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A NATION IN WAITING



INDONESIA'S SEARCH FOR STABILITY

ADAM SCHWARZ

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TALISMAN

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Reviews for *A Nation in Waiting*

'For those who seek an understanding of the political and social dynamics of contemporary Indonesia, there is no better starting point.'

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'...one of the most important books on Asia in many years. Schwarz has peeled back the covers that normally cloak the workings of the Indonesian political and business system... His book is measured, thoughtful and intensely readable.'

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'Anyone who knows Indonesia well will read [this book] with interest, and anyone who wants to know modern Indonesia better, or at all, will do well to read [it] soon.'

Journal of Asian Studies

A Nation in Waiting

To my wife, Stacey,
and my two sons, Jackson and William



About the author

Adam Schwarz has spent nearly two decades professionally engaged in Southeast Asia. For ten years he was a correspondent for the *Far Eastern Economic Review* in Jakarta, Hong Kong, Bangkok and Hanoi, covering political, economic, corporate, military and environmental affairs. He ran his own consulting firm, Nusantara Consulting, based in Washington, providing political and economic risk analysis for private, public and multilateral clients. While in Washington, he was an adjunct professor at the School of Advanced International Studies, Johns Hopkins University and the School of Foreign Service, Georgetown University. He joined a leading global management consultancy in 2001 and is currently based in Singapore. A widely published writer on Indonesia and the region, he is a member of the Council on Foreign Relations in the United States and a Research Fellow at Murdoch University's Asia Studies Centre in Australia.

Introduction to the Third Impression

“One of the things that everyone knows but no one can quite think how to demonstrate is that a country’s politics reflect the design of its culture. At one level, the proposition is indubitable – where else could French politics exist but France? Yet, merely to state it is to raise doubts. Since 1945, Indonesia has seen revolution, parliamentary democracy, civil war, presidential autocracy, mass murder, and military rule. Where is the design on that?”

Clifford Geertz¹

Indonesia’s five years of democracy since the fall of Soeharto have been a roller-coaster of emotions and expectations. Exhilaration and a sense of liberation have been whiplashed by disillusionment and a yearning for the predictability embedded in 32 years of authoritarian rule. More than half a decade out of the presidential palace, Soeharto’s legacy remains powerful: how he exercised power, dealt with social conflicts, understood economic development and distributed the spoils of growth have all profoundly influenced the leaders that followed him, some in positive ways, others not. Deciphering Indonesia today still hinges on understanding the Soeharto record.

Democracy and *reformasi* have released Indonesia from the shackles of Soeharto’s New Order government. Political freedoms have expanded across the board. Indonesians now take for granted the right to assemble, speak their minds, and form organisations, political parties and even new provinces. The media have been transformed, both in terms of numbers and in the breadth of opinions expressed. Decentralisation has significantly weakened Jakarta’s economic and political hold over the archipelago’s far-flung regions. The military has lost both its reserved seats in the

national parliament and its control over the police force. Changes to the constitution – up to and including permitting direct elections for president – underpin the country's democratic foundations and have made political institutions more representative. In mid-2004, one democratically elected, civilian government is scheduled to transfer power to another – a first for Indonesia.

Still, future voters are unlikely again to wallow in the euphoria that enveloped the 1999 elections. Then, more than 100 million people went to the polls in an atmosphere akin to a nationwide street party. Many older Indonesians were reminded of the heady days of the early 1950s after independence at last had been wrested from the Dutch. But gaining democracy, like gaining independence, represents a beginning, not an end. For many Indonesians, the new political contract has not made them any less poor or less concerned for their future. Democracy has not been a panacea. Not even a palliative.

Transitions from authoritarian rule are rarely linear and are never easy. Countries that underwent similar transitions in Latin America and Eastern Europe often required a decade or more to achieve real traction. Indonesia's transition was particularly challenging, as it began abruptly, without preparation and amidst a severe economic crisis. Indonesians' innate pragmatism, patience and pluralism may well provide the country's leadership with enough time to learn how to operate effectively within a democratic context. But that patience, as Soeharto discovered in 1998, is not limitless. Indeed, tensions are inarguably on the rise between a desire for continued *reformasi* and a demand for more effective governance.

Disillusionment with political leaders is deepening. The economy has yet to recover from the financial crisis that began in 1997. New investment is scarce, and unemployment is rising. Per-capita income is still some 10% lower than when the crisis first struck six years ago. Vigilante gangs are on the prowl and paramilitary outfits flex their muscles, testimony to the inadequacies of the newly independent police force. Corruption remains a national scourge, wreaking economic damage even worse than under Soeharto's rule in the view of many business executives.² On balance, party politics continues to strike most Indonesians as irrelevant if not an impediment to effective governance, while the executive branch is seen as weak and rudderless. In a recent national poll, fewer than half

of Indonesians believed their country was going in the right direction, compared with more than 70% at the time of the 1999 elections.³

Such a disturbing lack of optimism is at least partly rooted in the records of the three politicians who have claimed the title of President in the past five years. B. J. Habibie, having spent his entire political career happily in Soeharto's shadow, assumed the presidency when Soeharto stepped down in May, 1998 (having been vice-president in the prior two months). Indelibly tied to the New Order government, Habibie faced the near-impossible task of remaking himself as a reformist charting a new course for Indonesia. Although a brilliant engineer and tireless worker, Habibie had no experience of operating within a democracy, and had few constituencies of support with his patron having faded out of the picture. Inevitably, perhaps, he was tarred by an investigation into a messy banking scandal, which further eroded his chances in the 1999 elections.

History may well accord Habibie a reputation as a reformer, even a liberal, but not as a successful President. Two initiatives are his principal political bequests, both of which weakened the nation in the eyes of many Indonesians, even if laudable in concept. Impetuously, he called for an independence referendum in East Timor, the former Portuguese colony annexed by Indonesia in 1976. Habibie did not understand the nuances of the political dynamics within East Timor or within Indonesia (and the Indonesian military). Unsurprisingly, the East Timorese voted overwhelmingly for independence in a snap referendum in August 1999, triggering an orgy of violence by paramilitary thugs, with the tacit support of the Indonesian military. Habibie's second failure was to decentralise political and economic power away from Jakarta on a timetable that was almost absurdly short. Moreover, Habibie, fairly or not, was tainted as an opportunist trying to curry political favor with the outer regions prior to the 1999 elections. Decentralisation has not been the disaster that some feared, but its rushed implementation has created a litany of woes, among them rampant corruption at the local level and a drop-off in investment.

Habibie was followed as president by Abdurrahman Wahid, the charismatic leader of Indonesia's largest Muslim group, the Nahdlatul Ulama (NU). A savvy backroom political player, Wahid outmanoeuvred the current president, Megawati Sukarnoputri, to seize a victory at the October 1999 meeting of Indonesia's super parliament, the *Majelis*

Permasyarakatan Rakyat, a relic of Soeharto's political apparatus. Megawati's party, the Indonesia Democratic Party of Struggle (PDI-P), had been clear winners in parliamentary elections held earlier in 1999. But Megawati was not a politician in the same league as her flamboyant father, Sukarno, Indonesia's nationalist hero and first president. She spurned numerous opportunities to put together a winning coalition, and eventually had to settle for the vice-presidency.

Wahid had been a popular and daring opposition figure during the Soeharto era. A liberal at heart, he was beloved not only by Muslims but also by ethnic minorities and non-Muslims. But although Wahid had enormous symbolic appeal, he had neither a talent for nor interest in the nitty-gritty details of managing Indonesia's transition from authoritarian rule. Hobbled by a stroke that left him nearly blind, Wahid was further constrained by a lack of parliamentary support. His party, the National Awakening Party, or PKB, won only 12% of the seats in the 1999 legislative elections.

An eccentric intellectual as a Soeharto-era dissident, Wahid as president resisted all attempts at imposing bureaucratic discipline on his administration. Within six months, Wahid's government had degenerated into farce, with ministers openly contradicting each other and some overtly undermining the president. His erratic and sometimes provocative behavior turned off the elite, scared off investors and alienated one mass-based constituency after another. Wahid's presidency lasted only 21 months; his impeachment was given critical support by a still-bitter Megawati, who would succeed him as president in August 2001.

Just weeks after Megawati had assumed office, Al Qaeda attacked the World Trade Center. The new president's reaction to the outrages of September 11 was achingly slow and inadequate. Initially, she abdicated public discourse to Islamic radicals who sullied Indonesia's international image and alarmed potential investors. Unlike Wahid, an articulate advocate of Indonesia's religious pluralism, Megawati was unwilling and perhaps unable to give voice to Indonesia's religiously tolerant majority.

Yet Megawati brought a welcome calmness to the presidential palace after the eccentricities of its two previous incumbents. She was only too happy to be low profile. Her demeanour soothed the financial markets and partly redressed the view among international investors that Indonesia

was too risky. However, like her two predecessors, Megawati lacked the managerial skills essential to getting things done. She also was uninterested in day-to-day policy and lacked a vision for Indonesia's future that ventured beyond a few general principles. An indifferent and uncomfortable public speaker, Megawati comes across to many as aloof, even elitist. By the end of 2003, her earlier high standing among the PDI-P faithful had been considerably weakened.

Although each quite different personalities, all three of Indonesia's post-Soeharto presidents have done little to build the foundations for the future. None has paid sufficient attention to the crucial task of restoring economic growth. None has warmed to the role of Educator-in-Chief, explaining to the Indonesian people the essential requirements for building a successful democracy. None has tackled the corruption that ensnares Indonesia's economy and erodes social trust. Perhaps most damagingly, none has evinced a burning commitment to creating and nurturing the strong institutions and rule of law so critical to successful democracies.

Of course, Indonesians' rising dissatisfaction cannot be blamed solely on the leadership capabilities of Habibie, Wahid and Megawati. Three decades of Soeharto's one-man rule left Indonesia poorly equipped for representative democracy and the manner of its ending immeasurably exacerbated the transition from his authoritarian rule. Soeharto's weakening of all governmental institutions other than the executive branch ultimately left Indonesia the country most ravaged by the 1997-98 financial crisis. Unlike other crisis-hit countries, Indonesia had neither a functional political process for achieving consensus on a crisis management strategy nor a functioning legal system to restructure the economy.⁴ Once the crisis began, investors (belatedly) focused on Indonesia's governance shortcomings and bolted for the exits. With this as backdrop, no leader, no matter how skilled, would have found it easy to shepherd Indonesia in the immediate post-Soeharto era.

Ethnic, religious, territorial and societal tensions were bottled up during Soeharto's tenure, and predictably burst into the open once he had departed the scene. Following the granting of independence to East Timor in 1999, separatist threats in Aceh and West Papua (renamed from Irian Jaya) drained precious resources from the center and complicated the task of redefining the military's political role. Brutal clashes between Muslim and non-Muslim communities in Sulawesi and the Moluccas sorely tested

Indonesia's cherished self-image as a nation of diversities able to live in harmony. And the horrific bombings in Bali in October 2002 and in Jakarta in August 2003 punctured the illusion that Islamic radicalism could not grow roots in Indonesian soil. The bombings, and the trials that followed them, revealed Islamic extremists to be more numerous in Indonesia than commonly thought, and that they enjoyed considerable support from and linkages with foreign radical groups, including Al Qaeda.⁵ Perhaps the only positive outcome of the bombings was to shatter the widely held belief that Indonesia was unaffected by the war on terrorism. Although the government remained largely unwilling to concede the presence of Al Qaeda-linked operatives and networks in Indonesia, the country's various law enforcement agencies received generally high marks for tracking down the perpetrators of the Bali and Jakarta bombings.

Gaining ground in the battles against terrorism, separatism and political disillusionment would be immeasurably helped by some vigour being restored to Indonesia's economy. Again, the causes of Indonesia's post-crisis economic struggles are a mixture of the difficult conditions inherited from Soeharto and weak leadership by his successors. Progress has been made in some areas, especially over the past two years. Inflation is down to mid-single digits, the rupiah is stronger against major currencies, and interest rates are no longer punishingly high. Government debt is now more manageable, having exceeded 100% of GDP in 2001. Privatisation has proceeded fitfully, but at least has not ground to a halt.

Necessary institutions are slowly emerging. A new law ensuring the independence of the Central Bank should help avoid a repeat of the negligent, irresponsible use of the country's financial assets seen in 1997-98. An anti-corruption commission and new commercial court have been established, as have quasi-independent regulatory bodies for the telecommunications and oil and gas industries. The Indonesian Bank Restructuring Agency (IBRA) has largely completed its mission of selling off the assets seized by the government during the financial crisis.

Yet Indonesia's economy remains in a parlous state, being the slowest to get back on track of all the crisis-ravaged Asian countries. Although the large and resilient informal sector has lessened the pain, recent annual growth of 3-4% is not nearly sufficient to absorb the more than 2 million job seekers who enter the workforce each year. With unemployment rising,

little headway is being made in reducing the incidence of poverty: more than half of all Indonesians get by on less than two dollars a day. Not surprisingly, survey after survey shows that most Indonesians regard the economy as the biggest crisis facing the country.

At the industry level, much-needed reforms are still awaited. Banks, for example, have stabilized their balance sheets but they are not yet acting as financial intermediaries to the Indonesian economy. Weak governance at the bigger state-owned banks practically ensures more scandals lie ahead. Trade protectionism is on the rise, shielding Indonesia's least productive firms and thus eroding the country's general level of competitiveness, even while competition from China and India steadily rises.⁶ Investors have fled from cost-sensitive industries such as textiles and electronics. Few of Indonesia's large corporations have been significantly restructured, as has been the case in other crisis-hit countries.

Perhaps most worryingly, Indonesia is signally failing to attract new investment. Both foreign and domestic flows are far below pre-crisis levels. The country's physical infrastructure (eg, roads, power plants, water treatment facilities) is increasingly dilapidated, further discouraging new investment. Shockingly, Indonesia has experienced a net negative outflow of capital every year between 1998 and 2002. For no other country in Southeast Asia was that true, not even for a single year in that period.⁷ Decentralisation has contributed to the dismal investment record, particularly off-Java. Although a number of promising local leaders have emerged, many newly empowered district administrations have introduced a bevy of new taxes and investor-unfriendly regulations. Nationally, the political leadership is unsophisticated in – and in some case indifferent to – global economic realities and the dynamics of capital flows. Although they have achieved some notable successes in consolidating democratic reforms, the main political parties have a less stellar record on economic issues. Indeed, the parties by and large remain immature and insular, which has done little to improve the confidence level of the business community. Most worryingly for foreign investors, little progress is observable in ensuring the rule of law holds sway and in creating well-functioning market regulation institutions.⁸ Without them, Indonesia's investment risk remains high.

Indeed, a half-decade of ineffective government and middling economic growth have left Indonesians increasingly nostalgic for

Soeharto's strong-armed, corrupt but effective rule. "Is it surprising," asked *The Jakarta Post* at the end of 2003, "that in less than six years since the fall of Soeharto, democracy is equated with chaos, and dictatorship with leadership and stability?"⁹ There is more than elite angst at work here. In a wide-ranging, countrywide survey carried out in mid-2003 by the Asia Foundation, a majority of Indonesians said they were ready to forego some political rights and freedoms in exchange for an authoritarian leader capable of maintaining law and order.¹⁰ Soeharto nostalgia is now captured in the acronym SARS, which in Indonesia now also stands for '*sindrom aku rindu Soeharto*', roughly translated as the "The I Miss Soeharto syndrome". (No social phenomenon is allowed to pass in Indonesia without being accorded its own acronym.)

Interesting parallels can be found in Eastern Europe where, a few years after the fall of the Berlin Wall, several (mildly reformed) communist parties were voted back into power. In times of rapid change, people naturally reach out for the familiar, flaws and all. So it is in today's Indonesia, where Soeharto's old party, Golkar, is resurgent and retired military figures are emerging as presidential candidates.

Post-Soeharto governments have been inadvertently complicit in fuelling this phenomenon. For example, their refusal to prosecute corruption cases involving Soeharto's family and associates has obscured the damage inflicted on the economic and social fabric by decades of state-sanctioned corruption.

Posterity's account of Soeharto, the main character in this volume and the man who styled himself Indonesia's Father of Development, remains uncertain a half-decade since he was forced from power. In the long view of history, Indonesia's transition from Soeharto's politically repressive but economically effective rule is still in its early stages, and it is uncertain which side of the ledger historians will remember most clearly. What is clear is that the challenges of nation-building abound in Indonesia, none more so than the urgent task of rebuilding governmental institutions and the rule of law. This is the challenge that must be met if Indonesian democracy is to settle firm roots in this volatile land.



This new printing of *A Nation in Waiting* contains the ten chapters included in the original edition, which was published in 1994, plus the two chapters written for an updated edition published in 1999, about a year after Soeharto had stepped down. The ten chapters of the original edition, which have not been modified, are primarily concerned with Indonesia of the late 1980s and clearly 1990s. This book begins with a look at the origins of the Indonesian nation (Chapter 1), Soeharto's rise to power (Chapter 2), and the successes and failures of Soeharto's economic policies up through the early 1990s (Chapter 3), three topics that remain relevant in understanding the background to the contemporary political debate.

The book then turns to a discussion of specific challenges facing Indonesia in the middle part of the decade: reconciling economic nationalism with the demands of globalisation (Chapter 3); reducing resentment of the ethnic Chinese minority (Chapter 5); curbing corruption and nepotism (Chapter 6); accommodating Islamic political aspirations (Chapter 7); finding a solution to the East Timor problem (Chapter 8); establishing a legal framework for individual rights (Chapter 9); and coping with the pressures for political reform (Chapter 10).

The two chapters added to the current edition were written in early 1999. Chapter 11 picks up Indonesia's story in the mid-1990s, about where the first edition left off, and carries through to Soeharto's resignation. It describes Soeharto's ever-decreasing tolerance of criticism, his use of Islam as a political tool, his fostering of military disunity and his unwillingness to rein in his increasingly rapacious children. The chapter continues with a detailed account of Soeharto's responses to the financial crisis beginning in 1997 and a day-by-day recounting of Soeharto's last weeks in office.

Chapter 12 covers the period from President Habibie's inauguration in late May 1998 through March 1999. It discusses Habibie's only partly successful efforts to build a constituency of political support and the re-emergence of Islam as an important political actor. The chapter explains the dilemma facing the Indonesian military as it struggles to redefine its political role in post-Soeharto Indonesia and it describes the important obstacles still to be overcome in restoring economic health. The chapter concludes with a look at the major political challenges facing Indonesia as it entered the new millennium.

As is often the case with projects such as these, there are far more people to thank than space allows. My greatest debt is to the many Indonesians who have generously taken the time to share with me their insights, aspirations and beliefs. It is through their voices that I have tried to tell Indonesia's story. I also thank Penny Burt, William Daniel, Greg Fealy, Bert Hofman, Sydney Jones, Catherine Lugnin and Steve Proctor for their helpful comments on earlier drafts of this introductory essay. Of course, all the usual disclaimers apply: the responsibility for the opinions and judgments expressed in the following pages is solely mine.

Adam Schwarz

Singapore, February 2004

1. Clifford Geertz, 'Afterword: The Politics of Meaning', in *Culture and Politics in Indonesia*, ed. Claire Holt, Cornell University Press, Ithaca, 1972, p. 319.

² For a full treatment of the corruption phenomenon in Indonesia, see World Bank, "Corruption in Indonesia: A Development Perspective", Draft World Bank Report, Jakarta, September 2003. In surveys conducted by Transparency International, Indonesia is perennially ranked as one of the most corrupt nations in the world.

³ Asia Foundation, "Democracy in Indonesia – A Survey of the Indonesian Electorate in 2003," Jakarta, 2003.

⁴ The point is well covered in Bert Hofman and Ella Rodrick-Jones, "Indonesia: Rapid Growth, Weak Institutions," (forthcoming).

⁵ The Brussels-based International Crisis Group has published a series of authoritative reports on radical Islamic groups in Indonesia. See for example, "Jemaah Islamiyah In Southeast Asia: Damaged But Still Dangerous", August 26, 2003; and "Indonesia Backgrounder: How The Jemaah Islamiyah Terrorist Network Operates", December 11, 2002.

⁶ Indonesia ranked 72 out of 102 countries surveyed in the 2003 Global Competitiveness Index published by the World Economic Forum. Indonesia ranked 69 out of 80 countries in the 2002 survey. In each year, Indonesia ranked lower than all other surveyed countries belonging to the Association of Southeast Asian Nations. For more details, see *The Global Competitiveness Report, 2003-2004*, World Economic Forum

⁷ UNCTAD World Investment Report, 2003. There is some doubt about the comparability of the capital flows in different countries. Indonesia, for example,