was raised and became an issue in the political dialogue of the fifth term. Although he was initially uncommitted about accepting a sixth term (1993-98), Suharto responded directly to the issue, repeatedly stating that the right to determine who would be president resided in the MPR.

The term limitation question was embedded in the larger question of presidential succession in the event that Suharto chose to step down or declined to accept reelection. The term limitation question also had the effect of refocusing attention on the vice presidential office. Constitutionally, the president is to be assisted in his duties by a vice president, who succeeds in the event of the president's death, removal, or inability to exercise official duties. Although not constitutionally prescribed, it has been accepted that the president would present his own nominee for vice president to be elected by the MPR. Although only vaguely defined, the office has diminished

*Suharto, president
of Indonesia since 1967
Courtesy Indonesian
Department of Information*



in importance since it was first held by revolutionary hero and federalist Mohammad Hatta from 1945 to 1956. Hatta's status was parallel to that of Sukarno, representing the concept of a duumvirate of authority (*dwitunggal*). After Hatta's resignation in 1956, the office remained vacant until 1973 when it was filled by Hamengkubuwono IX, the Sultan of Yogyakarta. The sultan's arrival in office symbolically expanded the military-backed power base of the New Order, conferring on it the nonmilitary legitimacy of the traditional Javanese political culture. Hamengkubuwono's decision not to seek reelection in 1978 was interpreted partly as disenchantment with the military, which was unwilling to share authority with civilians. Adam Malik, a former minister of foreign affairs, was the last civilian vice president (1978-83). He was replaced in 1983 by low-profile General Umar Wirahadikusumah. In 1988 Golkar chairman Lieutenant General (retired) Sudharmono was elected vice president in an MPR session roiled by behind-the-scenes military politics of presidential succession. In the prelude to the 1993 MPR session, expectations about a sixth term for Suharto fueled new speculation about the vice-presidential selection. By early 1992, the PDI had preemptively announced its support for ABRI commander General Try Sutrisno.

Succession politics intervened in the 1988 elections when it appeared that in selecting a vice president the president might be signalling a successor, especially because he had hinted that he might

step down before the fifth term ended in 1993. Important elements in ABRI's leadership were dissatisfied with the possibility that Sudharmono, an army lawyer and career bureaucrat, might be tapped, and the ABRI faction in the MPR refused to join Golkar and the regional delegates in nominating him. Furthermore, PPP leader Jailani (Johnny) Naro declared his own candidacy. The president was forced to make explicit his support for Sudharmono and his intention to serve out his term. Faced with this direct challenge by the president, Naro backed away from forcing a vote, and Sudharmono became vice president by acclamation. The political drama of the 1988 vice presidential election foreshadowed the role succession politics would play throughout Suharto's fifth term.

The Cabinet

The president is assisted by state ministers appointed by him. In 1988 Suharto named his Fifth Development Cabinet, paralleling Repelita V (the fifth five-year development plan, fiscal year (FY—see Glossary) 1989–93; see Glossary). Twenty-one departments were headed by ministers in 1992. These departments were grouped under three coordinating ministers: politics and security; economics, finance, industry, and development supervision; and public welfare. There were eight ministers of state and six junior ministers. In addition to the cabinet members, three high-ranking state officials were accorded ministerial rank: the commander in chief of ABRI (in the Fifth Development Cabinet, General Try Sutrisno); the attorney general; and the governor of Bank Indonesia, the central bank. Of the thirty-eight members of the Fifth Development Cabinet, ten had held the same positions in the Fourth Development Cabinet, nine continued in the cabinet but with different posts, and nineteen were new ministers. The cabinet hence struck a balance between continuity and renewal.

Specialized agencies and boards at the central government level are numerous and diverse. They include the National Development Board (Bappenas), the National Family Planning Coordinating Agency (BKKBN), the Investment Coordinating Board (BKPM), and the Agency for Regional Development (Bappeda). At lower levels, there are regional planning agencies, investment boards, and development banks under the aegis of the central government.

The Supreme Advisory Council and the State Audit Board

Two other constitutionally mandated quasi-independent bodies exist to support the executive and the government. The Supreme Advisory Council is mandated by Article 16 of the constitution.

A forty-five-member group nominated by the DPR and appointed by the president, the council responds to any presidential question regarding affairs of state. It is organized into four permanent committees: political; economic, financial, and industrial; people's welfare; and defense and security. The council was chaired from 1988 to 1992 by General Mardean Panggabean, a former ABRI commander. The State Audit Board is charged in Article 23 of the constitution to conduct official examinations of the government's finances. It reports to the DPR, which approves the government's budget requests. The chairman of the State Audit Board during the Fifth Development Cabinet was General Muhammad Jusuf, another former ABRI commander.

The Judiciary

The Indonesian legal system is extraordinarily complex, the independent state having inherited three sources of law: customary or *adat* law, traditionally the basis for resolving interpersonal disputes in the traditional village environment; Islamic law (*sharia*, or, in Indonesian, *syariah*—see Glossary), often applied to disputes between Muslims; and Dutch colonial law. *Adat* courts were abolished in 1951, although customary means of dispute resolution were still used in villages in 1992. The return to the 1945 constitution in 1959 meant that Dutch laws remained in force except as subsequently altered or found to be inconsistent with the constitution. An improved criminal code enacted in 1981 expanded the legal rights of criminal defendants. The government in 1992 was still reviewing its legacy of Dutch civil and commercial laws in an effort to codify them in Indonesian terms. The types of national law recognized in MPR(S) Decree XX (July 5, 1966) include, in addition to the constitution, MPR decrees, statutes passed by the DPR and ratified by the president, government regulations promulgated by the president to implement a statute, presidential decisions to implement the constitution or government regulations, and other implementing regulations such as ministerial regulations and instructions. Obviously, the executive enjoys enormous discretion in determining what is law.

With respect to the administration of justice, Article 24 of the constitution states that judicial power shall be vested in a Supreme Court and subordinate courts established by law, and that the organization and competence of courts shall be established by law. In Sukarno's Guided Democracy, the justice system became a tool of the revolution, and any pretense of an independent judiciary was abandoned. One of the goals of the New Order was to restore the rule of law. A major step in that direction was the enactment

of the Basic Law on the Judiciary Number 14 of 1970, which defined an independent status for the Supreme Court and emphasized noninterference in judicial matters by persons outside the judiciary. Theoretically, the Supreme Court stands coequal with the executive and legislative branches. The president, vice president, and justices of the Supreme Court are nominated by the DPR and appointed by the president. The Supreme Court has exclusive jurisdiction in disputes between courts of the different court systems and between courts located in different regions. It can annul decisions of high courts on points of law, not fact. On request it can give advisory opinions to the government and guidance to lower courts. It is not part of a system of checks and balances, however, because it does not have the power of judicial review of the constitutionality of laws passed by the DPR. Its jurisdiction is limited to whether or not implementing administrative regulations conforms to the laws as passed. Moreover, the Supreme Court has no control over the integrity of the lower courts, which are under the supervision of the Department of Justice.

Below the Supreme Court, four different court systems can be distinguished. First, there are courts of general civil and criminal jurisdiction. District courts are the courts of first instance. The high courts are appellate courts. The administration of these courts is under the minister of justice, who controls judicial appointments, promotion, transfer, and pay. Despite protestations of independence, the lower courts had, as of the early 1990s, shown themselves reluctant to challenge the government, particularly in cases with political overtones. In the view of some observers, these courts routinely allowed egregious breaches of fundamental civil rights. There were also regular allegations of corruption in the lower court system in both civil and criminal cases.

Second, there are religious courts, under the Department of Religious Affairs, which exist to resolve specific kinds of disputes between Muslims in matters of marriage, divorce, inheritance, and gifts. These courts base their decision on Islamic law. To be legally enforceable, however, the religious court's decisions must be approved by a corresponding secular district court. The Directorate of Religious Justice within the Department of Religious Affairs has ultimate appellate jurisdiction. One of the persistent tensions between Islam and the state arises from Muslim efforts to expand the jurisdiction and autonomy of the sharia courts.

Third, in 1992 there was a Taxation Review Board that adjudicated taxation disputes. Other administrative courts had been eliminated as part of government's effort to simplify and standardize the court system.

Fourth, there are the military courts, which have jurisdiction over members of ABRI or persons declared to be of a similar status. After the 1965 coup attempt, special military courts were given authority to try military personnel and civilians alleged to be involved in the abortive coup. Hundreds of sentences ranging from twenty years' imprisonment to death were meted out by the special military courts, with executions continuing more than two decades after the event.

Local Government

Government administration is processed through descending levels of administrative subunits. Indonesia is made up of twenty-seven provincial-level units. In 1992 there actually were only twenty-four provinces (*propinsi*), two special regions (*daerah istimewa*)—Aceh and Yogyakarta—and a special capital city region (*daerah khusus ibukota*)—Jakarta. The provinces in turn were subdivided into districts (*kabupaten*), and below that into subdistricts (*kecamatan*). There were forty municipalities or city governments (*kotamadya*) that were at the same administrative level as a *kabupaten*. At the lowest tier of the administrative hierarchy was the village (*desa*). According to 1991 statistics, Indonesia had 241 districts, 3,625 subdistricts, 56 cities, and 66,979 villages.

Since independence the nation has been centrally governed from Jakarta in a system in which the lines of authority, budget, and personnel appointment run outward and downward. Regional and local governments enjoy little autonomy. Their role is largely administrative: implementing policies, rules, and regulations. Regional officialdom is an extension of the Jakarta bureaucracy. The political goal is to maintain the command framework of the unitary state, even at the cost of developmental efficiency. Governments below the national level, therefore, serve essentially as subordinate administrative units through which the functional activities of Jakarta-based departments and agencies reach out into the country.

In the early 1990s, there was neither real power sharing nor upward political communication through representative feedback. Real feedback occurred through bureaucratic channels or informal lines of communication. Elected people's regional representative councils (DPRDs) at the provincial and district levels had been restored in 1966, after operating as appointive bodies during the period of Guided Democracy. However, the DPRDs' participation in the early 1990s governing was extremely circumscribed because the councils lacked control over the use of resources and official appointments. Even though 1974 legislation gave provincial DPRDs some voice in selecting their governors—DPRDs could recommend

appointments from a list of potential candidates submitted by the minister of home affairs—provincial governors were still appointed by the president. District heads were designated by the Department of Home Affairs.

The structure of provincial-level and local government in Indonesia is best understood in terms of the overriding goals of national political integration and political stability. At the governmental level, integration means control by the central government, a policy that was in part conditioned by historical experience. At independence Indonesia consisted of the short-lived federal RUSI (1949–50). The RUSI was viewed as a Dutch plot to deny authority over the entire country to the triumphant Indonesian nationalists. Regional rebellions in the late 1950s confirmed the national government's view that Indonesia's cultural and ethnic diversity required tight central government control to maintain the integrity of the state. Political stability was equated with centralization and instability with decentralization. Civil control was maintained through a hierarchy of the army's territorial commands, each level of which paralleled a political subdivision—from the highest regional command levels down to noncommissioned officers stationed in the *desa* for "village guidance." Lateral coordination of civilian administration, police, justice, and military affairs was provided at each provincial, district, and subdistrict level by a Regional Security Council (*Muspida*). The local *Muspida* was chaired by the regional army commander and did not include the speaker of the local DPRD (see *The Armed Forces in the National Life*, ch. 5).

Added to the political requirement for centralization in the early 1990s was the economic reality of the unequal endowment of natural resources in the archipelago and the mismatch of population density to resources. The least populated parts of the country were the richest in primary resources. A basic task of the national government was to ensure that the wealth produced by resource exploitation be fairly shared by all Indonesians. This goal meant that, in addition to Jakarta's political control of the national administrative system, the central government also exercised control over local revenues and finances. Thus, the absence of an independent funding base limited autonomy for provincial and local governments.

About 80 percent of total public expenditure in the provinces was disbursed from the national budget controlled by departments and agencies headquartered in Jakarta. Of the 20 percent administered by the provinces, about half came from *Inpres* (Presidential Instruction) grants for infrastructure and other developmental purposes. Beginning in 1969, the *Inpres* grant programs at provincial,

district, and village levels channeled about 20 percent of the development budget to small-scale projects for local development, with an emphasis on roads, irrigation, schools, and public health. Only about 10 percent of regional government revenue was derived from local taxes and fees.

Whereas once the central government's transfer of wealth from resource-rich provinces to people-rich provinces had been a source of political irritation for the better-endowed regions, by *Repelita V* (FY 1989–93), the lag in development investment beyond the Java-Sumatra western core was the most troubling. Suharto's 1992 New Year's message to the nation explicitly addressed this problem: "We are also aware," he said, "of the fact that there is a wide gap in the progress achieved by each region in our country, especially between the western and eastern part of the country." In looking to future policy, he added that there would be stepped-up efforts to provide autonomy and decentralization. Such steps, however, would require strengthening the capacity of subnational units financially and administratively, as well as strengthening local participation in the setting of national goals and policies. To some government leaders in the early 1990s, making concessions to economic and cultural claims for autonomy would endanger national unity. Conflicting interests of politics and administration presented special problems in the Special Region of Aceh and Irian Jaya and Timor Timur provinces.

Aceh

Aceh is the westernmost part of Sumatra and the part of Indonesia where the Islamic character of the population is the most pronounced. The Acehnese demand for autonomy, expressed in support for the 1950s Darul Islam rebellion, was partially met by the central government's acceptance of a "special-region" status for the province in 1959, allowing a higher-than-usual official Indonesian respect for Islamic law and custom (see *The National Revolution, 1945–49*, ch. 1). This special-region status, together with growing prosperity, brought Aceh into the Indonesian mainstream. This change was reflected in the growing support among Acehnese for the central government, as indicated by votes for Golkar in national elections. In 1971, Golkar won 49 percent of the region's vote; in 1977, 41 percent; and in 1982, 37 percent. By 1987, however, with 51.8 percent of the vote, Golkar obtained its first majority, increasing it in 1992 to 57 percent. Nevertheless, during the early 1990s, the idea of an independent Islamic state was kept alive by the Free Aceh (*Aceh Merdeka*) movement, known to the central government as the Aceh Security Disturbance

Movement (GPK). Thought to have been crushed in the mid-1970s, the guerrilla campaign of the insurgents, under the leadership of European-based Hasan di Tiro and with Libyan support, renewed its hit-and-run warfare in the late 1980s, hoping to build on economic and social grievances as well as on Islamism. ABRI reacted with crushing force and, as it sought to root out the separatists, civil-military relations were imperiled. But moderately pro-Golkar 1992 election results suggested there was no widespread alienation in Aceh.

Irian Jaya

Irian Jaya, the former Dutch New Guinea or West New Guinea, remained under Dutch control after Indonesian independence in 1949. A combination of Indonesian political and military pressure and international efforts led to an October 1962 Dutch transfer of sovereignty to the United Nations (UN) Temporary Executive Authority, which was supported by a military observer force that oversaw the cease-fire. In May 1963, full administrative control was handed over to Indonesia. After a 1969 Act of Free Choice, the territory, which the Indonesians called Irian Barat (West Irian) until 1972, was integrated into the republic as Indonesia's twenty-sixth province. Rich in natural resources, Irian Jaya (Victorious Irian)—as the province was renamed in 1972—in 1992 was the largest and least-populated province. Indonesia's efforts to exploit the resources and assimilate the indigenous Papuan and Melanesian populations into the national administration and culture met sporadic armed resistance from the Free Papua Movement (OPM) and aroused international concerns.

Although the OPM became a marginal domestic actor, more visible as an international symbol, the fact of its existence justified an intimidating Indonesian military presence in the province, where suspicions about Irianese loyalties led to abuses in the civil-military relationship. Cultural differences between Indonesians and the indigenous population and complaints about the Javanization of Irian Jaya exacerbated tensions. The cultural conflict was aggravated by indigenous people's perceptions that they were being left behind economically by a flood of Indonesian immigrants coming in via the central-government-sponsored Transmigration Program (see Glossary; see Migration, ch. 2; Economic Benefits and the Transmigration Program, ch. 3). Native-born Irianese also resented the so-called spontaneous immigrants who dominated the informal sectors of urban economies. International critics of Indonesian policy in Irian Jaya accused the central government of waging a kind of demographic genocide.



A transmigration village guardpost, Irian Jaya. The sign reads "Entering traffic and visitors must check with the guard."

East Timor

East Timor, the former Portuguese Timor, was incorporated into the Republic of Indonesia in 1976 as Timor Timur Province, although Portugal never recognized what it saw as the forcible annexation of its former territory. The incorporation followed Indonesian armed intervention in December 1975, which had occurred as a reaction to a chaotic decolonization process and the declaration of the Democratic Republic of East Timor in November 1975 and the resulting civil war. From Jakarta's point of view, the civil war held out the alarming prospect of a communist or radical socialist regime emerging under the leadership of the Revolutionary Front for an Independent East Timor (Fretilin—see Glossary). Moreover, Fretilin's rhetorical invocation of kinship with other Third World communist revolutionary movements raised the specter of a national security threat. Jakarta formalized its takeover of East Timor in July 1976 after the Indonesia-sponsored People's Representative Council requested that East Timor be integrated into Indonesia as a province. The human cost of the civil war—Indonesian military actions and the famine that followed—was heavy. Estimates of Timorese deaths between 1975 and 1979 because of the conflict range from 100,000 to 250,000. The ability

of Fretilin to mount a low-intensity resistance, the draconian countermeasures adopted by Indonesian military forces against suspected Fretilin sympathizers, and charges of Indonesian aggression against East Timor combined to make the problem of the status of East Timor a continuing foreign policy problem for Indonesia in the early 1990s. For many individuals and nongovernmental organizations, as well as for some foreign governments, Indonesian policy in East Timor became the touchstone for negative attitudes toward the Suharto government. Internally, however, Indonesia considered East Timor an integral part of the unitary state, a status that, despite foreign criticism, was non-negotiable.

On paper, East Timor in 1992 conformed administratively to the general Indonesian pattern. In fact, however, *de facto* military rule existed. For ten years, Jakarta-appointed governor Mario Carrascalão, a Timorese committed to integration, sought to moderate interethnic conflict and resolve intra-Timorese divisions among indigenous political parties. Carrascalão called upon the Timorese people to understand that there were only three political groupings in Indonesia: Golkar, PPP, and PDI. Although the central government invested heavily in Timor's development, giving it more Inpres funds per capita than any other province, resentment of Indonesian rule persisted and was growing in the early 1990s. The problem of integration in Timor was similar to that of Irian Jaya: the imposition of Indonesian political culture on a resistant population. Although Indonesian officials insisted that opposition to Jakarta's rule was confined to Fretilin hardliners, other forces were at work in ways that aggravated a sensitive political environment. The Roman Catholic Church staunchly defended the Christian identity of the Timorese in the face of an influx of Indonesians from other provinces. The church worried about the government's condoning, to the point of encouraging, Islamic proselytization and about its own freedom of action in a national political system disciplined to Pancasila democracy. Pope John Paul II's four-hour stopover in Dili, the capital of East Timor, on October 12, 1989, called international attention to the church's extraordinary position in the province. The disruption of traditional and Portuguese institutions, as well as forced resettlement of segments of the population, led to land disputes, official corruption, and economic exploitation by non-Timorese Indonesians attracted to the province. These grievances were exacerbated by a heavy-handed military presence not always respectful of Timorese rights. One consequence of Indonesian rule was the spread of literacy and skills acquisition by a younger generation of Timorese, who were faced with growing unemployment but who also were politically conscious. It was

the emerging militancy of the East Timorese youth, rather than the scattered Fretilin elements, that seemed to pose the greatest challenge to security and stability in the province in the early 1990s.

Indonesian officials, who were aware that on a per capita basis East Timor had received a disproportionate share of developmental funds, interpreted Timorese resentments as ingratitude. Nevertheless, the combination of military pressure and economic and social development programs had progressed to the point that on January 1, 1989, East Timor was proclaimed an open province to which travel and tourism were permitted on the same basis as elsewhere in Indonesia. Some tensions followed a minor demonstration during the pope's visit, but a reshuffling of the lines of military command and a more determined effort by the new military leadership in the province to improve civil-military relations were expected to ease tensions even further. These hopes were dashed on November 12, 1991, when troops fired on youthful marchers in a funeral procession in Dili that had become a pro-Fretilin political demonstration. At least 50 and perhaps more than 100 people were killed.

The National Investigation Commission appointed by Suharto found the army guilty of "excessive force" and poor discipline in crowd control. The senior officer in East Timor, Brigadier General Rafael S. Warouw, was replaced, as was his superior in Bali; three officers were dismissed from the army, and at least eight officers and soldiers were court-martialed. However, the punishments were relatively light when contrasted with the harsh sentences meted out to Timorese arrested as instigators of the incident. Nevertheless, the president's acceptance of a report that directly contradicted the army's contention that the shootings had been in self-defense and his willingness to take action against military personnel were pragmatic decisions that took the risk of offending ABRI members who preferred solidarity. The central government's main concern seemed to be to contain the international criticism of what some foreign observers called the Dili Massacre.

The November 12 affair confirmed that there were still strong social and political problems in East Timor. It also raised questions as to the relative efficacy of the differing military approaches. Some officers felt that the relative tolerance shown by the military to the restless youth since 1989 was too permissive and encouraged opposition. The Dili affair also pointed out the strong emotions on the military side, which led to the unauthorized presence of members of the local military garrison who were widely accused of misbehavior. The investigation commission mentioned this in its official report, stating "another group of unorganized security personnel,

acting outside any control or command, also fired shots and committed beatings, causing more casualties.” Carrascalão called the replaced Warouw the “best military commander East Timor has ever had.” Tragic as it was, the November 12 incident prompted both military and civilian government agencies to conduct a broad review of development and security policies in East Timor including the question of civil-military relations. In fact, Carrascalão’s successor, Abilio Soares, was also a civilian as had been widely expected.

Political Culture

Because of the general acceptance by the people, Indonesia’s New Order government usually gains at least passive approval of its actions and style by what the ruling elite has characterized as the “floating masses.” This approval in the early 1990s was based in part on an acknowledgment of the material benefits that flowed from real economic growth. The approval was also partly based on the fact that the government’s acts and style fit into shared cultural patterns of values and expectations about leadership. In a country as ethnically diverse as Indonesia—from Melanesian tribe members of Irian Jaya to Jakarta’s Chinese Indonesian millionaires—and with its population differentially incorporated into the modern political economy, it was difficult to identify a political culture shared in common by all Indonesians. Nevertheless, there were major cultural forces at work in Indonesia that did affect the political judgments of large groups of Indonesians.

Traditional Political Culture

In the late twentieth century, there were as many traditional political cultures in Indonesia as there were ethnic groups. Nevertheless, the similarity of Suharto’s increasingly paternalistic rule to the Javanese kingship model reflects the Javanese cultural underpinnings of the New Order. Although Indonesia was a cultural mosaic, the Javanese, with more than 45 percent of the total population in the 1990s, were by far the largest single ethnic group. Moreover, they filled—to a degree beyond their population ratio—the most important roles in government and ABRI (see Population; Javanese, ch. 2). The officer corps in particular was Jvanized, partly as a result of Java’s central role in the development of modern Indonesia (Indonesia’s five leading institutions of higher education were located on Java, for example), but also because ABRI seemed to regard the great predominance of Javanese in the officer ranks as a matter of policy. The Javanese cultural predispositions

influenced, therefore, the way the government appealed to the population and interactions within the New Order elite.

On Java power historically has been deployed through a patrimonial bureaucratic state in which proximity to the ruler was the key to command and rewards. This power can be described in terms of a patron-client relation in which the patron is the *bapak* (father or elder). The terms of deference and obedience to the ruler are conceived in the Javanese *gusti-kawula* (lord-subject) formulation, which describes man's relationship to God as well as the subject's relationship to his ruler. The reciprocal trait for obedience is benevolence. In other words, benefits flow from the center to the obedient. By extension government's developmental activities are a boon to the faithful. Bureaucratically, Javanese culture is suffused with an attitude of obedience—respect for seniors, conformity to hierarchical authority, and avoidance of confrontation. These are characteristics of the preindependence *priyayi* class, whose roots go back to the traditional Javanese courts.

Javanism also has a mystical, magical dimension in its religiously syncretic belief system, which integrates pre-Indian, Indian, and Islamic beliefs. Its practices include animistic survivals, which invest sacred heirlooms (*pusaka*) with animating spirits, and rites of passage whose antecedents are pre-Islamic. Javanism also encompasses the introspective ascetic practices of *kebatinan* (mysticism as related to one's inner self), which seek to connect the microcosms of the self to the macrocosms of the universe. This adaptive belief system defines Suharto's underlying spiritual orientation. Furthermore, the politics of Javanism have been defensive, seeking to preserve its particular heterogenous practices from demands for Islamic orthodoxy. Rather than favoring Islamic political parties, the Javanese have often turned to more secular parties: Sukarno's Indonesian Nationalist Party (PNI), the PKI, and Golkar.

Islamic Political Culture

Of Indonesia's population, 87.1 percent identified themselves as Muslim in 1980. This number was down from 95 percent in 1955. The figures for 1985 and 1990 have not been released by the government's Central Bureau of Statistics (BPS), suggesting a further decline that would fuel the fires of Muslim indignation over Christianization and secularization under the New Order. Nevertheless, Indonesia was still the largest Muslim nation in the world in the early 1990s; it was united with the universal Islamic community (*ummah*) not only in the profession of faith but also in adherence to Islamic law (see Religion and Worldview, ch. 2). The appeal of Islam was not weakened when it was supplanted by

modern secular nationalism as the basis for the independent Indonesian state. In fact, given the prominence of Islamic proselytization and reinvigoration, the people's desire to maintain Islamic institutions and moral values arguably was at an all-time high in Indonesia. There was, however, a separation between Islam as a cultural value system and Islam as a political movement.

Islam in Indonesia is not monolithic. The majority of Indonesia's nominal or statistical Muslims, *abanagan* (see Glossary), are, to varying degrees of self-awareness, believers in *kebatinan* (see Islam, ch. 2). Orthodox Islam is, in fact, a minority religion, and the term often used to describe the orthodox believer is *santri* (see Glossary). A rough measurement of the appeal of orthodox Islam is the size of the electorate supporting explicitly Muslim political parties, which in the general elections of 1977 and 1982 approached 30 percent. In a pluralistic setting, such numbers might be expected to represent political strength. This correlation would exist in Indonesia if Indonesian Islam spoke with a single, unified voice. In the early 1990s, it did not. The *santri* consisted of both traditionalists and modernists, traditionalists seeking to defend a conservatively devout way of life, protecting orthodoxy as much as possible from the demands of the modern state, and modernists striving to adapt Indonesian Islam to the requirements of the modern world.

The principal organization reflecting the traditionalist outlook was Nahdatul Ulama (literally, "revival of the religious teachers," but commonly referred to as the Muslim Scholars' League) founded in 1926. Nahdatul Ulama had its roots in the traditional rural Islamic schools (*pesantren*) of Central and East Java. Claiming more than 30 million members, Nahdatul Ulama in 1992 was the largest Muslim organization in Indonesia. Although its rural teachers and adherents reflected its traditional orientation, it was led into the 1990s by Abdurrahman Wahid, grandson of Nahdatul Ulama's founder, a "democrat" with a non-exclusive vision of Islam and the state. Modernist, or reformist, Islam in Indonesia was best exemplified by the Muhammadiyah (Followers of Muhammad), founded in 1912 when the spirit of the Muslim reform movement begun in Egypt in the early 1900s reached Southeast Asia. In addition to modernizing Islam, the reformists sought to purify (critics argue Arabize) Indonesian Islam.

Both *santri* streams found formal political expression in the post-independence multiparty system. The Consultative Council of Indonesian Muslims (Masyumi) was the main political vehicle for the modernists. However, its activities were inhibited by the PRRI-Permesta regional rebellions between 1957 and 1962, and the party was banned in 1959. Nahdatul Ulama competed in the politics of

the 1950s, and seeking to capitalize on Masyumi's banning, collaborated with Sukarno in the hope of winning patronage and followers. Nahdatul Ulama also hoped to stop the seemingly inexorable advance of the secular left under the leadership of the PKI. Although organized Islamic political parties in the New Order were prohibited from advancing an explicitly Islamic message, traditional systems of communication within the community of believers, including instruction in Islamic schools and mosque sermons, passed judgments on politics and politicians.

Modern Political Culture

The major components of Indonesia's modern political culture were derived from two central goals of the New Order government: stability and development. If authority in the Suharto era was based on ABRI's coercive support, the government's legitimacy rested on its success in achieving sociopolitical stability and economic development. Indonesian political culture in the early 1990s primarily reflected nontraditional, nonethnic, and secular values. Urban centered, truly national in its scope, and more materialistically focused, Indonesia's politics in the 1990s were influenced by both domestic and international developments.

Like Islam, Indonesia's modern political culture was not monolithic. In the early 1990s, there was a variety of subcultures: bureaucratic, military, intellectual, commercial, literary, and artistic. Each had its own criteria for judging politics, but all were directed to the successful operation of the modern political system. Perhaps the two most important modern subcultures were the military and the intellectuals. It was the military subculture that set the tone for the first two decades of the Suharto government, both in terms of its ethos and in the direct participation of military officers at all levels of government and administration. Although increasingly professional in a technical sense, ABRI never lost its conception of itself as the embodiment of the national spirit, standing above the social, ethnic, and religious divisions of the country as a unifying institution. Even though factions existed within ABRI, it exemplified *dwifungsi*, the special link between soldier and state. ABRI was not above politics, but it was not part of the open political competition. The concerns of academics, writers, and other intellectuals in the early 1990s were different, and they were more likely to be influenced by Western political values. It was from these circles that the pressure for democratization came. Their outlet was not political parties but cause-oriented nongovernmental organizations (NGOs), workshops, seminars, rallies, and, occasionally, demonstrations. The government undertook a major effort to

subsume all of Indonesia's political cultures, with their different and often incompatible criteria for legitimacy, into a national political culture, an Indonesian culture based on the values set forth in the Pancasila.

Pancasila: The State Ideology

In its preamble, the 1945 constitution sets forth the Pancasila as the embodiment of basic principles of an independent Indonesian state. These five principles were announced by Sukarno in a speech known as "The Birth of the Pancasila," which he gave to the Independence Preparatory Committee on June 1, 1945. In brief, and in the order given in the constitution, the Pancasila principles are belief in one supreme God, humanitarianism, nationalism expressed in the unity of Indonesia, consultative democracy, and social justice. Sukarno's statement of the Pancasila, although simple in form, resulted from a complex and sophisticated appreciation of the ideological needs of the new nation. In contrast to Muslim nationalists who insisted on an Islamic identity for the new state, the framers of the Pancasila insisted on a culturally neutral identity, compatible with democratic or Marxist ideologies, and overarching the vast cultural differences of the heterogeneous population. Like the national language--Bahasa Indonesia (see Glossary)—which Sukarno also promoted, the Pancasila did not come from any particular ethnic group and was intended to define the basic values for an "Indonesian" political culture.

Although the Pancasila has its modern aspect, Sukarno presented it in terms of a traditional Indonesian society in which the nation parallels an idealized village in which society is egalitarian, the economy is organized on the basis of mutual self-help (*gotong royong*), and decision making is by consensus (*musyawarah-mufakat*). In Sukarno's version of the Pancasila, political and social dissidence constituted deviant behavior. Suharto modified this view, to the extent that one of the criticisms of his version of the Pancasila was that he tried to Javanize it by asserting that the fundamental building block of the Pancasila was the *ilmu kasunyatan* (highest wisdom) that comes from the practices of *kebatinan*.

The generalized nature of the principles of the Pancasila allowed both Sukarno and Suharto, despite their very different policy orientations, to base their authority upon it. The Pancasila was less successful as an unifying concept when the country's leaders tried to give it specific policy content. For example, in 1959 Sukarno attempted to unify the country around Nasakom, a new slogan standing for the trinity of nationalism, communism, and religion. Nasakom was to serve as the basis for a revolutionary "just and

prosperous society." Under Nasakom, to oppose the PKI was to be anti-Pancasila. However, the principal opponent to this kind of ideological correctness was ABRI, which created political problems for Sukarno within the military. Suharto, on the other hand, gained the support of the military because he did not require ideological conformity. ABRI, although not necessarily actively promoting the Pancasila, shared rather than contended for power. Suharto noted this cooperation in his National Day address of August 16, 1984, when he said that ABRI, with its dual function, was "a force which preserves and continuously refreshes Pancasila democracy."

Unlike Sukarno, whose use of ideological appeals often seemed to be a cynical and manipulative substitute for substantive achievements, even at times an excuse for policy failure, the Suharto government sought to engage in policies and practices that contributed to stability and development. The 1973 reorganization of political parties—the number went from the nine (plus Golkar) that contested the 1971 elections to two (plus Golkar)—was justified as a step in the direction of Pancasila democracy. Beginning in 1978, a national indoctrination program was undertaken to inculcate Pancasila values in all citizens, especially school children and civil servants. Conceived as an abstract statement of national goals, the Pancasila was now used as an instrument of social and political control. To oppose the government was to oppose the Pancasila. To oppose the Pancasila was to oppose the foundation of the state. The effort to force conformity to the government's interpretation of Pancasila ideological correctness was not without controversy. Two issues in particular persistently tested the limits of the government's tolerance of alternative or even competitive systems of political thought. The first issue was the position of religion, especially Islam; the second issue was the role of legal opposition in Pancasila democracy.

From the very outset of independence, Islam and the Indonesian state had a tense political relationship (see *Islamic Political Culture*, this ch.). The Pancasila's promotion of monotheism is a religiously neutral and tolerant statement that equates Islam with the other religious systems in the country: Christianity, Buddhism, and Hindu-Balinese beliefs. However, the Muslim political forces had felt betrayed since signing the 1949 Jakarta Charter, under which they had accepted a pluralist republic in return for agreement that the state would be based upon belief in one God, with Muslims obligated to follow the sharia. The government's failure to follow through constitutionally and legally on this commitment set the

agenda for future Islamic politics. At the extreme was the Darul Islam rebellion of the 1950s that sought to establish a Muslim theocracy.

The New Order's emphasis on the Pancasila was viewed by orthodox Muslim groups as an effort to subordinate Islam to a secular state ideology, even a "civil religion" manipulated by a regime inherently biased against the full expression of Muslim life. Indeed, in 1985 the government capped its effort to domesticate all elements in society to the Pancasila with legislation requiring all voluntary organizations to adopt the Pancasila as their sole ideological principle and provide for government supervision, intervention, and, if necessary, dissolution of organizations to guarantee compliance. Proclaimed as a "perfection" of Pancasila democracy, the Mass Organizations Law's intent went to the ideological heart of religious-based groups. This decision was forced on the Muslim-oriented PPP at its 1984 national congress, which was stage-managed by the government. For some Muslims, it was the last straw. The government's assurance that Muslims were not threatened by the law seemed hollow because the new law restricted the practices of Islam to family, mosque, and prayer, rather than allowing Islam to enfold the fullness of human activity, including politics. An environment was created in which more radical Muslims, incited by fiery clerics, prepared for direct opposition, including political violence. However, government's stern reaction to dissidence—swift arrest, trial for subversion, and long prison terms—soon inhibited any open public interest in confrontation.

On the other hand, by the 1980s, within the legal and politically acceptable boundaries of Muslim involvement, the state had become a major promoter of Islamic institutions. The government even subsidized numerous Muslim community activities. Within the overall value structure of the Pancasila, Islamic moral teaching and personal codes of conduct balanced the materialism inherent in secular economic development. Suharto himself went to great lengths to demonstrate that he was a good Muslim, including making the hajj to Mecca in May 1991. In August 1991, he pledged Rp3 billion (US\$1.53 million; for value of the rupiah—see Glossary) to a new Islamic bank (Bank Muamalat Indonesia) and declared he would encourage other wealthy Muslims to contribute. By wooing Islamic leaders and teachers, the state won broad support for its developmental policies. There is no question but that Islam was a state-favored religion in Indonesia, but it was not a state religion. Nor, if the New Order prevails over the long term, will it be. That reality defined the most critical political issue for many orthodox

Muslims. Moreover, the question remained how opposition—religious or secular—could legally be expressed in the workings of Pancasila democracy.

The Political Process

Pancasila democracy retained the forms of representative democracy mandated by the 1945 constitution, but the content was refashioned to fit the requirements of the New Order. Political parties existed to channel popular energies into support for government goals. Elections were “Festivals of Democracy” to make people feel a part of the system. Underlying the formal “depoliticized” political system in the early 1990s was an intense political dynamic in which leading institutions and groups competed for power and influence in shaping Indonesia’s future.

Political Parties

The Multiparty System

ABRI viewed the pre-1967 multiparty system as unsatisfactory. The army had been an ally of Sukarno in the emasculation of competitive party politics under Guided Democracy. In a regime in which consensus and mobilization of human and material resources for development had the highest priority, partisan politics was viewed as divisive and wasteful. Yet the parties, with the notable exception of Masyumi and the PKI, had made the transition from the Old Order to the New Order and expected to play an expanded role. The Muslim political parties, in particular, felt they should be rewarded for enthusiastic participation in crushing the PKI and alleged communist sympathizers in 1965. The civilians who had thronged to alliance with ABRI under the banners of various anti-Sukarno action groups also felt they had earned an autonomous stake in building Indonesia’s future. The problem for ABRI was how to subordinate the political party system to the needs of unity, stability, and development (and implicit ABRI control). The answer was to establish a political structure that would be fully responsive to the interests and agenda of ABRI and the government. It needed to be a structure that would compete in elections with the regular political parties, but, as an expression of Pancasila democracy, it would not be a political party in the usual sense of aggregating and articulating interests from below.

Political party competition in Pancasila democracy in late twentieth-century Indonesia was conceived of in terms of advancing the best programs and leaders to achieve the national goals. Opposition politics based on ideological competition or appeal to partisan

interests growing out of social, ethnic, or economic cleavages had no place and, in fact, were defined as subversive. In Suharto's words, the adoption of the Pancasila by the parties "will facilitate the prevention of conflict among various political groups which in their efforts to attain their respective goals may cause clashes detrimental to national unity and integrity." In 1973, in order to guarantee that disruptive competition would not occur, the political party system was restructured and simplified by government fiat, forcing the nine existing traditional parties to regroup into two electoral coalitions. The four Muslim parties, despite their historical, ideological, sectarian, and leadership differences, were joined together in the United Development Party (PPP), and the Christian and secular parties were uneasily united in the Indonesian Democratic Party (PDI). The desired result was to further weaken the existing political parties. The Political Parties Bill of 1975 completed the process of reconciling the parties to the requirements of Pancasila democracy.

The PPP, PDI, and the non-party Golkar became the "three pillars" of Pancasila democracy, the only legal participants in the electoral process. Other kinds of political activity were proclaimed illegal. The parties were placed under the supervision of the Department of Home Affairs, and the president was given the power to suspend their activity. Most importantly, the 1975 law institutionalized the concept of the rural population as a "floating mass," prohibiting the parties from organizing and mobilizing at the rice-roots level between election campaigns. The law gave Golkar a great advantage, because government officials from the national level down to the village were members of Golkar. The net effect of political party legislation was to "depoliticize" the political parties of the 1945-65 period.

From the government's point of view, political parties were not considered vital elements in a continuous critical political process but structures that would function episodically every five years in "Festivals of Democracy" designed to promote the government's legitimacy. Golkar's crushing victory in the 1971 elections put an end to any expectation that meaningful multiparty politics could be resurrected in Indonesia. By maintaining a highly disciplined party system, the government provided a limited sense of public access and participation in a political system that was, at its core, military in inspiration. More narrowly, the party system allowed for the cooptation of the civilian leaderships of the old political parties into the New Order plan in a nonthreatening way. Although the politicians may have chafed under the restrictions, they at least were part of the process. Also, the continued existence of the political

parties and elections contributed to the regime's international reputation, particularly important given the harrowing trauma of its violent birth (see *The Coup and Its Aftermath*, ch. 1). Finally, parties performed a useful "feedback" function. This role was particularly true with respect to the Islamic parties grouped in PPP, who gave voice to issues close to Islamic values. For example, the 1973 Marriage Bill as originally drafted would have legalized all civil marriages. However, because of Islamic concerns the law was eventually amended to legitimate marriages made according to the laws of respective religions. Still, the government did not always heed the alarm raised by Islamic outrage. Football pools (known as *porkas* from the English "forecast") were introduced in December 1985 to support national sports programs; the *porkas* were denounced by Muslims as a violation of the Islamic law against gambling. The opponents of *porkas* added a social dimension to the criticism by pointing out that the players were those Indonesians who could least afford to gamble. Unmoved by the opposition, the government allowed the lottery to continue as of 1992.

Golkar

The government's chosen instrument for political action was Golongan Karya (Golkar), the ABRI-managed organization of "functional groups." Golkar had its roots in the late Guided Democracy period as an army-sponsored functional grouping of nearly 100 anticommunist organizations within the left-dominated National Front. These groups had a diverse membership, from trade unionists and civil servants to students and women. As a political force to balance the weight of the PKI and Sukarno's PNI, this Golkar prototype—called the Joint Secretariat of Functional Groups—was ineffective, but it provided a framework within which the military could mobilize civilian support. After 1966 it was reorganized by Suharto's supporters, under General Ali Murtopo, head of ABRI's Special Operations Service (Opsus), as an ostensibly nonpartisan civilian constituency for the New Order's authority. Golkar's mission was "to engage in politics to suppress politics." Its core membership was the Indonesian civil service. Government officials at all levels of society, including the villages, and employees of state enterprises were expected to be loyal to Golkar. Behind the patronage and the semimonopoly on communications and funding that facilitated Golkar's electoral superiority was the unspoken but occasionally overt power of ABRI.

Suharto was directly involved in Golkar's organization and policies from the beginning of the New Order. The organization's top advisory leadership was composed of senior ABRI officers, cabinet

ministers, and leading technocrats. Day-to-day operations were under the direction of the chairman of the Central Executive Board. Under the chairmanship of Sudharmono from 1983 to 1988, Golkar increasingly became Suharto's personal constituency as opposed to an ABRI-New Order regime-oriented grouping. Sudharmono attempted to make Golkar a more effective political instrument by transforming it from a "functional group" basis to individual cadre membership. It was expected that the cadres, augmenting the official outreach, would help in the rice-roots mobilization of the "floating masses" at election times. As a mass-mobilizing, cadre party loyal to Suharto, there was some speculation that Golkar was emerging as an autonomous political force in society, no longer fully responsive to ABRI. Credence was given to this speculation by Suharto himself, when he admonished Golkar in 1989 to adopt a central position rather than "sit on the sidelines." Further evidence of the change in Golkar was seen in the emergence of a second-level younger civilian leadership as represented by its secretary general, Sarwono Kusumaatmadja, brother of Minister of Foreign Affairs Mochtar Kusumaatmadja.

Concerns about Golkar's direction probably contributed to ABRI's initial dissatisfaction with Suharto's selection of Sudharmono to be vice president in 1988. The possibility that as vice president Sudharmono might seek concurrently to keep his Golkar position came to the fore at Golkar's October 1988 Fourth National Congress. At the congress, ABRI pushed countermeasures including installing military men in Golkar's regional leadership, and Suharto avoided confrontation by replacing Sudharmono with Wahono, the relatively obscure former governor of Jawa Timur Province. Wahono was a man personally loyal to Suharto and without succession aspirations. Nevertheless, Golkar's commanding position in the "open" political process left unanswered the question of its potential to become a rival to ABRI or an alternative political base for future aspirants to power.

United Development Party (PPP)

The United Development Party (PPP; also sometimes referred to as the Development Unity Party) was the umbrella Muslim grouping that developed when the four Muslim parties were forced to merge in the 1973 restructuring of the party system. The four components were Nahdatul Ulama, the Muslim Party of Indonesia (PMI), the Islamic Association Party of Indonesia (PSII), and the Islamic Educational Movement (Perti). The PPP's constituent parties neither submerged their identities nor merged their programs. As a result, no single PPP leader with a platform acceptable

to all the sectarian and regional interests grouped under the PPP umbrella emerged. Despite their manifest differences representing divergent *santri* streams, however, the PPP's parties had the common bond of Islam, and it was this that gained them the government's close attention. The dominant partners were Nahdatul Ulama and the PMI. The PMI was a resurrected version of Masyumi, which had been banned in the Sukarno era. The return of the modernist Islamic interests—represented by the PMI—to mainstream politics was stage-managed by the government, and the PMI within the PPP was seemingly favored by the government to counterbalance the appeal of Nahdatul Ulama. The rivalry between Nahdatul Ulama and the PMI, while strong, was suppressed for the 1977 electoral campaign. But a severe split in the PPP over candidate selection and ranking on the PPP's electoral list occurred before the 1982 elections, leading the government to intervene on the side of the more docile PMI leadership.

The split between Nahdatul Ulama and the PMI over the political destiny of the PPP became a schism in the wake of the August 1984 PPP National Congress, the first since its 1973 formation. The principal task of the congress was the adoption of the Pancasila as the PPP's basic ideological principle. The party's general chairman, the PMI's Jailani (Johnny) Naro, who was backed by the government, stacked the new thirty-eight-member executive board with twenty PMI supporters, leaving Nahdatul Ulama, the largest of the component parties, with only thirteen seats. The decline in Nahdatul Ulama's influence in the PPP, together with constraints on the Islamic content of the PPP's message, confirmed the traditionalists' perception that Nahdatul Ulama should withdraw from the political process and concentrate on its religious, social, and educational activities. The theme of Nahdatul Ulama's December 1984 congress was "Back to Nahdatul Ulama's Original Program of Action of 1926." Although constitutionally accepting the Pancasila as its sole ideological principle, the Nahdatul Ulama congress tacitly opted out of the Pancasila political competition by holding that political party membership was a personal decision and that individual Nahdatul Ulama members were not obligated to support the PPP.

Indonesian Democratic Party (PDI)

The Indonesian Democratic Party (PDI) was created from a fusion of the two Christian parties: the Indonesian Christian Party (Partindo) and the Catholic Party (Partai Katolik); and three secular parties: the Indonesian Nationalist Party (PNI), the League of the Supporters of Indonesian Independence (IPKI), and the Party of

the Masses (Partai Murba). The PNI, the largest of the PDI's five parties, and the legatee of Sukarno, had its base in East and Central Java. IPKI had been strongly anti-PKI in the Old Order in contrast to the once-leftist Partai Murba. Even more heterogeneous than the PPP, the PDI, with no common ideological link other than the commitment to the Pancasila as its sole principle, was faction-ridden and riven with personality disputes, held together only by direct government intervention into its internal affairs. It was only under the auspices of the minister of home affairs that the PDI Executive Committee could meet at all after the 1983 elections. The government insisted on keeping the PDI viable to avoid the risk of polarization and a direct Golkar-PPP, secular-Islamic face-off. With the gradual public rehabilitation of the late President Sukarno as an "Independence Proclamation Hero" and the father of the Pancasila, the PDI was not reluctant to trade upon the Sukarnoist heritage of its component party, the PNI. Using a son and a daughter of Sukarno on its ticket and waving posters with the image of Sukarno, the PDI went into the 1987 elections aggressively courting young voters who had no personal experience of Guided Democracy and who were looking for channels of political protest.

Elections

When Indonesians went to the polls every five years to elect members of the DPR, it was not with the expectation that in casting a vote they could effect any real changes in the way Indonesia was governed. The system was not designed for opposition. The PDI and PPP did not present competitively alternative platforms to Golkar's government platform. The parties' candidate lists were screened and individual candidates approved by the government. For the 1992 elections, 2,283 candidates were on the lists for the 400 seats at stake.

The elector did not vote for a particular candidate but for the party, which, if it won, would designate the representative from the party's list. The elections were organized by the government-appointed election commission headed by the minister of home affairs. All campaigns were conducted in the framework of Pancasila democracy, which meant that in the twenty-five-day campaign period, reduced in 1987 from forty-five days, government policy and programs could be criticized only warily and indirectly, and the president could not be criticized at all. Strict campaign rules applied. For the 1992 election, automobile rallies and picture posters of political leaders were banned. No PDI posters of Sukarno, for example, were allowed. Large outdoor rallies were

discouraged, which meant that acts of violence and rowdiness by youthful participants in the "Festival of Democracy" decreased in 1992. Radio and television appeals had to be approved in advance by the elections commission. There was no campaigning at all in the five days before the elections. Even if there had been fewer constraints on campaign freedoms, the results in terms of structural impact on the functioning of the government would not be much greater than those engendered by the large number of appointed members of the DPR and the minority position of the elected members of the DPR in the MPR.

Even so, elections did matter. They were one of the elements in the institutionalization of the New Order system. It was estimated that 111 million Indonesians were eligible to vote in 1992. Giving the broad population a sense of participation contributed to regime legitimacy. The elections also provided, to some degree, a channel of public opinion feedback to the government. Finally, the election process helped to mobilize the public to support government policy. The feedback and mobilization function of the electoral process was becoming more important as the number of voters who had no direct memory of pre-Suharto Indonesia increased. The 1992 election saw 17 million first-time voters.

During the first twenty-five years of New Order government, there were five national elections (see table 28, Appendix). The 1971 election was Indonesia's second general election since independence and the first since 1955. (Provincial elections were held in 1957.) Golkar and nine other parties ran, compared with twenty-eight parties in 1955. The outcome was predictable given the rules of the game and the resources available to the government supporters. Golkar won more than 62 percent of the vote. The four Islamic parties shared 27.1 percent of the total, led by Nahdlatul Ulama's 18.7 percent. The remaining 10.1 percent of the total was scattered among the other five parties.

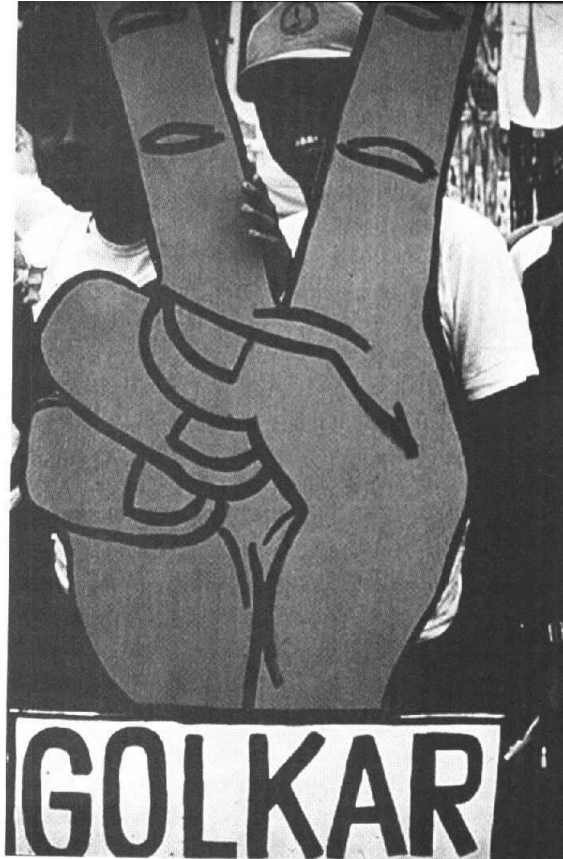
Not surprisingly, Golkar dominated every successive election. In 1977 the second DPR election saw the field of parties reduced to three as a result of the 1973 party merger. The relative percentage of votes was not dramatically different, with Golkar losing less than 1 percent; the PPP gained 29.3 percent and the PDI, beginning its decline, fell to 8.6 percent. The size and loyalty of the PPP's electoral base, despite all-out government support for Golkar, reinforced the government's interest in limiting political Islam. In the 1982 elections, Golkar won 64.3 percent of the total vote cast, trailed by the PPP's 27.8 percent and the PDI's 7.9 percent. Golkar swept twenty-six of the twenty-seven provinces and regions, losing only strongly Islamic Aceh to the PPP. The victory was made sweeter

for Golkar by its recapturing the electoral edge in Jakarta from the PPP, which had won the district in the 1977 elections. In the 1987 elections, Golkar won in a landslide, crushing the opposition parties with more than 73 percent of the vote to the PPP's 16 percent and the PDI's 10.9 percent. Golkar's victory led to fears that Indonesia had become a de facto single-party state. Golkar even triumphed in Aceh with a 52 percent majority. The precipitous (40 percent) drop between 1982 and 1987 in the PPP's vote total can be attributed largely to the 1984 decision by Nahdatul Ulama, the PPP's largest component, to withdraw from organized competitive politics. Analysis of the election returns showed that many of the former Nahdatul Ulama votes for the PPP went to Golkar in a demonstration of both Nahdatul Ulama's ability to deliver its constituents and a guarantee of continued government favor to Nahdatul Ulama's institutions and programs.

The June 9, 1992, election had no surprises. In a calm and orderly atmosphere, more than 97 million Indonesians voted, 90 percent of the 108 million registered voters. Golkar won 68 percent of the popular vote, down by 5 percent from 1987, but nevertheless very satisfactory for the government. Golkar support ranged from a high of more than 90 percent in Jambi, Lampung, and Nusa Tenggara Timur provinces to Jakarta's 52 percent. The PPP held its own with 17 percent of the vote and, at least in the official final tally, actually ran ahead of the PDI in Jakarta with 24.5 percent of the vote to the PDI's 23.1 percent. The support for the PDI, the closest to a "democratic opposition" party, jumped from 10.9 percent in 1987 to 15 percent. These figures translated into 281 DPR seats for Golkar (down 18 seats from 1987), 63 for PPP (down 2 seats), and 56 for the PDI (an increase of 16 seats).

The outcome of the 1992 election led to some cautious conclusions. The election was "routine" because the earlier polarizing issues of Pancasila democracy had already been firmly resolved to the government's advantage. Since the stakes seemed even lower than in previous elections, there was a lack of political passion on all sides. The decline in the Golkar percentage may be partially attributed to ABRI's having distanced itself from active intervention on behalf of Golkar. It did not appear that Suharto's campaign to woo the Muslims had an appreciable electoral result. The PDI apparently won the largest number of first-time voters. Its rallies attracted a youthful crowd, many under voting age, and suggested that a basis did exist for future increases in voter support. Golkar won slightly more than 61 percent of the total number of votes cast on Java, where nearly two-thirds of the voters resided. That meant that about four out of ten voters at the country's core

*Golkar V-for-Victory
campaign sign*



were in opposition. Nevertheless, the fact that Golkar increased its vote in Jakarta by 4 percent over 1987 despite an aggressive PDI campaign directed at the urban crowd suggested that Golkar's appeal to stability, security, and development—the political status quo—was powerful even without other electoral advantages of the ruling party.

Political Dynamics

Openness

In his 1990 annual National Day address to the nation, Suharto confirmed his mandate for more openness in political expression. "We must no longer be afraid of the multifarious views and opinions expressed by the people," he declared. This new tolerance was first given attention in the domestic political dialogue that began after his inauguration for a fifth term. The year 1989 saw an outpouring of opinion, discussion, and debate as *keterbukaan* (openness) promised a breath of fresh air in what many felt was an atmosphere of sterile platitudinism and sloganeering. There was in 1989, according to American political scientist Gordon R. Hein, "A dramatic expansion in public discussion of important political

and economic issues facing the country.” Officials, politicians, retired generals, nongovernmental organizations, and student leaders expressed their views on controversial subjects ranging from environmental degradation to business conglomerates, from the role of the military to party politics. Many who had previously felt excluded from meaningful involvement hoped that *keterbukaan* would encourage greater political participation, not only in the national policy dialogue but also in access to the political process. The most serious structural manifestation of *keterbukaan* was the establishment in 1991 of the Democracy Forum. The forum was chaired by Nahdatul Ulama’s secretary general, Abdurrahman Wahid, and participated in by well-known academics, journalists, and other intellectuals. Its goal was to loosen existing political arrangements to assure “that the nation matures politically.”

The turn toward *keterbukaan* was a welcome thaw after the chill of the mid-1980s crackdown on what the government considered “subversive” opposition. The passage of the Mass Organizations Law in 1985 stoked the incendiary environment in which more radical Muslim activists were prepared for direct action against a government that resisted demands that the state itself should express an Islamic quality. In September 1984, the situation had deteriorated over an incident in which a soldier allegedly defiled a mosque in Tanjung Priok (in the northern part of Jakarta). The incident was a pretext for rioting and clashes between the army and mobs provoked by fiery Islamic invocations. The unrest was followed by bomb blasts and arson that to an alarmed ABRI presaged a call for jihad (holy war). The Tanjung Priok affair was the most destabilizing open confrontation between the government and opposition since the anti-Japanese riots that took place during Japanese prime minister Tanaka Kakuei’s visit to Indonesia in January 1974. Again, the government’s reaction was swift and stern. Thirty defendants were jailed from one to three years in the wake of the Tanjung Priok riot. Ten people, including former cabinet minister Haji Mohammad Sanusi, were convicted of conspiracy in the 1985 Bank Central Asia bombing following the Tanjung Priok affair. At the heart of the legal assault on the opposition were the trials of prominent Islamic and retired military figures who were vaguely linked by the government to the Bank Central Asia bombing but whose real crime was association with the Petition of Fifty group.

The Petition of Fifty was a petition by former generals, political leaders, academicians, students, and others that was submitted to the MPR in 1980. The petition accused Suharto of using the Pancasila to attack political opponents and to foster antidemocratic, one-man rule. The signers of the statement were roundly excoriated

by Suharto loyalists. The signers escaped arrest but were put under tight surveillance and lost many of their official perquisites.

Lieutenant General (retired) H.R. Dharsono was the most prominent of the Petition of Fifty group. After the Tanjung Priok affair, Dharsono was arrested because of a position paper he and twenty-one others had signed in September 1984, challenging the government's version of the affair. According to the prosecution, this position paper "undermined the authority of the government." Dharsono also was accused of "mental terrorism" for having made statements that could cause social unrest, as well as of associating with persons allegedly involved in the subsequent bombings. In an extraordinarily open trial, he was found guilty in January 1986 and sentenced to ten years' imprisonment. Unrepentant, Dharsono was released in the looser atmosphere of *keterbukaan* in September 1990. Clearly, the Dharsono trial and others, as well as the social and economic pressures on extraparliamentary critics of the government, such as the Petition of Fifty group, were meant as reminders of the acceptable boundaries of political comment. As if to drive the point home, nine PKI prisoners who had been jailed for twenty years were executed in October 1986. Two others were executed in 1988. These exemplary punishments were warnings against the consequences of "left extremism."

The fact that the legal and official regulatory framework that had stifled opposition for so many years remained intact required cautious conclusions about *keterbukaan*. Although the dialogue was more open and included more "political" subjects in the early 1990s, limits could be quickly and arbitrarily set by the government, whose level of tolerance was unpredictable. The limits were ambiguous because they tended to be applied capriciously. Still, there were indicators that a more participative political system would evolve in the mid- to late 1990s. American political scientist R. William Liddle identified six characteristics of the Indonesian economy, society, and politics that appeared to favor a move in that direction: growing dependence on domestic taxes and thus taxpayer approval; wide distribution of the benefits of economic growth with increased resources for groups to become politically active; greater connections to the outside world; greater education and literacy; more interest in democratization; and an institutionalized strong presidency. This last factor ensured that as more political voices were heard there would be no return to the parliamentary impotency that had paralyzed Indonesia in the 1950s. Thus, it was argued, democracy and stability could coexist.

Much, of course, would depend upon the succession scenario. According to a less sanguine assessment, a more open political

dialogue could be manipulated by the major actors positioning themselves for the succession—ABRI, Islam, bureaucratic interests, and Golkar. These groups sought support among a growing middle-class constituency, which, intermittently at least, was moved by the kinds of issues raised by socially conscious nongovernmental organizations and students, as well as nonestablishment political organizations like the group that issued the Petition of Fifty. The succession issue itself, as long as it remained unresolved, had the potential of being a destabilizing factor. Outside the bureaucratic inner circle, the political actors most directly affected by succession could only imperfectly transmit their messages about democracy, equity, corruption, the environment, and succession to the public because the nongovernmental media was subject to the same constraints as the other institutions in Pancasila democracy (see *The Media*, this ch.).

Islam

Organized political party structures promoting Islam were disciplined to the requirements of Pancasila democracy in the PPP, and Islamic organizations, including the Muhammadiyah movement and Nahdatul Ulama, were subjected to government regulations flowing from the Mass Organizations Law. Muslim critics of the regime in the early 1990s claimed that the government policy toward Islam was “colonial” in that it was putting in place in modern Indonesia the advice of the Dutch scholar and adviser to the Netherlands Indies government, Christiaan Snouck Hurgronje. As an adviser between 1891 and 1904, Snouck Hurgronje advocated tolerating the spiritual aspects of Islam but rigorously containing Islam’s political expression. The goal was the same in the colonial period and during the presidencies of both Sukarno and Suharto: to see to it that the business of government and administration remained a secular one. However, Islam could not be fully “depoliticized.” The traditional structures for Islamic communication and mobilization, *pesantren* and mosque, were resistant to external control. Religious teachers, through the *dakwah* (the vigorous promotion of Islam), still proselytized and propagated guidance and values in the early 1990s that influenced all aspects of human affairs. The “floating masses” were touched by a social and political message couched in terms of Quranic injunctions and the *hadith*.

The so-called “hard” *dakwah*, departing from sermons and texts tightly confined to matters of faith and sharia, was uncompromisingly antigovernment. The illegal texts of Abdul Qadir Djaelani, for example, contrasted Islam, which was the revelation of God,

with the Pancasila, which was man-made of Javanese mysticism. The Islamists (often referred to as Islamic fundamentalists) called for the people to die as martyrs in a “struggle until Islam rules.” For the government, this call was incitement to “extremism of the right,” subversion, and terrorism. In the late 1970s and early 1980s, security officials warned against the revival of Darul Islam in the guise of a Komando Jihad (Holy War Command). Isolated acts of violence, including, in early 1981, the hijacking of a Garuda Indonesian Airways DC-9, gave credence to these alerts. This unrest also was the context in which the government viewed the Tanjung Priok affair. The government reaction to radical Islamic provocations was unyielding: arrest and jail.

The followers of the “hard” *dakwah* were a minority within a minority in 1992. Although Islamists might be disaffected with the state, the goal of urban, middle-class Muslims, who shared in the benefits of government economic policies and who were relatively untouched by the preaching of rural Muslim teachers, was not to overthrow the regime. They wanted to transform the regime from within to make its acts conform more with Islamic values—a focus then that was not on the state itself but on policies and practices that were offensive. The issues that spurred middle-class Muslims on included not just the persistent Muslim complaints about secularization, Christianization, and moral decline, but also contemporary political grievances about the inequitable distribution of income, concentration of wealth and power in the hands of Chinese Indonesians to the detriment of indigenous (*pribumi*—see Glossary) entrepreneurship, corruption, and the role of the president’s immediate family. These kinds of issues cut across religious boundaries and united moderate middle-class Muslims with more secular middle-class critics, both civilian and military.

The president had indirectly addressed complaints about a skewing of economic rewards to Chinese Indonesian enterprises by backing deregulation, warning against flaunting wealth, and appealing for companies to allow worker cooperatives to purchase up to 25 percent of equity shares. This last proposal, made in 1990, despite questions about its economic soundness, had a firm basis in the 1945 constitution, Indonesian economic history, and populist rhetoric.

A more complicated problem was the political access the president’s six children had to state contracting agencies. Their monopoly enterprises, influence brokering, and linkages to Chinese Indonesian entrepreneurs made the children major players in the Indonesian economy. Leaving aside the question of whether their activities facilitated development or hindered it, their highly visible

role with the underlying suspicion of favoritism, political extortion, and corruption had a corrosive impact on Suharto's own image. The father defended the children. Domestic criticism was banned in the media, and foreign discussions resulted in periodic censorship of certain editions of the *Sydney Morning Herald*, the *International Herald Tribune*, and the *Far Eastern Economic Review*. It was even suggested by some local observers that the president's desire to protect his children from a future government's reprisals energized his succession agenda.

Through reward and cooptation, the government won the allegiance of a broad sector of the Muslim elite, the most general indicator of which was election results showing no increase in the appeal of Muslim political parties. At the same time, thoughtful Islamic strategists, such as Nahdatul Ulama's Abdurrahman Wahid, felt that Islamization would come from inside the New Order rather than from external confrontation. The Association of Muslim Intellectuals (ICMI) was formed in December 1990, uniting a broad spectrum of leading Muslim academics and government figures (but with the noticeable absence of Abdurrahman Wahid). ICMI's founding had the overt support of Suharto and suggested that the president wished to deepen his political links to the Muslim constituency independently of the PPP and Nahdatul Ulama. This organizational development also raised the question of where ABRI stood in a constellation of forces that saw the president apparently seeking balance among Golkar, Islam, and ABRI.

ABRI

The considerable policy achievements of the New Order government cannot be overstated. Whether compared with the Old Order or with other large and culturally plural Third World nations, Indonesia's record of political stability and economic growth since 1966 was viewed by its leaders as the empirical justification of the system of government put in place by the military in 1966-67. Despite *keterbukaan*, there was no retreat from *dwifungsi*. Suharto and the military elite seemed united in their belief that there would be no turning back from the principle of dual function that ABRI considered a historical necessity. The spectacle of the ethnic disintegration of the Soviet Union and Eastern Europe was a sobering example of what can happen when authority is lifted in ethnically plural states. Beyond the agreement on *dwifungsi*, however, the relationship between the president and ABRI became one of the problematic issues of politics in the 1990s. Ultimately, the president depended on ABRI as the bulwark of his authority. In part, the legitimacy of ABRI's role in society was a reflection of the

Suharto performance in office. As Suharto seemed to become increasingly distanced institutionally from ABRI and issues of corruption and favoritism brought the regime into disrepute, observers questioned how ABRI would position itself with respect to succession.

ABRI dissatisfaction with the course of events rarely surfaced publicly. The demonstration against Sudharmono's nomination to the vice presidency was an exception. Yet, in the subtle and indirect fashion seemingly inherent in Javanese political culture, signs abounded that some senior ABRI leaders had reservations about a sixth term for Suharto. Steeped in distrust of Islamic politics, ABRI looked askance at Suharto's overtures to the *santri*, taking particular note of the military's exclusion from the ICMI. Moreover, it was no secret that ABRI leaders were disturbed by what some saw as the unbridled greed of the president's family members and his obvious reluctance to restrain them. The cult of personality, which presidential palace functionaries fostered, also offended ABRI's leaders. ABRI's commitment to its own revolutionary values and the Pancasila seemed, in a sense, to be mocked at the end of Suharto's fifth term. On the other hand, ABRI's command repeatedly assured the leadership of their commitment to constitutional processes. ABRI's focus was on regime continuity rather than provoking a leadership crisis that might resonate negatively in the wider society. If the common wisdom that Suharto's successor had to be a Muslim Javanese general was correct, ABRI wanted to be sure that it controlled the designation.

As a practical matter, ABRI's desire to control the succession scenario meant it had to play a leading role in the selection of the vice presidential candidate for Suharto's sixth term (1993-98). The list of potential nominees started with the ABRI commander General Try Sutrisno, followed by army commander General Edi Sudrajat. Even this careful ABRI selection process would not guarantee succession in 1998. Suharto was likely to have had a different scenario. Seemingly waiting in the wings was Major General Wismoyo Arismunandar, who in July 1992 was advanced to deputy commander of the Army from commander of the Army Strategic Reserve Command (Kostrad), the post Suharto himself held in 1965. Wismoyo, Suharto's brother-in-law, was widely expected to become army chief of staff and even ABRI commander. Also rapidly moving up in the ranks was Lieutenant Colonel Prabowo Subianto, a Suharto son-in-law. Prabowo, who, according to many observers, was a highly capable officer, served as the chief of staff of the Seventeenth Airborne Brigade. By 1998, then, the succession issue was likely to

be couched in dynastic terms, and the family's interests would be well protected.

Nongovernmental Organizations (NGOs)

The central concerns of establishment politics under the New Order in the early 1990s were stability and development. A broad array of other issues, reflecting both the changes brought about in the society by development and the penetration of the political culture by issues of global concern, set the agenda of a growing number of Indonesian private voluntary associations. These associations articulated interests ranging from human rights and the rule of law to issues of corruption and environmental degradation. The proliferation of nongovernmental organizations (NGOs) in the late 1970s and 1980s was an indicator of both the increased diversity of society and the growth of a modern middle class. It was precisely these middle-class-inspired groups that represented most vocally the grievances of Indonesia's "floating masses." NGOs were independent of government and political parties. Within the framework of Pancasila democracy, the NGOs had to be nonpolitical, but their activities had political impact. To avoid the issue of confusing nongovernment with antigovernment organizations and repoliticization of the depoliticized masses, the term NGO was replaced by other rubrics, such as community Self-Reliance Groups (LSM).

The government's attitude toward the NGOs in the early 1990s was ambivalent. The government welcomed the work of NGOs involved in community self-help projects, rice-roots mobilization for socially or economically useful purposes, and as alternative structures for small development programs. However, the independence of NGOs from the government had the potential for opposition, especially where the NGOs were aggressively intervening in areas of agrarian rights or fundamental human rights. For example, there was a marked increase in the number of conflicts between settled communities and state developmental or commercial ventures. Many of these conflicts involved land use that would alter established proprietary or utilization rights without reference to the community's wishes and without adequate compensation. In circumstances where government agencies acted to support land seizures opposed by local communities, rights questions were taken up by activist groups, students, the press, and networks of interested NGOs. That well-publicized actions at the local level could be translated into national issues was demonstrated in 1989, when protests over the forced relocation of villagers for a World Bank (see Glossary) -assisted dam project at Kedung Ombo, Jawa Tengah

Province, forced the government to modify its plans. The Kedung Ombo case and other agrarian and ecologically related protests also rekindled student activism, confined since the 1970s to nonpolitical behavior. University students found both a cause and a vehicle for renewed social involvement in the defense of the "little people."

Not only were the Indonesian NGOs/LSMs networked internally, they were networked through the International Nongovernmental Group on Indonesia (INGI) with corresponding groups abroad and were, to the discomfiture of the government, able to bring pressure on foreign-aid donors. The Kedung Ombo affair united the LSMs with human rights and legal groups such as the Indonesia Legal Aid Foundation (YLBHI), perhaps the best known of the NGOs and a constant thorn in the state's legal flesh through its interventions in defense of the rule of law. The government's tolerance for the activities of NGOs became increasingly limited as the NGOs' activities moved into areas of sensitive state concerns and reached out to influence external aid givers. After the passage of the Mass Organizations Law in 1985, NGOs were required to file reports to allow the government to monitor their activities. According to Coordinating Minister of Political Affairs and Security Admiral (retired) Sudomo, there were three justifications for disbanding an organization: disturbing national stability, receiving unreported foreign funds, or being directed by a foreigner. The first criterion was very subjective. Criticism of government policy by a domestic NGO could lead to the charge of subversion. At least three human rights NGOs were banned as a result of their unauthorized activities in supplying information to the international community in the wake of the November 1991 Dili incident.

The challenge for the NGOs in the early 1990s was not only their taking up real issues in the political economy, but also having to do so when more traditional organizations, such as the established bureaucratic and party institutions, seemed unable or unwilling to perform this function. *Keterbukaan* was a promise of a more liberal climate for dialogue. *Keterbukaan* was yet to be accompanied by structural change, however. In 1990 the Institute for the Defense of Human Rights (LPHAM, which itself was banned after the Dili affair) attempted to set up a free trade union that was immediately declared illegal. Working outside the system became almost part of the system. This seeming paradox may have been partly explained by the fact that in this aspect of Indonesian politics, as in so many others, overt change, adaptation, and accommodation awaited the settlement of the succession issue.

The Media

At the fortieth anniversary of the Indonesian Journalists Association in 1986, Suharto congratulated the media for their commitment to the Pancasila. It was a commitment that was grudging. Article 29 of the constitution states that freedom of the press shall be provided by law. Indonesian press laws made controlling the media an instrument in the government's strategy of stability and development. Thus, the notion of a "free press," let alone an opposition press, contradicted the government's need to control the flow of information. The acronym SARA—*suku* (ethnicity), *agama* (religion), *ras* (race), and *antargolongan* (social relations)—listed the prohibited subjects, to which could be added less than adulatory references to the president and his family. Moreover, the government had at its disposal an enormous information machine consisting of state television, radio, news service, subsidized journals, and the Department of Information's nationwide public relations operation (see Post and Telecommunications, ch. 3). The government also could limit the content of the nonofficial media through a variety of restraints, most drastically the revocation of a paper's publishing enterprise license, which effectively shut it down. Press Law Number 21 of 1982 specifies the duty of the press as "strengthening national unity and cohesion, deepening national responsibility and discipline, helping to raise the intelligence of the nation and invigorating people's participation in development." According to Minister of Information Harmoko in 1983, a publishing enterprise license would be lifted only "when the press is not in line with the philosophy of the nation and the state." This conditional threat led to a form of self-censorship on the part of editors and publishers as they tested the limits of government sensitivity. These sensitivities were made known in consultations with senior officials on how to treat stories.

Newspapers occasionally stepped out of bounds and, if they did not heed stern warnings, were banned for varying periods of time. For example, *Sinar Harapan* (Ray of Hope)—a Protestant and non-Javanese-edited, mass circulation (220,340) daily—was closed in October 1986 for economic reporting that Harmoko claimed "brought about an atmosphere of gloom, confusion, and unease in society." Not mentioned in the termination notice was the fact that *Sinar Harapan* had been in the forefront of discussions on presidential term limitations. The ban seemed intended to have a self-censoring effect on the rest of the media. The lively daily *Prioritas* (Priority) was shut down in June 1987. The official tone was set by a commentary in the *Angkatan Bersenjata* (Armed Forces

Daily) edition of October 14, 1986, that said the government was prepared to sacrifice any newspaper deemed to have jeopardized the national interest. The old *Sinar Harapan* was allowed to reemerge in 1987 under a new name—*Suara Pembaruan* (Voice of Renewal)—and, more importantly, with a new editorial board more responsive to government concerns.

The effort to control media flow was not limited to the press in the early 1990s. Motion pictures had been censored since the colonial era and continued to be censored during the Sukarno and Suharto administrations. Prominent literary figures, such as the internationally recognized novelist Pramudya Ananta Tur and poet and dramatist Willibrordus S. Rendra, had their works banned although both read their writings in public. Nor were foreign publications immune. There was periodic banning of certain editions or particular articles deemed offensive in publications such as the *Asian Wall Street Journal*, the *Far Eastern Economic Review*, and *Time*. Visa regulation of journalists was another way the government sought to limit foreign reporting. By threatening work visa status checks on foreign journalists, the government hoped that voluntary self-censorship would follow. Another way of controlling the media was to simply bar access. Australian journalists, in particular, were targeted because of their unfavorable reporting on East Timor. Censorship also extended to foreign books such as one by David Jenkins on the New Order's military and Richard Robison's study of its political economy—both deemed critical by Jakarta. But in Indonesia, as in other countries where the media were tightly controlled, the photocopy machine and the ubiquity of foreign radio and television news conspired to defeat censorship.

The inherent contradiction between media control as the Department of Information usually applied it and the emphasis on *keterbukaan* since the late 1980s came to a head in October 1990 when the mass circulation (700,000) tabloid weekly *Monitor* had its publishing enterprise license lifted. The *Monitor's* mistake was to publish the outcome of a reader popularity poll that listed the Prophet Muhammad behind Suharto, Sukarno, and Iraqi president Saddam Husayn. Enraged Muslim youths stormed the *Monitor's* office, and Harmoko put it out of business, claiming the poll had caused religious dissension, that is, had violated the *agama* taboo. Many people, including the founders of the Democracy Forum, saw the closing of the *Monitor* as a repressive response to religious pressure and sectarian bias in a pluralistic society. Editor Arswendo Atmowiloto was convicted of blasphemy and given the maximum five-year prison sentence. Speaking of the stimulus that the *Monitor* case had given the formation of the Democracy Forum, forum chairman

Abdurrahman Wahid said, "Without [it], maybe it would have taken another couple of years."

The contradiction between media restraint and *keterbukaan* was also taken up by the more assertive DPR. In May 1991, its deputy speaker called for an easing of press controls. Defending his record before a DPR commission, Harmoko replied that the government never acted rashly in revoking a paper's right to publish and that a press that shunned "radicalism, liberalism, and communism" need have no fears. As the *Jakarta Post* said in a June 27, 1991, editorial about the DPR debate over the press, "There are so many people who talk about responsibility but very few who talk about freedom." The government's bending to Muslim outrage over the *Monitor* affair, despite purported support of *keterbukaan*, revealed its nervous awareness of the potential political force mainstream Islam could be even if denied traditional political party platforms.

Foreign Policy

Political Considerations

The internal dynamics of Indonesian politics in the last half of the twentieth century were linked to an external environment that both the Old Order and the New Order perceived as inherently dangerous. Foreign policy had as its most important goals security of the state and territorial integrity. The jurisdictional boundaries of the state were greatly expanded with the incorporation of the "archipelago principle" into the new international law of the sea regime. This new regime was codified as the UN Convention on the Law of the Sea in 1982. The "archipelago principle" effectively territorialized all ocean space inside straight baselines drawn from the farthest points of the most distant islands of Indonesia, thus giving new sanction to the Indonesian doctrine of the political and security unity of archipelagic land and sea space (*wawasan nusantara*), first promulgated in the 1950s (see National Territory: Rights and Responsibilities, ch. 2).

Sukarno's response to challenge was to attack the status quo—to "live dangerously," to cite his 1964 National Day address, "A Year of Living Dangerously." The Suharto government's approach, on the other hand, was one of cooperation and accommodation in order to gain international support for Indonesia's political stability and economic development while, at the same time, maintaining its freedom of action. Whereas Sukarno relished leading the New Emerging Forces against the Old Established Forces, the Suharto government turned to the Western developed economies for assistance. These countries were consortionally organized in



*The main assembly hall of the Indonesian parliament, a notable example of modern Indonesian architecture
Courtesy Garuda Indonesia*

the Inter-Governmental Group on Indonesia (IGGI—see Glossary), and along with the World Bank and the Asian Development Bank (see Glossary), gave massive economic assistance, amounting in the 1992 budget to more than US\$4 billion a year. Although Suharto's pragmatic, low-profile style was a far cry from the radical internationalism and confrontational anti-imperialism of Sukarno's foreign policy, there was continuity in a nationalism that colored Indonesia's perceptions of its role in the region. The promotion of Islamic international political interests was not high on the Indonesian foreign policy agenda, despite Indonesia's being the world's largest Muslim nation. Indonesia was a member of the Organization of Islamic Conference (OIC) but as of 1992, unlike Malaysia, had not aspired to a major role in that organization.

Following two decades of post-Sukarno "low profile" foreign policy, by Suharto's fourth term (1983-88) a more assertive Indonesian foreign policy voice was heard. Jakarta began to reaffirm its claim to a leadership position, both regionally and worldwide, corresponding to its geographical vastness, resource endowment, population, and political stability. After an international rehabilitative period, Indonesia rejoined the community of nations, broke the Jakarta-Hanoi-Beijing-P'yöngyang axis, ended

the Indonesian-Malaysian Confrontation (Konfrontasi—see Glossary), worked to establish ASEAN, forged cooperative nonthreatening links with its neighbors, and became a moderating voice in Third World forums. By the early 1990s, Indonesia, which American scholar Donald K. Emmerson could still describe as “invisible” in 1987, had become more visible both as a regional power and a major Third World voice in the global political and economic arenas. In 1992 Indonesian foreign policy reflected a proud national identity and what British scholar Michael Leifer called its “sense of regional entitlement.”

Indonesia’s full reemergence on the world stage was signalled in April 1985 when it hosted a gathering of eighty nations to commemorate the thirtieth anniversary of the Asian-African Conference in Bandung and to reaffirm the relevance of the Bandung principles (see *Independence: The First Phases, 1950-65*, ch. 1). This conference projected Indonesia as a leading voice in the nonaligned world and provided it with an extra-regional platform from which to assert its new self-confidence and claim to proper international standing. Suharto, secure domestically in an environment of political stability and economic growth, and backed by his energetic and clever Minister of Foreign Affairs Mochtar Kusumaatmadja, prepared to assume the mantle of statesman.

In October 1985, Suharto represented the developing nations of the southern hemisphere (French president François Mitterrand spoke for the developed nations of the northern hemisphere) at a Food and Agriculture Organization (FAO—see Glossary) of the UN meeting in Rome. This meeting recognized Indonesia’s considerable accomplishment in achieving rice self-sufficiency (see *Agriculture*, ch. 3). Suharto also undertook an East European tour to balance the close economic ties that had been established with the West and the general anticommunist orientation of Indonesia’s foreign policy.

A major foreign policy initiative begun in 1985 sought for Indonesia the chairmanship of the Nonaligned Movement, a position that would acknowledge Indonesia’s credentials to speak authoritatively in the Third World. Indonesia had been a founding member of the Nonaligned Movement, and its adherence to and promotion of the ideals of nonalignment had been one of the few consistencies between the foreign policies of the Old Order and New Order governments. At the same time, Indonesia was the only founding member that had not hosted a Nonaligned Movement summit. At summits in Harare, Zimbabwe, in 1986, and in Belgrade, Yugoslavia (later Serbia), in 1989, Indonesia lobbied hard but without success for the chair. A number of factors seemed to be

working against it in an organization marked by geographic and ideological differences. Radical socialist regimes were not sympathetic to Indonesia's domestic anticommunism. African nationalist regimes mobilized in the former Portuguese colonies in Africa rejected Indonesia's incorporation of East Timor. Indonesia's solidarity with ASEAN on the Cambodian issue lost favor with friends of Vietnam. Finally, the absence of normal relations with the Nonaligned Movement's largest member, China, weakened Indonesia's position substantially. By the end of the 1980s, however, many of the objections no longer seemed as relevant in the changing global political economy as adroit Indonesian diplomats continued to pursue their country's goal.

At the Nonaligned Movement's thirtieth anniversary meeting in Accra, Ghana, in September 1991, Indonesia finally won its coveted role as chair of the movement and host of the September 1992 Jakarta summit. But as Indonesia grasped the prize, its political worth was questionable in a post-Cold War world without superpower rivalries. To set the scene for the Jakarta summit, as incoming chair Suharto undertook the longest foreign tour of his career—a twenty-three-day trip to two Latin American and three African countries—in November and December 1991. At meetings of the Group of Fifteen (see Glossary) in Caracas, Venezuela, and the OIC in Dakar, Senegal, as well as bilateral meetings in Latin America and Africa, he began the effort of shifting the Nonaligned Movement agenda from its traditional concerns to the economic and social issues confronting the developing world. This changed agenda was the focus of Suharto's address to the May 1992 Bali ministerial meeting of the Nonaligned Movement Coordinating Bureau, setting the agenda for the Nonaligned Movement summit. At the same time, however, Indonesia rejected suggestions that the Nonaligned Movement and the Group of Seventy-seven (see Glossary) should be merged because the goals of the two groups differed. Whereas the Nonaligned Movement had a "special commitment" to the eradication of colonialism, racism, and apartheid as well as a duty to prevent the UN from being dominated by any one country, the Group of Seventy-seven fostered economic cooperation among its members.

The summit took place on schedule and without disruption the first week of September 1992. The Jakarta Message, the summit's final communiqué, reflected Suharto's call in his opening speech for a constructive dialogue between the developed and developing nations, warning that North-South polarization loomed as "the central unresolved issue of our time." In an expression of Indonesia's pride in its own development, Suharto offered Indonesian

technical assistance to countries with food and population problems. As chairman of the Nonaligned Movement, Suharto brought the Jakarta Message to the 1992 session of the UN General Assembly.

Human Rights and Foreign Policy

The luster of Suharto's Nonaligned Movement chairmanship was somewhat diminished by persistent questioning of Indonesia's human-rights practices. The November 1991 Dili Massacre reopened the nagging problem of East Timor, forcing Suharto to break off his foreign tour (see Local Government, this ch.; National Defense and Internal Security, ch. 5). Indonesia's problem in East Timor was only one part of a human- and political-rights record that was repeatedly criticized by a number of human-rights monitoring agencies such as Asia Watch, Amnesty International, and the International Commission of Jurists. Over the years of the New Order's life, the International Commission of Jurists had provided copious documentation of rights violations that paralleled the congressionally mandated United States Department of State's *Country Reports on Human Rights Practices* around the world, including data on Indonesia. Indonesia had the unenviable distinction of being one of the twenty-two nations criticized by the 1992 meeting of the UN Human Rights Commission.

The catalog of problem areas was lengthy. Indonesia's violations ran the gamut from lack of respect for the integrity of the individual to torture and disappearance; lack of respect for civil liberties, including freedom of speech, press, and assembly; lack of respect for political rights; racial, religious, and other forms of discrimination; and inadequate labor rights. Of particular concern to the human-rights monitoring agencies was the use of the judicial system to suppress political opposition.

Indonesia's reactions to external criticism of its human-rights record ranged from militant intransigence to reasoned defense. ABRI chief Try Sutrisno reacted angrily to foreign expressions of concern over the human-rights situation in East Timor. "This is an internal affair and there should be no meddling," he said. "If anyone wants to talk about human rights, Indonesia has had them since time immemorial. That's why you should study Pancasila." Furthermore, he added, "We will not accept any foreign interference." Minister of Foreign Affairs Ali Alatas took a more centrist position. He placed the issue in the context of balancing individual rights with the rights of a society, and political rights and economic, social, and cultural rights. Alatas argued that certain characteristic problems of developing countries must be acknowledged in the application of human-rights criteria. Moreover,

Indonesia furiously resisted the linking of the rights issues to other areas of international relations, particularly economic relations. The human rights issue complicated the renegotiation of an ASEAN-European Community treaty on economic cooperation because the European Community insisted on the inclusion of a "human rights clause." The issue of human rights and East Timor was placed on the European Community's agenda by Portugal. In the European Community and other international forums, Lisbon pressured an unresponsive Indonesia to allow a UN-supervised act of self-determination in the province.

In March 1992, angered at Dutch prodding on human rights, Indonesia cut its aid relationship with the Netherlands and disbanded the twenty-four-year-old IGGI, the multinational group of lenders, which was chaired by the Dutch. A new group, minus the Dutch, called the Consultative Group on Indonesia (CGI—see Glossary), met in Paris rather than The Hague, after being established under World Bank aegis to continue IGGI functions. Jakarta was forcing a choice: participation in a liberalized Indonesian economy or insistence on the priority of human rights.

Also in March 1992, the DPR passed a new immigration law that was criticized by human rights groups. The law effectively barred from returning to Indonesia residents whom the government decided had been disloyal. Targets of the new law were seen as elements that ABRI would naturally want to ban: secessionist movement members and alleged communists.

Participation in ASEAN

Since its founding on August 8, 1967, ASEAN has been a major focus of Indonesia's regional international relations. In ASEAN, Indonesia, together with Brunei, Malaysia, the Philippines, Singapore, and Thailand, helped construct a regional multinational framework to facilitate economic cooperation, diminish intra-ASEAN conflict, and formulate ASEAN positions regarding perceived potential external threats. From the point of view of Jakarta—the site of ASEAN's general secretariat—ASEAN's predecessor organizations had been flawed. The Southeast Asia Treaty Organization (SEATO)—established in 1954 and composed of Australia, Britain, France, New Zealand, Pakistan, the Philippines, Thailand, and the United States—included only two Southeast Asian members. Established as part of the network of United States security alliances, SEATO was seen as violating the principle of nonalignment. The Association of Southeast Asia (ASA)—established in 1961 and composed of Malaya (as Malaysia was then known), the Philippines, and Thailand—was seen by

Jakarta as suspect because of the overlapping SEATO memberships of two of the members. In 1963 the proposed nonpolitical confederation Maphilindo (for Malaya, the Philippines, and Indonesia) was, for Jakarta and Manila, a tactic to prevent or delay the formation of the Federation of Malaysia. Manila had its own claim to Sabah (formerly North Borneo), and Indonesia protested the formation of Malaysia as a British imperialist plot. When Maphilindo failed, Indonesia turned to political and military Confrontation, an attempt to undermine the new state of Malaysia. Sukarno's radical anti-Western rhetoric, combined with the growing strength of the PKI, marked Indonesia as a disturber of the regional international order rather than a cooperative, peaceful contributor to it.

By 1967 Indonesia's disruptive stance had changed. ASEAN provided a framework for the termination of the Indonesian-Malaysian Confrontation, allowing Indonesia to rejoin the regional community of nations in a nonthreatening setting. Furthermore, the five founding members of ASEAN (Brunei became a member in 1984) now shared common policies of domestic anticommunism. The ASEAN process of decision making by consensus allowed Indonesia to dictate the pace of change within ASEAN. Some observers asserted that ASEAN moved only at the pace of its slowest member, which often was Indonesia. With ASEAN increasingly seen as a symbol of regional peace and stability, its maintenance became an end in itself in Indonesian foreign policy. Suharto became ASEAN's elder statesman by the time of ASEAN's 1992 Fourth Summit in Singapore. He was the only head of government at ASEAN's 1967 establishment or at the 1976 Bali First Summit who was still head of government in 1992.

Within the ASEAN framework, Jakarta was hesitant about committing itself to permanent structures and agreements that would facilitate functional integration. In particular, Indonesia was resistant to market sharing, fearing that its market, by far the largest in ASEAN, would be swamped by the exports of its more competitive ASEAN partners. It was only reluctantly that Indonesia agreed to accept in principle the ASEAN Free Trade Area (AFTA) contained in the fourth summit's document, "Framework Agreement on Enhancing ASEAN Economic Cooperation." Although committed to AFTA in theory, Indonesia, again as ASEAN's slowest-paced member, won a fifteen-year delay of the implementation of AFTA, and the mechanism of the Common Effective Preferential Tariff was adopted as the instrument of transition. This measure meant that a future exemptions list would dictate the

economic significance of items in the Common Effective Preferential Tariff's broad trade categories (see Direction of Trade, ch. 3).

Moreover, there was some question as to whether Indonesia was outgrowing ASEAN in terms of economic cooperation. Indonesia invested the Asia Pacific Economic Cooperation (APEC)—a grouping of ASEAN members and major East Asian and Pacific trading countries established in 1989—with greater significance than some of its ASEAN partners. It was Indonesia's desire to promote broad multilateral forums, such as APEC, that led it to resist more narrowly based schemes such as the East Asia Economic Grouping proposed by Malaysia, which in its original formulation had the exclusive trading bloc characteristics of Japan-based general trading companies. The Malaysian plan was downgraded at the Singapore ASEAN summit to a proposed caucus and referred to committee.

Although Indonesia was the last member nation of ASEAN to embrace fully the organization's economic potential, its leaders saw early that ASEAN could be used as a vehicle to promote a regional political identity. Through ASEAN, Indonesia became the most articulate advocate of a Southeast Asian Zone of Peace, Freedom, and Neutrality (ZOPFAN) and a Southeast Asian Nuclear-Free Zone (NFZ). The ZOPFAN ideal was enshrined in the 1971 Kuala Lumpur Declaration and given lip service by all ASEAN members. Since the July 1984 Seventeenth ASEAN Ministerial Meeting, Indonesia had insisted on giving the ZOPFAN ideal high priority. Between the third (1987) and fourth (1992) ASEAN summits, a major alteration in the regional political-military power presence of the former Soviet Union and the United States lessened the urgency for such a treaty. Although the Fourth Summit's Singapore Declaration of 1992 stated that ASEAN would continue to seek the realization of a ZOPFAN and NFZ, it would be done "in consultation with friendly countries, *taking into account changing circumstances* [emphasis added]."

Indonesia's vigorous push for these zones involved a number of foreign policy interests that corresponded to other policy goals. As a leading nonaligned power, one of Indonesia's consistent policy goals was to reduce regional dependence on external military powers. Second, the zones would improve the prospect of integrating Vietnam, Cambodia, and Laos into a wider, peaceful Southeast Asian international order. The zones responded to the residual xenophobic element of Indonesian nationalism. The accomplishment of a nuclear-weapons-free ZOPFAN would heighten Indonesia's profile as a middle power with international aspirations. One of the reasons why some ASEAN nations were reluctant to embrace

the zones fully was the perception that one outcome might be to enhance a regional hegemonic role for Indonesia. The question of Indonesia's future regional role was made more pertinent once the need for ASEAN solidarity on the issues posed by the Vietnamese invasion and occupation of Cambodia in 1978 passed.

Indonesia, ASEAN, and the Third Indochina War

Indonesian Minister of Foreign Affairs Mochtar Kusumaatmadja was chairman of the ASEAN Standing Committee in December 1978 when Vietnam invaded Cambodia, initiating what some observers called the Third Indochina War (1978-91). Mochtar's response, which became the official ASEAN response, was to deplore the Vietnamese invasion and call for the withdrawal of foreign forces from Cambodia. Indonesia and other ASEAN members immediately placed the issue on the agenda of the UN Security Council. It was not long after the invasion, however, that deep differences between Indonesia and Thailand, the "frontline state," regarding the long-term interests of ASEAN were revealed. Although compelled to make a show of solidarity with Thailand by its interest in sustaining ASEAN itself, Indonesia began to see the prolongation of the war in Cambodia, the "bleeding Vietnam white" strategy, as not being in its or the region's interests. Although never retreating from ASEAN's central demand of Vietnamese withdrawal from Cambodia and Khmer self-determination, Indonesia actively sought to engage the Khmers and Vietnamese and their external sponsors in a search for a settlement that would recognize legitimate interests on all sides. From 1982 to the signing of the Final Act of the Paris International Conference on Cambodia on October 23, 1991, Indonesian diplomacy played a central role in peace negotiations under both Mochtar and his successor, Ali Alatas.

Indonesia opened what came to be called "dual-track" diplomacy, in which it pursued bilateral political communication with Vietnam while maintaining its commitment to the ASEAN formula. By 1986 ASEAN had accepted Indonesia as its official "interlocutor" with Vietnam. The breakthrough came in July 1987, in the Mochtar-Nguyen Co Thach (Vietnam's minister of foreign affairs) communiqué in which Vietnam accepted the idea of an informal meeting between the Khmer parties, to which other concerned countries would be invited. This so-called "cocktail party" formula eventually led to the first Jakarta Informal Meeting in July 1988, at which the issue of the Vietnamese invasion and occupation of Cambodia—the external question—was decoupled from the Khmer "civil war"—the internal question. The second Jakarta Informal

Meeting took place in February 1989 after a change of government in Thailand had radically shifted Bangkok's policy toward a quick negotiated settlement. The second Jakarta meeting, chaired by Alatas, at which Vietnam accepted the notion of an "international control mechanism" for Cambodia, was followed by escalating diplomatic activity—efforts that led to the July 1990 Paris International Conference on Cambodia cochaired by Indonesia and France. The conference adjourned without making great progress, but by then international events influencing great power relations had outpaced ASEAN's and Indonesia's ability to coordinate. The five permanent members of the UN Security Council—working through Paris International Conference on Cambodia channels—took up the challenge of negotiating a peace settlement in Cambodia and, with Indonesia assuming a burdensome diplomatic role, fashioned a peace agreement that led to the deployment of forces of the UN Transitional Authority in Cambodia (UNTAC).

Indonesia's sense of achievement and pride in its role in bringing peace to Indochina was reflected in three events. On November 12, 1990, Suharto arrived in Hanoi for the first meeting between an ASEAN head of government and a Vietnamese counterpart since Premier Pham Van Dong visited Thailand's prime minister Kriangsak Chomanand in 1977. On March 15, 1992, Japan's Akashi Yasushi, the UN undersecretary general for disarmament and newly appointed head of UNTAC, arrived in Phnom Penh to be greeted by a color guard of Indonesian troops who were part of the first full battalion-sized contingent of UNTAC peacekeepers dispatched to Cambodia. At the peak deployment of foreign peacekeeping forces in late 1992, Indonesia had the largest force in Cambodia, with nearly 2,000 military and police personnel, representing 10 percent of the total. Finally, in mid-1991, fresh from diplomatic success in helping to end the Cambodian civil war, Indonesia took the initiative in seeking to open multilateral negotiations on competitive South China Sea claims, especially those claims involving jurisdictional disputes over the Spratly Islands.

Indonesia's gradually assertive role in the Cambodian peace effort demonstrated that Jakarta was not entirely willing to place its commitment to ASEAN solidarity above its own national interests. The *Jakarta Post*, often reflective of official positions, thundered in an editorial, "It is high time to spell out clearly to our ASEAN partners, as the largest archipelagic state in Southeast Asia with a growing national interest to protect, that we simply cannot afford the endless prolonging of the Kampuchean conflict." A caption in the *Far Eastern Economic Review* caught the mood more succinctly: "Indonesia in ASEAN: fed up being led by the nose." Less colloquially,

Indonesian analyst Dewi Fortuna Anwar wrote in the *Review*: "The challenge for Indonesian foreign policy in the future is how to maintain a balance between an ASEAN policy which requires goodwill and trust of the other members, and satisfying some of the internationalist aspirations of a growing number of the Indonesian political elite."

The settlement of the Cambodian conflict, Southeast Asia's own cold war, combined with the dramatically altered balance of power in the region, raised the question of what new political cement might hold ASEAN together in the post-Cold War environment in the early 1990s. Competitive claims by the nations involved in the jurisdictional competition in the South China Sea had the potential for conflict but did not pose the direct threat to ASEAN's collective security interest, as had the Vietnamese invasion and occupation of Cambodia (see Relations with East Asia, this ch.). General suspicion about China's long-term ambitions in the region was too diffuse to generate consensual policy. Indonesia, still insisting that ZOPFAN had validity for the region, initially looked coolly on United States efforts to enhance its military access elsewhere in Southeast Asia after the closure of its Philippines' military base. Jakarta did not want to create an even more legitimate opportunity for superpower intervention in its region.

Indonesia resisted the urging of some ASEAN members that ASEAN formally adopt a more explicit common political-security identity. Indonesia successfully opposed Singapore's proposal at the ASEAN Fourth Summit that would have invited the UN Security Council's five permanent members to accede to ASEAN's 1976 Treaty of Amity and Cooperation in Southeast Asia. Although very cool to the notion that some kind of Helsinki-like formula for regional peace and security could be extended to Asia, Indonesia agreed to a political and security agenda for ASEAN's annual Post-Ministerial Conference with its official partners. In part, Indonesian ambivalence about an ASEAN security role, together with its reluctance to mesh its economy with an ASEAN regional economy, arose from Indonesia's desire to keep its options open as it pursued its interests, not just as an ASEAN country, but as an increasingly important Asia-Pacific regional power. However, even as Indonesia looked beyond Southeast Asia to enhance its status as an important middle power, ASEAN still provided a valuable instrument for wielding noncoercive regional influence and gaining attention in the wider international arena.

Relations with Neighboring Nations

The question for Indonesia's neighbors in the early 1990s was

whether Indonesia's will to play a larger international role would also carry with it an inclination to become a regional hegemon. The memory of Sukarno's more expansive foreign policies and the forcible integration of East Timor into the republic served as cautionary indicators, particularly given the uncertainties of presidential succession.

Papua New Guinea

Since Papua New Guinea's independence in 1975, the 760-kilometer-long border between it and Indonesia's Irian Jaya Province has been a focus for mutual suspicion. Indonesia sought through diplomacy and intimidation to prevent Papua New Guinea from becoming a cross-border sanctuary for OPM separatists. Port Moresby's policy on the border situation was conditioned by fears of Indonesian expansionism and sympathy for West Papuan efforts to defend their cultural identity against Indonesianization. The Papua New Guinea government was also keenly aware of the military imbalance between the two countries.

Talks to draw up a new agreement to regulate relations and define rights and obligations along the border culminated in the signing on October 27, 1986, of the Treaty of Mutual Respect, Cooperation, and Friendship. The treaty was, in effect, a bilateral non-aggression pact in which the two sides agreed to "avoid, reduce and contain disputes or conflicts between their nations and settle any differences that may arise only by peaceful means" (Article 2), and promised that they "shall not threaten or use force against each other" (Article 7). The treaty also provided a basis for building a lasting structure of peace and cooperation. The structure for peace was enhanced by the 1987 ASEAN decision to allow Papua New Guinea to become the first non-ASEAN country to accede to the 1976 ASEAN Treaty of Amity and Cooperation in Southeast Asia. Indonesia continued in 1992, however, to block Papua New Guinea's access to full ASEAN membership although Papua New Guinea did have observer status.

The 1986 treaty left many issues unresolved. It did not solve, for example, the problem of Irian Jaya refugees in Papua New Guinea. Furthermore, Papua New Guinea did not agree to joint security operations in the border regions, and Indonesia did not give categorical assurance that its military, in all circumstances, would not cross the border. Criticism of Jakarta's policies in Irian Jaya persisted in Port Moresby. In addition, Indonesia was accused of covert intervention in Papua New Guinea domestic politics. Nevertheless, the tension and threat-filled atmosphere that clouded the first decade of bilateral relations was considerably dissipated.

A new ten-year border agreement was signed in 1990. In January 1992, in the course of a state visit by Papua New Guinea prime minister Rabbie Namaliu, the defense ministers of the two countries signed a "status of forces" agreement regulating rights and obligations when on each other's territory. Although the two parties denied that the agreement provided for joint security operations, the possibility of rights for Indonesian "hot pursuit" seemed to exist. At that time, Namaliu, reviewing the course of relations since the 1986 treaty, said, "ties have never been better."

Singapore and Malaysia

Singapore, ASEAN's own ethnic Chinese newly industrialized economy (NIE), is geostrategically locked in the often suspicious embrace of its Indonesian and Malaysian neighbors. Twenty-five years after the end of Confrontation, a racially tinged, jealous Indonesian ambivalence toward Singapore had been replaced by a fragile new economic and political warmth. Rather than see Indonesian economic development as part of a zero-sum game in competition with favored Singapore, Jakarta now sought to harness Singapore's capital, technology, and managerial expertise to its own abundant resources of land and labor in an economically integrative process of a growth triangle. Although the scheme theoretically included peninsular Malaysia's southernmost Johore state, the dynamic action of the growth triangle was on the islands of Indonesia's Riau Province—Batam, Bintan, and Karimun—to the south of Singapore (see *Industry*, ch. 3). As long as Indonesia perceived the growth triangle in terms of functional interdependence in joint economic development at the maritime core of ASEAN, local and regionalized economic cooperation strengthened a common interest in good relations. If, on the other hand, aggressive Singapore private and state capital were to take on exploitative characteristics, threatening to turn Indonesian cheap labor, cheap land, and cheap water hinterland into a colonial-style dependency, the old antagonisms toward Singapore were likely to reemerge in Jakarta.

New interdependencies between Indonesia and Singapore had also been forged in the unlikely area of security cooperation. An unprecedented degree of military cooperation through personnel exchanges, joint military exercises, and a joint air combat range allowed Singapore to demonstrate its value as an ally in a South China Sea security environment. Influential nongovernmental Indonesian voices openly promoted military trilateralism among Indonesia, Singapore, and Malaysia.

In the years after the end of Confrontation, Indonesian-Malaysian relations improved as both governments became committed to development and cooperation in ASEAN. This new warmth was reinforced by the natural affinities of race, religion, culture, and language. Irritants such as illegal Indonesian immigrants in Malaysia and Indonesian concerns about Malaysia's export of radical Islamic audio tapes existed, but intensive and extensive bilateral ties generally promoted good relations. Toward the end of the 1980s, however, a distancing between the senior leaderships of the two countries could be discerned as they took different approaches to the problems of interaction with their major trading partners and as Malaysia became uneasy about the developing relations between Singapore and Indonesia. Jakarta's 1992 rejection in ASEAN of Malaysia's East Asian Economic Group scheme underlined the different perceptions of the two capitals, differences that seemed to be growing. At the Nonaligned Movement summit, for example, Prime Minister Mahathir bin Mohammad's radically South and Islamic stance was in sharp contrast to Suharto's moderate position.

Australia

The most problematic of Indonesia's neighborly relations were those with Australia. The tension inherent in the population differential between the two countries in such close geostrategic proximity was exacerbated by the very different political cultures. Criticism of Indonesia in the 1980s and early 1990s by the Australian press, academics, and politicians provoked angry retorts from Jakarta. For example, a story in the early 1980s about corruption in the president's family in the *Sydney Morning Herald* led to a temporary banning of Australian journalists from Indonesia. The implicit long-term Indonesian "threat," as it appeared in Australia's defense planning documents, underlined a latent suspicion in Jakarta that Australian policy toward Indonesia was based on fear, not friendship. This perception constantly had to be allayed by official Australian visits to Jakarta. For example, there were bitter diplomatic exchanges between the two countries regarding unruly demonstrations over East Timor at the Indonesian embassy in Canberra in November and December 1991. Australian prime minister Paul Keating made a point, despite domestic criticism, of separating the Dili incident from Indonesian state policy and visited Jakarta in April 1992. Once there, he announced that bilateral ties between the two countries had "deepened and broadened."

The Philippines

Although a contiguous state and an ASEAN partner, Indonesia's relations with the Philippines were more distant than with its other immediate neighbors. The Philippines' aligned status with the United States and its simmering territorial dispute with Malaysia over the sovereignty of Sabah inhibited a close relationship with Indonesia and other ASEAN members. Most worrisome for Jakarta was the seeming inability of the Philippines' government to put an end to its internal wars. Indonesia viewed the growth of the communist New People's Army as destabilizing for the region. Moreover, the Muslim insurrection in the Philippines' south had implications for regional territorial integrity as well as Indonesian Muslim politics.

As the Ferdinand Marcos regime came to an end in 1986, Jakarta associated itself with the other ASEAN states in welcoming a peaceful transfer of power to Corazon Aquino. Jakarta was the first capital visited by the Philippines' new president, unprecedentedly even before Washington, and Suharto took the opportunity to press the urgency of defeating the New People's Army. To show support for Aquino's government, Suharto insisted that the 1987 ASEAN Manila Summit meeting go forward despite apprehensions in other ASEAN capitals about the security situation. Jakarta was not displeased that Aquino was succeeded in 1992 by Fidel Ramos, who, as chief of staff of the Armed Forces of the Philippines and later secretary of national defense, was well-known to ABRI's senior leadership.

Relations with East Asia

China

Indonesia's diplomatic relations with China were suspended in 1967 in the aftermath of the 1965 attempted coup d'état. Beijing was suspected of complicity with the PKI in planning the coup and was viewed by the new ABRI-dominated government as a threat through its possible support of a resurgent underground PKI, both directly and through a "fifth column" of Chinese Indonesians. Jakarta repeatedly demanded an explicit disavowal by Beijing of support for communist insurgents in Southeast Asia as its sine qua non for a normalization process. Underlying the Indonesian policy was unease about China's long-range goals in Southeast Asia. The break in relations persisted until 1990, when, in the face of renewed mutual confidence, the two countries resumed their formal ties. The normalized relations boded well for resolving the status of some

300,000 stateless Chinese-descent residents of Indonesia and improving political and economic relations between the two nations. An exchange of visits by Chinese premier Li Peng to Jakarta in August 1990 and by Suharto to Beijing in November 1990 symbolized the dramatic alteration that had taken place.

On the Indonesian domestic scene, there was growing pressure for normalization in order to fully exploit the developing economic relationship with China. Even when relations were totally frozen, two-way trade had taken place through third parties, especially Singapore and Hong Kong. Indonesian businesses operating through the Chamber of Commerce and Industry in Indonesia (Kadin) were anxious to maximize the value of the trade by cutting out third parties.

At the international level, at least three factors had intervened to change Indonesia's posture. First, Indonesia, as a vigorous diplomatic player in the Cambodian peace process, had a strong interest in a successful outcome. To achieve that goal, China, the Khmer Rouge's sponsor, had to be brought along, and Indonesia's mediating role was greatly enhanced by normalization of relations with China. Second, Indonesia's long-held ambition to become titular leader of the Nonaligned Movement was furthered by normalization of relations with China, the movement's largest member. Finally, Jakarta's claim to regional leadership could not be asserted confidently without normalized relations with Beijing. For example, it would have been impossible for Indonesia in 1991 to have interjected itself into the South China Sea territorial disputes as an "honest broker" in the absence of relations with China, the most powerful nation involved in the South China Sea (see National Defense and Internal Security; The Air Force, ch. 5). All of these motives were at work at a time when the overarching structure of great power relations in the region was undergoing significant change. As the Soviet Union disintegrated and the United States presence diminished, China's relative power was increased, and Jakarta's need to deal officially with Beijing overcame the worries of the last die-hard anticommunist and anti-China elements in ABRI.

Japan

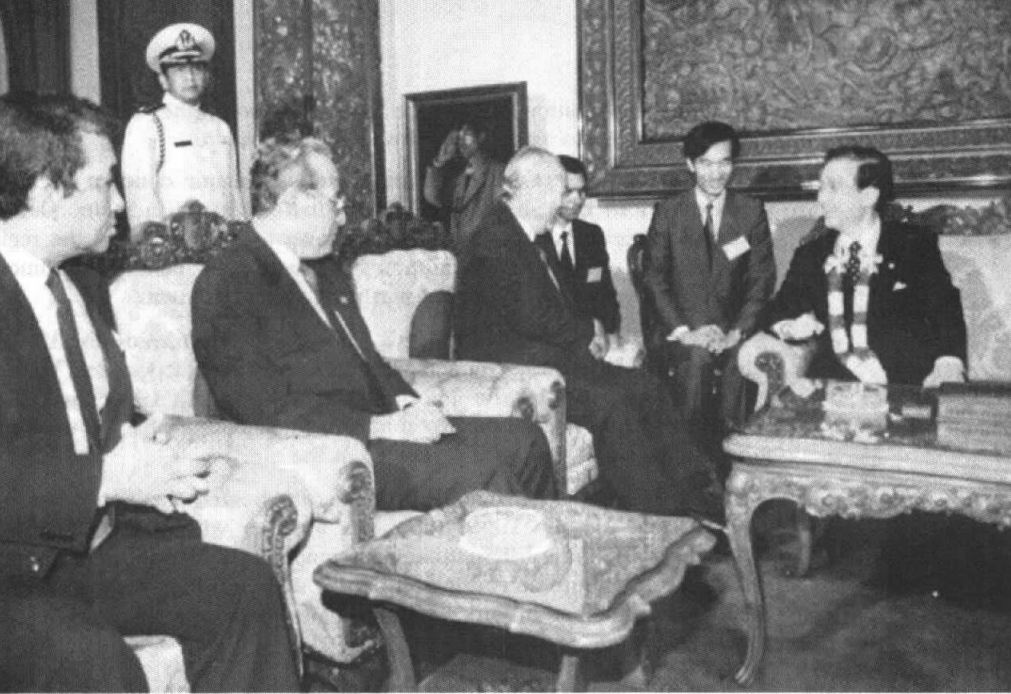
The quality of Indonesia-Japan relations in 1992 was best measured by statistics on trade, investment, and the flow of assistance. Japan was the destination of more than 50 percent of Indonesia's exports, the single largest foreign investor, and by far the most important donor of development assistance (see Foreign Aid, Trade, and Payments, ch. 3). In return, as the dominant foreign economic

presence in Indonesia, Japan was subject to all the expectations and resentments attendant on that status. For example, Indonesia sought greater technology transfer as part of investment. The association of Japanese firms with politically well-connected Indonesians led to charges of exploitation. With their memories of World War II and the anti-Japanese demonstrations during Tanaka Kakuei's 1974 visit, the Indonesian leadership was keenly sensitive to the possibility of a disruptive anti-Japanese backlash (see *The Japanese Occupation, 1942-45; The State and Economic Development*, ch. 1).

In the long term, the critical issue for Indonesia in the early 1990s was access to Japan's markets for manufactured goods and the debt owed to Japanese lenders. Yet, Indonesia shared the ASEAN-wide concern about the implications for Southeast Asia of Japanese remilitarization and was ambivalent about Japanese military participation in UN peacekeeping operations in Cambodia. From Tokyo's point of view, there was only indirect linkage between Japan's economic presence and the political relationship between the two countries, but Japan was aware of Indonesia's geostrategic straddling of the main commercial routes to the Middle East and Europe. Possibly, this concern explained why Japan seemed the least concerned of Indonesia's major economic partners about the human-rights issue in general and East Timor in particular and explicitly rejected the linking of human rights with economic assistance.

Relations with the United States

Indonesian relations with the United States were generally warm and cordial after the establishment of Suharto's New Order government. In many respects, the United States during the Cold War was the least threatening superpower, assisting the economic recovery of the country both bilaterally and through the IGGI. In 1991 United States trade with Indonesia was greater than its trade with all of Eastern Europe. Despite its professed nonalignment, Indonesia also recognized the importance of the United States military and political presence in Southeast Asia in maintaining the regional balance of power. There were issues, however, which divided the two countries in the early 1990s. The United States rejected Indonesia's archipelagic claims to jurisdiction over the vital deep-water straits linking the Pacific and Indian oceans. During this period, the United States also vigorously opposed Indonesia's efforts to promote the NFZ through ASEAN. On the other hand, Indonesia, like other developing countries in the region, was troubled by what it saw as creeping protectionism in United States trade



*President Suharto, accompanied by Minister of Foreign Affairs Ali Alatas (with glasses), meets Japanese prime minister Kaifu Toshiki during a May 1990 visit to the Merdeka Palace in Jakarta.
Courtesy Indonesian Department of Information*

policy. This concern led to a bruising diplomatic contest over the issue of the protection of intellectual property. Ultimately, Jakarta bent to the implied threat of sanctions specified in United States trade law.

The human-rights and East Timor issues continued to irritate political communication between Jakarta and Washington. Indonesia resented the attention given to this issue by the United States Congress, which in turn was roused to action by human-rights advocacy groups. For Indonesia, the persistent allegations belied the sincerity of United States protestations about Indonesia's contributions to regional peace and security. Efforts to sanction Indonesia by cutting off military assistance or threatening its Generalized System of Preferences status were viewed in Jakarta as anti-Indonesian. The official United States government position, as stated in March 1992 by Deputy Assistant Secretary of State Kenneth M. Quinn, was that cutting ties, "would not produce the desired results which we all seek and could have negative consequences: for United States Indonesia relations; for our limited influence in Indonesia; and most importantly, for the people of East Timor." While the United States government wished to work

cooperatively with the Indonesian government to promote development and respect for human rights in East Timor, it also had to be able to work productively with the Indonesian government on a broad range of issues because it was an important regional power and one with a growing extra-regional voice.

The United States Congress seemed more reluctant than the executive branch to separate the issue of broader interests with Indonesia from the problem of human rights. Congressional and NGO critics argued that United States policy rested on an out-of-date view of Indonesia's strategic importance now that the Cold War had ended. Furthermore, these groups asserted that the United States should use its influence to push a democratic agenda. Later in 1992, United States legislation was discussed that would have terminated all of Washington's aid and trade concessions to Jakarta and required the United States to oppose World Bank loans to the country. In reality, only Indonesian participation in the International Military Education and Training (IMET) program was cut—a relatively insignificant sanction in terms of its functional impact on Indonesia's military, but one fraught with negative symbolic value as an expression of United States interests in the bilateral relationship (see *Foreign Military Relations*, ch. 5).

In 1996 Indonesia will have ended the third decade of New Order government. By that time, more than halfway through the 1993–98 presidential term of office, the issue of presidential succession might be resolved. This could unblock the political logjam that in the early 1990s seemed to stall the process of domestic political change—*keterbukaan*—set in motion by the government's development policies. A May 1992 World Bank report stated that by the end of the decade Indonesia would be a middle-income country. This prediction seemed to be on target. Indonesia was beginning to play a middle-power role regionally and even globally in some interest areas. More and more Indonesians were likely to be socialized to the country's modern political culture, which increasingly resembled the newly industrialized economies. The trends seemed to indicate that the stability deemed so necessary for development will depend upon a government more responsive to diversified public interests than simply to those of the ABRI-bureaucracy-presidential palace elite.

* * *

The dominance of the military in Indonesian government and politics has attracted great scholarly interest. Standard works include Ulf Sundhaussen's *The Road to Power: Indonesian Military Politics*,

1945–1967, Harold A. Crouch's *The Army and Politics in Indonesia*, and David Jenkins' *Suharto and His Generals: Indonesian Military Politics, 1975–1984*. Journal articles, such as John B. Haseman's "The Dynamics of Change: Regeneration of the Indonesian Army" and Harold A. Crouch's "Military-Civilian Relations in Indonesia: The Late Soeharto Era," are representative of the breadth of discussion and analysis of the military's potential role.

General surveys of contemporary Indonesian politics include Leo Suryadinata's essay in Diane K. Mauzy's *Politics in the ASEAN States*, Ulf Sundhaussen's "Indonesia: Past and Present Encounters with Democracy" in *Democracy in Developing Countries, 3: Asia*, and "Indonesia" in Clark D. Neher's *Southeast Asia in the New International Era*. Richard Robison's *Indonesia: The Rise of Capital* has become the classic statement on the political economy. The political party system is treated in both David Reeve's *Golkar of Indonesia: An Alternative to the Party System* and Leo Suryadinata's *Military Ascendancy and Political Culture: A Study of Indonesia's Golkar*. Two collections of papers from Australia's Monash University's Center of Southeast Asian Studies concentrate on the modernizing secular trends operating on Indonesian politics. They are Richard Tanter and Kenneth Young's *The Politics of Middle Class Indonesia* and Arief Budiman's *State and Civil Society in Indonesia*. R. William Liddle gives a succinct overview of Indonesian political culture in *Politics and Culture in Indonesia*. Benedict R.O'G. Anderson's provocative work on Indonesian political culture, including his seminal "The Idea of Power in Javanese Culture," are collected in *Language and Power: Exploring Political Cultures in Indonesia*. As statements on Islamic political culture in Indonesia, a conference paper by Howard M. Federspiel, "The Position and Role of Islam in Suharto's New Order at the 21st Year," can be contrasted with Ruth T. McVey's "Faith as an Outsider: Islam in Indonesian Politics" in James P. Piscatori's *Islam in the Political Process*. One of the most current books is *Indonesian Politics under Suharto* by Michael R.J. Vatikiotis.

Human rights and East Timor have attracted attention, some from scholars but most from advocacy groups. Of general note is a work commissioned by the International Commission of Jurists: Hans Thoolen's *Indonesia and the Rule of Law: Twenty Years of 'New Order' Government*; Asia Watch's *Human Rights in Indonesia and East Timor*, edited by Diane F. Orentlicher; and the annual *Country Reports on Human Rights Practices* prepared for the United States Congress by the Department of State.

Michael Leifer's *Indonesia's Foreign Policy* provides excellent background analysis and Dewi Fortuna Anwar's *Indonesia and the Security of Southeast Asia* is an up-to-date book-length study on Indonesian

foreign policy. A political economy perspective is given by Dwight Y. King's "Indonesia's Foreign Policy," in David A. Wurfel and Bruce Burton's *The Political Economy of Foreign Policy in Southeast Asia*.

Annual surveys of Indonesian political events can be found in the February issues of *Asian Survey* each year and the annual *Southeast Asian Affairs* [Singapore]. For current politics, the *Far Eastern Economic Review* [Hong Kong] and the *Asian Wall Street Journal* [Hong Kong] are extremely useful. (For further information and complete citations, see Bibliography.)