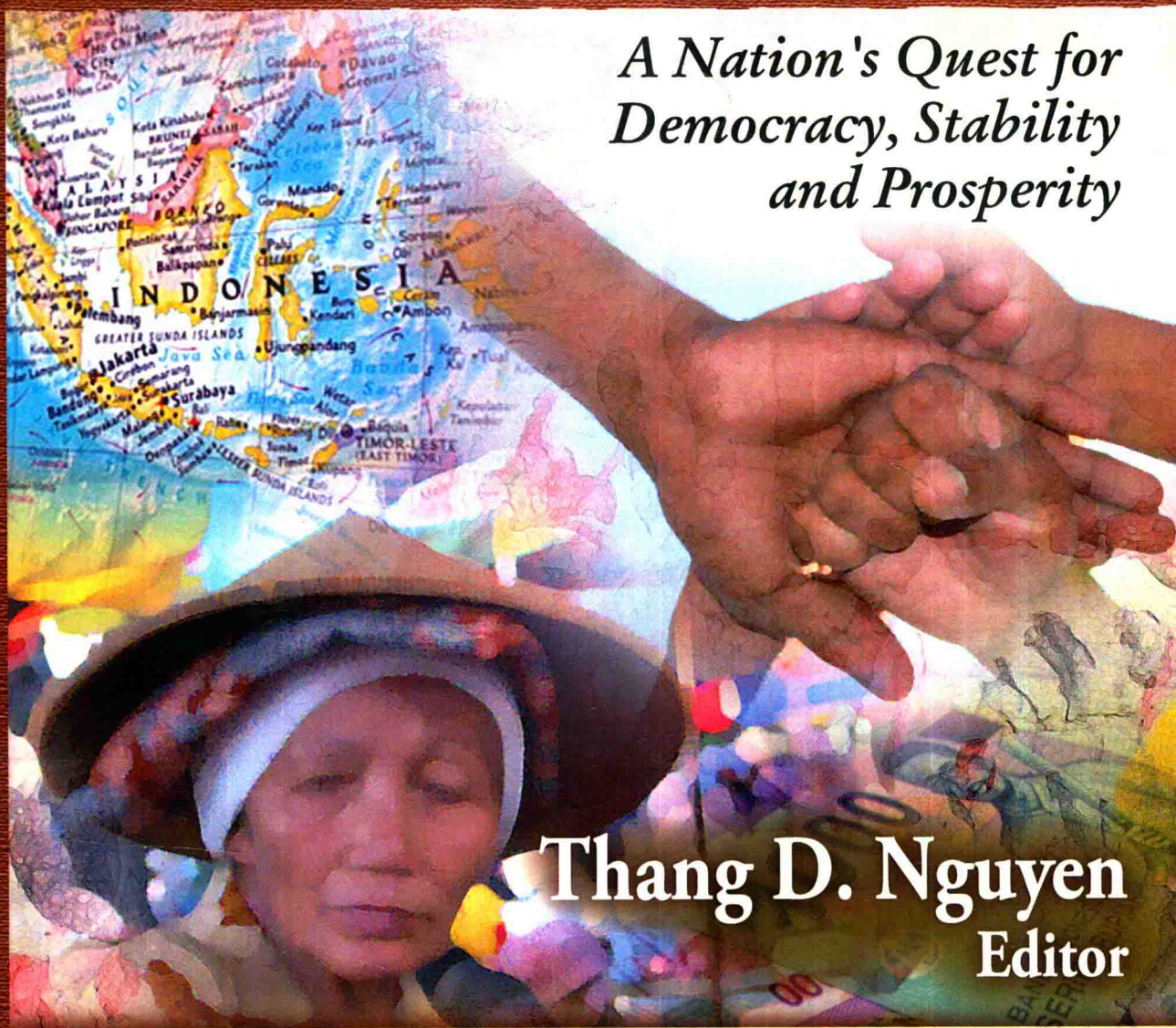
The Indonesian Journey

A Nation's Quest for Democracy, Stability and Prosperity



Thang D. Nguyen
Editor

ASIAN POLITICAL, ECONOMIC AND SECURITY ISSUES

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THANG D. NGUYEN
EDITOR

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PREFACE

It has been 10 years since Indonesia was transformed into to a democracy after more than three decades of dictatorship. Considering that it is the world's largest Muslim-majority nation, Indonesia's democratic transformation is quite a success story; in fact, Indonesia has shown us that—contrary to current debates—Islam and democracy can co-exist.

In retrospect, however, we must ask: What has Indonesia achieved? Is Indonesia more stable now, politically and economically? Has the Indonesian economy really recovered from the Asian Financial Crisis of 1997-98 and shown an increasingly positive growth rate? And are Indonesia's legal, financial and social reforms working?

The Indonesian Journey is a collective attempt to answer these questions. With a reader-friendly structure, this book suits not only students of Southeast Asia studies and academics, but also leaders across sectors and anyone who is interested in Indonesia.

Introduction - A seasoned American diplomat once said that "Indonesia is like Wagner's music: It is not as bad as it sounds." Indeed, when we hear or read about Indonesia in the media, more often than not, it is bad news, like earthquakes, tsunami, corruption, and terrorism. And of these bad news, terrorism gets the most of our attention; in fact, we discuss it for days and weeks and remember it for years.

But when—and if—we hear a piece of good news from the same media about Indonesia, like peaceful and transparent elections or new communities being built for tsunami victims with assistance from foreign countries, we hardly pay attention to it.

Chapter 1 - Street demonstrations are now a daily staple of news telecast in Indonesia. Whether it's a protest by evicted traders in Jakarta, by supporters of losing contestants in local elections, or by workers demanding higher salaries, these demonstrations almost fill up the entire 30 minutes of TV newscast, often giving the impression that there are no other events around the country worth reporting.

Chapter 2 - When the New Order regime of former President Suharto collapsed in May 1998, it took very little time for a whole range of new political parties to spring up and for the old parties to repackage themselves in democratic wrapping. Almost overnight Indonesia possessed a new party system that presented itself as the first achievement of democratisation and reform. Although concerns were expressed about the mushrooming of new parties, when Indonesians had the chance to vote freely in 1999 they narrowed the spectrum down to five major parties. That number increased to seven after the 2004 elections.

Chapter 3 - Indonesia was deeply affected by the economic crisis of 1997-98. Its economic contraction in 1998, of over 13%, was the sharpest among the four crisis-affected

East Asian economies. This followed three decades of virtually uninterrupted, rapid economic growth, the first such occurrence in the country's history. Indonesia also experienced 'twin crises', in the sense that the economic crisis was accompanied by and indeed precipitated regime collapse, resulting in the departure of President Suharto in May 1998 after 32 years of authoritarian rule. In this respect, Indonesia has more in common with the Philippines in 1985-86 and Mexico in 1994-95 than its East Asian neighbors in 1997-98. Moreover, and as a result of the second factor, its crisis resolution has been complicated by weak and unstable government, at least through until 2004, and by a slower recovery trajectory.

Chapter 4 - We are often schizophrenic when we talk about Indonesia's banking sector. Much of the time, we ask with positive anticipation if bank lending is on the rise and if the sector is supporting growth. At other times, particularly during periods of economic distress, we fret about the same issues. Has credit growth gone up too quickly thereby undermining the financial strength of banks and risking macroeconomic instability? An apparent tussle between these two goals—growth and stability—is a theme that has pervaded policy discourse on Indonesia's banking sector following the crisis of the late 1990s.

Chapter 5 - This paper provides an overview of the surge of foreign direct investment (FDI) from Northeast Asia to Southeast Asia since the early 1970s up to the present, and the underlying factors which led to this surge. The second part of the paper describes developments of this FDI during the years after the Asian crisis and its prospects in the years ahead.

Chapter 6 - A comparison between the Indonesian Oil and LNG (liquefied natural gas) industries in the context of the Indonesian state's industrial strategy and policies must start with the difference in political and economic context of thirty years ago and the present time. In 1967, at the beginning of the New Order government, the Indonesian oil industry, specifically Pertamina, played key roles within both the economic and political contexts of the country. As David has pointed out, Pertamina provided financial wealth for military and political figures and was considered as the centerpiece of a nationalist industrial strategy (David 1995: 46).

Chapter 7 - Any fair critique of the Indonesian legal system must provide a basis for comparison to another legal system. Otherwise, criticism would be viewed by some as hyperbole and hypocritical—and no one likes to be insulted. Thus, for purposes of this chapter, in the short space granted, I would like to draw some observations concerning the differences between the Indonesian legal system and that of the legal system prevailing in the United States of America. I have practiced law in, and hold current licenses to do so from, government authorities of, both countries, in which I have also earned advanced law degrees. Thus, I have some basis for comparison.

Chapter 8 - Since Indonesia gained its independence in 1945 the founding fathers of Indonesia wanted to see a state based on law (*rechtsstaat*) in which state policies will be based on the constitution. The implication of this very basic thought is that all legislations should be based on the constitution. Law which is repugnant to the constitution will be considered void. The transitional period from the colonial era to the independence era has its own consequences in that the 400 laws which were enacted during the Dutch colonial time do not match the 1945 Constitution. The 1945 Constitution is considered a true Indonesian constitution as it is based on the philosophy of the people of Indonesia, unlike the 400 laws legislated during the Dutch time which are considered mostly western and do not fit with the Indonesian culture. The Indonesian leaders and legal experts have decided to replace most of

the colonial laws with a national law which is acceptable to Indonesians, although the influence of western or international law is unavoidable. The 400 laws of the colonial time are not wholly replaceable because some of them have universal values.

Chapter 9 - In late March 2007, arrests by Densus 88, the police counter-terror unit, netted seven detainees in Central and East Java (an eighth was killed); a huge cache of explosives and weaponry; and documents that seemed to suggest a new military structure for Jemaah Islamiyah (JI), the region's largest jihadist organisation. The arrests followed directly from information obtained from operations in Poso, Central Sulawesi, in late January.

Chapter 10 - Since the terrorist attack on the twin towers of the New York World Trade Centre and Washington in the United States (US) on 11 September 2001, the world has been facing one of the greatest challenges, which is the threat of transnational terrorism. A large majority of Muslims have condemned 9/11 as an act that is in contradiction with the true teachings of Islam. The action of a few deviant Muslims is not a reflection of the attitude of the entire universal Muslim community (*ummah*).

Chapter 11 - Indonesia is very unique in nature and in maritime terms. Being the largest archipelagic country in the world, it stretches over 3, 000 miles from Sabang Island, the Western-most part of Indonesia, to Merauke, the Eastern-most part. Indonesia has 17, 500 islands, making it the country with the second longest shore line in the world. It lies strategically at the crossroad of two continents and two oceans, harboring very important sea-lanes of communication for world trade. Its strategic position between two oceans and two continents has long been accepted and recognized by the Indonesians, and since ancient time they have named their land masses as DVIPA, which consists of the words DVI, meaning two, and APA, meaning waters. Indonesia is very maritime, as it has jurisdiction over 5.8 million Km2 of waters. Indonesian links itself closely to its geographical and physical entity and quite correctly calls itself not motherland but *tanah air*, or land and water. Perhaps it is not much known that Indonesia in the past has had a great influence in South East Asia region, with strong maritime forces under Srivijaya and Majapahit Kingdoms, making it possible for the two kingdoms at their own time to insert sovereignty and power over a very large society and area even larger than the present Indonesia. Since the beginning of history, Indonesian people have realized that, for them, the ocean is not only an economic entity, but also media for transportation, political influence and security arena. And in security terms, the ocean is, for Indonesia, the most important factor in determining its defense posture and strategy—a notion that now needs to be reintroduced to the society.

Chapter 12 - There is a no more aspirational description of the US-Indonesia relationship than the one President Bush and President Yudhoyono rendered at the end of their Bogor meeting in 2006: "a broad-based democratic partnership based on equality, mutual respect, common interests and shared values of freedom, pluralism and tolerance."[1] Bringing that partnership to its full potential is a challenge they gave their governments and their fellow-citizens.

Chapter 13 - The year 2008 can be remembered as the monumental year for Indonesia and Japan. We had the 50th anniversary of the Pease Treaty and the Agreement of War Reparation, which were signed by both nations in 1958. Since then Indonesia has had six presidents, and Japan has had 10 prime ministers. In 2007, both nations signed and enacted the Economic Partnership Agreement (EPA) for further economic cooperation and integration. Thus, 2008 was a commemorative milestone for these two nations and the start of a new chapter for further economic interdependence.

Chapter 14 - Australia's relations with Indonesia have fluctuated sharply from time to time since Indonesia declared its independence in August 1945. They reached a high peak of cordiality and optimism during the Indonesian-Dutch struggle over independence from 1945-59 and again in the boom years of the early 1990s, a time of unprecedented economic growth which saw the first big surge in Australian investment into Indonesia. The close personal relationship that developed between Prime Minister Paul Keating and President Suharto also contributed greatly to that rapport. But acute political tensions developed between the two countries in 1999 over Australia's part in East Timor's struggle for independence, soon after the East Asian 'financial meltdown' of 1997-8 which had led to a collapse in Australian investment in Indonesia (apart from the mining sector) and a shift in our foreign capital flows towards China. Australian commercial interest has waned since then, but could again be on the brink of reviving now that Indonesia is returning to its earlier level of economic momentum.

DEDICATION

This book is dedicated to Ali Alatas, Frans Seda and Gus Dur, who were good sons of Indonesia and great supporters of the United in Divesity Foundation (UID).

FOREWORD

Surin Pitsuwan
Secretary-General of the Association
of Southeast Asian Nations (ASEAN), Indonesia

I am honored to contribute this passage for the United in Diversity Forum (UID). This volume of collected works represents a timely and accurate treatment of the key political, social and economic issues facing Indonesia today. This collection brings together some of the most important policy makers and public intellectuals writing on Indonesia and provides a clear sense of the prospects and challenges facing for the future.

Over the past decade I have watched closely Indonesia's path towards democratization and transparency. I have been fortunate to do so in my capacities first as the Minister of Foreign Affairs of Thailand and currently as the Secretary-General of the Association of Southeast Asian Nations (ASEAN). In both positions I have watched with keen interest the political and social development of the ASEAN's largest member state.

Indonesia plays a unique role in ASEAN and global affairs. As the largest member state in terms of population, landmass and gross domestic product, Indonesia has a natural and inherent role as a leader of ASEAN. Further, it is the only ASEAN state to be included in the G-20 club of the largest economies in the world. Indonesia's ascent as a regional and global power and player is unmistakable; if current growth is sustained and managed responsibly then Indonesia has the potential to be counted alongside Brazil, Russia, India and China—the so-called 'BRIC', or fast growing developing countries—as a global leader for the next century.

These signs of progress are all the more impressive when we consider the complexities of contemporary Indonesian politics and society. Since the end of the Suharto administration, the progress that Indonesia has made towards a liberal, functioning democracy has been remarkable. The state has made significant progress by strengthening independent institutions, spearheading successful initiatives to decentralize political power and initiating efforts to fight endemic corruption.

My personal interest lies in observing Indonesia's successful embrace of three social forces that in other parts of the world are at constant odds with one another. Few other nations have demonstrated as successful an integration of Islam, modernity and liberal democracy

than contemporary Indonesia. In this geographically dispersed country of 238 million people, these three competing forces have found a way to function interdependently.

Indonesia today serves as a model for the region and for the Islamic world. It demonstrates that liberalization and secularism do not always work to the detriment of religious identity. The state has made important progress towards in protecting and promoting Indonesia's multicultural and multi-religious heritage, with followers of Christianity, Hinduism and Buddhism enjoying perhaps the strongest freedoms of ethnic minorities in any Muslim majority state in the world.

Indonesians today easily and confidently embrace their diverse and impressive cultural heritage. It is my hope that Indonesians will follow the example of their government and look further outwards towards ASEAN and the global community. A generation of 'ASEAN citizens' that follow the Indonesian example of tolerance and openness will be a critical component towards making ASEAN a truly people-oriented, caring and sensitive community.

Thank you.

FOREWORD

Aristides Kattopo
Co-founder, the United in Diversity Forum (UID), Indonesia

The United in Diversity Forum (UID) was launched in 2003 with a conference in Bali, Indonesia, on the theme of "Building Trust for Our Future". The conference had over 500 Indonesian and international participants from business, governments, and civil society.

Because many genuine discussions happened and great presentations were given at this event, we decided to capture them by asking our panelists to turn them into articles and essays. And the result of this collective act was a book, *The Indonesian Dream: Unity, Diversity and Democracy in Times of Distrust* (Marshall Cavendish Academic, 2004).

Five years later, UID has moved on to other activities, namely leadership training—the IDEAS (Innovative, Dynamic Education for Sustainability) program—and community development. As a collaboration with the Massachusetts Institute of Technology (MIT), the purpose of IDEAS is to further enhance and sustain synergy among private, public sectors and civil society UID. The first generation of IDEAS are graduating in July this year. (Unfortunately, two of our board trustees, Mr. Ali Alatas and Mr. Frans Seda, just passed away. They are not here to see UID grow, and they both will be missed greatly.)

But, along with these programs, we have also wanted to publish another book as a way to follow the success we have had with *The Indonesian Dream*. And 2009 is such a great time for our second book to come out. This year marks the 10th anniversary of Indonesian democracy. It was in 1999 that Indonesia held its first-ever democratic election since the fall of Suharto in 1998. Even though the Indonesian economy was in a very difficult time as it was one of the prominent victims of the Asian financial crisis of 1997-1998, these events were perceived positively by the international community as they ended more than three decades of dictatorship and ushered democracy into Indonesia.

Furthermore, the 2009 presidential election took place in July. The significance of this year's election is that ten years after democracy was brought into Indonesia, it is growing. Even though it is a relatively young democracy, it is a large one, with a population of over 238 million—the majority of which is Muslim. As the chief editor of the *Jakarta Post*, Endy Bayuni, writes in his chapter, Indonesia's democracy is still a "work in progress", but it is worth building and celebrating.

And on behalf of UID and its board of trustees, I would like to thank, first, Dr. Surin Pitsuwan, Secretary-General of the Association of Southeast Asian Nations (ASEAN), for his preface for this book and, second, all the contributors for their chapters. Finally, my appreciation goes to supporters, colleagues and friends of UID for your support of us since our founding and in the coming years.

INTRODUCTION

Thang D. Nguyen
Editor, United in Diversity Forum (UID), Vietnam

A seasoned American diplomat once said that "Indonesia is like Wagner's music: It is not as bad as it sounds." Indeed, when we hear or read about Indonesia in the media, more often than not, it is bad news, like earthquakes, tsunami, corruption, and terrorism. And of these bad news, terrorism gets the most of our attention; in fact, we discuss it for days and weeks and remember it for years.

But when—and if—we hear a piece of good news from the same media about Indonesia, like peaceful and transparent elections or new communities being built for tsunami victims with assistance from foreign countries, we hardly pay attention to it.

The difference in our reception of bad and good news from Indonesia—or any other country for that matter—is known as the "CNN effect". And because of this effect, the image of Indonesia worldwide is misperceived as a place of radical Muslims whose only *raison d'être* is to attack against the West; a place where foreigners, particularly Westerners, are hated or not welcome; or a place where drinking is not allowed. As a consequence, they hesitate to visit Indonesia—let alone living, working, or investing there. In reality, however, Indonesia is very different from what the world sees, knows or thinks of it.

A NATION'S DEMOCRATIC JOURNEY

As young as it is, Indonesia—the world's largest Muslim-majority nation—is the world's third largest democracy. Looking back at Indonesia's recent history, its democratic transformation, and the growth thereof, is a great story. Indeed, until 1999, when its late former president Suharto was ousted, Indonesia was still a nation ruled under dictatorship.

To be fair, Indonesia became an industrialized, fast-growing economy—one of the "Asian tigers"—during Suharto's 32 years in power. There were, however, no such things as demonstrations, freedom of speech and expression, or free and fair elections. But more than three decades of political repression reached their limit. In 1998, a year after the Asian

Financial Crisis broke out, a student movement, known as *Reformasi* (reform or reformation), was started, calling for Suharto's resignation.

THE B. J. HABIBIE PRESIDENCY

Let's not forget, Indonesia was one of the most prominent victims of the Asian Financial Crisis, and its devastating impact on the Indonesian society really gave *Refomasi* the force that it needed. And in the summer of 1999, the movement came to a peak. As expected, blood was shed and students and political activists died as they clashed with Indonesian military forces. But these democratic martyrs did not die for nothing: Suharto resigned on 21 May, leaving the presidency to the then vice president, B. J. Habibie.

In retrospect, there were two things that stood out from the Habibie presidency. The first was his decision to let go of the troubled and troubling island of East Timor, now the country of Timor-Leste, in 1999. By the time Habibie came to power, the Timorese had been fighting against the Indonesian Military, whose task was to keep East Timor—a former Portuguese colony in the 16th century that became a province of Indonesia, sadly, by an invasion in 1975, the same year in which it declared independence from Portugal.

Seeing that peace in East Timor was both infeasible and unsustainable and being under pressure from Australia, the US, and the UN, Habibie surprised everyone in 1999 when he allowed a referendum for the East Timorese to choose between special autonomy—remaining a province of Indonesia with some self-determining rights—and independence, and they chose the latter. By the time the referendum was given, about 1,000 East Timorese had been killed by Jakarta-backed militias, according to U.N. estimates, so the referendum was a much-needed act.

The second thing for which Habibie is remembered was his call for a presidential election in 1999. Indeed, credit must be given not only to the student movement that toppled Suharto, but also to Habibie as he was not a man of power greed. To be sure, he could keep himself in office, but instead he called for Indonesia's most free and open elections since 1955. Thus, even though he didn't quite manage his interim presidency well, Habibie inaugurated a new era of political reform in Indonesia.

THE GUS DUR PRESIDENCY

The 1999 election took place peacefully and fairly—as observed and acknowledged by international observers and election non-governmental organizations. The winner of the election was Abdurrahman Wahid (or Gus Dur as he is affectionately called), a frail, but well-known Muslim cleric.

Gus Dur, whose had become nearly blind after a stroke, has a great sense of humor and is well-versed in religious and world affairs. As its leader in the late 1980's, Gus Dur had a lot of votes and support from members of the Nahdlatul Ulama (NU), a conservative Sunni group. The NU—founded by Gus Dur's grandfather, Hasyim Asy'ari—is the biggest Muslim organization in Indonesia, and the largest one of its kind in the world.

Despite his popularity among and support from NU members, the Gus Dur presidency was short-lived. For the most part, his erratic character and decision-making style did not serve him well. In August 2001, Gus Dur lost his mandate in a no-confidence vote by Indonesia's Parliament and was succeeded by the then vice president Megawati Sukarnoputri. Looking back, most Indonesia specialists believe that, had he not suffered from his stroke, Gus Dur would have made a great president.

THE MEGAWATI SUKARNOPUTRI PRESIDENCY

Being a daughter of Sukarno, the first and founding president of modern Indonesia, Megawati enjoyed enormous support from members of the Indonesian Party of the Struggle (PDI-P) and benefited a great deal from her father's legacy. In retrospect, however, her presidency, from July 2001 to October 2004, was not too successful for a number of reasons.

First, she lacked the charisma and leadership style that her father had. As a politician, she did not have the speaking skills, appearance, or charm that one can see in such great public figures as Bill Clinton and his wife Hillary Clinton of the US, Tony Blair of the UK, or the late Benazir Bhutto of Pakistan. When she appeared in public, Megawati looked remote from the crowds or aloof, even during her presidential campaigns. She often delegated her scheduled public duties to senior ministers.

What's more, during televised presidential debates, she often looked uncomfortable and actually read our most of her answers from prepared notes. As a matter of fact, she turned down great PR (public relations) opportunities, such as a stand-alone address before 2000 international cross-sector leaders at the prestigious World Economic Forum (WEF) in Davos, Switzerland. In today's political world of CNN, Facebook, and Youtube, this did not help her career, or the international image of Indonesia for that mattter.

Second, the Megawati administration could not achieve and sustain the political stability, or security, that was so needed for tourism and foreign investment. In October 2002, the terrorist network *Jemaah Islamiyah* (JI) attacked Bali. The group's bombing of a night club in this world-renown tourist island was the Indonesian equivalent of the 911 attack in the US in 2001. Less than a year later, in August 2002, the JI bombed the Marriott Hotel, located in the heart of Jakarta's business district. Like it or not, these attacks showed the JI's posture against the Indonesian government and deteriorated the country's political environment.

Third, the lack of political stability during the Megawati presidency, together with rampant corruption and unemployment, hurt the Indonesian economy. During her presidency, the Indonesian economy grew little and, as a consequence, unemployment was high. The Indonesian economy grew by 3.4 percent in 2001, 3.7 percent in 2002, and 4.1 in 2003, respectively. The average growth rate of all these years could not provide the country's 230 million—the then population—with jobs, which to be filled with an average growth rate between 7.0 and 9.0 percent during Suharto's years. The poor performance of the Indonesian economy worsened the credibility of Megawati herself and the Indonesian government. And in the 2004 election, she lost.