EAST-WEST CENTER

Indonesia in the 1990s: More than Meets the Eye

ADAM SCHWARZ

AsiaPacific

ISSUES

Analysis from the East-West Center
No. 22
August 1995

SUMMARY Indonesia, the fourth largest country in the world and a leader in Southeast Asia, is still largely unknown to most Americans. Yet, as a key player in the Asia-Pacific Economic Cooperation forum Indonesia has had a central and positive role in the promotion of American economic objectives in Asia and is influential in other areas of the U.S. foreign policy agenda. The country, which cast off Dutch colonial rule 50 years ago this month, is now anticipating another transition, the passing of power from its long-time President Suharto to an as-yet-unknown successor. When and how this occurs will have implications for other sensitive issues in the country, among them ethnic Chinese business activity, which many indigenous Indonesians resent; the rising role of Islam in politics; and the battle to influence economic policy. Though politically stable for decades, the country has an intricate web of politics, economics, and religion that has never been tested by a presidential succession. As a regional power facing change, Indonesia demands attention.

Indonesia is a powerful actor in a region of the world that, especially now in the post-Cold War era, is becoming increasingly important to America and the West. The country has made tremendous economic strides from the impoverished, agrarian nation it was 30 years ago. Poverty levels have declined markedly, income per capita has risen several times and is growing rapidly. Massive investment has poured into physical infrastructure such as roads, bridges, and power stations, as well as social infrastructure, such as schools and hospitals. Indonesia is today a new, promising market for foreign investors, seemingly on the same fast-track to economic success as Taiwan and South Korea and, more recently, Thailand and Malaysia. Yet Indonesia remains poorly known outside Asia and is not very well understood in Asia either.

Indonesia in Brief

People: Nearly 190 million Indonesians occupy 6,000 of the 13,000 islands in the archipelago. Settlement is concentrated on Java and Bali. *Bahasa Indonesia*, the national language promoted since independence, unites the population, which speaks some 25 languages and 250 dialects. The country is secular, though 90 percent of people are Muslims. The country is also home to one of the largest ethnic Chinese communities in Southeast Asia.

Modern political history: Dutch colonial rule extends from the 1600s until surrender to the Japanese in 1942. On August 17, 1945, following the Japanese surrender, Indonesian independence is declared and President Sukarno takes office. Following a period of parliamentary democracy (1950–1959) that includes Christian and Islamic rebellions and mutinies in Sumatra, Sukarno calls off efforts to draw up a new constitution. Under his authoritarian "Guided Democracy" rule (1959–1965) Sukarno's socialist rhetoric grows as does the power of the communist party, alarming Muslim and military camps. From an attempted left-wing coup and a counter-strike by the military emerges General Suharto, who erodes Sukarno's power by forming a "New Order" coalition of Muslims, students, economic managers, and the military. By the time Suharto formally succeeds Sukarno as president in 1967, half-a-million communists and party sympathizers have been killed.

American Interests

A fuller understanding of what makes Indonesia tick would be valuable for the United States for many reasons. One is the U.S. government's high hopes for the Asia-Pacific Economic Cooperation forum. The success of APEC has emerged as one of the top priorities of the Clinton administration's Asia policy. The 18 member-nations of APEC already account for some 40 percent of world trade, and the figure is likely to rise.

As some in Jakarta see it, the United States is simply not paying enough attention to Indonesia

Within APEC, the Association of Southeast Asian Nations plays a key role, and within ASEAN, Indonesia plays the key role. Indonesia's economy is the largest of any ASEAN nation and its population dwarfs those of other members. President Suharto, as the region's elder statesman, is the undisputed first among equals in the circle of ASEAN leaders.

At the 1994 summit in Bogor, Indonesia, Suharto sided with the United States (and Australia and Singapore) in pushing for trade liberalization. He rejected the go-slow advice offered by countries such as Malaysia and China and instead threw Indonesia's influence behind proposals to create a regional free-trade area in Asia by 2020.

Regional security is another U.S. interest in which Indonesia plays a key role. In addition to its geostrategic importance—the country contains the three major straits connecting the Indian and Pacific oceans—Indonesia, along with other ASEAN members, was a leader in establishing in 1994 the ASEAN Regional Forum, the inaugural attempt by Asia-Pacific nations to discuss security issues. The ASEAN nations, which form the core of the Regional Forum, will be able to dictate the pace at which the Forum develops.

And, finally, Indonesia figures prominently in other areas of the U.S. foreign policy agenda, simply because of its weight in the Southeast Asian region. These agenda items include, among others, the promotion of human rights, sustainable development, trademark and copyright protection, and labor association freedom.

U.S.-Indonesian relations. On all of these issues, the United States has made its views known to Indonesia, sometimes to a cool response, sometimes

not. But, regardless of the merit of individual U.S. initiatives, it is a commonly heard complaint in Jakarta that the U.S. approach to Indonesia is not as effective as it could be.

It is not that Indonesia doesn't value its relationship with the United States, it does. The United States remains Indonesia's largest export market and an important source of foreign direct and portfolio capital. Rather, the problem, at least as many Jakarta opinion-leaders see it, is that the United States is simply not paying enough attention to Indonesia, that Washington is too distracted with other foreign policy priorities, and that its officials are not sufficiently engaged with the Indonesian situation.

As the perception grows that Suharto's rule is nearing an end, demands for change are growing

But if the United States is to successfully implement its Asia policy, it will need a deeper involvement with more of the major countries of the region, and not just with the economic behemoths of Japan and China. It is running the danger of taking Indonesia for granted, and this is not a recipe for smooth and mutually beneficial bilateral relationships.

That is a partial answer to the question, why should we be looking at Indonesia? The other question, of course, is what do we see when we do look at Indonesia. The short answer: a great deal. And even then, there is more going on than meets the eye.

Stability and Change Under President Suharto

Ever since coming to power in 1966, Indonesia's President Suharto has run a pretty tight ship. He assumed the presidency with the view that for Indonesia to progress economically, it needed a prolonged period of political stability. He proceeded to enormously strengthen the power of the state, consolidate his hold over the armed forces, weaken the legislative and judicial branches of government and make them answerable to him, and make any and all political activity outside carefully prescribed rules of conduct a difficult and often dangerous occupation. There is no doubt that Indonesia has been more politically stable under Suharto and his so-called New Order government than it was in the years between independence in 1945 and 1965. It is equally clear that Indonesia's economy has broadened, deepened, and strengthened dramatically.

But as Suharto, who is now 74 years old, nears the end of his time in office, the political structure he has established is showing considerable wear. Admittedly, as we look at Indonesia from the outside in the 1990s, it is hard to see through what is still a pretty calm surface-level of politics. And it is easy to assume that the political impulses that made Indonesia so difficult to govern in the 1950s and early 1960s have been tamed if not eradicated. Easy, but wrong. In fact, there is a great deal going on below that surface.

Real pressures for change are growing steadily. Some of these pressures are the natural by-products of the economic development over which Suharto has presided. As in other Asian countries in recent years, a growing middle class is beginning to flex its muscles and demand a less paternalistic form of government. Other pressures are coming from groups who feel they have been shortchanged under Suharto's rule and believe they can better get what they want under a new leader. Who are these people? They include students, professors, and journalists tired of the constraints on their activities and the intellectual rigidity of university life; businessmen and economists frustrated by rampant corruption and of the personal connections required to get ahead in business; nongovernmental activists of all kinds anxious to have more room to maneuver; even elements of the military that feel that Suharto has been in power too long and is increasingly becoming a hindrance to, rather than a facilitator of, development. As the perception grows that Suharto is nearing the end of his rule, all these actors are beginning to put forward their demands, and to put them forward in increasingly vigorous terms.

Confronting the Issues

Some of the major policy and political issues in the years ahead include: first, the debate between the top rank of indigenous Indonesian businessmen and the Indonesian-Chinese business community; second, a resurgence from some quarters of the Islamic community for more political influence, if not outright power; third, the merits of Indonesia's

technocratic economic policies and the pros and cons of having the government take a more direct role in the industrialization process, particularly in the high-technology area; and fourth, the role of the individual and individual rights vis-à-vis the larger community of the Indonesian nation. Specific features of the last debate include issues such as the rule of law, labor rights, human rights, and freedom of the press. In all four of these areas Suharto's role is crucial. Thus, standing above all these issues is the most important challenge facing Indonesia today: that of the presidential succession.

But first, a discussion of three of the issues outlined above.

The Chinese question. Numerically, ethnic Chinese Indonesians account for only about 3 percent of a total population of almost 190 million. Their economic influence far outweighs what their numbers might suggest, however. That Indonesian-Chinese businessmen dominate Indonesia's economy is undisputed; by how much exactly is harder to say. Some estimates say the ethnic Chinese control about 75 percent of private sector activity, and, it is fair to say that resentment against the Chinese is widespread. This was highlighted most recently in April 1994 when a labor demonstration in Medan, the capital of North Sumatra, degenerated into an anti-Chinese riot in which a Chinese businessman was killed.

Many indigenous Indonesians feel Chinese wealth has been granted by Suharto, not earned

How the Chinese attained their economic dominance is hotly disputed. The Chinese say the reason is no more complex than that they are good at business. There is something to this but it doesn't quite cover the whole story. The *pribumi*—as indigenous Indonesians are known—especially many of the leading *pribumi* businessmen, see the situation quite differently. They say the Chinese became so powerful because of Suharto's patronage, because he gave them better access to government contracts, commodity monopolies, and credit from state-owned banks in the 1970s and 1980s. Further, they say, Suharto did this because he wanted to see the private sector develop and he knew that the Chinese would never become a political threat to him, unlike, say, a powerful *pribumi* business lobby.

Thus it's possible to say that, at least at the elite level, the *pribumi*/Chinese issue is not primarily an ethnic issue, but rather an economic one. The resentment of the leading *pribumi* businessmen toward their ethnic Chinese counterparts is not so much because they are Chinese but because the Chinese are so much wealthier than the *pribumi*, who feel that Chinese wealth has not been so much earned as it has been granted to them by the political leadership. The positive side of this story, if you can call it that, is that hostility toward ethnic Chinese is not an indelible cultural trait of the Javanese and other native Indonesian ethnic groups. It may well be possible to lower the temperature of the Chinese question by moving away from the paternalistic, personal way Suharto rules Indonesia, and moving toward a more transparent, meritocratic system in which the ultimate arbiter in the world of commerce is not Suharto but the law. Such a shift, of course, requires a real change of approach on Suharto's part, and to date we have seen little to suggest that he is ready to make such a shift.

Islam. A second and perhaps even thornier issue facing Indonesia concerns the role of Islam. One of the most commonly cited statistics about Indonesia is that, with almost 90 percent of its citizens claiming to be Muslims, it is home to the largest Muslim community in the world. For all that demographic power, though, Islam as such is not a particularly potent political force in Indonesia. The president has historically been, and is likely to remain, a Muslim, but Islam is not the state religion. Indonesia has a good record of religious tolerance and there are thriving, if small, communities of Catholics, Protestants, Hindus, and Buddhists.

The question of why Islam in Indonesia is not more of a political force is a complex and contentious one. Islamic factions in search of political power have been depoliticized in Suharto's Indonesia just like almost everybody else. The military, always watchful for signs of fundamentalist Islamic activity, has acted quickly and strongly against those considered radical Muslims. But repression alone doesn't provide a very satisfactory answer. A better reason is that Islam in Indonesia is a very heterodox

faith. To be sure, the camp that wants Islam to be an active political player in Indonesia is well-represented. But there are other, also large, Islamic groups that have no real problem with the government's instructions that Islam remain a religious, social, ethical force that refrains from participating in the formal political sphere.

Islam has come to be seen as a safe haven from which politics can be played

In recent times, the reality of Indonesian Islam as a heterodox faith has become obscured as media attention has focused on a vocal group of Indonesian Muslims with political aspirations. For many of these Muslims, Islam has come to be seen as a safe haven from which politics can be played. At the same time, Islam has gone through a revival on university campuses: for example, after the government acted to squelch most political activity on university campuses in the late 1970s, many politically active students began to channel their energies through the campus mosque, instead of the student center.

More recently, we have started to see some overt politicking going on with Islam, a trend clearly illustrated by the formation in 1990 of the Indonesian Association of Islamic Intellectuals, known more commonly in Indonesia by its acronym ICMI. The political explanation of ICMI's beginnings and continued existence is not the only one, but it does have a wide following and it does tend to show how politics is creeping back into the system as Suharto nears the end of his rule.

Many believe that Suharto sponsored the formation of ICMI, and placed his trusted Minister of Research and Technology B.J. Habibie at the top of it, because he wanted to develop a new constituency within certain Islamic groups. He did this, so the argument goes, because he was worried about a dwindling of support for him from within the military. Whether or not he over-reacted to what he thought was going on in the military, his championing of ICMI has clearly rattled parts of the military as well as other prominent Islamic groups, many of which see the ICMI crowd as power hungry and a threat to Indonesia's tradition of state-church separation. Suharto has taken a gamble here that he can contain and blunt the political aspirations of ICMI members even while using ICMI as a political support group. Many in the Indonesian elite and in the military fear that the gamble will backfire, and that, in an attempt to shore up his own political position, Suharto has in effect let the so-called cat of political Islam out of the New Order bag.

Economic policy. A third area of uncertainty concerns the direction of economic policy. For as long as Suharto has ruled, it has been common to describe economic policymaking in Indonesia as a seesaw battle between a group of neoclassical-oriented economists referred to often as the technocrats, and a variety of other policymakers who have in common a desire to see the government retain a significant role in the economy. The technocrats, though by no means laissez-faire free traders, have successfully pushed Indonesia down the path of export-led industrialization. Comfortable with letting the private sector play the leading role in the economy, they are intellectually inclined to let the market determine how capital is to be allocated. Their policy competitors, who once were dubbed nationalists, are now more likely to refer to themselves as technologists or technologues. The leader of this group in recent times is Minister Habibie, who appeals to a populist wing of public opinion that is swayed by his dreams of Indonesia as a technologically advanced industrial powerhouse. He and his followers believe the government must take an active role in protecting and nurturing a handful of so-called strategic industries.

Since the mid-1980s, when economic reform really started to pick up momentum, the technocrats have had the edge. Handed the reins of economic policy by Suharto, they have dismantled whole layers of trade obstacles, energized a financial services industry, and cleaned up the welcome mat for foreign investors. The result has been years of excellent economic growth. Although the technocrats have no real political constituency of their own, they do have a good record to stand on. It is this record that has so far kept them just out ahead of Minister Habibie and his followers. A very big question facing Indonesia, and a particularly pertinent one for foreign investors, is whether the technocrats can stay out in front.

Again, like so many other things in Indonesia, good answers are elusive. Yes, the technocrats do have a good record but they are not invincible, and a process of rapid political change could see their policy influence diminish. What are the strikes against them? First of all, the technocrats are seen as an inextricable part of Suharto's team; while they get the credit for many of the accomplishments of the New Order, they also share the blame for the less praiseworthy aspects of Suharto's rule. For example, the technocrats are criticized heavily for being too weak in the face of high-level corruption, for not having the guts to confront Suharto on this issue. They also get rapped for opening up the banking system too quickly. Each time there is a new scandal in the banking world, and there have now been several major ones and there will surely be more, the technocrats' management of the country's financial infrastructure gets attacked. From the strongly pro-reform crowd, the technocrats get criticized for going too slow, for not seizing the moment by tackling economic inefficiencies in the system while they still have the upper hand.

The technocrats have conducted policy for a long time in a state of virtual isolation from political and social forces. This doesn't mean they haven't responded to these forces—only that they haven't had to respond to maintain their positions within the government. But this degree of isolation is not likely to continue for much longer. As pressures for change build up, and as Indonesia moves toward a more pluralistic political system, the technocrats will have to become more responsive to political concerns. If they cannot, then others may be elevated by Suharto to play this role. And they may have a meaningful impact on economic policy.

The technocrats are criticized for not having the guts to confront Suharto on corruption

Here again, Habibie is the leading contender. He would bring with him the support of his fellow technologues, support that Suharto may find necessary to cultivate. And as the head of the Indonesian Association of Islamic Intellectuals (ICMI), he may be able to generate support in that circle, or at least blunt this group's desire to oppose Suharto. In return for this service, Habibie may demand more say over budgetary allocations, a trend that would not serve the technocrats' purposes and one that would come as an unwelcome surprise for many private-sector investors. (Habibie's ability to elude normal budgetary channels is well known. Last year, for example, Habibie persuaded Suharto to shift US$190 million from a fund intended for reforestation efforts to his financially ailing aircraft manufacturing plant near Bandung.)

It All Depends on the Presidential Succession

Even though it is relatively easy to see new political forces and actors emerge—such as politically savvy Muslims or *pribumi* lobbyists—it remains very difficult to confidently predict what they mean, where Indonesia is going. That is because the greatest of the unpredictabilities facing Indonesia is Suharto himself, and more concretely the manner in which Suharto will leave power. Indonesia has had in its 50 years of independence only two presidents and the transition between them, which saw the massacre of several hundred thousand members or suspected members of the Indonesian Communist Party in 1965 and 1966, was Indonesia's darkest moment as a nation. Clearly, nobody would like to see a repeat of that catastrophe. But while the topic of Indonesia's next presidential succession dominates private discussions within the political elite, it is still not considered suitable for public debate. A real danger, and a widely recognized one, is that the institutional mechanisms for presidential succession in Indonesia are untried and distrusted.

It is unlikely that anyone has a very clear idea of how the succession will play itself out, Suharto included. That unpredictability is a problem, both economically and politically. From a potential investor's point of view, making note of a history of political stability is not the same thing as saying that Indonesia is politically stable. Before that can be said, that stability needs to be demonstrated by a successful transition of power. Until then, investors will be understandably nervous. This uncertainty works against long-term investors and in favor of short-term, footloose-type industries, and that is not a positive development for Indonesia.

In a political sense, many of the other items on

the political agenda—the role of the ethnic Chinese, political Islam, the army's role in politics, an indigenous definition of human rights, and a lasting solution to the troubles in East Timor—are being held hostage to the succession issue. The reason is simple: Because Suharto's domination of the political scene is so strong, the direction of any major policy in Indonesia remains highly dependent on what Suharto does and does not do. To put it another way, in analyzing topics such as the ethnic Chinese or political Islam, to give two important ones, it is no longer possible to isolate them from the succession issue.

The topic of presidential succession is not considered suitable for public debate

Imagining the future. Two broad succession scenarios, by no means an exhaustive list, help illustrate how the manner of Suharto's succession will determine Indonesia's near-term political directions. In the first, Suharto is able to maintain broad control over the succession process. He is able to influence, if not choose outright, who his successor will be, and he will be able to ensure that conflicting noises are kept to a minimum. In this scenario, the basic relationships of New Order Indonesia remain largely intact: the executive branch remains predominant, the army maintains a major role in the bureaucracy and other political institutions, Islam remains a religious and social force rather than a political force, and the process of political liberalization, or openness, not only remains a very gradual one but its pace is determined from above, rather than below.

But managing his own succession is a task Suharto has never attempted, and despite his undeniable political skills it is far from clear that he can pull it off seamlessly. It is not hard, then, to imagine a second succession scenario with different characteristics: If Suharto chooses not to walk off the stage of power, he may be pushed. The harder that pushing must be, the more disruptive of the Indonesian political architecture the succession process is likely to be. Those who want Suharto out of the way, be they anti-Suharto elements in the military, reformist politicians in the parliament, nongovernmental activists, labor leaders, alienated members of the intellectual elite, or whomever, will need to canvass for support. This will lead, inevitably, to a different kind of politics, almost surely a messier brand of politics than we see today. It is likely to produce a president significantly weaker than Suharto and a different set of relationships between the major political actors. We could see, in this scenario, a government more agreeable to a formal affirmative action program which would attempt to weaken the economic clout of the Indonesian-Chinese and strengthen, if not create, an indigenous capitalist class. We could see certain Islamic groups ending up with formal positions in the political power structure. We could also see new actors enter the political process in a meaningful way, be they labor groups, business lobbies, student associations, or others.

What we will see, of course, is anyone's guess. Suharto senses the pressures building and, while he has moved against them in certain instances, he has yet to show he can neutralize them on a more or less permanent basis.

To return to the point made earlier, a great deal hinges on how Suharto leaves power. He still has considerable latitude for movement. The mistake to watch out for is the assumption that Suharto will have his own way in managing the succession process. On the contrary, signs are already emerging that suggest that Suharto cannot have it all his own way for much longer and, secondly, that change is coming to Indonesia, probably sooner than many people expect.

About this Publication

The AsiaPacific Issues series reports on topics of regional concern. The views expressed are those of the author and not necessarily those of the Center.

Telephone: (808) 944-7197
Facsimile: (808) 944-7376
E-mail: ewcbooks@ewc.bitnet

Series Editor: Elisa W. Johnston

Source for box on page 2: The Far East and Australasia, *1994. 25th ed. Europa Publications Limited.*

Available AsiaPacific Issues

No. 8, "America's Trade: Markets Count More Than Deficits," by Bernard K. Gordon, October 1993.

No. 9, "Pacific Summit in Seattle: Testing Clinton's Asia-Pacific Policy," by Richard W. Baker, November 1993.

No. 10, "Looking for Pollution Where the People Are," by Kirk R. Smith, January 1994.

No. 11, "UN Peacekeeping Missions: The Lessons from Cambodia," by Judy L. Ledgerwood, March 1994.

No. 12, "U.S.–Japan Trade: Get Smart, Not Just Tough," by Paula Stern, April 1994.

No. 13, "Marketing the Rainforest: 'Green' Panacea or Red Herring?" by Michael R. Dove, May 1994.

No. 14. "Resource-rich Central Asia Opens to the World" by James P. Dorian, Ian Sheffield Rosi, and Changzoo Song, July 1994.

No. 15. "Do Population Programs Violate Women's Human Rights?" by Karen Oppenheim Mason, August 1994.

No. 16. "AIDS in Asia: The Gathering Storm," by Tim Brown and Peter Xenos, August 1994.

No. 17. "A New Agenda for APEC: Setting up the 'Building Blocks' of Free Trade" by Seiji Finch Naya and Pearl Imada Iboshi, October 1994.

No. 18. "China's Ethnic Reawakening" by Dru C. Gladney, January 1995.

No. 19. "Energy Outlook to 2010: Asia-Pacific Demand, Supply, and Climate Change Implications" by Fereidun Fesharaki, Allen L. Clark, and Duangjai Intarapravich, April 1995.

No. 20. "Pacific Transitions: Population and Change in Island Societies" by Peter Pirie, July 1995.

No. 21. "Memory Wars: The Politics of Remembering the Asia-Pacific War" by Geoffrey M. White, July 1995.

About the Author

Adam Schwarz, *former* Far Eastern Economic Review *correspondent in Jakarta and currently FEER bureau chief in Hanoi is author of* A Nation in Waiting: Indonesia in the 1990s. *This paper is based on his talk at the East-West Center in October 1994, one in a series that also included talks by leading Indonesian intellectuals. These talks were arranged in conjunction with the Center's Indonesia Political Economy Project, which is being undertaken with the Center for Strategic and International Studies in Jakarta.*